

## Year-end report January – December 2016

# Record year for sales and profit

### Fourth quarter

- Net sales rose 10.3 percent to SEK 71.9 (65.2) million (9.1 percent in local currencies).
- EBIT increased to SEK 21.3 (18.2) million.
- The EBIT margin reached 29.6 (28.0) percent (28.8 percent in local currencies).
- Profit after tax was SEK 17.1 (15.9) million.
- Earnings per share were SEK 0.93 (0.89).
- Cash flow from operational activities was SEK 16.2 (20.5) million.

### January – December

- Net sales rose 6.8 percent to SEK 242.4 (226.9) million (7.9 percent in local currencies)
- EBIT increased to SEK 58.5 (56.4) million
- The EBIT margin reached 24.1 (24.9) percent (24.6 percent in local currencies)
- Profit after tax was SEK 45.4 (45.1) million.
- Earnings per share were SEK 2.47 (2.52).
- Cash flow from operating activities was SEK 52.2 (57.6) million.
- Cash and cash equivalents and short-term investments amounted to SEK 123.2 (103.7) million at the end of the period.
- The Board proposes that the AGM approve a dividend of SEK 2.2 (2.2) per share.

# +7%

Sales growth full-year

# 24%

EBIT margin full-year

#### MSAB in brief

MSAB is a world leader in mobile forensics technology with the aim of extracting and analysing data from confiscated mobile devices, mainly from mobile phones. The Company has its own sales offices and sales representatives in Europe, North America, South America, China, Australia and Russia, and together with a number of distributors, covers most of the world. The proprietary products have become a de facto standard in the field and are used for securing evidence in more than 100 countries. The products are complemented by a wide range of training courses, with the possibility of becoming certified in a forensically sound methodology. Customers are primarily law enforcement agencies, such as police, military and customs. MSAB is listed on NASDAQ Stockholm under the ticker symbol MSAB B.

## Comments from the CEO

During the fourth quarter, net sales increased by 10.3 percent to SEK 71.9 (65.2) million and EBIT rose to 29.6 (28.0) percent, which is the Company's best quarter ever. For full-year 2016, sales grew 6.8 percent amounting to SEK 242.4 (226.9) million. EBIT for the full-year amounted to SEK 58.5 (56.4) million, which corresponds to an EBIT margin of 24.1 (24.9) percent. Sales and profit for 2016 make this the best year in the Company's history. Cash flow from operating activities remained strong and exceeded the year's profit after tax.

During 2016, we introduced MSAB Ecosystem. This system addresses the needs of criminal investigative authorities for a broad solution that focuses on their overall system requirements. Development of the system is not yet finished and certain components will be launched in the current year. During the past year, we also implemented organisational changes to make our development and sales processes more efficient. That we have invested so heavily in our organisation and products while maintaining our EBIT margin and cash flow demonstrates the strength inherent in our business model.

The world is shrinking and information is reaching us faster and faster thanks to intelligent technology and new ways of communicating. At the same time, the world is becoming more and more technology-driven and hence it is also becoming increasingly complex. Our customers, especially the police, must be able to work effectively when investigating — and preferably preventing — crime. With the continuing rapid pace at which new phones and apps are being developed, the challenges our customers face remain great. Customers demand and need our innovative solutions to be more effective in their efforts to solve crime.

FBI Director James Comey has said, "The cell phone is probably the single most important piece of evidence you will find at a crime scene today." Thanks to the development of the Internet of Things (IoT), the number of digital units which can be used to secure evidence, continues to rise. If we add to this the explosive growth in the number of apps being developed and new levels of encryption, we realise quickly what an enormous challenge our law enforcement agencies are facing.

It is this rapid development that prompts us to continue investing and developing powerful products that can unlock, read, secure and analyse content from all types of units. We need to offer powerful tools regardless of whether the device is a phone, USB memory or some type of wearable fitness armband, and regardless of the type of encryption protecting the data. In this

way, our law enforcement agencies can become more effective in their efforts to make society a safer place for us all.

Everyone who works at or with MSAB should be proud over what we do. We are a world-leader within mobile forensics. Our leadership derives from us providing our customers with the best solutions to enable them to investigate and prevent crime every day. Being a leader in this industry also entails a great deal of responsibility at the strategic level — not just supplying customers with potent products but also protecting and safeguarding privacy. Our products are not intended for use in mass surveillance and are subject to certain export restrictions and international agreements. The company also has its own ethical guidelines.

In addition to selling products, we have also chosen to take an active role in gathering together law enforcement agencies, various legislators, and other technology companies to create a third way in the so-called "going dark" controversy. There are compelling arguments on both sides of the debate, on the one hand to protect personal integrity and on the other to provide law enforcement agencies with effective tools. We see it as a technical problem, where there is also a technical solution. We call our proposed solution FACT, or Forensic Access Controlled Technology. Several American magazines have written about this solution and it has even been referred to and discussed in congressional hearings, including with representatives from the FBI amongst others. Our solution is viewed as a real alternative in the search for a reasonable middle road.

In 2017, we will continue working with concerned stakeholders to push our proposal, which safeguards personal integrity as well as legal security.

MSAB does not offer any prognosis but we see a market which continues to grow, and our goal is to achieve profitable growth at a rate which is at least at the same pace as the market. We are expanding our workforce, launching new products with improved functionality, improving routines and processes and listening to our customers' needs.

I'm looking forward to an exciting and challenging 2017.

Stockholm, January 2017

Joel Bollö  
Chief Executive Director

# Comments on operations

## The market

North America – growth for the year was 10 percent and the region is thus the Company’s largest as regards sales. Growth consisted mainly of sales to federal customers where business deals were larger, which causes fluctuations between quarters where the third quarter was the strongest for the year.

EMEA & Latin America – sales for the year declined 6 percent. This was partly due to uneven sales in the Middle East and Africa, where business tends to fluctuate and lead times are long. Additionally, the United Kingdom, which is the single largest market in the region, experienced lower sales than the previous year. This was partly the result of a weaker pound and partly because 2015 was a strong year with several larger deliveries. Germany and France have developed well during the year and are generating growth.

Asia and CIS – growth for the year reached 43 percent, in large part generated by a larger order that the Company announced during the fourth quarter. This single order and growth in general is the result of a longer period of focused cultivation of both new and existing markets in Asia.

## Products

During the quarter, another version of XRY was launched, which included increased support for extraction of data from Androids via Wi-Fi and improved access to various cloud services. iVE, a tool for extracting data from vehicles, complements the product family XAMN which is intended for analysis of data (see below *Important events during the quarter*).

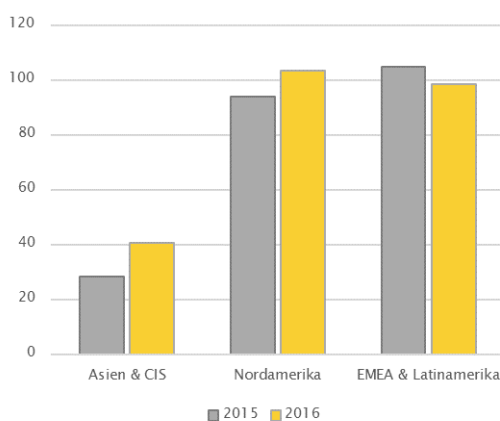
## Training

Sales of training products declined somewhat compared with the previous year. This was due primarily to a restructuring of training activities in connection with the launch of the Ecosystemet concept, which means that training operations expanded with several new, advanced courses. These new courses have been well-received but are still partially in the establishment phase.

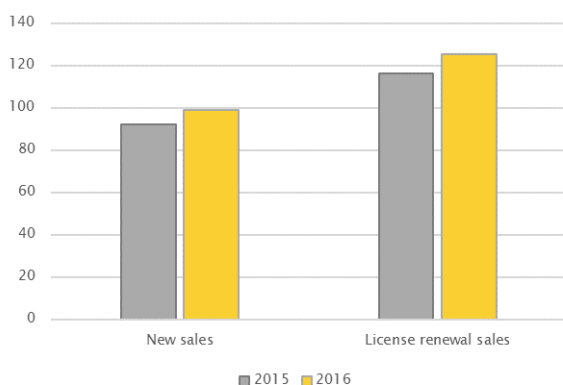
## Important events during the quarter

- During the quarter, a major order in Asia worth SEK 11 million was announced. The order consisted primarily of XRY office and the agreement will run for three years.
- MSAB and Berla, a leading world player within automotive-related forensic technology, have entered into a strategic cooperation. This cooperation will involve a technical solution that offers users groundbreaking possibilities for extraction and analysis of data from automotives and mobile phones.

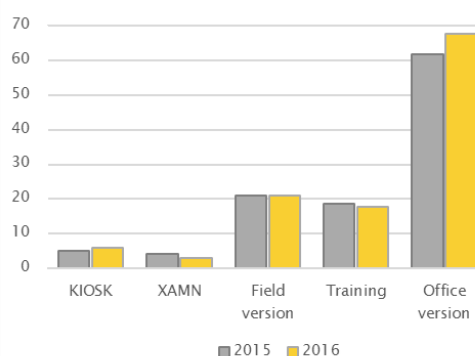
Sales distribution by regions MSEK, Jan-Dec



Product sales distribution MSEK, Jan-Dec



New sales distribution MSEK, Jan-Dec



# Comments on financial performance

## Net sales

Consolidated net sales increased during the fourth quarter by 10.3 percent to SEK 71.9 (65.2) million and for the year by 6.8 percent to SEK 242.4 (226.9) million. In local currencies, net sales increased 9.1 percent for the quarter and by 7.9 percent for the whole year.

## Expenses

Expenses for goods for resale amounted to SEK 4.1 (5.9) million for the quarter and SEK 19.1 (20.2) million for the year. Other external expenses for the quarter amounted to SEK 14.3 (13.3) million and SEK 51.4 (50.0) million for the year. Personnel costs for the quarter were SEK 31.8 (27.4) million and for the year SEK 111.8 (98.7) million.

## Profit/loss

EBIT for the quarter amounted to SEK 21.3 (18.2) million corresponding to an operating margin of 29.6 (28.0) percent. For the whole year, EBIT amounted to SEK 58.5 (56.4) million corresponding to an operating margin of 24.1 (24.9) percent. In local currencies, the operating margin for the quarter was 28.8 percent and for the year 24.6 percent.

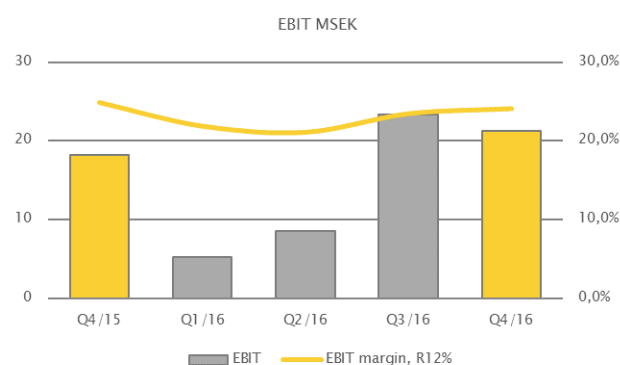
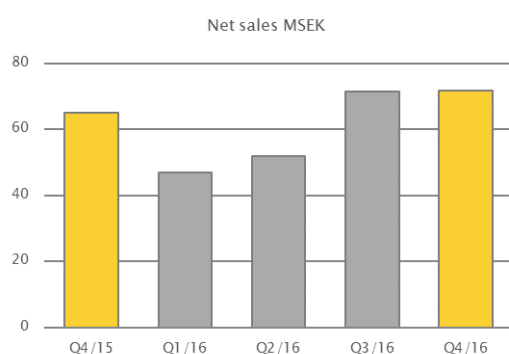
Net financial income/expense was SEK 1.0 (1.0) million for the quarter and SEK 2.2 (2.2) million for the whole year. Net financial income/expense consisted primarily of revaluation of cash and cash equivalents in foreign currencies. Revenues and expenses are matched in the same currencies to the extent possible. At year-end, the Company had no currency hedges (25 KSEK). Profit after tax was SEK 17.1 (15.9) million for the quarter and SEK 45.4 (45.1) million for the year.

## Cash flow and financial position

Cash flow from operating activities for the quarter was SEK 16.2 (20.5) million and SEK 52.2 (57.6) million for the year. During the year, dividends amounting to SEK 40.4 (17.9) million were paid out. Share options resulting in SEK 7.8 million in newly issued shares were exercised during the year. Cash and cash equivalents at year-end amounted to SEK 123.2 (103.7) million. The equity ratio at year-end was 58.2 (56.5) percent.

## Personnel

The number of employees in the Group at year-end was 121 (111). The average number of employees was 117 (109).



## Other

### Seasonal effects

MSAB is not dependent on the seasons in the sense that is normally meant by the term seasonal effects. Most of the Company's customers, however, follow the calendar year as their budget period, and historically, this has been reflected in sales in that the fourth quarter is stronger than other quarters during the calendar year.

### Risks and uncertainty factors

The Group's activities expose it to risks and uncertainty factors. Information on risks and uncertainties other than currency exposure due to foreign subsidiaries and the fact that most invoicing in Sweden is denominated in foreign currencies can be found in more detail in the 2015 Annual Report. The Annual Report is available on the Company's website.

### Accounting principles

This interim report has been prepared for the Group in accordance with the Swedish Annual Accounts Act and IAS 34 Interim Financial Reporting, and for the Parent Company in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Information as per IAS 34 Interim Financial Reporting is provided in notes as well as in other places throughout the report.

The accounting principles applied to the Group and the Parent Company are consistent, unless stated below, with the accounting principles used to prepare the most recent Annual Report.

New and revised IFRS standards, interpretations from the IFRS Interpretations Committee, and amendments to RFR 2 applied as of 1 January, 2016 have no impact on the Parent Company's nor the Group's financial reports.

As of 30 June, 2016, the ESMA's guidelines for Alternative Performance Measures apply. This results in additional disclosures for metrics not defined in the IFRS.

### Assets measured at fair value

At the end of the quarter, the Company had no forward contracts or fixed income funds, and on 31 December, 2016, financial assets measured at fair value amounted to SEK 0 (25) thousand.

### Annual General Meeting 2017

The Annual General Meeting (AGM) will be held in Stockholm on 10 May 2017. Shareholders who wish to have an issue

addressed at the AGM must submit a written proposal by 6 February to guarantee the matter's inclusion in the Notice of the AGM.

### The Nomination Committee

MSAB's Nomination Committee consists of Chairman Erik Hermansson (Humble kapitalförvaltning AB) and Board members Henrik Tjernberg and Joakim Dal (Edastra AB). The Nomination Committee is tasked with proposing candidates for AGM Chairman, Chairman of the Board, and Auditor, as well as Board and Auditor remuneration and proposals for Nomination Committee procedures.

### Dividends

The Board proposes that the AGM approves a dividend of SEK 2.2 (2.2) SEK per share. The total dividend will amount to SEK 40.4 (40.4) million.

### The Parent Company

The Parent Company's full-year net sales amounted to SEK 184.1 (169.1) million. EBIT for the year amounted to SEK 52.8 (48.3) million. Investments for the year amounted to SEK 0.7 (2.1) million. The number of employees in the Parent Company was 90 (81) at the end of the period.

### Related party transactions

There were no related party transactions during the quarter.

### Financial calendar

19 April	Annual Report 2016
28 April	Interim Report January–March
21 July	Interim Report January–June
20 October	Interim Report January–September
2 February, 2018	Year-end Report 2017

The information in this report is information that MSAB, corporate registration number 556244–3050, is required to disclose in accordance with the Swedish Securities Markets Act. The information was submitted for publication on 31 January, 2016 at 8:00 a.m. CEST, through the offices of the contact person listed below.

This report and earlier financial reports and press releases are available on the Company's website [www.msab.com](http://www.msab.com).

Send questions to:

Chief Executive Officer Joel Bollö  
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Email: [joel.bollo@msab.com](mailto:joel.bollo@msab.com)

## Board and CEO's statement

The under-signed certify that this interim report provides, in accordance with current regulations, a fair and true overview of the Parent Company's and Group's operations, financial position and results, as well as describing the significant risks and uncertainty factors to which the Parent Company and the subsidiaries that comprise the Group are exposed.

Stockholm, 31 January, 2016

## Micro Systemation AB (publ)

Corporate ID number: 556244-3050

Henrik Tjernberg	Joel Bollö	Robert Ahldin	Örjan Gatu
Chairman of the Board	Chief Executive Director	Board member	Board member

Jan-Olof Backman	Carl Bildt	Katarina G Bonde
Board member	Board member	Board member

This report has not been audited by the Company's Auditor.

## Consolidated income statement in summary

MSEK	Oct – Dec		Full year	
	2016	2015	2016	2015
Net sales	71.9	65.2	242.4	226.9
Cost of goods sold	-4.1	-5.9	-19.1	-20.2
Other external costs	-14.3	-13.3	-51.4	-50.0
Personnel costs	-31.8	-27.4	-111.8	-98.7
Depreciation of fixed assets	-0.4	-0.4	-1.6	-1.6
Total operating cost	-50.6	-47.0	-183.9	-170.5
Operating profit – EBIT	21.3	18.2	58.5	56.4
Financial income	5.1	2.2	8.1	8.3
Financial expenses	-4.1	-1.2	-5.9	-6.1
Profit/loss before tax	22.3	19.2	60.7	58.6
Tax	-5.2	-3.3	-15.3	-13.5
<b>Net profit/loss after tax</b>	<b>17.1</b>	<b>15.9</b>	<b>45.4</b>	<b>45.1</b>

## Statement of comprehensive income

MSEK	Oct – Dec		Full year	
	2016	2015	2016	2015
Net profit/loss after tax	17.1	15.9	45.4	45.1
Currency translation differences	0.3	-0.5	0.6	-0.6
Tax on currency translation differences	0.0	0.1	0.1	0.1
Change in hedging reserves	-	-0.1	-	0.5
Tax on hedging reserves	-	-	-	-0.1
<b>Total comprehensive income</b>	<b>17.4</b>	<b>15.4</b>	<b>46.1</b>	<b>45.0</b>
Comprehensive income for the period attributable to the shareholders of the parent company	17.4	15.4	46.1	45.0

## Key figures

	Oct – Dec		Full year	
	2016	2015	2016	2015
Revenue growth, %	10.3	-0.5	6.8	25.4
EBIT-margin, %	29.6	28.0	24.1	24.9
Cash flow from operating activities per share, SEK	0.88	1.12	2.84	3.16
Return on equity, %	17.5	20.7	46.3	58.6
Return on capital employed, %	22.9	26.6	63.9	84.0
Equity per share, SEK	5.68	4.97	5.68	4.99
Earnings per share, basic, SEK	0.93	0.89	2.47	2.52
Earnings per share, diluted, SEK	0.93	0.87	2.46	2.48
Average number of shares, basic, million	18.4	17.9	18.4	17.9
Average number of shares, diluted, million	18.4	18.3	18.4	18.2

## Consolidated balance sheet in summary

MSEK	Dec-31	
	2016	2015
<b>ASSETS</b>		
Intangible assets	0.4	0.6
Tangible assets	1.9	2.7
Deferred tax asset	0.5	0.7
Total non-current assets	2.8	4.0
Inventories	3.7	5.2
Accounts receivable – trade	41.3	42.3
Current tax asset	0.3	1.2
Other current assets	8.0	4.6
Cash and cash equivalents	123.2	103.7
Total current assets	176.5	157.0
<b>TOTAL ASSETS</b>	<b>179.3</b>	<b>161.0</b>
<b>EQUITY AND LIABILITIES</b>		
Equity	104.4	90.9
Accounts payable – trade	4.6	5.0
Current tax liability	6.2	2.5
Other current liabilities	64.1	62.6
Total current liabilities	74.9	70.1
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>179.3</b>	<b>161.0</b>

## Change in equity

MSEK	Dec-31	
	2016	2015
Opening balance	90.9	63.2
Profit/loss for the period	46.1	45.0
Issue of share option rights	–	0.5
Conversion of share option rights	7.8	–
Dividend	–40.4	–17.9
Equity at the end of the period	104.4	90.9



## Cash flow statement in summary

MSEK	Oct-Dec		Full year	
	2016	2015	2016	2015
Cash flow before working capital changes	18.4	14.6	52.5	46.8
Working capital changes	-2.2	5.9	-0.3	10.8
Cash flow from operating activities	16.2	20.5	52.2	57.6
Investments in fixed assets	-0.4	-0.6	-0.7	-2.3
Conversion of investment fund to cash	-	-	-	9.1
Cash flow from investing activities	-0.4	-0.6	-0.7	6.8
Dividend paid to shareholders	-	-	-40.4	-17.9
Premium received/conversion of share option rights	-	-	7.8	0.5
Cash flow from financing activities	-	-	-32.6	-17.4
Cash flow for the period	15.8	19.9	18.9	47.0
Cash at the beginning of the period	107.1	84.9	103.7	56.5
Exchange rate difference in cash	0.3	-1.1	0.6	0.2
Cash at the end of the period	123.2	103.7	123.2	103.7

## Quarterly data

	2016				2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net sales, MSEK	71.9	71.6	52.0	46.8	65.2	59.6	51.5	50.5	65.5	45.9	37.6	31.9
EBIT, MSEK	21.3	23.3	8.5	5.3	18.2	15.3	10.1	12.8	19.5	11.4	-7.0	-9.8
EBIT-margin, %	29.6	32.5	16.3	11.3	28.0	25.7	19.5	25.4	29.7	24.7	-18.5	-30.5
Earnings per share, SEK	0.93	0.99	0.35	0.18	0.87	0.66	0.34	0.61	0.81	0.56	-0.37	-0.43
Return on equity, %	17.5	22.5	9.9	3.7	20.7	19.4	12.2	19.0	26.1	21.2	-15.9	-16.7
Return on capital employed, %	22.9	30.0	14.6	7.0	26.6	28.2	21.7	27.3	38.4	24.8	-14.9	-20.7
Equity ratio, %	58.2	55.7	53.3	62.6	56.5	51.8	51.2	55.6	50.0	48.2	42.0	49.6
Cash flow from operations/per share, SEK	0.88	1.49	0.18	0.28	1.12	0.79	0.33	0.92	1.30	0.06	0.49	-1.04
Equity per share, SEK	5.68	4.73	3.69	5.54	4.97	4.14	3.49	4.20	3.52	2.67	2.05	2.30

## Definitions

The Company presents certain financial metrics in the interim report that are not defined under IFRS. The Company believes that these metrics provide useful supplemental information to investors and the Company's management as they allow for the evaluation of the Company's performance.

### EBIT

Earnings before interest and taxes.

### EBIT margin

EBIT in relation to net sales.

### Earnings per share \*

Profit/loss after tax in relation to average number of outstanding shares after dilution.

### Return on equity

Profit/loss after tax in relation to average adjusted equity.

### Return on capital employed

EBIT plus financial items in relation to average capital employed.

### Equity ratio

Equity in relation to total assets.

### Cash flow from operations/per share

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

### Equity per share

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

### Average adjusted equity

Average of equity during 12 months-period. Opening plus closing shareholders' equity divided by two.

### Capital employed /average capital employed

Capital employed is calculated as total assets less non-interest-bearing liabilities.

Average capital employed is calculated as capital employed over a 12 months period. Capital employed at beginning of period plus capital employed at end of period divided by two.

### Revenue growth, %

Sales current period in relation to same period prior year

### Net financial items

Net of financial income and expenses

\* Defined in line with IFRS

## Reconciliations of measurements that are not defined under IFRS.

### Capital employed

	2016				2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total assets, MSEK	179.3	156.0	127.1	161.6	161.0	145.7	124.4	137.0	126.4	99.6	86.8	82.1
Accounts payables, MSEK	-4.6	-3.1	-2.2	-3.4	-5.0	-6.7	-5.2	-3.1	-12.7	-4.3	-3.1	-3.6
Tax liabilities, MSEK	-6.2	-9.4	-4.2	-3.8	-2.5	-8.3	-5.9	-4.7	-2.0	-1.8	-2.8	-2.5
Other liabilities, MSEK	-64.1	-56.7	-52.9	-53.3	-62.6	-55.2	-49.6	-52.9	-48.5	-45.5	-44.5	-35.2
Capital employed, MSEK	104.4	86.8	67.8	101.1	90.9	75.5	63.7	76.2	63.2	47.9	36.4	40.7
Average capital employed, MSEK	97.7	81.1	65.8	88.7	77.1	61.7	50.1	58.5	55.7	47.2	41.2	45.8

## Parent company income statement in summary

MSEK	Jan-Dec	
	2016	2015
Net sales	184.1	169.1
Cost of goods sold	-19.1	-20.1
Other external costs	-34.1	-33.3
Personnell costs	-76.5	-65.9
Depreciation of fixed assets	-1.6	-1.5
Total operating cost	-131.3	-120.8
Operating profit – EBIT	52.8	48.3
Net financial items	4.6	2.2
Profit/loss before tax	57.4	50.5
Tax	-12.2	-11.2
<b>Net profit/loss after tax</b>	<b>45.2</b>	<b>39.3</b>

## Statement of comprehensive income

MSEK	Jan-Dec	
	2016	2015
Net profit/loss after tax	45.2	39.3
Change in hedging reserves	-	0.5
Tax on hedging reserves	-	-0.1
Total comprehensive income	45.2	39.7

## Parent company balance sheet in summary

MSEK	31-dec	
	2016	2015
<b>ASSETS</b>		
Intangible assets	0.4	0.6
Tangible assets	1.8	2.5
Shares in group companies	0	0
Total fixed assets	2.2	3.1
Inventories	3.7	5.2
Accounts receivable – trade	26.5	28.1
Other current assets	13.2	4.1
Cash and cash equivalents	90.1	73.3
Total current assets	133.5	110.7
<b>TOTAL ASSETS</b>	<b>135.7</b>	<b>113.8</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital	3.8	3.7
Share premium	20.3	20.3
<i>Restricted equity</i>	24.1	24.0
Statutory reserve	7.8	–
Profit brought forward	57.9	53.2
<i>Non-restricted equity</i>	65.7	53.2
Total equity	89.8	77.2
Accounts payable – trade	4.2	4.4
Current tax liability	5.1	2.3
Other current liabilities	36.6	29.9
Total current liabilities	45.9	36.6
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>135.7</b>	<b>113.8</b>