

INVISIO®



Annual Report 2016





# INVISIO makes a difference in demanding environments

INVISIO develops and sells advanced communication systems with hearing protection that enable professionals in noisy and mission critical environments to communicate and work effectively.

The systems give operational advantages and increased security for military and security personnel. They also contribute to reducing the costs of hearing loss for individuals and society.

INVISIO's systems are technical leaders. The company combines its sound knowledge of the user's needs with innovative and advanced technologies to develop complete systems that replace traditional products.

The company's customers are mainly security forces and defense forces.

Sales are primarily via a global network of partners and resellers but the company also sells via its own companies in France and the USA. The products are mainly manufactured by contract manufacturers.

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This is an unofficial office translation of the Swedish original. In case of differences the Swedish version shall prevail.

# 2016 in brief

## Important orders strengthened INVISIO's market position

Throughout the world, countries continued to modernize their armies and special forces with better personal equipment. INVISIO received a number of important follow-up orders from modernization programs in the USA, UK and Australia, as well as defense customers in France and several other Nato countries. Read customer reviews of the products on pages 10 and 16.

## Demand from special forces and SWAT teams increased

INVISIO meets a growing need among military special forces and police SWAT teams for communication and hearing protection solutions. For example, the security forces in the Euro 2016 football championship in France were equipped with INVISIO's solution. More information on market driving forces and potential can be found on page 14.

## Product development in focus

INVISIO increased its R&D investment to retain its technical lead. The company started several new development projects aimed at extending the product portfolio in both existing and new product categories. See pages 18-21 for more information on INVISIO's technology and innovative capacity.

## Initiatives for the future

To maintain a high rate of innovation and further increase growth, INVISIO increased its personnel resources in R&D and marketing. The company opened its own sales offices in the USA and France. Read more about how President and CEO Lars Højgård Hansen views developments for the year and the immediate future on page 2.



In both Sweden and Denmark INVISIO was recognized as a fast grower and received the following awards; Di Gasell, Sweden Technology Fast 50 and Børsen Gazelle.

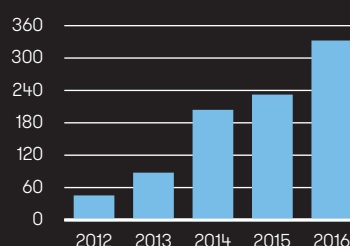
| KEY RATIOS                                 | 2016  | 2015  | %   |
|--|-------|-------|-----|
| Revenue, SEK m                             | 330.0 | 229.8 | 44  |
| Operating profit/loss, SEK m               | 90.4  | 47.3  | 91  |
| Profit/loss for the year, SEK m            | 91.8  | 57.1  | 61  |
| Cash flow from operating activities, SEK m | 105.8 | 29.9  | 254 |

| MARGINS             | 2016 | 2015 | %   |
|---------------------|------|------|-----|
| Gross margin, %     | 51.8 | 51.5 | 0.3 |
| Operating margin, % | 27.4 | 20.6 | 6.8 |
| Profit margin, %    | 27.8 | 24.8 | 3.0 |

| CAPITAL STRUCTURE | 2016 | 2015 | %   |
|-------------------|------|------|-----|
| Equity ratio, %   | 80.3 | 74.9 | 5.4 |

| PER-SHARE DATA                      | 2016  | 2015  | %   |
|-------------------------------------|-------|-------|-----|
| Earnings per share, SEK             | 2.14  | 1.35  | 59  |
| Shareholders' equity per share, SEK | 4.82  | 2.50  | 93  |
| Share price at year-end, SEK        | 63.75 | 75.75 | -16 |

Sales (SEK m)

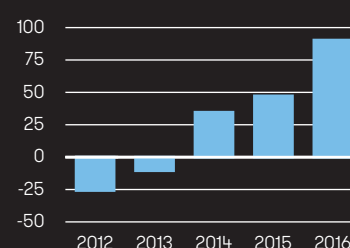


# 330.0 SEK m

Sales

Sales increased to SEK 330.0 million in 2016. This is an increase of 44 per cent compared to the previous year (229.8).

Operating profit (SEK m)



# 90.4 SEK m

Operating profit

INVISIO increased its operating profit to SEK 90.4 million (47.3). The operating margin was 27.4 per cent.

# Successfully implemented strategy with increased investment in product development

In 2016 we continued to successfully implement our strategy for profitable growth. Our ambition in the next few years is to strengthen our role as supplier of smart and easy-to-use communication and hearing protection solutions, above all to defense forces.

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## Growth with high profitability

At INVISIO we can look back with pleasure and pride to a year in which we reported our highest sales and our best earnings to date. Sales increased by 44 per cent to SEK 330 million, while we achieved a record operating profit of SEK 90 million, an increase of as much as 91 per cent.

2016 was also an intensive year, with many activities to increase market share, expand geographically and broaden the product portfolio.

## Sales to customers in existing markets

An important element of our growth strategy is to increase sales to existing customers. We were very successful in this, as in 2016 we received follow-up orders as part of multi-year contracts from customers in the USA, UK and Australia. We received the first orders from the US army in 2013 and from armies in the two other countries in 2015.

It is gratifying that there is demand for our products from our customers for new users in their operations. The UK Ministry of Defence decided to supply not only the army but also units within the navy, air force and army reserve forces with our system in 2016. In March, another British defense unit signed a framework agreement with us.

Another example of the value of existing customers is that supplies of equipment to French security forces in 2016 paved the way for orders from the French army as well, which thus became INVISIO's seventh army customer after

the USA, Canada, the United Kingdom, Australia, Denmark and Sweden.

Business directly or indirectly attributable to contracts awarded in recent years will account for a significant part of sales in the next few years. We established our own sales companies in France and the USA at the end of 2016 to support our strategy of further strengthening our position in these markets.

## Geographical expansion

Our growth strategy also builds on expansion to new markets. Last year we started preparations for broadening the customer base in selected countries in new geographical regions. The initiatives in 2016 have led to a series of new partnerships in parts of South East Asia and some countries in South America and the Middle East. Lead times are long in our industry, but we expect a good return over time from these investments.

## Broader offering to defense forces

Defense forces account for most of our sales. INVISIO's ambition for the next few years is to strengthen its role as leading supplier, mainly to this customer group, by broadening the offer of smart and easy-to-use communication and hearing protection solutions.

We have been in an investment phase for a year, where we are increasing the pace of product development and substantially augmenting our Research & Development resources with more personnel. The initiative is part of extending our product offer with new, related product categories.

By strengthening our product offer we believe that over time we can substantially increase our share of customers' total purchases, thus increasing both sales and profitability. We will provide more information about these new product categories as soon as competition considerations allow.

## A larger company is beginning to take shape

The contours of a company that in the foreseeable future will be considerably larger in terms of sales, product portfolio and geographical presence are starting to emerge. In the business plan we have adopted for the next few years, this will be achieved through continued focus on modernization programs in all parts of the world, the most innovative product solutions in the market and a broader product portfolio.

However, it is important to remember that INVISIO's market is characterized by large procurements, often with long lead times. This means that the order intake and sales for individual quarters may vary and have an effect on the full year figures.

## Proposed dividend

For the first time in the history of the company the Board is proposing a dividend to the Annual General Meeting. The proposal is that SEK 0.50 per share be distributed. The Board of Directors' proposed dividend should be seen in the light of the trust we feel in our capacity to continue growing with sound profitability and retained financial strength.





Without the committed work of our employees and support from our shareholders our successes would not have been possible. I would like to conclude by extending heartfelt thanks to you.

Stockholm in March 2017

Lars Højgård Hansen,  
CEO INVISIO

**"The initiative is part of extending our product offer with new, related product categories."**

# Communication in demanding environments

For military personnel, special forces and police it is vital to be able to hear and be heard. INVISIO offers solutions for communication and hearing protection that helps them to perform missions under extreme conditions, such as high noise levels.

## Versatile and powerful communication systems

INVISIO's system consists of a headset, a control unit and connection cables. The equipment can be connected to various external units, such as a group radio, a mobile phone or a computer.

- Protects the wearer's hearing against harmful noise
- Clearly relays speech despite a noisy environment
- Strengthens weak sounds
- Reproduces where sound is coming from
- Makes it possible to communicate via four channels simultaneously
- Is easy to carry and use

INVISIO's systems are technical leaders. The company combines its sound knowledge of the user's needs with innovative and advanced technologies to develop complete systems in which control units, headsets and communication radio interact for the greatest possible benefit of the user.

## Connectivity Options



**Radio**



**Mine Sweeper**



**Computer**



**Music Player**



**Smart Phone**



**Medic Cable**



**Intercom System**



**Power Supply**







# A scalable business model and a strong position in a growing market

INVISIO's growth is boosted by structural demand for the company's products. In parallel INVISIO drives market growth by developing new, innovative solutions that replace traditional products. The scalable business model enables INVISIO to concentrate on its strengths.

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## Market conditions

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### Good growth potential

Two related factors drive demand for INVISIO's products. Defense forces throughout the world are modernizing the equipment of their armies, air forces and navies. For example, soldiers are being equipped with modern radio communication at the same time as their communication headsets and hearing protection are being reviewed. The latter development contributes to increased awareness of the effects of hearing loss on individuals affected and society.

### Barriers to entry

The professional market is generally characterized by long selling-in processes, in which three or four years may pass from the first contract with a customer to the final order, via inquiry, customer tests and public procurement bids. The entry barriers are high and once a company has established itself in the market it has a great advantage.

Companies that want to compete are forced to make major investments in time and resources, including product development. This has led to the

market structure among suppliers being characterized by a few actors with long-standing relations to their customers.

The fact that INVISIO has won several major contracts with some of the world's foremost defense forces is an indication that the company's products hold a strong position and that INVISIO is a well-established partner.





## The company's strengths and strategy

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### Understanding the customer

Innovation strategy and product development are governed by long-term goals and an understanding of the customer's needs.

The offer is characterized by high user-friendliness, functionality and effectiveness. This applies to everything, from product design to customer service and technical support.

### Technological expertise

INVISIO's engineers have specialist knowledge of acoustics, mechanics, electronics and software and in the past ten years have developed technologies that together form the basis of user-friendly and effective solutions.

### Partnership in the value chain

One important condition for geographical expansion is INVISIO's network of specialized partners and resellers.

Many end customers prefer to buy complete communication systems, sometimes even including radio units, from one and the same supplier.

Consequently, some of INVISIO's sales are through a small number of strategically important partnerships with systems integrators and radio manufacturers.

### Great flexibility

INVISIO contracts out manufacturing of its products to a few partners. In that way the company does not tie up capital in production facilities. This means great flexibility, lower risk and that the company can focus on the core competencies; R&D, marketing and sales.

### Corporate culture

Committed, skilled and quality aware employees have been of decisive importance for INVISIO's capacity to develop innovative product solutions and reach out to the market.

Effective cooperation in combination with technical innovation at the leading edge means that INVISIO is now an important supplier in the market for advanced communication solutions. The corporate culture is based on the following common values:

- Innovation and Drive
- Structure and Flexibility
- Passion and Devotion
- Openness and Teamwork

### Niche strategy and geographical expansion

INVISIO's sales strategy focuses on achieving geographical breadth in a growing global niche market. The favorable experience of leading special forces has created great market confidence in INVISIO's systems and paved the way for larger deliveries to regular army units in the USA, the United Kingdom, Australia and France, among others.

Based on strong customer references, INVISIO intends to participate in relevant procurements expected to start within the framework of modernization programs.



# Financial targets

INVISIO's overall objective is to create value for shareholders by generating sustainable growth and sound profitability. The company aims to increase sales by 20 per cent per year on average and to maintain an operating margin of 15 per cent or more.

INVISIO's customers are agencies or the equivalent that are responsible for purchasing equipment for defense forces, security forces and police. Suppliers are appointed within the framework of time-consuming procurement processes at irregular intervals. There is no guarantee of follow-up orders. Both order intake and sales are therefore described as fluctuating. This is the reason for expressing the sales target as an average over time.

INVISIO intends to continue investing in product development and market penetration to maximize its long-term growth potential. In this context the operating margin target must be regarded as a minimum level that must be maintained.

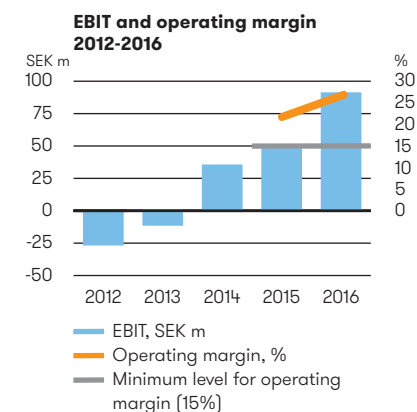
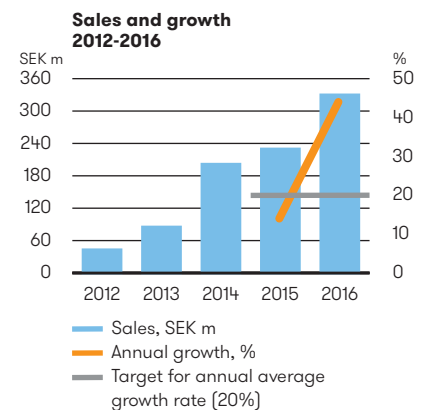
The targets were presented at the time of the company's listing on Nasdaq Stockholm in May 2015.

## Increase sales by at least 20 per cent per year on average

For 2016 sales growth was 44 per cent. The outcome is mainly due to increased sales to customers on existing markets.

## The operating margin should not fall below 15 per cent

The operating margin was 27 per cent for 2016. The outcome for the operating margin in 2016 is mainly explained by increased sales in combination with the scalable business model.







## Strategy for profitable growth

Achieving the financial targets requires continued innovative product development, marketing and expansion, and cost effectiveness in the company and in manufacturing. The overall growth strategy is reflected in four areas.

### **Increase market share in existing markets**

Follow-up orders in the context of awarded contracts are of great importance for INVISIO. The company must therefore retain, take care of and develop business with customers in defense, police and security in North America, Europe and Oceania.

### **Expand to new geographies**

INVISIO will continue marketing in the countries of South-East Asia, the Middle East and South America with a view to expanding to new markets with growth potential. This marketing is mainly together with selected partners.

### **Broaden the product portfolio through innovative development**

INVISIO intends to broaden its portfolio with products in a new associated area. This broadening will be through innovative and product development close to the customer. Further recruitment of R&D personnel is planned.

### **Conduct business cost effectively**

Sound profitability with continued growth will be maintained by focusing on costs internally in the company and for manufacture of the company's products. In the current year INVISIO and its manufacturing partners will continue their close collaboration to safeguard volume gains and production costs.

1 2 3 4

# US Army

## INVISIO's system lowers noise, raises communication clarity

To begin reducing hearing loss, the US Army has invested in INVISIO's system within the framework of its Tactical Communications and Protective System (TCAPS) modernization program. The system protects soldiers from hearing injuries while simultaneously allowing them to communicate with each other.



INVISIO's cooperation with the US Army and the TCAPS program has been ongoing since in 2013. During the year, TCAPS ordered equipment for about SEK 110 million.



**Fort Polk** - The sounds that reverberate across the military can include the roaring boom of an explosion as it vibrates your bones, sustained, piercing rat-a-tat of gunfire or the thunderous sounds of a large truck engine. Individually, each of these noises resonates through a Soldier's head and is enough to make their ears ring, roar and hurt. Combined, the pain can be even worse. But the real harm can come from the long-term damage exposure to this kind of racket can cause.

To begin reducing hearing loss in the Army, Soldiers from Fort Polk's 4th Brigade Combat Team, 10th Mountain Division trained with unit system integrators from PM Soldier—Soldier Electronics on the Tactical Communications and Protective System Feb. 2-6.

"When you put the ear tip in, all outside noise — helicopter rotors, gunfire, explosions and more — are filtered to a safe level of sound. Not only do the tips filter the noise, but when messages are transmitted, Soldiers can literally be under the rotors of a helicopter and they will still hear the commands being given them," said Scott H. Senter, lead integration engineer for Soldier integration of the Tactical Communications and Protective System.

Capt. David Kimsey, Bravo Co, 4th BCT, 10th Mtn Div, company commander, took part in the training and said he thinks TCAPS is a great piece of equipment.

"First and foremost it's going to protect Soldiers' hearing, but to also integrate a radio system with ear protection is phenomenal. I also like the advanced hearing enhancement. That will help us on the battlefield," said Kimsey.

Having been deployed three times, Kimsey said the biggest problem he has in a combat zone is hearing and communicating.

"Integrating this system so that the company will be able to hear and communicate through the noise will make a real difference," said Kimsey.

As part of the training, Soldiers were given examples of the difference between hearing live operations without TCAPS and then with the TCAPS system. Without the new ear protection an officer gave commands during live fire, but could not be heard over the existing noise. With the TCAPS system, the noise could still be heard but became part of

the background and the officer's orders could be clearly understood.

"TCAPS cuts the noise down to 85 decibels," said Senter. Which means that if somebody in a gunfight is shooting a weapon that's 150 decibels, it will clamp down the sound and protect their hearing.

"In addition, they can still hear the commands being given on the battlefield. Right now, if someone is firing their gun, they can't hear when the commander orders them to 'halt' or tells them that an enemy is around the corner. This system allows them to hear and communicate over the gunfight," he said.

After a power point presentation, in which Rupp was a key speaker, Soldiers were taken outside and TCAPS unit system integrators walked them through the process of inserting the ear tips, properly connecting the TCAPS system to their radios and how to correctly care for the electronic ear protection.

"When Soldiers are on a mission," said Rupp, "many don't wear their ear protection."

"What they don't realize is once their hearing is damaged, they won't be able to hear what's around them," said Rupp. So train they must, said Rupp, because if they aren't comfortable with the ear tips/TCAPS system, they won't wear or even use them in a combat situation. "

Though TCAPS is a more advanced level of ear protection, Senter said that combat army earplugs are never going away.

"TCAPS aren't here to replace them. What we are trying to make Soldiers understand is that they need to use one or the other to protect their hearing," he said.

The Army has recognized hearing loss as a huge concern, said Rupp. It's at the top of the list (#2) on Veterans Administration compensated disabilities even though hearing loss is preventable, she said.<sup>1</sup>

"The goal is to prevent the damage before it starts. Hearing loss happens over a period of time and most people don't even realize it until it's too late. Once the damage is done, it's permanent. It may not affect them on a day-to-day basis now, but as they get older it's very impactful. People start to lose the clarity and intelligibility of speech. Hearing aids help but the sounds you hear will never be "normal" and once you lose that clarity, no volume level will bring it back," said Rupp.

Things have come a long way since his first deployment when considering ear protection, according to David Kimsey.

"We weren't thinking about wearing ear protection at the time because you have to be able to hear what's going on. But with this system I can protect my hearing and use my radio," he said.

Currently, the Army, Navy, Air Force and Marines are spending what Senter thinks is close to \$1 billion on hearing loss for Soldiers.

"With a product like TCAPS, the long term goal is to give this system to Soldiers the minute they start boot camp to eliminate hearing loss altogether," said Senter.

The Army has recognized hearing loss as a huge concern.

<sup>1</sup> According to statistics from the U.S. Department of Veterans Affairs, in 2015 tinnitus was the most common and hearing loss the second most common injury that veterans receive compensation for.

# Technically leading products

Users of INVISIO's systems can communicate with colleagues, hear what is going on around them and at the same time protect their hearing against harmful sound. The system can be connected to a number of different radio units and other equipment.

When defense and security agencies procure hearing protection and communication solutions they set a number of requirements. The users must be able to carry out their task effectively and safely without being hindered by their equipment. It is important that a person really wants to use the equipment provided – a solution that is heavy, cumbersome or uncomfortable may just be left unused. Moreover, it should protect against hearing loss without removing crucial information from the surroundings. It should also be possible to use with commonly available radio equipment.

INVISIO's solution meets both technical and operational requirements. At the same time INVISIO's advanced, innovative technology raises the requirements.

## Clearly relays speech despite a noisy environment

Sound waves carrying the wearer's speech are relayed via the jaw to a microphone inside the ear instead of via

a traditional microphone near the wearer's mouth. Using advanced electronics, speech is clearly relayed even when the user is in noisy environments.

## Reduces harmful sounds but lets the harmless ones through

INVISIO's system combines ear plugs (passive protection) with electronic treatment of sound (active hearing protection via the control unit). Harmful sounds are reduced automatically to a safe level and the user is able to amplify weak but significant sounds manually, which means that the user does not miss important information.

## Reproduces where sound is coming from

A central quality of the system is that it gives 360 degree situational awareness. Thanks to INVISIO's advanced "hear-thru" technology, the user is not only able to perceive all surrounding sounds but also determine where they are coming from.

## Compatible with existing radio equipment

The modern soldier is equipped with up to three radio or communication units depending on the task and situation. INVISIO's system can be immediately connected to all commonly available communication units, such as two-way radio, intercom systems and mobile phones.

## Easy to carry and use

Size and weight are important qualities, together with simplicity and only necessary functions. INVISIO's control units are offered in several sizes and with different qualities to meet the different needs of customers and task-specific requirements.





# A selection of INVISIO's communication and hearing protection systems

The product portfolio includes the control units INVISIO® V20, INVISIO® V50 and INVISIO® V60, with one, two or three connection ports. The products interact and can be connected to headsets and various radio and communication devices without changing settings.



Radio 1



## INVISIO® V20

1 Com Port  
Powers From Comms.



Radio 1 Radio 2



## INVISIO® V50

2 Com Ports  
Powers From Battery/Comms.



Radio 1 Radio 2



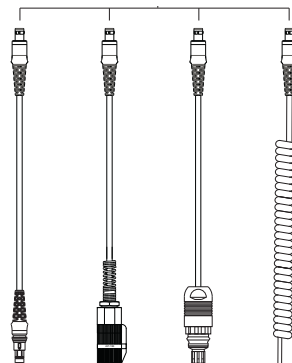
## INVISIO® V60

3 Com Ports  
Powers From Comms.



## INVISIO® X5

In-ear headset with passive and active hearing protection, situational awareness and bone conduction microphone.



## Cables

Specially adapted cables connect control units, headsets and external connection devices.



## Third party products

As a complement to our own production portfolio INVISIO also supplies equipment from strategic partners, such as various ear muff models adapted for use with INVISIO's control units.



# Market, drivers and trends

INVISIO operates in a global niche market offering huge potential for growth. Armed forces as well as special forces and security forces modernize their equipment in order to achieve operative advantages and protect their personnel.

## Greater operational capacity requirements

Several factors interact to boost demand for INVISIO's products. For the purpose of increasing the operational capacity of individuals and units, they are supplied with modern communication and hearing protection equipment that allows greater mobility, control, endurance and safety. This trend applies to all INVISIO's customers, whether they are major commissioners such as national armed forces or relatively minor buyers such as special and security forces.

The interest for INVISIO's solutions is also growing as a consequence of increased access to radio units, for example in army units. Communication must be possible over several networks. INVISIO's system can be connected to radio units, mobile phones, computers, vehicle intercom systems etc.

The effects of hearing loss on individuals and society is another factor that is being given more attention. Procurements that require advanced and integrated communication and hearing protection solutions benefit INVISIO. INVISIO also drives the market and raises requirements by developing new, innovative solutions that replace traditional products.

## Modernization of defense and special forces

Modernization programs are in progress in a large number of countries around the world. The largest are being imple-

mented in North America and Europe but investments are also being made in Asia, South America and the Middle East.

In recent years INVISIO has won a number of contracts within the framework of the American, British, Australian and Canadian armed forces' modernization programs.

INVISIO is also an important supplier to special and security forces in defense and police forces. These customer groups' purchases are less extensive than those of the armed forces but just as significant. Special forces are partners in product development and carry great weight as references in marketing.

## Market size

INVISIO's solutions are closely linked to the soldier's two-way radio, and are regarded as an important part of the system. There are no official statistics for this market, but INVISIO estimates the value of the entire annual market for communications accessories for two-way radio to be worth more than four billion Swedish kronor. The USA is the single largest market, with about 45 per cent of global sales, followed by Europe and the Asia & Pacific region.

## Competitors

The need to be able to communicate effectively in exposed environments and prevent hearing loss has existed for a long time. The traditional way is to wear

noise-reducing cups over the ears, and to communicate via an external microphone placed in front of the mouth. The market for this type of product is large, mature and dominated by a small number of actors.

Due to increasing requirements for hearing protection performance in noisy environments, as well as size and weight, advanced in-ear headsets of the type developed by INVISIO, have come into existence in recent years. Apart from INVISIO there is a handful of other suppliers in the market.

INVISIO estimates that it has a technical advantage over its competitors, both as regards the products' performance (potential) and quality and as regards connection to customer's existing equipment. The customer is offered an easy-to-use more complete solution that includes hearing protection, communication, ability to amplify weak sound and perception of sound direction. As a whole INVISIO's system is unique.

## Other target groups

The need for effective and flexible communication equipment with hearing protection not only exists in the defense sector, but also in other occupational groups. For example, personnel in the police service and fire departments carry out work in environments where hearing and communication is a decisive factor for personal safety and the outcome of the work. These occupa-





tional groups are currently a relatively small but growing user category.

INVISIO estimates that the ongoing technology shift in the police, fire services and other emergency services may increase demand for the company's products in the long term. Around the world projects are in process to replace old analog radio systems with new digital technology such as TETRA, TETRAPOL

and APCO25. When investments in new hand-held radios, exchanges and base stations are in place the next step is to review associated communication equipment.

#### **Contracts won by INVISIO**

The Danish army.

USA, TCAPS program.

UK, THPS program.

Length of contract: Four years with an option for a further three years.

Canada, ISS program.

Length of contract: Four years.

Australia, LAND 125 program.

Length of contract: Five years with an option for a further four years.

## **Individuals and society benefit from hearing protection**

Hearing loss means major economic costs for employers, insurance companies and for society, while at the same time there is great cost to the individual affected.

One of the groups that run a great risk of being affected are employees in the defense sector. They are surrounded by machines, vehicles, weapons and aircraft whose noise level often exceeds 85 dB, which under an EU Directive is the maximum level for daily exposure to noise at the workplace. For example, sound from shots and explosives exceeds 137 dB, rifle shots reach 156 dB and rocket launchers may exceed 170 dB.<sup>1</sup>

#### **Noise the commonest reason**

The percentage of hearing loss in the American defense forces has increased in the 2000s and for the past couple of years has been the most common occupational injury among veterans. More than half of American troop members returning from a war zone have impaired hearing.<sup>2</sup>

About 1.4 million American veterans are compensated for tinnitus and almost the same number suffer from

impaired hearing. Statistics show that the problems cost the American armed forces billions every year (USD).<sup>3</sup>

An occupational injury report from the Swedish Forces Centre for Defence Medicine (FörMedC) shows that hearing impairment due to high noise levels is top of the list of causes of occupational injuries and that there has been a substantial increase since 2010.<sup>4</sup>

#### **Incurs major costs**

For people with untreated hearing loss the annual individual cost, measured as the income growth they would have had if healthy, is estimated to be USD 30,000. The cost to society of impaired working capacity is estimated to be USD 26 billion in the form of lost tax revenue.<sup>5</sup> The personal suffering is impossible to measure, but considerable.

#### **Civilians are also affected**

People in civilian jobs can also be affected. In Australia estimates show that hearing loss costs the equivalent of 1.4 per cent of GDP.<sup>6</sup> As of July 2010, the EU requires companies and organizations to protect their employees against noise of more than 85 dB, measured as an average over an 8-hour working period. In addition, no-one should be exposed to impulse noise louder than 137 dB.<sup>7</sup>

<sup>1</sup> INVISIO.

<sup>2</sup> Researchers evaluate true effects of hearing loss for soldiers, United States Army website, Dec 2015.

<sup>3</sup> The 2015 Annual Benefits Report, US Department of Veteran Affairs, Veteran Benefits Administration.

<sup>4</sup> Hearing impairment due to high noise levels increasing in the Swedish Armed Forces - officers worst affected. National Association for the Hearing Impaired. February 16, 2014.

<sup>5</sup> Commentary: The dollars and sense of addressing hearing loss in the workplace. The Bellingham Herald. 17 juni 2012.

<sup>6</sup> Better Hearing Australia.

<sup>7</sup> EC Noise at Work Directive (2003/10/EC).

# British Army

“For us confidence and capability is key”







INVISIO is helping the British Armed Forces to modernize its communications and hearing protection equipment. Previously, it was normal for soldiers not to use hearing protection when out on operations as it restricted their capacity to read their surroundings, thus exposing them to risks. With the new equipment, the conditions have changed.

The soldiers at the Infantry Battle School in Brecon, Wales are trained for high intensity operations in various defense situations. Each year young men and women come here for military training. Their Officers have many years' experience behind them, including service in war-torn areas such as Iraq and Afghanistan.

During the training day, Major Neil Strachan (to the right in the picture) describes the importance of being able to wear hearing protection for many hours, whilst retaining your situational awareness and subsequently control of the situation you operate in.

"It's important that we give the soldiers the right mindset and make them understand how important hearing protection is and how this equipment can aid success on the battlefield because it is integrated with the soldier radio. What matters is, it improves communications on the battlefield whilst protecting the soldier's hearing and allowing them to retain situational awareness. It enables the soldiers to stay aware of

what is going on around them and to stay focused."

To maintain focus in critical situations, communication with the rest of the Platoon must also function. A soldier need to be able to communicate easily even when surrounded by noise.

Paul Longwel, Integrated Logistics Support Manager at DE&S (Defence Equipment and Support), confirms that INVISIO's system gives soldiers new possibilities in their communication with each other.

"It's all about confidence and safety. Knowing that you're Platoon and your Commanding Officers will hear you creates confidence. We have not had that before. We used to ask 'Did they hear that?' Now we have a confidence we did not have before. For us confidence and capability is key."

#### **INVISIO delivers to the entire British armed forces**

In 2015 INVISIO and its partner Marlborough Communications were awarded the procurement contract for hearing protection and communication systems for the THPS program. In 2016 deliveries were equivalent to SEK 130 million. Already during the spring the first units were supplied with the equipment after fast implementation of the project together with the British Ministry of Defence.

In summer 2016 INVISIO received the first follow-up order for delivery, not only to the Army but also the Royal Navy, the Royal Air Force and Army Reserve. During the contract period, which is four years with an option to renew for another three years, the aim is to supply substantial parts of the British armed forces with the system.

The equipment chosen, INVISIO S10, gives the British forces key capability by preventing hearing loss, ensuring the wearer's situational awareness and at the same time offering increased comfort and communication.



# The Technology

To be able to develop a communication system that meets the requirements of professional users INVISIO combines expertise in various disciplines.

## Hearing protection with enhanced hearing

INVISIO in-ear-headsets in combination with a control unit act as intelligent hearing protection. They provide outstanding passive hearing protection, supplemented by an automatic level dependent protection so that they can also function under extreme conditions.

The passive protection, in the form of replaceable ear-plugs, reduces all sounds in the user's surroundings and is mainly intended to protect against hearing loss that may arise as an effect of high noise levels over a long period.

The active electronic protection in the control unit helps against both continuous noise over long periods and sudden acoustic shocks and reduces them immediately. The system can attenuate continuous noise from aircrafts with up to 32 dB (SNR), or acoustic shocks from grenades with up to 52 dB(C).

Harmless noise reaches the ear unchanged, almost as if the wearer were not wearing a headset.

## Situational awareness

The difference in arrival time of a sound between two ears and the complex shape of the outer ear are major factors in allowing people to tell where sounds are coming from.

To be able to perceive sounds in the environment correctly when wearing hearing protection, INVISIO's headsets have special microphones placed at the start of the ear canal. In that way, the sound is recorded in the same place as it normally reaches the auditory canal. The system allows the wearer to report where the sound comes from and keep track of what is happening in the environment.

## Signal processing

The same system can also amplify sound in the environment up to three times, to be able to hear things that a human ear does not normally perceive.

The headset must amplify sound up to 80 dB(A) in a natural way, but reduce harmful acoustic pressure so that the volume from the speakers never exceeds 85 dB(A).

## Disruption-free speech – bone conduction

One of the greatest challenges in developing headsets for noisy environments is to shut out the surrounding noise while hearing speech clearly. When we speak to each other, the noise of our voices moves in the form of sound waves through the air. Since most things in our surrounding environment gener-

ate or reflect sound waves, our voices must compete with many other sounds in order to be heard.

INVISIO's Bone Conduction technology solves the problem with a microphone placed in the ear, which transfer vibrations from the jawbone. Thanks to advanced electronics, speech is clear and comprehensible.

Vibrations are created by the wearer's voice when she or he speaks. The vibration is then picked up from the jawbone through a specially developed microphone. The signals then travel through an advanced filter to be converted into clear speech. The construction of the Bone Conduction microphone and its location inside the ear blocks surrounding sounds and only transmits the wearer's voice to the communication radio.

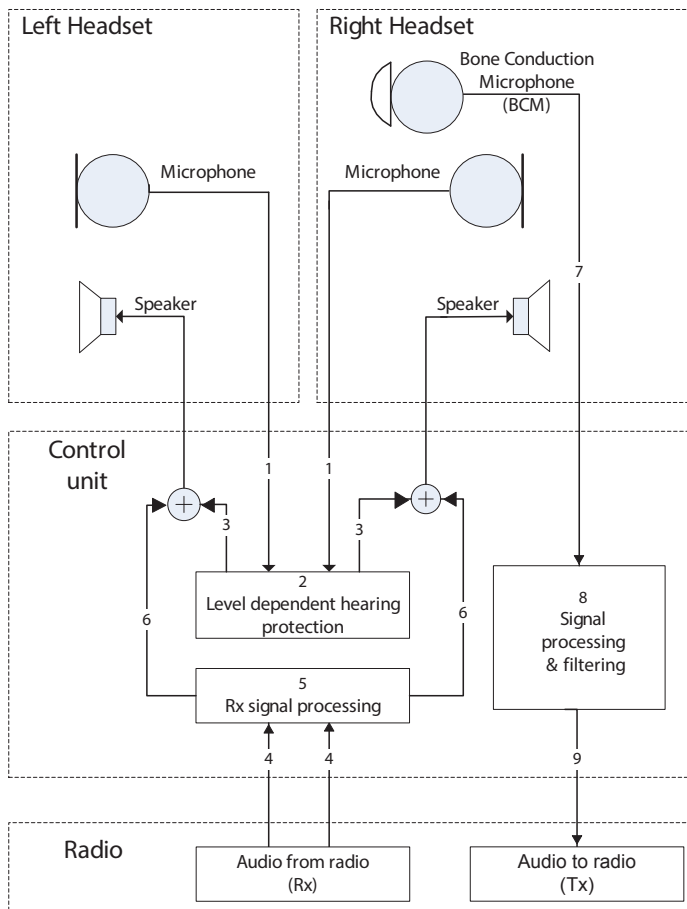
**dB** Decibel. Unit used to measure sound level.

**dB(A)** A-weighted decibels. A measure of perceived sound level. Used for industrial and environmental noise at moderate levels.

**dB(C)** C-weighted decibels. A measure of perceived sound level. Used at high sound pressure levels such as acoustic shocks and airplane noise.

**SNR** Single Number Rating. The SNR value shows the level of noise attenuation offered by different hearing protectors. Example: SNR of 32 attenuates noise level with 32 dB.





## This is how INVISIO's systems work

### Three basic audio paths

#### Level dependent hearing protector

1. The microphone detects and converts sound to an electrical signal.
2. The signal is processed in the digital signal processing unit. (Amplifying the signal but limiting it from becoming too loud.)
3. The signal is transferred to the loud-speaker and converted into sound.

#### Received audio signal from radio

4. An electrical signal is received from the radio.
5. The signal is processed in the digital signal processing unit. (Adjusting to optimal signal level and is routed to left/right or both ears.)
6. The signal is transferred to the loud-speaker and converted into sound.

#### Bone conduction microphone (transmits signal to radio)

Speech is a sound that is generated by the vocal chord in our throats. On its way out of our mouth and nose the speech sound also cause vibration in hard material such as bone. The vibrations follow the jawbone up to the ear canal and are picked up by the bone conduction microphone.

7. The microphone detects and converts the vibration into an electrical signal.
8. The signal is processed electronically.
9. The signal is transferred to the radio.

## INVISIO X5



# The Danish heritage

INVISIO benefits from Denmark's long tradition of world-leading technology in sound and acoustics. The company combines insights in acoustics and human hearing with broad engineering know-how.

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## Access to leading edge skills

The Copenhagen region is now considered to be one of the world's leading clusters in acoustics, hearing and mobile communication. Research has benefited from the Danish State's focus on hearing aids. In Denmark world-class expertise has been built up over several decades in acoustics and hearing.

Some of the world's leading manufacturers of hearing aids are Danish and the Technical University of Denmark is regarded as among the best in the world in its field. The cluster acts as a hothouse where companies, people and ideas inspire each other.

## Understanding the whole picture gives INVISIO an advantage

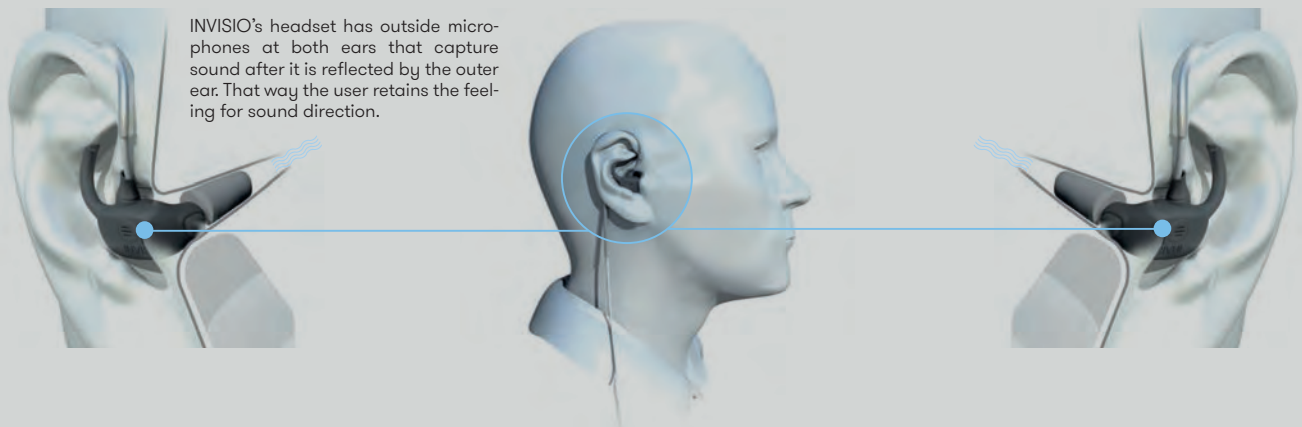
INVISIO's origins are in the Danish sound and hearing tradition. The company's engineers bring experience and leading-edge skills from Danish research and the sound industry. They are specialists in acoustics and hearing and know how to design a headset that protects hearing and allows the wearer to communicate.

Developing an advanced communications and hearing protection system requires not only specialist knowledge but also broad technical skills and holistic thinking. Using knowledge of mate-

rials technology, the company designs headsets that work in extreme environments such as loud noise, heat, and underwater. The engineers' leading-edge skills in mobility, communication and interface make it possible to integrate and connect the system to a number of different two-way radio models, mobile phones or computers.

It is this whole picture, the capability to combine knowledge of human hearing, acoustics, electronics and mechanics that makes INVISIO stand out in the crowd.





INVISIO's headset has outside microphones at both ears that capture sound after it is reflected by the outer ear. That way the user retains the feeling for sound direction.

## INVISIO supports natural human hearing

INVISIO's solutions build on deep understanding of sound and human hearing. Humans' ability to determine where sound is coming from is partly due to it hitting the ears at different times and to it being reflected by the outer ear. To retain as much as possible of natural hearing, INVISIO's headset is optimally positioned and is designed to give high sound quality.

Localising sound is a complicated human process that depends on a series of external and internal factors. Sound has physical qualities that in combination with our physiology help us to determine direction and distance. INVISIO's solutions are based on insights about this interaction.

### Localising sound may be crucial

INVISIO's headset has external microphones at both ears so that the user does not miss information that could be of vital importance. The sound is gathered where it otherwise would have reached the auditory canal, giving a three-dimensional effect of the user's location. In acute circumstances, situational awareness and the ability to determine location is of great significance.

### Time and level differences

To determine the position of the sound source, the sense of hearing mainly analyzes differences between the two ears' sound images in terms of phase (time difference) and level (level difference).

For low frequencies with long soundwaves, the time difference can be used, so called Interaural Time Difference (ITD). For frequencies below 1,500 Hz,

soundwaves are so long that they reach the left and right ears slightly out of phase. When the wave reaches a peak at one ear, it will already be heading back down when it reaches the other.

For higher frequencies, where the wave length may be just a couple of centimeters, the ear detects the fact that the sound is louder in the ear nearest to the source of the sound. The difference in loudness and frequency distribution between the two ears is called Interaural Level Difference (ILD).

### The shape of the outer ear

Also the shape of the outer ear is important to allow humans to tell where a sound is coming from. The ear is not symmetrical, so sound is refracted differently depending on where it is coming from. The spectrum will change slightly depending on the direction, and human hearing can tell this.

### Reflecting sound

Further acoustic factors that help humans to determine direction and distance are that sound is actually a combination of the original sound and reflections from surfaces and objects nearby, such as walls, ceiling, floor and other reflective surfaces. The person's own shoulders and upper body also influ-

ence how sound waves reach the ear. The sound will be reflected to differing extents on its way to the ear, depending on whether the source is nearby or far away.

Factors mentioned above must be dealt with at the design stage so that the headset affects them as little as possible.

#### Hearing problems

A person with good hearing can perceive, sort and interpret a broad spectrum of sound, from a buzzing mosquito to roaring jet engines.

When your hearing is impaired, the ability to sort sounds deteriorates. Voices you want to hear flow together with the background noise. Deterioration is often gradual and the person will perhaps not notice anything until he or she experiences distorted sound or deafness. But the deterioration may also come suddenly, for example after a sudden explosion, with immediate hearing impairment as a consequence. Speech may be difficult to hear and the person will probably have difficulty in participating in conversations.

Even a minor hearing impairment can have major consequences for work and everyday life. Impaired hearing often leads to social isolation, loss of independence and mental problems. People with hearing loss often leave the labour market early due to lack of functioning communication and social interaction.



# CSR report for INVISIO

INVISIO develops and sells communication systems that protect users from hearing damage, thereby contributing to lower costs, direct and indirect, for individuals and society.

## INVISIO's CSR Policy Framework

INVISIO has established four policies that serve as a guiding framework for how the company assumes CSR.

### Quality Policy

INVISIO's Quality Policy reflects INVISIO's view on quality and ensures the company's ability to consistently provide products that meet customer needs and regulatory requirements. Because the products are of critical importance to the company's customers, INVISIO aims for the highest standards in quality. The company's commitment to quality is an essential part of INVISIO's culture and shapes the way INVISIO integrates sustainability practices throughout the value chain.

### Code of Conduct

The INVISIO Code of Conduct obliges all employees to uphold high ethical standards in their conduct towards each other and when representing the company. It also aims to ensure a safe working environment and equal and fair treatment of all employees. The Code of

Conduct is based on the ten principles of the United Nations Global Compact. It is complemented by INVISIO's Anti-Corruption Policy, INVISIO's Supplier Code of Conduct, rules of corporate governance and internal policies.

### Supplier Code of Conduct

INVISIO requires its suppliers and business partners to comply with applicable national laws and legislation on human rights, labor, environment and anti-corruption and abide by the values and principles described in the Supplier Code of Conduct. This framework makes clear to INVISIO's suppliers that they are expected to behave responsibly and ethically in compliance with internationally recognized rules.

### Anti-Corruption Policy

INVISIO considers all forms of corruption – whether it be bribery, undue pressure, fraud, money laundering or collusion – harmful to customers and suppliers alike. INVISIO has adopted an Anti-Corruption Policy to ensure adherence to INVISIO's standards among employ-

ees and present and prospective business partners.

### Other policy documents

In addition to the above-mentioned policies, INVISIO has adopted policies to ensure accurate financial reporting to the capital market and that the company is governed in the manner prescribed by applicable laws and regulations.

### Operations and business model

INVISIO's CSR work should be seen against the background of the company's operations and business model. INVISIO develops and sells advanced communications and hearing protection systems for professional users. In addition to the in-house R&D, marketing and management functions, the value chain includes component suppliers and contract manufacturers (in this report referred to as "suppliers"), and distributors and resellers ("partners").

## Overview of value chain

|                      | Product development  | Supply and manufacturing   | Marketing and distribution  | Management and head office  |
|----------------------|--|--|---|---|
| Risks                | Inadequate product design regarding safety, reliability and usability.<br>Non-compliance with required standards.<br>Use of materials detrimental to the environment and human health.                         | Product deficiencies.<br>Non-compliance with INVISIO requirements regarding human rights, labour standards, environment and anti-corruption. | Bribery.<br>Non-compliance with INVISIO requirements regarding human rights, labour standards, environment and anti-corruption. | Risks related to the relationship between employers and employees and between employees.            |
| Policies and actions | General Policies (Code of Conduct, Code of Conduct for Suppliers, Quality Policy, Anti-Corruption Policy etc.)   |  |   |   |
|                      | Standardization in product development and design processes.<br>Perform comprehensive tests according to international standards.<br>Select materials that comply with standards and directives.               | Select suppliers and contract manufacturers who fulfill our requirements.<br>Audits.   | Select partners and resellers who fulfil our requirements.  | Employees are required to read, sign and follow the Code of Conduct and the Anti-Corruption Policy. |
| Our objectives       | Continued successful implementation and maintenance of Code-of-Conduct and Anti-corruption agreements for key suppliers.<br>Be an attractive employer with satisfied employees and a good working environment. |  |   |   |



## **INVISIO's Quality Management System**

INVISIO's quality policy is made operational through INVISIO's Quality Management System. INVISIO's Quality Management System is certified according to ISO 9001, the internationally recognized standard for Quality Management Systems, and complies with the requirements of international legislation (including EU Directives).

The Quality Management System is a collection of business processes covering all links in INVISIO's value chain, from customer needs identification through product development, purchasing, supplier, sales and marketing, post market and support/service processes.

The CEO, along with the Management Team, is responsible for the Quality Management System, and the Quality Manager is responsible for system surveillance and improvements. The performance of the Quality System is reported regularly to the Board.

### **Product development**

Product development is a key process in which INVISIO combines technologies in solutions that are user-friendly, compatible with different types of communications equipment and technologically advanced in terms of audio and signal processing. The products' environmental aspects are considered early in the development process, in connection with the design and specification phases.

### **Comprehensive tests**

The performance and reliability of INVISIO's products are of great concern, since they are used in critical, sometimes life-critical, situations. The products must meet high standards of functionality and resistance to environmental factors, such as heat, cold, moisture, etc. In the event of malfunction, products may be a threat to users, and may entail major costs to society and could jeopardize INVISIO's reputation.

To verify that the products are safe, of high quality and meet the requirements of customers, government agencies and certifying bodies, INVISIO conducts comprehensive verification and validation tests. Testing includes compliance to EU standards on the use of chemicals





and hazardous substances (REACH, RoHS), electronic equipment waste (WEEE Directive), electromagnetic radiation (EMC regulation) as well as various national and military standards. As for hearing protection, INVISIO have headsets tested according to European, American and Australian standards.

Actual product performance in the field is monitored in the customer feedback processes (including complaints). The results are used for continuous improvements of both product design and processes (including testing procedures).

### Supply and manufacturing

INVISIO's products are manufactured by contract manufacturers who transform semi-finished goods and assemble components into finished goods. Five of them

together account for approximately 90 per cent of INVISIO's purchases.

INVISIO makes sure that major suppliers comply with the relevant rules and procedures through a supplier quality management process. Within that process the Supplier Committee - which has representatives from R&D, Supply Chain and Quality Assurance - is responsible for assessing, approving and monitoring INVISIO's subcontractors and suppliers. The committee has regular meetings to evaluate existing suppliers' performance and examine prospective suppliers.

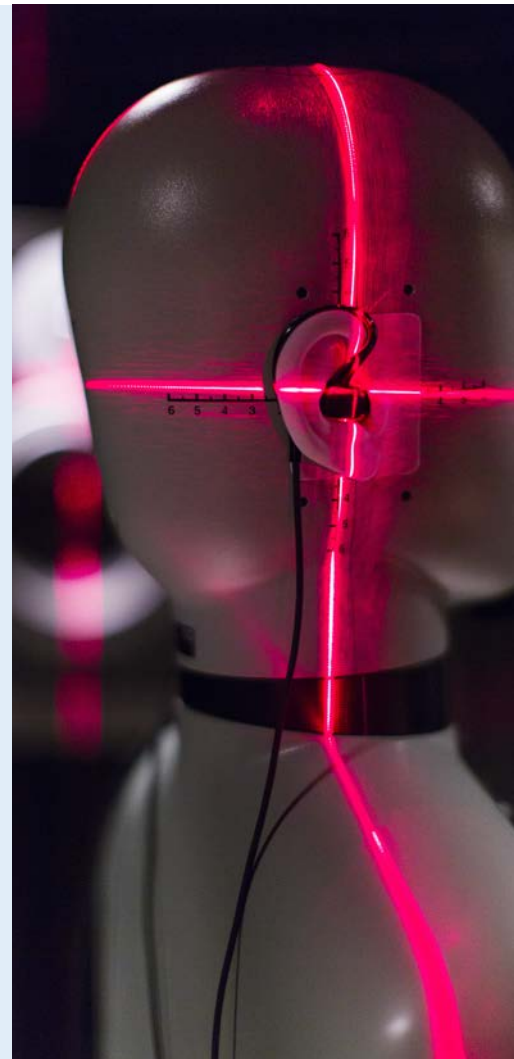
Since 2013 major suppliers have signed a Supplier Quality Agreement (SQA). As of 2017 these suppliers will also have to sign INVISIO's Supplier Code of Conduct and Anti-Corruption Policy.

INVISIO regularly visits manufacturing sites for audits. A written report is made and any deviations are raised with the supplier, who is then given a period to take corrective action to comply with INVISIO's requirements.

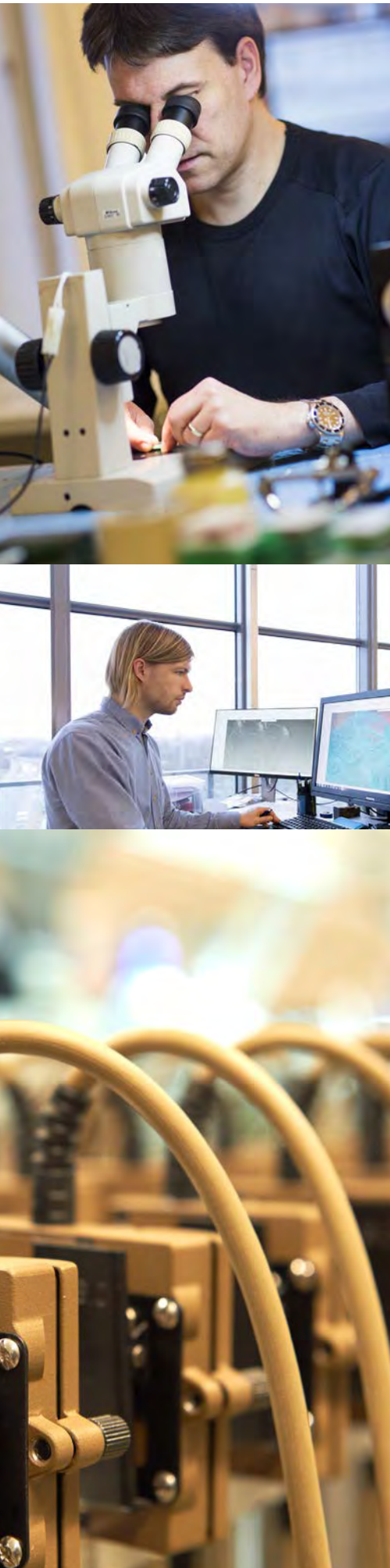
### Marketing and distribution

Sales are primarily via a global network of partners, but in some markets INVISIO also sells directly to end customers. The partner may be a specialized reseller or a radio manufacturer that includes INVISIO's products because many end customers prefer to buy complete communication systems from one single supplier.

INVISIO requires sound business practice throughout its value chain. Beginning in 2017, distributors and resellers will be asked to sign INVISIO's Supplier Code of Conduct and Anti-Corruption Policy.







# A value-based culture

INVISIO has more than 50 employees of twelve different nationalities in three offices. INVISIO believes that a diverse workforce reflects the customers and better meets their needs. In addition, it furthers new ideas, challenges norms and thereby increases the power of innovation.



## A positive workplace of mutual respect

INVISIO is taking steps to minimize its impact on the environment in its day-to-day office work. Staff are encouraged to economize on energy and other resources in everyday activities.

Questions concerning the work environment, health and safety are regulated in the company's staff manual. The work environment is characterized by respect and trust for every individual employee. Insulting behavior and discrimination are unacceptable and employees are expected to treat each other as they wish to be treated themselves.

At year-end, the number of employees, restated as full-time positions, was 52 (40) of whom 41 men (31) and 11 women (9). Staff turnover was 5.0 per cent (0) and the aggregate sickness absence in relation to total number of hours worked was 1.2 per cent (1.2).

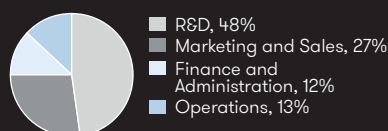
All employees in the INVISIO Group and its subsidiaries have a personal responsibility to read, sign and follow the Code of Conduct. Procedures are in place to ensure that all employees read and sign the Code. In order to make analyses and plan for actions, INVISIO is also planning to survey employee satisfaction.

Outstanding expertise and top-level skills are the hallmark of INVISIO's people. About half the staff work on research and development, specializing in fields such as acoustics, electronics, mechanics and software. In addition, INVISIO has employees with experience from international sales and marketing, quality assurance and supply chain management.

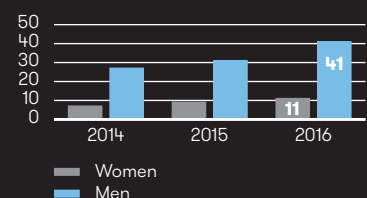
People who start work at INVISIO usually feel at home. This is evidenced by the company's low staff turnover. People that come and work for the company generally stay for a long time. About half of the employees have worked at INVISIO for five years or more. Apart from a challenging and stimulating job in an international environment, INVISIO also offers health insurance and supports sport and physical activities to promote employees' health.

INVISIO's head office is in an attractive location in Copenhagen. Since late 2016 INVISIO also has offices in France and the USA.

Percentage of employees per work area



Gender distribution



# History

INVISIO was established in 1999 in Copenhagen to develop headsets for communication based on bone conduction technology. In 2003 the company was registered in Sweden.<sup>1</sup> Until 2007 the company marketed its products to the consumer market and professional users. At that time the share was listed on the NGM stock exchange and then on Nasdaq First North. In 2008 operations were streamlined to focus on communication solutions with inbuilt hearing protection for professional users. In 2015, the INVISIO share was listed on Nasdaq Stockholm.

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## 2016

INVISIO received a number of important follow-up orders from modernization programs in the USA, UK and Australia, as well as defense customers in France and several other Nato countries. Launch of control unit INVISIO V20.

## 2015

Continued orders from American TCAPS. Several important new procurement contracts won and strengthened position in the market for advanced hearing protection and communication solutions. Major contracts and orders from armies in the United Kingdom, Canada, Australia and Sweden.

## 2014

Several large follow-up orders from the American TCAPS program and several volume orders from other Nato countries' Special Forces. Sales increase by more than 130 percent and INVISIO reports a profit for the first time. Launch of the second generation headset, INVISIO X5.

## 2013

Breakthrough order for SEK 40 million from the US Army through the TCAPS modernization program. Special Forces in several Nato countries continue to place orders. Full year sales more than doubled to SEK 85 million. Awarded ISO certification.

## 2012

Improved technical advantage through the launch of the INVISIO V60, the industry's smallest and most advanced hearing protection and communication system. Receipt of a follow-up order for an army customer in Nato worth SEK 32 million, another important reference order.

## 2011

Launch of hearing protection and communication system INVISIO S10 for use together with a radio unit. This was followed by an order from the Danish army worth SEK 11.5 million, an important reference order from the domestic market.

## 2010

A number of reference orders were received from American and European defense customers. Through partners the company started to participate in procurements for defense modernization programs. Launch of the INVISIO X6 headset, which can be adapted to the wearer's ear shape. Name changed to INVISIO Communications to clarify that the operations cover more than just headsets.

## 2009

Launch of the first digital hearing protection and communication system for use with multiple radios, the control unit INVISIO X50 with the INVISIO X5 headset. The first volume orders for these were received from individual Nato countries' Special Forces.

<sup>1</sup> The business was established in 1999 as the Danish company Nextlink.to A/S. On November 11, 2003, Nextlink AB was founded, to which all shareholders in Nextlink.to A/S transferred all their shares in 2004, making Nextlink.to A/S a wholly owned subsidiary to Nextlink AB. In 2008 this company changed its name to Invisio Headsets AB (publ) and in 2010 to Invisio Communications AB (publ).

The parent company share was listed on the Nordic Growth Markets OTC list on June 7, 2004. Trading was moved to First North on May 29, 2006, and to First North Premier on July 9, 2009. On May 29, 2015, the share was listed on Nasdaq Stockholm Small Cap, and on January 2, 2016, it was moved to the Nasdaq Mid Cap segment.

# The share

## Share capital

At the close of 2016, share capital in INVISIO Communications AB (publ) ("INVISIO") was SEK 43,448,506, divided between 43,448,506 shares with a quotient value of SEK 1.00. Each share confers one vote and each person entitled to vote may vote at the general meeting of shareholders for the full number of shares owned and represented. All shares confer the same right to participate in the company's assets and profit.

## Share capital development for the year

| Date          | Transaction       | Increase in the number of shares | Total number of shares | Increase in share capital, SEK | Total share capital, SEK | Quotient value, SEK |
|---------------|-------------------|----------------------------------|------------------------|--------------------------------|--------------------------|---------------------|
| Jan 1 2016    | Opening balance   |                                  | 42,240,161             |                                | 42,240,161               | 1.00                |
| April 20 2016 | Option redemption | 603,339                          | 42,843,500             | 603,339                        | 42,843,500               | 1.00                |
| Oct 20 2016   | Option redemption | 605,006                          | 43,448,506             | 605,006                        | 43,448,506               | 1.00                |

Full development of share capital is presented on INVISIO's website, [www.invisio.com/IR](http://www.invisio.com/IR).

## Trading in the share

The INVISIO share has been listed on Nasdaq Stockholm since May 29, 2015 and since 2016 has been included in the Mid Cap segment. The highest price paid during the year was SEK 77.25 and the lowest was SEK 42.20. The closing price on December 30, 2016, was SEK 63.75, giving a total market value of approximately SEK 2,770 million. In 2016 a total of 20.4 million shares were traded, worth SEK 1,262 million.

## Shareholders

The number of shareholders at the close of the year was 4,453 (4,284) according to data from Euroclear. The ten largest shareholders controlled 67.8 per cent of the company's shares on the balance sheet date. Swedish ownership accounted for 63.4 per cent of the votes. The Board of Directors and management owned 24.9 per cent of the total shares, privately or through companies.

## Dividend

The Board of Directors proposes to the Annual General Meeting 2017 that a dividend of SEK 0.50 per share be distributed for 2016. According to the dividend policy adopted by the Board of INVISIO,

dividends shall be determined with consideration for INVISIO's long-term growth and earnings development, as well as its capital requirements, with due consideration for financial targets. The goal for the dividend is to stay within an interval of 25 to 50 percent of profit after tax.

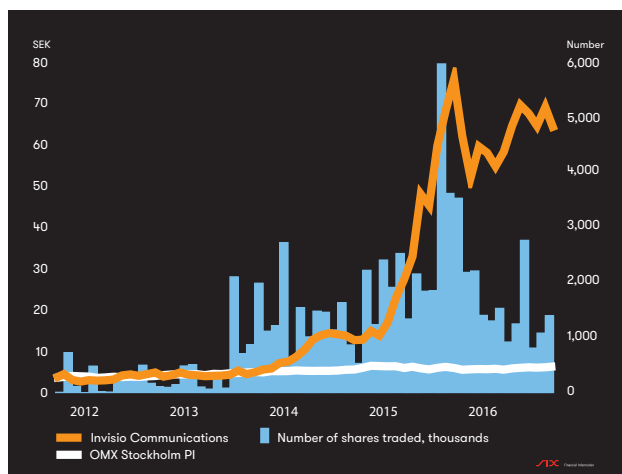
## Employee Stock Option Program

An extraordinary meeting of shareholders held on April 24, 2013 resolved to offer the staff an incentive program based on stock options. This program includes 2,000,000 shares and runs for four years. This program is targeted at company employees in Denmark. To ensure access to shares in the company for transfer within the Employee Stock Option Program 2013/2017, stock options were issued to the wholly owned Danish subsidiary INVISIO Communications AS. These stock options entitle holders to subscribe for a total of no more than 2,000,000 shares in the company. As shown in Note 8, 1,898,333 stock options were allocated, of which 1,208,345 were exercised in Tranche 1 and 2. Remaining unexercised options amount to 663,322, which corresponds to dilution of 1.5 per cent of the share capital.

## Summary of outstanding stock options

| Option program | Number of options | Subscription price, SEK | Maximum allocation, no | Actual allocation, no | Possible increase in share capital, SEK | Exercise date | Dilutive effect |
|----------------|-------------------|-------------------------|------------------------|-----------------------|---|---------------|-----------------|
| 2013/2017      | 666,668           | 5.30                    | 666,668                | 663,322               | 663,322                                 | May 2017      | 1.5%            |

## Share performance and turnover 2012-2016



Ticker: IVSQ  
Sector: Technology  
ISIN: SE0001200015

## INVISIO's 10 largest shareholders

| Shareholder                              | No. shares        | % votes and capital |
|--|-------------------|---------------------|
| Lage Jonason, with family and companies  | 9,791,520         | 22.5                |
| SIX SIS AG, on behalf of clients         | 7,887,759         | 18.2                |
| Handelsbanken Fonder                     | 3,371,586         | 7.8                 |
| Swedbank Robur Fonder                    | 2,613,498         | 6.0                 |
| Ingo Invest AB                           | 2,025,889         | 4.7                 |
| SEB Life International Ass. Company Dac  | 1,026,507         | 2.4                 |
| Palmstierna Invest AB                    | 750,000           | 1.7                 |
| The Fourth Swedish National Pension Fund | 750,000           | 1.7                 |
| Försäkringsaktiebolaget Avanza Pension   | 657,530           | 1.5                 |
| BPSS PAR/FCP ECHIQUIER                   | 602,973           | 1.4                 |
| Other                                    | 13,971,244        | 32.2                |
| <b>Total</b>                             | <b>43,448,506</b> | <b>100.0</b>        |

Source: Euroclear Sweden, INVISIO 2016-12-30



# Corporate Governance Report

INVISIO Communications AB (publ) (“INVISIO”) is a Swedish limited liability company with its registered office in Stockholm, Sweden. Apart from the parent company the Group consists of the wholly-owned subsidiaries INVISIO Communications A/S (Denmark), INVISIO Communications SAS (France), INVISIO Communications Inc (USA), Nextlink IPR AB and Nextlink Patent AB. INVISIO has applied the Swedish Code of Corporate Governance (the Code) since the shares were admitted to trading in May 2015 and reports no deviations from the Code for 2016.

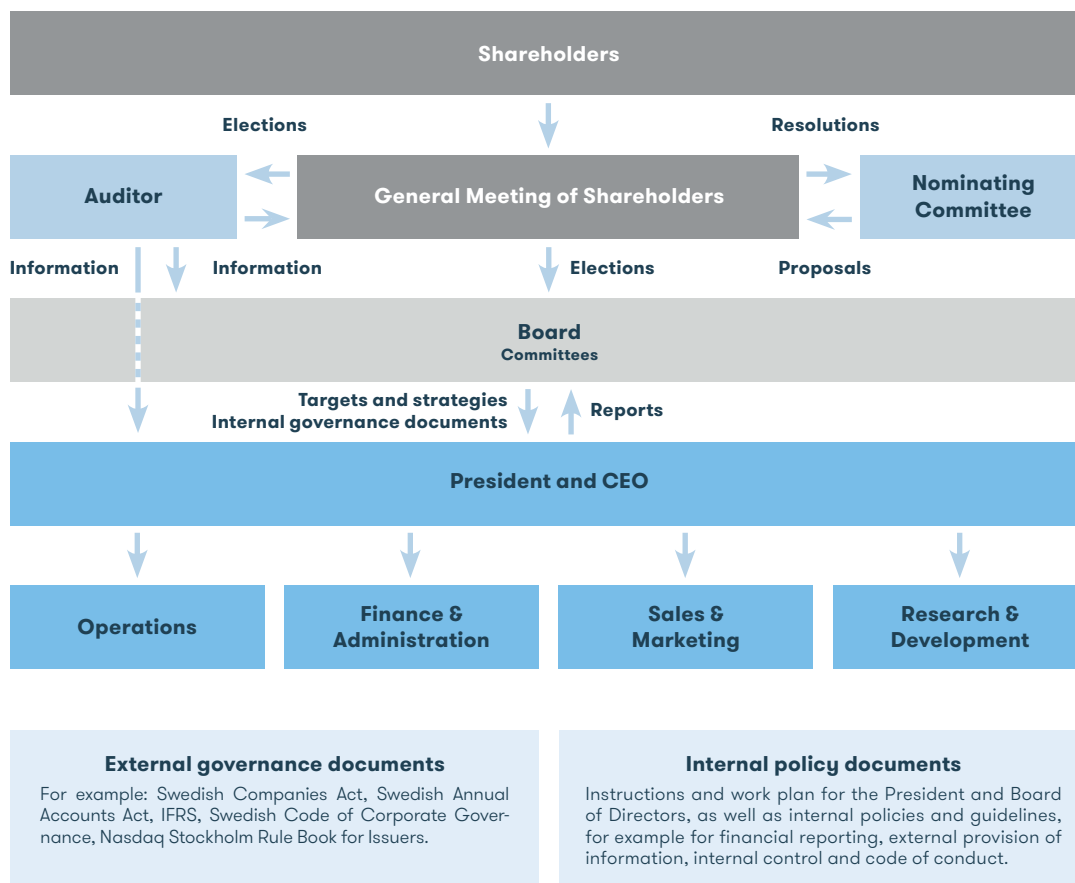
## Principles for corporate governance

Governance of the Company and Group is based among other things on the Articles of Association, the Swedish Companies Act, the Nasdaq Stockholm Rule Book for Issuers and the Swedish Code of Corporate Governance, as well as internal regulations and policies.

This corporate governance report is prepared as a separate document from the formal annual report.

The responsibility for governance and control of the INVISIO Group is divided between the shareholders at the general meeting of shareholders, the Board of Directors and the President/CEO. An overview of the Group’s organization, governance and control, including external and internal policy documents, is shown in the illustration below.

## Overall governance structure of INVISIO Communications



## Shareholders

### Right to vote

The INVISIO share has been listed on Nasdaq Stockholm since May 2015. The company's share capital at December 31, 2016 amounted to SEK 43.4 million (42.2), divided into 43,448,506 shares (42,240,161), each with a quotient value of SEK 1.00. All shares have equal voting rights and there is no limit to the number of votes each shareholder may use at a general meeting.

### Ownership structure

As at December 30, 2016, INVISIO had 4,453 shareholders (4,284). Major shareholders, representing at least 10 per cent of the votes, are Lage Jonason with family and companies, holding 22.5 per cent of the capital and votes and SIX SIS AG, on behalf of clients, holding 18.2 per cent of the capital and votes.

### General Meeting of Shareholders

The right of shareholders to decide on the affairs of INVISIO is exercised at the general meeting of shareholders, which is the company's highest decision-making body. The Annual General Meeting must be held within six months of the close of the financial year and is usually held in April, in Stockholm. At the Annual General Meeting, resolutions are adopted concerning adoption of the company's income statement and balance sheet, disposition of the company's profit or loss, discharge of the Board members and President/CEO from liability to the company, election of members of the Board, chair of the Board and auditors, the setting of board and auditors' fees, and other items of business that are incumbent upon the general meeting pursuant to the Swedish Companies Act, the Articles of Association or the Swedish Code of Corporate Governance. Extraordinary general meetings are held when the Board considers that grounds exist pursuant to the Swedish Companies Act. The Articles of Association do not contain any special provisions concerning amendment of the Articles by the general meeting of shareholders.

### Annual General Meeting 2016

The 2016 Annual General Meeting was held in Stockholm on April 28. A total of 37 shareholders or their proxies were present, representing 38 per cent of the number of shares and votes. A number of the resolutions that were passed are set out below.

The general meeting adopted the income statements and balance sheets as included in the annual report, approved the Board's proposed appropriation of earnings and granted discharge from liability for the members of the Board and the President/CEO.

The general meeting re-elected the following persons to the Board in accordance with the Nominating Committee's proposal: Annika Andersson, Charlotta Falvin, Lage Jonason, Anders Persson, Lars Röckert and Mats Warstedt. Lars Röckert was re-elected as Chair of the Board of Directors.

The general meeting voted in accordance with the Nominating Committee's proposed board fee. For more information, please refer to Compensation of the Board and Committees presented below.

The general meeting approved principles for appointment of the Nominating Committee in accordance with the proposals of the Nominating Committee.

The general meeting approved the Board's proposal concerning guidelines for compensation of the President/CEO and other senior executives; please refer to Compensation of the President/CEO and other Senior Executives, presented below.

The minutes of the Annual General Meeting can be found on the INVISIO website, [www.invisio.com/IR](http://www.invisio.com/IR).

### Annual General Meeting 2017

The 2017 Annual General Meeting will be held on Wednesday, April 26, 2017, at 13.00. The notice to attend can be found at [www.invisio.com/IR](http://www.invisio.com/IR).

### Nominating Committee

The main function of the Nominating Committee is to present proposals to the Annual General Meeting for the composition of the Board, which are then approved by the Annual General Meeting. The work of the Nominating Committee starts by studying the evaluation of the Board's work commissioned by the Board. The Nominating Committee then nominates members and chair of the Board for the coming term of office. Further, the Nominating Committee presents proposals for the election of auditor and compensation of the Board and auditors.

### Composition of the Nominating Committee

In accordance with a resolution of the 2016 Annual General Meeting, INVISIO's Nominating Committee must be composed of the Chair of the Board and a representative of each of the three largest shareholders in terms of voting rights. The representative of the second largest shareholder has declined a seat on the Nominating Committee. The members of the Nominating Committee and the shareholders appointing them are presented in the table below. The Nominating Committee held four minuted meetings in 2016.

Before the end of the third quarter, the Chair of the Board shall contact the three largest shareholders of the company, who then each appoint one member to serve on the Nominating Committee. If any of the largest shareholders refrain from appointing a member, the Chair of the Board is to invite the shareholder next in size to appoint a member. The analysis of ownership shall be based on Euroclear's list of registered shareholders as at the last business day in August and on any other circumstances that are known to the Board Chair. The member representing the largest shareholder by voting power shall be appointed as chair of the Nominating Committee unless otherwise agreed by the members.

### The Nomination Committee for the Annual General Meeting 2017

| Member                          | Representing                                    | Vote           |
|---------------------------------|---|----------------|
| Lage Jonason                    | Lage Jonason with family and companies          | 22.5%          |
| Elisabet Jamal Bergström, chair | Handelsbanken Fonder                            | 7.8%           |
| Lennart Francke                 | Swedbank Robur Fonder                           | 6.0%           |
| Lars Röckert                    | Member in his capacity of Chairman of the Board | Not applicable |

## Corporate Governance Report

If any significant change in the ownership structure takes place after the Nominating Committee has been appointed, the Chair of the Board shall conduct a dialogue with the major shareholders on any change in the composition of the Nominating Committee.

As part of the Nominating Committee's work, the Chair of the Board shall report to the Committee on the circumstances surrounding the Board's work, and the need for special expertise, etc., that may be significant to the composition of the Board.

### Compensation of the Nominating Committee

No compensation is payable to the members of the Nominating Committee.

### Board of Directors

The Board of Directors is responsible for INVISIO's organization and management of the company's affairs.

### Composition of the Board of Directors

In accordance with the Articles of Association, INVISIO's Board of Directors shall consist of a minimum of three and a maximum of eight members. At the 2016 Annual General Meeting all members were re-elected: Lars Röckert, Annika Andersson, Charlotta Falvin, Lage Jonason, Anders Persson and Mats Warstedt. Lars Röckert was re-elected as Chair. The members of the Board have great experience of the industry as well as expertise in both technology and international business. For further information on the Board members, please refer to pages 32-33.

The Articles of Association do not include any particular provisions on appointment or dismissal of board members.

### Independence of the Board

The composition of the Board meets the requirements of the Code of Corporate Governance concerning independent members. The independence assessments for each member are presented on pages 32-33.

### The Board's Work Plan

Every year the Board adopts a work plan for its work. This is done at the time of the inaugural board meeting and the work plan is thereafter updated as necessary. The work plan includes a description of the Board's responsibilities and tasks, internal division of duties

and working methods, as well as the division of duties between the Board and the President/CEO. The current work plan was adopted on 28 April 2016.

### The work of the Board

Under the adopted work plan, the Board must meet at least six times in addition to the inaugural board meeting.

In 2016 the Board held twelve meetings, including the inaugural meeting, one of which was by telephone. Standing items at the meetings are the business situation, financial situation and performance monitoring. Important matters during the year included business objectives, strategic focus, R&D initiatives and organization. The attendance of the members at the meetings is shown in the table below.

INVISIO's CEO and CFO participate regularly at the board meetings. Other senior executives participate as necessary at the board meetings as presenters. The company's CFO normally acts as secretary at board meetings.

### Evaluating the work of the Board

In accordance with the work plan for the Board, the Board Chair must ensure that the work of the Board is evaluated annually through a systematic and structured process aimed at developing the working methods and effectiveness of the Board. For 2016 evaluation took place partly through a questionnaire that was then compiled and commented on by an independent party, and partly through separate interviews with individual members of the Board conducted by the Nominating Committee. These interviews were conducted by Elisabet Jamal Bergström, representing Handelsbanken Fonder and Lennart Francke, representing Swedbank Robur Fonder.

### Attendance at board meetings

|                        |          |
|------------------------|----------|
| Lars Röckert, Chairman | 12 of 12 |
| Annika Andersson       | 12 of 12 |
| Charlotta Falvin       | 12 of 12 |
| Lage Jonason           | 12 of 12 |
| Anders Persson         | 12 of 12 |
| Mats Warstedt          | 10 of 12 |

### Work of the Board of Directors in 2016

#### December

- Budget 2017
- Risk analysis
- Focus: R&D

#### November

- Interim report
- Audit Committee reporting
- Internal control

#### October

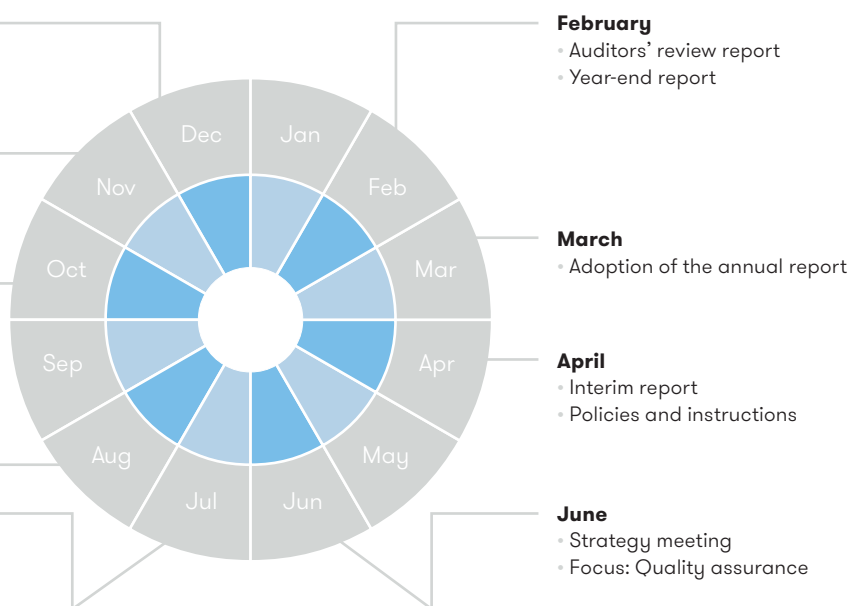
- Establishment of subsidiary in the USA
- The Group's organization

#### August

- Half-year report
- Follow up of strategy meeting
- Focus: Marketing & Sales

#### July

- New standards



#### February

- Auditors' review report
- Year-end report

#### March

- Adoption of the annual report

#### April

- Interim report
- Policies and instructions

#### June

- Strategy meeting
- Focus: Quality assurance



## Committees

The Board as a whole fulfills the duties of the audit committee and compensation committee. Hence the committees are composed of all members of the Board and are chaired by the Board Chair.

### Audit Committee

The Audit Committee's duties and responsibilities include:

- monitoring the company's financial reporting and making recommendations and proposals to ensure reliability of reporting,
- regarding the financial reporting, monitoring the effectiveness of the company's internal control and risk management,
- staying informed on the audit of the annual report and consolidated accounts as well as the conclusions of the Supervisory Board of Public Accountants' quality control,
- being able to report how the audit contributed to the reliability of financial reporting,
- examining and monitoring the external auditor's impartiality and independence and in this connection paying particular attention to whether the external auditor provides the company with services other than auditing; and
- assisting with the preparation of proposals for the resolution of the general meeting of shareholders on the election of auditor.

For a new election of auditor the Committee's recommendation must include at least two alternatives for the audit engagement and the Committee must present arguments for its preferred alternative. In its recommendations the Committee must base its arguments on the result of the compulsory selection procedure arranged by the company under the responsibility of the Committee.

### Compensation Committee

The duties and responsibilities of the Compensation Committee include preparing matters for board decisions on issues related to compensation principles, compensation and other terms of employment for company management, and following and evaluating programs, both current and those completed during the year, for variable compensation for company management, as well as following and evaluating the application of the guidelines for compensation of senior executives, which by law must be determined by the Annual General Meeting, as well as current compensation structures and compensation levels in the company.

### Compensation of the Board and Committees

Board fees are determined by the shareholders at general meetings. The 2016 Annual General Meeting resolved that board fees totaling SEK 375,000 shall be paid to the Chair of the Board and SEK 150,000 to each of the other Board members. In addition, a total fee of SEK 90,000 shall be distributed by the Board as compensation for committee work and investigative assignments. Compensation of the Board is described in more detail in Note 9.

### Auditor

INVISIO's auditor audits the annual report, consolidated accounts, corporate governance report and bookkeeping as well as the administration by the Board and President/CEO. The auditor follows an audit plan and reports the findings to the Audit Committee at board meetings. The auditor participates at the Annual General Meeting in order to present the auditor's report, which describes the audit work and the auditor's conclusions. Apart from this the auditor also normally participates in one board meeting during the autumn and one in the spring. At the Board's request, the auditor also conducted a review of the interim report for January – September 2016.

The Company's firm of auditors, PricewaterhouseCoopers AB, was re-elected at the 2016 Annual General Meeting for the period until 2017. The auditor-in-charge is Michael Bengtsson, Authorized Public Accountant.

### Compensation of the auditor

The 2016 Annual General Meeting resolved that fees shall be payable to the auditor in accordance with an approved invoice. Compensation of the auditors is described in more detail in Note 6.

### President/CEO and management

The President/CEO is responsible for the day-to-day administration of INVISIO in accordance with the Board's guidelines and instructions. The current instruction to the President/CEO was adopted by the Board on April 28, 2016. The President/CEO prepares information and decision-making documentation for the board meetings.

The President/CEO is assisted by the Executive Group Management, consisting of heads of the company's function areas: Finance & Administration, Sales & Marketing, Operations and Research & Development. All members of the Executive Group Management are located at INVISIO's headquarters in Copenhagen. The Executive Group Management holds weekly meetings at which operational issues are discussed. Apart from that, an extended management group holds monthly meetings. A more detailed presentation of the President/CEO and the management group is given on page 34.

### Compensation of the President/CEO and other senior executives

The 2016 Annual General Meeting 2016 resolved in accordance with the Board's proposal to adopt the following guidelines for compensation to the President/CEO and other senior executives, valid until the Annual General Meeting 2017.

The Company shall offer market terms for the countries in which they work to the President/CEO and other senior executives and thereby enable the company to recruit, develop, and retain senior executives. The company gathers and evaluates information on the market rate of compensation in relevant industries and countries. Individual remuneration shall be based on the executive's experience, expertise, responsibilities, and performance. A combined fixed gross level of compensation shall be set for each executive, and within this framework the individual employee can influence the allocation between fixed salary, pension and other benefits. Any pension benefit must be on a defined contribution basis. Any other benefits are to have a limited value in relation to the total fixed gross compensation. In addition, a variable salary based on clear and measurable targets set by the Board can be offered. Variable salary shall not exceed 50 percent of the fixed salary.

Neither the parent company nor the subsidiaries have any defined benefit pension plans for their employees.

Compensation of the CEO and other senior executives is described in more detail in Notes 8 and 9.

A new proposal for guidelines will be presented at the 2017 Annual General Meeting.

### Long-term incentive program

At an Extraordinary General Meeting held on April 24, 2013, it was resolved in accordance with a proposal by the Board of Directors, to establish an employee stock option program; the Employee Stock Option Program 2013/2017. This program is described in more detail in Note 8.

### Period of notice

According to his employment contract, the President/CEO has a 12-month period of notice in the event of termination by the company. The period of notice in the event of termination by the President/CEO is eight months.

According to their respective employment contracts, other senior executives have a six-month period of notice in the event of termination by the company. In the event of own termination by other senior executives, the notice period is three months.

# Board of Directors



## Lars Röckert

Chairman since 2011.  
Member since 2010.  
Born 1950.

Lars Röckert conducts business development and management consulting operations through his own company. He was formerly an active officer and has long experience of executive marketing and sales positions in the Swedish defense and security industry, including the SAAB Group, Ericsson and Bofors/BAE Systems.

### Other engagements

Member of the Board of L.M.R. Business Development AB.

### Education

Officer program at Karlberg, and Military College Higher Course (which corresponds to today's National Defense College's higher academic exams).

### Holding

30,336 (with companies).

### Independence

Independent in relation to the company, the company's senior executives and major shareholders of the company.



## Annika Andersson

Member since 2014.  
Born 1958.

Annika Andersson is the Executive Chairman of Pantor Engineering AB, and an advisor in the field of corporate governance. She has long experience of the financial industry from organizations such as the Fourth Swedish National Pension Fund as head of research, portfolio manager and, most recently, as responsible for governance, information, and sustainability.

### Other engagements

CEO and member of the Board of AR Advisory AB. Chairman of the Board of Pantor Engineering AB. Member of the Board of Karolinska Institutet Holding, G5 Entertainment and Moira AB.

### Education

M.Sc. Econ, Stockholm School of Economics.

### Holding

10,000.

### Independence

Independent in relation to the company, the company's senior executives and major shareholders of the company.



## Charlotta Falvin

Member since 2014.  
Born 1966.

After an operational career in IT and the telecoms industry, Charlotta Falvin now devotes herself to board positions. She has many years' experience of international business development and management including as deputy CEO at Axis and CEO of Decuma and The Astonishing Tribe (TAT).

### Other engagements

Chairman of the Board of IDEON Open AB, Lund Technical University and Regional Board of Handelsbanken. Member of the Board of Bure Equity AB, CLX Communications AB, Net Insight AB, Chamber of Commerce of Southern Sweden, Research and Innovation Council in Skåne and member of the Advisory Board for SKJ Center for entrepreneurship at Lund University.

### Education

MBA, Lund University.

### Holding

0.

### Independence

Independent in relation to the company, the company's senior executives and major shareholders of the company.



### Lage Jonason

Member since 2012.  
Born 1951.

Lage Jonason has more than 30 years' experience of the financial sector. He runs his own business as an active investor and as Senior Advisor to Erik Penser Bankaktiebolag. His previous experience also covers own advisory services in corporate finance, CEO of JP Nordiska AB (now Ålandsbanken Sweden) and before that various management positions in Förvaltnings AB Ratos and Investment AB Skrinet, among others.

#### Other engagements

Member of the board and CEO of Lage Jonason AB. Chairman of the Board of Urb-it & Associates AB. Member of the board of INSPI AB, AB G C Lapidem, AB I.V. Numen Adest, QOM Fund Management and Culot AB. Chairman of the Board of Stockholm International School Foundation and member of the Board of the Sweden-America Foundation.

#### Education

Master of Laws and M.Sc. Econ, Lund University.

#### Holding

9,791,520 (with family and companies).

#### Independence

Dependent in relation to major shareholders of the company and independent in relation to the company and the company's senior executives.



### Anders Persson

Member since 2009.  
Born 1957.

Anders Persson runs his own consulting operations in business development and management. He has previously held leading roles in Net Insight AB, including as acting CEO and head of development, as well as having many years' experience from the Ericsson Group, most recently as General Manager for Network Design and Performance Improvement Services.

#### Other engagements

Chairman of the Board of Paynova AB and Hexatronic Group AB. Member of the Boards of TargetEveryOne AB and Persson Executive Consulting AB.

#### Education

M.Sc. Engineering physics from Chalmers University of Technology in Gothenburg.

#### Holding

53,336.

#### Independence

Independent in relation to the company, the company's senior executives and major shareholders of the company.



### Mats Warstedt

Member since 2008.  
Born 1962.

Mats Warstedt is the CEO of RUAG Space AB. He has broad experience of the international aerospace market from several leading positions in the Saab Group, including as CEO of Saab Barracuda and marketing director of Saab AB. Previous positions also include CEO of Innovativ Vision.

#### Other engagements

Member of the Board and CEO of RUAG Space AB. Member of the Board of Arianespace AS, RUAG Sweden AB and Mats Warstedt AB.

#### Education

M.Sc. in aerospace engineering, Royal Institute of Technology in Stockholm and M.Sc. in Business Administration and Economics, Stockholm School of Economics.

#### Holding

29,362.

#### Independence

Independent in relation to the company, the company's senior executives and major shareholders of the company.



# Management Group



**Lars Højgård Hansen** CEO since 2007. Employed: 2006. Born: 1963.

Lars Højgård Hansen has long experience of international marketing, mainly in the telecom industry and has held several executive marketing positions in the Sony Ericsson group, including Sales & Marketing Director in the business unit Accessories EMEA, and GN Netcom A/S.

**Education**

Graduate Diploma (HD), Copenhagen Business School and Executive MBA, Lund University, School of Economics.

**Holding**

526,389 shares and  
116,666 employee stock options.



**Thomas Larsson** CFO. Employed: 2012. Born: 1964.

Thomas Larsson has long experience of various financial and accounting roles both in listed companies and private companies at different phases of development, including Pharmacia and Doro Nordic AB. Thomas' most recent role was as CFO of Systemtextgruppen AB.

**Education**

M.Sc. Economics and Business Administration, Växjö University.

**Holding**

190,560 shares and  
50,000 employee stock options.



**Carsten Aagesen** Sr. Vice President, Global Sales and Marketing. Employed: 2007. Born: 1968.

Carsten Aagesen has long experience of international sales and marketing from leading positions at GN Netcom A/S and Apple, among others. Previous experience includes Global Marketing Director at GN Netcom's mobile division and Marketing Manager at Apple Nordic & Benelux.

**Education**

M.Sc. (Econ.), Marketing and Strategic Management, Copenhagen Business School.

**Holding**

90,500 shares and  
50,000 employee stock options.



**Jan Larsen** Sr. Vice President Research and Development and Supply Chain. Employed: 2007. Born: 1962.

Jan Larsen has many years' experience of product development of various types of hearing and acoustics applications and has held a number of executive positions in R&D at GN Netcom A/S, UnoMedical A/S, and Oticon A/S.

**Education**

B. Sc. EE, Technical University of Denmark, Copenhagen, and Graduate Diploma (HD-O), Copenhagen Business School.

**Holding**

110,734 shares and  
50,000 employee stock options.

**Auditor**

**PricewaterhouseCoopers AB**

Michael Bengtsson,  
Authorized Public Accountant,  
Auditor of INVISIO since 2008.

### Internal control and risk management referring to financial reporting

Internal control and risk management referring to financial reporting is a central component of INVISIO's corporate governance. The process aims to provide reasonable assurance of reliability in interim reports, year-end reports and annual reports and that these reports are prepared in compliance with applicable laws, accounting standards and other regulations.

INVISIO's risk management and internal control are based on the Internal Control - Integrated Framework published in 2013 by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO). According to COSO, internal control is a process with the following components: control environment, risk assessment, control activities, information and communication and monitoring.

#### Control environment

The control environment forms the basis of internal control and risk assessment within INVISIO and consists of the values and the culture communicated and acted on by the Board and management, as well as the organization structure, leadership, authority, decision-making channels and employees' expertise. This includes several internal policy documents, which have been adopted by the Board. An overview of the company's organization, governance and control, including external and internal policy instruments can be found on page 28.

The Board has overall responsibility for internal control and reporting and has appointed an Audit Committee with the task and responsibility of monitoring INVISIO's financial reporting and monitoring the effectiveness of this process. See above under the heading "Audit Committee" for more information.

#### Risk assessment

The Board has delegated the operative responsibility for risk assessment and internal control to the management group. INVISIO's management group carries out annual systematic risk assessments. This means that the company management assesses the risks that are removed or added, as well as selecting prioritized processes. Process descriptions are prepared as decision-making data for the Board. They include information on the purpose, risks, controls and effectiveness of the process.

The company's risk management is described further in the Administration Report and in Note 2.

#### Control activities

In accordance with the internal control policy, the CFO is responsible for coordinating, leading and monitoring the work of internal control including the financial reporting. Together with the accounting department and others, the CFO must ensure that the process descriptions and internal framework are set up, as well as being responsible for reporting the status of work referring to internal control and risk management within INVISIO to the Board and Audit Committee.

To ensure good internal control referring to financial reporting the company has set up control activities for the respective main processes, aimed at prevention, discovery and correction of errors and non-conformances. Areas that are controlled include approval and business transactions, reliability of business systems, compliance with laws and other requirements of listed companies, segregation of duties, application of accounting standards and other areas containing material elements of assessment.

#### Information and communication

The Board has established an information policy for external information provision that is to ensure that the market receives relevant, reliable, correct and current information on the company's progress and financial position. The Board has also established an insider policy aimed at safeguarding the integrity of information provision.

The company's internal policy instruments in the form of policies, guidelines and manuals referring to internal and external communication are regularly updated and communicated internally via relevant channels, such as internal meetings, email and the company's document management system.

#### Monitoring

The CFO has the operative responsibility for monitoring risk management and internal control referring to financial reporting. This includes monitoring monthly financial reports against objectives and plans, monitoring the President/CEO's business reports to the Board and monitoring reports from the company's auditor. In addition, the main processes and associated control activities are regularly evaluated to ensure functionality and effectiveness. The results are reported to the Board and the Audit Committee.

INVISIO has not set up a dedicated internal audit function. The Board has evaluated the need for such a function and has concluded that the organization's size and the scope of operations do not warrant such a function.

#### Events and activities in 2016

In 2016 the EU "audit package" (Regulation 537/2014 and Directive 2014/56) was incorporated into Swedish legislation. The introduction of the audit package has meant increased requirements and duties for both auditors and the company's Audit Committee. In 2016 INVISIO adapted policies and procedures to the new legislation.

In other respects, during the year INVISIO has continued its work of continual improvement of internal control and governance in pace with the growth of the business and higher requirements.

## **Auditor's report on the corporate governance statement**

To the annual meeting of the shareholders of INVISIO Communications AB (publ), corporate identity number 556651-0987.

It is the Board of Directors who is responsible for the Corporate Governance Statement for the year 2016 on pages 28-35 and 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, March 27, 2017

PricewaterhouseCoopers AB

Michael Bengtsson  
Authorized Public Accountant



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# Administration Report

The Board of Directors and President of INVISIO Communications AB (publ.) (“INVISIO”), corporate identity number 556651-0987, hereby submit the annual report and consolidated accounts for the 2016 financial year. Unless indicated otherwise, all amounts in the Administration Report are stated in millions of Swedish kronor (SEK). Figures in parentheses pertain to the preceding year.

## Operations

INVISIO develops and sells advanced communication systems with hearing protection that enable professionals in noisy and mission critical environments to communicate and work effectively. By combining different technologies and skills in acoustics, electronics, mechanics and hearing, the company creates innovative and customized solutions that replace traditional methods.

The company's customers are mainly agencies in charge of procurement for security forces and defense forces. Sales are primarily via a global network of partners and resellers but the company also sells via its own companies in France and the USA.

## Sales and profit

Sales for 2016 were SEK 330.0 million (229.8), an increase of 44 per cent in comparison with the same period in 2015. Sales in international markets are mainly in USD, EUR and GBP. Adjusted for exchange rate effects sales increased by 49 per cent.

At the close of the period the order book amounted to SEK 136.5 million (163.4).

Gross profit was SEK 171.0 million (118.3) and the gross margin was 51.8 per cent (51.5).

Operating expenses for the year were SEK 80.6 million (71.0). The increase refers to a larger organization and increased project activities. During the period development costs of SEK 6.8 million (4.1) were capitalized. Depreciation of costs of SEK 7.5 million (5.6) were included in operating expenses.

The operating profit for the period improved to SEK 90.4 million (47.3) and the operating margin was 27.4 per cent (20.6).

The net profit for the year was SEK 91.8 million (57.1). Earnings per share improved to SEK 2.14 (1.35).

## Uneven order flow and sales

INVISIO's market is characterized by large procurements often with long lead times due to extensive processes with customer tests both in laboratories and among end users. This means that the order intake and sales for individual quarters may vary and have an effect on the full year figures.

## Cash flow and investments

The Group's cash flow for 2016 was SEK 101.5 million (2.1), of which cash flow from operating activities was SEK 105.8 million (29.9) and cash flow from investing activities was SEK -10.5 million (-4.7). Cash flow from financing activities amounted to SEK 6.2 million (-23.1), as a result of exercising employee stock options.

During the period the Group's investments amounted to SEK 10.5 million (4.7), of which SEK 6.8 million (4.1) was capitalized development costs and SEK 3.1 million (0.6) was net investment in property, plant and equipment.

## Cash and cash equivalents and financial position

The Group's cash and cash equivalents at the year end amounted to SEK 133.2 million (29.4). INVISIO has no loans.

Group equity at year-end amounted to SEK 209.5 million (105.6), which gave an equity/assets ratio of 80.3 per cent (74.9). During the year, SEK 6.2 million was added to equity through exercising stock options in connection with the employee stock option program 2013/2017 Tranche 1 and 2.

## Significant events during the year

### Strengthened market position

Partnerships with modernization programs in the USA, UK and Australia continued to strengthen during the year. INVISIO received orders worth more than SEK 110 million from the American TCAPS program, two follow-up orders totaling SEK 28 million from the Land 125 program in Australia and a follow-up order worth SEK 22 million from the British THPS program. Important orders were also taken from the French defense forces, who used the equipment in the Euro 2016 soccer championship, for example.

During the year Nato customers continued to come back regularly with new orders. For example, one of the company's oldest army customers bought equipment for a total value of about SEK 14 million. At the same time, demand grew from military special forces and SWAT teams in the police sector in several parts of the world, above all in Europe. Several smaller business transactions during the year are examples of this.

### Investments in R&D

INVISIO continued to focus on expanding its product portfolio in both existing and new product categories and during the year started several new development projects. A number of new product versions were presented during the year as well as a new control unit, INVISIO V20, which is small and light and can be connected to a group radio.

### More employees and two new sales offices

With the aim of maintaining a high rate of innovation and utilizing market opportunities, both the development organization and the marketing and sales department were augmented with a number of new employees. Two sales offices of our own were established in the USA and France.

## Organization and employees

The Group consists of the parent company INVISIO Communications AB and the wholly-owned subsidiaries INVISIO Communications A/S (Denmark), INVISIO Communications SAS (France), INVISIO Communications Inc (USA), Nextlink IPR AB and Nextlink Patent AB. INVISIO Communications AB is a holding company with no operations. The main operations are in the subsidiary INVISIO Communications A/S in Copenhagen, where the headquarters are also located. The function of the newly-started subsidiaries is mainly direct sales and market support to partners and resellers.

The number of employees in the Group, restated as full time positions, was 52 (40) at the close of the year. Of the employees, 41 were men (31) and 11 women (9). One employee (1) was employed in the parent company. There is more information in the section on sustainability on pages 22-25.

## Research and development

Product development and technical innovation are important parts of INVISIO's growth strategy. Development is internal and based on knowledge of acoustics, electronics, mechanics and software, as well as experience from Denmark's hearing industry. The Copenhagen region is now considered to be one of the world's leading clusters in acoustics and hearing. Strong customer relations and understanding of user needs are success factors when developing the portfolio.

INVISIO is constantly evaluating new inventions and developments which may be suitable for patenting, and it takes the potential commercial value into account in each and every case. This is done as an integrated part of the product development process. The company balances its costs, efforts and opportunities with a focus on patents of high quality.

In 2016 the company augmented its R&D department with more employees and the work of further development and new development of products has continued according to plan. The objective is to strengthen the offer with new products in both existing and new product areas. During the year several new product variations were completed, including the INVISIO V20, a small and light control unit that can be connected to a group radio.

### Production

INVISIO's products are mainly manufactured by contract manufacturers in Europe. Prototypes and product adaptations in smaller volumes are manufactured to some extent by INVISIO in Copenhagen.

### The share and shareholders

Information about the INVISIO share and shareholders can be found on page 27.

### Financial instruments

INVISIO's use of financial instruments is described in Notes 1 and 2.

### Environment

The company does not conduct any operations that require permits or notification under the Swedish Environmental Code.

### Parent company

Net sales for the parent company for the full year 2016 amounted to SEK 0.1 million (0.1). The operating result was SEK -6.9 million (-8.9). The profit for the year was SEK 23.1 million (15.7), of which dividends from subsidiaries amounted to SEK 30 million (25).

At the close of the year cash held by the parent company amounted to SEK 28.2 million (0.5). Equity amounted to SEK 112.3 million (82.7), which gave an equity/assets ratio of 98.1 per cent (98.0).

### Corporate Governance Report

The corporate governance report is prepared as a separate document from the formal annual report. The Corporate Governance Report is on pages 28-35.

### Risks and risk management

INVISIO is a leading supplier of technically advanced communication equipment to professional users in a global and competitive market. Technical advantage, close customer relations and long-term framework agreements are factors that reduce the company's risk level.

### Structured process for risk management

Risk management is an important part of governance and control of INVISIO and affects the company's possibilities of achieving its objectives. INVISIO carries out an annual structured analysis of the company's overall risk exposure.

Risks can generally be divided into market-related, operational, and financial risks. Market-related risks and financial risks are managed mostly at board and management level. In the first instance, operational risks are managed at management group and business area management level, but can also be managed at board level if they are of strategic importance.

The most significant risks (without ranking) and how they are handled are presented below. Detailed information about INVISIO's financial risks can be found in Note 2.

## Market risk

### Legislation and political decisions

INVISIO products are sold in a large number of markets. Changes to legislation and regulations in countries where the company operates or where the company's products are sold may adversely affect operations. Purchases from military and police organizations are influenced by political decisions and are dependent on tax revenues and appropriations. Developments in these respects may indirectly affect INVISIO.

**Treatment:** The company carefully follows developments in the markets and countries where INVISIO operates. For example, collaboration with business partners contributes to a better understanding of developments in the respective markets. New establishments in countries such as France and the USA mean better opportunities to monitor and assess local events and developments that are of importance to INVISIO's customers and hence to the company.

### Demand for INVISIO's products is subject to fluctuations and volatility

INVISIO's operations are subject to fluctuations and volatility between quarters, which may impact the full year as the influx of orders is affected by long decision processes. Sales are largely via public procurement processes, normally with long lead times. Even if INVISIO is awarded a procurement contract, the first order may take a long time and the order inflow may vary over time. This entails a risk of uneven order intake and variations in sales in both the long-term and short-term perspective.

**Treatment:** The company endeavours to obtain more customers and to broaden its product portfolio, which would lead to diversification of purchasing patterns and spread the risk of uneven order and income flows.

### Competition

The market for communications equipment to defence customers is characterized by competition and innovation. If INVISIO cannot adapt its activities and its products to developments in the market, there is a risk of the company losing competitiveness, which would change the company's expansion potential.

**Treatment:** INVISIO assesses that it has a technological advantage over its competitors. Since INVISIO's formation, the company has developed knowledge and experience in a number of technologies that are difficult for competitors to copy. INVISIO is receptive to its customers' wishes and needs. The close relationship to its customers constitutes an important competitive advantage.



Operational risks

Ability to manage growth

INVISIO meets increased demand for its products, which may place demands on management and the operational and financial infrastructure. Effective planning and management processes are of great importance in guaranteeing manufacture, component supply and delivery. If the company is not successful in adapting its organization, processes and capacity to increased demand, this may have negative effects on the company's sales, profits and financial position.

**Treatment:** The company has adapted its capacity to increased demand on an ongoing basis through investment, employment and increasing capacity at existing or new suppliers. The company has a strong financial position and well-developed systems aimed at maintaining good internal control at a high level of growth.

Dependence on key personnel

INVISIO has a distinctly high-tech profile and is therefore dependent on being able to recruit and retain employees with a high level of knowledge, experience and creativity.

**Treatment:** The growth strategy includes having highly motivated key personnel. To attract and retain key people INVISIO continually develops working methods and management focused on a strong team feeling, knowledge-promoting methods and a favourable work environment. There is heavy emphasis on participation and employees' shared core values.

Market acceptance of newly developed products

INVISIO intends to constantly develop and launch new products onto the market. There is always a risk that new products will not be received positively by the market, or that competing products launched by other actors may have more impact.

**Treatment:** The business areas Marketing, R&D and Operations work together on planning new products and, in line with the business strategy, build on identified customer needs and requirements. The company follows developments in the market through close relationships with its customers and in addition gathers strategic intelligence aimed at early discovery of trends and events that may be relevant.

Customer dependency

A limited number of customers accounts for a large proportion of INVISIO's net sales. The company's three largest customers accounted for 72 per cent of the company's net sales in 2016. The loss of one or more these customers could in the short term have a significantly negative impact on INVISIO's business, financial position and performance.

**Treatment:** The company's growth strategy builds on increasing market share and expanding to new geographical markets and product areas. New subsidiaries in INVISIO's important markets are also expected to contribute to more customers for INVISIO and thus reduced customer concentration.

Niche product portfolio

INVISIO operates in a global niche in the market for communication equipment. Unfavorable development for this market segment could have negative consequences for INVISIO.

**Treatment:** The company has a product strategy aimed at launching new products in associated areas, which means a broadening of the product portfolio.

Dependency on suppliers

INVISIO's products are mainly manufactured by contract manufacturers in Europe. The company is dependent on their compliance with agreed requirements as regards, for example, quantity, quality, and delivery. Incorrect delivery or non-delivery from suppliers can lead to delayed supplies to customers and consequent loss of sales.

**Treatment:** In 2016 INVISIO broadened its base of contract manufacturers. As part of its quality management system, the company has procedures for the selection and ongoing evaluation of existing suppliers, aimed at minimizing quality shortcomings.

Financial risk

Currency risk

Sales in international markets are mainly in USD, EUR and GBP, which means that INVISIO's sales and performance are impacted by changes in these currencies.

**Treatment:** The currency risk arising from major orders is hedged.

Guidelines for compensation of senior executives

The last adopted guidelines for compensation of senior executives are described in Note 9 and will remain in force until the Annual General Meeting on April 26, 2017. The following proposed guidelines for compensation of senior executives will be presented to the 2017 Annual General Meeting.

The Board's proposed resolution concerning guidelines for compensation of the CEO and other senior executives

The board proposes the following guidelines for remuneration to senior executives in INVISIO Communications Group and members of the board in the parent company, to the extent they receive remuneration that is not related to their board assignment.

Guidelines for remuneration

INVISIO Communications shall seek to offer a total remuneration that enables the Group to attract and retain senior executives. Remuneration to senior executives in INVISIO Communications shall both on a short and a long term basis, be based on the individual's performance and responsibility and the result of INVISIO Communications and its subsidiaries as well as align the interests and rewards of the senior executives with the shareholders'.

Remuneration to the senior executives may consist of: fixed salary, short-term variable cash remuneration, opportunity to participate in long term share- or share price-related incentive plans, and pension and other benefits.

**Fixed salary**

The salary of each senior executive is revised annually, shall be competitive and is based on competence, responsibility and performance.

**Variable remuneration**

The variable cash remuneration to the senior executives shall be based on how well the targets set for their respective area of responsibility, INVISIO Communications and its subsidiaries are met. The result shall be linked to measurable targets (qualitative, quantitative, general and individual). The targets within each senior executive's respective area of responsibility aims to encourage the development of INVISIO Communications both on a short and a long term basis. The variable remuneration shall not exceed 50 per cent of the fixed salary and shall, to the extent permitted by applicable law, not affect pension or holiday allowance.

**Personnel incentive plan**

The general meeting shall resolve on all share- and share price-related incentive plans to senior executives, i.e. the management of the company.

At an extraordinary general meeting, held on 24 April 2013, it was resolved to establish a personnel incentive plan, Personnel incentive plan 2013/2017, including decisions regarding issue of warrants and approval of transfer of warrants. The plan comprises all the company's and its subsidiaries' employees in Denmark and is divided into three different categories. Participants are, under certain conditions, offered personnel warrants free of charge, which may entitle them the right to acquire shares in the company. The personnel warrants may not be transferred. Allocation is taking place at three occasions – a maximum of 666,666 are allocated at the latest 30 April 2013 ("Tranche 1"), another maximum of 666,666 at the latest the 30 April 2014 ("Tranche 2") and a further maximum of 666,668 at the latest 30 April 2015 ("Tranche 3"). The subscription price is SEK 5.10 for Tranche 1, SEK 5.20 for Tranche 2 and SEK 5.30 for Tranche 3. For more information about the personnel incentive plan and the conditions for allocation of personnel warrants and the result of allocation in the different tranches, see note 8.

**Pension**

Any pension benefit shall be of a defined contribution.

**Notice period**

The CEO has a period of notice of twelve months when termination is made by the company and of eight months when termination is made by the CEO. Other senior executives have a period of notice of six months when termination is made by the company and of three months when termination is made by the senior executive himself/ herself.

**Remuneration to board members**

Elected board members shall in specific cases be able to receive a fee for services within their respective area of expertise which does not constitute board work. For such services shall be paid a market based fee, which shall be approved by the board.

**Deviations from the guidelines**

The board may, if it determines that there are specific reasons in an individual case, to deviate from the guidelines. If such a deviation takes place, the board shall report the reasons for the deviation at the following Annual General Meeting.

**Evaluation of the guidelines and the auditor's statement regarding whether the guidelines have been followed**

In accordance with the Swedish Code of Corporate Governance, the board monitors and evaluates the application of the, by the Annual General Meeting resolved, guidelines for remuneration to senior executives. The company's auditor has, in accordance with Chapter 8, Section 54 in the Swedish Companies Act, issued a statement regarding whether the guidelines for remuneration to

senior executives for 2016 have been complied with. The board's assessment and the auditor's review has resulted in the conclusion that INVISIO Communications during 2016 has complied with the guidelines resolved on by the Annual General Meeting.

**Significant post year-end events**

In March 2017 INVISIO was awarded a new framework contract with the British Ministry of Defence, for hearing protection and communication equipment adapted for special operations on land, sea and in the air. The initial order value for INVISIO amounted to GBP 8 million, equivalent to about SEK 90 million. The 4-year contract includes options for a fifth year and a complete mid-life enhancement at two and a half years, which are not included in the initial order. The contract was signed through INVISIO's local partner, Marlborough Communications Ltd (MCL).

**Outlook for 2017**

INVISIO intends to continue its focus on selling to modernization programs in all parts of the world. At the same time, the company will reinforce its R&D resources considerably with more employees. The initiative is part of increasing the company's product portfolio with new, related products that are deemed to have great potential. Through profitable growth, INVISIO is endeavoring to achieve the company's financial targets of average growth of more than 20 per cent and an annual operating margin of 15 per cent or more.

**Proposed appropriation of earnings**

The Board of Directors proposes to the 2017 Annual General Meeting that a dividend of SEK 0.50 per share be distributed for 2016. The dividend proposed by the Board of Directors corresponds to 24 per cent of the Group's post-tax profit. According to INVISIO's dividend policy the goal of the dividend is to stay within an interval of 25 to 50 per cent of the post-tax profit. It is proposed that the remaining amount be carried forward.

**Parent Company (SEK)****At the disposal of the Annual General Meeting:**

|                              |                   |
|------------------------------|-------------------|
| Retained earnings            | 19,127,388        |
| Share premium reserve        | 4,984,581         |
| Net profit/loss for the year | 23,096,158        |
|                              | <b>47,208,127</b> |

**The Board of Directors and President/CEO propose that the earnings above be appropriated as follows:**

|  |                   |
|--|-------------------|
| Dividend to shareholders, SEK 0.50 per share | 21,724,253        |
| To be carried forward                        | 25,483,874        |
|  | <b>47,208,127</b> |

**Board of Directors' statement concerning proposed appropriation of earnings**

In the opinion of the Board of Directors the proposed dividend does not impede the company from fulfilling its obligations in the short and long term. When assessing the size of the proposed dividend the Board took into consideration the demands with respect to size of shareholders' equity which are imposed by the nature, scope and risks associated with the operations and the company's and Group's need to strengthen the balance sheet, liquidity and financial position in general. The proposed dividend means that the parent company's and the Group's equity/assets ratio will be 97.7 per cent and 78.5 per cent respectively. Liquidity in the company continues to be good. The proposed dividend can thus be justified under the prudence concept stipulated in the Swedish Companies Act, Chapter 17, Section 3, paragraphs 2-3.

# Consolidated Income Statement and Statement of Comprehensive Income

| January – December (SEK 000s)  | Note      | 2016           | 2015           |
|--|-----------|----------------|----------------|
|  | 1,2       |                |                |
| Revenue  | 3         | 330,024        | 229,802        |
| Cost of goods sold   | 4         | -159,028       | -111,474       |
| <b>Gross profit</b>  |           | <b>170,996</b> | <b>118,328</b> |
| <b>Operating expenses</b>  |           |                |                |
| Sales and marketing expenses   | 4,6,7,8,9 | -32,254        | -30,388        |
| Administrative expenses  | 4,6,7,8,9 | -19,140        | -15,910        |
| Research and development costs   | 4,6,7,8,9 | -29,226        | -24,707        |
| <b>Operating profit/loss</b>   |           | <b>90,377</b>  | <b>47,323</b>  |
| <b>Financial items</b>   |           |                |                |
| Financial income   |           | 96             | 20             |
| Financial expenses   |           | -198           | -479           |
| <b>Net financial items</b>   |           | <b>-102</b>    | <b>-459</b>    |
| <b>Profit/Loss before tax</b>  |           | <b>90,275</b>  | <b>46,864</b>  |
| Income tax   | 10        | 1,482          | 10,224         |
| <b>Profit/Loss for the year</b>  |           | <b>91,757</b>  | <b>57,088</b>  |
| (Profit/Loss attributable to equity holders of the parent company)               |           |                |                |
| <b>OTHER COMPREHENSIVE INCOME</b>  |           |                |                |
| <i>Items that may subsequently be reclassified to profit or loss</i>             |           |                |                |
| Translation differences during the period from translation of foreign businesses |           | 5,680          | -4,367         |
| <b>Comprehensive income</b>  |           | <b>97,437</b>  | <b>52,721</b>  |
| (Profit/Loss attributable to equity holders of the parent company)               |           |                |                |
| Earnings per share, SEK  | 20        | 2.14           | 1.35           |
| Earnings per share after dilution, SEK   | 20        | 2.08           | 1.30           |
| Gross margin, %  |           | 51.8           | 51.5           |
| Operating margin, %  |           | 27.4           | 20.6           |
| Profit margin, %   |           | 27.8           | 24.8           |
| Depreciation incl. in operating expenses   | 11,12     | -7,463         | -5,595         |



# Consolidated Statement of Financial Position

| December 31 (SEK 000s)                                    | Note | 2016           | 2015           |
|---|------|----------------|----------------|
|   | 1,2  |                |                |
| <b>ASSETS</b>   |      |                |                |
| <b>Non-current assets</b>                                 |      |                |                |
| Capitalized development costs                             | 11   | 17,508         | 16,853         |
| Equipment   | 12   | 3,289          | 600            |
| Deferred tax asset  | 10   | 34,296         | 29,388         |
| Deposits for rent, long-term                              |      | 1,450          | 755            |
| <b>Total non-current assets</b>                           |      | <b>56,543</b>  | <b>47,596</b>  |
| <b>Current assets</b>                                     |      |                |                |
| Inventories   | 13   | 25,891         | 19,937         |
| Trade receivables   | 14   | 39,378         | 35,855         |
| Derivative instruments                                    | 15   |                | 1,073          |
| Other receivables   | 16   | 2,710          | 5,175          |
| Prepaid expenses and accrued income                       | 17   | 3,184          | 2,038          |
| Cash and cash equivalents                                 |      | 133,193        | 29,367         |
| <b>Total current assets</b>                               |      | <b>204,356</b> | <b>93,445</b>  |
| <b>TOTAL ASSETS</b>                                       |      | <b>260,899</b> | <b>141,041</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>               |      |                |                |
| <b>Shareholders' equity</b>                               |      |                |                |
| Share capital   | 18   | 43,449         | 42,240         |
| Other capital contributions                               |      | 269,480        | 264,495        |
| Translation difference                                    |      | 4,219          | -1,461         |
| Profit/Loss brought forward inc. profit/loss for the year |      | -107,645       | -199,639       |
| <b>Total shareholders' equity</b>                         |      | <b>209,502</b> | <b>105,635</b> |
| <b>Current liabilities</b>                                |      |                |                |
| Trade payables <sup>1</sup>                               |      | 26,000         | 15,846         |
| Derivative instruments                                    | 15   | 4,251          |                |
| Current tax liabilities                                   | 10   | 1,183          | 4,317          |
| Other liabilities   |      | 1,273          |                |
| Accrued expenses and deferred income                      | 19   | 14,261         | 12,448         |
| Warranty provision  |      | 4,428          | 2,795          |
| <b>Total current liabilities</b>                          |      | <b>51,397</b>  | <b>35,406</b>  |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>         |      | <b>260,899</b> | <b>141,041</b> |

<sup>1</sup> All trade payables fall due within 3 months.

# Consolidated Changes in Shareholders' Equity

| December 31 (SEK 000s)  | Note      | Share capital | Other contributed capital | Translation difference | Retained earnings | Total shareholders' equity <sup>1</sup> |
|---|-----------|---------------|---------------------------|------------------------|-------------------|---|
|   | 1,2,18,20 |               |                           |                        |                   |   |
| <b>OPENING BALANCE AS PER JANUARY 1, 2015</b>                                 |           | <b>42,240</b> | <b>264,495</b>            | <b>2,906</b>           | <b>-257,266</b>   | <b>52,375</b>                           |
| Profit/Loss for the year  |           |               |                           |                        | 57,088            | 57,088                                  |
| Translation differences for the period from translation of foreign businesses |           |               |                           | -4,367                 |                   | -4,367                                  |
| <b>Total other comprehensive income</b>                                       |           | <b>0</b>      | <b>0</b>                  | <b>-4,367</b>          | <b>57,088</b>     | <b>52,721</b>                           |
| <b>Transactions with shareholders</b>   |           |               |                           |                        |                   |   |
| Employee stock option program   | 8         |               |                           |                        | 539               | 539                                     |
| <b>Total transactions with shareholders</b>                                   |           | <b>0</b>      | <b>0</b>                  | <b>0</b>               | <b>539</b>        | <b>539</b>                              |
| <b>CLOSING BALANCE AS PER DECEMBER 31, 2015</b>                               |           | <b>42,240</b> | <b>264,495</b>            | <b>-1,461</b>          | <b>-199,639</b>   | <b>105,635</b>                          |
| Profit/Loss for the year  |           |               |                           |                        | 91,757            | 91,757                                  |
| Translation differences for the period from translation of foreign businesses |           |               |                           | 5,680                  |                   | 5,680                                   |
| <b>Total other comprehensive income</b>                                       |           | <b>0</b>      | <b>0</b>                  | <b>5,680</b>           | <b>91,757</b>     | <b>97,437</b>                           |
| <b>Transactions with shareholders</b>   |           |               |                           |                        |                   |   |
| New issue through exercising employee stock options                           | 8         | 1,208         | 4,985                     |                        |                   | 6,193                                   |
| Employee stock option program   | 8         |               |                           |                        | 237               | 237                                     |
| <b>Total transactions with shareholders</b>                                   |           | <b>1,208</b>  | <b>4,985</b>              | <b>0</b>               | <b>237</b>        | <b>6,430</b>                            |
| <b>CLOSING BALANCE AS PER DECEMBER 31, 2016</b>                               |           | <b>43,449</b> | <b>269,480</b>            | <b>4,219</b>           | <b>-107,645</b>   | <b>209,502</b>                          |

<sup>1</sup> Equity is entirely attributable to the parent company's shareholders.

# Consolidated Cash Flow Statement

| January – December (SEK 000s)  | Note | 2016           | 2015           |
|--|------|----------------|----------------|
|  | 1,2  |                |                |
| <b>Operating activities</b>  |      |                |                |
| Profit/Loss before tax   |      | 90,275         | 46,864         |
| Adjustments for non-cash items   | 21   | 13,240         | 4,587          |
| Income tax paid  |      | -5,145         | -2,661         |
| <b>Cash flow from operating activities before changes in working capital</b> |      | <b>98,370</b>  | <b>48,791</b>  |
| Changes in inventories   |      | -4,876         | -4,341         |
| Changes in trade receivables   |      | -1,667         | -18,244        |
| Changes in other operating receivables                                       |      | 2,782          | -1,182         |
| Changes in trade payables  |      | 9,246          | 1,548          |
| Change in derivative instruments   |      | -597           | -1,073         |
| Changes in other operating liabilities                                       |      | 2,570          | 4,422          |
| <i>Cash flow from changes in working capital</i>                             |      | 7,458          | -18,869        |
| <b>Cash flow from operating activities</b>                                   |      | <b>105,828</b> | <b>29,922</b>  |
| <b>Investing activities</b>  |      |                |                |
| Capitalization of development costs  | 11   | -6,750         | -4,109         |
| Acquisition of property, plant, and equipment                                | 12   | -3,136         | -592           |
| Acquisition of financial assets  |      | -649           |                |
| <b>Cash flow from investing activities</b>                                   |      | <b>-10,535</b> | <b>-4,701</b>  |
| <b>Financing activities</b>  |      |                |                |
| New issues through exercising employee stock options                         |      | 6,193          |                |
| Amortization of loans  |      |                | -12,333        |
| Change in invoice factoring  |      |                | -10,744        |
| <b>Cash flow from financing activities</b>                                   |      | <b>6,193</b>   | <b>-23,077</b> |
| <b>CASH FLOW FOR THE YEAR</b>  |      | <b>101,486</b> | <b>2,144</b>   |
| Cash and cash equivalents at start of year                                   |      | 29,367         | 28,444         |
| Translation differences in cash and cash equivalents                         |      | 2,340          | -1,221         |
| <b>Cash and cash equivalents at year-end</b>                                 |      | <b>133,193</b> | <b>29,367</b>  |
| <b>Supplementary disclosures to the cash flow statement</b>                  |      |                |                |
| Interest received in the course of operations during the year                |      | 96             | 20             |
| Interest paid in the course of operations during the year                    |      | -108           | -479           |



# Parent Company Income Statement

| January – December (SEK 000s)                      | Note        | 2016          | 2015          |
|--|-------------|---------------|---------------|
| Revenue  | 1,2<br>5    | 60            | 60            |
| Administrative expenses                            | 4,5,6,7,8,9 | -6,961        | -8,946        |
| <b>Operating profit/loss</b>                       |             | <b>-6,901</b> | <b>-8,886</b> |
| <b>Profit/Loss from financial items</b>            |             |               |               |
| Profit/Loss from participations in Group companies | 22          | 30,000        | 25,000        |
| Financial income                                   |             | 95            |               |
| Financial expenses                                 |             | -98           | -386          |
| <b>Net financial items</b>                         |             | <b>29,997</b> | <b>24,614</b> |
| <b>Profit/Loss before tax</b>                      |             | <b>23,096</b> | <b>15,728</b> |
| Income tax   | 10          |               |               |
| <b>Profit/Loss for the year<sup>1</sup></b>        |             | <b>23,096</b> | <b>15,728</b> |

<sup>1</sup> Comprehensive income corresponds to profit/loss for the year.

# Parent Company Balance Sheet

| December 31 (SEK 000s)                            | Note | 2016           | 2015          |
|---|------|----------------|---------------|
|   | 1,2  |                |               |
| <b>ASSETS</b>                                     |      |                |               |
| <b>Non-current assets</b>                         |      |                |               |
| Participations in Group companies                 | 22   | 83,243         | 82,950        |
| <b>Total non-current assets</b>                   |      | <b>83,243</b>  | <b>82,950</b> |
| <b>Current assets</b>                             |      |                |               |
| Receivables from Group companies                  | 22   | 2,475          | 771           |
| Other receivables                                 |      | 248            | 133           |
| Prepaid expenses and accrued income               |      | 234            | 112           |
| Cash  |      | 28,184         | 453           |
| <b>Total current assets</b>                       |      | <b>31,141</b>  | <b>1,469</b>  |
| <b>TOTAL ASSETS</b>                               |      | <b>114,384</b> | <b>84,419</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>       |      |                |               |
| <b>Shareholders' equity</b>                       |      |                |               |
| <i>Restricted shareholders' equity</i>            |      |                |               |
| Share capital                                     | 18   | 43,449         | 42,240        |
| Statutory reserve                                 |      | 21,599         | 21,599        |
| <i>Total restricted shareholders' equity</i>      |      | <i>65,048</i>  | <i>63,839</i> |
| <i>Non-restricted shareholders' equity</i>        |      |                |               |
| Profit/Loss brought forward                       |      | 24,112         | 3,162         |
| Profit/Loss for the year                          |      | 23,096         | 15,728        |
| <i>Total non-restricted shareholders' equity</i>  |      | <i>47,208</i>  | <i>18,890</i> |
| <b>Total shareholders' equity</b>                 |      | <b>112,255</b> | <b>82,729</b> |
| <b>Total long-term liabilities</b>                |      |                |               |
| Trade payables <sup>1</sup>                       |      | 621            | 89            |
| Liabilities to Group companies                    | 22   | 111            | 111           |
| Other liabilities                                 |      | 1              | 58            |
| Accrued expenses and deferred income              | 19   | 1,396          | 1,432         |
| <b>Total current liabilities</b>                  |      | <b>2,129</b>   | <b>1,690</b>  |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b> |      | <b>114,384</b> | <b>84,419</b> |

<sup>1</sup> All trade payables fall due within 3 months.

# Parent Company Changes in Shareholders' Equity

| December 31 (SEK 000s)                               | Note   | Restricted shareholders' equity |                   | Non-restricted shareholders' equity |                   | Total shareholders' equity |
|--|--------|---------------------------------|-------------------|-------------------------------------|-------------------|----------------------------|
|  |        | Share capital                   | Statutory reserve | Share premium reserve               | Retained earnings |                            |
| <b>OPENING BALANCE AS PER JANUARY 1, 2015</b>        | 1,2,18 | <b>42,240</b>                   | <b>21,599</b>     | <b>0</b>                            | <b>2,623</b>      | <b>66,462</b>              |
| Profit/Loss for the year <sup>1</sup>                |        |                                 |                   |                                     | 15,728            | 15,728                     |
| Employee stock option program                        | 8      |                                 |                   |                                     | 539               | 539                        |
| <b>CLOSING BALANCE AS PER DECEMBER 31, 2015</b>      |        | <b>42,240</b>                   | <b>21,599</b>     | <b>0</b>                            | <b>18,890</b>     | <b>82,729</b>              |
| Profit/Loss for the year <sup>1</sup>                |        |                                 |                   |                                     | 23,096            | 23,096                     |
| New issues through exercising employee stock options | 8      | 1,208                           |                   | 4,985                               |                   | 6,193                      |
| Employee stock option program                        |        |                                 |                   |                                     | 237               | 237                        |
| <b>CLOSING BALANCE AS PER DECEMBER 31, 2016</b>      |        | <b>43,449</b>                   | <b>21,599</b>     | <b>4,985</b>                        | <b>42,223</b>     | <b>112,255</b>             |

<sup>1</sup> Comprehensive income corresponds to profit/loss for the year.



# Parent Company Cash Flow Statement

| January – December (SEK 000s)  | Note | 2016          | 2015           |
|--|------|---------------|----------------|
|  | 1,2  |               |                |
| <b>Operating activities</b>  |      |               |                |
| Profit/Loss before tax   |      | 23,096        | 15,728         |
| Adjustments for non-cash items   | 21   | -30,000       |                |
| <b>Cash flow from operating activities before changes in working capital</b> |      | <b>-6,904</b> | <b>15,728</b>  |
| Changes in operating receivables   |      | -1,941        | -311           |
| Changes in operating liabilities   |      | 439           | -3,700         |
| <i>Cash flow from changes in working capital</i>                             |      | -1,502        | -4,011         |
| <b>Cash flow from operating activities</b>                                   |      | <b>-8,406</b> | <b>11,717</b>  |
| <b>Financing activities</b>  |      |               |                |
| New issues through exercising employee stock options                         |      | 6,193         |                |
| Amortization of loans  |      |               | -12,333        |
| Dividends from subsidiaries  |      | 29,944        |                |
| <b>Cash flow from financing activities</b>                                   |      | <b>36,137</b> | <b>-12,333</b> |
| <b>CASH FLOW FOR THE YEAR</b>  |      | <b>27,731</b> | <b>-616</b>    |
| Cash and cash equivalents at start of year                                   |      | 453           | 1,069          |
| <b>Cash and cash equivalents at year-end</b>                                 |      | <b>28,184</b> | <b>453</b>     |
| Interest received during the year  |      | 96            |                |
| Interest paid during the year  |      | -90           | -386           |

# Notes

## Note 1 General Information, accounting and valuation principles

### General information

The INVISIO Communications group (“INVISIO”) consists of the parent company INVISIO Communications AB (publ.) and the wholly-owned subsidiaries INVISIO Communications A/S (Denmark), INVISIO Communications Inc. (USA), INVISIO Communications SAS (France), Nextlink IPR AB and Nextlink Patent AB.

The Parent company is a Swedish limited liability company listed on Nasdaq Stockholm Mid Cap (IVSO). Its registered office is in Stockholm, Sweden.

All amounts are in thousands of SEK, if not stated otherwise.

### Basis of preparation

The consolidated financial accounts have been prepared in accordance with the Swedish Annual Accounts Act and the International Financial Reporting Standards (IFRS) and the interpretations by the International Financial Reporting Standards Interpretations Committee (IFRIC) as adopted by the EU.

In addition, the consolidated financial statements have been prepared in accordance with Swedish law through application of RFR 1 – Supplementary Accounting Principles for Groups.

The Parent company’s annual report has been prepared in accordance with Swedish law and with application of the Swedish Annual Accounts Act and RFR 2 – Accounting for Legal Entities.

### New and amended standards adopted by the Group

The Group’s financial statements have been affected by amendments to IAS 1, Presentation of Financial Statements, as a consequence of the Disclosure Initiative project, which clarifies materiality, among other things. The main implication of this for the Group’s financial statements is that some notes have been excluded, changed place or been made shorter. Some texts from laws or standards that are not specific or material to the Group have been left out.

In other respects, none of the standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2016 are material to the Group’s financial statements.

### New standards, amendments and interpretations of existing standards not applied in advance by the Group

A number of new standards and interpretations will come into force for the financial year commencing January 1, 2016 and have not been applied on compilation of this financial report. None of these is expected to have any significant impact on the consolidated financial reports, with the exception of those listed below.

#### IFRS 9 Financial instruments

Deals with classification, valuation, and reporting of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 which relate to the classification and valuation of financial instruments. IFRS 9 retains a mixed valuation approach but simplifies this approach in certain respects. There will be three valuation categories for financial assets, amortized cost, fair value through other comprehensive income and fair value through the income statement. How instruments are to be classified will depend on the company’s business model and the characteristics of the instrument. Investments in the company’s capital instruments shall be reported at fair value through the income statement, but there is also an option to report the instrument at fair value through other comprehensive income on the first reporting date. No reclassification to the income statement will then take place when the instrument is sold. IFRS 9 also

introduces a new model for calculating the credit loss reserve based on expected credit losses. For financial liabilities, there will be no change in classification and valuation except when a liability is recognized at fair value through the income statement based on the fair value alternative. Value changes that are attributable to changes to the company’s own credit risk must be recognized in other comprehensive income. IFRS 9 reduces the requirements for application of hedge accounting in that the 80-125 criterion is replaced with requirements for economic relations between hedging instruments and hedged items and the fact that the hedging ratio must be the same as the one used in risk management. The hedging documentation is also altered slightly compared with the documentation produced under IAS 39. The standard shall be applied for the financial year commencing January 1, 2018. Earlier application is permitted. The Group has not yet evaluated the effects of the introduction of the standard. The standard was adopted by the EU in December 2016.

#### IFRS 15, Revenue from contracts with customers

Regulates how income shall be reported. The principles on which IFRS 15 are based shall provide users of financial reports more useful information about the company’s income. The extended disclosure requirement means that information about type of income, the date of settlement, uncertainties related to revenue recognition and cash flow attributable to the company’s customer contracts shall be provided. According to IFRS 15, revenue shall be recognized when the customer gains control over the sold product or service and has the opportunity to use and receive benefit from the product or service. IFRS 15 replaces IAS 18 Revenues and IAS 11 Construction Contracts, plus associated SIC and IFRIC. IFRS 15 was adopted by the EU in October 2016 and comes into force on January 1, 2018. Early application is permitted. The introduction of the standard is deemed to impact the Group. However, the feasibility study is at such an early stage that the size of the impact cannot be evaluated at present.

#### IFRS 16 Leases

In January 2016 the IASB published a new leasing standard that will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities referring to all leasing agreements, with some exceptions, be recognized in the balance sheet. This accounting is based on the view that the lessee has the right to use an asset for a specific period of time and at the same time an obligation to pay for this right. The accounting for the lessor will be unchanged in all material respects. The standard is applicable to financial years starting on or after January 1, 2019. Early application is permitted. At present the Group is expected to be mainly impacted as a result of the Group’s office lease contract. The standard has not yet been adopted by the EU.

None of the other IFRS or IFRIC interpretations which have not yet come into force are expected to have any significant impact on the Group.

### Consolidated Accounts

The consolidated financial statements include the Parent company INVISIO Communications AB (publ.) and its subsidiaries. The financial statements for INVISIO and subsidiaries included in the consolidated financial statements refer to the same period and are prepared according to the accounting principles applicable in the Group.

## Note 1 cont. General Information, accounting and valuation principles

All inter-company balances, income, expenses, earnings or losses that occur in transactions between companies covered in the consolidated financial statements are entirely eliminated. A subsidiary is included in the consolidated financial statements through the purchase method from the acquisition date, which is the date upon which the Parent company gains a controlling influence, and is included in the consolidated financial statements up until the date upon which the controlling influence ceases.

The purchase method is used to report on the Group's operating acquisitions. Transferred compensation for the acquisition of a subsidiary is at fair value of the assets transferred, liabilities and the shares issued by the Group. The purchase settlement also includes the fair value of all assets or liabilities that result from an agreement on conditional purchase sum. Acquisition related costs are expensed as they arise. Identifiable acquired assets and transferred liabilities in a business combination are initially measured at fair value on the acquisition date. For every acquisition, the Group decides whether all holdings without a controlling influence in the acquired company are reported at fair value or at the proportional percentage of the net assets of the acquired company.

The difference by which the transferred compensation, any holdings without controlling influence and the fair value on the date of acquisition of previously acquired shareholdings exceeds the fair value of the Group's share of identifiable acquired net assets is reported as goodwill. If there is a shortfall in the value of the acquired company's assets, this is reported directly in the income statement.

### Foreign subsidiaries

Items included in the financial statements for the various entities in the Group have been valued in the currency used in the economic environment in which the respective companies mainly operate (functional currency). The consolidated financial statements use the Parent company's functional currency as the presentation currency, which is the Swedish krona (SEK).

The earnings and financial position of all Group companies with other functional currencies than the presentation currency have been translated as follows: assets and liabilities for each of the balance sheets have been translated using the exchange rate on the balance sheet date, and income and expenses for each of the income statements have been translated using the average exchange rate. All exchange rate differences that arise are reported in other comprehensive income. When translating subsidiaries, the following exchange rates were used:

| Currency | Income statement | Balance sheet   |
|----------|------------------|-----------------|
| DKK      | 1.2720 (1.2544)  | 1.2869 (1.2242) |
| USD      | 8.5613 (-)       | 9.0971 (-)      |
| EUR      | 9.4704 (-)       | 9.5669 (-)      |

### Estimates and assumptions

Estimates and assumptions are continually evaluated and rest on historical experience and other factors, including expectations of future events considered reasonable under prevailing circumstances.

The Group makes estimates and assumptions about the future that do not always correspond to the actual outcome. The esti-

mates and assumptions that involve a significant risk of material adjustment of the carrying amounts of assets and liabilities within the next financial year are outlined below.

### Impairment testing of capitalized development costs

Costs arising in development projects are reported as intangible assets when it is likely that the project will be successful in terms of its commercial and technical opportunities and when the expenses can be measured reliably, in accordance with the project plan prepared in accordance with the company's development process. As soon as an indication exists, capitalized development expenditure is subjected to impairment testing in accordance with the described accounting principle. The recoverable amount has been determined through calculation of the value in use. For these calculations, certain estimates must be made, as shown in Note 11. As at December 31, 2016 total intangible assets amounted to SEK 17.5 million (16.9). See Note 11 for a sensitivity analysis.

### Deferred tax in respect of loss carry-forwards

Deferred tax assets are recognized as tax loss carryforwards insofar as it is likely that they can be utilized via future taxable profits. An individual assessment is made of each company, taking into account historical performance and opportunities to use tax loss carryforwards, based on future multi-year forecasts. Tax loss carryforwards are described in Note 10. As at December 31, 2016 deferred tax assets amounted to SEK 34.3 million (29.4). If the forecast performance were to be 5 per cent lower/higher per year, all other variables being constant, the deferred tax asset as at December 31, 2016 would have been SEK 0.0 million (1.3) lower/higher.

### Warranty provision

A provision is made when the Group has a legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources is required to settle the obligation and the amount can be reliably measured. Reported provisions refer to any future commitments for warranties for products sold. The amount is calculated on a continuous basis during the year, based on previous outcomes and current sales, plus a supplement for other known circumstances. As at December 31, 2016, warranty provision was SEK 4.4 million (2.8). If the historical outcome had been 5 per cent lower/higher than the actual outcome, all other variables being constant, the warranty provision as at December 31, 2016, would have been SEK 0.3 million (0.1) lower/higher.

### Income

The Group's sales are made up of sales of goods. Sales of products are reported upon delivery to the customer, in accordance with the terms and conditions of sale. This means that income is reported when the significant risks and rewards associated with the product have been transferred to the buyer and the seller ceases to have control over the product. Sales are reported net after VAT and discounts. Inter-company sales are eliminated in the consolidated financial statements.

The return of goods is initially observed in revised income and actual returns are returned to stock.

Interest income is recognized as income when the effective rate method is applied.



**Note 1 cont. General Information, accounting and valuation principles****Segment reporting**

The business comprises one segment. An operating segment is reported in such a way that agrees with the internal reporting presented to the chief operating decision-maker. The chief operating decision-maker is the function responsible for division of resources and assessing the operating segment earnings. Within the Group, this function has been identified as management.

**Remuneration to employees****Variable compensation**

The company recognizes a liability and an expense for variable compensation based on the achievement of targets with regard to achieved sales and profit development.

**Pension obligation**

The company only has defined-contribution pension plans, which are expensed as they are incurred. The company has no obligations once the pension premium has been paid.

**Share-related benefits**

The Group has share-related remuneration plans in which settlement is made with shares. Fair value for the service that entitles employees to allocation of options is expensed. The total amount to be expensed during the vesting period is based on fair value of the allocated options, excluding any effect from non-market-related vesting conditions (e.g. profitability and sales growth targets). Non-market-related vesting conditions are observed in the assumption concerning the number of options expected to become exercisable. The company revises, at each balance sheet date, its assessments of the number of shares that are expected to become exercisable. The potential effect of the revision on the original assessments is reported in the income statement over the remainder of the vesting period, and corresponding adjustments are made to equity.

**Current and deferred tax**

Tax expenses for the period comprise current and deferred tax. Tax is reported in the income statement. Current tax is calculated on the basis of the tax rules applicable or adopted at the balance sheet date in the countries in which the company's subsidiaries operate and create taxable income.

Deferred tax is calculated in accordance with the balance-sheet method for all temporary differences arising between the tax value of assets and liabilities and their recognized values in the consolidated financial statements. Deferred tax is calculated on the basis of the tax rates and rules applicable or adopted at the balance sheet date and is expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only in so far as it is likely that future taxable profit will be available, against which the temporary differences can be offset.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities and when deferred tax assets and tax liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Financial Instruments**

A financial asset or liability is shown in the balance sheet when the company becomes party to the instrument's contractual terms and conditions. Accounts receivable are shown in the balance sheet when an invoice has been sent. The liability is entered when the counterparty has delivered and has a contractual liability to pay, even if an invoice has not yet been received. Accounts payable are shown when an invoice has been received.

A financial asset is removed from the balance sheet when the rights pursuant to the agreement are realized, cease, or when the company loses control over them. This also applies to part of a

financial asset. A financial liability is removed from the balance sheet when the liability under the agreement has been fulfilled or otherwise extinguished. Acquisition and divestment of financial assets are reported on the trade date, which is the day on which the company commits itself to buying or selling the asset.

**Valuation**

Financial instruments are initially recognized at cost of acquisition, corresponding to the fair value of the instrument plus transaction costs, which applies to all financial assets that are not recognized at fair value through the income statement.

On each balance sheet date, the Group assesses whether objective evidence exists that impairment of a financial asset or group of financial assets has occurred, such as whether it is unlikely that a debtor can fulfill its obligations. Impairment testing of accounts receivable is described below.

**Classification**

INVISIO's financial assets and liabilities are classified in the following three categories: Accounts receivable and Loans receivable, Financial liabilities measured at amortized cost, and Financial assets measured at fair value through the income statement.

**Accounts receivable and Loans receivable**

Loans receivable and accounts receivable are financial assets that are not derivatives. They have fixed or fixable payments and are not listed on any active market. They are included in current assets with the exception of items with due dates in excess of 12 months after the balance sheet date, which are classified as fixed assets. Accounts receivable are reported in the amount at which they are expected to be received after deduction for bad debts, assessed individually. The anticipated duration of the accounts receivable is short, which is why the value is reported at a nominal amount without discounting. A provision for a drop in the value of accounts receivable is made when there is objective evidence that the Group will not be able to receive all the amounts due in accordance with the original terms and conditions of the receivables.

Significant financial problems for the debtor, the probability that the debtor will go bankrupt or undergo financial reconstruction, and failure or delays in payment are regarded as indicators that an impairment loss has occurred. The size of the provision consists of the difference between the asset's reported value and the present value of estimated future cash flows. Impairment of accounts receivable is reported in the income statement under operating profit/loss, and impairment of a loan receivable is reported under the heading financial expenses.

**Financial liabilities are valued at amortized cost**

Loans and other financial liabilities, such as accounts payable, are included in this category. Financial liabilities are initially stated at fair value, net after transaction costs.

**Financial assets at fair value through the income statement**

This category covers all INVISIO's derivative instruments. Hedge accounting is not applied. The Group classifies financial assets at fair value through the income statement if the main purpose of their acquisition was for short-term use. They are measured both initially and after the acquisition date at fair value, while relevant transaction costs are recognized through the income statement. Financial assets at fair value through the income statement have been recognized as current assets if they are expected to be sold within 12 months of the close of the reporting period, otherwise they are recognized as non-current assets. Changes in fair value are included on the income statement in the period in which they arise.

## Note 1 cont. General Information, accounting and valuation principles

### Intangible assets

The Group conducts product-specific development activities. Costs arising in development projects are recognized as intangible assets when it is probable that the project will be successful in terms of its commercial and technical potential and when the costs can be reliably measured. Costs directly associated with development of products intended for sale are accounted for as intangible assets.

The development costs include salary and other costs for employees arising through the development of products, as well as directly attributable costs such as molds, testing and type approval. Other development costs are recognized when they arise. Development costs that have previously been reported as an expense are not reported as an asset in a subsequent period.

Capitalized development expenditure with a limited useful life is amortized on a straight line basis from the time commercial production of the product is started. Amortization is over the expected useful life; three to seven years.

### Property, plant, and equipment

Property, plant and equipment are reported at cost of acquisition less planned depreciation based on an estimation of the useful life of the assets. Any earnings or losses arising upon the divestment of the asset are reported in the income statement. The residual value and useful life of the asset is determined at every year-end closing and is adjusted as necessary.

Property, plant and equipment have a limited useful life and are amortized on a straight-line basis over the expected economic life, 3-5 years.

### Impairment losses on non-financial assets

The carrying amounts of the Group's assets - with the exception of financial assets reported at fair value with changes in value in the income statement in accordance with IAS 39 - are tested whenever there is the need to assess whether there is indication of impairment loss. If there is no such indication, the recoverable amount of the asset is calculated. Impairment loss is recognized when the carrying amount of an asset exceeds the recoverable amount. Impairment loss is recognized in the income statement. See below for more details on calculation of the recoverable amount of an asset.

### Reversal of impairment losses

Impairment losses are reversed if a subsequent increase in the recoverable amount can be objectively related to an event that has occurred after the impairment loss was recognized, and that a change has been made in the assumptions on which the calculation of the recoverable amount was based.

An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount the asset would have had if no impairment loss had been recognized, taking into account the depreciation that would then have been made.

### Provisions

A provision is recognized when an obligation exists as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The Group's provisions refer to warranty provisions for goods sold.

### Inventories

The inventories have been valued at the lower of cost and net realizable value as at the balance sheet date. Cost is determined using the "first-in, first-out" principle. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision for obsolescence is based on the articles' age and recoverable amount.

### Cash and cash equivalents

Cash and cash equivalents include cash and immediately available bank balances.

### Receivables and liabilities in foreign currency

In the individual companies, receivables, liabilities and provisions in foreign currency have been translated at the year-end rate of exchange.

### Cash flow statement

The cash flow statement has been prepared in accordance with the indirect method. This means that the cash flow has been adjusted for transactions that have not entailed any payments in or out during the period.

### Calculation of recoverable amount

The recoverable amount of assets in the categories of loans and receivables carried at amortized cost is calculated as the present value of future cash flows discounted using the effective interest rate applicable on first recognition of the asset. Assets with a short duration are not discounted.

The recoverable amount on other assets is the higher of fair value less selling expenses and value in use. When calculating value in use, future cash flows are discounted using a discount factor that takes into account risk-free rates and the risk connected with the specific asset. For an asset that does not generate cash flows that are largely independent of other assets, a common recoverable amount is calculated for the cash-generating unit to which the asset belongs.

### Leasing

Fixed assets that are held through leasing are classified in accordance with the economic significance of the lease contract. Leased assets held via financial leases are reported as fixed assets, and future leasing fees are reported as interest-bearing liabilities. For leased assets classified as operating leases, the leasing cost is reported as an operating expense in the income statement.

### Related party transactions

As regards salaries and other remuneration to the Board and CEO and other senior executives' costs, obligations and benefits, agreements on severance payment, see Note 9.

Inter-company transactions are presented in Note 5.

Other disclosures on related party transactions are presented in Note 23.

### Parent Company's accounting policies

The parent company prepares its financial statements in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board recommendation RFR 2 Accounting for legal entities. There are no differences between the Group's and the Parent Company's accounting policies in the annual report.

## Note 2 Financial risk management and capital risk

### Financial risk factors

The Group is exposed to financial risks, such as interest rate risk, currency risk, credit risk, plus financing and liquidity risk. INVISIO Communications' financial policy, which is annually established by the Board, sets out the guidelines for managing financial risks within the Group.

The financial policy includes investments as well as borrowing. The aim is to minimize unfavorable effects on the Group's earnings, equity and cash flow caused by changes in interest and currency rates. INVISIO must also be able to meet its payment obligations, which is why credit, interest and liquidity risks must be minimized. INVISIO must not create added value through financial risk-taking. Taking into account the financial policy's limitations, the aim is to achieve the highest return on the invested funds.

### Interest rate risk

Interest rate risk is the risk of the value of financial instruments varying due to changes in market interest rates. The Group's interest-bearing financial assets consist of bank balances. The Group has no interest-bearing financial liabilities.

### Currency risk

Currency risk is defined as the risk of a reduction in earnings and/or a reduction in cash flow due to changes in currency exchange rates.

Changes in foreign exchange rates impact the Group's earnings and equity in different ways:

- Earnings are impacted when sales and purchases are in different currencies (transaction exposure)
- Earnings are impacted when assets and liabilities are in different currencies (translation exposure)
- Equity is impacted when foreign subsidiaries' net assets are converted into Swedish kronor (translation exposure in the balance sheet).

### Transaction exposure

INVISIO has a strong international profile, with most of its sales being made in EUR, GBP and USD and is thereby exposed to transaction risks when buying/selling and making financial transactions in foreign currency. Components are primarily purchased in Swedish kronor. Currency risks are managed in accordance with the financial policy established by the Board, which in brief means that large sales orders received are to be hedged. For more information on derivative instruments, please refer to Note 15.

If the average exchange rate for the Swedish krona had strengthened/weakened by 5 percent against the euro, all other variables remaining constant, revenues for 2016 and earnings after tax for 2016 would have been SEK 6.5 million (2.0) and SEK 3.0 (0.9) million lower/higher. If the average exchange rate for the Swedish krona had strengthened/weakened by 5 percent against the USD, all other variables remaining constant, revenues for 2016 and earnings after tax for 2016 would have been SEK 4.5 million (8.7) and SEK 1.9 million (3.6) lower/higher. If the average exchange rate for the Swedish krona had strengthened/weakened by 5 per cent against GBP, all other variables remaining constant, revenues and earnings after tax for 2016 would have been SEK 5.5 million (0.3) and SEK 2.3 million (0.1) lower/higher. The sensitivity analysis does not include the effect of derivatives.

### Translation exposure

The Group has cash and cash equivalents, trade receivables and trade payables in foreign currencies, above all in EUR and USD. As at December 31, 2016 net exposure was SEK 36.6 million (28.28) and SEK 60.2 million (19.8) referring to these items. If the exchange rate for EUR had been 5 percent higher/lower compared with that on December 31, 2016, the Group's earnings after tax would have been positively/negatively affected by about SEK 1.4 million (1.1). If the exchange rate for USD had been 5 percent higher/lower compared with that on December 31, 2016, the Group's earnings after tax would have been positively/negatively affected by about SEK 2.3 million (0.8). The sensitivity analysis does not include the effect of derivatives. As part of hedging transaction exposure, related trade receivables are also hedged. In other respects INVISIO does not work actively with translation exposure. Total exchange rate differences related to assets and liabilities in foreign currency for the Group amount to SEK 1.4 million (2.2) and are recognized in income.

### Translation exposure in the balance sheet

The Group's net assets are largely in Danish kronor. If the exchange rate for USD had been 5 percent higher/lower compared with that on December 31, 2016, the Group's earnings after tax would have been positively/negatively affected by about SEK 8.1 million (5.0). The sensitivity analysis does not include the effect of derivatives.

### Credit risk

Credit risk is the risk of a party to a transaction with a financial instrument failing to fulfill its obligations. INVISIO's customers have a good ability to pay, as they mainly consist of agencies in charge of procurement for security forces and defense forces. There is no material concentration of credit risks, either geographically or in a particular customer group. In order to limit the risks of any credit losses, the company's credit policy includes guidelines and provisions for credit checking new customers, payment terms and procedures and processes for managing unpaid debts. For an age analysis of trade receivables, please refer to Note 14.

The Group works with reputable Swedish or Danish banks that are subject to supervision by Finansinspektionen (Swedish Financial Supervisory Authority) or the equivalent foreign authority and that have high creditworthiness. During the year INVISIO has had deposits with SEB AB (publ) and SBAB Bank AB (publ).

**Note 2 cont. Financial risk management and capital risk****Financing risk and liquidity risk**

Financing risk is the risk that the refinancing of loans falling due is hindered or made more costly, resulting in the Group having difficulty in making payments. Liquidity risk is the risk of not being able to make payments when they fall due. Treatment of liquidity risk is based on prudence, which entails retaining sufficient liquidity, access to financing and sufficient agreed lines of credit. As at December 31, 2016, liquid funds amounted to SEK 133,193 [29,367] thousand. The company had no borrowings as at December 31, 2016.

All derivative instruments mature within 12 months. All trade payables mature within three months.

**Management of capital**

The Group's goal regarding its capital structure (equity and liabilities) is to safeguard the Group's ability to continue its operations in order to be able to generate a return to the shareholders and benefit other stakeholders, and to ensure that the capital structure is optimal in relation to the cost of capital. Dividends to shareholders, redemption of shares, issues of new shares or sales of assets are examples of measures that the Group may use in order to adjust the capital structure.

**Financial assets and liabilities measured at fair value  
The Group's financial instruments by category**

|  | 2016        |                             |  | 2015        |                             |  |
|--|-------------|-----------------------------|--|-------------|-----------------------------|--|
|  | Value level | Loans and receivables       | Assets at fair value through profit or loss      | Value level | Loans and receivables       | Assets at fair value through profit or loss      |
| <b>Dec 31 (SEK 000s)</b>                                     |             |                             |  |             |                             |  |
| <b>Assets on the balance sheet</b>                           |             |                             |  |             |                             |  |
| Derivative financial instruments                             | 2           |                             |  |             |                             | 1,073  |
| Trade and other receivables excluding accrued assets         |             | 39,378                      |  |             | 35,855                      |  |
| Cash and cash equivalents                                    |             | 133,193                     |  |             | 29,367                      |  |
| <b>Total financial assets</b>                                |             | <b>172,571</b>              |  |             | <b>65,222</b>               | <b>1,073</b>                                     |
|  |             |                             |  |             |                             |  |
|  | 2016        |                             |  | 2015        |                             |  |
|  | Value level | Other financial liabilities | Liabilities at fair value through profit or loss | Value level | Other financial liabilities | Liabilities at fair value through profit or loss |
| <b>Dec 31 (SEK 000s)</b>                                     |             |                             |  |             |                             |  |
| <b>Liabilities on the balance sheet</b>                      |             |                             |  |             |                             |  |
| Derivative financial instruments                             | 2           |                             | 4,251  |             |                             |  |
| Trade and other payables excluding non-financial liabilities |             | 26,000                      | 12,013   |             | 15,846                      | 14,949   |
| <b>Total financial liabilities</b>                           |             | <b>26,000</b>               | <b>16,264</b>                                    |             | <b>15,846</b>               | <b>14,949</b>                                    |

Level 2 financial instruments. Due to short maturities, the values have not been discounted. The carrying amount corresponds to fair value. The fair value of derivative instruments is determined using quoted forward exchange rates at the balance sheet date.



## Notes

### Note 3 Total income divided per geographical area

| Group             | 2016           | 2015           |
|-------------------|----------------|----------------|
| Sweden            | 16,988         | 6,823          |
| Europe            | 223,885        | 39,691         |
| North America     | 87,647         | 174,264        |
| Rest of the world | 1,505          | 9,025          |
| <b>Total</b>      | <b>330,024</b> | <b>229,802</b> |

All the Group's assets, intangible assets, and property, plant and equipment, are in Denmark.

### Note 4 Costs by nature of expense

| Group  | 2016            | 2015            |
|--|-----------------|-----------------|
| Cost of goods sold                           | -159,028        | -111,474        |
| Costs of employee benefits (Note 8)          | -40,608         | -40,193         |
| Depreciation and write-downs (Notes 11 & 12) | -7,463          | -5,595          |
| Other costs                                  | -32,548         | -25,217         |
| <b>Total</b>                                 | <b>-239,647</b> | <b>-182,479</b> |
| <b>Parent Company</b>                        | <b>2016</b>     | <b>2015</b>     |
| Costs of employee benefits (Note 8)          | -2,434          | -2,164          |
| Other costs                                  | -4,527          | -6,782          |
| <b>Total</b>                                 | <b>-6,961</b>   | <b>-8,946</b>   |

### Note 5 Inter-company transactions

Of the Parent Company's invoicing, SEK 60 thousand (60) refers to subsidiaries. The invoicing consists of services provided to subsidiaries. Invoicing from subsidiaries to Parent Company, SEK 396 thousand (396).

### Note 6 Auditors' compensation

|   | Group        |            | Parent Company |            |
|---|--------------|------------|----------------|------------|
|   | 2016         | 2015       | 2016           | 2015       |
| <b>PwC</b>  |              |            |                |            |
| Auditing assignments <sup>1</sup>                       | 368          | 342        | 200            | 180        |
| Auditing activities in addition to auditing assignments |              | 53         |                | 52         |
| Other services <sup>2</sup>                             | 1,045        | 286        | 93             | 197        |
| <b>Total</b>  | <b>1,413</b> | <b>681</b> | <b>293</b>     | <b>429</b> |

<sup>1</sup> Auditing assignments refers to fees for the statutory audit, i.e. such work as is necessary to submit an auditor's report, as well as so-called auditing consultancy, which is given in connection with auditing assignments.

<sup>2</sup> Other services pertain primarily to consulting on accounting and tax matters.

### Note 7 Rental and leasing agreements

The Group's total rental and leasing fees for the year amounted to SEK 3,705 thousand (2,539).

Agreed future rental and leasing fees amount to SEK 10,310 thousand (1,616) and will fall due in the next three years as follows: 2017; SEK 3,715 thousand (146), 2018; SEK 3,409 thousand (146), 2019; SEK 3,183 thousand (-).

The Parent Company's leasing agreement for the year amounted to SEK 114 thousand (112). The agreement is valid up to and including October 31, 2019, at an annual cost of SEK 157 thousand.

All the Group's and Parent Company's rental and leasing agreements are operating leases. The agreements primarily include rental agreements for the company's office premises and leased cars.

## Note 8 Personnel

| Average number of employees | 2016                |              | 2015                |              |
|-----------------------------|---------------------|--------------|---------------------|--------------|
|                             | Number of employees | Of which men | Number of employees | Of which men |
| Parent Company              | 1                   | 100%         | 1                   | 100%         |
| Subsidiaries                | 45                  | 78%          | 35                  | 80%          |
| <b>Total</b>                | <b>46</b>           | <b>78%</b>   | <b>36</b>           | <b>78%</b>   |

| Gender breakdown, senior executives | 2016                |              | 2015                |              |
|-------------------------------------|---------------------|--------------|---------------------|--------------|
|                                     | Number of employees | Of which men | Number of employees | Of which men |
| Board                               | 6                   | 67%          | 6                   | 67%          |
| CEO and other senior executives     | 4                   | 100%         | 4                   | 100%         |

| Salaries and other remuneration                   | 2016          | 2015          |
|---|---------------|---------------|
| Parent Company                                    | 1,739         | 1,693         |
| Subsidiaries                                      | 43,764        | 36,084        |
| Capitalized salaries for research and development | -6,169        | -3,732        |
| <b>Group total</b>                                | <b>39,334</b> | <b>34,045</b> |

| Social costs excl. pension costs | 2016       | 2015         |
|----------------------------------|------------|--------------|
| Parent Company                   | 568        | 260          |
| Subsidiaries                     | -146       | 4,984        |
| <b>Group total</b>               | <b>422</b> | <b>5,244</b> |

| Pension costs      | 2016       | 2015       |
|--------------------|------------|------------|
| Parent Company     | 127        | 211        |
| Subsidiaries       | 725        | 693        |
| <b>Group total</b> | <b>852</b> | <b>904</b> |

| Total personnel costs | 2016          | 2015          |
|-----------------------|---------------|---------------|
|                       | <b>40,608</b> | <b>40,193</b> |

### Pensions

Neither the Parent Company nor the subsidiaries have any defined benefit pension plans for their employees.

### Employee stock option program

At an extraordinary general meeting held on April 24, 2013 a decision was made, in accordance with a proposal by the Board of Directors, to establish an employee stock option program comprising a decision to issue stock options, plus approval of the transfer of stock options, Employee stock option program 2013/2017.

This program is targeted at all employees of the company and its subsidiary in Denmark, divided into three different categories. Provided that the participants are employed by the Group on the maturity date, the employee will be offered employee stock options without charge which may entitle them to acquire shares in the company. Employee stock options may not be transferred.

Allocation has taken place on three occasions, Tranche 1-3, in accordance with the table below.

| Tranche | Allocation date | Accrual date   | Maximum allocation | Actual allocation | Exercise date | Subscription price per share |
|---------|-----------------|----------------|--------------------|-------------------|---------------|------------------------------|
| 1       | April 30, 2013  | April 30, 2016 | 666,666            | 616,672           | May 2016      | 5.10                         |
| 2       | April 30, 2014  | Oct. 30, 2016  | 666,666            | 618,339           | Nov. 2016     | 5.20                         |
| 3       | April 30, 2015  | April 30, 2017 | 666,668            | 663,322           | May 2017      | 5.30                         |

The allocation in Tranche 1 assumed that the level established in advance by the Board for the Group's EBIT during the first quarter of 2013 had been met, Tranche 2 assumed that the level established in advance by the Board for the Group's increase in sales and EBIT in 2013 compared with 2012 had been met, and Tranche 3 assumed that the level established in advance by the Board for the Group's increase in sales and EBIT in 2014 compared with 2013 had been met.

The target in Tranche 1 was met in the third quarter of 2013 and 616,672 employee stock options were allocated, of which 116,667 were allocated to the CEO and 150,000 to other senior executives. The target for Tranche 2 was met in 2013 and 618,339 employee stock options were allocated, of which 116,667 were allocated to the CEO and 150,000 to other senior executives. The target for Tranche 3 was met in 2014 and 663,322 employee stock options were allocated, of which 116,667 were allocated to the CEO and 150,000 to other senior executives.

### Employee stock option program 2013/2017 - follow-up of targets and allocation

| Tranche | Target 1   | Target 2  | Outcome  |
|---------|--|---|--|
| 1       | Positive EBIT quarter 1, 2013                      | -   | EBIT quarter 1 2013 was SEK 1.6 m  |
| 2       | Sales increase SEK 37 m in 2013 compared with 2012 | EBIT increase SEK 10 m in 2013 compared with 2012 | Sales increase amounted to SEK 42 m and EBIT increase to SEK 15.3 m        |
| 3       | Sales increase SEK 35 m 2014 compared with 2013    | EBIT increase SEK 18 m 2014 compared with 2013    | Sales increase amounted to SEK 116 million and EBIT increase to SEK 45.1 m |

The market value of the options has been calculated on the basis of the Black & Scholes valuation model. Given the analysis of the historical volatility of the company's share price, volatility has been assessed to amount to 35 percent, a risk-free interest rate of 0.07, 0.04 or 0.04 percent respectively for the three different maturities, and a share price of SEK 75.75. Any future dividends have not been taken into account. The value per employee stock option has been calculated to be SEK 70.65 for Tranche 1, SEK 70.55 for Tranche 2, and SEK 70.45 for Tranche 3. The cost for the 2016 financial year amounted to SEK 237 thousand (4,602), of which SEK 0 thousand (4,063) was social costs.

|   | Number           | Weighted average redemption price |
|---|------------------|-----------------------------------|
| <b>Outstanding at start of period</b>                 | <b>2,000,000</b> | <b>5.20</b>                       |
| Allocated during the period                           | 0                | 0                                 |
| Redeemed during the period                            | -1,208,345       | 5.15                              |
| Forfeited, past due during the period                 | -128,333         | 5.15                              |
| <b>Outstanding, not redeemable at close of period</b> | <b>663,322</b>   | <b>5.30</b>                       |

For share options exercised during the period, the weighted average share price was SEK 60.28.

**Note 9 Remuneration to senior executives**

| Management                              | 2016         |            |                    |              | 2015         |            |                    |               |
|---|--------------|------------|--------------------|--------------|--------------|------------|--------------------|---------------|
|   | Salary       | Pension    | Other remuneration | Total        | Salary       | Pension    | Other remuneration | Total         |
| Lars H. Hansen, CEO <sup>6</sup>        | 3,393        | 182        | 107                | 3,682        | 3,552        | 274        | 98                 | 3,924         |
| Other executive management <sup>7</sup> | 5,904        | 173        | 222                | 6,299        | 6,174        | 157        | 212                | 6,543         |
| <b>Total</b>                            | <b>9,297</b> | <b>355</b> | <b>329</b>         | <b>9,981</b> | <b>9,726</b> | <b>431</b> | <b>310</b>         | <b>10,467</b> |

| Directors' fees <sup>1</sup>        | 2016         | 2015       |
|-------------------------------------|--------------|------------|
| Lars Röckert, Chairman <sup>2</sup> | 356          | 300        |
| Anders Persson <sup>3</sup>         | 146          | 135        |
| Mats Warstedt                       | 146          | 135        |
| Annika Andersson <sup>4</sup>       | 146          | 135        |
| Charlotta Falvin <sup>5</sup>       | 146          | 135        |
| Lage Jonason                        | 146          | 135        |
| <b>Total</b>                        | <b>1,086</b> | <b>975</b> |

<sup>1</sup> The Annual General Meeting 2016 resolved that directors' fees totaling SEK 375,000 shall be paid to the Chairman of the Board and SEK 150,000 to each of the other Board members. In addition, a total fee of SEK 90,000 shall be distributed by the Board as compensation for committee work and investigative assignments.

<sup>2</sup> Chairman Lars Röckert invoices his directors' fees from the company L.M.R. Business Development AB

<sup>3</sup> Board member Anders Persson invoices his directors' fees from the company Persson Executive Consulting AB

<sup>4</sup> Board member Annika Andersson invoices her directors' fees via AR Advisory AB.

<sup>5</sup> Board member Charlotta Falvin invoices her directors' fees via Fasiro AB.

<sup>6</sup> Variable salary can amount to a maximum of 50 percent of the basic salary. Variable salary 2016 amounted to SEK 857 thousand (1,249).

<sup>7</sup> Variable salary can amount to a maximum of 0-30 percent of the basic salary. Variable salary 2016 amounted to SEK 983 thousand (1,601). Other management consists of three persons.

**Guidelines for compensation of senior executives**

The last adopted guidelines for compensation of senior executives are described below and will remain in force until the Annual General Meeting to be held on April 26, 2017.

**General**

The company shall offer market terms for the countries in which they work to senior executives and thereby enable the company to recruit, develop, and retain such executives. Individual compensation shall be based on the executive's experience, expertise, responsibilities, and performance.

**Fixed salary**

A combined gross level of compensation shall be set for each executive, and within this framework the employee concerned can influence its distribution between fixed salary, pension, and other benefits.

**Variable salary**

Besides the fixed salary, an annual variable cash salary based on outcome may be established in relation to the measurable pre-determined targets, agreed in writing and established by the Board. Such targets include certain order intake and profitability, for example.

The variable compensation shall not exceed 50 percent of the fixed salary and shall not be used as a basis for calculation of pension or vacation pay, to the extent permitted by applicable law.

**Non-monetary benefits**

Any other benefits shall have a limited value in relation to the total fixed gross salary.

**Compensation to directors**

Directors elected by the general meeting shall, in specific cases, be able to receive fees and other remuneration for work performed on behalf of the company alongside their Board work. It shall be possible to pay a market-based fee to be approved by the Board for such services.

**Pension**

Any pension benefits shall be through a defined contribution plan.

**Period of notice**

The CEO has a twelve-month notice period in the event of termination by the company, and eight months in the event of termination by the CEO. Other senior executives have a six-month notice period in the event of termination by the company, and three months in the event of termination by the senior executive.

**Incentive programs**

The Annual General Meeting shall decide all share and share price-related incentive programs for senior executives, i.e. the company's management group. An extraordinary general meeting held on April 24, 2013 resolved to establish an employee stock option program comprising a decision to issue stock options, plus approval of the transfer of stock options, see note 8 for further details.

The Board shall be entitled to deviate from these guidelines if there are special grounds for doing so in any individual case.

**Employee stock option program**

In 2016 the CEO exercised 233,334 options and other senior executives 300,000 options. For more information on the employee stock option program, see Note 8.

## Note 10 Taxes

|                                    | Group        |               | Parent Company |          |
|------------------------------------|--------------|---------------|----------------|----------|
|                                    | 2016         | 2015          | 2016           | 2015     |
| <b>Income tax</b>                  |              |               |                |          |
| Current tax on the year's earnings | -1,881       | -4,423        |                |          |
| Deferred tax                       | 3,363        | 14,647        |                |          |
| <b>Total current tax</b>           | <b>1,482</b> | <b>10,224</b> | <b>0</b>       | <b>0</b> |

|   | Group        |               | Parent Company |          |
|---|--------------|---------------|----------------|----------|
|   | 2016         | 2015          | 2016           | 2015     |
| <b>Differences between reported tax expense and tax expense based on current tax rate</b> |              |               |                |          |
| Profit/Loss before tax  | 90,275       | 46,864        | 23,096         | 15,728   |
| Tax 22%   | -19,861      | -10,310       | -5,081         | -3,460   |
| Tax effect of:  |              |               |                |          |
| - Foreign tax rates   |              | -855          |                |          |
| - Non-deductible expenses/Non-taxable income  | 14,509       | -61           | 6,601          | 5,500    |
| - Utilization of loss carryforwards not recognized previously                             | 5,019        | 8,971         |                |          |
| - Tax losses for which no deferred tax asset is recognized                                | -1,548       | -2,168        | -1,520         | -2,040   |
| - Reassessment of loss carryforwards  | 3,363        | 14,647        |                |          |
| <b>Tax on profit for the year according to income statement</b>                           | <b>1,482</b> | <b>10,224</b> | <b>0</b>       | <b>0</b> |

|  | Group         |               | Parent Company |          |
|--|---------------|---------------|----------------|----------|
|  | 2016          | 2015          | 2016           | 2015     |
| <b>Deferred tax asset</b>                |               |               |                |          |
| <b>Deferred tax assets on tax losses</b> |               |               |                |          |
| Opening balance                          | 29,388        | 15,759        |                |          |
| Exchange rate difference                 | 1,545         | -1,018        |                |          |
| Reported in the income statement         | 3,363         | 14,647        |                |          |
| <b>Closing balance</b>                   | <b>34,296</b> | <b>29,388</b> |                | <b>0</b> |

A deferred tax asset of SEK 3,363 thousand (14,647) was recognized as revenue during the year. Deferred tax assets are recognized for tax loss carryforwards insofar as it is likely that they can be utilized via future taxable profits. Individual assessments are carried out of each company with regard to historical profit development and opportunities to use the loss carryforwards. The loss carryforwards are mostly held by the Danish subsidiary. Danish legislation limits the annual utilization of loss carryforwards in terms of

amount, which means that the Danish subsidiary will pay SEK 1,881 thousand (4,423) in income tax for 2016.

All loss carryforwards, totaling SEK 251,542 thousand (259,377), of which SEK 155,890 thousand (133,582) are capitalized as at December 31, 2016, have an unlimited life.

At present unutilized loss carry forwards in the parent company cannot be utilized, because the parent company is a holding company with no other business activities.

|  | Group  |         | Parent Company |        |
|--|--------|---------|----------------|--------|
|  | 2016   | 2015    | 2016           | 2015   |
| <b>Unutilized loss carry forwards</b>  |        |         |                |        |
| Unutilized loss carry forwards for which no deferred tax asset has been recognized | 95,653 | 125,795 | 92,495         | 86,591 |
| Potential tax asset  | 21,134 | 28,225  | 20,349         | 19,050 |



**Note 11 Capitalized development costs**

| <b>Group, Dec 31</b>                           | <b>2016</b>    | <b>2015</b>    |
|--|----------------|----------------|
| <b>Opening cost of acquisition</b>             | <b>50,814</b>  | <b>48,865</b>  |
| Internally-developed assets                    | 6,749          | 4,109          |
| Exchange rate differences for the year         | 2,682          | -2,160         |
| <b>Closing accumulated cost of acquisition</b> | <b>60,245</b>  | <b>50,814</b>  |
| <b>Opening depreciation</b>                    | <b>-33,961</b> | <b>-29,886</b> |
| Depreciation for the year                      | -6,955         | -5,467         |
| Exchange rate differences for the year         | -1,822         | 1,392          |
| <b>Closing accumulated depreciation</b>        | <b>-42,737</b> | <b>-33,961</b> |
| <b>Closing carrying amount</b>                 | <b>17,508</b>  | <b>16,853</b>  |

**Impairment testing**

Intangible assets refer to internal development of products specifically for sale. A recoverable amount is estimated when there is an indication that the asset has decreased in value. The recoverable amount for the Group's cash generating units (CGU) is determined on the basis of value in use calculations. Calculation is by project. These calculations are based on expected future cash flows based on financial forecasts and strategies approved by the management, and which cover a five-year period. The assumptions reflect the financial targets set up by the Board, market reports concerning future growth and technological trends. From time to time the company uses a five-year period to reflect the long-term nature of customers' purchasing decisions. Cash flows beyond the five-year period are extrapolated using an estimated rate of growth. The final growth rate used is 2 per cent (2). The discount rate before tax used is 9 per cent (10). This is to reflect the specific risks applicable to the segment the company operates within.

A change in discount rate of 3 percentage points (3) does not trigger any impairment loss. A change in estimated EBITDA of 2 percentage points (2) does not trigger any impairment loss. A change in estimated gross margin of 3 percentage points (3) does not trigger an impairment loss. Based on the above, it is not deemed necessary to recognize any impairment losses.

Expenditure recognised in the income statement for research and development, excluding depreciation, amounted to SEK 22.0 million (19.7) for the year.

**Note 12 Equipment**

| <b>Group, Dec 31</b>                           | <b>2016</b>    | <b>2015</b>   |
|--|----------------|---------------|
| <b>Opening cost of acquisition</b>             | <b>9,666</b>   | <b>9,488</b>  |
| Purchases                                      | 3,136          | 592           |
| Exchange rate differences for the year         | 532            | -414          |
| <b>Closing accumulated cost of acquisition</b> | <b>13,334</b>  | <b>9,666</b>  |
| <b>Opening depreciation</b>                    | <b>-9,066</b>  | <b>-9,334</b> |
| Depreciation for the year                      | -509           | -128          |
| Exchange rate differences for the year         | -470           | 396           |
| <b>Closing accumulated depreciation</b>        | <b>-10,045</b> | <b>-9,066</b> |
| <b>Closing carrying amount</b>                 | <b>3,289</b>   | <b>600</b>    |

**Note 13 Inventories**

| <b>Group, Dec 31</b> | <b>2016</b>   | <b>2015</b>   |
|----------------------|---------------|---------------|
| Finished products    | 21,060        | 15,407        |
| Goods in progress    | 4,831         | 4,530         |
| <b>Total</b>         | <b>25,891</b> | <b>19,937</b> |

The year's write-down of inventories amounts to SEK 936 thousand (95) and is recognized in cost of goods sold.

**Note 14 Trade receivables**

|  | <b>Group</b>  |               |
|--|---------------|---------------|
| <b>Age analysis of trade receivables, Dec 31</b> | <b>2016</b>   | <b>2015</b>   |
| Not past due                                     | 28,835        | 35,359        |
| Past due 0-30 days                               | 10,344        | 370           |
| Past due 31-60 days                              | 199           | 31            |
| Past due >60 days                                | 484           | 95            |
| <b>Total past due</b>                            | <b>11,027</b> | <b>496</b>    |
| <b>Total trade receivables</b>                   | <b>39,862</b> | <b>35,855</b> |
| Expected losses                                  | -485          |               |
| <b>Trade receivables in the accounts</b>         | <b>39,378</b> | <b>35,855</b> |
| <b>Doubtful trade receivables</b>                | <b>2016</b>   | <b>2015</b>   |
| Opening balance                                  | 0             | -242          |
| Expected losses                                  | -485          |               |
| Confirmed losses                                 |               |               |
| Reversed amounts                                 |               | 242           |
| <b>Closing balance</b>                           | <b>-485</b>   | <b>0</b>      |

**Note 15 Derivative instruments**

|                           | <b>Group</b>  |              |
|---------------------------|---------------|--------------|
| <b>Fair value, Dec 31</b> | <b>2016</b>   | <b>2015</b>  |
| USD                       | -4,668        |              |
| GBP                       | 417           | 1,073        |
| <b>Total</b>              | <b>-4,251</b> | <b>1,073</b> |

Book value corresponds to fair value. All derivatives refer to forward exchange contracts with purchases of SEK and mature within 12 months. Due to short maturities the currency flows have not been discounted.

**Note 16 Other receivables**

| <b>Group, Dec 31</b>         | <b>2016</b>  | <b>2015</b>  |
|------------------------------|--------------|--------------|
| VAT                          | 2,637        | 109          |
| Advance payments to supplier |              | 5,000        |
| Other                        | 73           | 66           |
| <b>Total</b>                 | <b>2,710</b> | <b>5,175</b> |

**Note 17 Prepaid expenses and accrued income**

| <b>Group, Dec 31</b>        | <b>2016</b>  | <b>2015</b>  |
|-----------------------------|--------------|--------------|
| Prepaid insurance           | 844          | 646          |
| Prepaid rents               | 797          | 533          |
| Prepaid IT expenses         | 384          | 108          |
| Prepaid exhibition expenses | 340          | 403          |
| Other prepaid expenses      | 819          | 348          |
| <b>Total</b>                | <b>3,184</b> | <b>2,038</b> |

**Note 18 Share capital**

As at December 31, 2016 share capital amounted to SEK 44,449 thousand (42,240), allocated over 43,448,506 (42,240,161) shares with a quotient value of SEK 1,00.

The number of outstanding stock options amounts to 663,322 (2,000,000), which entitle the holder to subscribe for 663,322 (2,000,000) shares, distributed over one (one) program.

For more information about the stock options, please see The Share on page 27 and Note 8.

**Note 19 Accrued expenses and deferred income**

| <b>Group, Dec 31</b>          | <b>2016</b>   | <b>2015</b>   |
|-------------------------------|---------------|---------------|
| Holiday pay liability         | 4,980         | 4,366         |
| Social security contributions | 3,789         | 4,113         |
| Accrued compensation          | 3,402         | 3,435         |
| Accrued cost of goods sold    | 574           |               |
| Accrued directors' fees       | 406           | 361           |
| Other accrued expenses        | 1,109         | 173           |
| <b>Total</b>                  | <b>14,261</b> | <b>12,448</b> |

| <b>Parent Company, Dec 31</b> | <b>2016</b>  | <b>2015</b>  |
|-------------------------------|--------------|--------------|
| Accrued directors' fees       | 406          | 275          |
| Social security contributions | 194          | 177          |
| Accrued compensation          | 182          | 395          |
| Other accrued expenses        | 614          | 585          |
| <b>Total</b>                  | <b>1,396</b> | <b>1,432</b> |

**Note 20 Earnings per share**

|  | <b>Group</b> |             |
|--|--------------|-------------|
| <b>Earnings per share before dilution</b>                      | <b>2016</b>  | <b>2015</b> |
| Profit/Loss after tax  | 91 757       | 57 088      |
| Average number of shares outstanding after dilution, thousands | 42 781       | 42 240      |
| <b>Earnings per share before dilution</b>                      | <b>2,14</b>  | <b>1,35</b> |

Earnings per share before dilution are based on earnings after tax attributable to equity holders of the parent and a weighted average of the number of shares outstanding.

|  | <b>Group</b> |             |
|--|--------------|-------------|
| <b>Earnings per share after dilution</b>                       | <b>2016</b>  | <b>2015</b> |
| Profit/Loss after tax  | 91 757       | 57 088      |
| Average number of shares outstanding after dilution, thousands | 44 112       | 43 920      |
| <b>Earnings per share after dilution</b>                       | <b>2,08</b>  | <b>1,30</b> |

Earnings per share before dilution are based on earnings after tax attributable to equity holders of the parent and a weighted average of the number of shares outstanding, plus a weighted number of shares which would be added if all potential shares giving rise to dilution are converted to shares.

Only the option programs whose issue price is less than the average share price for the period can lead to a dilutive effect. The average price for 2016 was SEK 61.76 (41.73). The outstanding option program meets the conditions, which is why this is giving rise to a dilutive effect.

As shown in Note 8, the Group has an outstanding employee stock option program, providing the right to subscribe for a maximum of 2,000,000 shares between May 2016 and May 2017. The number allocated up to December 31, 2016 is 663,322.

**Note 21 Non-cash items**

| <b>Group</b>                                 | <b>2016</b>   | <b>2015</b>  |
|--|---------------|--------------|
| Depreciation                                 | 7,464         | 5,595        |
| Unrealized gain/loss, derivative instruments | 4,726         |              |
| Change in warranty provision                 | 1,473         |              |
| Employee stock option program                | 237           | 539          |
| Exchange rate differences                    | -660          | -1,547       |
| <b>Total</b>                                 | <b>13,240</b> | <b>4,587</b> |

| <b>Parent Company</b> | <b>2016</b>    | <b>2015</b> |
|-----------------------|----------------|-------------|
| Anticipated dividends | -30,000        |             |
| <b>Total</b>          | <b>-30,000</b> | <b>0</b>    |

**Note 22 Participations in group companies**

| Company                     | Corporate Identity Number | Registered office | Number of participations | Capital share, % | Book value |
|-----------------------------|---------------------------|-------------------|--------------------------|------------------|------------|
| INVISIO Communications A/S  | 20 75 82 36               | Hvidovre, Denmark | 672,590                  | 100              | 80,570     |
| INVISIO Communications Inc. | 38-4018124                | Delaware, USA     | 100                      | 100              | 9          |
| INVISIO Communications SAS  | 820 683 654               | Paris, France     | 100                      | 100              | 47         |
| Nextlink IPR AB             | 556691-0385               | Stockholm         | 1,000                    | 100              | 2,517      |
| Nextlink Patent AB          | 556680-1774               | Stockholm         | 1,000                    | 100              | 100        |

| Parent Company, Dec 31         | 2016          | 2015          |
|--------------------------------|---------------|---------------|
| <b>Opening carrying amount</b> | <b>82,950</b> | <b>82,411</b> |
| Employee stock option program  | 237           | 539           |
| Formation of subsidiary        | 56            |               |
| <b>Closing carrying amount</b> | <b>83,243</b> | <b>82,950</b> |

**Note 23 Related party disclosures**

Inter-company transactions are with the parent company's wholly-owned subsidiaries, which is presented in Notes 5 and 22.

Compensation to the Board and senior executives is presented in Note 9.

**Note 24 Events after the end of the financial year**

In March 2017 INVISIO was awarded a new framework contract with the British Ministry of Defence, for hearing protection and communication equipment adapted for special operations on land, sea and in the air. The initial order value for INVISIO amounted to GBP 8 million, equivalent to about SEK 90 million. The 4-year contract includes options for a fifth year and a complete mid-life enhancement at two and a half years, which are not included in the initial order. The contract was signed through INVISIO's local partner, Marlborough Communications Ltd (MCL).

The consolidated income statement and balance sheet will be presented at the Annual General Meeting on April 26, 2017 for adoption.

The Board of Directors and the CEO certify that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The Annual Report has been prepared in accordance with generally accepted accounting principles and gives a true and fair representation of the Parent Company's financial position and results of operations.

The Board of Directors' Report for the Group and the Parent Company give a true and fair overview of the development of the Group's and the Parent Company's operations, financial position and results of operations, and describe material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, March 24, 2017

Lars Röckert  
Chairman of the Board

Anders Persson  
Board member

Lage Jonason  
Board member

Mats Warstedt  
Board member

Annika Andersson  
Board member

Charlotta Falvin  
Board member

Lars Højgård Hansen  
President and CEO

Our audit report was submitted on March 27, 2017

PricewaterhouseCoopers AB

Michael Bengtsson  
Authorized Public Accountant

# Auditor's Report

To the general meeting of the shareholders of INVISIO Communications AB (publ), corporate identity number 556651-0987

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of INVISIO Communications AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 38-62 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

### Basis for Opinions

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

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

### Our audit approach

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

INVISIO develops and sells advanced personal communication and hearing protection systems. The systems are comprised of headsets and control units that interface, for example, with an external group radio or vehicle's intercom system. Capitalised development expenditure comprises a significant item in the balance sheet and is based on judgments and assumptions which are complex and which involve a high degree of significant judgments on behalf of company management. For this reason, capitalised development expenditure has been deemed to comprise a key audit matter.

We adapted our activities to execute an appropriate audit with the aim of being able to provide an opinion on the financial reports in their entirety, with consideration of the group's structure, accounting processes and controls, and considering the industry in which the group operates. Based on this, we selected the units deemed to be significant and determined the audit activities to be executed as regards these units. There are five subsidiaries in which the operations during the year have been exclusively undertaken in INVISIO Communication A/S. The operations of these units are located abroad and we obtained reporting from our local audit teams on an ongoing basis during the year. The group team undertook an annual assessment of the involvement required in order that we can ensure that sufficient and appropriate audit measures have been executed. During the year, the group team visited these units.

In addition, the group team has, amongst other things, audited the parent company, the consolidation, the annual accounts and significant assumptions and judgments. Based on the audit activities described above, we deem that we have sufficient audit evidence to provide an opinion on the financial reports in their entirety.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.



## Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period.

These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

| Key audit matter  | How our audit addressed the Key audit matter   |
|---|--|
| <p data-bbox="284 539 639 562"><b>Capitalised development expenditure</b></p> <p data-bbox="151 580 777 622">The group reports SEK 17.5 million in capitalised development expenditure, classified as Intangible fixed assets in the balance sheet.</p> <p data-bbox="151 622 777 705">Expenses in development projects are reported as intangible assets when it is probable that the project will be successful on the starting point of commercial and technical possibilities applying and when the costs can be measured in a reliable manner.</p> <p data-bbox="151 705 777 835">According to IFRS, an annual impairment test is to be undertaken where write-downs have not been initiated. This write-down testing is based on evaluations and assumptions which are complex and which involve a large degree of significant judgments on behalf of company management. In Notes 1 and 11, there is a description of the manner in which company management has made its evaluations.</p> | <p data-bbox="801 580 1445 730">Our audit activities included a review of the calculation model applied and the challenging of significant assumptions which company management has used in the impairment testing, primarily as regards estimated future cash flows based on financial forecasts and strategies approved by company management. The assumptions reflect the financial goals established by the Board of Directors, market reports regarding future growth and technology trends.</p> <p data-bbox="801 730 1445 813">We have also assessed the reasonability of the budget which the company management presented and which was approved by the Board of Directors, by evaluating the historical outcome against the adopted budgets.</p> <p data-bbox="801 813 1445 896">We have tested to determine the impact of changes in significant assumptions such as operating income and the discount rate on the margin of safety, and on the basis of these tests we have assessed the risk that an impairment requirement might exist.</p> <p data-bbox="801 896 1445 978">We also evaluated company management's assessment as to how the group's calculation models are impacted by changes in assumptions, and have compared this with the information presented in the annual accounts related to the impairment tests.</p> <p data-bbox="801 978 1445 1025">We share company management's assessment regarding the reporting of capitalised development expenditure.</p> |

| Revenues  |  |
|---|--|
| <p data-bbox="151 1106 777 1149">The group's net sales amounted, for the year, to SEK 330 million and were comprised of the sale of goods.</p> <p data-bbox="151 1149 777 1341">Revenue comprises an identified risk area based on its importance in the financial reporting. Sales take place primarily via a global network of partners and retailers but the company also sells via its own companies in Denmark, France and the US. The large number of transactions implies an increased risk as regards the completeness and correctness of the revenue recognition. There is also a risk that revenues are reported in incorrect amounts and that all revenues for a given financial year are not reported in that year. Likewise, the general risk of improprieties in the revenue recognition also impacts our assessment.</p> | <p data-bbox="801 1106 1445 1189">Our audit activities have included substantive procedures applied to net sales with the help of data analyses. Furthermore, we have also undertaken an analysis of revenues based on consideration of the underlying contracts and the clients' possibility to make returns.</p> <p data-bbox="801 1189 1445 1272">We have undertaken an examination of the allocation of sales and costs of goods sold to ensure that sales and costs of goods sold have been correctly reported during the financial year.</p> <p data-bbox="801 1272 1445 1314">The audit was executed with satisfactory results.</p> |

## Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-27. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

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

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

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

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

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

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

#### **Report on other legal and regulatory requirements**

##### **Opinions**

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

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

##### **Basis for Opinions**

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

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

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

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

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

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

Stockholm the 27 March 2017  
PricewaterhouseCoopers AB

Michael Bengtsson  
Authorized Public Accountant

# Five-year Review

| <b>Income Statements, January – December (SEK 000s)</b> | <b>2016</b>    | <b>2015</b>    | <b>2014</b>   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|---------------|----------------|----------------|
| Total revenue   | 330,024        | 229,802        | 201,635       | 85,254         | 43,031         |
| Cost of goods sold                                      | -159,028       | -111,474       | -110,362      | -48,205        | -24,914        |
| <b>Gross profit</b>                                     | <b>170,996</b> | <b>118,328</b> | <b>91,273</b> | <b>37,049</b>  | <b>18,117</b>  |
| Operating expenses                                      | -73,156        | -65,410        | -51,588       | -42,311        | -38,704        |
| Depreciation, amortization and write-downs              | -7,463         | -5,595         | -5,034        | -5,218         | -5,226         |
| <b>Operating profit/loss</b>                            | <b>90,377</b>  | <b>47,323</b>  | <b>34,651</b> | <b>-10,480</b> | <b>-25,813</b> |
| Net financial items                                     | -102           | -459           | -2,930        | -2,880         | -3,678         |
| <b>Profit/Loss before tax</b>                           | <b>90,275</b>  | <b>46,864</b>  | <b>31,721</b> | <b>-13,360</b> | <b>-29,491</b> |
| Income tax  | 1,482          | 10,224         | 12,556        | 2,900          |                |
| <b>Profit/Loss for the year</b>                         | <b>91,757</b>  | <b>57,088</b>  | <b>44,277</b> | <b>-10,460</b> | <b>-29,491</b> |

| <b>Balance Sheets, December 31 (SEK 000s)</b>     | <b>2016</b>    | <b>2015</b>    | <b>2014</b>    | <b>2013</b>   | <b>2012</b>   |
|---|----------------|----------------|----------------|---------------|---------------|
| <b>ASSETS</b>                                     |                |                |                |               |               |
| <b>Non-current assets</b>                         |                |                |                |               |               |
| Intangible assets                                 | 17,508         | 16,853         | 18,979         | 17,489        | 16,832        |
| Property, plant and equipment                     | 3,289          | 600            | 154            | 83            | 139           |
| Financial assets                                  | 35,746         | 30,143         | 16,541         | 692           | 670           |
| <b>Total non-current assets</b>                   | <b>56,543</b>  | <b>47,596</b>  | <b>35,674</b>  | <b>18,264</b> | <b>17,641</b> |
| <b>Current assets</b>                             |                |                |                |               |               |
| Inventories                                       | 25,891         | 19,937         | 16,391         | 10,098        | 3,240         |
| Trade receivables                                 | 39,378         | 35,855         | 18,845         | 16,137        | 17,362        |
| Other current receivables                         | 5,894          | 8,286          | 6,339          | 4,741         | 1,488         |
| Cash and cash equivalents                         | 133,193        | 29,367         | 28,444         | 9,126         | 4,240         |
| <b>Total current assets</b>                       | <b>204,356</b> | <b>93,445</b>  | <b>70,019</b>  | <b>40,102</b> | <b>26,330</b> |
| <b>TOTAL ASSETS</b>                               | <b>260,899</b> | <b>141,041</b> | <b>105,693</b> | <b>58,366</b> | <b>43,971</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>       |                |                |                |               |               |
| <b>Shareholders' equity</b>                       | <b>209,502</b> | <b>105,635</b> | <b>52,375</b>  | <b>3,895</b>  | <b>-1,814</b> |
| <b>Long-term liabilities</b>                      |                |                |                |               |               |
| Liabilities to credit institutions                |                |                | 1,967          | 12,333        |               |
| <b>Total long-term liabilities</b>                | <b>0</b>       | <b>0</b>       | <b>1,967</b>   | <b>12,333</b> | <b>0</b>      |
| <b>Current liabilities</b>                        |                |                |                |               |               |
| Liabilities to credit institutions                |                |                | 21,313         | 21,215        | 31,245        |
| Trade payables                                    | 26,000         | 15,846         | 14,949         | 12,439        | 8,840         |
| Other current liabilities                         | 25,397         | 19,560         | 15,089         | 8,484         | 5,700         |
| <b>Total current liabilities</b>                  | <b>51,397</b>  | <b>35,406</b>  | <b>51,351</b>  | <b>42,138</b> | <b>45,785</b> |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b> | <b>260,899</b> | <b>141,041</b> | <b>105,693</b> | <b>58,366</b> | <b>43,971</b> |

| <b>Cash Flow Statement, January – December (SEK 000s)</b>                    | <b>2016</b>    | <b>2015</b>    | <b>2014</b>    | <b>2013</b>   | <b>2012</b>    |
|--|----------------|----------------|----------------|---------------|----------------|
| Profit/Loss before tax   | 90,275         | 46,865         | 31,721         | -13,360       | -29,491        |
| Adjustments for non-cash items   | 13,240         | 4,587          | 6,515          | 5,202         | 5,312          |
| Income tax paid  | -5,145         | -2,661         |                | 2,900         |                |
| <b>Cash flow from operating activities before changes in working capital</b> | <b>98,370</b>  | <b>48,791</b>  | <b>38,236</b>  | <b>-5,258</b> | <b>-24,179</b> |
| Cash flow from changes in working capital                                    | 7,458          | -18,869        | -3,926         | -2,079        | -2,644         |
| <b>Cash flow from operating activities</b>                                   | <b>105,828</b> | <b>29,922</b>  | <b>34,310</b>  | <b>-7,337</b> | <b>-26,823</b> |
| <b>Cash flow from investing activities</b>                                   | <b>-10,534</b> | <b>-4,701</b>  | <b>-5,412</b>  | <b>-5,180</b> | <b>-6,942</b>  |
| <b>Cash flow from financing activities</b>                                   | <b>6,193</b>   | <b>-23,077</b> | <b>-10,887</b> | <b>17,266</b> | <b>20,826</b>  |
| <b>CASH FLOW FOR THE YEAR</b>  | <b>101,486</b> | <b>2,144</b>   | <b>18,011</b>  | <b>4,749</b>  | <b>-12,939</b> |

| <b>Key Figures</b>                                 | <b>2016</b> | <b>2015</b> | <b>2014</b> | <b>2013</b> | <b>2012</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Margins</b>                                     |             |             |             |             |             |
| Gross margin, %                                    | 51.8        | 51.5        | 45.3        | 43.5        | 42.1        |
| Operating margin, %                                | 27.4        | 20.6        | 17.2        | -12.3       | -60.0       |
| Profit margin, %                                   | 27.8        | 24.8        | 15.7        | -15.7       | -68.5       |
| <b>Capital Structure</b>                           |             |             |             |             |             |
| Equity ratio, %                                    | 80.3        | 74.9        | 49.6        | 6.7         | -4.1        |
| <b>Other</b>                                       |             |             |             |             |             |
| Number of employees at year-end                    | 52          | 40          | 34          | 31          | 29          |
| <b>Data per share</b>                              |             |             |             |             |             |
| Number of shares at end of period, thousands       | 43,449      | 42,240      | 42,240      | 42,240      | 38,440      |
| Earnings per share, SEK                            | 2.14        | 1.35        | 1.05        | -0.27       | -0.83       |
| Earnings per share after dilution, SEK             | 2.08        | 1.30        | 1.02        | -0.27       | -0.83       |
| Shareholders' equity per share, SEK                | 4.82        | 2.50        | 1.24        | 0.09        | -0.05       |
| Shareholders' equity per share after dilution, SEK | 4.75        | 2.39        | 1.20        | 0.09        | -0.05       |
| Share price at year-end, SEK                       | 63.75       | 75.75       | 12.80       | 5.05        | 5.00        |



# Definitions

INVISIO's financial statements include both financial key figures that are specified in current financial reporting rules, alternative performance measures ("APM") in accordance with ESMA's definition and other key figures related to the business. The APMs are regarded as relevant for an investor who wants to understand the company's results and financial position better. For the APMs that are not directly reconcilable with the financial statements, a reconciliation is provided on the company's website: [www.invisio.com/IR](http://www.invisio.com/IR). Reconciliation is against the closest comparable IFRS financial measure.

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## Gross margin

Gross profit as a percentage of total revenue.

## Operating margin

Operating profit as a percentage of total revenue.

## Profit margin

Profit for the year as a percentage of total revenue.

## EBITDA

Operating profit before depreciation, amortization and impairment losses.

## EBIT (Operating profit)

Operating profit after depreciation, amortization and impairment losses. INVISIO defines EBIT (earnings before interest and tax) in the same way as Operating profit.

## Operating expenses

Sales and marketing expenses, Administrative expenses and Research and development costs.

## Net financial items

Financial income less Financial expenses.

## Equity/assets ratio

Equity divided by total assets (balance sheet total).

## Number of outstanding shares

Number of outstanding shares at the close of the period.

## Average number of outstanding shares

Weighted average of the number of outstanding shares during the period.

## Average number of outstanding shares after dilution

Weighted average of the number of outstanding shares during the period plus a weighted number of shares that would be added if all dilutive potential shares were converted. Only the option programs whose issue price is less than the average market price of the shares during the period can lead to a dilutive effect.

## Earnings per share

Profit for the year divided by the average number of outstanding shares.

## Earnings per share after dilution

Profit for the year divided by the average number of outstanding shares after dilution.

## Equity per share

Equity divided by the number of outstanding shares adjusted for non-registered issues.

## Shareholders' equity per share after dilution

Shareholders' equity divided by the number of outstanding shares after dilution.

## Number of employees at the close of the period

Number of employees on the date of salary payment in the last month of the period.

# Financial calendar

|                                       |                   |
|---------------------------------------|-------------------|
| Interim report January-March 2017     | April 26, 2017    |
| Annual General Meeting 2017           | April 26, 2017    |
| Interim report January - June 2017    | August 18, 2017   |
| Interim report January-September 2017 | October 30, 2017  |
| Year-end report 2017                  | February 16, 2018 |

INVISIO's Annual General Meeting will be held in IVA's premises at Grev Turegatan 16 in Stockholm, Sweden.

The Notice can be found at [www.invisio.com/IR](http://www.invisio.com/IR).

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INVISIO COMMUNICATIONS AB  
Box 151  
201 21 Malmö  
Sweden

INVISIO COMMUNICATIONS A/S  
Stamholmen 157  
2650 Hvidovre  
Denmark