

A young boy with short brown hair and blue eyes is standing on a city street. He is wearing a white t-shirt and grey trousers, and has a dark blue backpack with orange straps. The backpack has a small white patch with colorful circles on it. He is looking back over his shoulder towards the camera. In the foreground, the side of a white car is visible, slightly out of focus. The background shows a blurred city street with trees and buildings.

**Sensys
Gatso
Group**

› **2016**

ANNUAL REPORT

Contents

Comments from the CEO	4
The Market	6
Our strategic position	8
Customer relationships across the world	9
The Story of Sensys Gatso	9
Our most important resources	10
Sensys Gatso Group share information	11
Administration Report	12
Five year summary	14
Key figures	15
Corporate Governance Report	16
Board of Directors	20
Senior executives	21
Group: Statement of Income and other comprehensive income	22
Group: Balance Sheet	23
Group: Statement of changes in shareholders' equity	25
Group: Cash Flow	26
Accounting and valuation principles	28
Notes on the accounts, Group	33
Risk management	42
Parent company: Income statement	44
Parent company: Balance Sheet	45
Parent company: Cash Flow	47
Parent company: Statement of changes in shareholders' equity	48
Notes on the accounts, Parent company	49
Auditor 's report	55
Information to the shareholders	58
Addresses	59

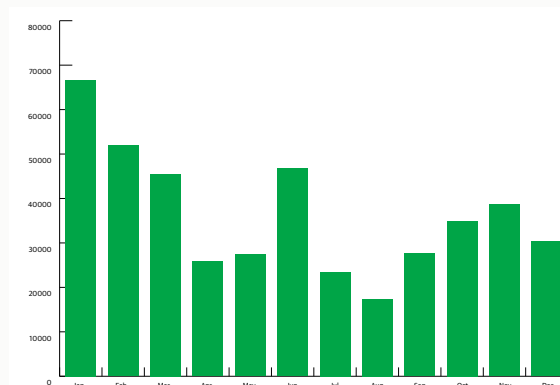
Vision

"Our vision is to be an innovator in traffic management by providing software and services for a safer and more sustainable environment."

Mission

Sensys Gatso - Making traffic safer®

Sales (SEK K)



2016 Annual Report

Sensys Gatso Group AB is a Swedish company that is subject to Swedish legislation. All amounts are expressed in Swedish kronor. Millions of kronor are abbreviated to MSEK and thousands to TSEK. Numerical data within parentheses refer to the 2015 financial year, unless otherwise stated. Data on market and competition conditions are Sensys Gatso Group's own estimates. These estimates are based on the best and most up-to-date available information from published sources.

Financial information, both in Swedish and English, is available at www.sensysgatso.com under Investera/Investor Relations, where a printed copy of the Annual Report may also be ordered. A copy of the Annual Report can also be obtained by calling +46 (0)36-34 29 80, or faxing +46 (0)36-12 56 99 or by e-mailing a request to info@sensys.se.

2016 in brief

- » Net sales MSEK 436.6 (397.8)
- » Order intake MSEK 199.9 (292.4)
- » Operating profit MSEK -23.2 (48.7)
- » EBITDA 25.3 (75.5)
- » The profit after tax MSEK -24.4 (40.9)
- » Comprehensive income MSEK -0.7 (29.4)
- » Earnings per share, before and after dilution, SEK -0.04 (0.07)
- » Cash flow from operating activities amounted to MSEK 88.4 (37.7)

Significant events

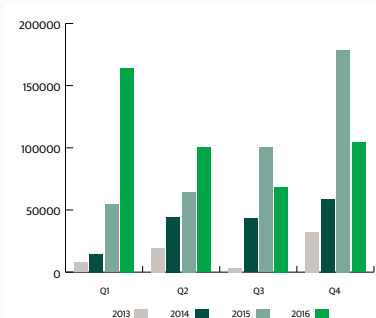
- » The Group invested MSEK 10.4 in Fixed assets in operations.
- » Repayment of bank loans amounted to MSEK 34.4.
- » Repayment of loans to shareholder to MSEK 32.2.
- » The bank credit facility in the Netherlands was expanded by approximately MSEK 9.5 (MEUR 1.0), giving more flexibility.
- » The remeasurement period of 12 months has been closed resulting in a finalised Purchase Price Allocation.
- » The additional purchase price, recognised under short-term liabilities in the balance sheet, has been finalised resulting in a payout of MSEK 26.0 and a release of the liability to the profit and loss, under the Other operating income of MSEK 11.9.
- » Sensys Gatso Group AB has announced a transfer of its business operations to the fully-owned subsidiary Sensys Gatso Sweden AB.

Key figures

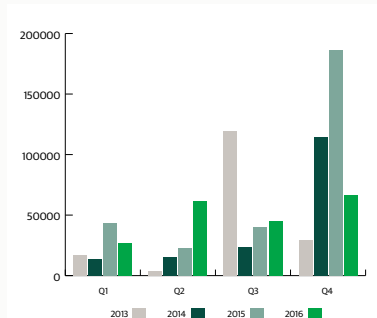
Individual orders are often of such a size that they perceptibly affect sales and operating results.

SEK K	Jan - Dec 2016	Jan - Dec 2015
Net sales	436,607	397,825
Order intake	199,858	292,408
Operating profit/loss	-23,241	48,703
Operating margin (%)	Neg	12.2
Gross margin (%)	33.6	41.7
Profit/loss for the period	-24,384	40,929
Earnings per share (SEK)	-0.04	0.07
Cash flow	88,418	37,744

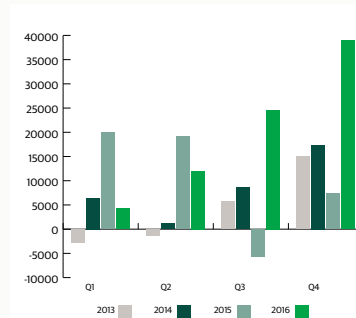
Net sales



Order intake



Cash flow





The foundations on which we are building our business are strong, as is our determination to deliver sustainable, profitable growth upon which the years to come.



Comments from the CEO:

Sensys Gatso sustains its position in a challenging market

The uncertain macroeconomic and geopolitical environment presented Sensys Gatso with a number of challenges during 2016. Despite this headwind, we were able to achieve a reasonable financial result and generate a strong cash flow.

We are also very pleased with the efforts made to find beneficial synergies and cost savings after the merger of Sensys and Gatso in 2015.

A streamlined business model

Throughout the year, we continued transforming Sensys Gatso in line with our strategy. The transformation programme has been very successful as we have achieved significant reduction of net working capital and cost savings through actions taken to streamline our operations. This programme continues and we can expect to see further benefits in cost savings as well as less need for net working capital in future projects.

As part of the transformation we have reorganised the system units into centres of excellence in Sweden and the Netherlands, as well as enhanced the efficiency of the supply chain and downsized the assembly operations in the Netherlands. The benefits of these measures will reach full effect in the first quarter 2017.

With the merger, we expanded and diversified our product portfolio, and added complementary services and development expertise. Staying true to our long-standing commitment to innovation, we have established a clear vision and roadmap for our development work, which includes launches of both hardware solutions and software architecture ahead.

Focus on recurring revenue

From the turn of the year, we report the breakdown of our two business areas System Sales and Managed Services. The System Sales business segment is generally very volatile, comprising of a few big contracts and many smaller agreements. The outcome for 2016 was no exception. Managed Services however provides a recurring and predictable revenue stream, which is why our ambition is to grow its share of the business. With a stable foundation of managed

services, the impact of order intake quarter-on-quarter will become less significant.

We are optimistic about our future ability to achieve more predictable sales performance. The short-term outlook will however be affected by continued volatility.

A shift towards sustainable cities

The rapid urbanisation is causing traffic challenges around the globe. This has lead us to explore the opportunities for Sensys Gatso to use our well-proven technologies and know-how to provide solutions that will contribute to reduce traffic and its impact on the quality of life in the cities, i.e. by influencing driving behavior to achieve quieter and safer urban environments. Our objective is to position Sensys Gatso in the emerging landscape of modern traffic management and Intelligent Transportation Systems (ITS).

Pilot testing and evaluation of traffic solutions for safer and more sustainable cities will be performed during 2017.

Challenges within our core markets

Managing the consequences of the the global macroeconomic and geopolitical environment kept us busy in 2016. The outcome of the US elections and the war in Syria had major impact on our business in the Middle East. In addition, the uncertainty regarding Brexit, the future for EU as well as the perceived threat from Russia have affected the willingness from our customers to place orders. Our order intake during the past six months of the year was lower than the previous period, mainly due to delays caused by the geopoliti-

cal situation, but also related to the volatility in the System Sales business. However, this situation might turn around rapidly, and we still see that the underlying performance is stable.

Focus for 2017

Looking ahead to the rest of 2017, it is difficult to assess when we will get a respite from the volatility, uncertainty and complexity that has characterized our business environment during the past year. Albeit the context of the political and economic hurdles, we maintain our optimistic view of our future prospects and, as stated above, the demand for our systems and services could increase rapidly. Sensys Gatso has a high operational leverage which gives us a good baseline for growth going forward.

We will continue our structured efforts to reach growth and increased profitability with focus on streamlining the business as well as increasing the proportion of recurring revenues. Supporting our long-term potential, we also see an increasing interest in our services across our key markets and believe that our extended scale and reach will benefit the business on a long-term and sustainable basis.

The foundations on which we are building our business are strong, as is our determination to deliver sustainable, profitable growth upon which the years to come.

I am grateful for the loyalty of our customers and the extraordinary commitment of our employees in our collective efforts to make traffic safer.

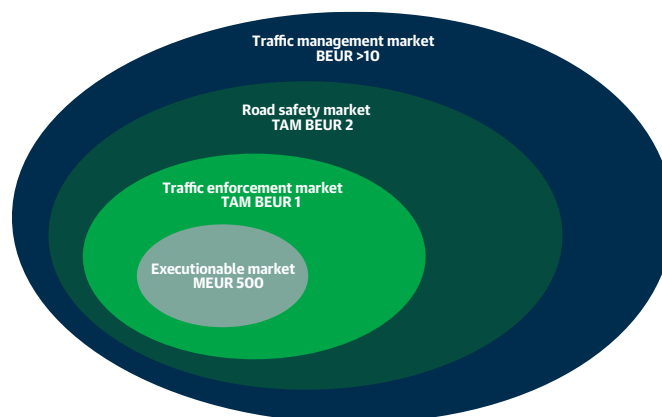
Torbjörn Sandberg
CEO, Sensys Gatso Group

The Market

According to the World Health Organization (WHO), there are more than 1.25 million road traffic fatalities globally every year and 20-50 million people are injured. The Sensys Gatso Group delivers systems, software and services for traffic enforcement purposes. The end users are police and traffic authorities around the globe. The traffic enforcement market, with a Total Addressable Market (TAM) of 1 billion Euros (BEUR), is a part of the global road safety market with a TAM of BEUR 2 defined as systems, software and services for road safety (source: MarketsandMarkets). This excludes pure infrastructure without built-in intelligence, i.e. mid barriers, concrete, road construction, etc. The global road safety market is a part of the global ITS market or Traffic Management market worth well beyond BEUR 10.

The road safety market

The road safety market, as defined by MarketsandMarkets, covers speed enforcement, red light enforcement, incident detection, bus lane compliance, Automatic License Plate Recognition (ALPR, or ANPR, Automatic Number Plate Recognition) and other. Sensys Gatso mainly operates in the red light and speed enforcement markets but is also providing solutions to the bus lane compliance and ANPR markets.



The traffic enforcement market

The traffic enforcement market is almost equally divided between the market for operator managed services and the systems market. The business model in the markets for operator managed services is a service provider model where the vendors maintain the ownership of the systems and operate the traffic enforcement system on behalf of the customer as a service to the customer. These programs are sometimes called BOT (Build Operate and Transfer), BOOM (Build Own Operate and Maintain), DFBOM (Design Finance Build Operate and Maintain). The advantages with this model is that it reduces the requirements on the customer's budgets and operational capabilities while providing a long term recurring revenue for the vendor. The downside is that it requires the vendor to invest and potentially assume risks in the local market. In the systems market, the ownership is transferred to the customers who generally operate the enforcement themselves. This model does not require investment, at least not long term investment, by the vendor.

Sensys Gatso's executionable market is 50% of the available market as Sensys Gatso does not target a num-

ber of certain markets. These are markets where Sensys Gatso deems the probability of success being low. The reasons could be that there are high entry barriers for foreign suppliers, an overabundance of local suppliers, low-cost competition setting the market price, or the market may have transparency issues.

The main drivers for traffic enforcement among our customers are:

- » Traffic safety - saving lives and seriously injured, often based on vision zero or vision zero like strategies.
- » Revenue creation - catching violators in order to raise revenue to the government as an alternative to raising taxes.
- » Sustainable societies - reducing all negative impact that traffic and mobility has on its environment, such as pollution, particles, noise, availability and quality of life in general.

Most often, the above drivers are combined, and sometimes the driver is revenue creation but publicly traffic safety is used as an excuse. The latter often backfires on the initiatives and results in programs being wound up, as seen with some red-light enforcement programs in North America.

Speed enforcement

Speeding is the number one factor when it comes to causing fatalities and serious injuries as speeding both increases the probability for a crash and the consequence when an accident occurs. Hence, speed enforcement is a key tool to reduce average speed on the roads and thereby improve traffic safety. The purpose of speed enforcement is to change driver behaviour towards better adherence to speed limits. This assumes that the speed limits are logical and adapted to the road design, meaning that if a crash occurs the people involved shall have at least a 90% chance of survival, see design criteria below.

Automatic speed enforcement is based on a combination of a speed measuring devices and a camera. Most systems in the market, including ours, use radar for measuring speed while there are systems using lasers or loops. The image quality becomes more important in markets where there are requirements to identify the driver, for instance in Germany and the Nordic markets. Most markets do however only require vehicle identification as the owner is liable for the speeding offence.

There are a number of different speed enforcement applications:

Spot speed: The enforceable speed is measured and the photo evidence is registered at one location. This is normally used on rural roads, at black spots, or where the speed limits are shifting along the road.

Section control, or point-to-point: The speed is measured over a distance, between points, and the average speed is the basis for enforcement. The technology used is mainly ANPR cameras but triggered by a radar or loops. The accuracy requirements on the radar or the loops are lower in this application than for spot speed. Section control is mainly used on highways, in tunnels or on bridges, where the speed limit is the same over a longer stretch. The advantage is that section control gives better traffic flow and at dense traffic it provides shorter average travel times. Hence section control can also be introduced for traffic management purposes in the context of Managed Highways.

Mobile speed enforcement: A system that can be transported between different locations to provide some element of surprise or uncertainty, or to be used as a more efficient tool for enforcement than manual speed checks using a laser gun. There are devices that are referred to as semi-mobile systems which are essentially fixed systems that are periodically moved, and there are mobile systems on a tripod that can be moved on a daily basis or less by an operator. In addition, these can also be vehicle-mounted and the operator then only has to move the vehicle between different enforcement locations.

In-vehicle enforcement, or vehicle-to-vehicle: A speed enforcement system is mounted in a vehicle and can be operated while the vehicle is moving. This increases the level of uncertainty and, in combination with campaign strategy of deploying vehicle-to-vehicle enforcement, also increases the sense of enforcement presence having a calming effect on the traffic in general.

Since speed measurement is used as the legal evidence, it is subject to homologation and approvals.

Red light enforcement

The drivers to introduce red light enforcement are most often traffic safety as red light jumping is very dangerous, especially for the vulnerable road users. Therefore red light enforcement is an important element for safety in the cities and thereby making the cities more sustainable. Red light enforcement is most frequently used in North America, South America and the Middle East, but can also be found in Europe, Asia and Australia. Red light enforcement can sometimes be subject to homologation and approvals. However, the legal evidence is constituted by the images and not a sensor based measurement.

The revenues for the end customer, generated by a redlight enforcement system is generally lower than for speed enforcement. All Sensys Gatso red light enforcement systems also have the speed enforcement capability so that speed on green can be enforced. In most cases speed on green represents more than 50% of the revenues created in a red light and speed enforcement installation.

In some applications of the red light enforcement systems it can register several violation types, such as U-turns, wrong lane turns and yellow box violations.

Bus lane compliance

Bus lane compliance systems or bus lane enforcement are used in order to protect dedicated bus lanes as bus rapid transit (BRT) systems are being implemented as an effective way to promote a modal shift from private vehicles to public transport in cities. These systems are mostly based ANPR cameras used to enforce laws related to vehicles that are not allowed in the bus lane.

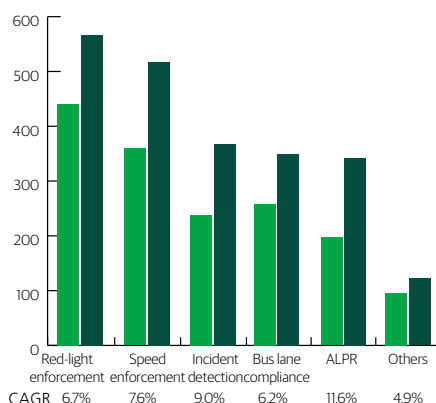
Incident detection

Incident detection is used to detect anomalies, such as traffic accidents or vehicles at a standstill, on highways, bridges and in tunnels. These are normally video or radar based and serve to draw the traffic management operators attention to a road section so that they can take actions such as emergency response, lane closures, etc. These systems are normally not subject to homologation or approvals.

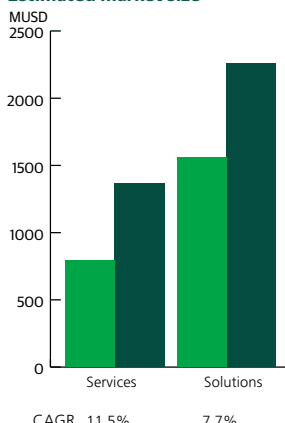
Others

Other road safety systems cover weigh-in-motion enforcement, overheight enforcement or your-speed-signs, for instance. Weigh-in-motion and overheight enforcement are primarily used as a pre-selection for manual enforcement, as both the accuracy of the measurement and the legislation make it difficult to enforce entirely automatically.

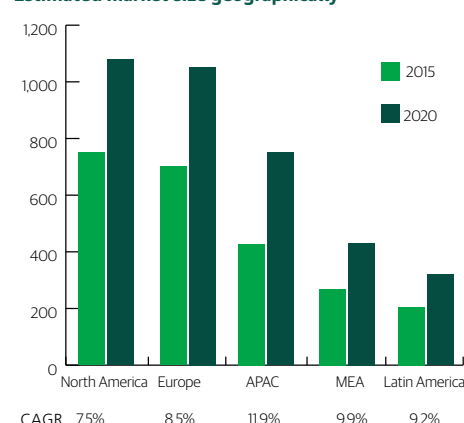
Estimated market size, type of system



Estimated market size



Estimated market size geographically



Our strategic position

Sensys Gatso Group's overarching aim is to lead the development in the area of traffic management solutions, services and software, based on a solid technology platform and its organisational capabilities as well as innovation focusing on customer needs and objectives.

Safe Rural Roads

Safe Rural Roads is all about road safety, and road safety is expected to continue to be the most important effect of the traffic management system. Sensys Gatso has a strong track record of delivering solutions to make rural roads safe. Sensys Gatso's enforcement solutions deliver high integrity evidence material with high performance and superior image quality enabling effective and efficient enforcement operations.

Managed Highways

In Managed Highways, not only road safety is a concern but also capacity management. Sensys Gatso delivers a range of solutions, including speed enforcement, In-Vehicle systems and automatic number plate recognition systems, enabling effective and safe capacity management of highways.

Sustainable Cities

The sustainable city trend will drive the growth of the market for traf-

fic management and ITS-solutions. Hence, sustainable cities are key to our future growth. Making cities sustainable from a traffic management point of view, city planners need take control of traffic volume and traffic culture, most importantly speed of the traffic, in the city. Sensys Gatso has developed a number of innovative solutions and services to address both traffic volume and culture. School safety systems that alerts both pedestrians and drivers on inappropriate behavior before enforcing is one example. In-Vehicle systems that operate from moving fleets in the city is another innovation from Sensys Gatso that is used to address driver behavior in a city.

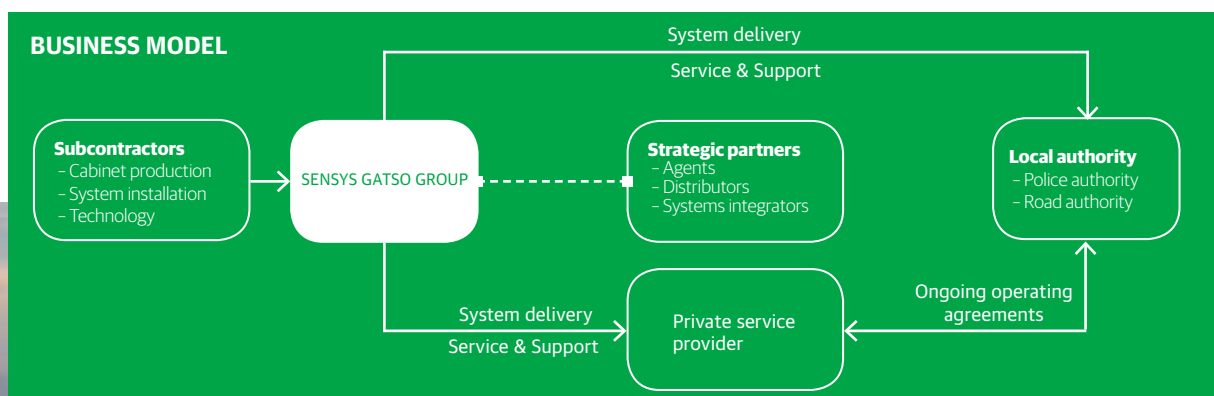
Versatile enforcement platform

Sensys Gatso's traffic management platform is based on state-of-the-art sensor and camera technologies and covers solutions for traffic enforcement, traffic calming, traffic measuring and traffic limitation. The front-

end product portfolio covers fixed, semi-mobile and mobile enforcement systems, automatic license plate recognition systems, school or speed zone warning systems, in-vehicle systems operating in moving vehicles. The front-end is complemented by a complete suite of back office software including operations support systems and business support systems.

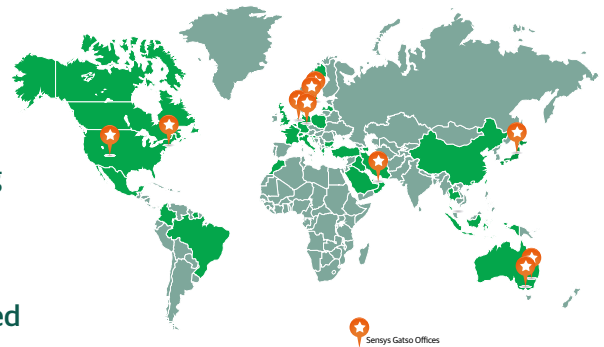
Complete outsourcing and managed services provider

Implementing a traffic enforcement system requires in-depth knowledge as well as capital expenditure. Both can represent a challenge. We offer complete solutions, which allow our customers to benefit from our expertise and technology - without the normal upfront costs. Customers can outsource a process completely » from installation to issuing tickets » or select modular components that complement their existing resources.



Customer relationships across the world

Sensys Gatso Group develops, markets and sells world-leading system solutions and products to improve traffic safety. Our largest product category includes automatic speed and red-light monitoring systems designed to prevent traffic accidents thereby saving lives and social resources. All products are based on our unique, high precision, target-tracking radars offering high legal certainty. The market for traffic safety systems is a global niche market with healthy underlying growth.



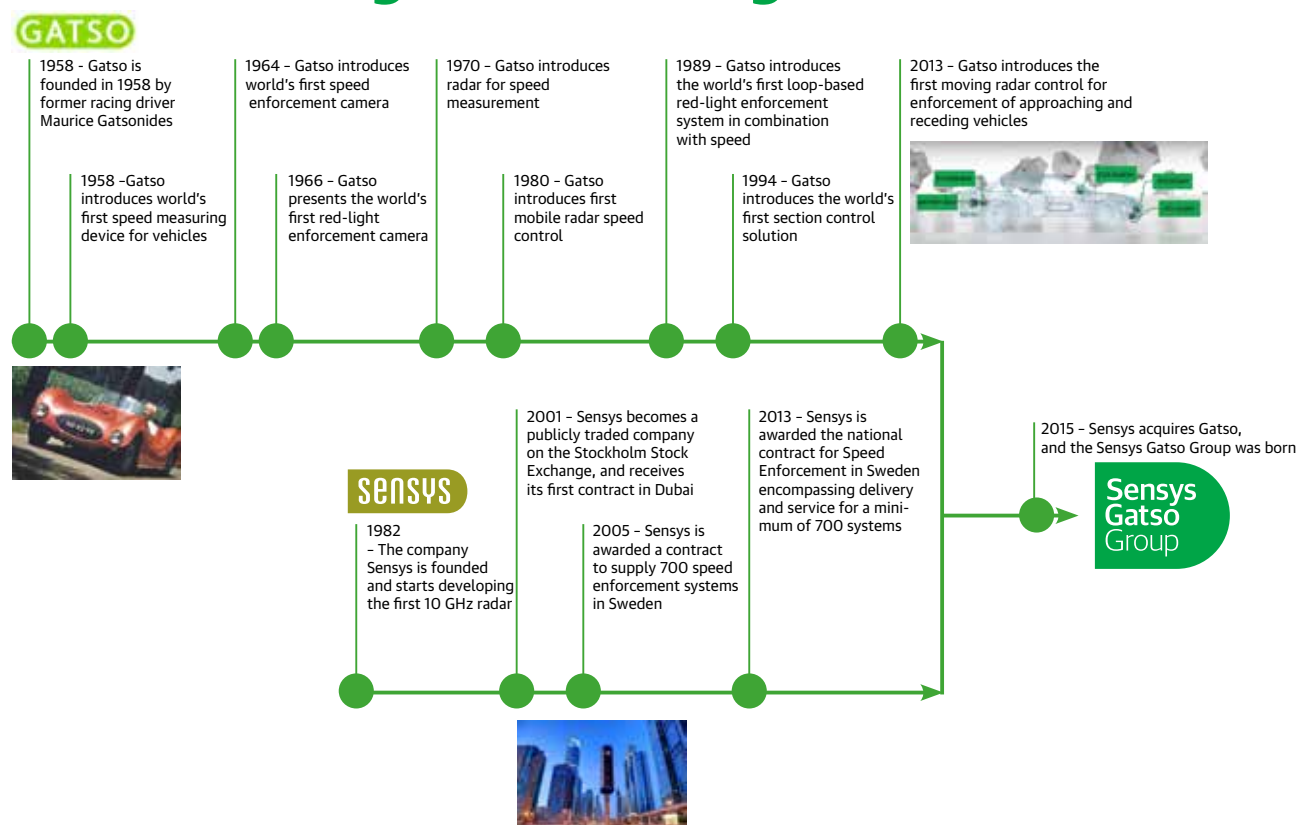
Priority customer groups

Sensys Gatso Group is a market leader in system solutions and products to improve traffic safety. The company has supplied over 50,000 systems to customers in more than 70 countries and is a market leader in the European traffic enforcement market.

Our customers are primarily comprised of police and road authorities throughout the world, as well as private operators that are contracted by government agencies. Our customer relationships are characterised by close cooperation as part of a joint

endeavor to find customised solutions for local needs and objectives. We have long term customer relationships, which often result in add-on sales over time.

The Story of Sensys Gatso



Our most important resources

Sensys Gatso Group aims to be an attractive employer and partner on the global market. We have a focused approach towards securing and developing the right skills to satisfy current and future needs. Talented and motivated employees are the very backbone of our business.



Committed employees with considerable technical expertise

At Sensys Gatso Group we offer a pleasant, dedicated and dynamic work environment. The atmosphere is informal, personal and involved, in every department. Our employees are part of the Sensys Gatso family. We offer an outstanding benefit package and career development opportunities.

"Sensys Gatso Group is reliant on well-educated and motivated individuals with a strong interest in pushing developments forward. The company cultivates an innovative climate. We have a down-to-earth approach, working together towards our common goal to challenge ourselves to go a few steps further than our competitors," remarks Bram Mulders, VP Engineering at Sensys Gatso Group in the Netherlands.

Sensys Gatso Group is keen to recruit, develop and retain employees with the right attributes when it comes to expertise and commitment. Each employee should feel involved and responsible for the company's development. Our flexible organisation, with delegated responsibility and quick decision-making, means that each employee feels a strong sense of participation.

"Both engineers and sales representatives meet our customers and suppliers worldwide through the projects we carry out. These natural relationships often constitute a key advantage in joint development projects. Another one of our strengths is our diversity - our employees bring different experiences and backgrounds, speak several languages, and contribute knowledge of different cultures."

Niche partners

Sensys Gatso Group has its own production unit in the Netherlands as well as extensive cooperation with a few key manufacturers in Sweden. We have partners for system

installation and manufacturing of cabinets. This secures high delivery capacity and access to the best possible technology for sub-systems and components. These suppliers are certified in accordance with ISO 14001, ensuring that environmental impact is being measured and improved.

We also have strategic collaboration with partners for the development of flash and lighting technology, image processing, number plate recognition and complementary sensor technology. We always ensure that these suppliers are either ISO 14001 certified, or plan to acquire certification.

Conduct

Sensys Gatso Group has strong business ethics and respect for others. The company's Code of Conduct is based on the UN's Universal Declaration of Human Rights. To ensure a common standard of behavior among all Sensys Gatso Group staff, we operate in accordance with a policy covering issues such as bribery and corruption.

Sensys Gatso Group's role in society

Sensys Gatso Group engages in continual consultations and discussions with public bodies on issues of current concern. In Sweden, it is primarily the Swedish Transport Administration and VTI (the National Road and Transport Research Institute) whose remit touches upon the company's activities. As the Vision Zero concept has developed further and has been widely accepted throughout the world, lately also by several cities in the USA, Sensys Gatso Group has engaged in these initiatives in order to support the drive for a safer and sustainable society. Sensys Gatso Group is also engaged in dialogue with SIS (Swedish Standards Institute) on the ISO 39001 management system for traffic safety.



Sensys Gatso Group

share information

Sensys Gatso's share is listed on Nasdaq Stockholm's Mid Cap list. As at 30 December 2016, the share capital amounted to TSEK 32,858 divided into 657,155,077 shares.

Each share gives the right to one vote.

Share performance

The highest price paid for Sensys Gatso shares during the year was SEK 3.60 (5 Jan, 2016) and the lowest price paid was SEK 1.26 (28 Dec, 2016). The closing price paid on 30 December 2016 was SEK 1.41 (3.61).

In 2016, a total of 1,076,148,869 (1,640,579,397) Sensys Gatso shares were traded on the Stockholm Stock Exchange. At the end of the year, the market capitalisation amounted to SEK 926 million (2,372).

Dividend policy

The Board of Directors of Sensys Gatso has not established a dividend policy and does not believe that a dividend will be paid in the near future. The profitability of the company has fluctuated and the fundamental principle of the Board is to reinvest any pre-tax profit in the business until a stable level of profitability has been reached. Once sustained profitability has been achieved, however, the ambition of the Board is to establish a long-term and, over time, stable dividend policy. When this occurs, consideration will be given to the company's profit level, financial position and other factors thought to be of relevance by the Board.

Shareholder categories

	Capital %	Votes %
Foreign shareholders	24.5	24.5
Swedish shareholders whereof	75.5	75.5
- Legal Entities	19.0	19.0
- Natural Persons	56.6	56.6

Ownership concentration

	Capital %	Votes %
The 10 largest shareholders	34.6	34.6
The 20 largest shareholders	39.2	39.2
The 100 largest shareholders	50.9	50.9

The 20 largest shareholders

The shares in Sensys Gatso Group AB were held as of 30 December 2016 as follows:

	Number of shares	Proportion of share capital/ votes %
Cooperatieve Centrale (Gatso Special Products BV)	115,920,763	17.64 %
Försäkringsaktiebolaget, Avanza Pension	35,507,057	5.40 %
Bergstrand, Inger	21,638,057	3.29 %
Nordnet Pensionsförsäkring AB	17,209,850	2.62 %
AMF - Försäkring och Fonder	10,550,000	1.61 %
Swedbank Försäkring	5,829,453	0.89 %
Skandia, Försäkrings	5,821,623	0.89 %
Rodert, Lars	5,760,000	0.88 %
Bergman, Clarence	4,950,000	0.75 %
Nordea Investment Funds	4,213,089	0.64 %
Ivarsson, Benny Holger	4,005,808	0.61 %
Services AB, Arding Language	4,000,000	0.61 %
Handelsbanken Liv	3,511,206	0.53 %
Kihlberg, Jan	3,349,629	0.51 %
Danica Pension	3,091,771	0.47 %
Segenmark, Dan	2,750,000	0.42 %
SEB Investment Management	2,723,980	0.41 %
SEB LIFE (IRELAND) ASS CO LTD	2,684,331	0.41 %
Hjalmarsson, Per	2,577,777	0.39 %
Emmeford, Tony	2,000,000	0.30 %
Total, 20 largest shareholders	258,094,394	39.27 %
Total, other shareholders (21,150)	399,060,683	60.73 %
Total	657,155,077	100.0 %

Administration Report

The Board of Directors and Chief Executive Officer of Sensys Gatso Group AB (publ.), corporate registration number 556215-4459, hereby present the Annual Report & Accounts for the financial year ended 31 December 2016.

Sensys Gatso Group's operations

Sensys Gatso develops, produces, markets and sells sensors and systems that are mainly used for speed enforcement and red-light enforcement. The company also provides servicing and maintenance alongside sales of systems. The Group's end customers primarily comprise police and road authorities throughout the world, as well as private operators. Sales are conducted either directly or via partners, agents and distributors positioning the Group as a leading traffic safety provider globally with a diversified product portfolio.

Legal structure

Sensys Gatso Group consists of Sensys Gatso Group AB (publ) and the wholly-owned subsidiaries Sensys International AB (later Sensys Gatso Sweden AB) and Gatso Beheer BV. Sensys International AB is completely dormant, and has been so since it was formed. The purpose of the acquisition of Sensys International was solely to meet the terms of an international procurement. For additional information see note 35.

Sales and earnings

Revenue for the full year was SEK 436.6 million (397.8), with the single largest projects relating to deliveries of Speed Safety Systems for the Swedish Transport Administration and a project in Africa. The gross margin was 33.6 percent (41.7). Profit/loss before tax amounted to SEK -30.0 million (47.3). The negative result of 2016 compared to the profit of 47.3 M SEK in 2015, is due to sold product mix with lower margins on sold systems and the costs taken with regards to the transformationsprogram. Profit/loss after tax was SEK -24.4 million (40.9). For further details regarding financial performance please see page 14 - 15.

Financial position

The Group's equity at the end of the period totalled SEK 386.6 million (387.4), producing an equity/assets ratio of 63.5 percent (49.9). Cash and cash equivalents amounted to SEK 31.6 million (76.2) at the end of the year. Cash flow from operating activities during the year totalled SEK 88.4 million (37.7).

Share data and key ratios

Earnings per share were SEK -0.04 (0.07) and equity per share was SEK 0.59 (0.59). The equity/assets ratio at year-end was 63.5 percent (49.9).

Employees

The annualised average number of employees were 151 persons (178). The number of employees at the end of the period were 169 (202), whereof a part being part-time employees. For additional information refer to note 2.

Environmental issues

The environment is a consideration in Sensys Gatso's development of new products, its improvement of existing

products and with regard to deliveries and business trips involving employees. Sensys Gatso supplies systems for traffic informatics. The functionality of these systems contributes to lower carbon dioxide emissions as a result of reduced speeds and more even flows of traffic.

Sensys Gatso complies with the applicable WEEE Directive (Waste of Electric and Electronic Equipment), which stipulates how future used electrical equipment will be processed, and the RoHS Directive (Restriction on Hazardous Substances), which aims to remove hazardous substances from products.

The Group is ISO certified according to ISO 9001:2008 - an international standard for quality management, where the Parent Company is certified since June 2012, and the subsidiaries since December 1996 and the Melbourne location since February 2015.

The subsidiary Gatso Beheer is also ISO certified according to ISO 14001:2004 an international standard for environment management.

Furthermore the Parent Company holds an accreditation for compliance to the requirements of the ISO 17020:2012 standard, to perform type C inspections.

Research and development

The Group prioritises research and development in order to maintain and strengthen the company's market position. Remaining at the forefront by offering innovative solutions is fundamental to what we do. Since its inception, Sensys Gatso Group has worked with universities and institutes of higher education, offering students the opportunity to write papers with the assistance of the company.

Policies concerning remuneration and other conditions of employment for Sensys Gatso's senior executives

Annual General Meeting 2016 established the policies for the remuneration of the company's senior executives. During 2016, the Board has decided to deviate from these adopted policies due to the following reasons;

» The number of persons sitting in senior executives has increased from 6 to 8, resulting in the total compensation paid, or reserved for, depending on the definition of the variable compensation, exceeds the maximum total amount of 3,799 thousand specified at the AGM, 2016.

» The CEO has received a pension of 34% of salary instead of 25% set out by the AGM 2016. Current employment contract with the CEO from 2015 shows that pension shall amount to 34%, why an adjustment for this has been done. The Group's senior executives currently include the CEO and seven members. The Group shall offer remuneration that is consistent with market terms and this shall be determined by the Board in consultation with the CEO. The criteria shall be based on importance of the duties performed, competence and experience, and remuneration shall consist of the following components:

- » Basic salary
- » Variable compensation
- » Pension benefits
- » Other benefits and severance terms

The variable compensation shall be based on set targets for sales, EBITDA and integration work and cannot amount to more than 6 months salary.

As previously the CEO shall benefit from a supplementary pension scheme with a premium that represents approximately 34 percent of the current annual salary. The retirement age is 65 years.

Other members of the company's management team shall have the right to retirement pensions as per the Swedish ITP plan or equivalent.

Salaries and remuneration of the CEO and other senior executives for 2016 are listed under note 2.

These guidelines are proposed for the coming year as well.

Risks

A description of potential risks and how these are managed is provided under note 26.

Sensys Gatso share information

There are no limitations on the right to assign shares of Sensys Gatso Group (first refusal), nor are there any limitations on how many votes each shareholder may cast at general shareholders' meetings. The company is not aware of any agreements between shareholders which could entail a limitation on the right to assign shares. The single largest shareholder is Cooperatieve Centrale (Gatso Special Products BV) with 17.6% of total shares (17.6). For more information, see page 11, Sensys Gatso Group share information and ownership structure.

The Annual General Meeting in May authorised the Board, with or without deviation from the shareholders' preferential rights, to implement a new share issue of maximum ten (10) percent of the total number of shares in the company. Also, the annual general meeting authorised the Board to repurchase a maximum of five percent

of the total number of issued shares. None of these authorisations have been used during 2016.

Appointment and dismissal of Board members

The Articles of Association contain no specific provisions on the appointment or dismissal of Board members.

Parent company

The Sensys Gatso Group AB operations consist of development, marketing and sale of systems that are primarily used for traffic speed and red-light enforcement. The company also provides service and maintenance.

Net sales for the period amounted to SEK 118.7 million (190.3) and profit before taxation amounted to SEK -17.2 million (38.5).

As from 1 January 2017, the business operations of Sensys Gatso Group AB have been moved to the Swedish fully-owned subsidiary Sensys International AB, later name changed to Sensys Gatso Sweden AB.

Outlook for 2017

Uncertainty regarding lead times and the extent of such orders means that Sensys Gatso Group does not submit a sales forecast.

Proposed appropriation of profit or loss

The following profits are at the disposal of the Annual General Meeting:

Share premium reserve	291,685
Retained earnings	32,428
Profit for the year	-18,073
Total TSEK	306,040

The Board of Directors proposes that no dividend will be paid for 2016 and the profits to be carried forward.



Five-year summary

(Figures prior 1 August 2015 are for Sensys Traffic AB stand alone)

INCOME STATEMENT	2016	2015	2014	2013	2012
Sales	436,607	397,825	160,580	62,467	41,000
Operating expenses	-459,848	-349,122	-126,027	-73,123	-82,492
Operating profit/loss	-23,241	48,703	34,553	-10,656	-41,492
Financial items	-6,724	-1,422	517	133	121
Profit/loss before tax	-29,965	47,281	35,070	-10,523	-41,371
Income tax	5,581	-6,352	-7,776	0	-1,776
Profit/loss for the year/Total profit/loss	-24,384	40,929	27,294	-10,523	-43,147

BALANCE SHEET	2016	2015	2014	2013	2012
Noncurrent assets	449,635	462,413	42,798	49,265	39,394
Current assets	159,848	313,144	135,323	95,347	69,723
Total assets	609,483	775,557	178,121	144,612	109,117
Shareholders' equity	386,623	387,352	141,264	113,970	97,452
Noncurrent liabilities	116,025	147,366	2,221	0	0
Current liabilities	106,835	240,839	34,636	30,642	11,665
Total shareholders' equity and liabilities	609,483	775,557	178,121	144,612	109,117

DATA PER SHARE	2016	2015	2014	2013	2012
Earnings per share 30 Dec, SEK	-0.04	0.07	0.05	-0.02	-0.09
Shareholders' equity per share, SEK	0.59	0.59	0.26	0.20	0.20
Dividend per share, SEK	0	0	0	0	0
Share price 30 Dec, SEK	1.41	3.61	0.81	1.06	0.49
P/E ratio	Neg	51.6	16.2	Neg	Neg
Number of shares at end of period before full conversion ¹⁾ , thousands	657,155	657,155	541,234	541,234	479,837
Number of shares at end of period after full conversion ¹⁾ , thousands	657,155	657,155	541,234	541,234	543,816
Average number of shares during the period before full conversion ¹⁾ , thousands	657,155	589,826	541,234	505,680	400,434

¹⁾ In order to facilitate comparison over the years, the number of shares at the end of each period has been adjusted to take into consideration the split and bonus issues.

(Figures prior 1 August 2015 are for Sensys Traffic AB stand alone)

KEY FIGURES AND RATIOS	2016	2015	2014	2013	2012
Adjusted equity	386,623	387,352	141,264	113,970	97,452
Capital employed	485,797	602,017	141,264	113,970	97,452
Interest-bearing liabilities	99,174	214,665	0	0	0
Return on equity, %	Neg	15.5	21.3	Neg	Neg
Return on capital employed, %	Neg	14.3	24.8	Neg	Neg
Adjusted EBITDA	29,446	75,651	35,419	-10,514	-36,917
Operating margin, %	Neg	12.2	21.6	Neg	Neg
Net margin, %	Neg	10.3	21.5	Neg	Neg
Rate of asset turnover, multiple	0.87	1.07	1.10	0.59	0.39
Equity/assets ratio, %	63.4	49.9	79	79	89
Proportion of risk-bearing capital, %	63.4	49.9	79	79	89
Cash flow for the year	-39,130	-1,183	31,290	36,767	-5,391
Investments in property, plant and equipment	-16,184	10,798	1,674	21	30
Investments in intangible assets	-2,428	0	550	0	0
Average number of employees	151	178	40	32	32

DEFINITIONS OF KEY FIGURES AND RATIOS

Equity and capital

Adjusted equity: Reported shareholders' equity + untaxed reserves after deduction for deferred tax at the current rate of tax.

Capital employed: Total assets less non-interest-bearing liabilities including deferred tax liabilities in untaxed reserves.

Profitability

Return on equity: Net profit as a percentage of average adjusted equity.

Return on capital employed: Profit after net financial items + financial costs as a percentage of average capital employed.

Operating margin: Profit after depreciation and amortisation as a percentage of the year's invoicing.

Net margin: Operating profit as a percentage of the year's invoicing.

Sundry

Rate of asset turnover: The year's invoicing divided by average capital employed.

Equity/assets ratio: Adjusted equity as a percentage of total assets.

Risk-bearing capital: Adjusted equity + deferred tax liabilities in untaxed reserves as a percentage of total assets.

Net dept: Short term dept + long term dept - cash and cash equivalents

APM - ADJUSTED PERFORMANCE MEASUREMENT

Adjusted EBITDA (Earnings before interest, taxes, depreciation and amortisation)

On July 31st 2015 a large acquisition was made, generating considerable amounts of amortisation of intangible assets compared to previous years. Due to this, we believe that, in order to assist in understanding the operational business and growth, it is useful to consider EBITDA when comparing with previous years and other companies.

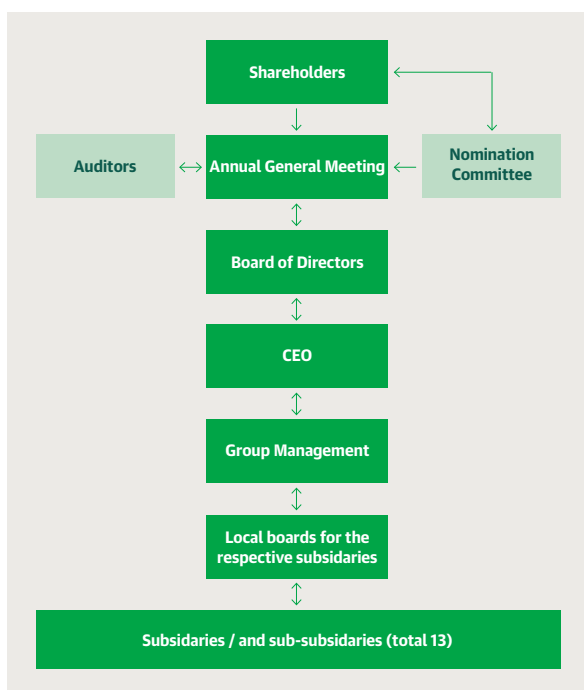
The adjusted EBITDA figures concern the EBITDA adjusted for the effects of the transformation program as a one of cost and the effects of the release of the contingent liability.

FIVE YEAR SUMMARY PARENT COMPANY	2016	2015	2014	2013	2012
Sales	118,749	190,284	160,580	62,467	41,000
Profit/loss before tax	-17,207	38,543	35,070	-10,523	-41,371
Total assets	496,907	569,848	178,121	144,612	109,117
Average number of employees	35	40	40	32	32

Corporate Governance

Report 2016

Sensys Gatso Group AB is a Swedish public limited liability company with its headquarter based in Jönköping. The governance of the company is based on external as well as internal governing documents. The objective of corporate governance is to ensure that this is conducted in a clear, effective, reliable and business-oriented manner. Corporate governance is designed to support the company's long-term strategies, market presence and competitiveness. At the same time, it should help maintain confidence in Sensys Gatso among shareholders, customers, suppliers, the capital market, society-at-large and employees.



Shareholders and General Meetings of Shareholders

The shareholder's rights to decide on Sensys Gatso Group's affairs are exercised at the Annual General Meeting (AGM), or when applicable extraordinary general meeting, which is the company's highest decision-making body. The AGM is to be held no later than six months after the end of the financial year and is usually held in April / May. At the AGM, the shareholders elect the members of the company's Board of Directors, appoint external auditors, and decide on their fees. Furthermore, the AGM resolves on whether to adopt the income statements and balance sheets, to approve the appropriation of the company's profit and to discharge the Board and CEO from its liabilities. The AGM also resolves on the composition of the Nomination Committee and its work, and makes decisions on principles for remuneration and other terms of employment for the CEO and other group management.

The number of shareholders at year end was 21,150. The largest individual shareholder is Cooperative Centrale (Gatso Special Products BV) with a total of 17.6 per cent. For more information on the ownership structure, share capital, share price, etc, please notice the Sensys Gatso share on page 11.

2015 Annual General Meeting

The 2016 AGM was held on May 19th in Jönköping. A total of 43 (17) shareholders were presented at the meeting, representing 6.6 per cent of the votes. The CEO informed about the position of the company and commented on the results for 2015, and the first quarter of 2016. During the AGM, the shareholders were given the opportunity to ask questions. Minutes from the AGM can be found on Sensys Gatso's website. All resolutions were passed with the required majority. Below is a selection of the resolutions passed at the meeting;

- » It was resolved that no dividend was to be distributed for 2015.
- » Kerstin Sjöstrand, Pia Hofstedt, Katarina Staaf was elected and Ingemar Skogö, Claes Ödman and Jochem Garritsen were re-elected to the Board of Directors.
- » Claes Ödman was elected Chairman.
- » It was resolved that the nomination committee shall be constituted by offering the four largest shareholders the possibility to each appoint their representative.

Nomination Committee

A nomination committee is formed each year at the initiative of the Chairman of the Board. According to the AGM, the nomination committee shall represent the four largest shareholders of the company. The work of the nomination committee takes place during the end- and the beginning of the financial year. The Nomination Committee is to observe the guidelines that apply to independent Board members under the Swedish Corporate Governance Code when making nominations to the AGM. The nomination committee's proposals, with regard to the election and remuneration of Board members, are presented in the notice of the Annual General Meeting as well as on the company's website.

During 2016, the nomination committee has consisted of Gunilla Nyström (AMF Fonder), Jan Johansson (Inger Bergstrand), Timo Gatsonides (for own and family holdings) and Claes Ödman (in his capacity as chairman of the company). No remuneration has been paid for the work of the nomination committee.

Sensys Gatso Group deviates from the Code's rule 2.3, second paragraph, which states that neither the chief executive officer nor other members of the executive management are to be members of the nomination committee. The

shareholder controlling the largest number of the votes has appointed Timo Gatsonides who is CTO of the Sensys Gatso Group and member of the executive management. In light of Timo Gatsonides' knowledge of the Sensys Gatso Group and large indirect shareholding via a family holding company, it was deemed beneficial to the company to deviate from the Code on this point. No violations of Nasdaq Stockholm's Rules for Issuers or good practice in the stock market have occurred.

All shareholders are entitled to approach the nomination committee with proposals for the AGM. No such proposals were received before the AGM in 2016.

External auditors

The company's auditor, elected at the AGM, examines Sensys Gatso's annual report and consolidated accounts, the CEO's and Board of Directors's administration of the company, the annual accounts of subsidiaries and submits an audit report. The audit is conducted in accordance with the Swedish Companies Act, International Standards on Auditing (ISA) and generally accepted accounting principles in Sweden. At the AGM 2016, Öhrlings PricewaterhouseCoopers was appointed as auditor with Magnus Brändström and Martin Odqvist (as the auditor in charge). Martin Odqvist personally presented his report to the Board regarding the auditing assignment and the Company's internal controls for 2015 at the Board meeting in January 2016. Auditing of the Group's subsidiaries has been coordinated by Öhrlings Pricewaterhouse Coopers. All of the activities in companies with a significant scope of operations has been audited by BDO in the respective country.

Remuneration to the auditors in 2016, was paid in accordance with the table in note 23.

THE BOARD OF DIRECTORS

The Board of Directors (BoD) currently consists of six members elected at the AGM. Company employees participate in Board meetings in a reporting capacity. For further information concerning the Board of Directors, please notice page 20 of this annual report.

The work of the Board

The work of the Board is regulated by the Swedish Companies Act, the Articles of Association and the formal work plan adopted by the Board. The BoD determines issues concerning the Group's strategic focus, finances, investments, acquisitions, sales and organisational issues and rules and policies. The BoD is informed of the company's operations partly through monthly reports provided by the CEO, and partly through their own work. Informal contact is also maintained among the members of the Board. Normally, eight board meetings are held each year whereof one statutory board meeting in conjunction with the AGM. Four of the board meetings are held prior to the publication of interim reports and two Board meetings per year is assigned additional time, and at this meeting a specific focus is placed on strategic issues. The auditor of the company

is present at board meetings whenever needed, normally once a year. Notices and supporting documents are sent to the Board one week in advance of the Board meetings.

The work of the Board 2016

The Board held eleven minuted meetings during the financial year (12). In conjunction with the Annual General Meeting, a statutory Board meeting was held at which decisions were made regarding company signatories, the Board's rules of procedure, CEO instructions and scheduled Board meetings throughout the year. Four of the Board meetings were held prior to the publication of interim reports. The Board has also held four minuted strategy meetings with the company's management.

CEO took part in all the Board meetings to present the reports. During 2016, Sensys Gatso Group AB's financial manager served as the board's secretary, and the Group's CFO reported of the finances. For information on the CEO, see page 21 of the Annual Report. Important matters dealt with during the year included, amongst other things:

- » Policies and instructions
 - Review of the Group's policies and instructions including Code of Conducts
 - Transfer Pricing
- » The strategic focus of the operations
 - Interim reports and annual accounts
 - Business plans
- » Financial plans and forecasts
 - Follow up on the external audit
 - Budget

Board of Directors' independence

According to the Swedish Corporate Governance Code, the majority of the elected Board members must be independent in relation to the company and management team. At least two of these must also be independent in relation to the company's largest shareholders. All members of the Sensys Gatso's Board are independent in relation to the company and in relation to the company's largest shareholders.

No member of the Board is employed by the Group. The nomination committee's assessment regarding whether each proposed member meets the independence requirements is announced in connection with the Committee's proposal. For further information, please see page 11 and 20.

Evaluation of the work of the Board

The work of the Board is evaluated through a systematic and structured process. This evaluation is initiated by the Chairman of the Board. Among other things, the process includes a questionnaire in which Board members have the opportunity to express their opinion of the Board's work and to propose ways to improve it. The results of the evaluation are disclosed to the Board, followed by discussions and decisions regarding changes in working methods. The Board continuously evaluates the work of the CEO.

The Nomination Committee ahead of 2016 AGM comprises:

Member of the Nomination Committee	Representing	Participation/votes	Member of the Nomination Committees since
Gunilla Nyström	AMF fonder	10,550,000/1.61	2014
Jan Johansson	Inger Bergstrand	22,563,637/3.43	2014
Timo Gatsonides	for own holdings	115,920,763/17.64	2015
Claes Ödman	Chairman of the Board	N/A	2016

Special committees

The Board does not include any special committees. The Chairman of the Board takes responsibility for, and makes decisions concerning the salaries and incentive programs of the CEO and group management on the basis of policies determined at the Annual General Meeting.

All members of the Board of Directors assume responsibility for ensuring that audit activities are conducted in an effective manner and that the company has appropriate internal control procedures in place and produces high-quality financial reports. The Board fulfils this duty by maintaining regular contact with the auditor and by examining their plan for the audit activities and the remuneration for this work. Also, two of the Board members are assigned with a deeper involvement in the process of internal control and auditing.

CEO and Group Management

The CEO of Sensys Gatso Group is responsible for leading and developing operating activities according to the guidelines and instructions issued by the Board. The framework is provided by the terms of reference issued to the CEO, which are determined annually by the Board.

The CEO is assisted by group management consisting of the Heads of the business areas. In consultation with the Chairman, the CEO compiles the necessary information and documentation which provides the basis for the Board's work and for the Board to make informed decisions. The CEO is responsible for bringing matters to the attention of the Board and for motivating proposed decisions. Also the CEO leads the work of the group management and makes decisions in consultation with other members of management. Group management has at least 12 meetings per year during which it follows up operations, discusses matters affecting the Group and drafts proposals for strategic plans and budgets, which the CEO presents to the Board for decision.

At year-end the management team for the Group consisted of Torbjörn Sandberg (CEO), Johan Frilund, Niki Gatsonides, Timo Gatsonides, Bengt Rosengren, Bram Mulders, Peter Clark and Edmar van der Weijden.

Management of subsidiaries

Sensys Gatso Group's operations comprise four active subsidiaries. The operations of the respective subsidiaries are controlled by their management teams. Sensys Gatso has a decentralised structure, with a strong focus on responsibility and performance.

Code of Conduct

Our global presence requires that our employees and business partners take responsibility for themselves and

for each other. Therefore, we have a regulatory framework, our Code of Conduct.

The Code of Conduct is to be followed by everyone in our Group, employees as well as the Board and management. We also communicate our Code of Conduct to our business partners, with the expectation that they are to comply with it.

Our Code of Conduct states amongst other things, that we will act as a reliable and honest partner, who lives up to its commitments. We believe in long-term business relationships in which we, together with our business partners, create a basis for strong financial results, concern for the environment and social commitment.

The Code clarifies our position on issues related to human rights, labour conditions, the environment, business ethics and communication. The Code applies to all Sensys Gatso employees regardless of their position.

Equality and diversity policy

Differences between people can constitute not only gender, ethnic origin, age, disability, religion and sexual orientation, but also experience, education, living situation and values. Taken together, this creates a dynamic diversity that adds new perspectives and ideas.

This collective diversity represents Sensys Gatso's, competence, which is a strategic asset in the Group's commercial and operational development. Sensys Gatso views equality and diversity as both self-evident and a strength, and therefore strives to achieve diversity in the composition of the workforce and in recruitment.

The purpose of the equality policy is to prevent individuals from being chosen for certain teams purely/primarily due to their gender, or so that a group does not become single gendered.

A candidate is appointed in accordance with the defined requirements profile. If two or more candidates are equally qualified, Sensys shall ensure that the company's teams are well balanced and that Sensys uses its employees' time and skills in a manner that benefits both operations and individual personal development.

When appointing vacant positions, the company shall also strive to achieve the best possible age and ethnicity distribution.

The aim is to strive for as even a distribution as possible of all work tasks in the workplace and to act to prevent gender division in different tasks and roles.

During the year, the company's values and goals for this policy have been a clear and active part of all performance appraisals, salary negotiations and recruitment processes that have taken place, which has also been apparent in the outcome of the company's employee survey.

Board of Directors

Board of Directors elected by the AGM	Attendance	Born	Elected	Fee	Number of shares/votes	Nationality	Function	Independent*
Claes Ödman	11/11	1965	2016	300,000	50,000	Swedish	Chairman of the Board	independent
Kerstin Sjöstrand	8/8	1958	2016	175,000	22,200	Swedish	Board member	independent
Pia Hofstedt	8/8	1961	2016	175,000	0	Swedish	Board member	independent
Ingemar Skogö	10/11	1949	2011	175,000	75,552	Swedish	Board member	independent
Katarina Staaf	8/8	1967	2016	175,000	0	Swedish	Board member	independent
Jochem Garritsen	11/11	1972	2015	175,000	25,000	Dutch	Board member	independent

*Independent in relation to the company and/or the owners.

REMUNERATION TO THE MANAGEMENT AND THE BOARD

Guidelines for remuneration

Remuneration to the CEO and other group management consists of basic salary, variable remuneration, other benefits and pensions. The balance between basic salary and variable remuneration is to be in proportion to the employee's responsibilities and authority. For the CEO, annual variable remuneration is capped at six months' salary. For other group management, annual variable remuneration is capped at zero to six month's salary. Variable remuneration is typically based on improvement, compared to the previous year, in terms of each individual's respective responsibility for turnover, operating profit and the outcome of individual activity plans. These guidelines are also proposed for the coming year.

Remuneration to the Members of the Board

Fees payable to Board members are determined annually by the AGM. No separate fees are payable for work on the committees. In 2016, remuneration was paid in accordance with note 2.

Remuneration to the Auditors

In 2016 remuneration to the auditors was paid in accordance with note 23.

INTERNAL CONTROL AND FINANCIAL REPORTING

The purpose of internal control is to create an effective decision-making process in which requirements, goals and frameworks are clearly defined. Ultimately, internal control is aimed at protecting the company's assets and thereby the shareholders' investment. The company also has a set of internal instructions, procedures, systems and responsibilities in place to improve internal control.

Financial reporting to the Board

The CEO is responsible for ensuring that the Board of Directors receives the reports required to enable the Board to continually assess the company's financial position. The company's results and development are followed up on a monthly and quarterly basis and reported with analyses and comments to the Board. The company's business plan and reviews of the business plan constitute an important means of ensuring internal control. The company's financial reporting complies with the laws and regulations applicable to companies listed on the Stockholm Stock Exchange. It is of the opinion that a separate review function (internal audit) would not add additional value to the Group, which is why such a function does not exist.

Risk assessment

The financial risk assessment is mainly related to the potential for material misstatement in the reporting of the company's financial position and performance. To minimise these risks, governing documents have been established for accounting, procedures for annual reporting and follow-up of reported annual accounts. The financial reporting is managed through the Group's control structure. In addition, the management works continuously to identify and manage significant risks affecting the financial reporting. Further details about the company's risk management are provided under note 26.

Control activities and follow-up

Control activities involve all levels of the organisation. To ensure completeness and accuracy in the financial reporting, instructions and guidelines are being put into place and communicated to the relevant personnel. Control activities also include follow-up and comparisons of earnings with order intake, account reconciliations and balance as well as accounting and valuation principles.

Activities in 2016

During the year, focus has been on continuing the integrating of the acquired company Gatso Beheer BV in the Group's internal control and on monthly and quarterly follow up's, along with the implementation of transfer pricing policy.

Information and communication

Sensys Gatso continuously provides information about the Group's performance and financial position to the market. The CEO is responsible for the accuracy and high quality of all information provided, for example, financial press-releases and presentation materials for various meetings with the media, shareholders and investors. An information policy applies for external communication that provides guidelines to the presentation of such information. The policy is intended to ensure that Sensys Gatso's information requirements are met in an accurate and complete manner. The most important governing documents, in the form of policies and instructions, are kept up-to-date and are communicated via the appropriate channels, mainly electronically. Internal information and communication is about creating awareness among the Group's employees about external and internal governing instruments, including authorities and responsibilities. Sensys Gatso's whistleblower policy means that each employee has the right to report suspected breaches of laws or regulations without fear of reprisal.

Shareholders

Sensys Gatso's shares have been listed on the Stockholm Stock Exchange since 2001. Sensys Gatso has a share capital of SEK 32.9 million. The number of outstanding shares in Sensys Gatso at year-end was 657,155,077 (657,155,077) and the number of shareholders totaled 21,150 (23,471). All shares carry the same voting rights and entitle the holder to the same share of the company's earnings and capital. As detailed on page 11, the company has one shareholder (Cooperatieve Centrale (Gatso Special Products BV)) with number of shares that exceeds 10 percent of the company's total number of shares. Also for 2016 Cooperatieve Centrale (Gatso Special Products BV) was the largest shareholder with 17.6% of the total shares. For further information about the ownership structure, trading and share price movements, see page 11. The Articles of Association do not contain any conditions concerning voting right restrictions.

Articles of association

The Articles of Association of Sensys Gatso Group AB state that the company's business is to develop and market traffic enforcement and traffic informatics products. The Board of Directors shall consist of at least three and no more than seven Board members with no more than three Deputy Board members. The Board of Directors shall have its registered office in Jönköping in the Municipality of Jönköping. The company's accounts shall be examined by one or two auditors with up to two deputy auditors or a registered auditing firm. The Board is responsible for ensuring that there is an effective system for internal control and risk management. Responsibility for creating a good environment for working on these issues has been delegated to the CEO.

Board of Directors



CLAES ÖDMAN
CHAIRMAN OF THE BOARD

Born: 1965

Board member since 2011.

Education: Degree in Engineering Physics and an MBA, both from Chalmers in Gothenburg.

Background: Head of Division and CEO of Ascom Wireless Solutions, and member of Group management of Swiss company Ascom. Has previously held various managerial positions at Ericsson AB, including in Singapore and Taiwan.

Shareholding: 50,000 shares.



JOCHEM GARRITSEN
BOARD MEMBER

Born: 1972

Board member since 2015.

Education: Master of Science degree in Systems Engineering, Policy Analysis and Management, University of Delft. Jochem is from the Netherlands.

Background: Senior Business Manager at Nokia. Has worked in the telecommunication industry in The Netherlands and abroad since 1999. Is a strong international leader and has held senior sales and business line head positions for professional services.

Shareholding: 25,000 shares.



PIA HOFSTEDT
BOARD MEMBER

Born: 1961

Board member since 2016.

Education: Degree in Business Administration from Stockholm University and management training, Dale Carnegie.

Background: Extensive background as CIO within different industries. Currently CIO Quant AB. Former CIO at Aleris, Scandic Hotels, Salus Ansvar, Neo Net AB.

Other directorships: CEO Neo Net Technology, CEO Hofstedt Management & Consulting.

Shareholding: 0 shares.



KERSTIN SJÖSTRAND
BOARD MEMBER

Born: 1958

Board member since 2016.

Education: B.Sc. Business Administration from Stockholm University.

Background: Head of Business Support at SEB's Division Life and Investment Management. Has worked 30 years at SEB within different roles such as CFO and chief of staff at division level and business manager for the Swedish card business.

Shareholding: 22,200 shares.



INGEMAR SKOGÖ
BOARD MEMBER

Born: 1949

Board member since 2011.

Education: MBA.

Background: Previously county governor of Västmanland and Director General of the Swedish Aviation Administration and Swedish Road Administration.

Other directorships: Fordonsforskning För Innovation, VINNOVA, Swedavia, Teologiska Högskolan i Stockholm AB.

Shareholding: 75,552 shares.



KATARINA STAAF
BOARD MEMBER

Born: 1967

Board member since 2016.

Education: Degree in Financial Economics, Gothenburg University.

Background: Executive Search Consultant at Poolia Executive Search. Former Head of Finance and Real Estate and member of Group committee at Riksbanken, CEO for Riksbanken BoSpar and CEO of Evli Funds AB and Portfolio Manager at Skandia and SEB.

Other directorships: Fund management Länsförsäkringar AB, Fast Partner AB (publ), Entra ASA and Staaf & Partners AB.

Shareholding: 0 shares.

Senior executives



TORBJÖRN SANDBERG
CEO

Born: 1966

Employed since 2015.

Education: MSc in Engineering.

Background: Board member since 2012. Has previously worked as CEO of Netadmin Systems AB. Former Group CEO of Birdstep Technology ASA (publ).

Shareholding: 50,000 shares.



PETER CLARKE
VP PRODUCT MANAGEMENT & MARKETING

Born: 1964.

Employed since 2015.

Education: Degree in Electronic systems engineering.

Background: Background in data-coms, having spent 10 years working in wireless Operators. The last 16 years Internationally for suppliers of OSS/BSS into Operators, Network equipment manufacturers and Managed service providers, working in sales with management experience from running sales teams for the last 10 years.

Shareholding: 0 shares.



JOHAN FRILUND
EVP CORPORATE DEVELOPMENT

Born: 1963

Employed since 2008.

Education: MSc in Engineering. MBA.

Background: Has previously held the positions as Head of Europe at Flextronics Infrastructure, Poland, CEO and Factory Manager at Sanmina-SCI Enclosure Systems AB, has previously worked as CEO of Sensys Traffic.

Shareholding: 1,190,698 shares, of which 918,212 in a unit-linked insurance plan.



NIKI GATSONIDES
CFO

Born: 1974

Employed since 2015.

Education: MSc in Accounting & Auditing.

Background: Has previously worked as CFO of GATSO.

Shareholding: 115,920,763 shares*.

* indirect shareholding via a family holding company



TIMO GATSONIDES
CTO

Born: 1973

Employed since 2015.

Education: Computer Science.

Background: Started working at Gatso in 1995. Has previously worked as CEO of GATSO.

Shareholding: 115,920,763 shares*.

* indirect shareholding via a family holding company



BRAM MULDER
VP ENGINEERING

Born: 1982.

Employed since 2001.

Education: Bachelor of Information and Communication Technology, Hogeschool van Amsterdam and MBA, Nyenrode Business Universiteit.

Background: Previously worked as Technology Director for GATSO.

Shareholding: 0 shares.



BENGT ROSENGREN
EVP OPERATIONS AND SUPPLY

Born: 1964.

Employed since 2016.

Education: MSc in Mechanical engineering.

Background: Telecoms background, having spent 26 years working in the wireless industry for Ericsson and Simoco, of which the last 19 years abroad, working in sales, operations, country and executive management.

Shareholding: 0 shares.



EDMAR VAN DER WEIJDEN
EVP MANAGED SERVICES

Born: 1963

Employed since 2008.

Education: BSc in Automotive Engineering.

Background: Has held several positions for multinationals in the Netherlands and abroad, gained extensive experience in restructuring and new business development. Prior to the merger Edmar has served as Sales Director at Gatso since 2008.

Shareholding: 0 shares.

Up-to-date information on the members of the Board of Directors and Senior executives and their securities holdings is available on our website:

www.sensysgatso.com

Group

Statement of Income and other comprehensive income

(Figures prior 1 August 2015 are for Sensys Traffic AB stand alone)

TSEK	Note	2016	2015
Net sales	1, 3	436,607	397,825
Cost of goods sold		-289,722	-231,997
Gross profit		146,885	165,828
Selling costs	4	-86,462	-62,622
Administrative costs		-43,801	-27,110
Development costs		-50,874	-25,515
Reversal of contingent consideration	22	11,927	0
Other operating costs		-916	-1,878
Operating profit/loss	4, 7	-23,241	48,703
Profit/loss from financial investments	11, 14		
Interest income/foreign exchange gains		7,396	4,371
Interest expense/foreign exchange loss		-14,120	-5,793
Profit/loss before tax		-29,965	47,281
Income tax for the year	15, 16	5,581	-6,352
Profit or loss for the year	8, 47	-24,384	40,929
Profit attributable to owners of Sensys Gatso Group AB		-21,971	41,405
Profit attributable to non-controlling interest		-2,413	-476
		-24,384	40,929
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Translation differences		23,655	-11,523
Total other comprehensive income for the period, net after taxes		23,655	-11,523
Total comprehensive income for the period		-729	29,406
Total comprehensive income attributable to owners of Sensys Gatso Group AB		1,133	29,882
Total comprehensive income attributable to non-controlling interest		-1,862	-476
		-729	29,406
Earnings per share before dilution		-0.04	0.07
Earnings per share after dilution		-0.04	0.07
Proposed dividend per share		0	0
Average number of outstanding shares before dilution, thousands		657,155	589,826
Average number of outstanding shares after dilution, thousands		657,155	589,826
Number of outstanding shares, thousands		657,155	657,155

Group

Balance Sheet

TSEK	Note	31 Dec 2016	31 Dec 2015 Adjusted ¹
ASSETS			
INTANGIBLE NONCURRENT ASSETS			
Goodwill		239,302	226,340
Customer Contracts and relations		53,248	71,417
Brand		18,423	19,393
Product and software development		43,578	48,131
	5, 21	354,551	365,281
FIXED ASSETS			
Leasehold improvement	6	2,252	2,069
Furnitures, fixtures, etc	6	6,595	3,930
Fixed assets in operation	6	34,117	32,420
		42,964	38,419
OTHER NONCURRENT ASSETS			
Deferred tax assets	16	51,747	53,200
Other noncurrent assets		373	376
		52,120	53,576
TOTAL NONCURRENT ASSETS		449,635	457,276
INVENTORIES	9		
Raw materials and consumables		12,852	44,687
Production in progress		2,354	9,394
Finished products and goods for resale		31,300	21,353
		46,506	75,434
Trade receivables	10	62,821	132,501
Current tax assets		1,461	646
Other receivables		2,967	14,419
Prepaid expenses and accrued income	17	14,450	13,955
		81,699	161,521
CASH AND CASH EQUIVALENTS			
Cash and bank balances	13, 18	31,643	76,189
		31,643	76,189
TOTAL CURRENT ASSETS		159,848	313,144
TOTAL ASSETS	24	609,483	770,420

¹⁾ See note 21.

Group

Balance Sheet

TSEK	Note	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	36		
Share capital		32,858	32,858
Other contributed capital		316,900	316,900
Other reserves		11,581	-11,523
Retained earnings incl net profit for the year		19,667	41,638
		381,006	379,873
Non-controlling interest		5,617	7,479
TOTAL SHAREHOLDERS' EQUITY		386,623	387,352
LIABILITIES			
NON CURRENT LIABILITIES			
Borrowings	13, 14	434	18,750
Other provisions	20	3,694	7,577
Deffered tax liabilities	16, 21	32,058	39,156
Liabilities to shareholders	12	79,839	76,746
		116,025	142,229
CURRENT LIABILITIES			
Borrowings	13, 14	18,901	78,034
Liabilities to shareholders	12, 22	0	41,135
Liabilities to customers		13,257	9,783
Other provisions	20	5,773	6,539
Trade payables	14	21,077	56,401
Other liabilities		12,153	3,652
Current tax liabilities		0	9,839
Accrued expenses and deferred income	19	35,674	35,456
		106,835	240,839
TOTAL LIABILITIES		222,860	383,068
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	24	609,483	770,420

Group

Statement of Changes in Shareholders' equity

(Numbers prior 1 August 2015 are for Sensys Traffic AB stand alone)

	Share capital	Other contributed capital	Translation differences	Retained earnings	Non-controlling interest	Total shareholders' equity
Shareholders' equity 1 Jan 2015	27,062	113,969	0	233	0	141,264
Transactions with owners in their capacity of owners						
New share issue	5,796	202,931	0	0	0	208,727
Non-controlling interest on acquisitions of subsidiaries	0	0	0	0	7,955	7,955
Net profit of the year	0	0	0	41,405	-476	40,929
Other comprehensive income	0	0	-11,523	0	0	-11,523
Shareholders' equity 1 Jan 2016	32,858	316,900	-11,523	41,638	7,479	387,352
Net profit of the year	0	0	0	-21,971	-2,413	-24,384
Other comprehensive income	0	0	23,104	0	551	23,655
Shareholders' equity 31 Dec 2016	32,858	316,900	11,581	19,667	5,617	386,623

Group

Cash Flow

(Figures prior 1 August 2015 are for Sensys Traffic AB stand alone)

TSEK		31 Dec 2016	31 Dec 2015
Operating activities			
Operating profit/loss		-23,241	48,703
Adjustments for non-cash items			
Depreciation and amortisation	5, 6, 7	48,588	26,948
Reversal of contingent consideration		-11,926	0
Release of warranty provision	20	-4,649	4,351
Release of tax liability		-3,042	0
Exchange rate effects		8,381	0
Adjustments for non-cash items		14,111	80,002
Interest received		0	388
Interest paid		-4,518	-1,810
Income taxes paid		-7,861	-4,822
Cash flow from operating activities before changes in working capital		1,732	73,758
Cash flow from changes in working capital			
Trade receivables		69,683	-64,783
Inventories	9	28,928	7,032
Trade payables		-35,324	17,033
Liabilities to customers		0	7,450
Other changes in working capital		23,399	-2,746
Cash flow from operating activities		88,418	37,744
Investing activities			
Investment in subsidiaries and associated companies		0	-68,378
Acquisition of intangible assets		-2,428	0
Investment in property, plant and equipment		-16,184	-10,798
Increase in financial assets	13	0	-376
Cash flow from investing activities		-18,612	-79,552
Financing activities	13		
Loans received		493	50,000
Repayments of loans		-66,686	-10,075
Repayments of credit facilities		-42,743	0
Cash flow from financing activities		-108,936	39,925
Cash flow for the year		-39,130	-1,883
Cash and cash equivalents at beginning of the year		76,189	80,513
Translation on liquid funds		-5,416	-2,441
Cash and cash equivalents at end of the year		31,643	76,189



Accounting and valuation principles

Sensys Gatso Group applies International Financial Reporting Standards (IFRS) as endorsed by the EU, the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR1.

The Parent Company's annual report is prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's Recommendation RFR 2 - Accounting for Legal Entities and the accounting policies adopted are consistent with those of the previous financial year as presented in the 2015 annual report.

All amounts are reported in thousands of Swedish kronor (TSEK), unless stated otherwise. The financial statements have been prepared on a historical cost basis, except for certain financial instruments that are valued at fair value. Assets and liabilities are valued at cost, unless stated otherwise below.

CONSOLIDATED ACCOUNTS

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred, and the equity issued by the Group. Identifiable assets acquired, and liabilities and contingent liabilities assumed, in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred. Contingent considerations are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries are adjusted to conform to the Group's accounting principles.

Non-controlling interest in the financial results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in shareholders' equity and balance sheet respectively.

The Group recognises non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

TRANSLATION OF FOREIGN CURRENCIES

Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the

primary economic environment in which the entity operates (the functional currency).

The consolidated accounts are presented in SEK, which is the Parent Company's functional and presentation currency.

Transactions and balance-sheet items

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange-rate differences attributable to operating activities are recognised in operating profit, while exchange-rate differences attributable to the Group's financing are recognised under financial income and expenses.

Subsidiaries

The results and financial position of all subsidiaries that have a functional currency different from the presentation currency are translated into the Group's presentation currency as follows:

- » assets and liabilities for each balance sheet are translated at the rate of exchange at the close of the financial period,
- » income and expenses for each income statement are translated at the respective average exchange rate, and
- » all resulting exchange-rate differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

INCOME TAXES

Reported income tax includes tax which is to be paid or received for the current year and adjustments pertaining to previous years' current taxes and changes in deferred tax. The measurement of all income tax liabilities and assets is performed at nominal amounts, applying the tax rates and provisions that have been enacted, or substantially enacted, and which are expected to apply when the

related deferred tax asset is realised or the deferred tax liability is settled. In the case of items recognised in profit or loss, related tax effects are also recognised in profit or loss. The tax effects of items that are recognised directly in shareholders' equity are also recognised directly in shareholders' equity. Deferred income tax is calculated using the balance-sheet method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. These temporary differences have primarily arisen through consolidation adjustments.

Deferred tax assets pertaining to future tax deductions are recognised to the extent that it is probable that such deductions can be netted against surpluses in future taxation. Deferred tax liabilities pertaining to temporary differences attributable to investments in subsidiaries are not recognised in the consolidated accounts as the Parent Company can, in all cases, control the date for a reversal of the temporary differences and it is not assessed as probable that a reversal will take place within the foreseeable future. The reporting of deferred tax is based on effective tax rates.

INVENTORIES

Inventories are reported using the first-in, first-out method at the lower of cost and net realisable value on the closing date. The valuation of work in progress and finished products includes design costs, direct labour costs and other direct costs with a reasonable mark-up for indirect costs (based on normal production capacity). This item excludes borrowing costs. Net realisable value is the estimated selling price in the ongoing course of business, less any applicable variable selling expenses.

REVENUE RECOGNITION

Goods

Income consists mainly of sales of goods. Income from the sale of goods is recognised upon delivery to and acceptance by the customer, in accordance with the terms and conditions of sale. Income comprises the fair value of goods sold, exclusive of VAT and any discounts or rebates.

For specific customer contracts, the company applies the percentage of completion method to determine the amount to be recognised in each period. The degree of completion is defined as project costs paid for work performed by the end of the reporting period as a percentage of estimated total project costs for each project. Expenditures which have been incurred during the year but which relates to future work is not included in project costs paid at the time of determining the degree of completion. No such project were active at year-end.

Inter-company sales are eliminated in the consolidated accounts.

Services

The Group's service organisation installs, commissions and maintains traffic enforcement systems and conducts services and provides support to our customers abroad. Revenue from these services is recognised on an ongoing basis as the services are carried out.

Other operating income

Revenue from activities outside the Group's primary operations has been recognised as Other operating income.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income

Income from dividends is recognised when the right to receive payment has been determined. No dividend has been allocated for 2016.

TRANSFER PRICING

The pricing of transactions, such as purchases and sales of goods and services between Group companies, takes place on the basis of market conditions.

LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the lease term (net of any incentives received from the lessor) are expensed in profit or loss on a straight-line basis.

BORROWING COSTS

The Group capitalises borrowing costs which are directly attributable to the purchase, construction or production of an asset, and where a considerable amount of time is required to prepare the asset for use or sale, as a portion of the asset's cost. Other borrowing costs are recognised as expenses in the period in which they arise.

CASH-FLOW STATEMENT AND CASH EQUIVALENTS

The cash-flow statement has been prepared using the indirect method. The recognised cash flow includes only those transactions that have resulted in receipts or payments.

Cash and cash equivalents include cash and bank balances as well as short-term financial investments with maturities of less than three months. In both 2016 and 2015, cash and cash equivalents were comprised solely of cash and bank balances.

FINANCIAL GUARANTEES/ FROZEN ASSETS

The company's financial guarantees refer to guarantees in individual customer projects such as guarantees against advances, tenders, fulfilment and warranties. The amount is limited by the corresponding value of the guarantee.

PROPERTY, PLANT AND EQUIPMENT

Land and buildings comprise, primarily, factories and offices. All property, plant and equipment (PPEs) are measured at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenses are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is likely that future economic benefits associated with the asset will accrue to the Group, and when the asset's cost can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the period in which they arise.

DEPRECIATION and AMORTISATION

Intangible assets and property, plant and equipment are amortised/depreciated on a straight-line basis over the

length of their useful life as of the moment they are ready to be taken into use as follows:

» Improvement expenses leasehold	10 years
» Customer contracts	2-7 years
» Brand	10 years
» Product and software development	3-4 years
» Machines	2-5 years
» Other equipment	5 years

INTANGIBLE ASSETS

Goodwill

Goodwill consists of the amount by which the consideration, any non-controlling interest and fair value at the acquisition dates of previous shareholdings exceeds the fair value of the Group's share of identifiable net assets acquired. Goodwill on the acquisition of subsidiaries is recognised as an intangible asset. Goodwill is tested annually to identify any need for impairment and is recognised at cost less accumulated impairment. The gain or loss on the sale of an entity includes the remaining carrying amount for goodwill pertaining to the entity sold. Goodwill is allocated to cash-generating units when testing for any impairment requirement. This allocation is made to the cash-generating units that are expected to benefit from the business combination giving rise to the goodwill item. The Group allocates goodwill to all lines of business.

Customer contracts and relations

This item includes customer contracts that arose in connection with the acquisition of Gatso Beheer BV in 2015. These contracts are operated under the segment Managed Services, and focuses on large and smaller managed services contracts where the ownership of the equipment remains with Sensys Gatso, and recorded on the balance sheet under fixed assets in operation. The Group is responsible for the entire value chain; system operations, sending out fines and receiving payments on the behalf of our customers. Customer contracts normally run for 3-5 years with a considerable possibility of extension. Customer contracts are amortised over 2-7 years, depending on the length of the customer contracts.

Brands

This item mainly includes assets in the form of brands, which have arisen in conjunction with the acquisition of subsidiaries. These are valued at the fair value on the acquisition date and, thereafter, less amortisation and impairment. Brands are amortised over a period of 10 years.

Product and software development

The Group's technology is based on internally developed radar sensors, which is the core component of the Group's products. Costs closely associated with the development of technology which is controlled by Sensys Gatso Group and is likely to yield financial benefits are recognised as intangible assets. The related projects have been valued as the total of direct costs plus reasonable amounts for indirect costs. Development costs incurred in connection with product adaptations for an existing project are recognised in the income statement. Product and software development is amortised over 3-4 years.

Impairment of non-financial assets

Assets which have an indefinite useful life are not subject to amortisation and, instead, are tested annually for

impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In those cases in which the carrying amount exceeds the estimated recoverable amount, the carrying amount is immediately impaired down to the recoverable amount. The recoverable amount is the greater of an asset's fair value, less selling expenses and the asset's value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate, identifiable cash flows (cash-generating units).

FINANCIAL INSTRUMENTS

Financial assets reported in the balance sheet include trade receivables, other receivables and cash and cash equivalents. These are accounted for as current assets with the exception of items maturing later than 12 months from the balance sheet date, which are classified as non-current assets. The fair value of financial assets and liabilities is the carrying amount, unless otherwise specified.

Receivables and other receivables

Trade and other receivables are recognised at cost, less any provision for impairment. A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to receive all amounts due according to the original terms of the receivables. Significant financial difficulties on the part of the debtor, the probability that the debtor will enter into receivership or undergo financial reconstruction and default, or late payments, are considered indicators that an impairment provision for trade receivables may be required. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows. The carrying amount of the asset is reduced using an impairment allowance account and the loss is recognised in profit or loss under Sales expenses. Recoveries of amounts previously written off are credited against Sales expenses in profit or loss.

Trade and other payables

Financial liabilities are initially recognised at fair value, net of transaction costs, and subsequently at amortised cost. The financial liabilities category comprises the items borrowing, trade payables and other liabilities. Trade payables with a short expected maturity are stated at their nominal value and are not discounted. Liabilities in foreign currencies are translated at the balance sheet date.

Purchase and sales of financial instruments are recognised at the transaction date, i.e. the date when the company undertakes to buy or sell the asset.

Financial instruments are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been assigned to another party and the company has transferred essentially all risks and benefits associated with ownership.

SHAREHOLDERS' EQUITY

Transaction costs which are directly applicable to the issue of new shares or share options are recognised, net after tax, in shareholders' equity, as a deduction from the proceeds of the issue. In the case of a repurchase of shares,

retained earnings are reduced by the amount paid for the shares. When treasury shares are sold, retained earnings increase by the amount received.

PROVISIONS

Provisions for guarantee expenses and legal demands are recognised when the company has a legal, contractual or informal obligation as a consequence of past events, it is more probable than not that a payment will be required in order to fulfil the obligation and the amount can be reliably estimated. If the company has several similar obligations the probability that a payment will be required upon settlement is assessed jointly for this group of obligations. The balance sheet contains provisions related to warranties. Provisions are reviewed at each financial year-end.

EMPLOYEE BENEFITS

Pension commitments

Within the Group, there are only defined-contribution plans. A defined-contribution plan is a pension plan according to which the Group pays a fixed amount to a separate legal entity and, therewith, has no obligation to pay additional premiums. Costs for employees' service during current or previous periods impact the Group's earnings. In defined-benefit plans, benefits to employees and former employees are based on the employee's salary at the retirement date and on the number of years of service. The Group is liable for payment of the benefits.

Share-based payments

The company has no agreements on share-based payments.

Severance pay

Severance pay is paid when an employee's employment has been terminated before the normal retirement age or when an employee accepts voluntary redundancy in exchange for such payment. The company recognises severance pay when it is demonstrably obliged to either terminate the employment of employees under a detailed formal plan with no possibility of withdrawal or to pay compensation upon termination as a result of an offer to encourage voluntary.

EARNINGS PER SHARE

Earnings per share are calculated as net profit/loss for the year in accordance with the income statement in relation to the average number of shares outstanding before and after dilution.

DIVIDENDS

Dividends to Sensys Gatso Group's shareholders are recognised as liabilities in the Group's annual accounts in the period in which the dividends were adopted by the Parent Company's shareholders. No dividend has been allocated for 2016.

SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The preparation of the annual accounts requires that qualified estimates and assessments be made for accounting purposes. Furthermore, company management exercises its judgement in the application of the Group's accounting

policies. Estimates and assessments can affect the income statement and the balance sheet, as well as any additional information which has been reported in the annual accounts. Consequently, changes in valuations and assessments can lead to changes in the annual accounts.

Estimated impairment of goodwill

The Group annually tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 5).

Provision

Provisions for product warranties are based on current volumes of products sold still under warranty and on historical rates of warranty claims for mature products as well as estimates and assumptions regarding quality and future warranty claims for new estimates and estimated cost to remedy the various warranty claims that may occur. For information about warranty provision see note 20.

If warranty claims would increase by 10% in relation to estimate, the cost for warranty claims would increase by TSEK 947 (1,412) in 2016.

Deferred tax assets

In previous years, Sensys Gatso Group has reported negative results and has consequently accumulated unutilised tax losses. The future utilisation of these tax losses depends upon taxable profits. At 31 December 2016 Sensys Gatso Group had total estimated unutilised tax losses of MSEK 146.2 (125.2), in Sweden and MSEK 64.1 in the USA which require future profits of equivalent value within a reasonable time to fully consume the tax losses. For further information, see note 16.

Inventory

Inventory are valued at the lower of cost and net realisable value. Estimates are required in relation to forecasted sales volumes and inventory balances. In situations where excess inventory balances are identified, estimates of net realisable values for the excess volumes are made.

RISKS AND UNCERTAINTIES

Significant risks and uncertainties faced by the company include commercial risks associated with customers and suppliers, as well as other external factors. Sensys Gatso Group's overall goal is as far as possible to avoid taking financial risks that may arise through changes in foreign currency rates, interest levels and market prices, as well as liquidity, financing and credit risks. A description of material financial and commercial risks faced by the company is given in note 26.

PARENT COMPANY'S ACCOUNTING POLICIES

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2. RFR 2 stipulates that, in its annual accounts, the Parent Company is to apply International Financial Reporting Standards (IFRS) as endorsed by the EU, where this is possible within the framework of the

Swedish Annual Accounts Act, and with regard to the connection between accounting and taxation. RFR 2 specifies the exceptions and supplements to be applied in relation to IFRS. Identified differences between accounting policies of the Group and the Parent Company mainly refer to IAS 12 Income taxes.

Shares in subsidiaries

Shares in subsidiaries are recognised at acquisition cost less any impairment. The acquisition cost includes acquisition-related costs and any contingent consideration. When there is an indication that shares in subsidiaries have decreased in value, an estimate of the recoverable amount is made. If this amount is lower than the carrying amount, impairment is made. Impairment losses are recognised in the items "Income from participations in Group companies".

Research and development

Costs closely associated with the development of technology which is controlled by the Parent Company and is likely to yield economic benefits are recognised as intangible assets. The related projects have been valued as the total of direct costs plus reasonable amounts for indirect costs. Development costs incurred in connection with product adaptations for an existing project are recognised in the income statement.

APPLICATION OF NEW OR AMENDED STANDARDS

Changes in accounting policies and disclosures.

New standards, amendments and interpretations adopted by the Group

No new or amended standards which are effective for the financial year beginning on 1 January 2015 have had an impact on the Group.

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statement.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there is no significant change to classification and measurement. Hedge accounting rules are modified. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact. The Group assesses that it will not be materially affected by the changes.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty

of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

Management is currently assessing the effects of the new standard and has identified the following areas as most probably being affected:

- » Product and software development where the new regulations may result in the identification of separate performance obligations, which may affect the timing of revenue recognition.
- » The group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver design services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.
- » The accounting of sending out fines and receiving payments on the behalf of our customers, which is the Group's responsibility within the segment Managed Services.
- » The accounting of rights of return in the balance sheet is being changed such that they are to be reported gross in future (separate accounting of the right to recover goods from the customer and the obligation to provide a refund).

At present, the Group cannot estimate the quantitative impact of the new regulations on the financial statements. The Group will perform a thorough assessment during the coming year.

In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The EU has not yet adopted the standard. The Group has not yet assessed the impact of IFRS 16.

The standard will primarily affect the accounting of the Group's operating leases. At the balance sheet date the Group's non-cancellable operating leases total TSEK 5,546 (10,783); see note 8. The Group has, however, not yet assessed the extent to which these obligations will be reported as assets and liabilities and how this will affect the Group's profit and cash flow classifications.

Certain obligations may be covered by the exemption for short-term contracts and contracts of lesser value while other obligations may concern arrangements that are not to be reported as leases under IFRS 16.

Notes on the accounts, Group

All amounts are expressed in SEK '000 unless otherwise stated.

(Figures prior 1 August 2015 are for Sensys Traffic AB stand alone)

Note 1 Segment reporting and total sales

In 2016, the Group commenced reporting in two business segments, Systems Sales and Managed Services, which is why there are no comparable figures from 2015. These two main segments are used for internal reporting and managing the different operations.

System Sales

In System Sales, the ownership of the equipment is transferred to the customer. Normally, the equipment is sold to a distributor who handles installations and basic support. System Sales also provides additional sales in the form of annual verifications, support and service, which are included in the net sales of the segment. The business is generally highly volatile with a few large contracts and many smaller deals, where the former normally entail higher margins. Hence, the mix of large and small contracts has a significant impact on profitability from one quarter to another.

Managed Service

The segment operating managed services focuses on large and smaller managed services contracts where the ownership of the equipment remains with Sensys Gatso. The Group is responsible for the entire value chain; system operations, sending out fines and receiving payments on the behalf of our customers. These systems are recorded on the balance sheet under fixed assets in operations. Customer contracts normally run for 3-5 years with a considerable possibility of extension. Sales are normally stable throughout the year.

TSEK	System Sales	Managed service	Total Sales
Net sales and income			
Net sales per business segment	372,265	66,569	438,834
(of which is inter-segment transactions)	-1,938	-289	-2,227
EBITDA	13,329	12,018	25,347
Depreciation and amortisation	-18,841	-29,747	-48,588
Operating profit	-5,512	-17,729	-23,241
Net financial items			-6,724
Profit before tax			-29,965
Tax			5,581
Net profit for the year			-24,384

In 2016, the Group had two customer whose share of the company's total net sales exceeded 10 percent. In 2015 the Group had two customers whose share of total net sales exceeded 10 percent.

Note 2 Salaries, other remuneration and social insurance contributions

Number of employees at year-end	2016	2015	Men 2016	Men 2015
Holland	79	85	86%	92%
Australia	22	21	91%	90%
Germany	4	5	100%	100%
USA	32	48	49%	44%
Sweden	32	43	91%	95%
Group Total	169	202		

Board members and group management, Group	2016	2015	Men 2016	Men 2015
Board members	6	6	50%	60%
CEO and other group management	8	6	100%	100%

	Salaries and other remunerations		Social securities and contributions		(of which pension expenses)	
	2016	2015	2016	2015	2016	2015
Parent Company	28,737	29,042	13,971	15,855	5,370	4,750
Subsidiaries	88,252	28,795	14,419	5,364	5,965	2,490
Group	116,989	57,837	28,390	21,219	11,335	7,240

Remuneration of the Board of Directors, the CEO and senior executives

	Basic Salary Board Fee		Variable Remuneration		Other benefits		Pension Expenses		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Parent Company										
Chairman of the Board, Claes Ödman	300	175	0	0	0	0	0	0	300	175
Chairman of the Board, Gunnar Järdelöv	n/a	225	n/a	0	n/a	0	n/a	0	n/a	225
Board member, Helena Nordman-Knutsson	n/a	130	n/a	0	n/a	0	n/a	0	n/a	130
Board member, Karin Ahl	n/a	130	n/a	0	n/a	0	n/a	0	n/a	130
Board member, Katarina Staaf	175	n/a	0	n/a	0	n/a	0	n/a	175	n/a
Board member, Kerstin Sjöstrand	175	n/a	0	n/a	0	n/a	0	n/a	175	n/a
Board member, Pia Hofstedt	175	n/a	0	n/a	0	n/a	0	n/a	175	n/a
Board member, Jochem Garritsen	175	65	0	0	0	0	0	0	175	65
Board member, Ingemar Skogö	175	130	0	0	0	0	0	0	175	130
Group										
Managing Director, Torbjörn Sandberg	1,952	1,120	480	503	90	52	653	381	3,175	2,056
Managing Director, Johan Frilund (Jan - May 2015)	0	801	0	0	0	39	0	182	0	1,022
Other senior executives 2016 (7 individuals)	12,139	0	2,494	0	318	0	622	0	15,508	0
Other senior executives 2015 (5 individuals)	0	6,666	30	3,203	0	196	0	900	0	10,965

Other senior executives

In December 2016 other senior executives included Bengt Rosengren, Peter Clark, Niki Gatsonides, Timo Gatsonides, Edmar van der Weijden, Johan Frilund and Bram Mulder.

Agreements regarding severance pay

For the CEO there is an agreement of severance pay of 6 months salary. The Company does not have any other signed agreements regarding severance pay or similar benefits to Members of the Board, or other senior executives.

Variable remuneration for group executives

The agreement for the senior executives applies since 2015. The variable remuneration is based on the net sales, EBITDA, and integrational efforts and is subject to an upper limit of 1 - 6 months salaries. Remuneration of TSEK 2.494 (3.203) has been paid out during 2016.

VARIABLE REMUNERATION PARENT COMPANY

Sensys Gatso Group has three separate agreements for its employees.

Variable remuneration for the CEO

The agreement for the CEO applies since 2015. The variable remuneration is based on net sales and EBITDA, and is subject to an upper limit of TSEK 960.

A provision of TSEK 480 (503) has been made for the 2016 financial year.

Variable remuneration for management

The agreement for the management team applies since 2015. The variable remuneration is based on the net sales, EBITDA, and integrational efforts and is subject to an upper limit of 1 - 6 months salaries. Remuneration of TSEK 473 (1.057) was made for the 2016 financial year.

Variable remuneration for employees

The current agreement for employees (excluding the CEO, group executives and management team) has been in force since 2009, and entitles employees to a bonus defined as the lower of:

- (i) 5 percent of net earnings for the current year, subject to a limit of MSEK 3.
- (ii) An amount corresponding to two months' salaries for bonus-entitled staff at the end of the bonus year.

Variable remuneration is paid in the year after the financial year. Variable remuneration in 2016 totalled TSEK 0 (1,356).

VARIABLE REMUNERATION IN SUBSIDIARIES

There are separate agreements for variable remuneration in the different subsidiaries.

Variable remuneration for management teams

The agreement for management is based on each entities performance of the year, and is subject to an upper limit of 1% of the net result (after taxation).

Variable remuneration for employees

The agreement for employees is based on each entities performance of the year, and is subject to an upper limit of 1 and 3 months salary. For Gatso USA, Australia and Germany no variable remuneration is applicable for 2016.

For Gatso Holland a variable remuneration between 0 and 3 months salary was applicable during 2016 depending on performance on individual basis.

Note 3 Total sales

Net sales by region	2016	2015
Netherlands	30,654	9,781
Australia	61,362	35,668
Sweden	62,802	114,616
Rest of Europe	81,063	47,816
USA	67,481	29,350
MENA	106,915	149,760
Rest of the world	26,328	10,834
Total	436,607	397,825

Nature of services	2016	2015
System sales	308,634	NA
Service and maintenance	57,695	NA
Licences	3,997	NA
Managed services	66,281	NA
Total	436,607	397,825

As from January 2016 the Group has started reporting by segments. The two segments being System Sales and Managed Services.

Note 4 Expenses by nature of expense

	2016	2015
Raw materials and consumables used	191,681	190,175
Depreciation and amortisation	48,588	26,948
Employee benefits and expenses	160,236	80,145
Accommodation expenses	12,395	5,671
Marketing expenses	16,191	14,614
Transportation costs	3,792	3,041
Office expenses	8,043	6,693
External Services	16,144	6,365
General expenses	10,782	14,086
Release of cont. Liability	-11,926	0
Development	3,922	1,384
Total	459,848	349,122

Note 5 Intangible fixed assets

Consolidated Intangible fixed assets	Goodwill		Customer contract		Brand		Product & software development	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening accumulated acquisition value	226,340	-	89,571	-	20,730	-	58,786	-
Acquisitions	-	242,927	-	110,975	-	20,730	-	58,786
Adjustment of Purchase price allocation	-	-10,864	-	-21,404	-	-	-	-
Internal development	-	-	-	-	-	-	2,428	-
Disposals	-	-	-	-	-	-	-	-
Translation effects	12,962	-5,724	4,217	-	739	-	1,856	-
Closing accumulated acquisition value	239,302	226,340	93,788	89,571	21,469	20,730	63,070	58,786
Opening accumulated amortisation	-	-	-15,791	-	-858	-	-9,920	-6,175
Amortisation for the period	-	-	-24,169	-15,791	-2,150	-858	-9,085	-3,745
Translation effect	-	-	-580	-	-38	-	-487	-
Closing accumulated amortisation	-	-	-40,540	-15,791	-3,046	-858	-19,492	-9,920
Opening accumulated impairment	-	-	-	-	-	-	-	-
Closing accumulated impairment	-	-	-	-	-	-	-	-
Translation effects	-	-	-	-2,363	-	-479	-	-735
Carrying amount	239,302	226,340	53,248	71,417	18,423	19,393	43,578	48,131

Goodwill is not subject to amortisation but is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be subject to impairment. For the purpose of assessing impairment, goodwill is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The Group performed a test for each cash generating unit (CGU), to assess whether any need for impairment exists for goodwill in line with the applied accounting policies. As from January 1st 2016 the Group reports in the two segments System Sales and Managed Service, being the two cash generating units. In 2015, not having segment reporting, the performed test was done on a combined Group level only.

The recoverable amount for each CGU is determined by value-in-use calculations, which comprise the present value of estimated future cashflows expected to arise from the CGU, including capital expenditures and investment in working capital, to arrive at free cash flow forecasts for each unit.

The model includes actual financial figures for 2016 as a reference and uses budgets for 2017 for each unit, approved by the board of directors, as a starting point. The calculations assume estimated future cash flows based on financial forecasts covering a five-year, using a detailed three-year business plan as a baseline, with an extension of similar growth for years 4 and 5. Cash flows beyond the five-year period are extrapolated based on the long-term growth, estimated at 2%, in line with the inflation rate. The growth estimated by "MarketsandMarkets" for services, relating to our segment Managed Services, amounts to 11.5%.

The discount rate after tax which has been applied is approximately 9.4 % for both System Sales and Managed Services. The input used to calculate the discount rate for the

two segments varies slightly. However, due to different tax percentages used in different countries, the net effect results in a similar discount rate for both segments.

SIGNIFICANT ASSUMPTIONS

Market share and growth

Forecasts are based on the company history and previous management experience, as well as external sources like the "MarketsandMarkets" report on Road safety market, press releases and investor presentations from competition.

System Sales

System Sales is operating in a volatile market. However, the average growth in this CGU is expected to be in line with a 2% growth each year for the next five years. The revenue in the System Sales segment is volatile during the quarters and over years. In the forecast for this segment management did not project this volatility but instead projected growth in line with the estimated long-term growth of 2 percent as an average over the years.

The estimation of gross margin is based on results of previous periods, even though a notable improvement is expected as a result from the transformation program. The expenses are estimated to be stable and will grow in line with long-term growth of 2 percent.

Managed Services

Managed Services is a market of growth for the Sensys Gatso Group and management foresees a significant growth with more than doubled revenue in the coming five years time. The long-term growth after these five years is estimated on a 2 percent which is in line with inflation. The estimation of net cash flow in this CGU will be in line with the growth of revenue.

The CoGs will grow with the same pace as the revenue and the current organisation is big enough to facilitate the growth. Due to this we foresee a growth of EBITDA in line with the revenue.

Exchange rates

The results of the Sensys Gatso Group are influenced by exchange rate fluctuations. The main foreign currencies are EUR and USD. The exchange-rate used in the forecast is EUR 9.50 and USD 8.64.

Sensitivity analysis

Management has performed a sensitivity analysis on an increased investment of 1%, an adjustment of EBITDA of -2%, an adjustment in long-term growth of -2% and an adjustment of the WACC of 2%. The sensitivity analyses performed are based on a change in an assumption or a combination of two assumptions while holding the other assumptions constant.

The combination of an adjusted WACC and 0% long-term growth has a small indication of a possible impairment in the segment Managed Services. This scenario however, lower growth with higher returns on invested capital, does not seem very likely.

The recoverable amount exceeds the carrying amounts of goodwill. The overall outcome of the sensitivity analysis for both segments does not give any sign of impairment.

Additionally we have performed a stress-test for the goodwill in the segment Managed Services, since the estimated growth for the coming 5 years is significant. In the stress-test we simulated a growth based on 50% of the used projections. In this scenario the recoverable amount still exceeds the carrying amount of goodwill.

Goodwill is distributed among the Group's cash-generating units (CGUs) and identified as follows (TSEK):

Group	2016	2015
System Sales	157,639	105,346
Managed Services	81,663	49,638
Unallocated goodwill	-	71,356
Total	239,302	226,340

In 2016 the unallocated part of goodwill has been distributed over the segments based on the relative DCF value of the free cash flows between systems sales and Managed Services. The distribution is as follows;

System Sales:	TSEK 47,104
Managed Service:	TSEK 28,094
Total:	TSEK 75,198

The difference between the unallocated goodwill in 2015 of TSEK 71,356 and the distributed unallocated goodwill over the segments to the amount of TSEK 75,198 relates to currency translation effects.

Note 6 Fixed Assets

	Leasehold improvement		Furnitures, fixtures, etc		Fixed Assets in operation	
	2016	2015	2016	2015	2016	2015
Opening accumulated acquisition value	15,224	-	19,135	3,208	107,914	3,146
Acquisition per July 31st 2015	-	14,730	-	16,304	-	97,562
Acquisitions	240	871	5,628	225	10,316	9,702
Disposals	-	-	-1,606	-185	-115	-
Translation effects	727	-377	2,263	-417	4,909	-2,496
Closing accumulated acquisition value	16,191	15,224	25,420	19,135	123,024	107,914
Opening accumulated depreciation	-13,165	-	-14,705	-1,357	-71,110	-1,933
Acquisition per July 31st 2015	-	-13,490	-	-12,978	-	-65,521
Disposals	-	-	444	79	53	-
Depreciation for the period	-196	-20	-2,134	-790	-11,791	-5,445
Translation effects	-625	345	-1,160	341	-2,397	1,789
Closing accumulated depreciation	-13,986	-13,165	-17,555	-14,705	-85,245	-71,110
Opening accumulated impairment	-	-	-1,270	-1,270	-3,662	-3,742
Translation effects	-	-	-	-	-	80
Closing accumulated impairment	-	-	-1,270	-1,270	-3,662	-3,662
Translation effects	50	10	-	770	-	-722
Carrying amount	2,252	2,069	6,595	3,930	34,117	32,420

There are no individually pledged assets as security for liabilities (please see note 24).

Note 7 Depreciation/amortisation

Amortisation of intangible assets was MSEK 34.1 and depreciation of property, plant and equipment totalled MSEK 14.4. Impairment amounted to MSEK 0. Depreciation/amortisation and impairment are specified per function in the income statement as follows:

	Cost of goods sold		Selling costs		Administrative costs		Development costs		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Customer contracts	-	0	23,094	15,791	-	0	-	0	23,094	15,791
Brand	-	0	2,097	858	-	0	-	0	2,097	858
Other intangible assets	24	0	6,507	0	483	0	2,096	4,021	8,959	4,021
Improvement expenses leasehold	51	0	109	0	19	20	19	0	198	20
Furniture, Fixtures, Fittings and vehicles	737	618	342	11	507	20	173	141	1,759	790
Fixed Assets in operation	8,832	4,882	1,302	11	1,001	524	1,346	28	12,481	5,445
Total Depreciation and Amortisation	9,643	5,500	33,451	16,671	2,011	564	3,634	4,190	48,588	26,925

Note 8 Operational leasing arrangements

The Group has entered into the following operating leases:

	Machines, plant and equipment		Premises	
	2016	2015	2016	2015
Lease payments for the year	2,390	2,252	8,147	3,826
Minimum lease payments falling due within 1 year	1,897	3,164	6,979	5,605
Minimum lease payments falling due within 1-5 years	1,259	5,367	15,293	12,405
Minimum lease payments falling due later than 5 years	0	0	7,800	12,000

Leases for machines, plant and equipment concern photocopy machines and motor vehicles. There are no variable charges.

Note 9 Inventories

	2016	2015
Opening	83,942	17,903
Accumulated acquisition value	0	83,538
Movement in inventory	-28,801	-17,499
Translation effects	102	0
	55,243	83,942
Change in provision for doubtful inventory		
Opening provision	-8,508	0
Movement in provision	-229	-8,508
Translation effects	-	0
Closing provision	-8,737	-8,508
Carrying amount	46,506	75,434

Note 10 Trade receivables

	2016	2015
Age structure of outstanding trade receivables		
Trade receivables not yet due	51,177	113,194
Trade receivables past due but not impaired:		
< 3 months	4,068	9,462
3-12 months	5,347	7,731
>12 months	2,229	2,114
	62,821	132,501

Trade receivables past due and impaired	2016	2015
< 3 months	0	3,349
3-12 months	3,440	18,683
>12 months	20,963	0
Provision for doubtful trade receivables	-24,403	-22,033
Carrying amount	62,821	132,501
Change in provision for doubtful trade receivables	2016	2015
Opening provision	22,033	0
Acquisitions (-)/Sales (+)	0	19,203
Confirmed losses	-1,216	0
Reversed, unutilised provisions	0	
Provision for the year	4,479	2,830
Translation effects	-893	
Closing provision	24,403	22,033

Note 11 Profit/loss from financial investments

Interest and similar profit/loss items	2016	2015
Interest income on bank deposits	6	369
Exchange rate gains on bank deposits or other loans	6,951	3,997
Other financial income	439	5
Total financial income	7,396	4,371
Interest expense on financial liabilities	2016	2015
Interest expense on loans	-4,921	-1,741
Exchange rate losses on bank deposits or other loans	-9,158	-3,487
Other financial expenses	-41	-565
Total financial costs	-14,120	-5,793

Note 12 Transactions with shareholders

Liabilities to shareholders	2016	2015
Opening liabilities	41,135	0
Currency effects	1,480	0
Non cash movement	-11,926	0
Change during the year	-30,689	41,135
Closing liabilities	0	41,135
Other noncurrent liabilities	2016	2015
Opening	76,746	0
Currency effects	5,020	0
Change during the year	-1,927	76,746
Closing noncurrent liabilities	79,839	76,746

Out of the closing current liabilities 2015, MSEK 36.5 is contingent liabilities related to the acquisition to Gatso Beheer, please see note 20 and 25.

The seller has given a promissory note to the order of MSEK 65.2 (MEUR 6.84 based on Riksbanken's EUR/SEK exchange rate of 31 Dec 2016). The promissory note has a term of seven years and is repaid in five instalments, MSEK 28.7 (MEUR 3) as of 31/07/2018, MSEK 9.6 (MEUR 1) in years four, five and six after execution of the transaction, and MSEK 7.7 (MEUR 0.8) seven years after execution of the transaction.

Note 13 Bank overdraft facilities and other borrowing

Agreed bank overdraft facilities at year end amounted to MSEK 78.7 for the group whereof MSEK 25.0 for the Parent Company.

The Group's interest-bearing borrowings	2016	2015
Due dates for long-term loans:		
Within one year	18,901	119,169
Between one and five years	72,293	79,062
More than five years	7,980	16,434
Total	99,174	214,665
Short-term borrowings, SEK	18,750	25,000
Short-term borrowings, EUR	0	73,063
Short-term borrowings, USD	151	21,106
Short-term borrowings, AUD	0	0
Total	18,901	119,169
Long-term borrowings, SEK	0	18,750
Long-term borrowings, EUR	79,839	76,746
Long-term borrowings, USD	434	0
Long-term borrowings, AUD	0	0
Total	80,273	95,496
Of which longer than 5 years, EUR	7,980	16,434

Note 14 Financial instruments

	Loans and receivables	
	2016	2015
Assets as per balance sheet		
Trade receivables	62,821	132,501
Accrued income	10,852	6,540
Cash and bank balances	31,643	76,189
Total	105,316	215,230

	Other financial liabilities at amortised costs		Liabilities at fair value through profit and loss		Total	
	2016	2015	2016	2015	2016	2015
Liabilities as per balance sheet						
Borrowings	434	95,496	0	0	434	95,496
Liabilities to shareholders ¹⁾	79,839	81,321	0	36,560	79,839	117,881
Trade payables	21,077	56,401	0	0	21,077	56,401
Other liabilities	20,580	13,435	0	0	20,580	13,435
Total	121,930	246,653	0	36,560	121,930	283,213

¹⁾ Included in 2015 is a contingent consideration of MSEK 36.5 valued at fair value. The contingent consideration was related to the acquisition of Gatso Beheer BV, see note 21.

Note 15 Taxes

	2016	2015
Current tax	-223	8,839
Deferred tax	5,804	-2,506
Total	5,581	-6,352
Difference between tax expense and tax expense based on applicable tax rate		
Recognised profit/loss before tax	-29,965	47,281
Tax at applicatbel rate	3,823	-10,402
Income tax credit	-866	0
Tax effect of non-deductible expenses	-185	103
Tax effect of non-deductible income	0	4,988
Tax previous years	2,809	0
Effects of foreign tax rates	0	-1,042
Tax on profit/loss for the year in accordance with income statement	5,581	-6,352

Note 16 Deferred tax

	2016	2015
Deferred tax recoverable		
Opening deferred tax recoverable	53,200	31,302
Utilization of deferred tax	-3,844	-5,232
Deferred tax assets relating to acquisition (losses carried forward) Note 21	0	28,100
Translation effects	2,391	-970
Total deferred tax assets	51,747	53,200

The deferred tax assets can be specified as follows:	2016	2015
Inventory	2,984	3,850
Loss carried forward	48,763	49,350
Total	51,747	53,200

	2016	2015
Deferred tax liabilities		
Opening deferred taxliability	39,156	0
Deferred tax liability relating to acquisition	0	39,156
Release relating to depreciation on intangible fixed assets	-9,648	0
Translation effects	2,550	0
Closing deferred tax liabilities	32,058	39,156

Deferred taxes

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which the temporary differences can be utilised. In cases where the company has reported losses in recent years, deferred tax recoverable relating to previous losses is only recognised to the extent that there are compelling circumstances indicating that it will be used to offset future taxable profits.

Within the Group there is an extensive budget process in order to verify the value of the deferred tax assets. Furthermore, there are also verifiable circumstances in the form of the current order backlog and agreements with customers as underlying information to the budget process. These budgeted numbers of future turnover and profit is matched towards the tax assets in order to measure the number of profitable years needed for usage of the total value of the tax assets.

As per December 2016, the Parent company Sensys Gatso Group AB had total estimated unutilised tax losses of TSEK 146,212 (125,214). For the subsidiary in Australia a tax asset of TSEK 1,116 was recognised in relation to the acquisition of Gatso Beheer in 2015, which has been used against taxable profits during 2016.

Furthermore, in USA the company has had unrecognised tax losses that can be used against taxable profit in the next coming 13-20 years. At initial recognition we identified this deferred tax assets. However, due to uncertainties regarding tax regulations in the USA and the result of a change in ownership, we did not recognise this asset at the time. During 2016 we have investigated the impact of change in ownership. This has resulted in an approximately MSEK 66.5 of fiscal net operating losses that can be utilised against future profits. Therefore, we have recorded a deferred tax asset against current tax rates for the amount of MSEK 28.1.

Note 17 Prepaid expenses and accrued income

	2016	2015
Prepaid lease payments	1,260	235
Prepaid rent	1,123	933
Prepaid deposit	268	838
Personel related prepayments	211	0
Accrued income	10,852	6,540
Other items	736	5,409
Total	14,450	13,955

Note 18 Cash, bank balances and other receivables

In 2013, the company deposited MSEK 10 with a bank, which will be frozen under a performance bond in the contract with the Swedish Transport Administration. The guarantee expired in July 2016.

Note 19 Accrued expenses and deferred income

	2016	2015
Accrued salaries	8,499	5,932
Holiday pay liability	3,725	9,379
Social charges	4,010	3,459
Deferred income	11,044	6,840
Accrued Audit and advisory expenses	2,618	0
Other	5,778	9,846
Total	35,674	35,456

Note 20 Provision for guarantee expenses

	2016	2015
Opening guarantee provision 0-360 days	6,539	2,856
Opening guarantee provision > 360 days	7,577	2,221
	14,116	5,077
Guarantee provision for the year	10,182	9,039
Used guarantee during the year	-15,008	0
Translation effects	177	0
Closing guarantee provision 0-360 days	3,694	6,539
Closing guarantee provision > 360 days	5,773	7,577
Total	9,467	14,116

Note 21 Changes in the group's composition - Acquisitions

Remeasurement of estimated fair values at time of acquisition

The fair values disclosed in the Annual Report 2015 with regards to the acquisition of Gatso Beheer BV were preliminary. During the remeasurement period of 12 months the company has reassessed the assets and liabilities concerning the recognised PPA as at 31 July, 2016.

During the remeasurement period we have gained more insight into our assets and liabilities. At initial recognition we identified a deferred tax assets for tax losses that could be utilised with future profits, but we had not recorded this deferred tax asset due to uncertainties in tax regulations, as a result of change in ownership. During the 12 months period we have investigated the impact of the change in ownership. This resulted in a approximately MSEK 66.5 of fiscal net operating losses that can be utilised with future profits. We have recorded a deferred tax asset against current tax rates for the amount of MSEK 28.1. In addition we have lowered the value of customer contracts to the amount of MSEK 16.9 taking into consideration the deferred tax liabilities.

The remeasurement of the estimated fair values at time of acquisition did not impact the consolidated statement of comprehensive income and shareholders' equity.

We have finalised the fair value assessment of the PPA giving the following balance sheet as per 31 July, 2015:

SEK millions	Estimated fair value at time of acquisition	Revised fair value at time of acquisition	Measurement period adjustments
Cash and cash equivalents	6.7	6.7	-
Property plant and equipment	33.9	33.9	-
Customer contracts and relationship	111.5	89.3	-22.2
Brand	20.9	20.9	-
Deferred tax assets	0.9	29.0	28.1
Intangible fixed assets	53.4	53.4	-
Inventory	65.4	65.4	-
Receivables	46.5	46.5	-
Liabilities	-138.4	-138.4	-
Deferred tax liabilities	-51.1	-45.8	5.3
Total identified value of assets and liabilities	149.7	160.9	11.2
Goodwill	238.3	227.1	-11.2
Total consideration	388.0	388.0	-

The adjustment on the comparative figures of the consolidated balance sheet as per 31 December 2015 are as follows:

SEK thousands	31 Dec 2015	Adjustments	Adj. 31 Dec 2015
Goodwill	237,203	-10,863	226,340
Customer contracts	92,821	-21,404	71,417
Deferred tax assets	26,070	27,130	53,200
Deferred tax liabilities	44,293	5,137	39,156

Purchase price for Gatso Beheer

Payment for the acquisition took the form of a cash payment of MSEK 75, an equity share issue in which 115,920,763 new shares were issued at a subscription price of SEK 1.2077 per share and a promissory note to the seller to the order of MSEK 64.8 (MEUR 6.84 based on Riksbanken's EUR/SEK exchange rate of 30 July 2015). The transaction expense for the acquisition of Gatso Beheer amounted to MSEK 7.6 and is recognised as an administrative expense in the consolidated income statement.

The promissory note has a term of seven years and is repaid in five instalments, MSEK 28.4 (3 EUR million) as of 31/07/2018, MSEK 9.5 (EUR 1 million) in years four, five and six after execution of the transaction, and MSEK 7.9 (MEUR 0.8) seven years after execution of the transaction.

The nominal purchase price for Gatso Beheer thus totals MSEK 279.8, while the purchase price taken to the books totals MSEK 387.9. Out of the difference of 108.1 million, 37.9 million is the additional purchase price. The remaining difference of 70.2 million represents the difference in value of the shares due to the difference between subscription share price (SEK 1.2077 per share) and the share price at the day of closing of the transaction (SEK 1.8500 per share).

Note 22 Contingent consideration

During the third quarter the additional purchase price of maximum MSEK 37.9, recognised under short-term liabilities in the balance sheet, has been finalised resulting in a payout of MSEK 26.0 and a release of the liability to the profit and loss, under the Other operating income of MSEK 11.9.

In the parent company, the result of settling the additional purchase price has resulted in a release of the liability against the value of the shares in subsidiaries relating to Gatso Beheer BV. The difference in treatment is due to a difference in accounting policies between IFRS and the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 - Accounting for Legal Entities.

Note 23 Audit fees and reimbursement of related costs

	2016	2015
PwC		
Audit assignment	1,280	1,144
Audit work over and above the audit assignment	944	556
Tax consulting	634	436
Other assignments	94	1,656
Total	2,952	3,792

	2016	2015
BDO		
Audit assignment	1,181	846
Audit advisory	139	169
Tax consulting	324	180
Other assignments	374	82
Total	2,018	1,277

Note 24 Pledged assets and contingent liabilities

	2016	2015
Floating charge	30,000	30,000
Guarantees, customer authorities	13,571	10,000
Other pledged assets, subsidiaries	110,734	185,629
Total pledged contingent liabilities	154,305	225,629

	2016	2015
Tangible fixed assets	39,294	35,466
Inventory	31,457	54,247
Receivables	39,983	95,916
Pledges assets total	110,734	185,629

Other pledged assets, subsidiaries

Pledges and securities Australia

Security Interest and Charge over all of the present and future rights, property and undertakings of Gatso Australia Pty Limited.

Pledges and securities Netherlands

Pledge on present and future receivables arising from trade and business, stock and inventory including machinery and transport vehicles of Sensys Gatso Group BV, FDFJ BV, Gatso Australia Pty Ltd, Sensys Gatso Managed Services BV, Gatso USA Inc., Gatsometer BV and Gatsometer Europa BV.

Pledge on claims arising from credit insurances of Sensys Gatso Group BV, FDFJ BV, Gatso Australia Pty Ltd, Sensys Gatso Managed Services BV, Gatso USA Inc., Gatsometer BV and Gatsometer Europa BV.

Pledges Sweden and Netherlands

The company SGG BV is jointly liable for the credit and guarantee facilities provided by Rabobank together with Sensys Gatso Managed Services BV and Gatsometer BV.

Both Sensys Gatso Group BV and Sensys Gatso Group AB have an Debt Service Coverage Ratio and absolute EBITDA agreement with the bank which have to be met each quarter of the financial year under the agreement of the bank facilities.

Subordination of loan Gatso Special Products BV in Sensys Gatso Group BV with a minimum of € 2.0 million.

In 2013 the parent company deposited SEK 10 million with a bank, which was frozen under a performance bond in the contract with the Swedish Transport Administration. This guarantee has expired in July 2016 and the money released.

Note 25 Events after the balance sheet date

After the year end closing Sensys Gatso has received the following orders;

- » A first order from its Belgium customer worth SEK 6.7 million, deliveries are planned to commence with one third of the contract value in the first half of 2017 and shall be finalised before the end of 2019.
- » A second order from its Belgium customer worth SEK 11.9 million, deliveries are planned to commence in 2017.
- » From its Southern Europe customer worth SEK 25.6 million, for the supply of traffic safety systems and Xilium back office software. Deliveries are expected to commence during 2017 and continue into 2020.

The Board of Directors proposes that no dividends be distributed for 2016 (0).

The Board of Directors of Sensys Gatso Group has started a process to recruit a new CEO. Torbjörn Sandberg will remain in the role as CEO until a new CEO has been recruited.

During the period from the close of the reporting period to the signing of this Annual Report, no significant events have occurred and no information on circumstances on the balance sheet date or thereafter, whether favourable or unfavourable, has required additional disclosures, other than what has been stated above.

Note 26 Risks

Risk management is part of all business operations, and its purpose is to identify, assess, manage and report significant risks. The Group's risk management covers risks associated with individual projects, operational risks and risk of failing to comply with laws and regulations, such as the risks involved in financial reporting. Market risks include the effects of economic conditions, trends, customer development, supplier dependence, political decisions and competition. Risks also include technological risk and production disturbances as well as the capacity to attract and retain key individuals. Financial risks include existing financing, options for future financing and currency- and interest risks. Legal risks consist of legislation, regulations, insurance, public authorities and supervisory bodies, as well as disputes and claims for damages. Risks that are managed well can lead to opportunities and generate value, while risks that are not dealt with correctly can cause damages and unnecessary costs for the company. For this reason, the ability to identify risk factors and manage risks is an important part of the company's operational activities.

FINANCIAL RISKS

Sensys Gatso is exposed to financial risks in its international business due to changes in exchange- and interest rates, as well as liquidity, financing and credit risks. The Group's policy for managing financial risks has been defined by the Board and serves as a framework for risk management.

CURRENCY RISK

Currency risk refers to the fluctuations in exchange rates having a negative impact on Group's income statement, balance sheet and/or cash flow. Currency risk arises when future business transactions, or reported assets or liabilities, are expressed in a currency which is not the Group's functional currency.

Transaction exposure

In the Group's international operations, some customers pay in their own currency which means that the Group is exposed to transactional currency risks. This kind of currency risk also arises in conjunction with the import of raw material and components in a currency that is not the Group's functional currency.

Incoming flows or foreign currencies should be used for payment in the same currency.

Translation exposure

Currency risk also arises in conjunction with the translation of foreign net assets and earnings, so-called translation exposure. This currency risk is not hedged and refers, primarily, to the translation of foreign subsidiaries' income statement and balance sheets. Earnings from foreign subsidiaries are translated into Swedish krona based on the average exchange rate for each month. Net assets are translated into Swedish Krona based on the exchange rate per last date of the month.

The Group's risk exposure in foreign currencies at the end of 2016, expressed in thousands of Swedish kronor (TSEK) consisted of the following:

	EUR	USD	SEK	AUD
Accounts receivable	20,512	7,279	32,866	2,163
Related party loans	373	0	0	0
	20,885	7,279	32,866	2,163
Bank loans	0	-434	-18,750	0
Related party loans	-79,839	0	0	0
Accounts payable	-4,423	-1,616	-12,915	-2,369
	-84,262	-2,050	-31,665	-2,369

As indicated by the exposure table above, the Group is primarily exposed to changes in the EUR/SEK exchange rate.

	Impact on profit after tax		Impact on other components in equity	
	2016	2015	2016	2015
TSEK				
EUR/SEK exchange rates + 10%	-5,376	-4,154	-577	1,421
USD/SEK exchange rates + 10%	365	-9,648	-6,992	8,838
AUD/SEK exchange rates + 5%	230	233	390	558

The largest exposure to changes is in the EUR/SEK exchange rate, but the USD/SEK exchange rate is also sensitive to changes, which can affect equity, since the Company has goodwill and other intangible assets in local currencies.

Earnings are more sensitive to changes in the EUR exchange rate in 2016 compared with 2015 being the first full year since the acquisition. The Company has no forward exchange contracts that can affect equity. The Group's exposure to other exchange rate fluctuations is not material.

INTEREST RISKS

Sensys holds no interest-bearing assets and, accordingly, the Group's income and cash flow from operating activities are, in all material aspects, independent of changes in market interest rates. The Group's interest-rate risk arises in conjunction with long-term borrowing. The aim is to limit the interest risk in the Group's interest-bearing liabilities. At the closing date, the Group had MSEK 99.2 (214.7) in interest-bearing liabilities and cash and cash equivalents were MSEK 31.6 (76.2).

Borrowing on the basis of floating interest rates exposes the Group to interest-rate risks as regards to cash flow. Borrowing on the basis of fixed interest rates implies an interest-rate risk for the Group in terms of fair value. During 2016, the Group's borrowings largely consisted of loans with three months fixed interest rates which is the same conditions as of 2015.

If interest rates on borrowing in Swedish krona as of 31 December 2016 had been 10 points higher/lower, but all other variables had been constant, then gains before tax for the financial year would have been MSEK 1.8 (1.8) higher/lower, primarily as an effect of higher/lower interest expenses for borrowings with floating interest rates.

The Group holds no listed financial instruments.

LIQUIDITY AND FINANCIAL RISKS

Financing risk also refers to risks associated with existing and future financing, refinancing of overdue loans, or difficulties in raising external loans. Liquidity risk refers to the risk of being unable to fulfil payment commitments when they fall due as a consequence of insufficient liquidity. Both of these forms of risk are managed by the company preparing regular cash flow forecasts. The Board closely monitors rolling forecasts for the company's and the Group's liquidity reserve to ensure that the company has sufficient cash funds to meet the requirements of operating activities.

During 2016 payments of MSEK 108.9 have been made to repay loans to the banks to the amount of MSEK 34.0, repay loans to shareholders to the amount of MSEK 32.2 and replenish the credit facilities to the amount of MSEK 42.7.

At the year-end the total amount of credit facilities not taken up amounts to MSEK 54.0, resulting in available cash to the amount of MSEK 85.5.

For the liabilities the company has conventional covenants towards the banks, such as debt-to equity, levels of EBITDA and certain restriction for new investments. The table below presents an analysis of the Group's financial liabilities to be settled net, specified according to the contractual time to maturity, as of the closing date. The interest amounts stated in the table are the contractual, undiscounted cash flows. Amounts falling due within 12 months correspond with the carrying amounts, as the effect of discounting is negligible.

As of 31 December 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Bank loans	19,313	434	0	0
Trade payables and other liabilities	21,077	0	0	0
Loan to related parties	0	27,427	27,427	31,457
Total	40,390	27,861	27,427	31,457

As of 31 December 2015				
Bank loans	25,750	28,727	0	0
Trade payables and other liabilities	56,401	0	0	0
Loan to shareholders	41,135	0	42,738	40,190
Total	123,286	28,727	42,738	40,190

CREDIT RISK

Credit risks are defined as the risk of loss if the opposite parties with whom the Group has invested cash and cash equivalents, fail to fulfil their obligations. Credit risks are to a large extent avoided through effective creditworthiness analyses/monitoring of existing and potential customers, and in certain cases by obtaining payments in advance or payment against a letter of credit. The Groups' assets are recognised in the balance sheet after deduction for provisions for expected credit losses. The credit risk is limited to the carrying amount of each financial asset. A provision of MSEK 24.0 (22.0) was made for receivables that are not expected to be paid.

CAPITAL RISK

The Group's objective with regard to the capital structure is to secure the Group's ability to continue operating, so that it can continue to generate returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to keep the cost of capital down. To maintain or adjust the capital structure, the Group may change the dividend paid to shareholders, repay capital to shareholders, issue new shares or sell assets to reduce debt. The debt/equity ratio at 31 December 2016 was 63 per cent (78).

OPERATIONAL RISKS

For Sensys Gatso, a major part of operational risk lies in the management of each individual project. Sensys Gatso works actively to integrate risk management in each customer project, and has developed an in-house tool, Risk Assessment Analysis, for this purpose. The tool enables the company to identify, manage and where necessary, accept and limit the risks involved in each project. The project manager is responsible for implementing Risk Assessment Analysis and subsequently following up and reporting on important matters. In addition to this, for larger projects, a member of the management team will be appointed to act as sponsor for the project and the point of contact for regular reports from the project manager.

Each linear manager is also responsible for driving and developing his/her respective area of responsibility, which includes identifying opportunities and threats as well as continuously following up activities.

Finally, the management team's meetings function as a forum for discussions upon which operational decisions are based, thereby consolidating risk management in its entirety.

PRICE RISK

Price risk in the Group's operations primarily arise in conjunction with the purchase of material used in manufacturing.

INSURANCE

The Group has adequate insurance policies covering property, product liability, interruptions and transport, as well as an insurance policy covering the Board of Directors and CEO.

IT SECURITY

As computer-aided technology has assumed an increasingly greater scope within the companies, security requirements have also increased. The functional security of the databases and e-mail servers is checked via daily backups. The internet connection is fixed and completely isolated from other networks via hardware firewalls. Access via public networks is secured via security devices. User access to the system is regulated via Group authorisations and entitlements based on actual assignments and roles within the company.



Parent Company

Income Statement

TSEK	Note	2016	2015
Net sales	27	118,749	190,284
Cost of goods sold		-69,376	-96,077
Gross profit		49,373	94,207
Selling costs	29,30,31	-15,929	-27,057
Administrative costs	29,30,31	-29,159	-12,624
Development costs	29,30,31	-14,844	-16,445
Other operating costs/income		-437	-1,897
Operating profit/loss	2,3,28,46	-10,996	36,184
Profit/loss from financial investments	38		
Interest income/foreign exchange gains		3,742	4,034
Interest expense/foreign exchange losses		-9,953	-1,675
Profit/loss after financial items		-17,207	38,543
Income tax for the year	40	-866	-6,348
NET RESULT FOR THE YEAR	2, 33	-18,073	32,195
Comprehensive income for the Parent company is equivalent to net result for the year.			

Parent Company

Balance Sheet

TSEK	Note	31 Dec 2016	31 Dec 2015
ASSETS			
FIXED ASSETS			
Improvement expenses leasehold		999	871
Machines and other technical plant		320	480
Furnitures, fixtures, etc		1,642	359
	31, 32	2,961	1,710
OTHER NONCURRENT ASSETS			
Deferred tax recoverable	40	24,088	24,954
Investments in Group companies	21,35	383,952	395,912
Other noncurrent assets		209	2,500
		408,249	423,366
TOTAL NONCURRENT ASSETS		411,210	425,076
INVENTORIES	34		
Raw materials and consumables		9,114	15,939
Finished products and goods for resale		4,908	5,248
		14,022	21,187
Trade receivables	37	32,866	36,585
Receivables subsidiaries	29	7,083	2,725
Current tax assets		2,001	646
Other receivables		0	10,012
Prepaid expenses and accrued income	41	1,885	2,893
		43,835	52,861
CASH AND CASH EQUIVALENTS			
Cash and bank balances	13	27,840	70,724
		27,840	70,724
TOTAL CURRENT ASSETS		85,697	144,772
TOTAL ASSETS		496,907	569,848

Parent Company

Balance Sheet

TSEK	Note	31 Dec 2016	31 Dec 2015
SHAREHOLDERS' EQUITY AND LIABILITIES			
RESTRICTED EQUITY			
Share capital		32,858	32,858
Statutory reserve		25,215	25,215
		58,073	58,073
NON-RESTRICTED EQUITY			
Share premium reserve		291,685	291,685
Retained earnings incl net profit for the year		14,355	32,428
		306,040	324,113
TOTAL SHAREHOLDERS' EQUITY		364,113	382,186
LIABILITIES			
Noncurrent liabilities			
Borrowings	39	0	18,750
Other provisions	43	927	2,029
Liabilities to shareholders	28, 39	60,705	58,466
		61,632	79,245
CURRENT LIABILITIES			
Borrowings	39	18,750	25,000
Liabilities to shareholders	28, 39	0	36,560
Liabilities to subsidiaries	29, 39	3,352	865
Other provisions	43	3,387	5,115
Liabilities to customers		13,257	9,783
Trade payables		12,915	14,207
Other liabilities		5,617	2,203
Accrued expenses and deferred income	42	13,884	14,684
TOTAL LIABILITIES		71,162	108,417
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		496,907	569,848

Parent Company

Cash Flow

TSEK		31 Dec 2016	31 Dec 2015
OPERATING ACTIVITIES			
Operating profit/loss		-10,996	36,184
Adjustments for non-cash items:			
Depreciation and amortisation	5, 6	1,162	811
Warranty provision	43	-2,830	2,067
		-12,664	39,062
Interest received		1	51
Interest paid		-2,174	-661
Exchange rate effects		-4,038	2,970
Cash flow from operating activities before changes in working capital		-18,875	41,422
CASH FLOW FROM CHANGES IN WORKING CAPITAL			
Trade receivables		3,719	-4,953
Inventories	34	7,165	-3,284
Trade payables		-1,292	3,865
Liabilities to customers		3,474	7,450
Other changes in working capital		10,409	-2,439
Cash flow from operating activities		4,600	42,061
INVESTING ACTIVITIES			
Investment in subsidiaries and associated companies		0	-395,828
Acquisition of intangible assets		0	0
Investment in property, plant and equipment		-2,413	-1,026
Increase in financial assets		0	0
Cash flow from investing activities		-2,413	-396,854
FINANCING ACTIVITIES			
New share issue		0	208,727
Borrowings		0	50,000
Change of liabilities to related parties		-25,000	-6,250
Cash from subsidiaries		-22,395	95,026
Change in financial receivables		2,324	-2,500
Cash flow from financing activities		-45,071	345,003
Cash flow for the year		-42,884	-9,790
Cash and cash equivalents at beginning of the year		70,724	80,514
Cash and cash equivalents at end of the year		27,840	70,724

Parent Company

Statement of changes in shareholders' equity

	Share capital	Statutory reserve	Share premium reserve	Retained earnings incl. profit/loss for the year	Total shareholders' equity
Shareholders' equity 1 Jan 2015	27,062	25,215	88,754	233	141,264
New share issue	5,796	0	208,657	0	214,453
Share issue costs	0	0	-5,726	0	-5,726
Profit/loss for the year/Total profit/loss	0	0	0	32,195	32,195
Shareholders' equity 31 Dec 2015	32,858	25,215	291,685	32,428	382,186
Profit/loss for the year/Total profit/loss	0	0	0	-18,073	-18,073
Shareholders' equity 31 Dec 2016	32,858	25,215	291,685	14,355	364,113

Notes on the accounts, Parent Company

All amounts are expressed in SEK '000 unless otherwise stated.

Note 27 Total sales

Net sales by region	2016	2015
Sweden	62,802	114,616
Rest of Europe	14,666	8,719
USA	602	2,223
Middle East	30,246	56,535
Rest of the world	10,433	8,191
Total	118,749	190,284

In 2016, the Company had one customer whose share of the company's total net sales exceeded 10 percent.

Note 28 Transactions with shareholders

Liabilities to related parties	2016	2015
Opening liabilities	36,560	0
Amortisation during the year	-26,114	36,560
Non cash movement	-11,926	0
Currency effect	1,480	0
Closing liabilities	0	36,560
Other noncurrent liabilities	2016	2015
Opening	58,466	0
Change during the year	-1,927	64,800
Currency effect	4,166	-6,334
Closing noncurrent liabilities	60,705	58,466

The seller has given a promissory note to the order of MSEK 65.2 (MEUR 6.84 based on Riksbanken's EUR/SEK exchange rate of 31 Dec 2016). The promissory note has a term of seven years and is repaid in five instalments, MSEK 28.7 (MEUR 3) as of 31/07/2018, MSEK 9.6 (MEUR 1) in years four, five and six after execution of the transaction, and MSEK 7.7 (MEUR 0.8) seven years after execution of the transaction.

Note 29 Purchase and sales between group companies

Of the Parent Company's total income from operations, MSEK 9.8 (2.7) refers to remuneration from subsidiaries for services performed. Of the Parent Company's administrative costs, MSEK 2.3 (0.9) refers to remuneration to subsidiaries for services purchased.

Receivables from subsidiaries	2016	2015
Opening receivables	2,725	0
Sales during the year	4,358	2,725
Closing receivables	7,083	2,725
Other noncurrent assets subsidiaries	2016	2015
Opening participations	2,500	0
Change during the year	-2,291	2,500
Closing participations	209	2,500

The fair values of the Group's financial assets correspond with their carrying amounts.

Liabilities to subsidiaries	2016	2015
Opening liabilities	865	0
Purchase during the year	2,488	865
Closing liabilities	3,352	865
Other current liabilities	2016	2015
Opening participations	0	0
Change during the year	0	0
Closing participations	0	0

The fair values of the Group's financial assets correspond with their carrying amounts. The pricing of transactions, such as purchases and sales of goods and services between Group companies, takes place on the basis of market conditions.

Note 30 Expenses by nature of expense

	2016	2015
Cost of goods sold	46,646	78,184
Cost of remuneration to employees (Note 2)	48,548	44,262
Depreciation, amortisation and impairment	1,161	811
Facilities	5,367	2,860
Sales expenses	4,385	9,567
Transportation costs	2,206	2,007
External services	14,237	6,365
Office expenses	2,372	2,406
Research & Development costs	663	301
Other Costs	3,721	7,337
Total	129,306	154,100

Note 31 Intangible assets

Distribution agreements

	2016	2015
Opening cost	1,012	1,012
Acquisitions	0	0
Closing accumulated cost	1,012	1,012
Opening amortisation	-1,012	-737
Amortisation for the period	0	-275
Closing accumulated amortisation	-1,012	-1,012
Carrying amount	0	0

Note 32 Fixed assets

	Improvement expenses leasehold		Machines and other technical plant		Equipment		Motor vehicles	
	2016	2015	2016	2015	2016	2015	2016	2015
Opening accumulated acquisition value	871	0	3,146	3,146	2,925	2,770	438	438
Acquisitions	240	871	0	00	2,193	155	4	0
Disposals	0	0	0	0	-1,162	0	0	0
Closing accumulated acquisition value	1,111	871	3,146	3,146	3,956	2,925	442	438
Opening accumulated depreciation	0	0	-2,093	-1,933	-1,478	-1,248	-256	-109
Disposals	0	0	0	0	1,138	0	0	0
Depreciation for the period	-112	0	-160	-160	-742	-230	-147	-147
Closing accumulated depreciation	-112	0	-2,253	-2,093	-1,082	-1,478	-403	-256
Opening accumulated impairment	0	0	-573	-573	-1,270	-1,270	0	0
Closing accumulated impairment	0	0	-573	-573	-1,270	-1,270	0	0
Carrying amount	999	871	320	480	1,604	177	39	182

Note 33 Operational leasing arrangements

The company has entered into the following operating leases:

	Machines and other technical plan		Premises	
	2016	2015	2016	2015
Lease payments for the year	1,116	1,172	3,835	2,636
The nominal value of future minimum leasing fees for non-cancellable leasing agreements				
Minimum lease payments falling due within 1 year	561	855	2,916	2,566
Minimum lease payments falling due within 1-5 years	110	650	12,653	10,585
Minimum lease payments falling due later than 5 years	0	0	7,800	12,000

Leases for machines, plant and equipment concern photocopy machines and motor vehicles. The lease term varies from three to five years, after which the lessee has the possibility to acquire the leased object, which will probably be the case. There are no variable charges.

Note 34 Inventories

	2016	2015
Acquisition value	27,585	38,686
Changes during the year	-13,563	-17,499
Carrying amount	14,022	21,187

Note 35 Shares and participation in subsidiaries

	2016	2015
Opening acquisition value	395,912	50
Acquisitions for the year	0	395,862
Change in value due to additional purchase price (see note 22)	-11,960	0
Closing accumulated acquisition value	383,952	395,912
Carrying amount	383,952	395,912

Details of wholly owned subsidiaries, their corporate identity numbers and registered offices

Subsidiaries	Corporate Identity Number	Registered offices	No. of share	Carrying amount	
				2016	2015
Sensys Gatso Sweden AB	556811-3376	Jönköping	50	50	50
Sensys Gatso Group BV	34030301	Haarlem, NL	3,598	383,902	395,862
Sub-subsidiaries					
Gatsometer B.V.	34065996	Haarlem, NL	500		
Gatsometer Europa B.V.	34077170	Haarlem, NL	400		
Sensys Gatso Managed Services B.V.	34064750	Haarlem, NL	400		
Gatso Australia Pty Ltd.	ABN20086 166494	Sydney, AUS	1,000		
Gatso Deutschland GmbH	HRB 67669	Hilden, DE	25,000		
DFJ B.V.	34279593	Aerdenhout, NL	50,000		
DFJ Inc.	4375982	Dover Delaware, USA	100		
Gatso USA Inc.	4375979	Dover Delaware, USA	80		
Gatso Asia Ltd.	1196483	Hong Kong, HK	1		
Gatso Canada	BC1009998	Alberta, CA	10,000		

Note 36 Shareholders' equity

Share capital

The share capital of Sensys Gatso Group AB amounts to SEK 32,857,754 (32,857,754), divided into 657,155,077 (657,155,077) shares. The quota value, previously the nominal value, is SEK 0.05 per share. All shares have an equal right to a portion of the company's assets and profits. Each share entitles the holder to one vote. At shareholders' meetings, each person entitled to vote may vote for the full number of shares owned and represented by him/her without any restriction in the number of votes. The share capital and number of shares has developed as follows since 1 January 1995:

Year	Transaction	Increase in number of shares	Increase in share capital (SEK)	Total share capital (SEK)	Number of shares	Nominal value of shares (SEK)
1995	Opening values	-	-	50,000	500	100
1997	Bonus issue	500	50,000	100,000	1,000	100
1998	Split 1000:1	999,000	-	100,000	1,000,000	0.10
1998	Bonus issue	4,000,000	400,000	500,000	5,000,000	0.10
1998	New share issue	1,025,000	102,500	602,500	6,025,000	0.10
1999	New share issue	4,065,999	406,600	1,009,100	10,090,999	0.10
2000	Bonus issue	-	1,009,100	2,018,200	10,090,999	0.20
2000	Split 4:1	30,272,997	-	2,018,200	40,363,996	0.05
2000	Exchange of convertibles	5,888,218	294,411	2,312,611	46,252,214	0.05
2000	New share issue	10,068,556	503,428	2,816,039	56,320,770	0.05
2001	Exchange of convertibles	101,776	5,089	2,821,128	56,422,546	0.05
2002	New share issue	79,787,095	3,989,355	6,810,483	136,209,641	0.05
2003	New share issue	34,781,829	1,739,091	8,549,574	170,991,470	0.05
2004	Redemption of warrants	360,000	18,000	8,567,574	171,351,470	0.05
2004	New share issue	3,171,909	158,595	8,726,169	174,523,379	0.05
2004	New share issue	35,783,672	1,789,184	10,515,353	210,307,051	0.05
2005	Redemption of warrants	3,620,000	181,000	10,696,353	213,927,051	0.05
2006	Redemption of warrants	2,000,000	100,000	10,796,353	215,927,051	0.05
2010	New share issue	71,975,683	3,598,784	14,395,137	287,902,734	0.05
2012	New share issue	191,935,152	9,596,757	23,991,894	479,837,886	0.05
2013	Redemption of warrants	30,909,453	1,545,473	25,537,367	510,747,339	0.05
2013	Redemption of warrants	30,486,975	1,524,349	27,061,716	541,234,314	0.05
2015	Issue for non-cash consideration	115,920,763	5,796,038	32,857,754	657,155,077	0.05

Note 37 Trade receivables

	2016	2015
Age structure of outstanding trade receivables		
Trade receivables not yet due	30,378	19,262
Trade receivables past due but not impaired:		
< 3 months	2,358	8,423
3-12 months	130	6,781
>12 months	0	2,119
	32,866	36,585

The company's customers chiefly comprise companies within the public sector with good creditworthiness. The company has historically experienced very few losses on trade receivables.

Trade receivables past due and impaired

	2016	2015
< 3 months	0	0
3-12 months	0	0
>12 months	348	1,241
Provision for doubtful trade receivables	-348	-1,241
Carrying amount	32,866	36,585

Change in provision for doubtful trade receivables

	2016	2015
Opening provision	1,241	0
Acquisitions (-)/Sales (+)	0	0
Reversal of provision	-1,053	0
Provision for the year	160	1,241
Closing provision	348	1,241

Note 38 Profit/loss from financial investments

	2016	2015
Interest and similar profit/loss items		
Interest income on bank deposits	1	47
Exchange rate effects	3,741	3,983
Other financial income	0	4
Total financial income	3,742	4,034
Interest expense on financial liabilities		
Interest expense	-2,174	-661
Exchange rate effects	-7,779	-1,014
Total financial costs	-9,953	-1,675

Note 39 Bank overdraft facilities and other borrowing

	2016	2015
The Parent company's interest-bearing borrowings		
Due date for long-term loans:		
Within one year, SEK	18,750	25,000
Within one year, EURO	0	36,560
Between two and five years	52,725	59,546
More than five years	7,980	17,670
Total	79,455	138,776
Average interest expenses on borrowings;		
Long-term borrowings, SEK	797	661
Long-term borrowings, EUR	0	0
Total	797	661

Note 40 Tax on profit for the year

	2016	2015
Current tax	0	0
Deferred tax	-866	-6,348
Total	-866	-6,348
Difference between tax expense and tax expense based on applicable tax rate		
Recognised profit/loss before tax	-17,207	38,543
Tax at 22% (22%)	3,785	-8,479
Tax effect of non-deductible expenses	-32	-49
Tax effect of non-deductible income	0	2,180
Effect of unrecognised tax asset relating to tax losses	-4,619	0
Tax on profit/loss for the year in accordance with income statement	-866	-6,348

At 31 Dec 2016 the company had total estimated unutilised tax losses of TSEK 146,212 (125,215). In the annual accounts, total tax losses from 2005 up until Q1 2012 have been recognised as an asset. Tax losses since Q2 2012 not recognised as an asset amounts to MSEK 27.5.

Temporary tax differences

	2016	2015
Deferred tax recoverable		
Accumulated tax losses	21,104	21,104
Temporary differences relating to inventories	2,984	3,850
	24,088	24,954

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which the temporary differences can be utilised. In cases where the company has reported losses in recent years, deferred tax recoverable relating to previous losses is only recognised to the extent that there are compelling circumstances indicating that it will be used to offset future taxable profits. The company has an extensive budget process in order to verify the future taxable profits. Furthermore, there are verifiable circumstances in the form of the current order backlog and agreements with customers.

Temporary differences

Temporary differences referring to the following items have resulted in deferred tax liabilities and deferred tax assets. These items have indefinite useful lives. Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised, as a sale would not result in taxation.

Note 41 Prepaid expenses and accrued income

	2016	2015
Prepaid lease payments	121	234
Prepaid rent	1,123	933
Other items	641	1,726
Total	1,885	2,893

Note 42 Accrued expenses and deferred income

	2016	2015
Accrued salaries	1,522	4,949
Holiday pay liability	3,725	4,111
Social charges	4,010	3,459
Accrued interest expense	81	228
BoD	1,556	1,129
Restructuring costs	1,106	0
Other liabilities	1,883	808
Total	13,883	14,684

Note 43 Provision for guarantee expenses

	2016	2015
Opening provision	7,144	5,077
New provision during the year	1,914	4,862
Release of provision	-4,744	-2,795
Closing	4,314	7,144

	2016	2015
Guarantee provision 0-360 days	3,387	5,115
Guarantee provision > 360 days	927	2,029
Total	4,314	7,144

Note 44 Audit fees and reimbursement of related costs

	2016	2015
PwC		
Audit assignment	1,280	1,144
Auditing work over and above the audit assignment	944	556
Tax consulting	634	436
Other assignments	94	1,656
Total	2,952	3,792

Note 45 Pledged assets and contingent liabilities

	2016	2015
Pledged assets		
Floating charge	30,000	30,000
Total pledged contingent liabilities	30,000	30,000

	2016	2015
Contingent liabilities		
Guarantees, customer authorities	0	10,000
Total contingent liabilities	0	10,000

In 2013 the company deposited SEK 10 million with a bank, which will be frozen under a performance bond in the contract with the Swedish Transport Administration. The guarantee expired in July 2016.

Note 46 Parent Company

The Parent Company's business name is Sensys Gatso Group Aktiebolag. The company is a limited liability company, registered with the Swedish Companies Registration Office, with its registered office in the County of Jönköping, the Municipality of Jönköping, and with the Corporate Identity Number 556215-4459. The company's visiting address is Vasavägen 3c, Jönköping, Sweden.

Sensys Gatso Group AB is the Parent Company of the Sensys Gatso Group, one of the world's leading traffic safety supplier. The Group develops, manufactures and markets traffic safety systems that preliminary used for monitoring red-light and speed control. At year end, Sensys Gatso Group AB had 21,150 shareholders. Together, the ten largest shareholders hold 34.6 percent (37.3) of the shares outstanding.

Note 47 Events after the balance sheet date

After the year end closing Sensys Gatso has transferred its business operations to the fully owned subsidiary Sensys Gatso Sweden AB.

» The Board of Directors proposes that no dividend payment is made for 2016 (0).

» The Board of Directors of Sensys Gatso Group has started a process to recruit a new CEO. Torbjörn Sandberg will remain in the role as CEO until a new CEO has been recruited.

During the period from the balance sheet date to the signing of this Annual Report, no significant events have occurred and no information on circumstances on the balance sheet date or thereafter, whether favourable or unfavourable, has required additional disclosures, other than what has been stated above.

Note 48 Proposed appropriation of profit or loss

The following profits are at the disposal of the Annual General Meeting:

Share premium reserve	291,685
Retained earnings	32,428
Profit for the year	-18,073
Total TSEK	306,040

The Board of Directors proposes that no dividend will be paid for 2016 and the retained earnings be carried forward.

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 that they provide a true and fair view of the Group's financial position and the results of its operations.

The annual report has been prepared in accordance with generally accepted accounting principles in Sweden and provides a true and fair view of the Parent Company's financial position and results.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and the Parent Company's operations, financial position and results, and describes significant risks and uncertainty factors facing the Parent Company and other companies within the Group.

The income statements and balance sheets will be submitted for adoption at the AGM on 18 May 2017.

Jönköping, 25 April 2017

Claes Ödman
Chairman of the Board

Jochem Garritsen
Board Member

Pia Hofstedt
Board Member

Kerstin Sjöstrand
Board Member

Ingemar Skogö
Board Member

Katarina Staaf
Board Member

Torbjörn Sandberg
Chief Executive Officer

Our audit report was submitted on 25 April 2017

Martin Odqvist (auditor in charge)
Authorised Public Accountant

Magnus Brändström
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Sensys Gatso Group (publ.), Corporate Identity Number 556215-4459

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Sensys Gatso Group (publ.) for the financial year 2016 with the exception of the Corporate Governance Report on pages 16-21. The annual accounts and consolidated accounts of the company are included on pages 12-54 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the Corporate Governance Report on pages 16-21. 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 judgments; 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.

Sensys Gatso Group's operations are undertaken in a number of units in six countries.

The group audit team has audited the parent company, the consolidation of the group accounts, the consolidated accounts and a number of complex transactions and issues, such as the determination of the acquisition analysis for Gatso Beheer BV, the valuation of the tax recoverables attributable to the unutilized tax losses in the US and the impairment test regarding goodwill. As the parent company undertakes significant business activities, we have executed a full audit of those activities.

In addition to its Swedish operations, Sensys Gatso Group is comprised of a sub-group, Gatso Beheer BV. The audit of this sub-group has been coordinated and has, also, to a large degree, been executed by BDO Netherlands. Based on our instructions, BDO has undertaken a full audit of the consolidation of the sub-group and of the three larger entities, Gatsometer B.V. (the Netherlands), Gatso USA Inc and Gatso Australia Pty. BDO Netherlands has undertaken analytical procedures as regards a small number of entities within Gatso Beheer whose combined scope comprises only a very limited portion of the total operations of Gatso Beheer BV.

According to generally accepted audit standards, the group auditor is to ensure that the auditors in the entities, that is, in this case, BDO, have executed the correct audit activities and that these have been undertaken with a sufficiently high quality as regards the identification of audit risks. As BDO executed audit work which was significant in the audit of the group, and as BDO is not a part of the PwC network, this duty on behalf of the group auditor is of extra importance. Consequently, we have designed special instructions for BDO Netherlands and have ensured, via ongoing communication and meetings, as well as through written confirmations, that BDO has understood and has given consideration to these

instructions. We have studied, discussed and evaluated the risk and materiality assessments which the unit auditors planned to apply and which they have also used in their audits. We have also visited Sensys Gatso Group's operations in Haarlem and participated in the annual closing meeting of the audit together with local company management. On the same occasion we reviewed significant audit activities undertaken by BDO Netherlands and studied their audit documentation.

All in all, this implies that we have evidenced that there exists sufficient audit evidence for our audit of Sensys Gatso Group, regardless of whether the audit activities in question have been executed by ourselves or by an entity auditor.

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

Impairment test of goodwill

Of the group's total balance sheet, MSEK 239, or 39%, is comprised of goodwill.

On page 35 and in Note 5- Intangible Fixed Assets, Sensys Gatso Group describes their valuation of reported goodwill. As these assets are not written off on an ongoing basis, an annual impairment test is, instead, to

be executed. Sensys Gatso Group has undertaken this test during the final quarter of 2016.

An impairment test contains a number of assumptions, amongst others, regarding future market developments, the possibility of achieving growth, profit development and the discount factor. In other words, the judgments and estimations made by group management and the Board are complex.

As seen in Note 1, financial year 2016 is the first year in which Sensys Gatso Group reports more than one segment. This implies that the Group was required, prior to the impairment test being undertaken, to allocate goodwill between the two segments.

As goodwill comprises a significant amount and the assumptions required include judgments and estimations each of which can have decisive importance for the valuation, this area has been of special significance in the audit.

How our audit addressed the Key audit matter

We examined to determine that the allocation between the two segments had been executed in accordance with generally accepted accounting standards.

We subsequently checked, together with PwC's valuation specialists, the prepared impairment tests, one per segment, to ensure that they had been undertaken according to established principles and methods.

In our audit, we checked the most important assumptions made by the group management and Board of Directors which were applied in the impairment tests, such as those regarding growth, profitability and the discount rate. We assessed these assumptions, by comparing against Sensys Gatso Group's budget and also against historical outcome. We executed an independent assessment with the starting point being the market economic premises for the various cash-generating units included in each segment.

Applied discount rates per segment were checked against observable market data. We also examined the starting point for the determination of significant assumptions to ensure that they are consistent with the previous year.

We audited the simulations and sensitivity analyses undertaken by the group management and Board of Directors. These tests have also provided the basis for our control of the disclosures provided in the annual report in Note 5.

As a final, overall control, we have compared the company's stock exchange value

in relation to its calculated net realizable value.

Valuation of deferred tax recoverables attributable to unutilised tax losses

In Note 16, it is stated that the group reports deferred tax assets in a total of MSEK 52. Of this amounts, MSEK 21 refers to unutilized tax losses in Sweden, respective MSEK 28 in the US:

In the American operations, which were included in the acquisition of Gatso Beeher, there was a fiscal deficit. When the group management and Board of Directors determined the acquisition analysis, which is described in Note 21, it was concluded that the deficit could be confirmed, whereby an unutilized tax loss was reported.

In order to assess the value of unutilized tax losses, group management and the Board of Directors must make assumptions on the amount of future taxable profits, which are impacted by market conditions and the company's performance in each country of operation. The complexity of this assessment is enhanced by the fact that the operations in Sweden are volatile, and is also due to the fact that the unutilized tax losses in the US are limited in time and amount.

Based on the size of the deferred tax assets, and as the valuation includes significant judgments, this audit activity has comprised a significant area in our audit.

Initially, we sought to determine whether the deficit in the US remained after the acquisition. Due to the complexity of the issue, Sensys Gatso Group had requested the assistance of an external specialist to investigate this. Together with our own tax specialists, we studied the company's and the external specialists' investigations and examined the underlying premises and calculation.

We subsequently obtained copies of the calculations, as regards both Sweden and the US, which the company management had prepared in order to assess the possibility of utilizing the tax losses in future years. As regards the American tax asset, we checked, together with our tax specialists, to determine if the correct premises had been applied. This was done as we deemed the degree of complexity in the US tax system as regards unutilized tax losses to be relatively high. We examined to determine if the forecasts applied were those approved by the Board of Directors, and we compared net sales and profitability with previous years' outcomes. We also examined the assumptions applied in the calculations to determine if they were consistent with the impairment testing of goodwill.

In executing our audit, we examined to determine if there were any forthcoming changes in the tax regulations in Sweden, and in the US, which could impact the possibility of utilizing the tax losses or could impact the size of the losses that can be utilized.

We also examined the disclosures Sensys Gatso provide in Note 16 to determine if they are correct. In the same Note, there is a statement that the entire amount of unutilized tax losses in Sweden has not been reported as an asset.

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 1-11 and 58-60. 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. 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 Sensys Gatso Group 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. This description is part of the auditor's report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 16-21 has been prepared in accordance with the Annual Accounts Act.

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

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

Jönköping, 25 April 2017

Öhrlings PricewaterhouseCoopers AB

Martin Odqvist
Authorised Public Accountant
Auditor in Charge

Magnus Brändström
Authorised Public Accountant

Information to the shareholders

Sensys Gatso Group AB (publ) will publish the following financial information:

- » Q1 2017, 17 May
- » Q2 2017, 31 August
- » Q3 2017, 23 November

Annual reports and other reports are available at our website at www.sensysgatso.com and can also be ordered directly from Sensys Gatso.

Annual General Meeting of Shareholders

Sensys Gatso will hold its Annual General Meeting of Shareholders on 18 May 2017 at 3pm at Elite Stora Hotellet, Hotellplan, Jönköping.

Right to participate in the Annual General Meeting

Shareholders wishing to attend the Annual General Meeting of Sensys Gatso must be recorded in the share register maintained by Euroclear Sweden AB no later than 12 May 2017, and have given notice of their intention to attend the Meeting by 12 May 2017.

In order to be entitled to attend the Annual General Meeting and exercise their right to vote, shareholders whose shares are registered under a nominee name must temporarily register the shares in their own name. Such re-registration must be handled by the trustee/bank and shall be completed with Euroclear Sweden AB by 12 May 2017.

Notification of intention to attend

Notice of intention to attend the Annual General Meeting must be made to Sensys Gatso by 12 noon on 12 May, by mail:

Sensys Gatso Group AB
Box 2174
550 02 Jönköping
by telephone: +46 (0)36-34 29 98
by fax: +46 (0)36-12 56 99
or by e-mail: info@sensys.se

Audit committee

Due to the size of the company, it has not been deemed necessary to set up a separate audit committee.

Remuneration committee

No separate remuneration committee has been appointed in the company. Issues relating to remuneration for the CEO are handled by the Chairman in consultation with the other Board members.

Decisions on remuneration to other senior executives are made by the CEO in consultation with the Chairman of the Board.

Nominating committee

The nominating committee prepares proposals for the Annual General Meeting with regard to the election and remuneration of Board members and auditors. The nominating committee meets when required, although at least once a year. Since the AGM held on 14 October 2016, the nominating committee of Sensys Gatso Group AB (publ) has been composed of the following members:

Timo Gatsonides, for own holdings (Chairman)
T +31 6 22 775 901
E-mail t.gatsonides@sensysgatso.com

Gunilla Nyström, appointed by AMF fonder
T +46 (0)70-281 74 60
E-mail gunilla.nystrom@amf.se

Jan Johansson, appointed by Inger Bergstrand
T +46 (0)8-149502 or +46 (0)706-709047
E-mail jjfab@telia.com

Clas Ödman, as Chairman of the Board
T +46 (0)70-852 8512
E-mail claes.odman@ascom.com

Proposals to the nominating committee must be submitted to the Chairman, Timo Gatsonides.

Contact for financial information

Niki Gatsonides, Chief Financial Officer
T +31 6 22 775 900
E-mail n.gatsonides@sensysgatso.com

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VAT NO SE556811-3376

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Sensys Gatso's website
- www.sensysgatso.com -
contains detailed and up-to-date financial information. The website also has a subscriber service for those wishing to subscribe to press releases and reports via e-mail.

Sensys Gatso is a global leader in traffic management solutions for nations, cities and fleet owners. Sensys Gatso has subsidiaries in Australia, Germany, the Netherlands, Sweden, and the USA, and a branch office in the United Arab Emirates. The Sensys Gatso Group's shares are listed at NASDAQ Stockholm and has a total of 169 employees.

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