

Sensys Traffic AB (publ)

Interim Report, January–September 2014

JULY–SEPTEMBER 2014

- Net sales for the quarter amounted to SEK 43.0m, compared with SEK 3.3m in the same period last year
- Order intake totalled SEK 21.8m (119.0)
- Operating income amounted to SEK 12.5m (-6.6), corresponding to an operating margin of 28.9 percent (Neg)
- Profit after tax for the quarter was SEK 9.7m (-6.7)
- Earnings per share before and after dilution amounted to SEK 0.02 (-0.01)
- Cash flow from operating activities totalled SEK 8.6m (5.7)

JANUARY–SEPTEMBER 2014

- Net sales amounted to SEK 101.8m, compared with SEK 30.3m in the same period last year
- Order intake totalled SEK 50.3m (140.1)
- Operating income amounted to SEK 14.1m (-14.4), corresponding to an operating margin of 13.9 percent (Neg)
- Profit after tax for the period was SEK 11.0m (-14.5)
- Earnings per share before and after dilution amounted to SEK 0.02 (-0.03)
- Cash flow from operating activities totalled SEK 16.1m (1.5)

CEO COMMENTARY: DELIVERIES LAY THE FOUNDATIONS FOR THE FUTURE

Net sales continued to increase in the third quarter compared with Q3 2013, amounting to SEK 43.0m, and were consistent with the strong net sales in the second quarter of 2014. In Q3, growth was persistently fuelled by deliveries to the Swedish Transport Administration. Operating income for the quarter amounted to SEK 12.5m, compared with SEK -6.6m in the same period last year, which corresponded to an operating margin of 28.9 percent.

Production and service are now coordinated following restructuring in the second quarter, which means that the gross margin amounted to 48.5 percent, a significant improvement on 20.9 percent for the same period in 2013. The gross margin also saw a sequential improvement compared with Q2 2014, when it amounted to 40.7 percent.

The contract with the Swedish Transport Administration, which currently totals SEK 128m, has now entered a new phase, with replacements and new installations being continually carried out in the Swedish road network. The contract is evidence of Sensys' capacity to deliver large volumes, which is an important competitive factor when it comes to getting established on markets outside Sweden. Internationalisation is a significant element of our growth strategy. Sensys intends to increase its presence on the key markets in the Middle East and Southeast Asia via the establishment of local companies providing sales and service, with the aim of bringing our offering closer to the customer. The local companies will enable us to market our products more effectively to both existing and new customers, thus increasing opportunities for add-on and new sales.

We are continuing to market potential customers in the railway market with our pantograph monitoring systems on trains (APMS), and we are seeing a rise in interest in Sensys' solutions among the major European railway operators. In Q3 we continued our APMS partnership with the Finnish Transport Agency.

Our objective is to continue to outpace the market in terms of growth. Competitive products, an established delivery and service organisation, effective customer relationships, strong reference projects and in particular, a stable financial position, all combine to give Sensys excellent opportunities for continued organic growth. The regional markets are fragmented, with high entry barriers, which is why we are also continuing to examine opportunities to grow via acquisitions.

Johan Frilund

CEO, Sensys Traffic AB

KEY FIGURES

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

SEK K	July–Sept 2014	July–Sept 2013	Jan–Sept 2014	Jan–Sept 2013	Oct 2013– Sept 2014	2013
Net sales	43,042	3,262	101,837	30,276	134,029	62,467
Order intake	21,822	119,000	50,326	140,100	80,472	169,700
Operating profit/loss	12,457	-6,630	14,128	-14,383	17,880	-10,656
Operating margin (%)	28.9	Neg	13.9	Neg	13.3	Neg
Gross margin (%)	48.5	20.9	43.6	39.9	44.2	43.2
Profit/loss for the period	9,700	-6,667	11,029	-14,470	14,551	-10,523
Earnings per share (SEK)	0.02	-0.01	0.02	-0.03	0.03	-0.02
Cash flow	8,601	5,673	16,114	1,511	31,114	19,747

Sensys Traffic is a leading supplier of system solutions for traffic safety within the ATC area (automatic traffic safety control). Sensys develops, markets and sells systems that are mainly used to monitor and register speed limit violations and for red-light enforcement. In addition to sales of systems, Sensys Traffic also provides service and maintenance. Sensys Traffic's end customers are primarily police and road authorities all round the world, but also include private operators. Sales are conducted either directly or via partners, agents and distributors. Sensys Traffic is headquartered in Jönköping, Sweden, is listed on NASDAQ OMX Stockholm, has 41 employees and turnover for 2013 was SEK 62.5 million.

For further information, visit www.sensys.se

Significant events during the quarter

Sensys won an order from the Swedish Transport Administration worth SEK 11.7m regarding additional ATC systems for the Swedish road network. The order, which is a follow-on order on the contract that was signed in 2013, is to be delivered in its entirety during 2014.

International order intake in the third quarter amounted to SEK 8 million and came from the US, Mexico and Malta, where Mexico constitutes a new market for Sensys.

Earnings

July–September 2014

Net sales continued to increase in the third quarter compared with 2013, amounting to SEK 43.0m, and chiefly comprised deliveries for the Swedish ATC project (38.2).

The gross margin for the quarter was 48.5 percent (20.9). Aside from the normal sale of goods, the gross margin has been affected positively in the amount of SEK 3.2m through the sale of the previously fully impaired inventory in Saudi Arabia.

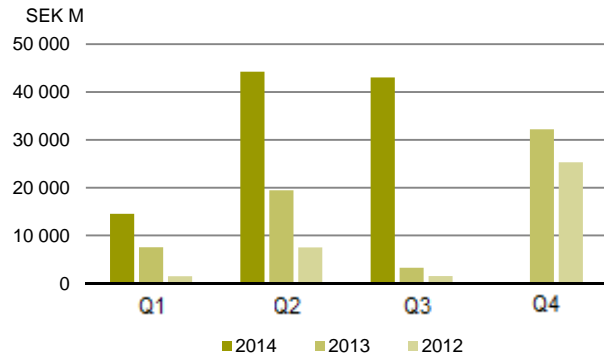
January–September 2014

Net sales for the period increased, amounting to SEK 101.8m (30.3), and relate mainly to deliveries to the Swedish Transport Administration and to customers in the Middle East.

The gross margin for the period was 43.6 percent (39.9). Aside from the normal sale of goods, the gross margin has been affected both negatively and positively: negatively as costs of SEK 1.1m for the establishment of the maintenance organisation in Sweden have impacted on the cost of goods sold during the period, and positively in the amount of SEK 3.2m through the sale of the previously fully impaired inventory in Saudi Arabia.

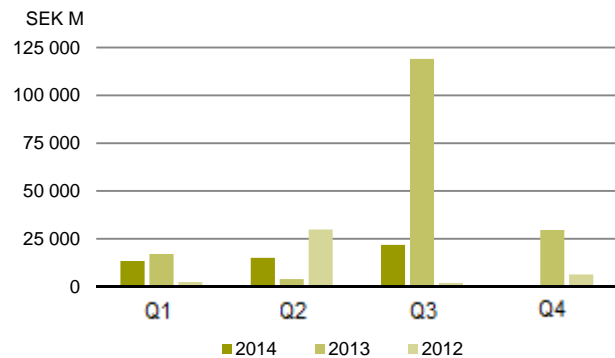
Sensys' Swedish maintenance organisation has been generating positive gross margins since May.

Net sales by quarter



Net sales in the third quarter relate mainly to deliveries for the Swedish ATC project

Order intake by quarter



Earnings

July–September 2014

Overhead costs totalled SEK 8.4m (7.3). The lower overheads for 2013 are due to the percentage completion method that the company applies for the contract with the Swedish Transport Administration. This means that development costs for ATC Sweden had a negative impact on the gross margin.

Operating income amounted to SEK 12.5m and profit/loss after tax to SEK 9.7m (-6.7).

January–September 2014

Operating income for the period amounted to SEK 14.1m (-14.4) and profit/loss after tax to SEK 11.0m (-14.5).

All costs for non order-specific development work are charged to profit/loss as incurred.

Of the inventory attributable to the cancelled Saudi contract, which originally amounted to SEK 64m, a book value of SEK 0m (6) remains at 30 September.

Financial position

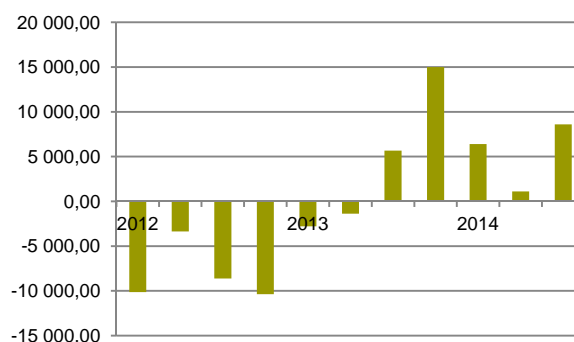
At the end of the period, equity totalled SEK 125.0m (114.0), which gave an equity/assets ratio of 74.6 percent (78.8).

Cash flow

Cash flow from operating activities totalled SEK 16.1m (19.7) for the period and SEK 8.6m (5.7) for the third quarter.

At the end of the period, cash and cash equivalents amounted to SEK 63.1m (49.2), of which SEK 0.3m (0.6) was in short-term investments. In addition, the company has SEK 10m (10) in a blocked bank deposit of 18 months as a performance bond regarding the contract with the Swedish Transport Administration.

Cash flow



Investments

Investments in the period totalled SEK 2.2m (0), of which SEK 0m were made during the third quarter.

Sensys shares

At the end of the period, the number of shares totalled 541,234,314 (541,234,314).

The average number of shares in the period was 541,234,314 (505,680,411).

Workforce

The average number of employees was 41 persons (32), and the number of employees at the end of the period was 41 (32).

Risks and uncertainties

The Company's significant risk and uncertainty factors include business risks related to customers, suppliers and general global conditions. There are also financial risks associated with fluctuations in exchange rates and interest levels.

A summary of the Company's significant financial and business risks is set out on pages 12, 26 and 33 of the Annual Report for 2013. No additional material risks are deemed to have arisen since then.

This report has been the subject of a review by the company's auditor. The review report is available on page 11.

For further information, please contact:
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+46 73 274 28 23

This information is such that Sensys Traffic AB (publ) is required to publish in accordance with the Securities Market Act and/or the Swedish Financial instruments Act.

This information was submitted for publication at 8.30 a.m. on 29 October.

Significant events after the end of the reporting period

From the end of September up until the date of publication of this report, no significant events have occurred and no information on circumstances, whether favourable or unfavourable, has required additional disclosures, other than what has been stated above.

Invitation to presentation for press and analysts

On 29 October at 9.30 a.m., CEO Johan Frilund will present the report and respond to questions in an audiocast. The presentation can be followed online via the link on Sensys' website: www.sensys.se. You can also listen to the presentation and ask questions over the telephone, using the following numbers:

Sweden: 08 505 20 114

US: +1 334 323 6203

UK: +44 (0) 207 1620 177

Password: Sensys.

Please call 10 minutes prior to the specified time.

Forthcoming financial reports

Year-end Report, 2014	29 January 2015
Interim Report, January–March 2015	22 April 2015
Annual General Meeting, 2014	22 April 2015
Half-year Report, 2015	27 August 2015
Interim Report, Jan–Sept 2015	22 October 2015

Accounting policies

This interim report has been prepared in compliance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The accounting policies applied are unchanged from the most recent annual report. As of the fourth quarter 2013, income related to the order from the Swedish Transport Administration is reported in accordance with the percentage completion method. The Company follows the Swedish Annual Accounts Act and Recommendation RFR 2 Reporting for Legal Entities of the Swedish Financial Reporting Board. The application of RFR 2 implies that in this interim report the Company applies all EU endorsed IFRS items and statements made as far as possible within the framework of the Swedish Annual Accounts Act, and taking into account the connection between reporting and taxation.

In July 2010, Sensys Traffic acquired all shares in a Swedish limited company [aktiebolag] that now has the name Sensys International AB. This company is completely dormant, and has been since it was formed. The objective of the acquisition was solely to fulfil conditions in an international procurement process. Sensys does not intend to carry out any business activity through Sensys International AB within the forthcoming year. In view of the fact that Sensys International AB is dormant, and has never carried out any business, no consolidated accounts have been prepared.

Condensed income statement

SEK K	July–Sept 2014	July–Sept 2013	Jan–Sept 2014	Jan–Sept 2013	Full-year 2013
Net sales	43,042	3,262	101,837	30,276	62,467
Cost of goods sold	-22,160	-2,578	-57,428	-18,181	-35,477
Gross profit	20,882	684	44,409	12,095	26,990
Selling costs	-4,229	-4,872	-14,269	-13,762	-19,025
Administrative costs	-842	-1,475	-3,337	-4,130	-5,875
Development costs	-3,386	-967	-12,674	-8,586	-12,747
Other operating costs/income	32	0	-1	0	0
Operating profit/loss	12,457	-6,630	14,128	-14,383	-10,656
Net financial items	-22	-37	11	-87	133
Profit/loss before tax	12,435	-6,667	14,139	-14,470	-10,523
Tax	-2,735	0	-3,110	0	0
Total comprehensive income/loss for the period	9,700	-6,667	11,029	-14,470	-10,523
Number of shares	541,234	510,747	541,234	510,747	541,234
Earnings per share	0.02	-0.01	0.02	-0.03	-0.02

Cash flow from operations

SEK K	July–Sept 2014	July–Sept 2013	Jan–Sept 2014	Jan–Sept 2013	Full-year 2013
Operating profit/loss	12,457	-6,630	14,128	-14,383	-10,656
Items not affecting cash flow	258	33	677	106	151
Changes in working capital, incl. net financial items	-4,114	12,270	1,309	15,788	30,252
Cash flow from operating activities	8,601	5,673	16,114	1,511	19,747
Investments in property, plant and equipment	-23	0	-1,674	-17	0
Investments in intangible non-current assets	0	0	-550	0	-21
Increase in non-current receivables	0	0	0	0	-10,000
New share issue, net after issue costs	0	0	0	8,967	27,041
Changes in cash and bank balances	8,578	5,673	13,890	10,461	36,767
Cash and cash equivalents at beginning of the period	54,535	17,244	49,223	12,456	12,456
Cash and cash equivalents at end of the period	63,113	22,917	63,113	22,917	49,223

Condensed balance sheet

SEK K	30/09/2014	30/09/2013	31/12/2013
Assets			
Intangible non-current assets	317	116	92
Property, plant and equipment	1,368	61	45
Financial non-current assets ¹⁾	36,018	39,128	39,128
Non-current receivables ²⁾	10,000	10,000	10,000
Trade receivables	38,006	7,731	27,889
Inventories	15,761	26,730	16,126
Other current assets	2,789	3,103	2,109
Cash and bank balances	63,113	22,917	49,223
Total assets	167,372	109,786	144,612
Equity and liabilities			
Equity	124,999	91,949	113,970
Trade payables	19,999	3,792	4,637
Other current interest-free liabilities	22,374	14,045	26,005
Total equity and liabilities	167,372	109,786	144,612

¹⁾ Tax recoverable SEK 36.0m (39.1)

²⁾ Blocked bank deposit in 18-month as a performance bond regarding the contract with the Swedish Transport Administration.

Changes in equity

SEK K	July–Sept 2014	July–Sept 2013	Jan–Sept 2014	Jan–Sept 2013	Full-year 2013
At beginning of the period	115,299	98,616	113,970	97,452	97,452
New share issue	0	0	0	8,967	27,041
Total comprehensive income/loss for the period	9,700	-6,667	11,029	-14,470	-10,523
At end of the period	124,999	91,949	124,999	91,949	113,970

Income statement, quarterly data

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Net sales	43,042	44,249	14,545	32,192	3,262	19,463	7,551	25,310
Cost of goods sold	-22,160	-26,232	-9,036	-17,296	-2,578	-10,408	-5,195	-12,669
Gross profit	20,882	18,017	5,509	14,896	684	9,055	2,356	12,641
Overhead costs	-8,425	-11,335	-10,486	-11,177	-7,314	-9,887	-9,279	-10,842
Operating profit/loss	12,457	6,682	-4,977	3,719	-6,630	-832	-6,923	1,799
Net financial items	-22	-24	23	228	-37	69	-117	386
Profit/loss before tax	12,435	6,658	-4,954	3,947	-6,667	-763	-7,040	2,185
Tax	-2,735	-1,465	0	0	0	0	0	-7,620
Profit/loss for the period/ Total comprehensive income/loss for the period	9,700	5,193	-4,954	3,947	-6,667	-763	-7,040	-5,435

Key figures and other information

	2014			2013				2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Earnings per share, SEK ⁽¹⁾²⁾	0.02	0.01	-0.01	0.01	-0.01	0.00	-0.01	-0.01
Equity per share, SEK ⁽¹⁾²⁾	0.23	0.21	0.20	0.21	0.18	0.19	0.19	0.20
Cash flow per share, SEK	0.02	0.00	0.01	0.03	0.01	0.00	-0.01	-0.02
Gross margin, %	48.5	40.7	37.9	46.3	20.9	46.5	33.5	49.9
Operating margin, %	28.9	15.1	Neg	11.6	Neg	Neg	Neg	7.0
Equity/assets ratio, %	74.6	72.7	79.4	78.8	83.7	85.2	87.4	89.3
Order intake, SEK K	21,822	15,050	13,454	29,600	119,000	4,000	17,100	6,400

¹⁾ Refers to profit/loss and equity before and after dilution.

²⁾ Sensys does not have any outstanding incentive programmes that entail a dilution effect.

For definitions of key figures, please refer to the annual report for 2013, which is available on the company's website www.sensys.se



Report of Review of Interim Financial Information

Introduction

We have reviewed the condensed interim financial information (interim report) of Sensys Traffic AB (publ.) as of 30 September 2014 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Report Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act.

Jönköping, 29 October 2014

Öhrlings PricewaterhouseCoopers AB

Martin Odqvist
Authorized Public Accountant
Auditor in Charge

Magnus Brändström
Authorized Public Accountant