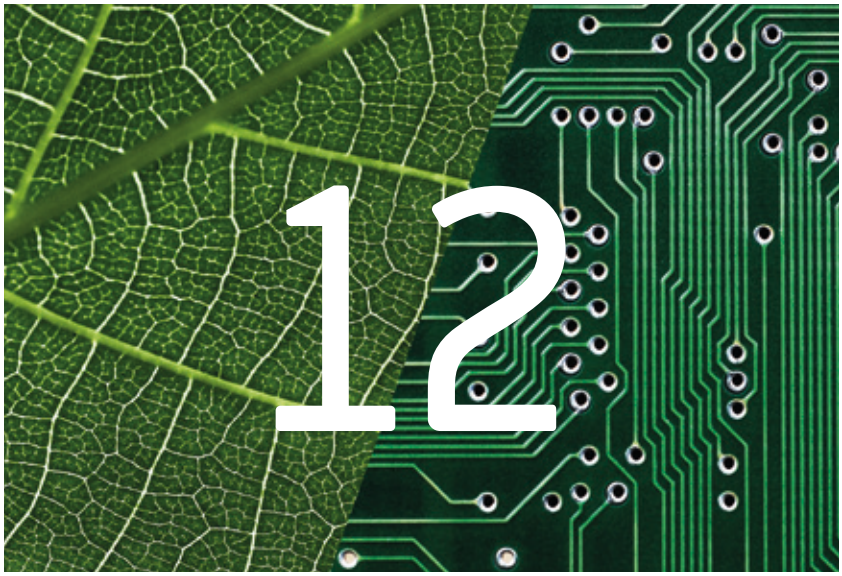
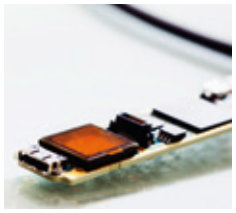
SMART EYE®

Smart Eye
Annual Report **2016**

Smart Eye





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2016 in Brief

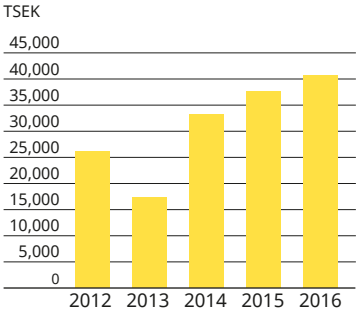
- Net revenue amounted to TSEK 40,743 (37,572), equivalent to an increase of 8.4%.
- Operating profit amounted to TSEK –11,159 (–2,568).
- Profit after financial items was TSEK –12,403 (–3,863).
- The company was listed on Nasdaq First North on 7 December 2016. At the same time, new shares were issued for SEK 80.5 million.
- During the year, cooperation was initiated with Neonode concerning opportunities to combine eyetracking and touch technologies.
- Smart Eye's cooperation with OmniVision and Osram led to an exhibition of the next generation of miniaturised hardware at JSAE, Japanese Society of Automotive Engineers.
- Smart Eye's cooperation with Autoliv on the LIV car was exhibited at CES in Las Vegas in January 2017.

Key Figures

TSEK	2016	2015
Net revenue	40,743	37,572
Operating profit	–11,159	–2,568
Profit after tax	–12,403	–3,863
Profit per share*, SEK	neg.	neg.
Equity ratio, %	83	25
Number of employees as at 31 December	49	36

* Does not include shares from the new issue before the listing on Nasdaq First North.

Net revenue



"We identify future needs and deliver real innovation.

"Vision – Smart Eye will be a world leader within technology that understands, assists and predicts human intentions and actions.

"Mission – We bridge the gap between man and machine for a better, sustainable world tomorrow.

"Objective – Smart Eye's objective is to be the leading player within eyetracking for vehicles and to maintain its position as the leading supplier of advanced eyetracking systems for research applications.

This is Smart Eye

Smart Eye was founded to bridge the gap between man and machine for a better, more sustainable world tomorrow. We do this by developing groundbreaking eyetracking technology that understands, assists and predicts human intentions and actions. Today, we offer systems for future research and applied solutions for the automotive industry based on deep technical knowledge and investigative creativity, while persistently striving to achieve the unattainable. As a global industry leader, we continuously look ahead to first identify future requirements and then deliver real innovation.

Company and offering

Today, our activities are conducted within the two business areas of **Research Instruments** and **Applied Solutions.** Within Research Instruments, Smart Eye provides advanced eyetracking systems to measure and analyse human behaviour. Within Applied Solutions, Smart Eye provides eyetracking software for integration in vehicles.

About eyetracking

Eyetracking is a technology to measure gaze and track eye movement. Sensors can be used to detect a person's eyes, calculate their gaze and track the eyes' movement. Studying a person's eye movements makes it possible to assess their alertness, attentiveness and focus, and thereby gain an impression of the person's awareness and mental state.

An eyetracking system often uses eyetracking together with an ordinary computer and screen, where eyetracking is either integrated in the screen, or is a free-standing element connected to the screen. More advanced eyetracking systems use several cameras for eyetracking of more than one person in a larger environment, such as an aircraft simulator. For portable eyetracking, the technique is integrated with a forward-looking camera.

Today, eyetracking is an established technology used in a number of areas such as communication, computer interaction, behaviour analysis, market surveys and identification, and in vehicles and other specialist applications. Eyetracking can be used for several purposes:

- Analysing and understanding human behaviour and interaction with the surrounding world.
- Enabling interaction between man and machine.
- Hands-free computer interaction.

Eyetracking and AI are making the world safer

Smart Eye was founded in 1999 with the vision that eyetracking would one day be used in all communication between man and machine. Today, we can see how the world is facing what some users call the fourth industrial revolution: artificial intelligence, following in the wake of steam, oil and IT. We are now close to achieving the smart society in which autonomous vehicles are just one example of how Smart Eye's vision can be achieved. With Eyetracking and AI we are making the world safer.

Eyetracking is no longer just exciting research, as we can see how the technology is becoming part of people's everyday lives. Eyetracking is built into passenger vehicles to create a new, higher level of traffic safety.

Eyetracking in passenger vehicles allows for a number of functions, of which the most important is autonomous driving. Self-driving cars are being developed in stages, with the vehicle handling an increasing element of propulsion, although the driver will still need to handle certain situations. Eyetracking is the tool to ensure that the driver is alert and attentive.

Development in 2016

During the year, Smart Eye took some major steps in its development from a research-oriented development company into a producer for the mass market, thanks to successful financing. In June, SEK 36 million was contributed to the company via a private placement, and in December, a new share issue contributed SEK 80 million. This has given us a basis to grow, and to recruit sales personnel, developers and researchers.

> "We are approaching the smart society, with self-driving cars.

The market developed strongly during the year within both Aviation and Automotive. Evaluations show that sales of research instruments in these areas have increased by 10%. This rapid, technology-driven development is motivated by increasing safety requirements. Within Automotive, passive safety is now being supplemented with active safety. Previously, safety was related to building better roads and vehicles, while the new technology is focused on people. There is enormous potential, since eyetracking technology will be installed in every vehicle and will be just as normal as three-point seat belts have become today.

Applied Solutions

Within the Applied Solutions business area, we are working in close collaboration with the automotive industry and have chosen to focus on responding to the industry's strong interest in and the high demands made of eyetracking. During the year we delivered a large number of systems, and several procurement procedures are ongoing. Due to this strong demand, we redeployed our internal resources. As a result, the Applied Solutions business area increased its revenue from SEK 9.2 million to SEK 16.6 million.

Research Instruments

Within the Research Instruments business area we offer advanced eyetracking systems for analysis of human behaviour. To a great extent this activity performed according to plan,

although we can note a slightly reduced market share. This downturn, predominantly in the second and third quarters, is a consequence of the strengthening of Applied Solutions with sales and development resources. Despite these circumstances, Research Instruments achieved revenue of SEK 24 million, compared to just over SEK 28 million.

Successful financing made it possible to recruit to both compensate and strengthen our efforts within sales, as well as research and development. The fourth quarter of 2016 showed significantly higher revenue than in previous quarters, which contributed to the good result in the circumstances.

Business development

A third interesting area is business development, whereby we develop new platforms and systems, together with partners. One of the companies we cooperate with is Neonode of Sweden, which develops optical touch controls. Together we are developing multi-modular interfaces for a platform that is prepared for AI.

Personnel

Thanks to Smart Eye's skilled personnel, we have been able to grow and deliver in the projects in which we are involved. Our employees' expertise also ensures that Smart Eye is viewed as an exciting, outstanding company in which other specialists are keen to work. I would therefore like to thank everyone for bringing us further in using eyetracking and AI to make the world safer.

Martin Krantz
CEO, Smart Eye

Artificial intelligence

Artificial intelligence (AI) denotes systems that function and react like human beings. Activities for which artificial intelligence systems are designed include:

- Speech recognition
- Image recognition
- Learning
- Planning

AI is developing rapidly

AI development is accelerating. In 2016, AlphaGo, developed by Google DeepMind, beat one of the world's leading Go players. AlphaGo has independently played and analysed several million rounds of Go, in order to learn the game and introduce strategies that no human beings have previously formulated. Go is a complicated Asian board game.

In June, Google demonstrated the world's so far largest artificial neural network, with more than one billion neurons. This network is used to identify images, and was 70% more successful than previous attempts. When the network described images based on a thousand different categories, it was accurate in 50% of cases.

AI is increasingly being used within healthcare. This gives a better understanding of learning and of how robots can be designed to feel like human beings. This has led to surgical procedures that are far less invasive than before.

AI has also come far within the automotive industry. Self-driving cars have long been Utopia, but are now approaching achievement. Car models with autonomous driving functions already exist today and during the next few years many car models with autonomous driving functions are expected to be presented by several car manufacturers.

There is a long way to go to fully autonomous vehicles that can travel to the final destination without any driver involvement at all. Most of the technology already exists, but greater reliability still needs to be developed, besides the creation of standards and adjustment of legislation to allow for fully autonomous vehicles.

The first step is semi-autonomous driving whereby the car handles certain functions, while the driver participates actively and holds the overall responsibility. Over time, the degree of autonomy is expected to increase, ending up with fully autonomous vehicles.

The development trend is from passive to active traffic safety. The automotive industry is developing from protecting drivers and passengers, to preventing accidents. Today, 90% of all accidents are related to the human factor, and therefore active safety solutions are being developed, such as advanced vehicle assistance systems, vehicles with a high element of automation, and gradually also self-driving cars. Coming generations will use both online- and offline-based machine learning whereby information is drawn from a number of data sources in order to develop the relation with the individual driver.

At the CES electronics fair in Las Vegas in January 2017, Autoliv for the first time presented its research platform with technologies that Autoliv can already offer customers today. LIV, or the Learning Intelligent Vehicle, is based on a Volvo XC90, with equipment that includes eyetracking technology from Smart Eye.

In Sweden, Drive Me is being prepared as the world's first large-scale trial in which self-driven cars will run on ordinary roads. This project was initiated by Volvo Cars together with the Swedish Transport Administration, the Swedish Transport Agency, Lindholmen Science Park and the City of Gothenburg. The project concerns 100 vehicles, and initially 30 of them will be equipped with technology from e.g. Smart Eye.

Together with NVIDIA, Smart Eye is delivering a camera system for the vehicles. The system is cost-effective and the cameras are so small that they can easily be seamlessly integrated into the instrument panel.
The self-driven cars in the Drive Me project will be equipped with logger systems, and with the new type of cameras, as well as more traditional camera designs. The project concerns a platform which allows for recording, compression and advanced in-car AI functions such as eyetracking.

The rapid development of new technology makes companies like Smart Eye well-prepared to contribute to reducing the number of traffic fatalities and injuries.

Business idea and vision

Smart Eye develops and markets eyetracking systems that can measure and calculate a person's gaze. Today the company has two business areas: Research Instruments and Applied Solutions. Within Research Instruments, Smart Eye provides advanced eyetracking systems to measure and analyse human behaviour. Within Applied Solutions, Smart Eye provides eyetracking software for integration in vehicles.

Smart Eye's objective is to be the leading player within eyetracking for vehicles and the leading supplier of advanced eyetracking systems for research applications. The vision is for the company's eyetracking technology to be installed in 15 million self-driven passenger vehicles by 2025.

Business model for Research Instruments

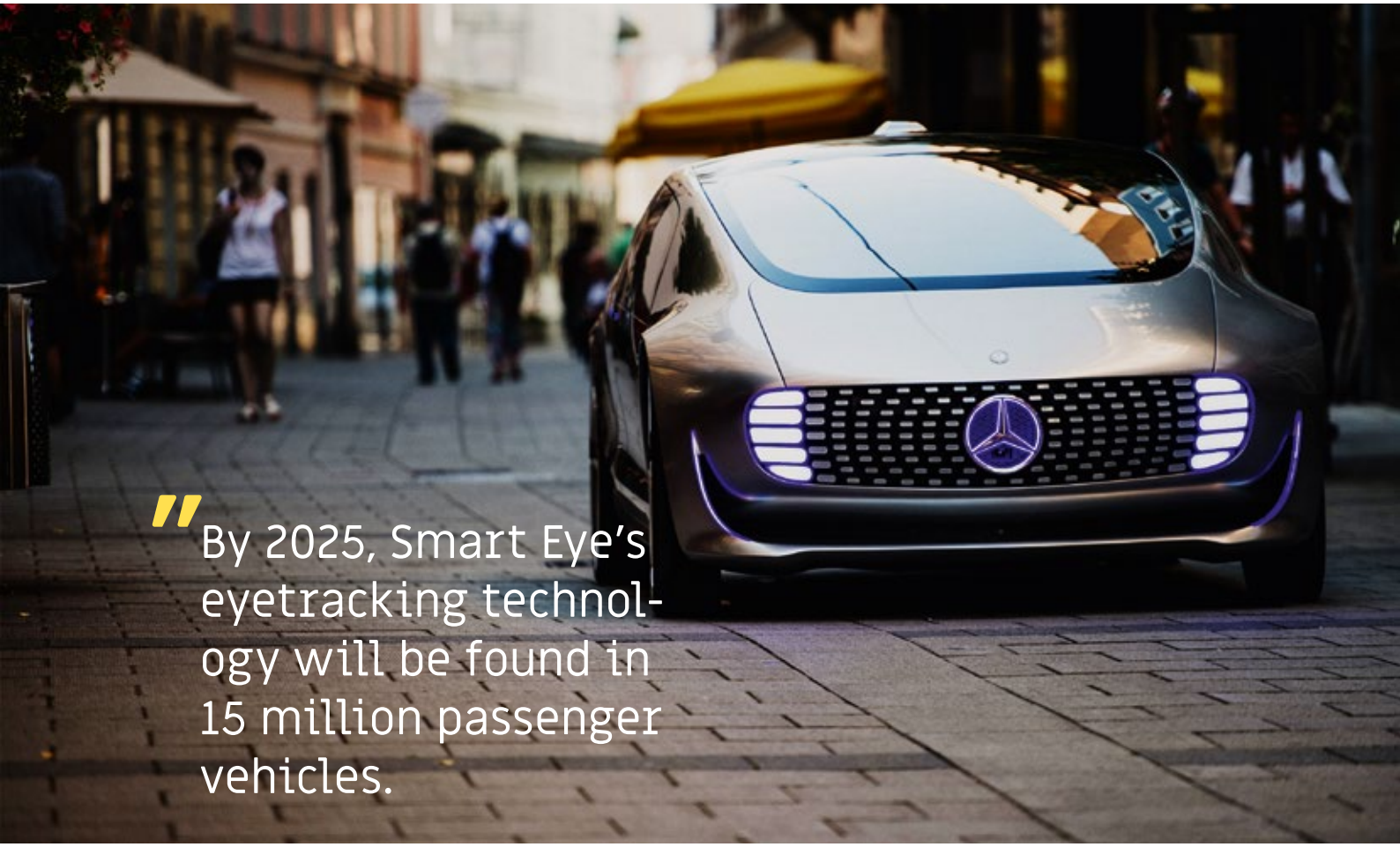
Smart Eye's eyetracking system is called Smart Eye Pro and can be configured with up to eight cameras in one large installation, which is necessary in order to analyse complex situations, such as in an aircraft simulator. In the company's view, Smart Eye Pro is the only integrated system in the market that is robust, accurate and reliable. Since its start, Smart Eye has delivered more than 380 systems to customers all over the world.

The customers are mainly operators within academic research, the aviation and defence industries, and the automotive industry.

Sales mainly take place directly to the customer, but also through distributors. Sales to the automotive industry and the aviation and defence industries usually take place directly from Smart Eye. In Asia, sales most often take place via distributors and the company has distribution partners in Japan, China and South Korea.

Smart Eye establishes many customer contacts by actively participating in conferences and fairs. The company also has several regular customers within the automotive industry and the aviation and defence industries, where Smart Eye is positioned as a provider of premium systems, and the company has many strong references and a good reputation in the industry.

Smart Eye Pro is sold as one overall solution whereby the customers pay per system, according to the company's price list. Even though Smart Eye provides hardware such as cameras, lighting modules and accessories, the products' great value lies in the algorithms and software used in the system. This is reflected in the business area's gross margin, which lies in the range of 75–90%.



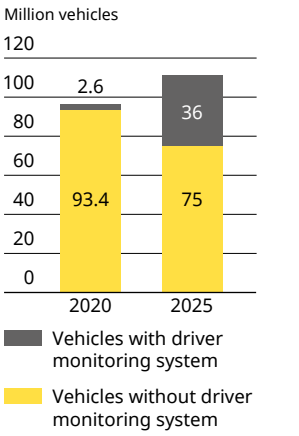
Business model for Applied Solutions
Within Applied Solutions, Smart Eye provides eyetracking algorithms and software for the cameras and other hardware which Tier1 companies develop themselves or order from other subsuppliers. Few Tier1 companies have their own eyetracking software, but procure this from external providers such as Smart Eye.

Many deals in the Applied Solutions business area are based on OEMs' procurement procedures. A design win is usually defined as a manufacturer's decision to develop a product, with the intention of including certain components from other providers. When Smart Eye achieves a design win together with a Tier1 company after a procurement procedure, this means that the autonomous driving solution – including eyetracking – will be integrated in an automotive manufacturer's coming new car model. When a design win is achieved, Smart Eye and the Tier1 company will develop a solution in which Smart Eye's eyetracking technology is integrated with camera sensors and other elements in the system. Smart Eye is remunerated for this work, and when the car model subsequently goes into production, Smart Eye gains a software licence for each car produced. The size of the licence depends on function and hardware configuration, and is usually below EUR 10 per car, but may also be higher.

In the automotive industry, OEM are developing production platforms that are used for several different models. When autonomous driving systems are procured, this is usually for a technical platform. When additional car models are to be developed on the same platform, the automotive manufacturer is likely to retain the autonomous driving system.

Besides procurement for coming car models, Smart Eye also takes part in pre-development projects in which Tier1 and OEM companies develop concept studies or prototypes for autonomous vehicles. For preliminary studies of this type, Smart Eye is remunerated for its participation.

Vehicles produced per year



In 2020, 96 million vehicles are expected to be produced globally, of which 2.6 million with eyetracking. In 2025, 111 million vehicles are expected to be produced globally, and the number with eyetracking will increase to 36 million vehicles. Initially this will take place in the premium segment.

Applied Solutions

Within the Applied Solutions business area, Smart Eye collaborates closely with the automotive industry and focuses on responding to the industry's strong interest in eyetracking.

Smart Eye provides eyetracking algorithms and software for the cameras and other hardware which the automotive industry's Tier1 companies develop themselves or order from other subsuppliers.

Many deals in the Applied Solutions business area are based on OEMs' procurement procedures. When Smart Eye achieves a design win, this entails a manufacturer's decision to develop a product with the intention of including certain components from other providers. Smart Eye is remunerated for this work, and when the car model goes into production, Smart Eye gains a software licence for each car produced.

During the year, the Automotive industry's interest in eyetracking increased and Smart Eye focused on delivering to the large number of projects in which the company is engaged. Smart Eye has developed and built up robust databases with thousands of films from car interiors. These databases are used to develop the algorithms which analyse the information gathered by the eyetracking systems. As tests are completed, the system becomes better and the databases become larger and more complete. The eyetracking system consists of components specified for Automotive.

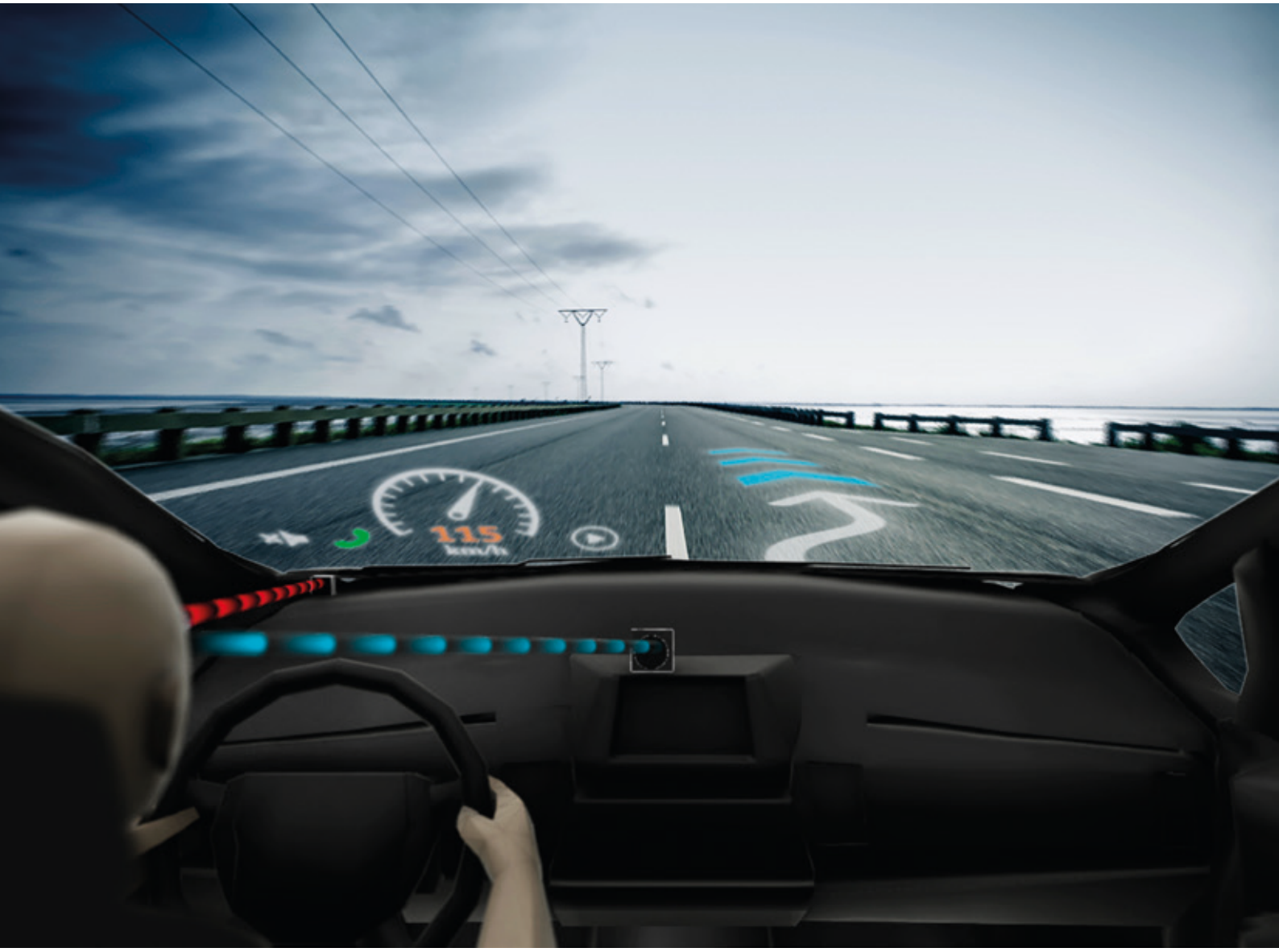
A number of procurement procedures are being held within Automotive, and the industry's great interest in AI and eyetracking led Smart Eye to redeploy its internal resources, in order to be able to deliver under the ongoing Automotive projects. Revenue within Applied Solutions was almost doubled, from SEK 9.2 million to SEK 16.6 million.

Smart Eye will take part in Drive Me, a project initiated by e.g. Volvo Cars. The project is based on how 100 autonomous passenger cars will run in the streets of Gothenburg, with Smart Eye eyetracking technology installed in an initial 30 of these vehicles. Together with NVIDIA, Smart Eye will deliver a logger camera system to facilitate advanced AI in the vehicle.

The system's cameras are based on lens-on-chip technology, entailing that the lens and lens housing are built directly onto the camera's image sensor. So far, the technology has mainly been used within mobile telephony, although research is ongoing for it to also achieve qualification for the demanding automotive industry.

The self-driven cars in the Drive Me project will be equipped with the latest new cameras, as well as more traditionally designed cameras. The project concerns a platform which allows for recording, compression and advanced AI functions that are built into the car's safety system. NVIDIA's DRIVE PX 2 computer platform is adapted for vehicle AI and will be interconnected with Smart Eye's software.

At the CES fair in Las Vegas in January 2017, Autoliv presented a system with functions that the company already offers today, and which make



it possible to reduce the number of traffic accidents. Autoliv's project called LIV, or the Learning Intelligent Vehicle, is based on a Volvo XC90 of which the equipment includes eyetracking technology from Smart Eye.

The car analyses the driver's behaviour and the system communicates in a way that makes the driver feel well supported. The car has four Smart Eye cameras that are fully integrated in its design and are therefore virtually invisible. Smart Eye personnel have been involved from the project's first brainstorming meeting and attended the CES digital electronics fair in Las Vegas.

The EU project ADAS&ME aims to create a system that not only discovers, but also predicts whether a driver's attention is diminishing. This project involves Smart Eye together with a large number of companies and organisations, including Autoliv, Continental, Saab Scania and Ford. Fifteen research institutions are also contributing to this project, which will run for 3.5 years, with a project budget of SEK 100 million.

During the year, Smart Eye's own research unit achieved improved algorithms by optimising existing systems in the production project. Development projects also include a considerable amount of research.

Income distribution 2015

2016

Applied Solutions
Research Instruments

Research Instruments

Within Research Instruments, Smart Eye provides advanced eyetracking systems to analyse human behaviour. Customers within this business area are mainly operators within academic research, the aviation and defence industries, and the automotive industry.

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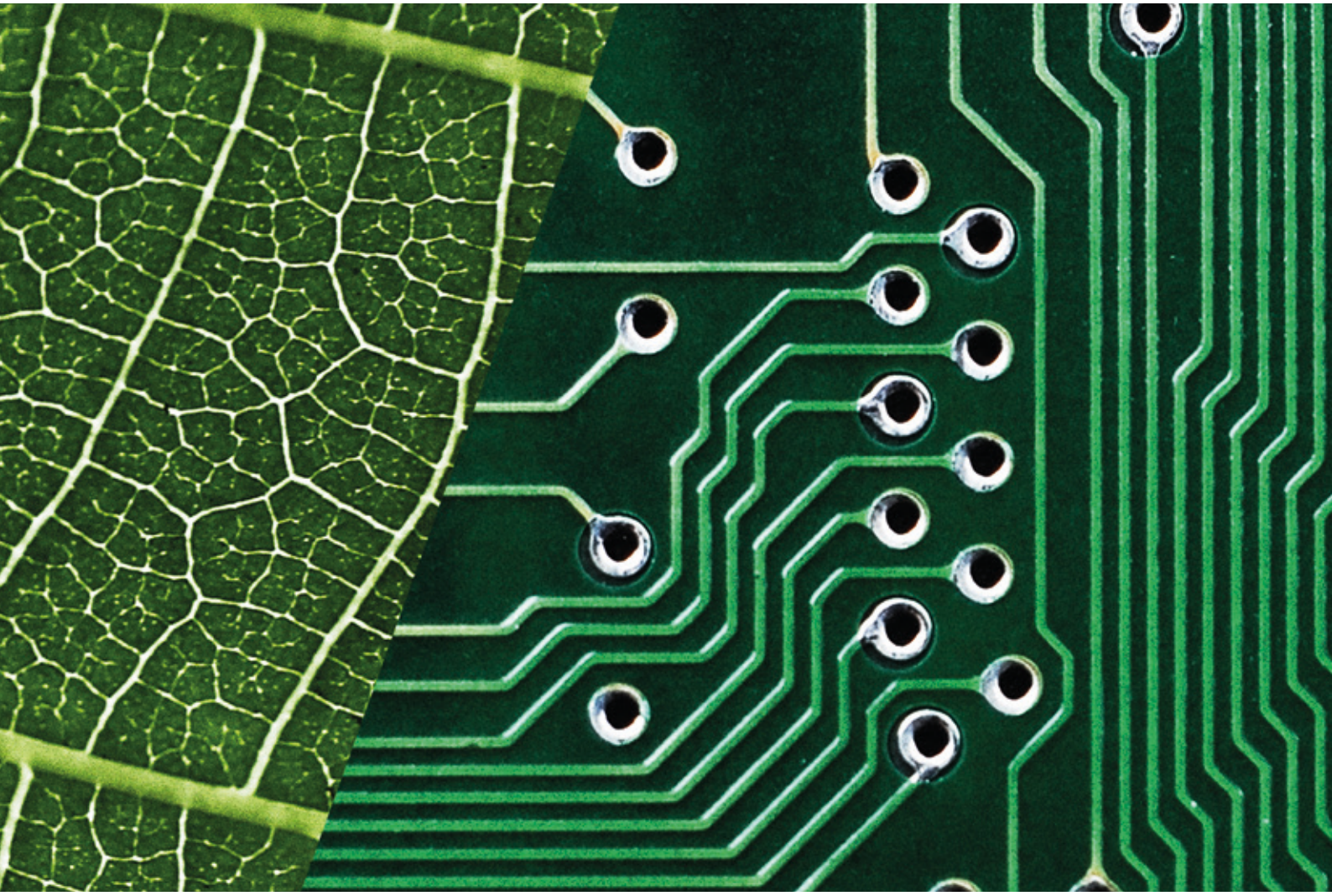
Smart Eye Pro is sold as an overall solution. Even though Smart Eye provides hardware such as cameras, lighting modules and accessories, the products' great value lies in the algorithms and software used in the system.

The great interest in Applied Solutions meant that Research Instruments experienced a downturn during the year, which affected operations. The successful financing round strengthened the business area through, among other things, the recruitment of a new business area manager and a stronger sales organisation. Thanks to a strong fourth quarter, Research Instruments' revenue in 2016 almost matched 2015.

Research Instruments has launched geographical expansion through its preparations to open sales offices. In 2017, Smart Eye will have offices in the automotive cities of Munich and Detroit, which will bring it closer to important customers. Detroit is also an important hub for research systems in the USA.

Smart Eye has a number of different cooperation projects with NASA in which the company's eyetracking sys-



tem has been used for several years in order to track and assess human behaviour. For instance, two of the company's eyetracking systems are used in a flight simulator at the NASA Langley facility in Hampton, Virginia. The double eyetracking system logs the pilot's and the co-pilot's gaze during training. The system is used for various research projects in order to assess the workload and how the crew work together.

Boeing has created a simulator to assess how various design changes in their Apache helicopters affect the pilot's work. Via the eyetracking system, the helicopter pilots' cooperation can be assessed to ensure that their attention is on the right things. The system monitors how the pilots respond to challenges, and measures how they move in the cockpit as they receive information. The big advantage of Smart Eye's eyetracking system compared to a system installed on the pilot's helmet is that the test person's behaviour is not limited and the system allows for a 360-degree overview.

The University of Nottingham has one of the UK's most sophisticated interactive driving simulators. The simulator consists of the front part of a vehicle and gives a 270° view through three overhead projectors, while the driver can interact with the car like any ordinary car. With the help of Smart Eye's eyetracking technology, the driver's behaviour in relation to speed, position on the road and reaction to unexpected events can be studied in the simulation.

In 2017, Research Instruments is developing the customer offering with improved hardware and software. The system ensures broader functionality and higher accuracy, while also being easier to integrate, due to the smaller cameras. The business area has customers all over the world, and in order to increase support, Research Instruments is establishing offices at several locations worldwide, so as to be able to help customers in several time zones.

Smart Eye's patent activities entail that research takes place in parallel with the company's investigation of opportunities to expand or register new patents. Thanks to increased financing, patent activities were expanded during the year.

Personnel from all over the world

In Smart Eye's open-plan offices, the language spoken is Gothenburgian, although English is just as common.

"We say that you need to speak English, but it's good if you also speak Swedish," says Ulrika Drotz Molin, CFO and HR manager at Smart Eye.

Diversity among the workforce is related to how Smart Eye attracts expertise from all over the world. It is attractive to be able to work with a pioneering technology.

"We're part of the AI revolution. Our research and system development make it possible to manufacture autonomous vehicles. This is very relevant and exciting," says Ulrika Drotz Molin.

Employees growing with the projects

For Smart Eye, diversity is a deliberate choice, and not only concerns nationality.

"We're an exciting mix of newly-qualified engineers, experienced developers and outstanding researchers," says Ulrika Drotz Molin.

"Smart Eye is an expanding company in which every employee plays a major role, both for what we do and for the culture to which everyone contributes and helps to develop: We have a clear and transparent culture in which every idea is welcome."

In order to not only successfully recruit, but also retain, good employees, Smart Eye focuses on how employees can grow.

"We offer development through exciting projects, but also the opportunity to grow in more difficult work tasks, as our projects expand," says Ulrika Drotz Molin.

"Since we are in a phase where we are commercialising our products, right now there is just as much focus on delivering in the project as on finding new paths to be able to respond to potential customers' expectations. We are therefore continuing to strengthen all areas, including with sales staff with technical sales experience, and business economists to support business and corporate development.

Technical support for new sales organisation

The commercialisation phase means that there have been changes in the expertise required.

"Besides C/C++ developers with experience in embedded systems, we are looking for sales engineers who can give the sales force technical sales support, and also support technicians with a technical interest and a service-based approach, and who are also keen to travel. Generally speaking, we wish to employ people with drive, who are solution-oriented, but also interested in learning more and teaching others," says Ulrika Drotz Molin.

By bringing creativity and technical expertise together, Smart Eye creates engineering that can reach further than would initially seem possible. The company's employees have in-depth knowledge of the interaction between man and machine.

"This is needed to be able to measure, describe and interpret reality. They must also have the ability to refine and develop the entire technical chain, from eye to software," Ulrika Drotz Molin concludes.

NINA PAULSSON Product Manager

I'm a product manager in the Research Instruments business area. My role is to ensure that Smart Eye prioritises the things that give most revenue, but I also plan the work to ensure that our deliverable can function with coming generations of Windows, for example.

It's a year since I was headhunted from Ericsson after I was asked whether I was eager to take on new challenges. There's a big difference between Smart Eye and large companies. It's really great to work here, as my colleagues are very welcoming and are also committed to the products. I also like the fact that there is a lot of change work.

There is also a great interest in us from outside the company. I sometimes attend technical forums for project managers, and there is always the same focus. I introduce myself and describe what I do and where I work. During the break, someone always asks me to tell them more about Smart Eye. The discussion always concerns eyetracking and how the technology will change the world.

STEPHANIE REGNÉR is taking a Master's degree in Business Design & Entrepreneurship with focus on Intellectual Capital Management (ICM) at Chalmers University of Technology, and writing her examination project at Smart Eye.

HOW DID YOU MAKE CONTACT WITH SMART EYE?

I met Martin Rydberg (CTO) at a labour-market fair organised by Chalmers. We started chatting about the company, and also how they work on identifying and utilising the company's intellectual assets. By considering a company's internal processes from an Intellectual Property* perspective, we can see what creates customer value, and how to utilise these assets in the best possible way. This is something that I am now helping Smart Eye with, through my examination project.

HOW WOULD YOU DESCRIBE THE PEOPLE WHO WORK AT SMART EYE?

They are people who are really passionate about what they do. There is incredible technical interest, and besides that they also have a great willingness to share their knowledge and expertise. This means that I'm not only happy and full of anticipation when I get to work, but I'm also contented when I leave again.

* Intellectual Property (or intellectual property rights): can be roughly described as a legal term referring to how to handle intellectual assets such as the creation of innovation, copyright, design and business secrets (which means knowledge, customer lists and internal processes, etc. that should not be disclosed to competitors).

MARKUS LINDELÖW Developer

I've worked at Smart Eye since I did my examination project here. At the start of my professional career, I actively chose what I wanted to work with. I fell for eyetracking and afterwards I found Smart Eye, and sent in an application. Here, I'm helping to develop Smart Eye Pro which is e.g. used in simulators to research human behaviour. The system helps to investigate how an aircraft, helicopter or spacecraft pilot handles various different situations.

The people who work here have a strong technical interest and love solving problems. This is engaging since there are so many exciting problems at the same time: we handle mathematics, arithmetic and image processing. The best thing about working at Smart Eye is waking up on Sunday and looking forward to Monday.

Sustainability – prioritised area going forward

During the year, Smart Eye performed a materiality analysis as the basis for its sustainability work, and thereby also prioritised the company's different stakeholders.

Customers within Tier1 are a group of stakeholders that are naturally given very high priority. Many of Smart Eye's customers are active within Automotive and Aviation, respectively, and set very high requirements of suppliers. For the companies that are chosen as suppliers, this is a quality stamp of approval, since more parties are likely to buy from a supplier endorsed by a major customer.

The academic world is also of great significance since the technology and products provided by Smart Eye are in demand in the world of research. The car industry is a significant customer group.

The group's current and potential employees are of vital significance, since there is an international shortage of engineers and other technical expertise. The outcome of the race to recruit new talent will determine the company's future, which makes employer branding vitally important.

Prioritised issues

The materiality analysis resulted in the prioritisation of issues which Smart Eye as a company must handle in order to meet stakeholders' requirements, with great focus on both present and potential customers and employees.

In terms of day-to-day activities, great weight is given to delivering under the customer projects in which Smart Eye is engaged. Fundamentally, the business is often a question of Smart Eye supporting end-customers in saving lives – on the ground and in the air. By delivering eyetracking systems for research and development environments, Smart Eye also contributes to deeper research into behavioural science and the achievement of a better understanding of human behaviour, for example in crisis situations.

For all customers, it is important that Smart Eye delivers on its promise and with high quality. Smart Eye's technical development must be perceived as challenging and impudent, with pioneering technology, and the company must stand for something new and different. This is given high priority by customers, and also by potential employees to a high degree. Employer branding is important for the successful recruitment of relevant expertise. To be an attractive workplace, it is important to be able to offer opportunities for employees to develop and have a good work/life balance, and also to have a positive corporate culture that is maintained as the company grows and becomes more international.

The company's owners give priority to systematically and gradually working to guarantee compliance with the code of conduct. In procurement situations and in direct sales it is important to take anti-corruption measures into account and to create a good business culture in which the code of conduct is applied.

The Smart Eye share

Share information
The company is listed on Nasdaq OMX First North. Its Certified Advisor is Erik Penser Aktiebolag.

Share capital
Prior to the new issue in conjunction with the listing on Nasdaq OMX First North the number of shares was 8,160,892. After the new issue the number of shares is 9,910,892. The new issue was registered in January 2017.

According to the Articles of Association, the share capital may be no less than SEK 500,000 and no more than SEK 2,000,000, and the number of shares may be no less than 5,000,000 shares and no more than 20,000,000 shares.

The shares are registered electronically in accordance with the reconciliation reservation in the Articles of Association and the share register held by Euroclear. Smart Eye is connected to Euroclear's account-based securities system, so that no physical share certificates are issued. All rights connected to the shares fall to the party registered in the share register maintained by Euroclear. The share's ISIN code is SE0009268279.

The shares in Smart Eye have been issued in accordance with the Swedish Companies Act (2005:551). The rights associated with shares issued by the company, including the rights set out in the Articles of Association, may only be changed in accordance with the procedures specified in this Act.

Each share gives entitlement to one (1) vote at the company's Annual General Meeting. Each shareholder with voting rights may vote at the Annual General Meeting for the full number of shares owned and represented. Each share gives equal rights to a share of the company's assets and profits. On any compulsory liquidation of the company, the shareholders will be entitled to a share of the profits in proportion to the number of shares which the shareholding includes.

There are no limitations to the transferability of the shares.

Shareholders have normal preferential rights to subscribe for new shares, warrants and convertibles, in accordance with the Swedish Companies Act, unless the general meeting or the Board of Directors with the support of the general meeting decides to deviate from the shareholders' preferential rights.

At an extraordinary general meeting on 28 October, the Board of Directors was authorised, in one or several instances, during the time up to the next Annual General Meeting, and with or without preferential rights for shareholders, to decide on the new issue of up to 2,500,000 shares. The issue decision must be taken won the basis of cash payment and/or a provision for payment in-kind or set-off, or that subscription may take place on other terms.

At the Annual General Meeting on 17 June 2016, the company decided to arrange an incentive programme for senior executives and personnel. On full utilisation of the company's incentive programme, 250,000 shares will be issued, which results in a total dilution effect of maximum around 3% of the share capital and number of votes.

The subscription price of shares subscribed for using warrants is SEK 45 per share. The premium per warrant, calculated according to the Black-Scholes model, was SEK 1.40. Share subscription may take place during the period from 1 November 2017 up to and including 28 February 2018. On full utilisation of the warrants, the company's share capital will increase by SEK 25,000.

Dividend policy
The company is in a development phase and it is planned to re-invest any profit in the development of the company. The Board of Directors will not propose any dividend distribution.

Any distribution will be decided by the Annual General Meeting as proposed by the Board of Directors. Dividend rights will be held by any party that as of the settlement date determined by the Annual General Meeting is registered in the share register held by Euroclear. Distribution is arranged by Euroclear or, with regard to nominee-registered shareholdings, in accordance with the respective managers' procedures.

Development in the share capital

Year	Event	Change in the number of shares	Total number of shares	Change in share capital (SEK)	Total share capital (SEK)	Quota value (SEK)
2013	New issue	1,116,425	6,793,109	111,642.50	679,310.90	0.10
2013	New issue	24,733	6,817,842	2,473.30	681,784.20	0.10
2016	New issue	1,108,050	7,925,892	110,805.00	792,589.20	0.10
2016	Warrants	235,000	8,160,892	23,500.00	816,089.20	0.10
2016	New issue*	1,500,000	9,660,892	150,000.00	966,089.20	0.10
2016	Over-subscription option*	250,000	9,910,892	25,000.00	991,089.20	0.10

* Registered with the Swedish Companies Registration Office in January 2017.

Management Report

The Board of Directors and CEO of Smart Eye AB (publ) hereby submit the Annual Report for the 2016 financial year. Unless otherwise specified, all amounts are reported in SEK 1,000. Figures in parenthesis concern previous years.

Information about the company
The company develops and markets camera-based gaze sensors. Measuring eye data is important for, among other things, vehicle safety approvals, aircraft safety and simulator activities. The most important unique characteristics of the company's sensors are the combination of high flexibility, insensitivity to external light conditions, and the opportunity for low costs on mass production. Today the company has two business areas: Research Instruments and Applied Solutions. Within Research Instruments, Smart Eye provides advanced eyetracking systems to measure and analyse human behaviour. Within Applied Solutions, Smart Eye provides eyetracking software for integration in vehicles.

Subsidiaries
With reference to Chapter 7, Section 3 of the Swedish Annual Accounts Act, no consolidated accounts are presented. No purchases or sales have taken place with the subsidiary JN-Data AB, which has been inactive during the financial year.

Revenue
The net revenue from January to December 2016 was TSEK 40,743 (37,572), which is an increase of just over 8%. The increase is related mainly to increased project revenue within the Applied Solutions business area. The Applied Solutions business area developed well during the year and increased its revenue from SEK 9.2 to 16.6 million due to the integration projects for the automotive industry that are run within this business area.

During the year a lot of focus and resources were on the Applied Solutions business area. Despite these circumstances, the Research Instruments business area maintained its position in the market and increased its sales momentum during the last quarter of 2016. Net revenue for the full year was SEK 24.2 million, compared to SEK 28.4 million for 2015.

Other operating income, which is mainly attributable to external research projects, amounted to TSEK 816 (16), and capitalised work for own account totalled TSEK 13,990 (10,203).

Result
The operating result for the period amounted to TSEK –11,159 (–2,568), which is charged with SEK 0.8 million attributable to the listing on Nasdaq First North. The result is related to the increased focus on expansion, which entails higher personnel costs in particular.

The result after financial items was TSEK –12,403 (–3,863).

Cash flow and financial position
During the year a new issue of SEK 80.5 million before issue costs took place, prior to the listing on Nasdaq First North. This new issue safeguarded the company's financing of its planned expansion.

A directed new issue of SEK 35.7 million to a consortium of investors took place during the spring, and was completed in June 2016.

In September 2016, a new issue took place by redemption of warrants from 2013 directed at staff and selected existing owners.

The company has collaboration projects with EU financing totalling SEK 3.2 million, and during the financial year SEK 1.4 million was received.

Redemption of loans during the year totalled TSEK 13,767. At the end of the year, the company had a non-utilised overdraft facility of SEK 7 (7) million and liquid assets amounting to TSEK 62,088 (585). Short-term receivables and new issue include a receivable from Erik Penser Bank AB totalling SEK 10.8 million for the element of the new issue from December 2016 not yet paid to the company.

Solvency amounted to 83% at the end of the year, compared with 25% for the same period of the previous year.

Cash flow from current operations before the change in working capital amounted to TSEK –5,179 (1,922) for the January–December period. Cash flow after the change in working capital was TSEK –22,533 (5,250) in the same period.

Significant events during the financial year
A directed new issue of SEK 35.7 million to a consortium of investors took place during the spring, and was completed in June 2016.

In December 2016, the company was listed on Nasdaq First North and prior to the listing new shares for SEK 80.5 million were issued.

Smart Eye's cooperation with OmniVision and Osram led to the exhibition of the next generation of miniaturised hardware at JSAE, Japanese Society of Automotive Engineers.

During the year, cooperation was initiated with Neonode concerning opportunities to combine eyetracking and touch technologies.

Important customer contracts during the year within the Research Instruments business area include Honeywell, the University of Linköping and the University of Leeds.

In December, Smart Eye announced its cooperation with Autoliv on the LIV car, which was displayed at CES, Consumer Electronics Show, in Las Vegas in January 2017.

In August 2016, Ulrika Drotz Molin took up the position of CFO, and in December 2016, the company appointed Solmaz Shahmehr as the new business area manager of Research Instruments.

Significant events after the close of the financial year
After the close of the financial year, the company has engaged in cooperation with NVIDIA to deliver logger camera systems for Volvo Cars' Drive Me project.

After the close of the financial year, the new issue of SEK 80.5 million which took place before the listing in December 2016, was registered.

Future development and significant risks and uncertainty factors
Operative risks
There are risk factors in the operative activities that can have a negative impact on the company's commercial and financial position.

The ability to retain the current personnel, and also to recruit new personnel, is vital to the company's future development. If key personnel leave Smart Eye, or the company is unable to attract qualified personnel, this can have a negative impact on the company's activities.

Delays in the company's development work, or the inability to keep up with the technical development, may reduce or eliminate the company's competitiveness.

Quality failures in products delivered by Smart Eye might lead to indemnification claims against the company. There is also a risk that product quality failures might reduce demand for the company's products.

Smart Eye's intangible assets are of great importance to its activities. If Smart Eye failed to protect its intangible assets, other parties might manage to develop activities similar to the company's, or copy or otherwise use the technology and products used and developed by Smart Eye. If Smart Eye's efforts to protect its intangible assets proved to be inadequate, or if its assets were misused, this might affect the company's activities. Smart Eye might also be

obliged to initiate legal proceedings in order to protect its intangible assets and business secrets. These proceedings might lead to significant costs, and require the company's senior executives to spend time on them.

Financial risks
The company is financed with share capital and loans. If the company fails to generate revenue on the scale and in the time perspective deemed necessary by the Board of Directors, further capital requirements may arise.

As sales increase, the company is exposed to increased currency exposure, since most of the company's sales take place in another currency than Swedish kronor.

Market risks
Eyetracking is an emerging technology in which the company's products are used for behavioural analysis. There is a risk of declining interest in using eyetracking for behavioural analysis, which could have a negative impact on Smart Eye's sales. Smart Eye's objective is to provide eyetracking to the automotive industry, which is based on how vehicle manufacturers integrate eyetracking into safety functions and autonomous driving functions in coming new car models. There is a risk that the automotive industry introduces eyetracking more slowly than expected by the company. There is also a risk that eyetracking, and the functions which this technology makes possible, is not appreciated by consumers, with a resulting decline in the automotive industry's interest in the technology and thereby in Smart Eye's products. In summary, delayed or failed introduction of eyetracking in the automotive industry could entail a risk of a lower growth rate, or a complete lack of growth opportunities for Smart Eye, with a resulting negative impact on the company's activities.

Proposed allocation of profit
The following profit is available for distribution by the Annual General Meeting:

Retained earnings	90,994,754
Loss for the year	–12,402,545
	78,592,209

The Board of Directors proposes that the profit be carried forward to the next financial year

Carried forward	78,592,209
	78,592,209

CORPORATE GOVERNANCE
The company seeks to ensure a high standard of corporate governance through simple and transparent management systems and governance documents.

Corporate governance at Smart Eye AB is based on Swedish legislation, primarily the Swedish Companies Act, the Swedish Annual Accounts Act, and the Rule Book for Issuers on Nasdaq First North.

Tasks of the Board of Directors
The primary task of the Board of Directors is to manage the company's activities for the account of the shareholders so as to fulfil the shareholders' interest in sound long-term capital returns in the best possible way. The work of the Board of Directors is governed by, among other things, the Swedish Companies Act, the Articles of Association and the rules of procedure adopted by the Board of Directors. The rules of procedure of the Board of Directors with instructions for the CEO and reporting instructions are updated and adopted on an annual basis. The rules of procedure describe how the Board of Directors works and is based, among other things, on an annual cycle. Each meeting of the Board of Directors has one or several topics. The Board of Directors also considers any current matters arising.

Work of the Board of Directors in 2016
In 2016 the Board of Directors held 12 minuted meetings, of which one was a meeting to appoint officers and six were extra meetings. The extra meetings were related to the listing of the company on Nasdaq First North, as well as new share issues. A strategy meeting to discuss the company's long-term strategy work was also held.

The work is led by the Chairman of the Board of Directors, who holds particular responsibility for ensuring that the work of the Board of Directors is well-organised and is operated effectively. The task of the Chairman of the Board of Directors also includes close ongoing contact with the company's CEO.

Five-Year Overview 2012–2016

		2016	2015	2014	2013	2012
Net revenue	TSEK	40,743	37,572	33,262	17,319	26,031
Operating costs	TSEK	66,708	50,358	37,396	33,198	30,900
Operating profit/loss	TSEK	–11,159	–2,568	3,164	-9,494	–694
Operating margin	%	neg.	neg.	9.5	neg.	neg.
Profit after tax	TSEK	–12,403	–3,863	2,249	–10,319	–1,472
Profit per share*	SEK	neg.	neg.	0	neg.	neg.
Profit per share after full dilution*	SEK	neg.	neg.	0	neg.	neg.
Return on total capital	%	neg.	neg.	5.4	neg.	neg.
Total assets	TSEK	139,475	51,369	41,708	35,388	27,970
Equity	TSEK	115,312	12,927	16,790	14,493	9,544
Equity per share*	SEK	14.13	1.90	2.47	2.13	1.68
Equity per share after full dilution*	SEK	13.71	1.80	2.47	2.13	1.68
Equity ratio	%	83	25	40	41	34
Cash liquidity	%	520	57	65	116	43
Number of shares*		8,160,892	6,817,842	6,817,842	6,817,842	5,676,684
Number of shares after full dilution*		8,410,892	7,052,842	7,052,842	7,052,842	5,676,684

* Does not include shares from the new issue before the listing on Nasdaq First North.

Definitions of key ratios are presented in Note 1.

Statement of Income

	Note	2016	2015
Net revenue	3	40,743	37,572
Capitalised work for own account	4	13,990	10,203
Other operating revenue		816	16
Total operating revenue		**55,549**	**47,790**
Operating costs			
Other external costs	5, 6, 7	–23,154	–17,512
Personnel costs	8, 9	–36,331	–27,062
Depreciation and write-down of tangible and intangible assets	4, 13	–7,223	–5,785
Total operating costs		**–66,708**	**–50,358**
Operating profit/loss		**–11,159**	**–2,568**
Result of financial items			
Other interest income and similar items		0	0
Interest costs and similar items		–1,243	–1,295
Total result of financial items		**–1,243**	**–1,295**
Result after financial items		**–12,403**	**–3,863**
Tax on the result for the year	10	0	0
Profit/loss for the year		**–12,403**	**–3,863**

Balance Sheet

	Note	2016–12–31	2015–12–31
Assets			
Fixed assets			
Intangible assets			
Capitalised development expenditure	4	47,899	38,375
Concessions, patents, licences, trademarks and similar rights		380	202
		48,279	**38,577**
Tangible assets			
Fixtures, tools and installations	13	713	678
Financial assets			
Shares in Group companies	11	371	371
Shares in associated companies	12	25	—
Total fixed assets		**49,388**	**39,626**
Current assets			
Inventories, etc.			
Raw materials and consumables		2,985	1,965
Current receivables			
Trade receivables		9,696	6,811
Receivables from Group companies		0	124
Current tax receivables		525	465
Other current receivables	14	11,841	824
Prepaid expenses and accrued income	15	2,953	969
		25,014	**9,193**
Cash and cash equivalents		62,088	585
Total current assets		**90,087**	**11,744**
Total assets		**139,475**	**51,369**

Balance Sheet

	Note	2016–12–31	2015–12–31
Equity and liabilities			
Equity			
Restricted equity			
Share capital		816	682
Share premium fund		21,914	21,914
Fund for development costs		13,990	0
		36,720	**22,595**
Unrestricted equity			
Share premium fund		139,912	25,259
Retained profit or loss		–48,917	–31,064
Profit/loss for the year		–12,403	–3,863
		78,592	**–9,668**
Total equity		**115,312**	**12,927**
Non-current liabilities			
Other debt to credit institutions	16, 18	7,500	8,000
Other non-current liabilities		0	13,267
Total non-current liabilities		**7,500**	**21,267**
Current liabilities			
Advance payments from customers		1,471	0
Trade payables		5,067	4,221
Overdraft facility		0	4,316
Debt to Group companies		380	505
Other current debt		733	444
Accrued expenses and prepaid income	17	8,512	7,690
Other debt to credit institutions	16, 18	500	0
		16,663	**17,175**
Total equity and liabilities		**139,475**	**51,369**

Equity

SEK	Share capital	Share premium fund (restricted)	Fund for development costs (restricted)	Share premium fund (unrestricted)	Other unrestricted equity	**Total equity**
Opening balance 2015–01–01	**681,784**	**21,913,575**		**25,259,042**	**–31,064,400**	**16,790,001**
Profit/loss for the year					–3,862,692	–3,862,692
Equity 2015–12–31	**681,784**	**21,913,575**	**—**	**25,259,042**	**–34,927,092**	**12,927,309**
Opening balance 2016–01–01	**681,784**	**21,913,575**	**—**	**25,259,042**	**–34,927,092**	**12,927,309**
New issue	134,305			37,213,096		37,347,401
Ongoing new issue, subscribed and paid in, not registered				77,090,000		77,090,000
Warrants 2016				350,000		350,000
Fund for development costs			13,990,292		–13,990,292	0
Profit/loss for the year					–12,402,545	–12,402,545
Equity 2016–12–31	**816,089**	**21,913,575**	**13,990,292**	**139,912,138**	**–61,319,929**	**115,312,165**

The share capital consists of 8,160,892 shares with a quota value of SEK 0.1.
After the balance sheet date, the ongoing new issue was registered after which the share capital consists of 9,910,892 shares with a quota value of SEK 0.1.

Cash Flow Analysis

	2016–12–31	2015–12–31
Current activities		
Operating profit after depreciation	–11,159	–2,568
Reversal of depreciation	7,223	5,785
Financial payments received	0	0
Financial disbursements	–1,243	–1,295
Tax	0	0
Change in operating capital		
Change in stocks	–1,020	178
Change in trade receivables	–2,885	677
Change in other current receivables*	–13,017	–909
Change in trade payables	846	1,397
Change in other current liabilities	–1,277	1,986
Cash flow, current activities	**–22,533**	**5,250**
Investment activities		
Intangible assets	–16,636	–14,385
Tangible assets	–324	–329
Financial assets	–25	0
Cash flow, investment activities	**–16,986**	**–14,714**
Financing activities		
New issue*	114,787	
Distribution	—	—
Non–current liabilities	–13,767	10,017
Cash flow, financing activities	**101,021**	**10**
Cash flow	**61,503**	**554**
Opening cash and cash equivalents	585	32
Closing cash and cash equivalents	**62,088**	**585**

* Short-term receivables and new issue include a receivable from Erik Penser Bank AB totalling SEK 10.8 million for the element of the new issue from December 2016 not yet paid to the company.

Notes

NOTE 1 • Accounting policies and valuation principles

The company applies the Swedish Annual Accounts Act and the Swedish Accounting Standards Board's recommendation BFNAR 2012:1 Annual accounts and consolidated accounts (K3). With reference to Chapter 7, Section 3 of the Swedish Annual Accounts Act, no consolidated accounts are presented. The accounting policies are unchanged from the previous year.

Foreign currencies
Monetary asset and liability items in foreign currencies are measured at the exchange rate on the balance sheet date. Transactions in foreign currencies are translated at the spot rate on the transaction date.

Income
Goods
Sales of goods are recognised when the significant risks and benefits are transferred from the seller to the buyer in accordance with the terms of sale. Sales are recognised after deductions for VAT, discounts and exchange-rate differences for sales in foreign currencies. System income for which there are non-delivered components that are a condition for the functionality of the system is recognised as income when these components are delivered.

Service assignments
For service assignments at current prices the income attributable to a completed service assignment is recognised as income in step with the completion of the work and the delivery or use of the material.

Income tax
Current tax
Current tax is measured based on the tax rates and tax rules on the balance sheet date. Deferred tax is measured based on the tax rates and tax rules decided prior to the balance sheet date. Deferred tax liabilities concerning temporary differences that are related to investments in subsidiaries are not recognised in the consolidated accounts as the parent company may in all cases determine the time of reversal of the temporary differences, and it is not deemed to be probable that reversal will take place in the foreseeable future.

Deferred tax
Deferred tax assets relating to loss carryforwards or other future tax deductions are recognised to the extent that it is likely that the loss carryforwards can be settled against surpluses in conjunction with future taxation.

Net recognition of receivables and debt only takes place when there is a legal right of set-off. Current tax, like the change in deferred tax, is recognised in the income statement unless the tax is attributable to an event or transaction that is recognised directly to equity.

Leasing agreements
All leasing agreements for which the company is the lessee are recognised as operating leases (rental agreements), regardless of whether the leases are financial or operating. Leasing fees under operating leases, including higher first-time rent, but excluding expenses for insurance and maintenance, are recognised as expenses on a straight-line basis over the leasing period.

Employee benefits
Employee benefits in the form of salaries, holiday pay, paid sick leave, etc., as well as pensions, are recognised as they are earned. The company only has defined-contribution pension plans. There are no other long-term employee benefits.

Defined-contribution pension plans
Under defined-contribution pension plans, the company pays fixed contributions to a separate independent legal entity and does not have any obligation to pay additional contributions. The company's earnings are charged with expenses as the benefits are earned, which normally corresponds to the time when the premium is paid.

Intangible assets
Intangible assets are recognised at acquisition value, with deduction of accumulated amortisation and any impairment. Acquisition value includes costs directly attributable to the acquisition of the asset.

Intangible assets are written off on a straight-line basis over the asset's estimated useful life. Straight-line depreciation is applied. Amortisation is recognised as a cost in the statement of income.

Development work
Development costs are capitalised if the project is assumed to be of significant future value to the company. Capitalisation concerns development costs for a specific application and which are clearly delineated for the project.

Amortisation commences on the completion of the project.

The following amortisation term is applied:

Capitalised development expenditure	10 years

Property, plant and equipment
Property, plant and equipment are recognised at cost less accumulated depreciation and any write-downs.

Acquisition value includes costs directly attributable to the acquisition of the asset.

Additional expenses concerning assets that are not divided into components are added to the acquisition value if they are estimated to give the company future economic benefits, to the extent that the asset's performance increases in relation to the asset's value on the acquisition date. Costs of ongoing repair and maintenance are recognised as costs.

Tangible assets are written off on a straight-line basis over the asset's estimated useful life. Any residual value of the asset is taken into account on determining the assets' depreciable amounts. Straight-line depreciation is applied. Depreciation is recognised as a cost in the statement of income.

The following depreciation terms are applied:

Fixtures and tools	5 years
Computers	5 years

If an asset's carrying amount exceeds its estimated recoverable amount, the asset is immediately written down to its recoverable amount.

Financial instruments
Financial instruments recognised in the balance sheet include trade receivables, other receivables, trade payables and loans. The instruments are recognised in the balance sheet when the company becomes party to the contractual terms of the instrument.

Financial assets are derecognised from the balance sheet when the right to receive cash flows from the instrument has expired or has been transferred, and the company has transferred essentially all risks and benefits connected with the right of ownership. Financial liabilities are derecognised from the balance sheet when the obligations in the contract are met or otherwise lapse.

Trade receivables and other receivables
Receivables are recognised as current assets, with the exception of items falling due more than 12 months after the balance sheet date, which are classified as fixed assets. Receivables are recognised at the amount at which they are expected to be received less individually assessed doubtful receivables.

Loans and trade payables
Loans and trade payables are initially recognised at acquisition value after deduction of transaction costs. If the recognised amount differs from the amount to be repaid on the due date, the difference is accrued as an interest cost or interest income over the lifetime of the loan. This means that as of the due date the recognised amount corresponds to the amount to be repaid.

Interests in subsidiaries and associates
Interests in subsidiaries are recognised at acquisition value after deductions for any write-downs. Interests in associates are recognised at acquisition value after deductions for any write-downs.

Inventories
Inventories are measured at the lower of cost and net realisable value on the balance sheet date. Cost is calculated according to the first-in, first-out (FIFO) principle. Net sales value is the sales value after deductions for calculated costs that can be attributed directly to the sales transaction.

Provisions
A provision is recognised in the balance sheet when the company has a formal or informal obligation due to an event that has occurred, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Cash flow analysis
The cash flow analysis presents the changes in the company's cash and cash equivalents during the financial year. The cash flow analysis is prepared according to the indirect method. The recognised cash flow solely includes transactions that involve cash payments and disbursements.

Definitions of key ratios
Net revenue increase
The percentage net increase in revenue compared to an earlier period. The company believes that this key ratio gives a better understanding of the company's growth.

Operating profit/loss
Profit/loss before financial items, costs and tax.

Operating margin
Operating profit as a ratio of net operating revenue.

Equity ratio
Equity and untaxed reserves (less deferred tax) as a ratio of total assets.

Return on total capital
Profit after tax as a ratio of average total capital during the period.

Earnings per share
Profit for the period divided by the number of outstanding shares at the end of the period.

Equity per share
Equity divided by the number of shares at the end of the period.

Dividend per share
The amount distributed for the period divided by the number of outstanding shares at the time of distribution.

Employees
Number of employees at the end of the period.

NOTE 2 • Estimates and assessments

No assessments or estimates have been made that have a significant effect on the amounts recognised in the financial statements or that would entail a significant risk of a material adjustment of the carrying amounts for assets and liabilities in the next financial year.

NOTE 3 • Net revenue per business segment

	2016	2015
Research Instruments	24,181	28,415
Applied Solutions	16,562	9,157
Total	**40,743**	**37,572**

NOTE 4 • Capitalised development expenditure

	2016-12-31	2015-12-31
Opening acquisition value	72,782	58,601
Capitalised expenses for the year	16,236	14,181
Closing accumulated acquisition value	89,018	72,782
Opening depreciation	-34,407	-28,891
Depreciation for the year	-6,712	-5,516
Closing accumulated depreciation	-41,119	-34,407
Closing residual value according to plan	47,899	38,375

NOTE 5 • Operating leases

Future minimum lease charges to be paid concerning non-cancellable leases.

	2016-12-31	2015-12-31
Falling due for payment within one year	3,917	1,104
Falling due for payment later than one year, but within five years	17,130	16,718
Falling due for payment later than five years	1,039	4,157
	22,086	21,979
Lease charges carried as costs during the period	1,682	1,293

NOTE 6 • Audit fees and remuneration

	2016	2015
PWC AB		
Auditing	110	95
Other services	21	19
Total audit fees and remuneration	**131**	**114**

Auditing concerns the auditor's remuneration for the statutory audit. This work includes review of the annual accounts and bookkeeping, the management by the Board of Directors and CEO, and audit advisory fees in conjunction with auditing.

NOTE 7 • Transactions with related parties

There were no transactions with related parties during the year.

NOTE 8 • Personnel

	2016	2015
Average number of employees		
Women	6	6
Men	36	30
Total	**42**	**36**
Board members and senior executives		
Number of Board members on the balance sheet date		
Men	5	6
Women	0	0
Total	**5**	**6**
Number of CEOs and other senior executives		
Men	4	6
Women	2	0
Total	**6**	**6**

Salaries, fees and other remuneration

	2016		2015	
Board of Directors	Fees	Other remuneration	Fees	Other remuneration
Mats Krantz, Chairman of the Board of Directors	—	—	—	—
Staffan Hansson, Board Member	58	—	58	—
Mikael Johnsson, Board Member	—	—	—	—
Magnus Jonsson, Board Member	58	—	58	—
Anders Jöfelt, Board Member	—	—	—	—
Martin Krantz, Board Member* and CEO	—	—	—	—
Total	**117**	**0**	**117**	**0**

* Martin Krantz resigned from the Board of Directors on 28 October 2016.

Salaries, fees and other remuneration

	2016	2015
Board of Directors	117	117
CEO	1,044	854
Other senior executives*	3,323	3,565
Other employees	21,657	14,122
Total	**26,141**	**18,658**

* During 2016, Ulrika Drotz Molin and Solmaz Shahmehr joined the management group.

Social security expenses and pensions

	2016	2015
Statutory and contractual social security expenses	6,967	5,223
Pension costs:	2,668	1,881
Of which for the CEO	0	0
Of which for other senior executives	393	425
Of which for other employees	2,275	1,456
Total	**9,635**	**7,104**

Salaries and remuneration for the CEO and other senior executives

	Salaries		Pension costs		Social security expenses		**Total**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
CEO	1,044	854	0	0	328	268	1,372	1,122
Other senior executives	3,323	3,565	393	425	1,044	1,120	4,760	5,110
Total							**6,132**	**6,232**

The CEO is subject to six months' mutual notice of termination. On notice of termination by the company, the CEO is not entitled to any severance payment. No agreements concerning severance payments have been made with the company's other employees.

NOTE 9 • Share-based payments

At the Annual General Meeting on 17 June 2016, the company decided to arrange an incentive programme for senior executives and personnel. On full utilisation of the company's incentive programme, 250,000 shares will be issued, which results in a total dilution effect of maximum around 3% of the share capital and number of votes. The subscription price of shares subscribed for using warrants is SEK 45 per share. The premium per warrant, calculated according to the Black-Scholes model, was SEK 1.40. Share subscription may take place during the period from 1 November 2017 up to and including 28 February 2018. On full utilisation of the warrants, the company's share capital will increase by SEK 25,000.

NOTE 10 • Income tax

	2016	2015
Current tax	0	0
Deferred tax	0	0
	0	**0**

Reconciliation of tax expense		
Tax according to the current tax rate (22%)	–2,728	–850
Tax effect of non-deductible expenses	63	81
Tax effect of non-deductible income	0	0
Tax effect of unrecognised loss carryforwards	–9,977	–7,312
Recognised tax expense	**0**	**0**

Unrecognised loss carryforwards amount to 45,353 (33,236).

NOTE 11 • Interests in Group companies

	2016–12–31	2015–12–31
Opening acquisition value	371	371
Change during the year	0	0
Closing accumulated acquisition value	371	371
Closing residual value according to plan	371	371

Group	Org. no.	Domicile	Capital share (%)
JN Data AB	556563–7849	Gothenburg	100

Parent company	Org. no.	Number of shares	Capital share (%)	Voting share (%)	Book value 2016–12–31	Book value 2015–12–31
JN Data AB	556563–7849	1,000	100	100	371	371
Total					**371**	**371**

NOTE 12 • Interests in associates

	Org. no.	Domicile	Capital share (%)	Voting share (%)	Book value 2016–12–31	Book value 2015–12–31
Neoeye AB	559059–9824	Stockholm	50	50	25	—
Total					**25**	**—**

NOTE 13 • Fixtures, tools and installations

	2016–12–31	2015–12–31
Opening acquisition value	2,814	2,485
Changes during the year		
– Purchases	324	329
Closing accumulated acquisition value	3,139	2,814
Opening depreciation	–2,136	–1,917
Changes during the year		
– Depreciation	–290	–219
Closing accumulated depreciation	–2,426	–2,136
Closing value according to plan	713	678

NOTE 14 • Other current receivables

	2016–12–31	2015–12–31
Tax account	0	2
VAT account	1,012	765
New issue subscribed for, but not paid-up	10,828	—
Other current receivables	0	57
Total other current receivables	**11,841**	**824**

NOTE 15 • Prepaid expenses and accrued income

	2016–12–31	2015–12–31
Prepaid rent	129	118
Accrued income and ongoing contribution project	2,334	701
Other prepaid expenses	490	150
Total prepaid expenses and accrued income	**2,953**	**969**

NOTE 16 • Debt to credit institutions

	2016–12–31	2015–12–31
Falling due within one year after the balance sheet date	500	—
Falling due between one year and five years after the balance sheet date	7,500	6,500
Falling due later than five years after the balance sheet date	—	1,500
Total debt to credit institutions	**8,000**	**8,000**

NOTE 17 • Accrued expenses and prepaid income

	2016–12–31	2015–12–31
Accrued salaries and holiday pay	4,135	2,968
Accrued social security expenses	1,864	1,411
Accrued expenses	1,625	336
Accrued interest costs	0	2,313
Other items	888	662
Total accrued expenses and prepaid income	**8,512**	**7,690**

NOTE 18 • Contingent liabilities

	2016–12–31	2015–12–31
For own provisions and debt		
Floating charges	15,000	19,500
Total security pledges	**15,000**	**19,500**

The Income Statement and Balance Sheet will be submitted for adoption by the Annual General Meeting on 27 April 2017.

Gothenburg, 29 March 2017

Martin Krantz
CEO

Mats Krantz
Chairman

Staffan Hansson

Mikael Johnsson

Anders Jöfelt

Magnus Jonsson

My audit report was submitted on 29 March 2017.

Magnus Götenfelt
Authorised Public Accountant

Audit Report

To the Annual General Meeting of SmartEye AB, org. no. 556575–8371

Report concerning the Annual Accounts

Opinion

I have audited the Annual Accounts of SmartEye AB for 2016. The company's Annual Accounts are presented on pages 19–31 of this document.

In my opinion the Annual Accounts have been presented in accordance with the Annual Accounts Act and in all material respects present a true and fair view of Smart Eye AB's financial position as at 31 December 2016, and of its financial results and cash flow for the year, in accordance with the Annual Accounts Act. The Management Report is in accordance with the other elements of the Annual Accounts.

I therefore endorse the Annual General Meeting's approval of the Income Statement and Balance Sheet.

Basis for opinion

I performed my audit in accordance with International Standards on Auditing (ISA) and generally accepted accounting principles in Sweden. My responsibility in accordance with these standards is described under Auditor's responsibility. I am independent in relation to SmartEye AB in accordance with generally accepted accounting principles in Sweden and have fulfilled my professional ethical responsibility in accordance with these requirements.

I believe that the audit evidence I have obtained is an adequate and appropriate basis for my opinion.

Responsibility of the Board of Directors and CEO

The Board of Directors and CEO are responsible for the presentation of the Annual Accounts as a true and fair view, in accordance with the Annual Accounts Act. The Board of Directors and CEO are also responsible for the internal control which they consider necessary to present Annual Accounts without material misstatements, whether these are due to fraud or error.

On the presentation of the Annual Accounts, the Board of Directors and CEO are responsible for assessment of the company as a going concern. As applicable, they disclose any circumstances that may affect the ability to continue the activities and to apply the going concern assumption. The going concern assumption is not applied, however, if the Board of Directors and CEO intend to dissolve the company, discontinue activities, or have no realistic alternative to this.

Responsibility of the auditor

My objective is to achieve a reasonable degree of assurance that the overall Annual Accounts are free of material misstatements, whether due to fraud or error, and to present an audit report with my opinion. Reasonable assurance is a high degree of assurance, but no guarantee that an audit conducted in accordance with ISA and generally accepted accounting principles in Sweden will always discover any material misstatement. Misstatements may occur due to irregularities or errors and will be deemed to be material if they individually or together can be reasonably expected to affect the financial decisions taken by users of the Annual Accounts.

Further details of my responsibility for the audit of the Annual Accounts can be found on the website of the Supervisory Board of Public Accountants: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the audit report.

Report on other statutory and regulatory requirements

Opinion

In addition to my audit of the Annual Accounts I also performed an audit of the administration of Smart Eye AB by the Board of Directors and CEO for 2016, and of the proposal for allocation of the company's profit or loss.

I endorse that the Annual General Meeting allocates the profit as proposed in the Management Report and grant the members of the Board of Directors and the CEO discharge of their responsibility for the financial year.

Basis for opinion

I conducted my audit in accordance with generally accepted accounting principles in Sweden. My responsibility in accordance with this is described under Auditor's responsibility. I am independent in relation to SmartEye AB in accordance with generally accepted accounting principles in Sweden and have fulfilled my professional ethical responsibility in accordance with these requirements.

I believe that the audit evidence I have obtained is an adequate and appropriate basis for my opinion.

Responsibility of the Board of Directors and CEO
The Board of Directors is responsible for the proposal for allocation of the company's profit or loss. The proposal for distribution includes an assessment of whether the distribution is responsible with regard to the requirements which the company's business nature, extent and risks make of the size of the company's equity, consolidation requirement, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the management of the company's affairs. This includes continuous assessment of the company's financial situation, and ensuring that the company's organisation is designed to ensure that bookkeeping, funds management and the company's financial affairs in general are controlled on an appropriate basis. The CEO must manage the ongoing administration in accordance with the Board of Directors' guidelines and instructions, and among other things take the measures necessary to undertake to the company's bookkeeping in accordance with statutory regulations, and to ensure that funds are managed on an appropriate basis.

Responsibility of the auditor
My aim concerning the audit of the administration, and thereby my statement concerning discharge of responsibility, is to obtain audit evidence in order to be able to assess with a reasonable degree of assurance whether any member of the Board of Directors or the CEO in any material respect:

- Has performed any actions or shown any negligence that can lead to indemnification claims against the company;
- Has in any other way acted in conflict with the Swedish Companies Act, Annual Accounts Act or the Articles of Association.

My aim concerning the audit of the proposal for allocation of the company's profit or loss, and thereby my statement concerning this, is to assess with a reasonable degree of assurance whether the proposal is in accordance with the Swedish Companies Act.

Reasonable assurance is a high degree of assurance, but no guarantee, that an audit performed in accordance with generally accepted accounting principles in Sweden will always discover actions or negligence that may lead to indemnification claims against the company, or that a proposal for allocation of the company's profit or loss is not in accordance with the Swedish Companies Act.

Further details of my responsibility for the audit of the administration can be found on the website of the Supervisory Board of Public Accountants: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the audit report.

Remark
Without this affecting my opinion I hereby remark that in several cases deducted tax (and social security payments)/value added tax are not paid in due time.

29 March 2017
Magnus Götenfelt
Authorised Public Accountant

Board of Directors

MATS KRANTZ
Chairman of the Board of Directors
Date of birth: 1947
Educational background: Master Brewer at the Scandinavian School of Brewing in Copenhagen.
Other appointments: Chairman of Letter Cube Digital AB, and Board Member of Ostkustens FartygsAssistans AB and M. Irwin & Krantz AB.
Previous appointments during the last five years: None.
Holdings: Krantz holds 978,134 shares privately and 180,800 shares via related parties, as well as 6,500 options privately.

STAFFAN HANSSON
Board Member since 2008.
Date of birth: 1955
Educational background: MSc (Econ), Lund University.
Other appointments: CEO and Board Member of Icecon Affärssystem AB, and Board member of Valerius Management Consulting AB, Kommersiella Fastigheter i Väst AB, Resultat Projektledning Sverige AB and LanCom AB.
Previous appointments during the last five years: None.
Holdings: 3,000 shares and 4,500 options.

MIKAEL JOHNSSON
Board Member since 2014.
Date of birth: 1980
Educational background: MSc, Industrial Engineering and Management, Chalmers University of Technology.
Other appointments: C.T. Fastigheter i Ulricehamn AB, Jobro Holding AB and Jobro SMT AB.
Previous appointments during the last five years: Chairman of Svensk Automationskoncern AB, Board Member of APR Automation AB, CeDe Group AB and CEDEFT Intressenter AB, Board Member of LeanNova Engineering AB, Pelly Industri AB, Pelly Intressenter AB and Vicura AB, and Deputy Board Member of Arccore AB, Lamera AB and LN Management AB.
Holdings: 1,309,508 shares via Fouriertransform AB.

MAGNUS JONSSON
Board Member since 2014.
Date of birth: 1956
Educational background: MSc, Mechanical Engineering, Chalmers University of Technology.
Other appointments: Chairman of Powercell AB, AstaZero AB, TechRoi Fuel Systems AB and BIL Sweden Adm AB, Board Member of Västkustens Affärsänglar AB, SenseAir AB and AB Magnus Jonsson, and of Magnus Jonsson Consulting AB.
Previous appointments during the last five years: Board Member of Kongsberg Automotive AS and LeanNova AB.
Holdings: 3,000 shares and 2,000 options.

ANDERS JÖFELT
Board Member since 2012.
Date of birth: 1975
Educational background: MSc, Computer Engineering, Lund University's Faculty of Engineering.
Other appointments: None.
Previous appointments during the last five years: None.
Holdings: 863,433 shares and 6,250 options.

Group Management

MARTIN KRANTZ
Founder and CEO
Date of birth: 1971
Educational background: MSc, Engineering Physics, Chalmers University of Technology.
Other appointments: Chairman, Neoeye AB
Previous appointments during the last five years: None.
Holdings: 837,300 shares and 21,000 options.

ULRIKA DROTZ MOLIN
CFO
Employed since 2016.
Date of birth: 1967
Educational background: MSc (Econ), University of Gothenburg, School of Business, Economics and Law
Other appointments: Board Member of T2M Management AB.
Previous appointments during the last five years: None.
Holdings: 1,000 shares and 15,000 options.

MARTIN RYDBERG
CTO
Employed since 2000.
Date of birth: 1976
Educational background: MSc, Computer Engineering, Chalmers University of Technology.
Other appointments: None.
Previous appointments during the last five years: None.
Holdings: 41,500 shares and 10,000 options.

SOLMAZ SHAHMEHR
VP of Research Instruments
Employed since 2009.
Date of birth: 1982
Educational background: MSc, Computer Engineering, Chalmers University of Technology and MSc, Computer Engineering, Tehran Azad University.
Other current appointments: None.
Previous appointments: None.
Holdings in Smart Eye: 7,500 shares and 15,000 options.

PER SÖRNER
CRO
Employed since 2000.
Date of birth: 1963
Educational background: MSc, Electrical Engineering, Chalmers University of Technology
Other appointments: None.
Previous appointments during the last five years: None.
Holdings: 94,000 shares and 15,000 options.

DANIEL ÅMAN
VP of Applied Solutions
Employed since 2013.
Date of birth: 1972
Educational background: MSc, Engineering Physics, Chalmers University of Technology and IFL, Stockholm School of Economics.
Other appointments: None.
Previous appointments during the last five years: None.
Holdings: 7,000 shares and 15,000 options.

Annual General Meeting 2017

The shareholders of Smart Eye Aktiebolag (publ) are hereby notified that the Annual General Meeting will be held on Thursday, 27 April 2017 at 1pm at Smart Eye's offices at Första Långgatan 28 B, SE–413 27 Gothenburg. Registration for the Annual General Meeting can take place as from 12:00 noon.

Registration
Shareholders wishing to attend the Annual General Meeting must be registered in the share register held by Euroclear Sweden AB by Friday, 21 April 2017, and also register their attendance with the company by Friday, 21 April 2017 at the latest, by letter to the address "Annual General Meeting 2017", Smart Eye Aktiebolag (publ), Attn. Ulrika Drotz Molin, Första Långgatan 28 B, SE–413 27 Gothenburg, or by e-mail to arsstamma@smarteye.se.

Registration must state the shareholder's name (company), personal reg. no. (organisation no.), address and telephone no., name of any accompanying adviser(s) (no more than two), and the name and personal reg. no. of any proxy representative.

Shareholders who are represented by proxies must complete a dated power of attorney for the proxy. The power of attorney form can be downloaded from the company's website at www.smarteye.se. A representative of a legal entity must attach a verified certificate of registration. The power of attorney may not be older than one year, unless the power of attorney stipulates a longer term of validity, which may not exceed five years. The certificate of registration may not be drawn up earlier than one year before the date of the Annual General Meeting. The original power of attorney and other authorised documents should be received by the company at the aforementioned address by no later than Friday, 21 April 2017.

Nominee-registered shares
In order to be entitled to attend the Annual General Meeting, shareholders whose shares are nominee-registered must temporarily register the shares in their own name in the share register held by Euroclear Sweden AB. This registration must have taken place by Friday, 21 April 2017, and should therefore be requested from the manager in good time before this date.

Calendar

Interim report Jan–Mar 2017	25 April 2017
Annual General Meeting	27 April 2017

Contact

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