RaySearch Laboratories

ANNUAL REPORT | 2018

CONTENTS

ADVANCING CANCER TREATMENT

ABOUT RAYSEARCH

RaySearch Laboratories AB (publ) is a medical technology company that develops innovative software solutions for improved cancer treatment. The company develops and markets the RayStation(R) treatment planning system to clinics all over the world and distributes the products through licensing agreements with leading medical technology companies. The company also develops and markets the next-generation oncology information system, RayCare(R)*, which was launched in December 2017 and represents a new product category for RaySearch. RaySearch's software is now used by over 2,600 cancer centers in more than 65 countries. The company was founded in 2000 as a spin-off from the Karolinska Institute in Stockholm and the share has been listed for trading on Nasdaq Stockholm since 2003. To learn more about RaySearch, visit www.raysearchlabs.com

MISSION

RaySearch's mission is to contribute to the continued advancement of cancer care by developing innovative software solutions that save lives and improve quality of life for cancer patients.

BUSINESS MODEL

RaySearch's revenue is generated when customers pay an initial license fee for the right to use RaySearch's software and an annual service fee for access to updates and support. The RayStation treatment planning system and the RayCare oncology information system are developed at RaySearch's head office in Stockholm, and distributed and supported by the company's global marketing organization.

STRATEGIES

A radiation therapy center essentially needs two software platforms for its operations: one information system, and one treatment planning system. With RayStation and RayCare, RaySearch will further strengthen its position and continue to grow with high profitability. The strategy rests on a strong focus on software development, leading functionality, broad support for many different types of treatment techniques and radiation therapy devices, as well as extensive investments in research and development.

* Subject to regulatory clearance in some markets.

WE MAKE THE CANCER CARE OF TOMORROW POSSIBLE TODAY

2018 WAS A YEAR WHEN RAYSEARCH FURTHER STEPPED UP THE PACE. WE ENTERED INTO NEW STRATEGIC PARTNERSHIPS, CONTINUED OUR GLOBAL MARKET PUSH AND LAUNCHED PIONEERING PRODUCTS. A HISTORIC MILESTONE WAS THAT RAYCARE*, OUR REVOLUTIONARY ONCOLOGY INFORMATION SYSTEM, WAS USED CLINICALLY FOR THE FIRST TIME.

THE CARE OF THE FUTURE IS POSSIBLE TODAY

RayCare brings a range of key benefits, including higher efficiency in cancer care. Cancer centers typically have several departments and multiple software systems. RayCare offers one point of control and guides clinicians through complex workflows, making it much easier to manage treatments. Activities that used to take several hours now take just a few minutes with RayCare.

As well as enabling more efficient use of resources, RayCare frees up time to optimize and individualize each treatment, which I firmly believe leads to a better outcome for patients. In this way, RayCare makes the cancer care of the future possible today. With this in mind, we were not surprised, though of course delighted and very proud, that RayCare was brought into clinical use so quickly, in combination with the RayStation treatment planning system, at Provision Cares Proton Therapy Nashville, US, in October. We received four orders for RayCare in 2018 from leading cancer centers, and we look toward the future with great confidence. This is just the beginning for RayCare.

THE JOURNEY CONTINUES – AND THE PACE QUICKENS

Our vision is a world where cancer is conquered. Belief in development and advancement is part of our DNA, and has been since I founded RaySearch in 2000. Back then, the company consisted of just two people and we began to build the business based on my doctoral dissertation on optimization of radiation therapy. We have always made significant investments in research and development, with two main aims: to develop new solutions and to strengthen existing ones. We continue to follow this approach, and in 2018 we increased the pace even further.

In the past, we have released new and expanded versions of our products once a year. Now we are doubling the pace. For example, updated versions of RayStation are now released twice per year. In December 2018, we also released two new RayStation products based on machine learning*. This technology opens up exciting opportunities within our field and is a high priority for RaySearch. During the year, we also introduced a treatment control system, RayCommand*, which coordinates different systems and machines used in the radiation therapy process to improve safety and efficiency. We were pleased to receive the first order in December, and we believe RayCommand is an important step forward in meeting the needs of cancer centers into the future.

STRATEGIC PARTNERSHIPS

RaySearch is stronger than ever. Demand for our products has never been higher, and the world's leading cancer centers view us as an important partner in developing the cancer care of the future. In 2018, we received several acknowledgments that our strategy is the correct one. In February, we entered into a strategic partnership with the University of Texas MD Anderson Cancer Center, one of the largest cancer centers in the world. The goals are to improve precision in the treatment of tumors and to improve access to adaptive radiation therapy, which is in use at specialized centers.

We reached another milestone in April when we entered into a long-term partnership agreement with Heidelberg University Hospital in Germany regarding RayCare. We have also entered into a partnership agreement with Eckert & Ziegler BEBIG, a European manufacturer of products for brachytherapy. In Japan, we signed a long-term research collaboration and licensing agreement, regarding carbon ion therapy, with the National Institute of Radiological Sciences and the National Institutes for Quantum and Radiological Science and Technology. This type of strategic cooperations strengthen our customers and us. We look forward to more exciting partnership opportunities in the future.

A PROUD HISTORY

Our customers are much more than just buyers of software. They are partners in a long-term relationship. With products such as RayStation, RayCare and RayCommand, we aim to provide cancer centers around the world with the best possible tools in the fight against cancer. Ultimately, it's about saving lives and improving the outlook for patients. We value our customers and work hard to take care of them. In our 20-year history, RaySearch has never lost a customer. Naturally, we will do our utmost to keep it that way into the future.

* Subject to regulatory clearance in some markets.

THE PEOPLE BEHIND OUR SUCCESS

None of what we have achieved would have been possible without the people who have chosen to work with us. RaySearch's highly specialized employees are our greatest asset. More than 300 committed and motivated employees work relentlessly every day to break new ground in the fight against cancer. In 2018, we recruited 67 people, and another 35 in the first quarter of 2019, mostly in research and development. We have continued our global market offensive, with more employees in more markets to ensure an even better service for customers.

To date, more than 550 radiation therapy centers in 36 countries have selected RayStation. There are more than 8,000 such centers worldwide, and this number is expected to increase significantly over the next decade. The reasons for this include increased incidence of cancer, growing understanding of the benefits of radiation therapy and major investments in cancer treatment in Asia. Our target is for at least 3,000 cancer centers to have purchased RayStation within ten years. Our global market offensive is an essential factor in achieving this, and we are pursuing these efforts with full force.

Stockholm, April 26, 2019

Johan Löf
CEO and Founder,
RaySearch

ADMINISTRATION REPORT

The Board of Directors and CEO of RaySearch Laboratories AB (publ), Corporate Registration Number 556322-6157, hereby present the annual accounts and consolidated financial statements for the fiscal year of January 1-December 31, 2018. The Parent Company and Group present their financial statements in SEK. The company's Board of Directors is based in Stockholm.

OPERATIONS

RaySearch is a medical technology company that develops innovative software solutions to continuously improve cancer care. The company develops and markets its proprietary treatment planning system RayStation® and proprietary RayCare® Oncology Information System to radiation therapy centers all over the world, and also distributes software products through licensing agreements with leading medical technology companies. RaySearch's software is currently used by over 2,600 centers in more than 65 countries. The company was founded in 2000 as a spin-off from the Karolinska Institutet in Stockholm and the company's share has been traded on Nasdaq Stockholm since 2003.

RaySearch's mission is to contribute to the advancement of cancer care by developing innovative software solutions that improve quality of life for cancer patients and save lives. The company's vision is a world where cancer is conquered. RaySearch's revenue is generated when customers pay an initial license fee for the right to use RaySearch's software and an annual service fee for access to updates and support.

Software is driving a high proportion of advances in cancer care today and a radiation therapy center essentially requires two software platforms for its operations: one treatment planning system, and one information system. With the RayStation treatment planning system and the RayCare oncology information system, RaySearch will strengthen its position and continue to grow with high profitability. The company's strategy rests on a strong focus on software development, leading functionality, broad support for many different types of treatment techniques and radiation therapy devices, and extensive investment in research and development.

RayStation is already established in all major global markets as one of the most advanced treatment planning systems in the radiation therapy of cancer. The company's sales success is based on RayStation's high calculation speed, support for adaptive radiation therapy, automated workflows, unique multi-criteria optimization and user-friendly interfaces. Yet another strength for RayStation is the wide range of radiation therapy devices supported by the system – more than any other treatment planning system. RayStation helps to improve the radiation therapy process and to extend the lifetime of therapy devices, which means they can be used more effectively. This means that centers that want to improve and develop their care are no longer dependent on buying the latest hardware – they can achieve similar, positive outcomes by choosing RayStation as their treatment planning system. Overall, more and more highly regarded cancer centers can now confirm that RayStation is helping them to optimize their radiation therapy process, and to use their existing radiation devices more effectively.

Treatment planning for proton therapy (protons/carbon ions/BNCT) is a key area of focus for RaySearch. Within this advanced market segment, the company has a market share of more than 50 percent globally. At present, less than 1 percent of all patients receiving radiation therapy receive proton therapy, but an estimated 20 percent could benefit from treatment with protons. This shows the major potential for growth in this area.

Ever since RayStation was first launched, we have focused on and achieved major sales success in several of the world's most advanced and renowned radiation therapy clinics. To date, more than 550 cancer centers in some 36 countries have purchased RayStation. At the same time, there are more than 8,000 radiation therapy clinics around the world, so the company's growth potential is still highly favorable. In 2018, the company began expanding its global marketing organization to address the entire market more systematically, to accelerate sales of both RayStation and RayCare, and to ensure the best-possible customer service. Toward the end of the year, the company also launched groundbreaking applications for machine learning and deep learning, such as automated treatment planning and organ segmentation.

According to plan in December 2017, the first version of RayCare, a next-generation oncology information system (OIS), was launched. RayCare is radically different from other OISs and RaySearch has invested a great deal of time and energy into creating something that will fundamentally transform cancer care. The system has been designed to support and optimize the work flow of modern cancer centers. Many cancer patients receive a combination of treatments and unlike existing systems, RayCare is a comprehensive information system that supports the three main types of cancer treatment – radiation therapy, chemotherapy and surgery. It brings integrated cancer care within reach of many cancer centers, and will create clinical possibilities that are unachievable for existing systems. RayCare coordinates all activities efficiently and provides advanced features for clinical resource optimization, workflow automation and adaptive radiation therapy. The system has been developed to meet tomorrow's need for advanced analysis and decision support.

To ensure that RayCare meet clinical needs, our development activities are conducted in close collaboration with leading cancer centers, such as the MD Anderson Cancer Center, the University of California San Francisco, the Princess Margaret Cancer Centre, the University of Wisconsin-Madison and Provision Healthcare in the US, Heidelberg University Hospital in Germany, the University Medical Center Groningen in the Netherlands and Iridium Kankernetwerk in Belgium. Solving the coordination, safety and efficiency needs of the world's largest cancer centers is one of RaySearch's most exciting challenges to date. The company's partnerships with leading centers provide us with ideal conditions for success by combining their extensive clinical know-how with RaySearch's ability to develop innovative software solutions.

RaySearch is a research and development company and about half of the company's employees are engaged in R&D. The research activities are forward-looking and underpin next-generation systems and products. The research is mainly focused on the following areas: chemotherapy and surgical planning, adaptive radiation therapy, automated planning, multi-criteria optimization, MRI-based treatment planning, clinical resource optimization, and robust optimization tools for handling disruptions and errors arising during treatment. Various machine learning applications, including organ segmentation, are studied in close collaboration with the recently formed machine learning department, which also works with automated planning based on historical data. Research is conducted in close collaboration with the Royal Institute of Technology in Stockholm, Princess Margaret Cancer Center (PMCC) in Canada, UMCG in the Netherlands, Heidelberg University Hospital in Germany, and Massachusetts General Hospital and the MD Anderson Cancer Center in the US.

Development is focused on transforming customer demands and the company's innovations into commercial products. This takes place by creating new products, and by further developing and maintaining existing products. Development activities are based on an agile method using modern tools in close collaboration with cancer centers all around the world. In 2018, RayStation 8 and RayCare 2 were developed and released for clinical use.

The machine learning department is focused on the development of machine learning applications for RaySearch products, and on building solutions that make it easier for cancer centers to use their data to streamline and improve their clinical workflows.

HIGHLIGHTS OF THE YEAR

Strategic partnership with MD Anderson to improve radiation therapy

In February 2018, it was announced that the University of Texas MD Anderson Cancer Center and RaySearch had entered into a strategic partnership to improve cancer radiation therapy. The aim is to achieve greater precision when treating tumors and to improve and increase access to an existing radiation therapy approach – adaptive radiation therapy (ART) – which, at present, is largely limited to highly specialized cancer centers.

RayStation selected by several leading cancer centers

In 2018, some of the largest and most respected cancer centers in the world selected RayStation as their treatment planning system, including the Georgia Proton Treatment Center, Mission Health SECU Cancer Center and the Swedish Cancer Institute in the US, CHU de Québec-Université Laval and Centre intégré universitaire de santé et de service sociaux de l'Estrie-Centre hospitalier universitaire de Sherbrooke and Centre intégré de cancérologie de Laval in Quebec, Canada, the Heidelberg Ion Beam Therapy Center (HIT) and Marburg Ion Beam Therapy Center (MIT) in Germany, Centrum Onkologii Ziemi Lubelskiej in Poland and Leeds Center and Advanced Oncotherapy (AVO) in the UK. In addition, RaySearch secured a significant order from a leading manufacturer of radiation therapy devices. The University Medical Center Groningen in the Netherlands, the University of California, San Francisco and the Maryland Proton Therapy Center in the US also expanded their existing RayStation installations.

RayCare selected by several leading cancer centers

In 2018, another four leading cancer centers selected RayCare as their oncology information system (OIS), bringing the total number of commercial orders for RayCare to five.

Share conversion

In March 2018, 200,000 Class A shares were converted to Class B at the request of a shareholder. The total number of votes in RaySearch was thereafter 110,377,548. The total number of registered shares in RaySearch is 34,282,773, of which 8,454,975 are Class A and 25,827,798 Class B.

Collaborative agreement with Heidelberg University Hospital for RayCare

In April 2018, it was announced that RaySearch had entered into a long-term collaborative agreement for RayCare with Heidelberg University Hospital in Germany. The collaboration will also involve the two affiliated sites, Heidelberg Ion Beam Therapy Center (HIT) and Marburg Ion Beam Therapy Center (MIT).

Collaborative agreement for brachytherapy with Eckert & Ziegler BEGIG

RaySearch and Eckert & Ziegler BEBIG, a leading European manufacturer of brachytherapy products, have entered into a collaborative agreement to integrate RayStation and RayCare with Eckert & Ziegler BEBIG's brachytherapy system.

Research collaboration and licensing agreement for carbon-ion therapy with NIRS/QST

Research collaboration and a long-term licensing agreement for carbon-ion therapy have been concluded with the National Institute of Radiological Sciences (NIRS) and the National Institutes for Quantum and Radiological Science and Technology (QST) in Japan, which will lead to the integration of NIRS's microdosimetric kinetic model (MKM) in RayStation.

RayStation 8A released

In June, RayStation 8A was released, a new version of the innovative treatment planning system. The new version included support for the treatment mode TomoDirectTM, with TomoTherapy and Radixact systems from Accuray. In addition, the functionality for proton and carbon-ion therapy has been developed, and the integration with RayCare expanded.

Collaborative agreement with the Princess Margaret Cancer Center for RayCare

In July, it was announced that RaySearch had entered into a long-term collaborative agreement for RayCare with the Princess Margaret Cancer Center, part of the University Hospital Network in Toronto, Canada. "The Princess Margaret Cancer Center is one of the leading cancer centers in the world, and their experience and insights are invaluable for the continued development of RayCare. Our collaboration has been ongoing for more than ten years and forms one of the pillars for all of RaySearch's efforts to achieve better cancer care. We are working together to take cancer care to a higher level and make patient-centered care real," says Johan Löf, President and CEO of RaySearch.

RayCare 2A and RayCare 2B released

In the third quarter, RayCare 2A and RayCare 2B were released, new versions of the groundbreaking oncology information system (OIS). RayCare is undergoing rapid development based on clinical feedback from some of the world's leading cancer centers. The new versions introduced a range of new features, including activity and rule-based scheduling for all clinical resources, clinical document management, support for full treatment delivery, workflow management and offline activity-based image analysis, and additional features for care administration and the management of external contacts.

RayCare now in clinical use

Since October 8, 2018, RayCare and RayStation have been used to plan and manage the treatment of patients at Provision CARES Proton Therapy Center in Nashville in the US. In February, it was announced that the radiation therapy department of Iridium Kankernetwerk in Belgium uses RayCare in its clinical operations to manage treatment planning workflows. However, Provision CARES Proton Therapy Center in Nashville is the first center to connect RayCare directly to a therapy system (ProNova SC360) to register and verify the treatments.

Collaborative agreement with Canon Medical Systems for imaging systems and visualization solutions

RaySearch and Canon Medical Systems Corporation entered into a collaborative agreement to enable a seamless integration between RaySearch's advanced treatment planning system and oncology information system, and Canon Medical's imaging systems and advanced visualization solutions. The goal is to create a more efficient workflow for virtual simulation.

RayStation 8B released

In December, RayStation 8B was released with machine learning and deep learning features, for example, automated treatment planning and organ segmentation. Other improvements include a new module for evaluation of robustness of treatment plans and Monte Carlo dose computation for photons.

RayCare 2C released

In December, RayCare 2C was released, with comprehensive improvements and new advanced workflow features in addition to enhanced activity and order management.

RaySearch broadens its product portfolio with RayCommand treatment control system

In December, it was announced that RaySearch was broadening its product portfolio with the RayCommand treatment control system and had secured a first order from Advanced Oncotherapy (AVO) in the UK. The system's main purpose is to gather all necessary data from the oncology information system, coordinate all actions and resources (software and hardware) and facilitate for users in the treatment of the patient. The system interfaces with the OIS and PACS medical systems, various treatment machines, imaging systems and safety systems and serves as a graphic user interface (GUI) for clinical users. RayCommand enables online adaptive radiation therapy and, together with RayStation and RayCare, will offer an unparalleled software solution for all clinics.

SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Several orders for RayStation in the UK

In February 2019, it was announced that RaySearch had secured five orders for RayStation in the UK, with a total order value of SEK 48 M.

ORDER INTAKE

In 2018, order intake rose 19.4 percent to SEK 805.2 M (674.6), of which order intake for RayStation, RayCare and RayCommand rose 21.0 percent to SEK 762.5 M (630.0).

IFRS 15 Revenue from Contracts with Customers was adopted on January 1, 2018, which is deferring the company's revenue recognition and increasing the order backlog by the corresponding amount. At December 31, 2018, the total order backlog amounted to SEK 828.0 M (581.2), which is expected to generate revenue of approximately SEK 248 M over the next 12 months.

Order intake (amounts in SEK M)	2018	2017
Licenses	508.0	455.5
Hardware	62.6	41.4
Support (incl. warranty support)	213.2	166.3
Training and other	21.4	11.3
Total order intake	**805.2**	**674.6**

Order backlog (amounts in SEK M)	Dec 31, 2018	Dec 31, 2017
Licenses	69.9	11.8
Hardware	32.7	25.9
Support (incl. warranty support)	697.3	531.2
Training and other	28.1	12.3
Total order backlog at the end of the period	**828.0**	**581.2**

REVENUE

In 2018, net sales rose 7.2 percent to SEK 627.2 M (585.1), of which revenue from RayStation and RayCare rose 8.6 percent to SEK 577.5 M (531.7). The increase was mainly due to higher support revenue and hardware sales. Reported net sales therefore accounted for 78 percent (87) of total order intake in 2018.

Application of the new IFRS 15 accounting standard has deferred the company's revenue recognition and reduced, for example, the company's license revenue for RayStation and RayCare by 16 percent and net sales by 9 percent in 2018, compared with the previous accounting standard (IAS 18). Without application of the new accounting policies, net sales would have risen 17.5 percent, see Notes 1-3.

Recurring support revenue rose 71 percent to SEK 115.3 M (67.4), representing 18.4 percent (11.5) of net sales in 2018. Revenue from sales of software modules via partners declined 7 percent to SEK 49.8 M (53.4), representing 7.9 percent (9.1) of net sales.

Revenue distribution (amounts in SEK M)	Full-year 2018[1]	Full-year 2017[2]
License revenue – RayStation/RayCare	411.5	438.5
License revenue – Partners	38.8	40.5
Hardware revenue	53.6	36.2
Support revenue – RayStation	104.4	54.6
Support revenue – Partners	10.9	12.8
Training and other revenue – RayStation	7.9	2.3
Net sales	**627.2**	**585.1**
Sales growth, corresp. period, %	7.2%	10.1%
Organic sales growth, corresp. period, %	5.8%	10.4%

[1] IFRS 15 compliance, refer to Notes 1–2.
[2] IAS 18 compliance.

In 2018, net sales had the following geographic distribution: North America, 42 percent (42); Asia, 20 percent (19); Europe and the rest of the world, 38 percent (39).

OPERATING PROFIT

In 2018, operating profit decreased to SEK 94.5 M (159.7), representing an operating margin of 15.1 percent (27.3). The weaker earnings were primarily attributable to the application of IFRS 15 and increased operating expenses. Without application of the new accounting policies, operating profit would have increased to SEK 151.0 M in 2018, and represented an operating margin of 22.0 percent, see Notes 1-3.

Meanwhile, operating expenses rose 25.2 percent to SEK 532.8 M (425.4), mainly due to a 24-percent increase in the average number of employees and a 60.7-percent increase in amortization/depreciation to SEK 113.8 M (70.8). In 2018, the net of other operating income and expenses amounted to SEK 24.9 M (expense: 16.4) Adjusted for these currency effects, operating expenses would have increased by 36.4 percent in 2018.

Currency effects

The company is impacted by USD and EUR to SEK exchange-rate trends, since the majority of sales are invoiced in USD and EUR, while most costs are in SEK. At unchanged exchange rates, organic sales growth was 5.8 percent (10.4) in 2018. In addition, exchange-rate gains on balance sheet items amounted net to SEK 24.9 M (loss: 16.4) Currency effects therefore had a positive impact on net sales and operating profit in 2018.

A sensitivity analysis of the company's currency exposure shows that a 1-percentage point change in the USD exchange rate against the SEK would have impacted consolidated operating profit by approximately +/– SEK 4.5 M, while a corresponding change in the EUR exchange rate would have impacted consolidated operating profit by approximately +/– SEK 3.8 M in 2018.

The company follows the financial policy established by the Board, whereby exchange-rate fluctuations are not hedged. Refer to the sensitivity analysis in Note 28 on page 42.

Capitalization of development costs

RaySearch is a research and development-focused company that makes significant investments in the development of various software solutions for improved cancer treatment. At December 31, 2018, some 145 (142) employees were engaged in research and development, corresponding to 49 percent (55) of the total number of employees.

Capitalization of development costs	2018	2017
Research and development costs	202.0	183.7
Capitalization of development costs	–149.9	–137.8
Amortization of capitalized development costs	95.6	58.4
Research and development costs after adjustments for capitalization and amortization of development costs	**147.7**	**104.3**

In 2018, research and development costs rose 10.0 percent to SEK 202.0 M (183.7), corresponding to 32 percent (31) of the company's net sales. The increase was due to higher development costs for both RayStation and RayCare. Development costs of SEK 149.9 M (137.8) were capitalized, corresponding to 74 percent (75) of total research and development costs. Amortization of capitalized development costs rose 63.7 percent to SEK 95.6 M (58.4), and the increase was mainly attributable to the initiation of amortization for RayCare, and to the fact that the company released several new versions of RayStation and RayCare during the year, thereby significantly increasing amortization during 2018. After adjustments for capitalization and amortization of development costs, research and development costs rose 41.6 percent to SEK 147.7 M (104.3).

Amortization and depreciation

In 2018, total amortization and depreciation increased 60.7 percent to SEK 113.8 M (70.8), of which amortization of intangible fixed assets accounted for SEK 95.6 M (58.4), primarily related to capitalized development costs. Depreciation of tangible fixed assets amounted to SEK 18.2 M (12.4).

PROFIT FOR THE PERIOD AND EARNINGS PER SHARE

In 2018, profit after tax amounted to SEK 78.5 M (117.6), which meant that earnings per share before and after dilution declined to SEK 2.29 (3.43).

Tax expense for the year amounted to SEK 12.2 M (38.3), corresponding to an effective tax rate of 13.5 percent (24.6). The low tax expense was partly attributable to a remeasured and dissolved tax reserve in the North American subsidiary, and a lower tax rate in the US due to the US Tax Reform, which took effect on January 1, 2018. The new corporate tax rates introduced in Sweden in June 2018 also impacted the effective tax rate and reduced the Group's tax expense by SEK 4.5 M.

CASH FLOW AND LIQUIDITY

In 2018, cash flow from operating activities increased to SEK 178.5 M (147.5), primarily due to a decrease in working capital. Working capital mainly comprises various types of customer receivables, such as accounts receivable and current and long-term unbilled customer receivables in instances where payments plans exist.

At the end of the period, the company's total customer receivables accounted for 72 percent (73) of net sales over the past 12 months, and working capital for 45 percent (53) of net sales over the same period. IFRS 15 was adopted on January 1, 2018, which reduced net sales by approximately 9 percent in 2018, refer to Notes 1-3. Without application of the new accounting policies, the company's total customer receivables would have accounted for 66 percent (73) of net sales over the past 12 months, and working capital for 41 percent (53) of net sales over the same period.

Our payment model – a typical license transaction

A typical transaction for RaySearch involves various performance obligations, such as the delivery of licenses, hardware, support and training.

When RaySearch has fulfilled its performance obligation to a customer, for example, delivered licenses, and an unconditional right to consideration exists, a revenue and corresponding receivable are recognized.

A number of payment options are subsequently available:

- Payment within an invoice period of 30 or 60 days from delivery.
- Payment over a certain period, normally 6 to 12 months from delivery.

In the vast majority of cases, payment for hardware and support is paid within 30 to 60 days. However, RaySearch has a high proportion of new customers and it is common that new customers require up to 12 months to acquire and install separate IT infrastructure to gain maximum performance from our software. Accordingly, many new customers opt for a payment plan for our licenses, resulting in a subsequent delay in RaySearch invoicing the customer and receiving payment.

Irrespective of the payment model, revenues and their corresponding receivables are recognized when the company has fulfilled its performance obligation. RaySearch has three types of customer receivables: Accounts receivable (current billed customer receivables) and, in the event of a payment plan, Current and Long-term unbilled customer receivables. The names have been adapted to the definitions contained in the new IFRS 15 accounting standard.

In 2018, the increase in unbilled customer receivables was the result of more agreements with payment plans, primarily in North America. Raysearch assesses that the credit risk is low since the customers are institutions with high credit ratings.

Cash flow from investing activities was a negative SEK 223.6 M (neg: 148.1). Investments in intangible fixed assets amounted to SEK 150.4 M (137.8) and mainly comprised capitalized development costs for RayStation and RayCare. Investments in tangible fixed assets amounted to SEK 73.3 M (11.0), mainly related to investments in two new offices in North America, and one expanded office in Stockholm.

In 2018, cash flow before financing activities was a negative SEK 45.2 M (neg: 0.7).

Cash flow from financing activities was SEK 47.0 M (19.8), mainly attributable to an additional loan of SEK 50 M raised in 2018 within the framework of the company's revolving loan facility.

Cash flow for the year was SEK 1.8 M (19.1) and at December 31, 2018, cash and cash equivalents amounted to SEK 112.2 M (104.2).

FINANCIAL POSITION

At December 31, 2018, RaySearch's total assets amounted to SEK 1,105 M (915) and the equity/assets ratio was 59.5 percent (63.4).

Current receivables amounted to SEK 482.3 M (439.7). The receivables mainly comprised various types of customer receivables, and the increase was primarily due to more agreements including payment plans.

In the fourth quarter of 2017, the company signed a six-year rental lease for a new office space in San Francisco with commencement in the second quarter of 2018, and a ten-year rental lease for a new office space in New York with commencement in the third quarter of 2018. In 2018, the company also signed a three-year rental lease for additional office space in Stockholm with commencement in the third quarter of 2018.

In 2017, the company's line of credit was increased from SEK 100 M to SEK 350 M. The credit line expires in May 2022 and comprises a revolving loan facility of up to SEK 300 M, and an overdraft facility of SEK 50 M. Chattel mortgages amount to SEK 100 M. At December 31, 2018, a short-term loan of SEK 124 M (74) was raised under the company's revolving loan facility and SEK 0 M (0) of the credit facility had been drawn.

At December 31, 2018, the Group's net debt totaled SEK 19.3 M (20.4).

EMPLOYEES

In 2018, the average number of employees in the RaySearch Group was 282 (228) and the number of employees at year-end was 293 (256), of whom 218 (200) were employed in Sweden and 75 (56) in foreign subsidiaries.

Employees have a high level of education – 97 percent (96) have a university degree, and 11 percent (13) have a doctorate degree. At year-end, 36 percent (34) of the company's employees were women and 64 percent (66) men.

RaySearch strives to offer a positive work environment with attractive and stimulating development opportunities for employees. The company's continued ability to develop high-quality software solutions is dependent on competent, engaged and innovative employees. RaySearch imposes high workplace standards with regard to environmental, healthy, safe and individualized working conditions.

RaySearch actively promotes diversity and equality and has clear goals to increase the proportion of women in technical and managerial positions. The company strives to help employees achieve a work/life balance and offers flexible solutions as far as possible.

To ensure that all employees are paid fair salaries, regular salary surveys are conducted in Sweden in order to detect, remedy and prevent any unjustified pay differences. In 2018, the survey did not reveal any unjustified or material pay differences in the company.

All employees in the RaySearch Group are entitled to join unions or other organizations.

Sustainability Report

Sustainability is a key aspect of RaySearch's strategy and operations, and the company is working actively to become a sustainable enterprise. RaySearch has prepared a Sustainability Report in accordance with the Swedish Annual Accounts Act.

The Sustainability Report can be found on pages 57-60. Other disclosures can be found on the following pages: Risks and risk management: pages 9-10.

SEASONAL VARIATIONS

Revenue from RaySearch is subject to seasonal variations that are typical of the industry, whereby the fourth quarter is normally the strongest.

FUTURE PROSPECTS

Every year, more than 14 million new cases of cancer are reported worldwide, and this figure is expected to reach 24 million by 2030. RaySearch has successfully established RayStation as one the most advanced and leading treatment planning systems in all major markets around the world, and the sales success for RayStation is continuing. Despite continued expansion of its global marketing organization, the company still holds a relatively small share of the worldwide market, so the growth potential for RayStation is expected to remain high.

At the same time, marketing and sales partnerships are continuing with three partners. While the decline in relative importance of partner sales is expected to continue, these partnerships remain significant for the company's earnings and financial position.

RaySearch has noted keen interest in RayCare, the groundbreaking oncology information system that the company is developing. A radiation therapy center essentially needs two software platforms for its operations: one information system, and one treatment planning system. RayCare and RayStation will enable RaySearch to provide the entire infrastructure for a clinic's information management and treatment planning. The launch of RayCare is expected to open new possibilities for RaySearch, both clinically and commercially, which are confirmed by the company's long-term collaborative agreements with several leading cancer centers, such as the University of California, San Francisco and the University of Texas MD Anderson Cancer Center in the US, the Princess Margaret Cancer Center in Canada, Heidelberg University Hospital in Germany, the University Medical Center Groningen in the Netherlands, the radiation therapy department of the Iridium Kankernetwerk in Belgium, and several leading medical device suppliers including IBA, Accuray and Mevion.

Overall, future prospects for RaySearch are expected to remain highly favorable.

RISKS AND UNCERTAINTIES

As a global Group with operations in different parts of the world, RaySearch is exposed to various risks and uncertainties, such as market risk, operational risk and financial risk. Risk management within RaySearch aims to identify, measure and reduce risks related to the Group's transactions and operations.

Market risk

RaySearch's presence in a large number of geographic markets entails exposure to political and financial risks both globally, and in individual countries or regions. Weak economic growth and strained finances may, in some markets, have a negative impact on government investment in cancer care and make it more difficult for private customers to secure funding.

Operational risk

Competition

RaySearch operates in a competitive arena and mainly competes with Varian, Elekta and Philips, which invest major resources in the development of systems and technological solutions that compete with RaySearch's products. RaySearch sells software only, and in some situations there is a risk that the company's competitors could use their positions as hardware suppliers to sell packaged solutions with both hardware and software to customers.

Product development

New products and improved therapies are continuously being launched and future developments in the medical technology market could affect RaySearch's ability to compete. RaySearch develops highly advanced systems and technological solutions, and assumes the risk from development stage through to release, which could result in higher costs than anticipated. This is mitigated by continuously monitoring projects, and with quality assurance.

It is also important that the new systems and technological solutions developed by RaySearch develops are protected from illicit use by competitors. In most cases, RaySearch's advanced software products are protected by copyright, and where possible and appropriate, RaySearch also protects its products through patents and trademark registration.

Strategic partnerships

The medical technology industry is characterized by relatively rapid technological development with advances in industrial knowledge and competence. RaySearch's system and software products are developed in close collaboration with leading cancer centers and research institutions, including MD Anderson and UCSF in the US, the Princess Margaret Cancer Center in Canada, Heidelberg University Hospital in Germany and others RaySearch's ability to uphold these long-term and close relationships is crucial to understanding and meeting customer needs.

RaySearch also has strategic partnerships with a number of medical device suppliers including IBA, Accuray, Mevion, and collaborative partnerships with Philips, Varian and IBA Dosimetry, which sell the company's products. If RaySearch were to lose one or more of these strategic partners, this could have an adverse impact on the company's sales, earnings and financial position.

Alternative therapies

Of the three main types of cancer treatment – radiation therapy, surgery and chemotherapy – radiation therapy is the therapeutic approach that has increased most for curative groups over the past 20 years. RaySearch also expects radiation therapy to be an important treatment option in the future.

Sales organization

RaySearch sells its system and products both through its own sales organization and through an external network of distributors and partners. The company's continued success is dependent on the ability to build and maintain successful customer relations, and to establish and maintain an efficient marketing organization and successful partnerships with external sales channels.

Corruption

Corruption is an obstacle to development and growth in some of the countries in which RaySearch operates. RaySearch has zero tolerance of all forms of corruption, including bribery, fraud and anti-competitive practices. RaySearch therefore works continuously to strengthen its existing compliance program with, for example, background screening processes and certification of business partners, and other internal procedures to address and prevent the various anti-corruption issues that may arise within the framework of the business operations.

Regulatory approval and processes

RaySearch operates in a range of geographic markets, which exposes the Group to a large number of laws, regulations, policies and guidelines in relation to health and safety, the environment, trade barriers, competition, exchange control and the delivery of systems and products. As a developer of medical devices, RaySearch's operations are governed by the requirements and standards determined by healthcare regulators. Consequently, changes may result in increased costs or barriers to sales of RaySearch's systems and products.

Some examples of regulatory requirements include the EU's current (MDD) and coming (MDR) Medical Device Regulation, the FDA's Quality System Regulations (QSR) for medical devices, and Health Canada's Medical Device Single Audit Program (MDSAP).

Like other companies in the same industry, RaySearch is dependent on assessments and decisions by the relevant authorities in most of the markets in which the company operates. Such assessments include product safety and permission to market and sell medical devices. Applications to such authorities require extensive documentation, and unforeseen circumstances may delay the opportunity to introduce, market, sell and deliver systems and products, as well as prevent or restrict the commercial benefit and/or cause substantial additional costs.

To consistently produce high-quality products, reduce duplication of documentation for applications and to meet legal requirements, RaySearch conducts its operations in accordance with a quality management system that also complies with product safety standards issued by the International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO). The quality management system is evaluated and certified by external regulators and inspected regularly. Should serious exceptions be identified, for example, this could result in delays and suspended deliveries of RaySearch's systems and products.

RaySearch continuously evaluates the conditions for entering new markets. The opportunities and risks involved are taken into account. Many markets have their own regulatory requirements for registration, which could potentially delay marketing authorization and product launches.

Dependence on qualified personnel and key individuals

RaySearch is dependent on expertise to develop its advanced medical technology systems, which requires highly qualified employees. The company's ability to attract, recruit and retain qualified personnel, a number of key individuals with specialized skills, and management is crucial, and highly significant for the Group's future success.

Changes to reimbursement systems

RaySearch's ability to commercialize its solutions depends on the level of reimbursement that hospitals and clinics can receive. Reimbursement policies vary between countries and changes to current reimbursement systems in relation to health care products or the introduction of new rules could have a direct impact on demand for RaySearch's products.

Legal disputes

Through its operations, RaySearch is occasionally at risk of becoming involved in disputes related to its operating activities. Such disputes may involve product liability, contractual matters, intellectual property rights and alleged defects in deliveries of goods and services. Disputes can be costly, time-consuming and impede ongoing operations. Disputes relating to intellectual property rights are costly and may have a material impact on RaySearch's business and financial position. It may also be difficult to predict the outcome of complex disputes. Disputes related to RaySearch's product liability could include alleged negligence, warranty breach or malpractice, and lead to substantial costs regardless of whether or not RaySearch is held liable. RaySearch has product liability insurance, but there is a risk that future claims may exceed or fall outside the scope of the insurance coverage.

Changes to tax systems

RaySearch's business includes the development and delivery of software solutions and services in a wide range of jurisdictions. The activities are taxed in accordance with the laws of that jurisdiction. Changes in tax systems may affect the Group's tax liabilities and tax expenses, which may result in an increase or decrease of the financial results depending on the type of change that occurs.

International regulations governing the global tax environment are also subject to regular changes. The OECD (Organization for Economic Co-operation and Development) has proposed a number of changes through the introduction of BEPS (Base Erosion and Profit Shifting). The implementation of these changes may result in a reallocation of profits between different jurisdictions and an increase or decrease in related tax expense and cash flows.

Financial risk

Through its operations, the RaySearch Group is exposed to various types of financial risk, such as currency risk, interest rate risk, credit risk and liquidity risk.

Currency risk is the risk of fluctuations in the value of future business transactions and recognized assets and liabilities in foreign currency due to changes in exchange rates. Interest rate risk refers to the risk that changes in interest rates will have a negative impact on RaySearch's results. Credit risk arises partly through financial credit risk related to cash and cash equivalents and balances with banks and financial institutions, through credit exposure from transactions with customers and distributors. Liquidity risk refers to the risk of not being able to meet payment obligations as a result of insufficient liquidity or difficulty in securing external loans. Some of RaySearch's loan agreements include financial covenants, such as net debt/EBITDA and the equity/assets ratio. The inability to maintain levels of net debt/EBITDA and the equity/assets ratio could result in a violation of the company's financial covenants whereby loan agreements must be renegotiated or existing loans repaid.

RaySearch's risk management is managed by the Group's Finance Department, which identifies, evaluates and hedges financial risks. This is carried out in accordance with the Board's established policies for overall risk management and the Group's financial policy, which form a framework of guidelines and rules in the form of risk mandates and limits for financial activities.

RaySearch has increased exposure to exchange rate fluctuations due to its international business and structure. Exposure is mainly the result of having costs in SEK, while most of the company's revenue is in USD and EUR.

The company has no currency hedging, in accordance with the established financial policy. The financial policy is updated at least once a year.

For more information about financial risk and financial risk management, refer to Note 28 on page 42.

PARENT COMPANY

RaySearch Laboratories AB (publ) is the Parent Company of the RaySearch Group. Since the operations of the Parent Company match the operations and financial reporting of the Group in all material respects, the comments for the Group are also largely relevant to the Parent Company. However, capitalization of development costs and adjustments related to finance leases are recognized in the Group but not in the Parent Company. The Parent Company's current receivables mainly comprise receivables from Group companies and accounts receivable. The Parent Company's profit before tax totaled SEK 8.3 M (47.1) and at December 31, 2018, the Parent Company's cash and cash equivalents amounted to SEK 9.4 M (42.9).

Differences in profitability between the Parent Company and the Group are attributable to the Parent Company accounting for a relatively high proportion of operating expenses, and to the capitalization of development costs being recognized in the Group but not in the Parent Company. The weaker earnings for the Parent Company are due to the application of IFRS 15 as of January 1, 2018, which deferred the company's revenue recognition and reduced the company's operating profit by approximately SEK 28.2 M in 2018.

The Parent Company's current receivables mainly comprise receivables from Group companies and external customers.

TREASURY STOCK

The company had no treasury stock in 2018.

SHARES AND OWNERSHIP

At December 31, 2018, the total number of registered shares in RaySearch was 34,282,773, of which 8,454,975 were Class A and 25,827,798 Class B shares. The quotient value was SEK 0.50 and the company's share capital amounted to SEK 17,141,386.50. Each Class A share entitles the holder to ten votes, and each Class B share to one vote, at a general meeting. At December 31, 2018, the total number of voting rights in RaySearch was 110,377,548.

All shareholders entitled to vote at a general meeting may vote for the full number of shares owned or represented by them, with no restrictions on voting rights.

At December 31, 2018, the total number of shareholders in RaySearch was 7,074, according to Euroclear, and the largest shareholders were as follows:

Name	Class A shares	Class B shares	Total shares	Share capital %	Votes, %
Johan Löf	6,243,084	618,393	6,861,477	20.0	57.1
Oppenheimer Funds	0	4,315,402	4,315,402	12.6	3.9
First AP Fund	0	2,864,138	2,864,138	8.4	2.6
Swedbank Robur Funds	0	2,432,252	2,432,252	7.1	2.2
Wasatch Advisors	0	1,535,000	1,535,000	4.5	1.4
Anders Brahme	1,150,161	200,000	1,350,161	3.9	10.6
Montanaro Funds	0	1,295,000	1,295,000	3.8	1.2
Carl Filip Bergendal	1,061,577	144,920	1,206,497	3.5	9.7
Nordnet Pension	0	743,123	743,123	2.2	0.7
Second AP Fund	0	588,731	588,731	1.7	0.5
Total, 10 largest shareholders	**8,454,822**	**14,736,959**	**23,191,781**	**67.6**	**90.0**
Others	153	11,090,839	11,090,992	32.4	10.0
Total	**8,454,975**	**25,827,798**	**34,282,773**	**100.0**	**100.0**

SOURCE: Euroclear, FI, MorningStar and Montanaro.

As far as the Board of Directors of RaySearch is aware, there are no shareholder agreements for either Class A or Class B shares. There are no special provisions in the Articles of Association regarding the appointment and dismissal of Board members, or amendments to the Articles of Association. Should a public offer be tendered to acquire shares in the company, there are no agreements between the company and Board members or employees prescribing any payments should these persons resign, be given notice without reasonable grounds or should their employment cease.

BONUSES AND PROFIT-SHARING FOUNDATION

Of the employees in the Swedish Parent Company, RaySearch Laboratories AB (publ), only the CEO and sales personnel are covered by bonus schemes.

The RayFoundation profit-sharing foundation covers all employees in the Parent Company, including all senior executives, except for the CEO. An allocation is paid to the profit-sharing foundation in a given year if consolidated operating profit amounts to a level exceeding an operating margin of 20 percent, whereby 10 percent of that portion of the operating profit that exceeds the threshold level is allocated. The allocation is calculated on the operating margin before allocation to the foundation and the CEO's variable remuneration.

In relation to the results for 2018, a total of SEK 0 M (5.2) was allocated to the RayFoundation profit-sharing foundation during the year, including a special employer's contribution of SEK 0 M (1.0).

Sales personnel in RaySearch's foreign-based sales company are covered by a bonus scheme based on sales-related targets for each of the regions.

GUIDELINES FOR REMUNERATION OF SENIOR EXECUTIVES

The starting point for the Board is that remuneration and other conditions of employment for members of company management shall be on market terms. The principles for remuneration and other employment conditions applied for senior executives of RaySearch Laboratories AB in 2018 are described below.

Salary and other remuneration

The CEO is to have a fixed basic salary plus variable remuneration. The variable remuneration amounts to 2.0 percent of consolidated profit before tax after allocation to the RayFoundation profit-sharing foundation, but not more than 12 months' salary. In addition, the CEO is entitled to other customary benefits, such as a company car.

The CEO's salary is to be reviewed annually. This is performed through negotiations between the CEO and the Chairman of the Board, after which the Chairman presents a proposal to other members of the Board. The CEO is not to be present when the Board deliberates and decides on this matter.
At the beginning of 2018, other senior executives consisted of the Deputy CEO, CFO, Chief Science Officer, Director of Development, Director of Sales and Marketing, Director of Sales for Asia & Pacific, Director of Service and General Counsel.

The Director of Sales and Marketing is to have a fixed basic salary plus variable remuneration. The variable remuneration shall be based on a certain percentage of sales of RayStation and RayCare in Europe. The Director of Sales for Asia & Pacific is to have a fixed basic salary plus variable remuneration. The variable remuneration shall be based on a certain percentage of sales of RayStation in the Asia & Pacific region. The Deputy CEO, CFO, Chief Science Officer, Director of Development, Director of Service and General Counsel are to have a fixed basic salary, but no variable remuneration.

The salaries of other senior executives are to be reviewed annually. This is performed through negotiations between the CEO and the individual employee.

Incentive program

There is no specific incentive program for senior executives and no such program has been proposed. However, senior executives, with the exception of the CEO, and other employees are entitled to participate in the options and profit-sharing programs applied by the company.

Pension

All pension plans are defined-contribution plans. The retirement age for the CEO and other senior executives is 65, and the pension premiums are equivalent to the Swedish ITP plan.

Termination of employment

If the CEO terminates their employment, the term of notice will be six months; if the company terminates the CEO's employment, the term of notice will be 12 months. In both cases, the CEO is entitled to salary during their term of notice. Other senior executives are subject to a mutual three-month term of notice during which salary is paid.

Severance pay

Neither the CEO nor other senior executives are entitled to severance pay, in formal terms, if their employment ceases. However, as stated above, the CEO and other senior executives are entitled to salary during their notice period.

Deviations

The Board proposes that the Board be permitted to deviate from the above guidelines should special reasons for doing so exist.

Proposed guidelines for 2019

For 2019, the same guidelines as for 2018 are proposed.

INTERNAL CONTROL

Refer to disclosures in the Corporate Governance Report on page 48.

DIVIDEND POLICY AND PROPOSAL

According to the Board's dividend policy, RaySearch is to distribute about 20 percent of consolidated profit after tax to its shareholders, provided that a healthy capital structure can be maintained. Since the company is currently in the midst of an expansive and capital-intensive phase, the Board of RaySearch proposes that no dividend be paid for the 2018 fiscal year. No dividend was paid for the 2017 fiscal year.

The Group's results and financial position are presented in the following income statements and statements of financial position and cash flows, with the accompanying notes to the financial statements.

PROPOSED ALLOCATION OF THE COMPANY'S PROFIT

The following is at the disposal of the AGM:

SEK 000s	
Retained earnings	211,283
Profit for the year	3,709
Total	**214,992**

The Board and CEO propose that SEK 214,992,000 be carried forward.

MULTI-YEAR OVERVIEW

CONSOLIDATED INCOME STATEMENTS

SEK 000s	2018[1]	2017[2]	2016[2]	2015[2]	2014[2]
Net sales	627,218	585,086	531,468	397,600	285,217
Cost of goods sold	–56,024	–36,650	–26,872	–23,690	–11,627
Gross profit	**571,194**	**548,436**	**504,596**	**373,910**	**273,590**
Research and development costs	–147,691	–104,304	–93 207	–101,514	–95,069
Other operating expenses	–329,043	–284,463	–211,830	–177,052	–99,161
Operating profit	**94,460**	**159,669**	**199,559**	**95,344**	**79,360**
Net financial items	–3,696	–3,768	–1,474	–1,854	–659
Profit/loss before tax	**90,764**	**155,901**	**198,085**	**93,490**	**78,701**
Tax	–12,241	–38,274	–46,677	–23,281	–18,869
Profit for the year	**78,523**	**117,627**	**151,408**	**70,209**	**59,832**
Earnings/loss per share after dilution	2.29	3.43	4.42	2.05	1.75
Earnings/loss per share after dilution	2.29	3.43	4.42	2.05	1.75

[1] IFRS 15 compliance.
[2] IAS 18 compliance.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK 000s	Dec 31, 2018	Dec 31, 2017	2016-12-31	2015-12-31	2014-12-31
ASSETS					
Intangible fixed assets	377,341	322,598	243,219	195,114	164,081
Other fixed assets	123,943	48,578	38,446	41,817	12,951
Total fixed assets	**501,284**	**371,176**	**281,665**	**236,931**	**177,032**
Total current assets	**604,138**	**543,888**	**435,589**	**247,559**	**212,721**
TOTAL ASSETS	**1,105,422**	**915,064**	**717,254**	**484,490**	**389,753**
SHAREHOLDERS’ EQUITY AND LIABILITIES					
Shareholders’ equity attributable to Parent Company shareholders	657,453	580,425	460,188	319,517	251,548
Liabilities	447,969	334,639	257,066	164,973	138,205
TOTAL SHAREHOLDERS’ EQUITY AND LIABILITIES	**1,105,422**	**915,064**	**717,254**	**484,490**	**389,753**

CONSOLIDATED CASH-FLOW STATEMENTS

SEK 000s	2018	2017	2016	2015	2014
Cash flow from operating activities	178,472	147,481	120,848	111,426	50,273
Cash flow from investing activities	–223,625	–148,132	–106,949	–103,855	–57,844
Cash flow from financing activities	46,958	19,773	12,291	–3,946	24,345
Cash flow for the year	**1,805**	**19,122**	**26,190**	**3,625**	**16,774**

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK 000s	NOTE	2018[3]	2017[4]
Net sales	2, 3	627,218	585,086
Cost of goods sold[1]	4	–56,024	–36,650
Gross profit	8	**571,194**	**548,436**
Other operating income	9	35,391	7,012
Selling expenses		–261,911	–204,852
Administrative expenses	11	–91,983	–63,247
Research and development costs	11	–147,691	–104,304
Other operating expenses	10	–10,540	–23,376
Operating profit	5, 6, 8, 12	**94,460**	**159,669**
Financial income		283	368
Financial expenses		–3,979	–4,136
Net financial items	13	**–3,696**	**–3,768**
Profit/loss before tax		**90,764**	**155,901**
Tax	15	–12,241	–38,274
Profit for the year[2]		**78,523**	**117,627**
Other comprehensive income			
Items to be reclassified to profit or loss			
Translation difference of foreign operations for the year		–1,495	2,610
Items not to be reclassified to profit or loss		–	–
Comprehensive income for the year[2]		**77,028**	**120,237**
Earnings per share before and after dilution	16	2.29	3.43

[1] Does not include amortization of capitalized development costs. Amortization and capitalization of development costs are included in research and development costs.
[2] 100 percent attributable to Parent Company shareholders.
[3] IFRS 15 compliance, refer to Notes 1–3.
[4] IAS 18 compliance.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK 000s	NOTE	Dec 31, 2018	Dec 31, 2017
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalized development costs	2, 17	376,914	322,598
Other intangible fixed assets	18	427	–
		377,341	**322,598**
Tangible fixed assets			
Equipment, fixtures and fittings	2, 19	93,081	36,114
		93,081	**36,114**
Other fixed assets			
Deferred tax assets	25	7,408	780
Long-term receivables	26	23,454	11,684
		30,862	**12,464**
Total fixed assets		**501,284**	**371,176**
Current assets			
Accounts receivable (current billed customer receivables)	22	276,473	335,125
Current unbilled customer receivables	22	154,763	78,482
Inventories		9,617	33
Tax assets	25	20,702	350
Other receivables		7,419	5,068
Prepaid expenses	23	22,966	20,674
Cash and cash equivalents	24	112,198	104,156
Total current assets		**604,138**	**543,888**
TOTAL ASSETS		**1,105,422**	**915,064**

SEK 000s	NOTE	Dec 31, 2018	Dec 31, 2017
SHAREHOLDERS' EQUITY			
Share capital		17,141	17,141
Other paid-in capital		1,975	1,975
Reserves		–7,207	–5,713
Retained earnings, including profit/loss for the year		645,544	567,022
Shareholders' equity attributable to Parent Company shareholders		**657,453**	**580,425**
Total shareholders' equity		**657,453**	**580,425**
LIABILITIES			
Deferred tax liabilities	25	103,954	92,424
Long-term interest-bearing liabilities	7, 28	7,215	9,751
Total long-term liabilities		**111,169**	**102,175**
Accounts payable	21	32,366	27,403
Tax liabilities	25	349	15,945
Current interest-bearing liabilities	28	124,283	74,033
Other liabilities		6,878	9,025
Accrued expenses and deferred income	29	172,924	106,058
Total current liabilities		**336,800**	**232,464**
Total liabilities		**447,969**	**334,639**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	30	**1,105,422**	**915,064**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

SEK 000s	Share capital	Other contributed capital	Translation reserve	Retained earnings including net profit for the year	Total shareholders' equity attributable to Parent Company shareholders
Opening shareholders' equity, Jan 1, 2017	**17,141**	**1,975**	**–8,323**	**449,395**	**460,188**
Profit for the year				117,627	117,627
Other comprehensive income for the year			2,610		2,610
Comprehensive income for the year	**–**	**–**	**2,610**	**117,627**	**120,237**
Closing shareholders' equity, Dec 31, 2017	**17,141**	**1,975**	**–5,713**	**567,022**	**580,425**
Opening shareholders' equity, Jan 1, 2018	**17,141**	**1,975**	**–5,713**	**567,022**	**580,425**
Profit for the year				78,523	78,523
Other comprehensive income for the year			–1,495		–1,495
Comprehensive income for the year			**–1,495**	**78,523**	**77,028**
Closing shareholders' equity, Dec 31, 2018	**17,141**	**1,975**	**–7,208**	**645,545**	**657,453**

CAPITAL MANAGEMENT

RaySearch's managed capital comprises shareholders' equity. Changes in managed equity are described above. For information about the terms for the Group's external borrowing, refer to Note 28. RaySearch's long-term financial target is high sales growth, with an operating margin of more than 40 percent. This target will be achieved by establishing RaySearch as the leading global provider of treatment planning systems for radiation therapy and oncology information systems.

RaySearch has the following dividend policy: The Board intends to pay out approximately 20 percent of consolidated profit after tax to shareholders provided that a healthy capital structure can be maintained. Since the company is currently in the midst of an expansive and capital-intensive phase, the Board of RaySearch proposes that no dividend be paid for the 2018 fiscal year.

TRANSLATION RESERVE

The translation reserve includes all exchange-rate differences arising in conversion of financial statements from foreign operations that have been prepared in a functional currency other than the currency used in the consolidated financial statements. The Parent Company and the Group present their financial statements in SEK.

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK 000s	NOTE	2018	2017
Operating activities			
Profit/loss before tax		90,764	155,901
Adjusted for non-cash items [1]	11	91,475	56,181
Taxes paid		–40,922	–11,724
Cash flow from operating activities before changes in working capital		**141,317**	**200,358**
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		–20,307	–104,387
Increase (+)/Decrease (-) in operating liabilities		57,462	51,510
Cash flow from operating activities		**178,472**	**147,481**
Investing activities			
Investments in capitalized development costs	17, 18	–150,364	–137,780
Acquisition of tangible fixed assets	19	–73,270	–11,045
Divestment of tangible fixed assets		9	693
Cash flow from investing activities		**–223,625**	**–148,132**
Financing activities			
Loans raised		49,850	75,000
Prepaid borrowing costs		–	–967
Repayment of loans		–	–50,000
Repayment of finance leases	7, 28	–2,892	–4,260
Cash flow from financing activities		**46,958**	**19,773**
Cash flow for the year		**1,805**	**19,122**
Cash and cash equivalents at the beginning of the year		104,156	87,720
Exchange-rate difference in cash and cash equivalents		6,237	–2,686
Cash and cash equivalents at year-end		**112,198**	**104,156**

[1] These amounts include amortization of SEK 96 M (58) on capitalized development costs, depreciation of SEK 18 M (12) on tangible fixed assets and unrealized exchange rate losses of SEK 25 M (gains: 15).

Cash and cash equivalents consist of bank deposits.

SUPPLEMENTARY DISCLOSURES TO THE CASH-FLOW STATEMENT

	GROUP	
	Dec 31, 2018	Dec 31, 2017
Interest received	79	368
Interest paid	–1,292	–1,713

PARENT COMPANY

INCOME STATEMENT

SEK 000s	NOTE	2018	2017
Net sales	2, 3	466,157	480,774
Cost of goods sold		–26,006	–19,548
Gross profit	8	**440,151**	**461,226**
Other operating income	9	35,090	7,012
Selling expenses		–153,986	–133,066
Administrative expenses	11	–91,824	–64,065
Research and developmentcosts	11	–202,007	–183,683
Other operating expenses	10	–10,197	–23,376
Operating profit	5, 6, 8, 12	**17,227**	**64,048**
Interest income and similar profit items		6,982	6,210
Interest expense and similar loss items		–3,124	–3,323
Profit after financial items	13	**21,085**	**66,935**
Appropriations	14	–12,739	–19,815
Profit/loss before tax		**8,346**	**47,120**
Tax	15	–4,637	–13,227
Profit for the year		**3,709**	**33,893**

COMPREHENSIVE INCOME

SEK 000s	2018	2017
Profit for the year	3,709	33,893
Other comprehensive income	–	–
Comprehensive income for the year	**3,709**	**33,893**

STATEMENT OF FINANCIAL POSITION

SEK 000s	NOTE	Dec 31, 2018	Dec 31, 2017
ASSETS			
Fixed assets			
Intangible fixed assets			
Intangible fixed assets	18	427	–
Tangible fixed assets			
Equipment, fixtures and fittings	19	38,023	23,686
Financial fixed assets			
Participations in Group companies	20	1,772	1,046
Deferred tax assets	25	3,132	780
Long-term receivables from Group companies		152,507	–
Other long-term receivables	26	16,665	10,405
Total fixed assets		**212,526**	**35,917**
Current assets			
Inventories		763	33
Current receivables			
Accounts receivable (current billed customer receivables)	22	127,224	151,734
Current unbilled customer receivables	22	85,366	68,953
Receivables from Group companies		145,987	206,508
Tax assets		18,374	–
Other receivables		7,163	5,920
Prepaid expenses and accrued interest income	23	20,547	25,155
Total current receivables		**404,661**	**458,270**
Cash and bank balances	24	9,375	42,857
Total current assets		**414,799**	**501,160**
TOTAL ASSETS		**627,325**	**537,077**

SEK 000s	NOTE	Dec 31, 2018	Dec 31, 2017
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital[1]		17,141	17,141
Statutory reserve		43,630	43,630
Total restricted equity		**60,771**	**60,771**
Unrestricted equity			
Retained earnings		211,283	177,390
Profit for the year		3,709	33,893
Total non-restricted equity		**214,992**	**211,283**
Total shareholders' equity		**275,763**	**272,054**
Untaxed reserves	27	**110,248**	**97,510**
Current liabilities			
Accounts payable		21,308	24,924
Liabilities to Group companies		7,911	5,244
Liabilities to credit institutions	28	124,283	74,033
Tax liabilities		0	9,991
Other liabilities		4,913	7,965
Accrued expenses and deferred income	29	82,899	45,356
Total current liabilities		**241,314**	**167,513**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**627,325**	**537,077**

[1] Share capital at Dec 31, 2018: 8,454,975 Class A shares, 25,827,798 Class B shares.

CASH FLOW STATEMENT

SEK 000s	NOTE	2018	2017
Operating activities			
Profit after financial items		21,085	66,935
Adjusted for non-cash items	11, 28	5,856	7,595
Taxes paid		–35,354	–14,104
Cash flow from operating activities before changes in working capital		**–8,413**	**60,426**
Cash flow from changes in working capital			
Increase (-)/Decrease (+) in operating receivables		–87,514	–116,292
Increase (+)/Decrease (-) in operating liabilities		39,013	18,077
Cash flow from operating activities		**–56,914**	**–37,789**
Investing activities			
Contributions to subsidiaries	20	–726	–406
Acquisition of intangible and tangible fixed assets	18, 19	–25,692	–9,965
Cash flow from investing activities		**–26,418**	**–10,371**
Financing activities			
Loans raised		49,850	75,000
Prepaid borrowing costs		–	–967
Repayment of loans		–	–50,000
Cash flow from financing activities	28	**49,850**	**24,033**
Cash flow for the year		**–33,482**	**–24,127**
Cash and cash equivalents at the beginning of the year		42,857	66,984
Cash and cash equivalents at year-end		9,375	42,857

SUPPLEMENTARY DISCLOSURES TO THE CASH-FLOW STATEMENT

	Dec 31, 2018	Dec 31, 2017
Interest received	79	259
Interest paid	–1,292	–3,323

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Restricted equity			
SEK 000s	Share capital	Statutory reserve	Unrestricted equity	Total
Opening shareholders' equity, Jan 1, 2017	**17,141**	**43,630**	**177,390**	**238,161**
Comprehensive income for the year			33,893	33,893
Closing shareholders' equity, Dec 31, 2017	**17,141**	**43,630**	**211,283**	**272,054**
Opening shareholders' equity, Jan 1, 2018	**17,141**	**43,630**	**211,283**	**272,054**
Comprehensive income for the year			3,709	3,709
Closing shareholders' equity, Dec 31, 2018	**17,141**	**43,630**	**214,992**	**275,763**

NOTES

NOTE 1 ACCOUNTING POLICIES

COMPLIANCE WITH STANDARDS AND LAWS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. RFR 1, Supplementary accounting rules for corporate groups, issued by the Swedish Financial Reporting Council, has also been applied.

The Parent Company applies the same accounting policies as the Group except in the cases listed below in the section "Parent Company accounting policies."

INFORMATION REGARDING THE PARENT COMPANY

RaySearch Laboratories AB (publ) is a Swedish registered limited liability company headquartered in Stockholm. The Parent Company's shares have been listed on Nasdaq Stockholm since 2003, and in the Mid Cap segment as of 2016. The street address of the head office is Sveavägen 44, SE-111 34 Stockholm, Sweden.

PRESENTATION OF THE PARENT COMPANY'S AND THE CONSOLIDATED FINANCIAL STATEMENTS

The Parent Company's functional currency is the Swedish krona (SEK), which is also the reporting currency of the Parent Company and the Group. This means that the financial statements are presented in SEK. All amounts, unless otherwise indicated, are rounded off to the nearest thousand.

Assets and liabilities are recognized at their historical cost. Preparing the financial statements in accordance with IFRS requires that company management make assessments and estimates, as well as assumptions that impact the application of the accounting policies and the recognized amounts of assets, liabilities, income and expenses. The actual outcome may vary from these estimates and assessments.

The estimates and assumptions are reviewed regularly. Changes in estimates are recognized in the period in which the change is made if the change only affects this period, or during the period in which the change is made and future periods if the change affects both the current period and future periods.

The accounting policies for the Group below have been applied consistently for all periods presented in the Group's financial statements, unless specified below. The Group's accounting policies have been applied consistently in regards to the recognition and consolidation of the Parent Company and subsidiaries.

Assessments made by company management in the application of IFRSs that have a significant impact on the financial statements and estimates that could require substantial adjustments in the financial statements of future years are described in greater detail in below.

NEW ACCOUNTING POLICIES

As of the fiscal year commencing January 1, 2018, RaySearch applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and measurement. The new policies for the classification and measurement of financial assets had no impact on the Group's earnings and position. The new model for calculating credit losses impacts the impairment process, but had no significant impact on the Group's earnings and position.

The company follows the financial policy established by the Board, whereby exchange-rate fluctuations are not hedged, and are not therefore impacted by the new policies for hedge accounting.

IFRS 15, Revenue from Contracts with Customers replaces previously issued standards and interpretations addressing revenue with an integrated model for revenue recognition. Under IFRS 15, revenue is recognized when a promised good or service is transferred to the customer, which may occur over time, or at a point in time. Revenue is the amount the company expects to receive as payment for the transfer of goods or services.

IFRS 15 has been applied since January 1, 2018. Transition to the standard was achieved using a forward-looking retrospective approach, whereby any transition effects were recognized against equity on January 1, 2018, and by presenting the income statement in accordance with IFRS 15 as of 2018. As no significant agreements were in effect at the end of the year, according to the previously applied accounting policies, no transition effect arose at January 1, 2018.

Transition to IFRS 15 impacted license and support revenues from RayStation and RayCare, primarily attributable to the warranty period offered by the company. Under IFRS 15, the license revenue recognized is reduced by an amount equal to the value of the support provided during the agreed warranty period, and this amount is then recognized over time during the warranty period. The transition to IFRS 15 will reduce the company's license revenue from RayStation and RayCare, while the company's support revenue will increase by the same amount, with an average deferral period of about nine months.

IMPACT OF CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

	2018		
AMOUNTS IN SEK 000s	Recognized in accordance with IFRS 15	Adjust-ments	Amount according to previous standard (IAS 18)
Revenue			
License revenue – RayStation/RayCare	411,498	78,543	490,042
Hardware revenue – RayStation/RayCare	53,634	–	53,634
License revenue – Partners	38,848	–	38,848
Support revenue – RayStation	104,399	–14,199	90,200
Support revenue – Partners	10,909	–	10,909
Training and other revenue – RayStation	7,930	–4,069	3,862
Net sales	**627,218**	**60,275**	**687,494**
Operating expenses	–532,758	–3,717	–536,475
Operating profit	**94,460**	**56,557**	**151,019**
Profit/loss before tax	**90,764**	**56,557**	**147,321**
Tax	–12,241	–12,443	–24,684
Profit for the period	**78,523**	**44,115**	**122,638**
Comprehensive income for the period	**77,028**	**44,115**	**121,143**

NOTE 1 ACCOUNTING POLICIES, CONT'D

AMOUNTS IN SEK 000s	Dec 31, 2018 Recognized in accordance with IFRS 15	Adjust-ments	Amount according to previous standard (IAS 18)
Shareholders' equity and liabilities			
Shareholders' equity	**657,453**	**44,115**	**701,568**
Deferred tax liabilities	103,954	–	103,954
Long-term interest-bearing liabilities	7,215	–	7,215
Accounts payable	32,366	–	32,366
Current liabilities to credit institutions	124,283	–	124,283
Contract liabilities	111,983	−60,275	51,708
Other current liabilities	68,168	16,160	84,328
Total liabilities and shareholders' equity	**1,105,422**	**–**	**1,105,422**

NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE BUT THAT WILL BE APPLICABLE IN COMING PERIODS

IFRS 16 Leases will be applied as of January 1, 2019. The application of IFRS 16 entails that identified leases, primarily rental leases, will be recognized on the balance sheet. This will, in turn, impact numerous financial performance measures and key figures, such as EBITDA, operating profit, net financial items, shareholders' equity, return on equity and net debt.

When the standard is adopted, RaySearch will apply the modified retrospective method, which means that no comparative figures will be restated. The lease liability is measured at the present value of the lease payments over the remaining lease term, and the right-of-use asset for all contracts equals the calculated depreciated value from the lease commencement, with adjustment for the interest rate that applied on the transition date. RaySearch has also elected to apply the exemption rules for short-term leases and leases where the underlying asset is of low value.

IFRS 16 LEASES

IFRS 16 will be applied for reporting periods beginning on or after January 1, 2019 and will supersede IAS 17 Leases and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires the Lessee to present all leases in the balance sheet, similar to the recognition of finance leases under IAS 17. The standard contains two recognition and measurement exemptions for Lessees – leases where the underlying asset has a low value (such as personal computers) and short-term leases (leases with a lease term of 12 months or less). If the recognition and measurement exemptions are applied, these leases do not need to be included in the amounts reported in the statement of financial position. At the commencement of a lease, the lessee recognizes a lease liability on the balance sheet equal to the present value of all future lease payments, and a right-of-use asset equal to its right to use the underlying asset during the lease term. Lease payments are discounted using the interest rate implicit in the lease, if the interest rate can be readily determined. If the implicit interest rate is difficult to determine, the lessee's incremental borrowing rate is used. The lessee recognizes interest on the lease liability, and depreciation of the right-of-use asset, in profit or loss.

Transition to IFRS 16

RaySearch applied the modified retrospective method when this standard was adopted, which means that no comparative figures are restated. The opening lease liability comprises the discounted remaining lease payments at January 1, 2019. The opening right-of-use asset is measured in accordance with the standard from the commencement date of the contracts, but discounted by the incremental borrowing rate at January 1, 2019. No contracts were reclassified, and only contracts classified as leases under IAS 17 will be covered by IFRS 16. The Group's existing finance leases were reclassified to right-of-use assets in accordance with IFRS 16, at their recognized amounts immediately prior to the application of IFRS 16.

The Group has elected to apply the exemptions proposed by the standard for leases with contract terms of less than 12 months from the implementation date of IFRS 16, and for leases of low-value assets. The Group leases some office equipment (personal computers, printers and photocopying machines) that is considered low-value. Nor will leases with original contract terms of 12 months or more, but that expire in 2019, be included.

The application of IFRS 16 entails that identified leases, primarily leases for premises, will be recognized on the balance sheet. The interest rate used corresponds to the incremental borrowing rate for each company in the Group. If the length of the lease is not specified in the contract, the useful life of the asset has been estimated. Should company management be aware of an imminent extension of the contract, and it is reasonably certain that this option will be exercised, this extension has been taken into account when determining the lease term. For simplicity, the tax rate used to calculate the deferred tax asset is 20.6% for all leases. This is the fairest option, since the most significant lease arrangements will remain in place until 2021 or longer.

For leases in the Parent Company, the exemption in RFR 2 will be applied. This means that Parent Company's accounting policies for recognizing leases will remain unchanged.

In 2018, the Group conducted an impact analysis of IFRS 16. In summary, the effects of adopting IFRS 16 are as follows:

IMPACT ON THE STATEMENT OF FINANCIAL POSITION AT JANUARY 1, 2019:

SEK 000s	GROUP Jan 1, 2019
Assets	
Tangible fixed assets (right-of-use)	165,494
Prepaid expenses	−473
Deferred tax assets	509
Total	**165,530**
Liabilities	
Lease liabilities	167,493
Total	**167,493**
Net impact on shareholders' equity	**1,963**

Due to the adoption of IFRS 16, consolidated operating profit will improve, while interest expense will increase. This is because of the change in recognition of leasing costs that were classified as operating leases under IAS 17.

SEGMENT REPORTING

An operating segment is a part of the Group that conducts business activities from which it generates income and incurs costs and for which independent financial information is available. The results of an operating segment are also monitored by the company's chief operating decision maker. In accordance with IFRS 8, segment information is provided for the Group only. Identifying reportable segments is based on the internal reporting to the chief operating decision maker, which is the CEO of Raysearch. In this internal reporting, the Group is a segment because the costs of the company's products are not clearly separable.

NOTE 1 ACCOUNTING POLICIES, CONT'D

CLASSIFICATION

Fixed assets and long-term liabilities in the Parent Company and the Group essentially comprise amounts that are expected to be recovered or paid more than 12 months after the balance-sheet date. Current assets and current liabilities in the Parent Company and Group essentially only comprise amounts that the company expects to recover or receive payment for within 12 months of the balance sheet date.

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are companies that are under the controlling influence of the Parent Company, RaySearch Laboratories AB (publ). Controlling influence means that RaySearch is exposed to a variable return on its investments and can impact this return through its influence over the company. When determining whether a controlling influence exists, such factors as shares carrying potential voting rights are taken into consideration.

Participations in subsidiaries are recognized in the Parent Company financial statements in accordance with the cost method. This entails that transaction expenses are included in the carrying amount.

Transactions to be eliminated on consolidation

Receivables and liabilities, revenue or costs and unrealized gains and losses arising from intra-Group transactions are eliminated in the consolidated financial statements. Unrealized losses are eliminated in the same manner as unrealized gains but only insofar as no impairment requirement exists.

FOREIGN CURRENCY

Transactions in foreign currency

Transactions in foreign currency are translated to the functional currency using the exchange rate prevailing on the transaction date. The functional currency is the currency in the primary economic environments in which the companies conduct their operations. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the exchange rate prevailing on the balance-sheet date. Exchange-rate differences arising from currency translations are recognized in profit for the year. Non-monetary assets and liabilities recognized at historic costs are translated to the exchange rate prevailing on the transaction date.

Financial statements of foreign operations

All translation differences that arise from currency translation of the results and financial position of Group companies from the company's functional currency to the Group's reporting currency are recognized in other comprehensive income and accrued in a separate component in equity. Assets and liabilities in foreign operations are translated to SEK based on the exchange rates applying at the balance sheet date, while revenue and cost items are translated using an average exchange rate for the year.

REVENUE

Four types of revenue

Net sales comprises four types of revenue: license revenue, support revenue, software revenue and revenue for training and other activities. Licenses and support are sold via partners, distributors and directly to end customers.

Revenue is recognized in profit or loss when a promised good or service is transferred to a customer, which may be over time or at a point in time. Revenue is the amount of consideration the company expects to receive for transferring the goods or services. All revenue is recognized at the fair value of the consideration received or receivable, less discounts granted, VAT and after the elimination of intra-Group transactions. The Group recognizes license revenue in connection with delivery, while support revenue is accrued on a straight-line basis over the support period. Hardware revenue is recognized when the hardware is delivered. Revenue for training is recognized over the period during which the training is provided.

COST OF GOODS SOLD

Cost of goods sold comprises costs of sold hardware and royalties for licensed software included in the company's software. Amortization of capitalized development costs is not included in cost of goods sold.

OPERATING EXPENSES AND FINANCIAL INCOME AND EXPENSES

Financial income and expense

Financial income and expense comprises interest income on bank accounts and receivables, and exchange-rate differences.

FINANCIAL INSTRUMENTS

Financial instruments are measured and recognized in the Group in accordance with IFRS 9. Financial instruments recognized on the balance sheet include cash and cash equivalents, long-term and current unbilled customer receivables, accounts receivable (current billed customer receivables), accounts payable, interest-bearing liabilities and accrued expenses.

A financial asset or liability is recognized on the balance sheet when the company becomes a party to the contractual terms of the instrument. Accounts receivable and accounts payable are recognized on the balance sheet when an invoice has been sent, respectively received. Financial assets are recognized on the balance sheet until the right to use the lease has been realized, or the company no longer has a right to use the asset. The same applies for components of a financial asset. Financial liabilities are derecognized from the balance sheet when RaySearch has satisfied its obligation, or when the obligation is otherwise extinguished. The same applies for components of a financial liability.

For disclosures in the notes regarding interest-bearing loans and investments, current market rates are taken into account when determining fair value. RaySearch recognizes financial instruments that are due for settlement within 12 months as current assets and liabilities. Financial instruments not due to be settled within 12 months, and for which the company has an unconditional right to defer settlement of the assets or liabilities for at least 12 months after the reporting period, are recognized as long-term assets and liabilities.

The classification of financial assets that are debt instruments is based on the Group's business model within which the asset is held, and contractual cash flows of the asset. The Group's debt instruments are measured at amortized cost.

Financial assets measured at amortized cost

All financial assets, including cash and cash equivalents, accounts receivable and unbilled customer receivables are measured at amortized cost. According to the business model, assets measured at amortized cost are held to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets in this category are initially measured at fair value plus transaction costs. Receivables arise when RaySearch provides money, goods or services directly to a debtor with no intention of trading the receivable. Accounts receivable are initially recognized at the invoice amount. A financial instrument containing a financing component and with a credit period of more than year is initially recognized at the present value of all future payments. The assets are subsequently recognized using the effective interest method. Expected loss provisioning is applied for these assets. Refer also to Note 21A.

Financial liabilities measured at amortized cost

Financial liabilities are measured at amortized cost. Financial liabilities measured at amortized cost are initially measured at fair value including transaction costs. The liabilities are subsequently measured at amortized cost using the effective interest method, whereby the calculated change in value (effective interest) is recognized as interest income or interest expense in profit or loss. Refer also to Note 21B.

Impairment of financial assets

The Group's financial assets are subject to impairment for expected credit losses. Impairment recognition under IFRS 9 is forward-looking, and a loan loss provision is set aside to mitigate credit risk, normally at initial recognition. Expected credit losses reflect the present value of all expected shortfall in contractual cash flows attributable to default for either the next 12 months or the expected remaining maturity of the financial instruments, depending on the class of asset and changes in credit quality since initial recognition. Expected credit losses reflect an objective, probability-weighted outcome that accounts for multiple scenarios based on reasonable and supportable forecasts.

The simplified approach is applied for all accounts receivable and unbilled customer receivables. Under the simplified approach, a loan loss provision is recognized for the expected remaining maturity of the receivable.

For other items subject to expected credit losses, a three-stage approach to impairment is applied. Initially, and at each balance-sheet date, a loan loss provision is recognized for the next 12 months, alternatively, for a shorter period of time depending on the remaining maturity (stage 1). The Group has determined its assets to be in stage 1, which means that credit risk has not increased significantly since initial recognition.

The Group has defined default as when contractual payments are more than 90 days past due, or when other factors indicate that a payment suspension exists. At the balance-sheet date, no significant increase in credit risk was considered to exist for any receivable or asset. Such assessments are based on whether payments are more than 30 days past due, or there has been a significant deterioration in credit risk, entailing a rating below investment grade.

The calculation of expected credit losses is based on various models. The model for accounts receivable and unbilled customer receivables is presented in the Credit risk in receivables section in Note 21 D. For other financial assets, a ratings-based approach is generally applied by referring to an external credit rating source. Expected credit losses are calculated as the product of probability of default, loss given default and exposure at default. In addition, any other current and forward-looking information is taken into account. A loan loss provision is recognized unless deemed insignificant. The calculation of expected credit losses accounts for any collateral and other credit enhancements in the form of guarantees. The financial assets are measured at amortized cost on the balance sheet, meaning the net of their gross value and loan loss provision. Changes in the loan loss provision are recognized in profit or loss. The Group writes off a receivable when it is certain that the debt will not be paid, and any active measures to collect payment have been terminated.

TANGIBLE FIXED ASSETS

Assets owned

Property, plant and equipment are stated on a consolidated basis at cost after deduction of accumulated depreciation and amortization, and potential impairment. Cost includes the purchase price and any expenses that are directly attributable to the asset to put it in place and in the condition to be utilized for the purpose for which it was acquired. Accounting policies for impairment are described below.

The carrying amount of a tangible fixed asset is derecognized from the statement of financial position upon disposal or divestment or when no future economic benefit is expected from use or disposal/divestment of the asset. The gain or loss arising from the disposal or divestment of an asset is the difference between the selling price and the asset's carrying amount less direct selling expenses. Gains and losses are recognized as "Other operating income/ expenses."

Leased assets

Lease agreements are classified in the consolidated financial statements as a finance or operating lease. A finance lease is a lease that essentially transfers all the risks and rewards associated with ownership of an asset to the lessee. If this is not the case, it is an operating lease.

Under an operating lease, the lease payment is expensed over the duration based on useful life, which can differ from a de facto lease payment during the year.

Assets held under financial lease agreements are recognized as fixed assets and commitments for future payments are recognized as a liability in the balance sheet.

The Group has both operating and financial lease agreements in accordance with these rules.

Depreciation principles

Depreciation is based on the original cost less any residual value. Depreciation is applied straight-line over the estimated useful life. The estimated useful lives are as follows:

- computers 3–5 years
- equipment, tools, fixtures and fittings 5 years
- building equipment 5 years

The residual value and useful life of an asset are tested annually.

INTANGIBLE FIXED ASSETS

Research and development

Research costs related to obtaining new scientific or technical knowledge are recognized as an expense as incurred.

Development costs, whereby the research results or other knowledge is applied to achieve new or improved products or processes, are recognized as an asset in the statement of financial position, provided the product or process is technically and commercially feasible and the company has sufficient resources to complete development, and subsequently to use or sell the intangible asset. The carrying amount includes all directly attributable expenses, such as personnel costs and cost of premises. Other expenses for development are expensed in profit for the year as they arise. In the

NOTE 1 ACCOUNTING POLICIES, CONT'D

statement of financial position, capitalized development costs are recognized at cost less accumulated amortization and any impairment.

Other intangible assets

Other intangible assets acquired by the company are recognized at cost less accumulated amortization and any impairment losses.

Amortization principles

Amortization is recognized in profit for the year on a straight-line basis over the estimated useful lives of intangible assets. The useful lives are reviewed at least once annually. Capitalized development costs for which amortization has not commenced are tested for impairment annually or whenever circumstances indicate that the asset may be impaired. Intangible assets with determinable useful lives are amortized from the date on which the assets are available for use. The estimated useful lives are:

- capitalized development costs 5 years
- software 3-5 years

INVENTORIES

Inventories are measured at the lower of cost and net realizable value, in accordance with IAS 2. Cost is determined using the first-in-first-out (FIFO) method or weighted average cost. The cost of inventories includes all costs for purchasing hardware. Net realizable value is the expected selling price during the normal course of business less the estimated costs associated with the completion and sale of an asset.

When inventories are sold, the value of those inventories is recognized as an expense in the same period as the corresponding revenue is recognized. Inventories are written down to their net realizable value and all losses related to inventories are recognized as an expense in the same period as the write down or loss occurs.

IMPAIRMENT LOSSES

The carrying amounts of the Group's tangible and intangible assets are tested at every balance-sheet date to determine whether there is any indication of impairment. If any such indication is found, the recoverable amount of the asset is calculated as the higher of the value in use and the fair value less selling costs. An impairment loss is recognized if the recoverable amount is less than the carrying amount. The recoverable amount is determined based on discounted estimated future cash flow from the cash-generating units.

SHARE CAPITAL

Treasury stock

Treasury stock and other equity instruments are recognized as a reduction of shareholders' equity. Acquisitions of such instruments are recognized as deductions from retained earnings. Proceeds from the divestment of equity instruments are recognized as an increase in retained earnings. Any transaction costs are charged directly against shareholders' equity.

Dividends

Dividends are recognized as liabilities following the AGM's approval of the dividend.

Earnings per share

Earnings per share are calculated on the basis of consolidated earnings attributable to the Parent Company's shareholders and on the weighted average number of shares outstanding during the year. When calculating earnings per share after dilution, profit and the average number of shares are adjusted to take into account the impact of dilutive potential common shares, which during the reported periods originate from options issued to employees. Dilution resulting from options affects the number of shares and arises only when the exercise price is lower than the share price. Dilution increases as the difference between the exercise price and the share price rises.

EMPLOYEE BENEFITS

Short-term remuneration

Short-term remuneration to employees is estimated without discounting and is expensed when the related services have been received.

A provision is recognized for the expected cost of the profit-sharing and bonus payments when the Group becomes subject to a legal or informal obligation to make such payments because the services performed by the employees and the obligation can be measured reliably.

Defined-contribution plans

Plans in which the company's commitment is limited to the fees the company has undertaken to pay are classified as defined-contribution plans. In such cases, the size of the employee's pension depends on the contributions paid by the company to the plan or to an insurance company plus the capital return that the contributions yield. Consequently, it is the employee who bears the actuarial risk (that remuneration can be lower than expected) and the investment risk (that the invested assets will be insufficient for the expected remuneration). The company's commitments to the plans are expensed against profit for the year as they are vested by the employees performing the services for the company over a period of time. The Group only has defined-contribution pensions. The Group's obligation for each period is determined by the amounts that the Group is to contribute for the actual period.

Termination of employment

An expense associated with the termination of employment is only recognized when the company is obligated to terminate an employment before the normal date.

Profit sharing foundation, RayFoundation

The profit-sharing foundation covers all employees of the Parent Company including senior executives, except the CEO. An allocation to the profit-sharing foundation is made in a given year if operating profit reached a level exceeding an operating margin of 20 percent. In such a case, the amount allocated is 10 percent of the portion of operating profit that exceeds the limit level. For further information, refer to Note 4.

TAXES

Income taxes consist of current tax and deferred tax. Income tax is recognized in profit or loss for the year except when the underlying transactions are recognized in other comprehensive income or in shareholders' equity, whereby the associated tax effect is recognized in other comprehensive income or in shareholders' equity.

Current tax is the tax to be paid or received for the current year, applying the tax rate decided or decided in principle on the balance-sheet date. Current tax also includes adjustments of current tax attributable to prior periods.

NOTE 1 ACCOUNTING POLICIES, CONT'D

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences in subsidiaries and associated companies are not taken into account when they will probably not be reversed in the foreseeable future. The valuation of deferred tax is based on how the underlying assets or liabilities are expected to be realized or settled. Deferred tax is calculated with the application of the tax rates and tax rules established or decided in practice on the balance sheet date.

Deferred tax assets pertaining to deductible temporary differences and tax loss carryforwards are only recognized insofar as they are likely to be utilized in the future. The value of deferred tax assets is reduced when it is no longer considered probable that they will be utilized.

PROVISIONS

Provisions are recognized on the balance sheet when the Group has an obligation (legal or constructive) due to a past event and it is probable that an outflow of resources associated with economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are also made for events after the balance-sheet date to the extent they provide evidence of conditions that existed at the balance-sheet date, such as court rulings on disputes. If the Group expects to receive compensation corresponding to a provision made, through an insurance contract for example, the compensation is recognized as an asset in the balance sheet when it is virtually certain that compensation will be received. If the effect of the time value for the future payment is considered significant, the provision's value is determined by calculating the present value of the expected future payment using a discount rate before tax that reflects the current market assessment of the time value and any risks associated with the obligation. The gradual increase in the provisional amount entailed by the present value calculation is recognized as an interest expense in profit and loss.

CONTINGENT LIABILITIES

A contingent liability is recognized when there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or when there is a present obligation that cannot be recognized as a liability or provision because it is not probable that an outflow of resources will be required.

PARENT COMPANY'S ACCOUNTING POLICIES

The Parent Company prepared its Annual Report in accordance with the Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2:2 Accounting for Legal Entities. The Swedish Financial Reporting Board's statements pertaining to listed companies were also applied. Under RFR 2, the Parent Company in its annual report for the legal entity shall apply all the IFRS and interpretations adopted by the EU to the extent possible within the framework of the Annual Accounts Act and the Pension Obligations Vesting Act, also considering the relationship between financial reporting and taxation. The recommendation states the exceptions from and additions to IFRS that should be made. The differences between the accounting policies applied in the consolidated financial statements and those applied by the Parent Company are presented below. The accounting policies for the Parent Company stated below have been consistently applied in all periods presented in the financial statements of the Parent Company.

Classification and presentation

For the Parent Company, the terms income statement, balance sheet and cash-flow statement are used for the statements that the Group designates as statement of comprehensive income, statement of financial position and statement of cash flows. The income statement and balance sheet for the Parent Company are presented in the manner specified in the Annual Accounts Act, while the statement of comprehensive income, the statement of changes in equity and the cash-flow statement are based on IAS 1 Presentation of Financial Statements and IAS 7 Statement of Cash Flows, respectively.

Research and development

All development costs are recognized in the Parent Company's income statement as they arise. Such reporting is permitted in accordance with RFR 2. In the consolidated financial statements, these development costs are recognized as an asset in accordance with IAS 38.

Taxes

In contrast to the Group, untaxed reserves in the Parent Company are recognized without being divided into shareholders' equity and deferred tax liabilities. Similarly in the income statement, the Parent Company does not report part of appropriations as deferred tax expense.

Leased assets

In the Parent Company, all leasing agreements are recognized according to the rule for operating leases.

Subsidiaries

Participations in subsidiaries are recognized in the Parent Company financial statements in accordance with the cost method. This entails that transaction expenses are included in the carrying amount.

Conditional purchase considerations are measured on the basis of the probability of the purchase consideration being paid. Possible changes to the provision/receivable are added/deducted from the cost.

In the case of a bargain purchase that represents future anticipated losses and costs, these losses and costs are reversed during the periods when the losses and costs are expected to arise.

Financial instruments

Due to the link between recognition and taxation, the requirements for recognition and measurement of financial instruments in IFRS 9 are not applied in the Parent Company as a legal entity. The Parent Company applies the cost method in accordance with the Swedish Annual Account Act instead. In the Parent Company, financial assets are therefore measured at cost and current assets according to the lower value method, with the application of impairment for expected credit losses according to IFRS 9 in relation to assets that are debt instruments. For other financial assets, impairment is based on their market value.

Impairment of intra-Group receivables

The Parent Company applies a ratings-based method for estimating expected credit losses for intra-Group receivables based on the probability of default, expected loss and exposure at default. The Parent Company has defined default as when contractual payments are more than 90 days past due, or when other factors indicate that a payment suspension exists. The Parent Company's receivables from subsidiaries correspond, in all material respects, to receivables from the US subsidiary. At the balance-sheet date, no significant increase in credit risk was considered to exist for any intra-Group receivable. Such assessments are based on a review of the subsidiary's long-term repayment capacity. The Parent Company applies the general approach when recognizing the intra-Group receivables. Based on the Parent Company's assessments according to the method described above, with account for other known information and forward-looking factors, expected credit losses were not deemed significant and no provision was therefore recognized.

SIGNIFICANT ESTIMATES AND ASSESSMENTS

Preparation of the financial statements in accordance with IFRS and generally accepted accounting principles in Sweden requires estimates and assumptions to be made that affect the recognized asset and liability items, revenue and expense items, and other information provided.

These estimates and assumptions are usually based on historical experience, but also on other factors including expectations of future events. Other estimates and assumptions may produce different results and the actual outcome will rarely be fully consistent with the estimated outcome. RaySearch assesses that the areas in which the estimates and assumptions will have the greatest impact are:

- Revenue from Contracts with Customers
- Customer receivables
- Recognition and impairment testing of capitalized development costs

Revenue from Contracts with Customers

Revenue is recognized in profit or loss when RaySearch has satisfied a performance obligation. The definition of when a such an obligation has been satisfied is when the control, risk and rewards have been transferred to the customer. Revenue can be recognized over time, or at a point in time. When the obligation has been satisfied, there is an unconditional right to consideration.

In some cases, allocation of the transaction price to each specific performance obligation requires estimates be made to determine how the transaction price should be allocated. The allocation is based on the relative standalone selling price for each performance obligation.

Customer receivables

When revenue is recognized in the manner described above a receivable arises. RaySearch has three types of customer receivables depending on whether a payment plan exists, the due date for payment and whether billing has taken place. These receivables are classified as Long-term unbilled receivables, Current unbilled receivables and Current billed receivables (accounts receivable). The names have been adapted to the definitions contained in the new IFRS 15 accounting standard.
The Group's and Parent Company's billed and unbilled customer receivables add up to a significant amount. The recognition of loan loss provisions for expected credit losses on accounts receivable and unbilled customer receivables therefore requires an assessment of which of these hold a risk for loss. The measurement of expected bad debt is based on regularly updated forecasts and assumptions regarding the ability of counterparties to pay. See a further explanation in Note 21D.

Recognition and impairment testing of capitalized development costs

The Group invests considerable amounts in research and development, parts of which are recognized as intangible assets, refer also to Note 11. The recognition of development costs as an asset requires assessments that the product is expected to become technically and commercially viable and that future economic benefits are probable. Capitalized development costs are amortized over a maximum estimated useful life of five years. The estimated sales volume and useful life, respectively, may be retested, which may result in impairment. See a further explanation in Note 17.

NOTE 2 INFORMATION ABOUT GEOGRAPHIC AREAS

Identifying reportable segments is based on the internal reporting to the chief operating decision maker, which is the CEO of Raysearch. In this internal reporting, the Group is a segment.

DISTRIBUTION OF FIXED ASSETS, GROUP

	Tangible fixed assets		Intangible fixed assets	
SEK 000s	2018	2017	2018	2017
Sweden	45,499	34,319	377,341	322,598
USA	47,439	1,463	–	–
Belgium	–	37	–	–
France	72	147	–	–
UK	–	11	–	–
Germany	71	137	–	–
Singapore	–	–	–	–
Japan	–	–	–	–
South Korea	–	–	–	–
China	–	–	–	–
	93,081	**36,114**	**377,341**	**322,598**

The distribution is broken down among the registered offices of the Group's legal entities.

Sales

RaySearch's products are sold directly to end customers, via distributors and via partners. Sales had the following geographic distribution based on the location of the end customers:

DISTRIBUTION OF SALES, LOCATION OF END CUSTOMER

	RayStation/RayCare		Partner	
SEK 000s	2018	2017	2018	2017
Sweden	1,573	5,131	–	319
USA	260,136	257,463	2,352	5,562
Japan	97,473	72,290	639	860
UK	54,374	43,007	3,001	1,625
Germany	45,834	10,228	1,015	893
France	40,114	32,577	370	670
Other countries	77,958	111,040	42,380	43,421
	577,462	**531,736**	**49,757**	**53,350**

NOTE 3 REVENUE FROM CONTRACTS WITH CUSTOMERS

REVENUE DISTRIBUTION – GROUP

	2018			2017		
AMOUNTS IN SEK 000s	RayStation/ RayCare	Partner	Total	RayStation/ RayCare	Partner	Total
Revenue by type						
Licenses	411,498	38,848	450,346	438,438	40,537	478,975
Support	104,399	10,909	115,308	54,630	12,813	67,443
Hardware	53,633	–	53,633	36,215	–	36,215
Training and other	7,932	–	7,932	2,453	–	2,453
Total revenue by type	**577,462**	**49,757**	**627,219**	**531,736**	**53,350**	**585,086**
Revenue by geographic market						
North America	260,137	2,352	262,489	240,345	5,718	246,063
Asia and Pacific region	113,012	12,609	125,621	98,903	12,351	111,254
Europe and rest of the world	204,313	34,796	239,109	192,488	35,281	227,769
Total revenue by geographic market	**577,462**	**49,757**	**627,219**	**531,736**	**53,350**	**585,086**
Revenue recognized at a point in time						
Goods/services transferred at a point of time	465,131	38,848	503,979	474,653	40,537	515,190
Services transferred over time	112,331	10,909	123,240	57,083	12,813	69,896
Total revenue recognized at a point in time	**577,462**	**49,757**	**627,219**	**531,736**	**53,350**	**585,086**

REVENUE DISTRIBUTION – PARENT COMPANY

	2018			2017		
AMOUNTS IN SEK 000s	RayStation/ RayCare	Partner	Total	RayStation/ RayCare	Partner	Total
Revenue by type						
Licenses	330,132	38,848	368,980	233,059	40,537	273,596
Support	54,104	10,909	65,013	23,046	12,813	35,859
Hardware	23,597	–	23,597	13,290	–	13,290
Training and other	3,355	–	3,355	317	–	317
Management fees/intra-Group revenue	5,212	–	5,212	157,712	–	157,712
Total revenue by type	**416,400**	**49,757**	**466,157**	**427,424**	**53,350**	**480,774**
Revenue by geographic market						
Sweden	1,573	–	1,573	5,135	319	5,454
North America	100,007	2,352	102,359	153,650	5,718	159,368
Asia and Pacific region	112,080	12,609	124,689	87,039	12,351	99,390
Europe and rest of the world	202,740	34,796	237,536	181,600	34,962	216,562
Total revenue by geographic market	**416,400**	**49,757**	**466,157**	**427,424**	**53,350**	**480,774**
Revenue recognized at a point in time						
Goods/services transferred at a point of time	353,729	38,848	392,577	246,349	40,537	286,886
Services transferred over time	62,671	10,909	73,580	181,075	12,813	193,888
Total revenue recognized at a point in time	**416,400**	**49,757**	**466,157**	**427,424**	**53,350**	**480,774**

RaySearch's products are sold directly to end customers, via distributors and partners. Sales had the following geographic distribution based on the location of the end customers.

NOTE 3 REVENUE FROM CONTRACTS WITH CUSTOMERS, cont'd.

CUSTOMER RECEIVABLES AND CONTRACT BALANCES

AMOUNTS IN SEK 000s	Dec 31, 2018	Dec 31, 2017
Accounts receivable (current billed customer receivables) (Note 22)	276,473	335,125
Current unbilled customer receivables (Note 22)	154,763	78,482
Long-term unbilled customer receivables (Note 26)	23,119	11,468
Contract liabilities (Note 29)	–111,983	–56,334
Revenue recognized during the period, of which		
Revenue included in opening contract liabilities[1]	42,256	29,981
Revenue attributable to performance obligations wholly or partly satisfied in previous periods	–	–

[1] Opening balance for contract liabilities was 56 MSEK in 2018, and 40 MSEK in 2017.

When RaySearch has fulfilled a performance obligation to a customer and an unconditional right to consideration exists, a revenue and a corresponding receivable are recognized. RaySearch has three types of customer receivables depending on whether a payment plan exists, the due date for payment and whether billing has taken place. These receivables are classified as Long-term unbilled receivables, Current unbilled receivables and Current billed receivables (accounts receivable). The names have been adapted to the definitions in IFRS 15. Previously, unbilled receivables were referred to as accrued income. The increase in receivables in 2018 is the result of entering into more agreements with payment plans. Current billed receivables (accounts receivable) are non-interest bearing and generally have terms of 30 to 90 days.

Contract liabilities include prepaid warranty and support revenue that have been billed but where the revenue has been allocated to the period in which the customer received the support.

Contract liabilities increased in 2018 due to the application of IFRS 15, which meant that warranty support became a separate performance obligation. Another reason for the increase is that more customers in the installed customer base entered into support agreements. Support revenues in the Group will continue to increase as the installed customer base grows.

In 2018, a provision of SEK 15,063,000 (6,174,000) was recognized for expected credit losses on receivables.

PERFORMANCE OBLIGATIONS

Customer contract	When the obligation is typically satisfied	When payment typically falls due	How the transaction price is determined
License and product revenues			
Software licenses	Upon delivery of license key or when the license is available for download (at a point in time).	Within 30–60 days of delivery, provided a payment plan does not exist.	Remaining amount after allocation of transaction price to other performance obligations.
Additional features	Upon delivery of license key or when the license is available for download (at a point in time).	Within 30–60 days of delivery.	Estimated fair market value of features for which development is carried out.
Hardware	When control of the hardware is transferred to the customer, typically upon delivery of the hardware (at a point in time).	Within 30–90 days of delivery, provided a payment plan does not exist.	Observable purchase price plus market-based margin of 20 percent.
Support revenues			
Updates of software licenses and customer support	Proportional over the warranty period or support agreement (over time).	Within 30 days of commencement of the contract period.	Observable price according to separate contract or agreement to renew.
Professional services			
Training services	When the training is provided (over time).	Within 30–90 days of performing the service.	Observable price according to agreement with customer where the service is sold separately.

At December 31, the remaining obligations at the end of the period are distributed as follows:

AMOUNTS IN SEK 000s	Dec 31, 2018	Dec 31, 2017
Within one year	248,123	174,169
Later than one year	579,881	407,044
	828,004	**581,213**

The above remaining performance obligations primarily pertain to support obligations (including warranty support). These accounted for 84 percent of the total order backlog at year-end.

NOTE 4 COST OF GOODS SOLD

SEK 000s	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Royalty cost for the year	–7,207	–5,347	–7,207	–5,347
Hardware cost for the year	–48,817	–31,303	–18,799	–14,201
	–56,024	**–36,650**	**–26,006**	**–19,548**

NOTE 5 EMPLOYEES, PERSONNEL COSTS AND REMUNERATION TO SENIOR EXECUTIVES

COSTS FOR REMUNERATION OF PARENT COMPANY AND GROUP EMPLOYEES

SEK 000s	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Salaries, benefits and social security costs	222,881	183,006	133,272	117,061
Pension costs, defined-contribution plans	26,841	24,190	25,115	22,016
Social security contributions	48,116	39,513	39,369	33,375
	297,839	**246,709**	**197,755**	**172,452**

AVERAGE NUMBER OF EMPLOYEES

In the Parent Company, the average number of employees was 217 (183), of whom 137 (118) were men and 80 (65) women.

In the Group, the average number of employees was 283 (228), of whom 183 (151) were men and 100 (77) women.

The average number of employees by country in the Group was 217 (183) in Sweden, 36 (23) in the US, 5 (4) in Belgium, 7 (6) in France, 3 (2) in the UK, 3 (3) in Germany, 4 (2) in Singapore, 5 (3) in China, 2 (2) in Japan and 1 (0) in South Korea.

GENDER DISTRIBUTION IN COMPANY MANAGEMENT

There is one female senior executive in the Parent Company, corresponding to 11 percent (11), and two female Board members, corresponding to 40 percent (25).

SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES TO SENIOR EXECUTIVES AND OTHER EMPLOYEES

GROUP	2018 Senior executives and Board members (12)	2018 Other employees	2017 Senior executives and Board members (12)	2017 Other employees
Salaries and other remuneration	20,447	202,434	20,275	162,730
(of which, bonus)	2,421	2,753	4,334	3,489
Social security costs	10,724	64,233	10,315	53,389
(of which pension costs)	3,959	22,883	3,641	20,549
Group total	**31,171**	**266,667**	**30,590**	**216,119**

SALARIES AND OTHER REMUNERATION TO SENIOR EXECUTIVES AND OTHER EMPLOYEES, AND SOCIAL SECURITY EXPENSES IN THE PARENT COMPANY

PARENT COMPANY	2018 Senior executives and Board members (12)	2018 Other employees	2017 Senior executives and Board members (12)	2017 Other employees
Salaries and other remuneration	20,447	112,825	20,275	96,786
(of which, bonus)	2,421	0	4,334	–
Social security costs	10,724	53,759	10,315	45,076
(of which pension costs)	3,959	21,156	3,641	18,375
Parent Company total	**31,171**	**166,584**	**30,590**	**141,862**

SENIOR EXECUTIVES WHO WERE APPOINTED DURING THE YEAR:

Britta Wallgren, Board member (from May 27, 2018)

NOTE 5 EMPLOYEES, PERSONNEL COSTS AND REMUNERATION OF SENIOR EXECUTIVES, cont'd.

SALARIES AND OTHER REMUNERATION OF BOARD MEMBERS AND GROUP MANAGEMENT

2018	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Total
Chairman of the Board Carl Filip Bergendal	480	–	–	–	480
Board member Hans Wigzell	250	–	–	–	250
Board member Johanna Öberg	250	–	–	–	250
Board member Britta Wallgren	147	–	–	–	147
CEO Johan Löf	5,328	1,815	455	612	8,209
Other senior executives (8)	10,485	605	631	3,347	15,069
Total	**16,940**	**2,421**	**1,086**	**3,959**	**24,405**

2017	Basic salary, Board fees	Variable remuneration	Other benefits	Pension costs	Total
Chairman of the Board Carl Filip Bergendal	480	–	–	–	480
Board member Hans Wigzell	221	–	–	–	221
Board member Johanna Öberg	152	–	–	–	152
CEO Johan Löf	5,028	3,135	450	601	9,214
Other senior executives (8)	9,095	1,199	515	3,039	13,849
Total	**14,976**	**4,334**	**965**	**3,640**	**23,916**

No share-based remuneration was paid.

VARIABLE REMUNERATION

Variable remuneration payable to the CEO is based on the Group's earnings and amounts to 2 percent of consolidated profit before tax and is capped at 12 months' salary. The Director of Sales and Marketing and the Director of Sales for Asia & Pacific receive variable remuneration based on sales in their respective regions. All employees in the Swedish Parent Company, except for the CEO, are covered by a profit-sharing foundation. A provision is allocated to the profit-sharing foundation in a given year if the operating profit in the preceding year reached a level exceeding an operating margin of 20 percent. In such a case, the amount allocated is 10 percent of the portion of operating profit that exceeds the limit level. For the employees of foreign subsidiaries, variable remuneration related to sales and achievement of established targets is paid.

In 2018, SEK 0 M (4.2) was allocated to the profit-sharing foundation, excluding special employer's contribution.

PENSIONS

All pension undertakings are defined-contribution plans. The retirement age for the CEO and senior executives is 65, and the pension premium is equivalent to the Swedish ITP plan. No other pension obligations exist.

SEVERANCE PAY

If the CEO chooses to terminate their employment, the term of notice is six months; if the employer terminates the CEO's employment, the term of notice is 12 months. In either case, the CEO is not entitled to any special severance pay, but in both cases receives a salary during the term of notice. The company and other senior executives have a mutual term of notice of three months during which salary is paid. Members of the Board do not receive any severance pay.

DECISION-MAKING PROCESS

The decision-making process regarding remuneration and benefits is described in greater detail in the Administration Report.

NOTE 6 AUDITORS' FEES AND COMPENSATION FOR EXPENSES

	GROUP		PARENT COMPANY	
SEK 000s	2018	2017	2018	2017
EY				
Auditing assignments	2,237	1,054	2,164	594
Audit activities other than audit assignment	534	339	534	339
Tax advice	260	202	260	202
Other services	–	–	–	–
	3,031	**1,595**	**2,958**	**1,135**
Other auditors				
Auditing assignments	28	96	–	–
	28	**96**	**–**	**–**

NOTE 7 FINANCE LEASING DEBT

Finance leasing debt falls due for payment as follows:	Future minimum lease payments	Interest	Present value of minimum lease payments
Within 1 year	4,045	325	3,720
2-5 years	3,624	129	3,495
	7,669	**454**	**7,215**

The above amounts show future lease liabilities according to the contracts recognized on the balance sheet in 2018.

	GROUP	
SEK 000s	2018	2017
Opening balance	**9,751**	**11,527**
Acquisitions during the year	2,015	3,602
Redemption	–1,669	–786
Repayment	–2,882	–4,592
Closing balance	**7,215**	**9,751**

At December 31, 2018, earnings in the Group were charged with costs attributable to finance leases, with amortization accounting for KSEK 3,515 (3,917) and interest expenses for KSEK 457 (593).

SIGNIFICANT LEASES

Significant leases include furniture and other office equipment (lease expires on Jan 31, 2020), computer equipment and company cars.

NOTE 8 OPERATING EXPENSES SPECIFIED BY TYPE OF COSTS

	GROUP		PARENT COMPANY	
SEK 000s	2018	2017	2018	2017
Cost of goods sold[1]	–56,024	–36,650	–26,006	–19,548
Personnel expenses	–187,831	–183,546	–228,045	–207,374
Amortization and impairment losses[2]	–113,844	–64,081	–10,928	–8,125
Exchange-rate losses	–10,540	–23,412	–10,197	–23,376
Other expenses	–199,910	–124,740	–208,844	–165,315
	–568,149	**–432,429**	**–484,020**	**–423,738**

[1] Cost of goods sold comprises costs of sold hardware and royalties for licensed software included in the company's software. Amortization of capitalized development costs is not included in cost of goods sold. Amortization and capitalization of development costs are included in the recognized research and development costs.

[2] Amortization of capitalized development costs is included in amortization and impairment losses in the table above.

NOTE 9 OTHER OPERATING INCOME

	GROUP		PARENT COMPANY	
SEK 000s	2018	2017	2018	2017
Exchange-rate gains on operating receivables/liabilities	35,391	7,012	35,090	7,012
	35,391	**7,012**	**35,090**	**7,012**

NOTE 10 OTHER OPERATING EXPENSES

	GROUP		PARENT COMPANY	
SEK 000s	2018	2017	2018	2017
Exchange-rate losses on operating receivables/liabilities	–10,540	–23,376	–10,197	–23,376
	–10,540	**–23,376**	**–10,197**	**–23,376**

NOTE 11 DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF TANGIBLE AND INTANGIBLE FIXED ASSETS

	GROUP		PARENT COMPANY	
SEK 000s	2018	2017	2018	2017
Intangible fixed assets				
Amortization and impairment according to function				
Administrative expenses	–7	–	–7	–
Research and development	–95,614	–58,401	–	–
	–95,621	**–58,401**	**–7**	**–**
Tangible fixed assets				
Depreciation according to function				
Selling expenses	–3913	–	–126	–
Administrative expenses	–10,301	–12,389	–6,786	–3,824
Research and development	–4,009	–	–4,009	–527
	–18,223	**–12,389**	**–10,921**	**–4,351**
Total depreciation/amortization	**–113,844**	**–70,790**	**–10,928**	**–4,351**

NOTE 12 OPERATING LEASES

SEK 000s	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Lease payments for the year	36,750	22,239	27,127	21,691
Contractual future lease payments for leases that mature:				
Within one year	36,947	25,767	25,527	21,066
Later than one but within five years	106,617	59,503	57,946	17,279
Later than five years	37,914	44,005	–	–
	181,478	**129,275**	**83,474**	**38,345**

Significant operating leases pertains to a lease for the head office in Stockholm which expires on Dec 31, 2019. The baseline rent is indexed annually. Future lease payments include leases for new offices in New York (Nov 12, 2018–Nov 12, 2028) and San Francisco, (Mar 16, 2018–Mar 16, 2024).

NOTE 13 FINANCIAL INCOME AND EXPENSES

SEK 000s	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Interest income on cash and cash equivalents	48	151	33	24
Interest income on accounts receivable and loan receivables	235	217	195	213
Interest income Group companies	–	–	6,754	5,973
Total interest income according to effective interest method	**283**	**368**	**6,982**	**6,210**
Interest expense on other liabilities to credit institutions[1]	–2,282	–2,157	–1,427	–1,366
Other financial expenses	–1,697	–1,979	–1,697	–1,957
Total interest expense according to effective interest method	**–3,979**	**–4,136**	**–3,124**	**–3,323**
Net	**–3,696**	**–3,768**	**3,858**	**2,887**

[1] The interest expense for the credit facility is based on STIBOR + 1.5% with a floor for STIBOR at 0%.

All interest income and interest expense is derived from financial assets and liabilities measured at amortized cost.

NOTE 14 APPROPRIATIONS

SEK 000s	PARENT COMPANY 2018	PARENT COMPANY 2017
Tax allocation reserve, provision during the year	–10,600	–19,500
Accelerated depreciation for tax purposes, equipment	–2,139	–315
	–12,739	**–19,815**

NOTE 15 TAX ON PROFIT FOR THE YEAR

SEK 000s	GROUP 2018	GROUP 2017
Current tax expense		
Tax expense for the period	–7,296	–16,719
	–7,296	**–16,719**
Deferred tax expense/income		
Deferred tax for temporary differences on capitalized development costs and finance leases	–7,243	–17,463
Untaxed reserves/deferred tax attributable to loss carryforwards	–2,803	–4,359
Deferred tax related to other temporary differences	5,101	267
	–4,945	**–21,555**
Total tax expense/income recognized in the Group	**–12,241**	**–38,274**
Reconciliation of effective tax		
Recognized profit before tax	90,764	155,901
Tax at current tax rate of 22%	–19,968	–34,298
Effect of other tax rates for non-Swedish companies	1,451	–1,102
Tax attributable to earlier years	2,088	0
Effect of non-taxable income	94	1
Effect of non-deductible costs	–4,040	–2,793
Effect of changed tax rate in Sweden	4,367	0
Utilisation of non-capitalized loss carryforwards	3,842	0
Standard interest on tax allocation reserve	–75	–81
Reported effective tax	**–12,241**	**–38,274**

SEK 000s	PARENT COMPANY 2018	PARENT COMPANY 2017
Current tax expense		
Tax expense for the period	–7,035	–13,494
Change in deferred tax	2,398	267
Total tax expense recognized in the Parent Company	**–4,637**	**–13,227**
Reconciliation of effective tax		
Recognized profit before tax	8,346	47,120
Tax at current tax rate of 22%	–1,836	–10,366
Effect of non-taxable income	0	1
Effect of non-deductible costs	–2,498	–2,780
Effect of changed tax rate in Sweden	–204	0
Tax attributable to prior tax	–24	0
Standard interest on tax allocation reserve	–75	–81
Reported effective tax	**–4,637**	**–13,227**

NOTE 16 DIVIDEND PER SHARE, EARNINGS PER SHARE AND NUMBER OF SHARES

	2018	2017
Proposed dividend per share	–	–
Total number of shares at beginning of the year	34,282,773	34,282,773
Of which treasury stock	–	–
Number of shares outstanding at beginning of the year	34,282,773	34,282,773
Number of shares outstanding at year-end	34,282,773	34,282,773
Average number of shares outstanding during the period	34,282,773	34,282,773
Profit/loss for the year attributable to Parent Company shareholders (before and after dilution)	78,523	117,627
Earnings per share before/after dilution	**2.29**	**3.43**

NOTE 17 CAPITALIZED DEVELOPMENT COSTS

SEK 000s	GROUP Dec 31, 2018	GROUP Dec 31, 2017
Accumulated cost		
Opening balance	751,221	613,441
Internally developed assets during the year	149,930	137,780
Closing balance	**901,151**	**751,221**
Accumulated amortization and impairment losses		
Opening balance	–428,623	–370,222
Amortization for the year	–95,614	–58,401
Closing balance	**–524,237**	**–428,623**
Closing carrying amount	**376,914**	**322,598**

Capitalized development costs pertains to the development of new versions of RaySearch's software products. These development costs are capitalized and amortized over a period of five years from when the products are released on the market and the asset is thus regarded as starting to contribute to the company's revenue.

IMPAIRMENT TESTING OF INTERNALLY GENERATED INTANGIBLE ASSETS

Internally generated intangible assets are tested annually for impairment, and whenever there is an indication of impairment. The recoverable amount is determined based on value-in-use.

An annual impairment test of internally generated intangible assets has been conducted. Cash flows are based on budget forecasts, assessments and market plans prepared by management. Cash flows beyond this period are extrapolated using a growth rate estimated at 2 percent based on company management's expectations of the future market trend. The assessment of operating margin is based on previously achieved earnings weighted by company management's expectations of the future market trend. The future cash flows have been discounted to present value using an interest rate before tax of 15.1 percent (13.5). The discount interest rate is determined on the basis of risk-free interest plus a surcharge for the risk premium for the particular operating segment. The estimated value-in-use exceeds the carrying amount by such a high margin that company management believes there are no reasonably possible changes in assumptions that would lead to impairment.

NOTE 18 OTHER INTANGIBLE FIXED ASSETS

SEK 000s	GROUP AND PARENT COMPANY Dec 31, 2018	GROUP AND PARENT COMPANY Dec 31, 2017
Accumulated cost		
Opening balance	1,165	1,165
New acquisitions	434	–
Closing balance	**1,599**	**1,165**
Accumulated amortization		
Opening balance	–1,165	–1,165
Amortization during the year	–7	–
Closing balance	**–1,172**	**–1,165**
Closing carrying amount	**427**	**0**

Acquisitions for the year pertain to the purchase of licenses for a new Group accounting system.

NOTE 19 TANGIBLE FIXED ASSETS

SEK 000s	GROUP Dec 31, 2018	GROUP Dec 31, 2017	PARENT COMPANY Dec 31, 2018	PARENT COMPANY Dec 31, 2017
Equipment, fixtures and fittings				
Accumulated cost				
Opening balance	72,973	60,916	49,100	38,608
New acquisitions	75,285	12,675	25,258	11,110
Divestments and disposals	–4,167	–618	–	–618
Translation difference for the year	1,875	0	–	–
Closing balance	**145,966**	**72,973**	**74,358**	**49,100**
Accumulated amortization				
Opening balance	–36,859	–25,249	–25,414	–17,291
Divestments and disposals	2,500	32	–	32
Amortization for the year	–18,223	–11,642	–10,921	–8,155
Translation difference for the year	–303	0	–	–
Closing balance	**–52,885**	**–36,859**	**–36,335**	**–25,414**
Closing carrying amount	**93,081**	**36,114**	**38,023**	**23,686**

Tangible fixed assets include finance leases with a carrying amount of SEK 7,476 (10,633).

NOTE 20 PARTICIPATIONS IN GROUP COMPANIES

SEK 000s	PARENT COMPANY Dec 31, 2018	PARENT COMPANY Dec 31, 2017
Accumulated cost		
Opening balance	1,046	640
Contributions to subsidiaries	726	406
Closing balance	**1,772**	**1,046**

SPECIFICATION OF PARENT COMPANY AND GROUP HOLDINGS OF PARTICIPATIONS IN GROUP COMPANIES.

Group company/Corp. Reg. No./Reg. office/Country	No./ Participa-tions in %	Adjusted equity/ Profit for the year[1]	Carrying amount
RaySearch Americas Inc, Delaware, USA	100	–10,372 / 16,573	0
RaySearch Belgium Sprl, 0838.244.504, Brussels, Belgium	99.0[3]	1,222 / 194	170
RaySearch France SAS, RCS Paris, France 794 582 841	100	2,846 / 472	87
RaySearch UK Ltd, 8579149, London, UK	100	546 / 91	0
RaySearch Germany GmbH, HRB 157539, Berlin, Germany	100	1,621 / 428	228
RaySearch Singapore Pte Ltd, 201S508409H, Singapore	100	579 / 225	1
RaySearch Japan K.K., 010401124903, Tokyo, Japan	100	1,067 / 19	801
RaySearch Korea LLC., 1101140177029, Seoul, South Korea	100	243 / 132	79
RaySearch (Shanghai) Medical Device Co., Ltd 91310115MA1K3M628Y, China (Shanghai)	100	755 / 287	406
RaySearch Canada Inc. 755835923RC0001, Saint John, New Brunswick, Canada	100	0 / 0	0
			1,772

[1] Adjusted equity refers to the owned share of the company's equity, including the equity component of untaxed reserves.
Profit for the year refers to the ownership share of the company's profit after tax, including the equity share in the change for the year in untaxed reserves.
[2] The negative equity arose from the build-up of the subsidiary in the US.
[3] SAS RaySearch France owns the remaining 1.0 percent of the Group company.

NOTE 21 FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL RISK MANAGEMENT

This Note provides information about the Group's financial instruments and financial risk management, including:

a) Financial assets

b) Financial liabilities

c) Fair value

d) Financial risk factors and risk management

A) FINANCIAL ASSETS

	GROUP		PARENT COMPANY	
SEK 000s	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Financial assets measured at amortized cost				
Accounts receivable (current billed customer receivables) (Note 22)	276,473	335,125	127,224	151,734
Current unbilled customer receivables (Note 22)	154,763	78,482	85,366	68,953
Long-term unbilled customer receivables (Note 26)	23,119	11,468	16,330	10,189
Cash and cash equivalents (Note 24)	112,198	104,156	9,375	42,857
Total financial assets	**566,553**	**529,231**	**238,295**	**273,733**

All financial assets at Dec 31, 2017 are classified as Loan receivables and other receivables. Since these are recognized at amortized cost, and transition to IFRS 9 did not have any significant impact on their recognition, they are presented in the same manner for the comparative year as for the fiscal year in the table above.

B) FINANCIAL LIABILITIES

	GROUP		PARENT COMPANY	
SEK 000s	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Financial liabilities measured at amortized cost				
Long-term interest-bearing liabilities	7,215	9,751	–	–
Accounts payable	32,366	27,403	21,308	24,924
Current interest-bearing liabilities	124,283	74,033	124,283	74,033
Accrued expenses	60,940	49,725	29,292	30,192
Total financial liabilities	**224,804**	**160,912**	**174,883**	**129,149**

In 2017, the company's line of credit was increased from SEK 100 M to SEK 350 M. The credit line expires in May 2022 and comprises a revolving loan facility of up to SEK 300 M, and an overdraft facility of SEK 50 M. Chattel mortgages amount to SEK 100 M. At December 31, 2018, a short-term loan of SEK 124 M (75) was raised under the company's revolving loan facility and SEK 0 M (0) of the credit facility had been drawn.

C) FAIR VALUE

Fair value measurement contains a measurement hierarchy for the inputs used to measure fair value. The three levels comprise:

Level 1: Listed prices (unadjusted) in active markets for identical assets or liabilities to which the company has access at the time of measurement.

Level 2: Inputs other than the quoted prices in Level 1, which are directly or indirectly observable for the asset or liability. This may also pertain to input data other than the listed prices that are observable for the asset or liability, such as interest rates, yield curves, volatility and multiples.

Level 3: Non-observable input data for the asset or liability. At this level, the assumption that market players would use for pricing of the asset or liability, including risk taking, must be taken into account.

For all items under point A) and B), the carrying amount is an approximation of the fair value, since these items have not been divided into levels according to the measurement hierarchy. Since the long-term unbilled receivables and liabilities to credit institutions carry variable interest and other external borrowing carries fixed interest, which in all significant respects is adjudged to correspond to prevailing market rates, the assessment is that the carrying amounts of loans essentially match fair value.

D) FINANCIAL RISK FACTORS AND RISK MANAGEMENT

The Group's main financial liabilities correspond to loans and other liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's main financial assets include billed and unbilled receivables and cash and cash equivalents.

Through its operations, the RaySearch Group is exposed to various types of financial risk including currency risk, interest rate risk, liquidity risk and credit risk. Risks are managed by the Group's Finance Department, which identifies, evaluates and hedges financial risks. This is carried out in accordance with the Board's established policies for overall risk management and the Group's financial policy, which form a framework of guidelines and rules in the form of risk mandates and limits for financial activities.

NOTE 21 FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL RISK MANAGEMENT, cont'd.

Currency risk

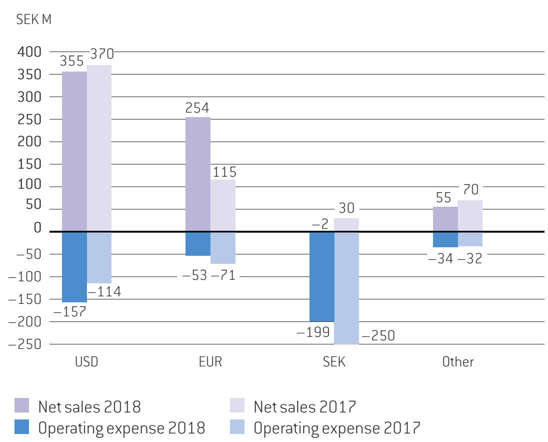
Currency risk is the risk for changes in value due to changes in exchange rates. With its international operations, the Group is exposed to currency risk in form of transaction exposure and translation exposure. Transaction exposure arises through future transactions, and translation exposure through assets and liabilities denominated in a foreign currency.

The RaySearch Group's currency risk is mainly the result of the company receiving most of its revenue in USD and EUR, while most of its costs are in SEK. The company has no currency hedging, in accordance with the established financial policy. The financial policy is updated at least once a year.

Transaction exposure

The Group's net sales and operating expenses per currency are shownin the following diagram:

NET SALES AND OPERATING EXPENSES PER CURRENCY



Based on the year's revenue, cost and currency structure (transaction exposure), a general change of one percentage point in the SEK rate against other currencies would have an impact of approximately +/- SEK 4.5 M (3.4) on consolidated operating profit and +/- SEK 3.6 M (2.7) on consolidated equity. A one percentage point change in the USD rate against the SEK would have an impact of +/- SEK 2.1 M (2.6) on consolidated operating profit, while a corresponding change in the EUR rate would have an impact of +/- SEK 2.1 M (0.4) on consolidated operating profit.

Translation exposure

The Group's translation exposure related to balance-sheet items in foreign currency is mainly distributed between the USD and EUR. Other currencies in the Group correspond to SGD, GBP, CNY and KRW.

USD	2018	2017
Accounts receivable	146,237	246,532
Current unbilled customer receivables	–	11,998
Accounts payable	–192	–4,568
	146,045	**253,961**
EUR		
Accounts receivable	83,872	85,519
Current unbilled customer receivables	91,290	33,562
Accounts payable	–14,974	–16,251
	160,188	**102,830**
Other currencies		
Accounts receivable	24,354	19,386
Current unbilled customer receivables	550	23,393
Accounts payable	–2,213	–2,112
	22,690	**40,667**

Based on the year's revenue, cost and currency structure (transaction exposure), a general change of one percentage point in the SEK rate against other currencies would have an impact of approximately +/- SEK 3.3 M (4.0) on consolidated operating profit and +/- SEK 2.6 M (3.1) on consolidated equity. A one percentage point change in the USD rate against the SEK would have an impact of +/- SEK 1.5 M (2.4) on consolidated operating profit, while a corresponding change in the EUR rate would have an impact of +/- SEK 1.6 M (1.2) on consolidated operating profit.

Interest rate risk

Interest rate risk refers to the risk that changes in interest rates will have a negative impact on RaySearch's results due to, for example, increased costs for the company's variable rate loans. At December 31, 2018, interest-bearing liabilities amounted to SEK 131.5 M (83.8), of which SEK 7.2 M (9.8) pertained to finance leases, and cash and cash equivalents and interest-bearing receivables amounted to SEK 112.2 M (104.1). As a result, had the Group a positive (negative) interest-bearing net debt.

Based on the balance sheet structure at year-end, and assuming that all other variables were constant, a general change of one percentage point in the interest rate for loans and investments would have an impact of approximately +/- SEK 1.4 M (0.2) on consolidated operating profit.

Liquidity risk

Liquidity risk refers to the risk of not being able to meet payment obligations as a result of insufficient liquidity or difficulty in securing external loans. At Group level, rolling forecasts for the Group's liquidity reserve are monitored to ensure that the Group has sufficient cash funds to meet its current business needs, while maintaining a sufficient amount of unutilized credit. Surplus liquidity in Group companies is transferred centrally and managed by the Group's financial function.

In accordance with the established financial policy, investment is made in interest-bearing accounts with Swedish banks or the Swedish state.

To reduce liquidity risk, RaySearch strives to have available cash and cash equivalents of at least 10 percent of net sales. At 31 December 2018, cash and cash equivalents amounted to SEK 112.2 M (104.2), corresponding to 18 percent (18) of net sales. In addition, had RaySearch SEK 226 M (275) in unutilized credit facilities.

NOTE 21 FINANCIAL ASSETS AND LIABILITIES AND FINANCIAL RISK MANAGEMENT, cont'd.

Credit risk

Credit risk is the risk that a counterparty will fail to meet its obligations in accordance with a financial instrument or customer contract, which could lead to a financial loss. The Group is exposed to credit risk from its operating activities (mainly customer receivables) and from financing activities, including deposits with banks and financial institutions, currency transactions and other financial instruments.

Credit risk in cash and cash equivalents

In accordance with the established financial policy, RaySearch's liquidity is invested in Swedish banks or the Swedish state with the objective of maintaining high liquidity with low credit risk. Expected loss provisioning is applied for cash and cash equivalents. The calculation of expected credit losses is based on an external credit rating. The counterparties have credit ratings ranging from P-1 to Aa2 from Moody's. Provisions are not recognized since the expected credit losses are not considered significant.

Credit risk in receivables

Credit risk is the risk that a counterparty will fail to meet its obligations in accordance with a financial instrument or customer contract, which could lead to a financial loss. The Group is exposed to credit risk in its operating activities, mainly in relation to customer receivables.

Credit risk in accounts receivable is mainly managed at Group level, but coordinated with each of the Group companies. In connection with quotations/contract negotiations, the customer's creditworthiness is checked, which affects the customer's ability to meet the terms of any payment plans. The credit risk for a new customer is determined using a rating scale, and individual credit limits are defined on the basis of this assessment.

Regular risk assessments of creditworthiness are carried out by considering the customer's financial position on every occasion. Other influencing factors, such as payment patterns and previous experiences, are also critical for the assessment. For license deliveries to major customers, collateral such as letters of credit, or other types of credit insurance from reputable banks and other financial institutions is used. These may be invoked if the counterparty has debts outstanding under the terms of the agreement. At the end of 2018, SEK 5.3 M of the billed accounts receivable were protected against non-payment with letters of credit.

The Group's credit risks are usually limited because customers' operations are largely financed, either directly or indirectly, with public funds. Credit losses have also been very low historically.

Regarding credit risk concentration, the Group's largest receivable from Hitachi, Ltd. accounts for 16 percent of total receivables. Hitachi, Ltd. has a high credit rating – A-1/A from Moody's. In addition, no other customer receivables account for more than 5.5 percent of the Group's total customer receivables.

Most of the receivables in the 2018 financial statements were subject to an individual credit assessment, which led to an impairment loss of SEK 8.3 M for the year for a few receivables. At the end of the 2018 fiscal year, the provision for expected credit losses amounted to SEK 15.1 M (6.2). For an age analysis of accounts receivable and provisions for expected credit losses, refer to Note 22.

The Group's credit risk is relatively low since the receivables are spread over a large number of credit-strong companies and institutions.

The credit risk for a new customer is determined using external credit ratings, and individual credit limits are defined on the basis of this assessment. Other variables in the assessment of expected credit losses is based on the existence of credit insurance, the customer's historical ability to pay, whether the customer is state or privately funded, the amount and payment terms of the receivable, number of days overdue and the likelihood of a dispute. Details emerging from the specific dialogue with the customer are also taken into account. Finally, other circumstances, such as sanctions and other policy measures, may also determine whether a receivable is deemed uncertain. All of these individual circumstances provide a broad basis for the assessment of future credit losses.

The above assessment of expected credit losses is made on an individual basis for almost all receivables. In the 2018 financial statements, more than 90 percent of all customer receivables had been individually assessed. The main selection criterion for this assessment is the amount of the receivable, which means that the largest receivables in the Group's customer base have been individually assessed, amounting to a 90-percent coverage. In 2018, the use of external credit ratings was gradually introduced to further improve the assessment. The change did not have any significant impact on impaired amounts.

When assessing credit risk in that part of the customer portfolio that has not been subject to individual assessment, historical credit loss information is the most critical factor for assessment, based on average loss percentage. The average loss percentage can be adjusted if necessary to meet a change in relation to credit risk, to achieve fair future loss provisioning. The Group's historical credit losses are limited, about 0.5 percent of the Group's total sales has been set aside for expected and actual credit losses since its foundation. The general provision for collectively assessed receivables is therefore negligible.

The Group does not have any netting agreements and offsetting has not been applied for any financial instruments.

Note 22 below presents an age structure of the Group's billed receivables and information about the expected payment of unbilled receivables.

NOTE 22 CUSTOMER RECEIVABLES

AMOUNTS IN SEK 000s	GROUP, DEC 31, 2018 Unbilled receivables	Due date structure, billed receivables Not overdue	< 30 days	30–90 days	> 90 days	Total
Receivables by type						
RayStation/RayCare	177,881	134,697	54,175	20,564	55,753	265,188
Partner	–	10,060	399	825	–	11,284
Total receivables by type	**177,881**	**144,757**	**54,574**	**21,389**	**55,753**	**276,473**
Receivables by geographic market						
North America	63,396	59,586	35,066	10,128	49,291	154,070
Asia and Pacific region	66,901	22,245	5,387	–	3,237	30,869
Europe and rest of the world	47,584	62,925	14,121	11,261	3,226	91,533
Total receivables by geographic market	**177,881**	**144,757**	**54,574**	**21,389**	**55,753**	**276,473**

After year-end, payment of SEK 206 M has been received for the above billed receivables outstanding.

AMOUNTS IN SEK 000s	GROUP, DEC 31, 2017 Unbilled receivables	Due date structure, billed receivables Not overdue	< 30 days	30–90 days	> 90 days	Total
Receivables by type						
RayStation/RayCare	89,950	262,249	19,739	16,625	26,396	325,008
Partner	–	10,116	–	–	–	10,116
Total receivables by type	**89,950**	**272,365**	**19,739**	**16,625**	**26,396**	**335,124**
Receivables by geographic market						
North America	13,541	160,990	2,860	13,849	17,503	195,202
Asia and Pacific region	30,397	34,704	19	234	53	35,011
Europe and rest of the world	46,012	76,671	16,859	2,541	8,840	104,911
Total receivables by geographic market	**89,950**	**272,365**	**19,739**	**16,625**	**26,396**	**335,124**

In 2017, a provision for an actual credit event was recognized under the Group's previous accounting policies.

AMOUNTS IN SEK 000s	PARENT COMPANY, DEC 31, 2018 Unbilled receivables	Due date structure, billed receivables Not overdue	< 30 days	30–90 days	> 90 days	Total
Receivables by type						
RayStation/RayCare	101,696	74,788	19,109	11,261	10,782	115,940
Partner	–	10,060	399	825	–	11,284
Total receivables by type	**101,696**	**84,848**	**19,508**	**12,086**	**10,782**	**127,224**
Receivables by geographic market						
North America	–	3,939	–	825	4,319	9,083
Asia and Pacific region	54,556	22,245	5,387	–	3,237	30,869
Europe and rest of the world	47,140	58,664	14,121	11,261	3,226	87,272
Total receivables by geographic market	**101,696**	**84,848**	**19,508**	**12,086**	**10,782**	**127,224**

AMOUNTS IN SEK 000s	PARENT COMPANY, DEC 31, 2017 Unbilled receivables	Due date structure, billed receivables Not overdue	< 30 days	30–90 days	> 90 days	Total
Receivables by type						
RayStation/RayCare	79,142	106,718	16,879	3,513	14,509	141,618
Partner	–	10,116	–	–	–	10,116
Total receivables by type	**79,142**	**116,834**	**16,879**	**3,513**	**14,509**	**151,734**
Receivables by geographic market						
North America	3,704	5,459	–	737	5,616	11,812
Asia and Pacific region	30,397	34,704	19	234	53	35,011
Europe and rest of the world	45,041	76,671	16,859	2,541	8,840	104,911
Total receivables by geographic market	**79,142**	**116,834**	**16,879**	**3,513**	**14,509**	**151,734**

NOTE 22 CUSTOMER RECEIVABLES, cont'd.

RaySearch has contracts with customers whereby deliveries have long payment terms, which is standard in the industry. The company recognizes customer receivables when delivery has occurred and an unconditional right to consideration exists. The subsequent effect is that the Group's accounts receivable and unbilled customer receivables add up to relatively high amounts compared with net sales.

At the end of the period, accounts receivable (current billed customer receivables) amounted to SEK 276 M (335), corresponding to 44 percent (57) of net sales in 2018. Total customer receivables corresponded to 72 percent (73) of net sales for the year.

At December 31, 2018, the Group's overdue invoices amounted to SEK 132 M (62), corresponding to 29 percent (15) of total customer receivables.

In 2018, the company's accounts receivable increased in relation to net sales, a result of the company entering into more agreements with longer payment terms.

UNBILLED RECEIVABLES

	GROUP		PARENT COMPANY	
AMOUNTS IN SEK 000s	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Expected date of payment				
Payment within three months	13,032	18,237	9,473	16,064
Payment within 3-12 months	141,731	60,245	75,894	52,889
Payment after 12 months	23,119	11,468	16,330	10,189
Total unbilled receivables	**177,881**	**89,950**	**101,696**	**79,142**

This is an estimate. The date of payment is partly dependent on the date of installation on the customer's site, i.e. not the agreed payment dates, but that is only our best assessment on the balance-sheet date.

PROVISION FOR EXPECTED CREDIT LOSSES

	GROUP		PARENT COMPANY	
AMOUNTS IN SEK 000s	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Change in provision for expected credit losses				
Opening balance	6,174	6,822[1]	6,174	6,822
Impairment for the year	8,334	–	8,334	–
Translation difference	554	–648	554	–648
Closing balance	**15,062**	**6,174**	**15,062**	**6,174**

[1] In 2017, the provision pertained to bad debts under IAS 39.

Impairment for the year largely corresponded to provisions for receivables in particular countries. The provision for expected credit losses corresponded to 3 percent (1) of the company's total receivables. The accounts receivable that were impaired during the reporting period are subject to enforcement actions, which means that debt collection activities are ongoing.

In view of the creditworthiness and other circumstances of its customers, the company assesses that the credit risk will remain very low and that the provision for expected credit losses will not increase significantly. Refer also to a description of the company's assessment of credit risk in receivables in Note 21d.

NOTE 23 PREPAID EXPENSES

	GROUP		PARENT COMPANY	
AMOUNTS IN SEK 000s	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Prepaid rent	7,141	5,663	6,195	4,903
Prepaid insurance	3,371	1,481	3,041	1,405
Prepaid license costs	2,381	–	2,381	–
Prepaid pension costs	1,796	–	1,796	–
Accrued interest income	–	–	–	5,973
Other prepaid expenses	8,277	13,531	7,134	12,874
	22,966	**20,675**	**20,547**	**25,155**

NOTE 24 CASH AND CASH EQUIVALENTS

AMOUNTS IN SEK 000s	GROUP Dec 31, 2018	GROUP Dec 31, 2017	PARENT COMPANY Dec 31, 2018	PARENT COMPANY Dec 31, 2017
The following subcomponents are included in cash and cash equivalents:				
Bank balances	112,198	104,156	9,375	42,857
	112,198	**104,156**	**9,375**	**42,857**

Cash and cash equivalents consist of bank deposits. In addition to this, the company has a revolving loan facility of up to SEK 300 M that matures on May 31, 2022, and an overdraft facility of SEK 50 M. At Dec 31, 2018, a total of SEK 124 M (75) had been borrowed within the framework of the company's revolving loan facility. Refer also to liquidity risk in Note 21D.

NOTE 25 DEFERRED TAX ASSETS AND TAX LIABILITIES

SEK 000s	GROUP Dec 31, 2018	GROUP Dec 31, 2017
Deferred tax liabilities for:		
Intangible assets		
Opening balance	70,971	53,508
Change during the year	7,189	17,463
Closing balance	**78,160**	**70,971**
Finance leases		
Opening balance	–	–
Change during the year	1,540	–
Closing balance	**1,540**	**–**
Untaxed reserves		
Opening balance	21,453	17,093
Change during the year	2,801	4,360
Closing balance	**24,254**	**21,453**
Carrying amount	**103,954**	**92,424**
Deferred tax assets related to:		
Tangible assets		
Opening balance	780	512
Change during the year	216	268
Closing balance	**996**	**780**
Accounts receivable		
Opening balance	–	–
Change during the year	2,135	–
Closing balance	**2,135**	**–**
Finance leases		
Opening balance	–	–
Change during the year	1,486	–
Closing balance	**1,486**	**–**
Other temporary differences		
Opening balance	–	–
Change during the year	2,791	–
Closing balance	**2,791**	**–**
Carrying amount	**7,408**	**780**

Valuation is based on the nominal tax rate with account for the new tax rates to be introduced in Sweden.

NOTE 26 LONG-TERM RECEIVABLES

SEK 000s	GROUP Dec 31, 2018	GROUP Dec 31, 2017	PARENT COMPANY Dec 31, 2018	PARENT COMPANY Dec 31, 2017
Long-term unbilled customer receivables	23,119	11,468	16,330	10,189
Other items	335	216	335	216
Closing balance	**23,454**	**11,684**	**16,665**	**10,405**

Long-term unbilled customer receivables comprise customer receivables that mature more than 12 months after the period.

NOTE 27 UNTAXED RESERVES

SEK 000s	PARENT COMPANY Dec 31, 2018	PARENT COMPANY Dec 31, 2017
Accumulated excess depreciation		
Opening balance, January 1	2,588	2,272
Reversals/excess depreciation for the year	2,138	316
Closing balance December 31	**4,726**	**2,588**
Tax-allocation reserves		
Provisions for fiscal year 2014	20,073	20,073
Provisions for fiscal year 2015	15,349	15,349
Provisions for fiscal year 2016	40,000	40,000
Provisions for fiscal year 2017	19,500	19,500
Provisions for fiscal year 2018	10,600	–
	105,522	**94,922**
Total untaxed reserves	**110,248**	**97,510**

NOTE 28 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	GROUP					
AMOUNTS IN SEK 000s	Dec 31, 2017	Cash flows	New finance leases	Termination of finance leases	Borrowing costs	Dec 31, 2018
Finance lease liability	9,751	–2,892	2,015	–1,659	–	7,215
Current interest-bearing liabilities	74,033	49,850	–	–	400	124,283
Total interest-bearing liabilities	**83,784**	**46,958**	**2,015**	**–1,659**	**400**	**131,498**

	GROUP					
AMOUNTS IN SEK 000s	Dec 31, 2016	Cash flows	New finance leases	Termination of finance leases	Borrowing costs	Dec 31, 2017
Finance lease liability	11,527	–4,592	3,602	–786	–	9,751
Long-term interest-bearing liabilities	50,000	–50,000	–	–	–	0
Current interest-bearing liabilities	–	74,365	–	–	–332	74,033
Total interest-bearing liabilities	**61,527**	**19,773**	**3,602**	**–786**	**–332**	**83,784**

	PARENT COMPANY					
AMOUNTS IN SEK 000s	Dec 31, 2017	Cash flows	New finance leases	Termination of finance leases	Borrowing costs	Dec 31, 2018
Current interest-bearing liabilities	74,033	49,850	–	–	400	124,283
Total interest-bearing liabilities	**74,033**	**49,850**	**–**	**–**	**400**	**124,283**

	PARENT COMPANY					
AMOUNTS IN SEK 000s	Dec 31, 2016	Cash flows	New finance leases	Termination of finance leases	Borrowing costs	Dec 31, 2017
Long-term interest-bearing liabilities	50,000	–50,000	–	–	–	–
Current interest-bearing liabilities	–	74,033	–	–	–	74,033
Total interest-bearing liabilities	**50,000**	**24,033**	**–**	**–**	**–**	**74,033**

	GROUP AND PARENT COMPANY					
AMOUNTS IN SEK 000s	Within one month	1–3 months	3–12 months	1–2 years	2–5 years	TOTAL
Interest 2018						
Bank loans	0	466	1,398	1,864	2,641	6,370
Interest 2017						
Bank loans	0	277	832	1,110	533	2,752

The credit facility matures on May 23, 2022. In the table, the revolving loan is assumed to continue with unchanged utilization and the current interest rate has been used. For more information about finance leases, see Note 7.

NOTE 29 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
SEK 000s	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
Social security expenses and vacation pay liability	18,023	20,442	15,455	18,418
Other personnel-related costs	21,723	20,687	2,679	4,313
Deferred income/Contract liabilities	111,983	56,334	53,607	15,164
Accrued interest expense	305	43	305	187
Other accrued expenses	20,889	8,553	10,853	7,274
	172,924	**106,058**	**82,899**	**45,356**

NOTE 30 PLEDGED ASSETS AND CONTINGENT LIABILITIES

SEK 000s	Dec 31, 2018	Dec 31, 2017
Pledged assets		
Chattel mortgages	100,000	100,000
Guarantees	6,096	4,199
Total	**106,096**	**104,199**

In May 2017, the company's line of credit was increased from SEK 100 M to SEK 350 M. The credit line expires in May 2022 and comprises a revolving loan facility of up to SEK 300 M, and an overdraft facility of SEK 50 M. Chattel mortgages amount to SEK 100 M.

At December 31, 2018, a short-term loan totaling SEK 124 M (75) had been utilized within the framework of the company's revolving loan facility.

Guarantees amounted to SEK 6.1 M and did not affect the company's credit facility. No contingent liabilities exists for the Group or the Parent Company.

NOTE 31 RELATED-PARTY TRANSACTIONS

For a description of transactions with senior executives, refer to Note 5. The Parent Company had one related-party transaction with its subsidiaries, refer to Note 20.

	SUMMARY PARENT COMPANY				
SEK 000s	Sale of goods/ services to related parties	Purchase of goods/ services from related parties	Dividend paid	Receivables from related parties Dec. 31	Liabilities to related parties Dec. 31
2018	116,405	-61,191	–	298,494	7,911
2017	157,712	-42,553	–	206,508	5,244

Sales to related parties pertain primarily to sales of licenses to foreign subsidiaries and purchases from related parties pertain primarily to purchases of services from foreign subsidiaries. Receivables from related parties pertain primarily to receivables from the US subsidiary.

RaySearch entered into an agreement with the non-profit association Venture Cup, which organizes an annual competition to inspire entrepreneurship and creativity in business. CEO Johan Löf is Chairman of the association and RaySearch sponsors the competition by contributing SEK 1 M per year in exchange for exposure as a partner in Venture Cup's marketing material. This collaboration and the sponsorship fee amount is based on the arm's length principle and accepted commercial terms.

NOTE 32 SIGNIFICANT EVENTS AFTER THE BALANCE-SHEET DATE

SEVERAL ORDERS FOR RAYSTATION IN THE UK

In February 2019, it was announced that RaySearch had secured five orders for RayStation in the UK, with a total order value of SEK 48 M.

NOTE 33 PROPOSED ALLOCATION OF THE PARENT COMPANY'S PROFIT

The following is at the disposal of the AGM:

SEK 000s	
Retained earnings	211,283
Profit for the year	3,709
Dividend paid	–
Total	**214,992**

The Board and CEO propose that SEK 214,992,000 be carried forward.

The undersigned certify that the annual report and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, and with generally accepted accounting practices, and give a true and fair view of the financial position and results of the Group and the Parent Company and that the Administration Report provides a fair overview of the development of the Group's and the Parent Company's operations, financial position and results, as well as a fair description of significant risks and uncertainties faced by the companies included in the Group. The annual report and consolidated financial statements were approved for issue by the Board of Directors on April 26, 2019. The consolidated statement of comprehensive income and consolidated statement of financial position, and the Parent Company income statement and balance sheet will be submitted to the AGM for adoption on May 21, 2019.

Stockholm, April 26, 2019

Johan Löf
CEO and Board member

Carl Filip Bergendal
Chairman of the Board

Britta Wallgren
Board member

Hans Wigzell
Board member

Johanna Öberg
Board member

Our audit report was submitted on April 26, 2019

Ernst & Young AB

Anna Svanberg
Authorized Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of RaySearch Laboratories AB (publ), corporate identity number 556322-6157

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of RaySearch Laboratories AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 4-43 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Revenue from contracts with customers

Description

Revenue from contracts with customers totals 627 218 TSEK in the consolidated statement of comprehensive income, and 466 157 TSEK in the parent company income statement, for the year 2018.

Recognition of revenue from contracts with customers requires that the company has adequate routines to identify performance obligations, and to ensure that revenue is recognized as these performance obligations are performed. Revenue recognition connected to contracts that encompass multiple performance obligations requires, in certain cases, that management makes judgments regarding the allocation of the transaction price between different performance obligations based on the comparable selling price for the respective performance obligations. The recognition of revenue from contracts with customers was a key audit area due to the significance of the reported amounts, and due to the involvement of significant judgment by the company.

A description of the judgments on which revenue recognition is based is provided under the section "Significant judgments and estimates" under Note 1, and disclosures regarding the distribution of revenue are provided under Note 3.

How our audit addressed this key audit matter

We have reviewed the company's processes for revenue recognition, and performed testing of contracts with customers on a sample basis. Our audit procedures have encompassed review of the identification of performance obligations, and the allocation of the transaction price between these. We have also assessed the reasonableness of the judgments on which the allocation of the transaction price is based.

We have also performed procedures to review whether the performance obligations which were identified have been performed. These audit procedures have encompassed determining whether license keys, as well such equipment as is necessary to use the company's products, have been transferred to the company's customers.

We have reviewed disclosures made in the annual report.

Capitalized development costs

Description

Capitalized development costs of 376 914 TSEK are recorded in the consolidated statement of financial position as of 31 December 2018. RaySearch tests at least annually, and on indication of impairment, that recorded values do not exceed calculated recoverable values for assets which the company has not yet started using.

A description of the judgments on which the reporting of capitalized development costs for the group is based is provided under the section "Significant judgments and estimates" under Note 1. The impairment tests which are performed are based on management's judgments, and for this reason capitalized development costs is considered a key audit matter. A description of the impairment test is provided under Note 17.

How our audit addressed this key audit matter

In our audit we have assessed management's process for performing the impairment test, which has encompassed evaluating the historical precision of forecasts and assumptions.

We have, with the support of our valuation specialists, reviewed the company's model and method for performing the impairment test, and have performed sensitivity analyses of key assumptions and possible factors which could affect these. With the support of our valuation specialists we have also assessed the reasonableness of assumptions regarding discount rate and long-term growth.

We have reviewed disclosures made in the annual report.

Receivables towards customers

Description

Receivables towards customers of 454 354 TSEK are recorded in the consolidated statement of financial position as of 31 December 2018, and consists of invoiced receivables of 276 473 TSEK as well as uninvoiced receivables of 177 881 TSEK.

Receivables towards customers of 228 920 TSEK (excluding intragroup receivables) are recorded in the parent company balance sheet as of 31 December 2018, and consists of invoiced receivables of 127 24 TSEK as well as uninvoiced receivables of 101 696 TSEK.

The amounts reported for the consolidated accounts and the parent company are reported net reserves for credit losses of 15 062 TSEK. The reserves for expected credit losses are subject to significant estimation and judgments by management, and consequently receivables towards customer has been determined to be a key audit matter. A description of the key inputs on which managements judgments are based is provided under the section "Significant judgments and estimates" under Note 1, and disclosures regarding receivables towards customers are provided under Note 22.

How our audit addressed this key audit matter

In our audit we have assessed management's process for estimating reserves for expected credit losses, which has encompassed evaluating the historical precision of forecasts and assumptions, receipt of external confirmations of outstanding receivables from the company's customers at the balance sheet date, and review of routines for collection of accounts receivables and the treatment of bad debt.

We have reviewed disclosures made in the annual report.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-3 and 48-68. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of RaySearch Laboratories AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

Basis for opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Ernst & Young AB, Jakobsbergsgatan 24, 111 44, Stockholm, was appointed auditor of RaySearch Laboratories ABs (publ) by the general meeting of the shareholders on the 30 May 2018 and has been the company's auditor since the 22 May 2013.

Stockholm 26 April, 2019
Ernst & Young AB

Anna Svanberg
Authorized Public Accountant

CORPORATE GOVERNANCE REPORT

GENERAL

RaySearch is a Swedish public limited liability company with its registered office in Stockholm, and the company's Class B shares have been admitted to trading on Nasdaq Stockholm. This means that RaySearch's corporate governance is based on Swedish legislation, primarily the Swedish Companies Act, the Swedish Annual Accounts Act and applicable EU regulations, and Nasdaq Stockholm's Rule Book for Issuers. RaySearch also applies the Swedish Corporate Governance Code ("the Code"), with the exceptions set out below. The aim of the Code is to build confidence in Swedish listed companies by promoting good corporate governance in these companies. The current Code is available at www.bolagsstyrning.se

Companies that apply the Code must take an active position on the company's approach to the various provisions of the Code. If a company chooses to deviate from the Code's provisions, this must be reported in accordance with the "comply or explain" principle. This means that the company does not have to follow every provision of the Code but can choose other solutions deemed more appropriate under the given circumstances, provided that the company openly states any such deviation, describes the solution it has chosen instead, and provides a good explanation. The size and complexity of companies applying the Code are varied and for individual companies, solutions other than the Code may also ensure good corporate governance. RaySearch is a relatively small company with a clear majority shareholder who is also active as the CEO of the company. In most cases, this is the reason why RaySearch has chosen to deviate from some of the Code's provisions.

In addition to the external regulatory framework, there is an internal framework with a number of Group-wide governing documents, of which the most important are the Articles of Association as adopted by the AGM, the Board's rules of procedure and the Board's instructions for the CEO. In addition, there is a large number of internal policies, instructions and delegations that clarify responsibilities and powers within various areas. RaySearch's most important governing documents are gathered in the company's quality management system, which also describes the company's main processes and joint working methods.

RaySearch submits Corporate Governance Reports in connection with the submission of annual reports for each fiscal year. The company's auditor has read and performed a statutory review of this Corporate Governance Report.

GENERAL MEETING

The General Meeting is the company's supreme decision-making body. The date and location of the Annual General Meeting (AGM) is announced in connection with the third-quarter report and is simultaneously published on the company's website. Following motions by the shareholders, the Board of Directors and Chairman of the Board are elected at the AGM for a term of office until the close of the following AGM. Based on the Board's proposals, a Meeting Chairman and audit firm are elected. The AGM is to be held within six months of the end of the fiscal year to resolve on matters including adoption of the income statement and balance sheet, and the allocation of profit. There are no special provisions regarding the function of the AGM in either the Articles of Association or, to the knowledge of RaySearch, in shareholder agreements. Nor are there any provisions in the Articles of Association regarding the appointment and dismissal of Board members, or amendments to the Articles of Association.

RaySearch may issue two classes of shares: Class A and Class B. RaySearch's Articles of Association do not contain any restrictions on how many votes each shareholder may cast at a general meeting. When voting at the AGM, each Class A share carries ten votes and each Class B share carries one vote. At December 31, 2018, the total number of shares in RaySearch was 34,282,773, comprising 8,454,975 Class A and 25,827,798 Class B shares, and the total number of votes was 110,377,548. Shareholders representing 65.5 percent of the total number

THE BOARD'S INDEPENDENCE

Name	Position	Independent in relation to the company	Independent in relation to shareholders with at least 10% of voting rights
Carl Filip Bergendal	Board member, Chairman	Yes	Yes
Johan Löf	Board member	No, CEO of the company	No (is personally such a shareholder)
Britta Wallgren	Board member	Yes	Yes
Hans Wigzell	Board member	Yes	Yes
Johanna Öberg	Board member	Yes	Yes

OWNERSHIP STRUCTURE – SHAREHOLDERS WITH AT LEAST 10% OF TOTAL VOTES

Name	Class A shares	Class B shares	Total shares	Share capital %	Votes, %
Johan Löf	6,243,084	618,393	6,861,477	20.0	57.1
Anders Brahme	1,150,161	200,000	1,350,161	3.9	10.6
Others	1,061,730	25,009,405	26,071,135	76.0	32.3
Total	**8,454,975**	**25,827,798**	**34,282,773**	**100.0**	**100.0**

of shares and 79.9 percent of the total number of votes in the company participated in RaySearch's AGM on May 30, 2018 in Stockholm, Sweden.

AUTHORIZATIONS PROVIDED BY THE AGM

The AGM has not currently authorized the Board to make decisions regarding a new issue of shares or a repurchase of own shares.

NOMINATION COMMITTEE

The company deviates from the rules of the Code by not appointing a Nomination Committee. In view of the shareholders' composition, a Nomination Committee has not been considered necessary. Proposals for, and the required information about, the Chairman of the Meeting, Board members, Chairman of the Board, audit firms and fees paid to Board members and audit firms, have instead been submitted by shareholders and the Board.

BOARD OF DIRECTORS

Under the Articles of Association, RaySearch's Board shall comprise no fewer than three and no more than eight members, with no more than three deputies. The company's Board of Directors is responsible for the company's organization and management of the company's affairs and, together with the CEO and company management, defines and continuously supervises the company's vision, mission and values. The role of the Chairman of the Board includes leading the Board's work and ensuring that the Board of Directors fulfills its duties.

At the AGM on May 30, 2018, five Board members were elected without deputies, including the Chairman of the Board, until the close of the 2019 AGM. Carl Filip Bergendal was reelected Chairman. Board members Johan Löf (also the CEO), Hans Wigzell and Johanna Öberg were also reelected. Britta Wallgren was elected new Board member. The Board meets the Code's independence criteria for Board members. Once each fiscal year, the Board undertakes an evaluation of its own performance using a systematic and structured process. The evaluation provides a basis for the Board's future work. The Board also evaluates the CEO's performance and instructions regularly, at least once annually, but in this respect the company deviates from rule 8.2 of the Code's provisions by allowing the CEO to participate in the evaluation. The reason being that the CEO is a Board member, and the Board believes that the CEO's participation will not have a negative effect on the evaluation.

Those shareholders (representing approximately 67 percent of the voting rights in the company) who submitted a proposal for the composition of the Board prior to the 2018 AGM applied rule 4.1 of the Corporate Governance Code as a diversity policy. The aim of the policy is that the Board should be characterized by versatility and breadth in terms of the skills, experience and background of the AGM-elected members with consideration for the company's operations, phase of development and otherwise appropriate composition, and strive to achieve an even gender distribution. The 2018 AGM resolved in accordance with the submitted proposal, whereby the Board as of the 2018 AGM has consisted of five members (four reelected and one newly elected), of whom two members were women (40 percent women). The members also have a broad mix of professional backgrounds and skills, and represents various sectors of the business community.

THE BOARD'S WORK IN 2018

The Board's work is governed by a formal work plan that is adopted annually and regulates such issues as the decision-making structure in the company, the Board meeting schedule and the duties of the Chairman. The Board as a whole addresses internal control issues that are its responsibility. In addition, the company's auditor personally reports their review observations to the Board every year. The Board held eight meetings during the year, three of which were per capsulam. The attendance of the members is presented below. Considering the size of the Board, it was not deemed necessary to introduce a separate delegation of duties among Board members.

The Board has considered the need to establish Remuneration and Audit Committees, but found it more appropriate that these tasks be carried out by the Board in its entirety under the leadership of the Chairman. The reason being that the size of the Board and the company is not deemed to motivate special committees for these duties, and that it is important that the Board has full insight into, and takes an active role in, these important tasks.

The Board determines the CEO's remuneration (without the CEO's participation). The remuneration of other senior management is determined following negotiations between the CEO and the individual employees, based on the guidelines adopted by the AGM. Application of the guidelines is monitored and evaluated by the Board, which also evaluates the variable remuneration of senior management.

ATTENDANCE AT BOARD MEETINGS 2018

Name	Attendance at Board meetings
Carl Filip Bergendal	8/8
Johan Löf	7/8
Britta Wallgren	5/8[1]
Hans Wigzell	8/8
Johanna Öberg	8/8

1 Britta Wallgren was appointed new Board member by the 2018 AGM, and participated in all subsequent Board meetings.

MAJOR DIRECT OR INDIRECT SHAREHOLDINGS

Shareholders with a direct or indirect shareholding in RaySearch who represent at least one-tenth of the votes in the company are presented in the table on the preceding page.

COMPANY MANAGEMENT

RaySearch's CEO leads the operations based on the framework established by the Board and appoints other members of senior management. At the end of 2018, RaySearch's senior management consisted of the CEO, Deputy CEO, CFO, Director of Research, Director of Development, Director of Sales and Marketing, Director of Sales for Asia & Pacific, Director of Service and the General Counsel.

During the year, business briefings under the CEO's leadership were conducted at least monthly, except during holiday periods when they occurred less frequently.

Company management also meets representatives of the US and European sales and marketing organizations on a regular basis, mainly through the CEO and Director of Sales and Marketing, respectively, to monitor and evaluate the Group's operations in their entirety. Monitoring is based on the Group's annually established targets and budgets, including RaySearch's strategies, short and long-term targets, operational objectives, competitor analyses, and so forth. The Board is continuously informed about senior management's monitoring and evaluation measures.

INTERNAL CONTROL AND RISK MANAGEMENT

The role of the Board is to ensure that RaySearch has sound internal control and continuously remains informed of, and evaluates, the effectiveness of the company's internal control system. In view of the company's limited size and operational structure, the Board, in its annual assessment of the possible need for a separate function to review the company's internal financial controls, has concluded that there is no need for an internal audit function.

The control environment underlies all other components of RaySearch's internal control and risk management. In order to create and maintain a functioning control environment for financial reporting, the Board has established a number of basic documents, including special rules of procedure for the Board and instructions for the CEO. The Board has delegated responsibility for maintaining the Board's control environment framework to the CEO. The CEO submits regular reports on the business situation and financial performance in relation to the budget and forecast to the Board and senior management. In addition, reports are also submitted by RaySearch's auditor. The internal control also builds upon a management system based on RaySearch's organization and manner of conducting business with clearly defined roles and areas of responsibility, and delegated authority. RaySearch has also documented the division of responsibilities within the organization through policies and instructions. RaySearch is a process-oriented company and has integrated risk assessment with business processes. RaySearch's senior management regularly assesses risks of material misstatement of the financial statements, as well as other operational risks. Risk management is also incorporated into each process and systematic methods are used to assess and mitigate risks, and to ensure that risks linked to the company's operations are managed in accordance with established regulations, instructions and monitoring procedures.

RaySearch's control structure includes clear roles and an effective delegation of responsibilities aimed at timely prevention of the risk of material misstatement of the financial statements. Company management has been tasked with implementing, further developing and maintaining the company's control structure. Process managers at various levels are responsible for the implementation of controls in respect of financial reporting. The closing accounts and reporting processes include checks in respect of valuations, reporting principles and estimates. RaySearch's CFO plays a key role in the internal control process by ensuring that financial reporting is accurate, timely and complete.

RaySearch has information and communication systems and processes to ensure complete and accurate financial reporting. The relevant employees are regularly informed about changes in accounting policies and reporting requirements or other information. The Board receives regular financial statements. External information and communication is governed by RaySearch's information policy, which describes the company's general principles for providing information. The Board and executive management monitor RaySearch's compliance with adopted policies and guidelines. RaySearch's financial situation is addressed at all scheduled Board meetings. The Board and management review the financial reporting before Interim and Annual Reports are published. The auditor's duties also include an annual review of RaySearch's internal control, and a review of half-yearly and nine-monthly interim reports. Under the Code, the Board is to meet the company's auditor at least once annually, without the attendance of the CEO or any other members of company management. However, this did not happen in 2018 because the CEO, who is also a Board member, was present on every occasion when the Board met the company's auditor. The reason for the deviation (from rule 7.5 of the Code) is that the Board did not consider it necessary to meet the auditor without the CEO.

FURTHER INFORMATION

For more information about the Board and the CEO, refer to pages 52–53 and to Note 5 in the Annual Report. For more information about the auditors, refer to page 52 and Note 6 in the Annual Report.

Stockholm, April 26, 2019

Carl Filip Bergendal
Chairman of the Board

Johan Löf
CEO
and Board member

Britta Wallgren
Board member

Hans Wigzell
Board member

Johanna Öberg
Board member

AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF RAYSEARCH LABORATORIES AB, CORPORATE IDENTITY NUMBER 556322-6157

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors who is responsible for the corporate governance statement for the year 2018 on pages 48–51 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

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

OPINIONS

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

Stockholm 26 April 2019

Ernst & Young AB

Anna Svanberg
Authorized Public Accountant

BOARD AND AUDITORS

1. JOHAN LÖF

CEO. Member of the RaySearch Board since 2000.
Other significant assignments: Chairman of RaySearch Americas Inc., Chairman of RaySearch UK Ltd., Chairman of the RayFoundation profit-sharing foundation and Chairman of Venture Cup Sweden.
Year of birth: 1969.
Educational background: M.Sc. in Engineering Physics from the Royal Institute of Technology and Ph.D. from the Department of Medical Radiation Physics at the Department of Oncology-Pathology, Karolinska Institute. As a doctoral student, he worked with mathematical models for optimization of radiation therapy and also developed the prototype for ORBIT.
Professional experience: President and CEO of RaySearch since 2000.
He is not an independent Board member in relation to RaySearch or in relation to major shareholders in the company.
Shareholding: 6,243,084 Class A and 618,393 Class B.

2. CARL FILIP BERGENDAL

Board member of RaySearch since 2000 and Chairman of the Board from November 2016.
Other significant assignments: Board member of Cafibe AB.
Year of birth: 1945.
Educational background: M.Sc. in Engineering Physics from the Royal Institute of Technology and MBA from the Stockholm School of Economics.
Professional experience: A number of senior positions in the Modo Group (1972-1980) and the medical technology company Stille-Werner (1980-1987), with the two final years as CEO. He has worked since 1988 as a certified process manager in Lots® and in this role has also provided support for managers in large and mid-size companies undergoing restructuring processes.
Independent Board member in relation to RaySearch and in relation to major shareholders in the company.
Shareholding: 1,061,577 Class A and 144,920 Class B.

3. HANS WIGZELL

Member of the Board of RaySearch since 2004. Professor emeritus at the Karolinska Institutet in Solna.
Other significant assignments: Chairman of the Board of Rhenman & Partners Asset Management AB. Board member of Karolinska Development AB, Sarepta Pharmaceuticals AB, Cadila Pharmaceuticals Svenska AB and Wigzellproduktion AB.
Year of birth: 1938.
Other assignments: Chairman of the Stockholm School of Entrepreneurship. Member of the Royal Swedish Academy of Science and the Academy of Engineering Science.
Educational background: Doctor of Medicine.
Professional experience: Dean of Karolinska Institutet, 1995-2003.
Independent Board member in relation to RaySearch and in relation to major shareholders in the company.
Shareholding: 0.

4. JOHANNA ÖBERG

Board member of RaySearch since 2017.
Other significant assignments: Board member of Coala Life AB and The Grand Group AB.
Year of birth: 1975.
Educational background: Graduate in Business Management from the Stockholm School of Economics.
Professional experience: Johanna is currently President and CEO of Memira. She has held several senior management positions in the media industry over the past 20 years, including 10 years with the Kinnevik Group, for both MTG and the world's largest newspaper Metro, where she served as CEO of Metro Puerto Rico. She was CEO of Stampen Media from January 2015 to April 2017.
Independent Board member in relation to RaySearch and in relation to the company's majority shareholders.
Shareholding: 340 Class B shares.

5. BRITTA WALLGREN

Board member of RaySearch since May 2018.
Other significant assignments: Board member of Stadsmissionen
Year of birth: 1963
Educational background: Registered medical practitioner, specialist in anesthesiology and intensive care. Leadership training in health and medical care at the Stockholm School of Economics and Harvard Business School.
Professional experience: Country President of Capio in Sweden since 2017 and member of Group Executive Committee of Ramsay General de Sante since February 2019. Business Area Manager of Capio S:t Görans Hospital 2009-2017. Head of Clinic for Anesthesiology and Intensive Care, Medical Director of Clinic for Anesthesiology and Intensive Care, Capio S:t Görans Hospital, Stockholm. Anesthetist Capio S:t Görans Hospital.
Independent Board member in relation to RaySearch and in relation to major shareholders in the company.
Shareholding: 5,000 Class B and 2,000 Class B via related parties

AUDITOR

Auditing firm Ernst & Young AB
Anna Svanberg (auditor-in-charge)
Auditor of RaySearch Laboratories AB.
Authorized Public Accountant, Ernst & Young AB.
Year of birth: 1976
Auditor for Feelgood Svenska AB (publ), Calliditas Therapeutics AB (publ), Bluefish Pharmaceuticals AB (publ), Universal Music AB, Benify AB and others.


1.


2.


3.


4.


5.

MEET OUR SENIOR MANAGEMENT

LARS JORDEBY
DIRECTOR OF SALES FOR ASIA & PACIFIC

NICLAS BORGLUND
DIRECTOR OF SERVICE

KJELL ERIKSSON
CHIEF SCIENCE OFFICER

JOHAN LÖF
CEO

BJÖRN HÅRDEMARK DEPUTY CHIEF EXECUTIVE OFFICER	**PETER KEMLIN** DIRECTOR, SALES AND MARKETING	**PETER THYSELL** HEAD OF FINANCE	**HENRIK FRIBERGER** DIRECTOR OF DEVELOPMENT	**PETRA JANSSON** SENIOR LEGAL COUNSEL

Senior executives, previous spread (from left).

1. KJELL ERIKSSON, CHIEF SCIENCE OFFICER

Year of birth: 1973.
Educational background: M.Sc. in Engineering Physics from Uppsala University.
Professional experience: Kjell was appointed Chief Science Officer in RaySearch in 2015. He was first employed in 2001 as a developer and has worked as a Research Engineer since 2003.
Shareholding: 24,000 Class B shares.

2. PETER KEMLIN, DIRECTOR OF SALES AND MARKETING

Year of birth: 1974
Educational background: M.Sc. in Industrial Engineering from Chalmers University of Technology.
Professional experience: For the greater part of his career, Peter has worked in the medical technology sector as a consultant working for Swedish hospitals in order to implement cost-effective procurements as well as with sales and marketing, primarily in the radiation therapy business. In his role as Trade Commissioner at the Swedish Trade Council, he also established a large number of Swedish companies in new markets. Employed at RaySearch since 2012.
Shareholding: 300 Class B shares (and 1,098 via related parties)

3. PETRA JANSSON, GENERAL COUNSEL

Year of birth: 1973.
Educational background: Law degree from Lund University and Master of Law from the University of Cambridge.
Professional experience: Petra Jansson was appointed General Counsel in July 2017. Petra recently served as General Counsel at EKN. Her previous positions include Deputy General Counsel at Gambro and a lawyer at Mannheimer Swartling.
Shareholding: 1,000 Class B shares.

4. PETER THYSELL, HEAD OF FINANCE

Year of birth: 1970.
Educational background: Graduate in Business Management from the Stockholm School of Economics.
Professional experience: Before joining RaySearch in March 2015, Peter worked as IPO Leader and acting Director Business Control for Scandic Hotels. Prior to that, he was Interim CFO of Åkers AB, CEO of SiC Processing GmbH, CFO of Generic Sweden AB (publ) and a management consultant at McKinsey & Co.
Shareholding: 1,000 Class B shares.

5. JOHAN LÖF, CEO

Year of birth: 1969.
Member of the RaySearch Board since 2000.
Other directorships: Chairman of RaySearch Americas Inc., Chairman of RaySearch UK Ltd., Chairman of Vinstandelsstiftelsen RayFoundation and Chairman of Venture Cup Sweden.
Educational background: M.Sc. in Engineering Physics from the Royal Institute of Technology and Ph.D. from the Department of Medical Radiation Physics at the Department of Oncology-Pathology, Karolinska Institute. As a doctoral student, he worked with mathematical models for optimization of radiation therapy and also developed the prototype for ORBIT.
Professional experience: CEO of RaySearch since 2000.
Shareholding: 6,243,084 Class A and 618,393 Class B shares.

6. BJÖRN HÅRDEMARK, DEPUTY CEO

Year of birth: 1977.
Educational background: M.Sc. in Engineering Physics from the Royal Institute of Technology in Stockholm. Received an award for academic excellence in 2003.
Professional experience: Björn Hårdemark wrote his thesis at RaySearch in 2002 and has since held positions as Research Engineer, System Developer, Physicist, Head of Physics and Chief Science Officer.
Shareholding: 18,000 Class B shares.

7. HENRIK FRIBERGER, DIRECTOR OF DEVELOPMENT

Year of birth: 1971.
Educational background: M.Sc. in Electronics from the Royal Swedish Institute of Technology. Human Physiology, one-term course at Karolinska Institutet.
Professional experience: After graduating in 1997, Henrik Friberger worked as a software developer at Pacesetter AB (later St Jude Medical AB) in the field of pacemaker systems until he joined RaySearch in 2001. Since that time, he has worked with software development and team and project management, and has also managed one of the groups in the development department. He has served as Director of Development since 2013.
Shareholding: 23,799 Class B shares.

8. LARS JORDEBY, DIRECTOR OF SALES FOR ASIA & PACIFIC

Year of birth: 1965.
Professional experience: 20 years of experience from sales and marketing within radiation therapy in such companies as Scanditronix Medical AB, IBA Dosimetry AB, C-RAD AB and ScandiDos AB. His various positions include direct sales and sales management in markets including Europe, Asia and North America. He is also one of the founders and partners of the company ScandiNova Systems AB.
Shareholding: 1,800 Class B shares.

9. NICLAS BORGLUND, DIRECTOR OF SERVICES

Year of birth: 1971.
Educational background: Doctor of Physics, Stockholm University.
Professional experience: After completing his doctoral studies, Niclas Borglund worked at Savantic AB as a technical consultant, mainly with software development in high-tech projects. He joined RaySearch in 2006 as project manager in the development department. Director of Service since 2010.
Shareholding: 400 Class B shares.

SUSTAINABILITY REPORT 2018

SUSTAINABLE VALUE CREATION

Sustainability is a key aspect of RaySearch's strategy and operations, and the company is working actively to become a sustainable enterprise.

The primary aim of RaySearch's operations is to help cancer centers improve and save the lives of cancer patients. That is the underlying driver of everything that we do. With our innovative software solutions, we are continuously striving to improve and streamline workflows in clinical environments and to improve treatment outcomes for cancer patients. The customer value we create presents business opportunities for RaySearch, but also major social benefit and economic gains. RaySearch is ultimately contributing to improving, prolonging and saving the lives of more cancer patients.

FOCUS ON FIVE KEY ISSUES

Sustainability has been integrated into RaySearch's activities for several years. To succeed with our vision of "a world where cancer is conquered", skilled and committed employees, trusting collaboration with strategic partners, and responsible and sustainable business are critical. Read more about RaySearch's business model on page 1.

In 2017, we began to apply a more structured approach to sustainability and in 2018, RaySearch conducted a materiality assessment to identify the most material topics for the company. The materiality assessment was based on the Global Reporting Initiative's (GRI) guidelines to identify and prioritize the company's most important sustainability topics, and to validate the process and results. The identification of sustainability topics that can reasonably be considered material for RaySearch was based on the actual impact of our operations on the environment, people, society and the economy.

An ongoing dialog with the company's stakeholders is a key component of the materiality assessment and during this process, we approached a range of stakeholder groups, that in various ways are part of, or impacted by, our business in order to include their needs, wishes and expectations. The stakeholder dialog was conducted with customers (cancer centers and hospitals that treat patients), employees, investors and shareholders, business partners, distributors, suppliers, regulators, policy makers and industry organizations.

The materiality assessment and the results of the stakeholder dialog were presented to management, which validated the results. This led to five strategic focus areas, all within the framework of RaySearch's core business:

- Fight cancer with innovative software solutions
- Patient and product safety
- Business ethics and anti-corruption
- Resource efficiency to reduce environmental impact
- Attractive employer – committed employees in an innovative culture

Efforts to define levels of ambition, targets and metrics linked to the identified sustainability topics commenced in 2018 and will continue in 2019. This work has been concentrated to the area of "Fight cancer with innovative software solutions," which is the sustainability aspect for which RaySearch believes the company has the greatest potential to make a difference.

As part of the materiality assessment, RaySearch assessed the company's risks and opportunities across the entire value chain. A description of the primary risks and how RaySearch manages these risks can be found in "Risks and risk management" on pages 9-10.

FIGHT CANCER WITH INNOVATIVE SOFTWARE SOLUTIONS

RaySearch's operations contribute directly to the Sustainable Development Goals because we, together with our customers, can improve, extend and save the lives of more cancer patients. We do this by continuously striving to improve cancer care with innovative, safe and efficient software solutions. These solutions can also significantly reduce the global economic impact of cancer.

3 GOD HÄLSA OCH VÄLBEFINNANDE

Sustainable Development Goal 3.4

By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being.

LEADING INNOVATION IN COLLABORATION

With our innovative software solutions, we are continuously striving to improve treatments and streamline workflows in clinical environments and to improve treatment outcomes for cancer patients. Our innovation focus, where more than 50 percent of our employees are engaged in research and development, is crucial to helping cancer centers improve quality of life for their patients. It is also a prerequisite for us to be commercially successful and to create value for our shareholders

Collaboration and strategic partnerships are also crucial to our ability to develop the best, safest and most efficient software solutions together with our business partners – both leading medical device suppliers and leading cancer centers. Our development model is based on partnerships with leading clinics and provides ideal conditions for success by combining their extensive clinical knowledge and resources with RaySearch's ability to develop innovative software solutions. To ensure that we meet the real needs of these clinics, RaySearch's development activities are conducted in close collaboration with leading cancer centers, including the Princess Margaret Cancer Centre, Canada, the University of California, San Francisco, MD Anderson and the University of Wisconsin-Madison in the US, Heidelberg University Hospital in Germany, the University Medical Center Groningen in the Netherlands and the radiation therapy department of the Iridium Kankernetwerk in Belgium.

DIGITALIZATION AND MACHINE LEARNING ARE DRIVING DEVELOPMENT

Digitalization and machine learning are contributing to a range of efficiency enhancement in cancer care and impacting our development of tomorrow's information systems and treatment solutions. Machine learning is closely aligned with our goals for RaySearch's software, and we have taken key steps forward by establishing a separate department for machine learning. This technology will play a key role in our future solutions and enable more intelligent systems with a new level of automation-led efficiency and the capacity to use data to improve decision-making.

PATIENT AND PRODUCT SAFETY

Patient safety is always our highest priority

Patient safety and product safety permeate all of RaySearch's operations and are a prerequisite for being a leading medical software manufacturer. RaySearch must comply with rigorous regulatory requirements from all markets in which it operates, such as the EU's current and forthcoming Medical Device Directive, the FDA's Quality System Regulations for medical devices and the Japanese Regulatory Framework for Medical Devices.

RaySearch's commitment to patient and product safety is secured by a robust quality management system that is audited annually, both internally and externally, by multiple organizations. The system is certified according to ISO 13485:2016 – the internationally agreed standard that sets out the requirements for a quality management system specific to the medical devices industry. The quality management system is certified by external regulators for all markets affiliated with the MDSAP (Medical Device Single Audit Program) framework.

All our software complies with the ISO 14971, IEC 61217, 62083, 62274, 62304 and 62366 standards, as well as multiple communication standards for interconnectivity between medical devices. This contributes to our high level of patient safety, while also facilitating collaboration with new and existing partners by simplifying integration with their systems.

RaySearch monitors the number of patient safety incidents every year, and sends safety announcements to the market when needed. These are also reported to the databases of all relevant authorities. We are proud of our product safety efforts and, since patient safety is always our highest priority, we would rather issue one message too many that one message too few.

BUSINESS ETHICS AND ANTI-CORRUPTION

Responsible business the key to success

High ethical standards and a transparent and proactive approach are fundamental to RaySearch's pursuit of a long-term sustainable and profitable business operation that can grow and develop, and to build RaySearch's brand.

All internal relationships as well as relationships with customers, business partners and other stakeholder groups should be characterized by responsible, ethical and sound business principles.

RaySearch follow all applicable local and international laws and rules, and the company does not tolerate any form of corruption, including bribery, fraud and anti-competitive practices, or violation of human rights. How RaySearch works with respect for human rights is set out in RaySearch's Code of Conduct and described under "Attractive employer."

RAYSEARCH'S CODE OF CONDUCT

RaySearch's Code of Conduct provides a framework for what RaySearch considers responsible and sustainable behavior, and defines the company's principles and policies for business ethics. The Code of Conduct was adopted by the Board at the end of 2017 and subsequently implemented in our quality management system in early 2018. The Code of Conduct has been adapted for RaySearch's operations and is based on the Universal Declaration of Human Rights, the ILO Conventions, the UN Guiding Principles on Business and Human Rights, the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the Swedish Corporate Governance Code. The Code of Conduct covers all employees, Board members, independent consultants and other people acting on behalf of RaySearch. It is available to all employees on the intranet and is included in the introductory manual that all employees are to read when their employment commences. The Code of Conduct is also a key component of RaySearch's Compliance Program Training (online) which all employees undergo every year.

COLLABORATION WITH EXTERNAL DISTRIBUTORS

RaySearch conducts business activities in several geographic markets where corruption is both a risk and a real hinder to development and growth. There is also a clear link between countries with widespread corruption and lack of respect for human rights. In markets where RaySearch does not have its own sales organization, the company works with external distributors. This business model place high demands on internal strategies and processes to identify and prevent corruption risks. In 2017, a process commenced to ensure effective due diligence using internal and external tools, as well as a certification process for customers and external partners. In 2018, extra focus was devoted to relationships with business partners in complex markets. As part of RaySearch's Business Partner Background Check and Customer Screening Procedure, our Code of Conduct is distributed to business partners and customers in some high-risk countries every year, together with the requirement to sign our Code of Conduct Compliance Form.

RaySearch monitors its business ethics measures by reporting the number of confirmed corruption incidents and actions taken during the year, as well as the number of legal disputes in regard to anti-competitive practices. In 2018, there were no confirmed corruption incidents or legal disputes in regard to anti-competitive practices.

RESOURCE EFFICIENCY TO REDUCE ENVIRONMENTAL IMPACT

RaySearch's software contributes to improved treatment outcomes and higher resource efficiency in cancer care in terms of time, quality, costs and materials. Our software can, for example, increase the performance and lifespan of radiation therapy devices, which means that cancer centers that want to improve their treatments are not dependent on changing to the latest hardware. They can achieve similar positive outcomes by choosing RayStation for their treatment planning.

Our oncology information system, RayCare, also provides powerful tools for automating and creating more efficient workflows, as well as optimizing resource utilization for cancer centers.

RaySearch's own environmental and climate-change impact is limited and mainly derived from electricity for running employees' computers and heating premises, from transportation and business travel. RaySearch aims to contribute to sustainable development and therefore works actively to improve the company's environmental performance wherever this is financially viable. For example, most of RaySearch's employees are based in environmentally certified premises located centrally in Stockholm, that are easy to reach by public transport or other sustainable methods of transport. The company also uses modern communication equipment to reduce the need for business travel.

ATTRACTIVE EMPLOYER – COMMITTED EMPLOYEES IN AN INNOVATIVE CULTURE

Using their ability to fight cancer

As an employer, we strive to create a good workplace that supports both professional and personal development and promotes health and well-being.

RaySearch's key assets include our highly talented employees, and our open and innovative company culture. Both are central to succeeding in our mission to "fight cancer with code." Employees at Research have a very high level of academic education. 97 percent of the company's employees have a university degree, and in the research and development department, where more than half of the company's employees work, over one in six employees holds a doctoral degree.

STRONG COMPANY CULTURE WITH A MEANINGFUL MISSION

All employees at RaySearch should feel they are contributing to a meaningful and vital mission – to fight cancer with RaySearch's innovative software solutions. Our shared values – Innovation, Trust, Quality – express what is important in order to be a successful company and a world-class workplace. They help us to focus on the right things, on what makes a real difference for cancer patients, in our day-to-day work and in everything that we do. Employment at RaySearch should also lead to personal development with opportunities for a long-term career.

ORGANIZATION UNDERGOING CONTINUED STRONG GROWTH

RaySearch continues to grow. In 2018, 67 new employees were recruited and our growth was particularly strong in the US. One key initiative in 2018 was the introduction of a digital recruitment system, to improve the efficiency and quality of the recruitment process, save time for recruiting managers and improve the candidate experience. One focus area during the year was the recruitment of junior employees to increase diversity and contribute to new perspectives in the company. At year-end, the total number of employees in the RaySearch Group was 295, of whom 220 were based at the head office in Stockholm, and 75 in the international subsidiaries across ten countries in Europe, the US and Asia. This represented a year-on-year increase of 15 percent. In addition to full and part-time employees, RaySearch also engaged some 20 consultants in 2018.

The large number of new employees also imposed demands on a good introduction at the commencement of employment. All managers focused on bringing new employees into the team and becoming part of RaySearch's culture in a positive way. These efforts also involved benefiting from the knowledge and support of more experienced colleagues. Employees at our subsidiaries in Europe and Asia always travel to Stockholm for an introduction to enable faster integration with the company and our culture, and we arrange a global conference every year for all employees from all companies in Stockholm.

By working actively with initiatives to retain employees, RaySearch has succeeded in maintaining a low employee turnover: 8.6 percent for permanent employees in 2018, compared with a 15-percent average for the Swedish IT industry.

DIVERSITY IN THE WORKPLACE

RaySearch operates in a global market, which is reflected by the diversity of our employees. In 2018, RaySearch's employees represented 24 different nationalities. This is a strength for both the business and the work environment. Employees with diverse backgrounds, experience and perspectives are important for bringing new ideas and approaches, as well as in communication with our customers all over the world. It is also significant for attracting and retaining employees.

At RaySearch, we treat each other with respect. This is a basic premise for diversity in the workplace where every individual is inspired to reach their full potential. Everyone's knowledge, skills and abilities are respected and valued regardless of gender, gender identity, ethnicity, religion, disability, sexual orientation or age. No form of discrimination, bullying or harassment is tolerated. Our anti-discrimination and harassment policy contains clear guidelines for preventing, managing and monitoring such situations. Inclusive leadership is an important tool for creating the open and innovative culture we aspire to. RaySearch's Code of Conduct is also important. All employees become acquainted with these guidelines through introductory seminars and regular training.

CONSCIOUS EFFORTS TO INCREASE GENDER EQUALITY

RaySearch works purposefully with gender equality to create a workplace where all employees have the same conditions and opportunities. In Sweden, where RaySearch employs most people, 37 percent of the employees are women, although the distribution varies between departments. The proportion of women in senior positions corresponds to the general composition of the organization.

In 2018, RaySearch introduced a range of initiatives to increase gender equality. For example, we worked consciously to retain and increase the number of women executives and in May 2018, Britta Wallgren was elected new Board member. During the year, the Board therefore consisted of two women and three men. We also initiated targeted efforts to attract women developers by holding events at the office and specially adapted trade fairs. We also developed our competence-based recruitment process to intensify the focus on an objective evaluation of competence.

INSPIRATIONAL LEADERSHIP KEY TO SUCCESS

As we continue our expansion journey, strong and inspirational leadership will become increasingly important for creating commitment and results and making full use of the organization's competence. RaySearch has a high level of ambition, with the target that 100 percent of our managers and employees in senior roles will have undergone leadership training. New managers at RaySearch undergo both internal and external management training. In 2018, our leadership training was focused on employees who are team leaders but not managers.

There were some organizational changes during the year that required breaking employee groups down into smaller teams, in order to create better opportunities for sustainable management and better communication between managers and employees. This initiative will also continue in 2019.

A key tool for monitoring the effects of leadership and for planning our continued efforts, is our annual employee satisfaction surveys. The most recent survey also showed that leadership initiatives have led to positive outcomes. In the 2018 survey, leadership received a score of 5 from a possible 6.

COMPETENCE DEVELOPMENT FOR EVERY EMPLOYEE

RaySearch has a firmly established process for competence development and performance monitoring. The process has been designed to ensure that every employee has the best conditions for being able to contribute to the company's mission and targets. For a company like RaySearch, where innovation and development are vital, competence development for employees is very important and secured by regular interviews between managers and employees. Our employees are encouraged to take part in international exchanges by participating in various training courses, both internal and external, and attending trade fairs and other external events. A great deal of competence development is also achieved through challenging assignments with opportunities to use the latest software development technologies. Collaboration with colleagues, and opportunities to take on new roles and projects, are other important components.

SALARY SURVEY FOR FAIR SALARIES

RaySearch's objective is that all employees should have fair, market-based salaries. As part of this process, we conduct annual salary surveys using internal and external benchmarks. In 2018, a salary survey was conducted at the head office in Stockholm, and showed that there are no unjustified pay gaps related to gender. The next salary survey will be conducted in 2019.

STRONG RESULTS AGAIN IN THE ANNUAL EMPLOYEE SURVEY

RaySearch encourages openness and feedback – because that develops us as individuals, and RaySearch as an organization. RaySearch conducts regular employee satisfaction surveys of the entire company in order to measure and monitor the results of implemented activities, to raise awareness of the positive aspects of working at RaySearch, to identify improvement areas and to give employees an opportunity to provide feedback. All employees are asked questions about their workplace, leadership, remuneration, ability to influence, work environment, opportunities for development, health and so forth.

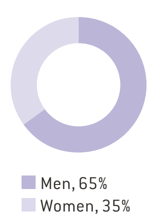
As a follow-up to the 2017 survey, initiatives to improve communication and information sharing were made in one of our major projects.

The 2018 employee survey also delivered a strong result, with scores above 4 in all areas on a 6-point scale. 97 percent (96) of our employees feel proud to be working at RaySearch and 87 (93) percent would recommend the company as an employer.

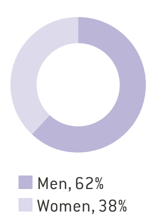
WELLBEING, HEALTH AND WELLNESS

RaySearch promotes the wellbeing of all employees and we strive to offer our employees excellent physical and psychosocial work conditions with a healthy work-life balance. The company works pro-actively to prevent ill health and all employees based at the head office in Stockholm are covered by a private, preventive health insurance, including occupational health care. We also work actively with workplace ergonomics, offer flextime and want to make it easy for our employees to include exercise and physical activity in their daily routines. Our office in Stockholm, where most of our employees are based, is centrally located. This provides access to a wide range of activities, and is designed with physical activity in mind, including several locker rooms with showers, washing and drying facilities. RaySearch offers a generous wellness subsidy. We are also dedicated to creating forums for social gatherings and having fun together. For example, all employees are offered breakfast, regular activity evenings and joint sporting activities, including floorball matches and running races.

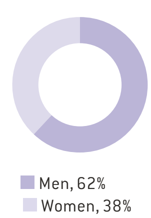
GENDER DISTRIBUTION, TOTAL



GENDER DISTRIBUTION, SWEDEN



SENIOR POSITIONS, SWEDEN



ABOUT RAYSEARCH'S SUSTAINABILITY REPORT

RaySearch's sustainability report has been prepared in accordance with the Swedish Annual Accounts Act. The report and its contents have not been reviewed externally. The sustainability report relates to the 2018 fiscal year and comprises RaySearch's operations as they appeared at the beginning of 2018. This is the second year that RaySearch has published a sustainability report. RaySearch intends to publish a sustainability report on an annual basis.

For more information, please contact:
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E-mail: peter.thysell@raysearchlabs.com

Stockholm, April 26, 2019

Carl Filip Bergendal
Chairman of the Board

Johan Löf
President and Board member

Britta Wallgren
Board member

Hans Wigzell
Board member

Johanna Öberg
Board member

AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY STATEMENT

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF RAYSEARCH LABORATORIES AB, CORPORATE IDENTITY NUMBER 556322-6157

ENGAGEMENT AND RESPONSIBILITY

It is the Board of Directors who is responsible for the statutory sustainability statement on pages 57-61 and that it has been prepared in accordance with the Annual Accounts Act.

THE SCOPE OF THE AUDIT

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

OPINIONS

A statutory sustainability statement has been prepared.

Stockholm, 26 April 2019

Ernst & Young AB

Anna Svanberg
Authorized Public Accountant

SHARES AND OWNERSHIP

NUMBER OF SHARES AND SHARE CAPITAL

At December 31, 2018, the total number of registered RaySearch shares was 34,282,773, of which 8,454,975 were Class A and 25,827,798 Class B shares. The quotient value was SEK 0.50 and the share capital in the company amounted to SEK 17,141,386.50. All shares carry equal rights in the company's assets and earnings. Each Class A share carries 10 votes and each Class B share carries one vote. At December 31, 2018, the total number of votes in the company was 110,377,548. All shareholders entitled to vote at the AGM may vote for the full number of shares owned or represented by them, with no restrictions on voting rights. The percentage of foreign owners' shareholdings in RaySearch increased from 23.7 percent at December 31, 2017 to 36.4 percent at December 31, 2018. The number of shareholders increased and at December 31, 2018 was 7,074 (6,893).

OWNERSHIP STRUCTURE – SHAREHOLDER CATEGORIES, %	Capital	Votes
Foreign shareholders	36.4	11.3
Swedish shareholders	63.6	88.7
of which, institutions	*23.5*	*7.3*
individuals	*40.1*	*81.4*

STATEMENT FROM SOME OF THE PRINCIPAL SHAREHOLDERS

The aim of the principal owners – Johan Löf, Anders Brahme and Carl Filip Bergendal – is to remain significant long-term shareholders of RaySearch.

OWNERSHIP STRUCTURE – 10 LARGEST SHAREHOLDERS AT DEC 31, 2018

Name	Class A shares	Class B shares	Total shares	Capital, %	Votes, %
Johan Löf	6,243,084	618,393	6,861,477	20.0	57.1
Oppenheimer Funds	0	4,315,402	4,315,402	12.6	3.9
First AP Fund	0	2,864,138	2,864,138	8.4	2.6
Swedbank Robur Funds	0	2,432,252	2,432,252	7.1	2.2
Wasatch Advisors	0	1,535,000	1,535,000	4.5	1.4
Anders Brahme	1,150,161	200,000	1,350,161	3.9	10.6
Montanaro Funds	0	1,295,000	1,295,000	3.8	1.2
Carl Filip Bergendal	1,061,577	144,920	1,206,497	3.5	9.7
Nordnet Pension	0	743,123	743,123	2.2	0.7
Second AP Fund	0	588,731	588,731	1.7	0.5
Total, 10 largest shareholders	**8,454,822**	**14,736,959**	**23,191,781**	**67.6**	**90.0**
Others	153	11,090,839	11,090,992	32.4	10.0
Total	**8,454,975**	**25,827,798**	**34,282,773**	**100.0**	**100.0**

OWNERSHIP STRUCTURE – SIZE OF HOLDING AT DEC 31, 2018

	No. of shareholders	Number of Class A shares	Number of Class B shares	Capital, %	Votes, %
1–500	5,665	153	662,113	1.93	0.60
501–1,000	594	0	477,255	1.39	0.43
1,001–2,000	365	0	567,894	1.66	0.51
2,001–5,000	237	0	767,903	2.24	0.70
5,001–10,000	86	0	639,294	1.86	0.58
10,001–20,000	47	0	675,544	1.97	0.61
20,001–50,000	33	0	1,049,175	3.06	0.95
50,001–100,000	13	0	921,426	2.69	0.83
100,001–500,000	20	0	4,416,213	12.88	4.00
500,001–1,000,000	5	0	3,283,499	9.58	2.97
1,000,001–5,000,000	8	2,211,738	11,749,089	40.72	30.68
5,000,001–10,000,000	1	6,243,084	618,393	20.01	57.12
Total	**7,074**	**8,454,975**	**25,827,798**	**100.00**	**100.00**

SHAREHOLDER AGREEMENTS

As far as the Board of Directors of RaySearch is aware, there are no shareholder agreements for either Class A or Class B shares.

LISTING ON NASDAQ STOCKHOLM

RaySearch's share has been listed on Nasdaq Stockholm since 2003. On January 4, 2016, RaySearch was moved to the Mid Cap segment following Nasdaq's annual review of Nordic market capitalization segments.

SHARE TRADING AND SHARE PRICE TREND

During 2018, a total of 27.8 million (21.7) RaySearch shares were traded at a value of SEK 3,392 M (4,084). This corresponds to an average price of SEK 122.2 (188.5). In 2018, the highest price paid was SEK 173.30 on January 2. The lowest price paid during the same period was SEK 88.20 on December 27. On the last trading day of the year, December 28, the closing price was SEK 96.50 (171.00). During 2018, the price of the RaySearch share declined 43 percent (declined 7), while the OMXS30 fell 8 percent (rose: 3). At the end of December, RaySearch's market capitalization was SEK 3,308 M (5,862). In this calculation, Class A shares, which are not listed on the stock exchange, have been assigned the same value as the listed Class B shares.

OPTION PROGRAMS

RaySearch currently has no options programs outstanding.

DIVIDEND POLICY

The Board of Directors' intention is to pay as dividends of approximately 20 percent of the Group's profit after tax on condition that a healthy capital structure is retained.

CHANGES IN SHARE CAPITAL OF RAYSEARCH

Year	Transaction	Quotient value, SEK	Change in number of shares	Increase in share capital	Number of Class A shares	Number of Class B shares	Total number of shares	Total share capital, SEK
2005	Opening balance	1.5			4,237,604	6,275,457	10,513,061	15,769,591.50
	Non-cash issue (B)		914,530	1,371,795	4,237,604	7,189,987	11,427,591	17,141,386.50
	Reclassification 2005				–24,596	24,596		
	Closing balance	1.5			4,213,008	7,214,583	11,427,591	17,141,386.50
2006	Reclassification 2006				–100	100		
	Closing balance	1.5			4,212,908	7,214,683	11,427,591	17,141,386.50
2008	3:1 share split, 2008		22,855,182		8,425,816	14,429,366		
	Closing balance	0.5			12,638,724	21,644,049	34,282,773	17,141,386.50
2009	Reclassification 2009				–252,756	252,756		
	Closing balance	0.5			12,385,968	21,896,805	34,282,773	17,141,386.50
2011	Reclassification 2011				–1,061,577	1,061,577		
	Closing balance	0.5			11,324,391	22,958,382	34,282,773	17,141,386.50
2015	Reclassification 2015				–1,061,577	1,061,577		
	Closing balance	0.5			10,262,814	24,019,959	34,282,773	17,141,386.50
2016	Reclassification 2016				–1,567,839	1,567,839		
	Closing balance	0.5			8,694,975	25,587,798	34,282,773	17,141,386.50
2017	Reclassification 2017				–40,000	40,000		
	Closing balance	0.5			8,654,975	25,627,798	34,282,773	17,141,386.50
2018	Reclassification 2018				–200,000	200,000		
	Closing balance	0.5			8,454,975	25,827,798	34,282,773	17,141,386.50

SHAREHOLDER REGISTER, COMPLETE – RAYSEARCH LABORATORIES AB (PUBL) AT DEC 31, 2018 – LARGEST SHAREHOLDER COUNTRIES

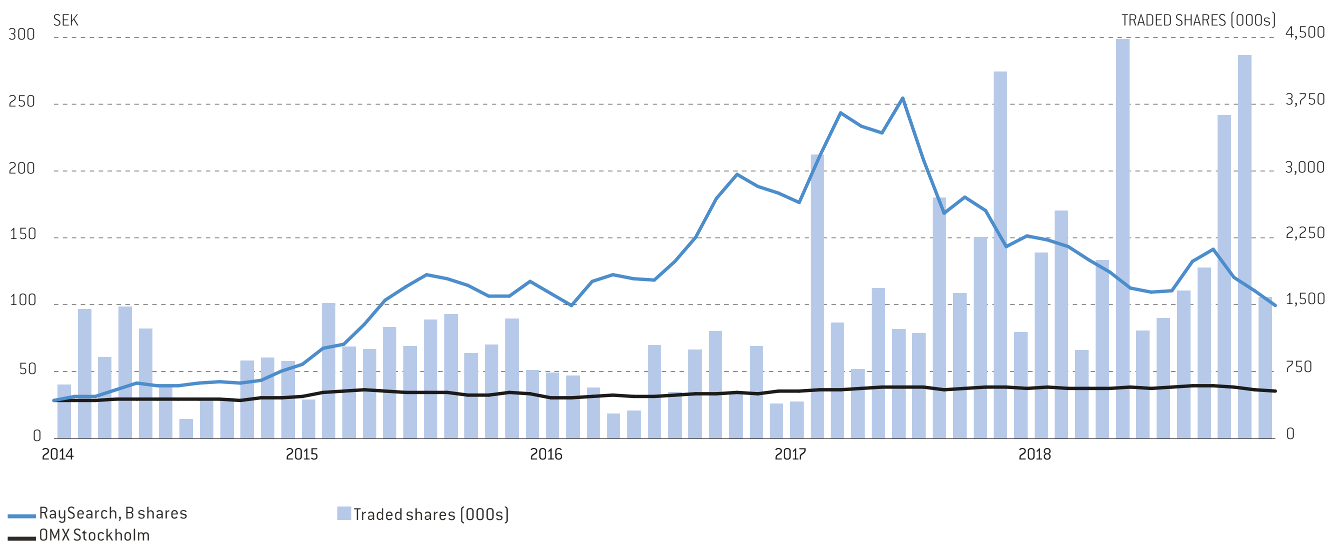
Name	No. of shareholders	Shareholders (%)	Holding	Holding, %	Votes	Voting rights, %	Market capitalization (SEK 000s)
Natural persons	6,681	94.44	21,807,303	63.61	97,902,078	88.70	2,104,405
of whom domiciled in Sweden	393	5.56	12,475,470	36.39	12,475,470	11.30	1,203,883
Total Dec 31, 2018	**7,074**	**100.00**	**34,282,773**	**100.00**	**110,377,548**	**100.00**	**3,308,288**

SHAREHOLDER REGISTER, COMPLETE – RAYSEARCH LABORATORIES AB (PUBL) AT DEC 31, 2018 – LEGAL-NATURAL PERSONS

Name	No. of shareholders	Shareholders (%)	Holding	Holding, %	Votes	Voting rights, %	Market capitalization (SEK 000s)
Natural persons	6,530	92.31	13,804,802	40.27	89,899,550	81.45	1,332,163
of whom domiciled in Sweden	6,468	91.43	13,754,667	40.12	89,849,415	81.40	1,327,325
Legal persons	544	7.69	20,477,971	59.73	20,477,998	18.55	1,976,124
of whom domiciled in Sweden	213	3.01	8,052,636	23.49	8,052,663	7.30	777,079
Total Dec 31, 2018	**7,074**	**100.00**	**34,282,773**	**100.00**	**110,377,548**	**100.00**	**3,308,288**
of whom domiciled in Sweden	**6,681**	**94.44**	**21,807,303**	**63.61**	**97,902,078**	**88.70**	**2,104,405**

SHARE PRICE TREND

The diagram on the next page shows the share price trend for RaySearch from January 2014 up to and including December 2018, and the number of shares traded per month.



MULTI-YEAR OVERVIEW – KEY FIGURES

KEY FIGURES AND CONDENSED FINANCIAL DATA

The summary shows how the core business developed between 2009–2018 and was prepared in accordance with IFRS.

GROUP	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Equity/assets ratio, %	59.5	63.4	64.2	65.9	64.5	65.7	74.2	75.4	76.9	79.3
Capital employed, SEK M	789.0	664.2	521.7	357.7	292.6	196.6	217.5	196.7	196.8	184.9
Return on capital employed[2], %	13.0	27.3	45.4	29.4	32.6	–12.0	11.4	14.6	21.0	24.6
Shareholders' equity, MSEK	657.5	580.4	460.2	319.5	251.5	196.6	217.6	196.7	196.8	184.9
Return on equity[2], %	12.7	22.6	38.8	24.6	26.7	–10.1	9.6	8.6	15.1	18.0
Interest-bearing liabilities, SEK M	131.5	83.8	61.5	38.2	41.1	–	–	–	–	–
Net debt, MSEK	19.3	–20.4	–26.2	–21.5	–15.0	–38.2	–61.9	–28.7	–75.0	–80.0
Debt/equity ratio	0.0	0.0	–0.2	–0.1	–0.1	–0.2	–0.3	–0.1	–0.4	–0.3
Net debt/EBITDA	0.1	–0.1	–0.1	–0.1	–0.1	–1.4	–0.9	–0.5	–1.1	–1.5
Per share data										
Earnings per share before dilution (SEK)	2.29	3.43	4.42	2.05	1.75	–0.61	0.58	0.50	0.84	0.88
Earnings/loss per share after dilution (SEK)	2.29	3.43	4.42	2.05	1.75	–0.61	0.58	0.50	0.84	0.88
Shareholders' equity per share, SEK	19.18	16.93	13.42	9.32	7.34	5.73	6.35	5.74	5.74	5.39
Cash flow from operating activities per share, SEK	5.21	4.30	3.53	3.25	1.47	0.91	2.55	0.99	1.83	1.44
Dividend per share, SEK	–[1]	–[1]	–	0.25	–	–	–	–	0.50	0.50
Share price at year-end, SEK	96.5	171.0	184.5	122.5	53.0	27.4	20.8	14.5	38.0	29.5
P/E ratio	42.1	49.8	41.8	59.8	30.4	neg.	35.9	29.1	45.1	33.5
Other										
Number of shares outstanding before dilution	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283
Number of shares outstanding after dilution	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283	34,283
Average no. of employees	283	228	184	157	126	107	92	78	64	52

[1] According to the Board's proposal.

[2] In preceding years, an income measurement based on rolling 12-month figures was used but as of 2013, and for the comparative figures, an annual income measurement has been used.

DEFINITIONS OF KEY RATIOS

The Annual Report refers to a number of non-IFRS measures that are used to provide investors and company management with additional information to assess the company's operations. The various non-IFRS measures used to complement the IFRS financial statements are described below.

Non-IFRS measures	Definition	Reason for using the measure
Return on equity	Profit after tax, as a percentage of average shareholders' equity	Shows the return generated on the owners' invested capital from a shareholder perspective
Return on capital employed	Operating profit plus financial income, as a percentage of average total assets excluding non-interest-bearing liabilities	A central measure for measuring the return on all tied-up working capital
Gross profit	Net sales minus cost of goods sold	Gross profit is used to measure the margin before sales, research, development and administrative expenses
EBITDA	Profit before depreciation/amortization and impairment	Relevant as a measure of the company's ability to generate cash flow before capital tied up in operations and financial flows
Equity per share	Equity divided by number of shares outstanding at the end of the period	Shows the return generated on the owners' invested capital per share from a shareholder perspective
Cash flow from ongoing operations per share	Cash flow from operating activities divided by the average number of shares during the year.	Shows the cash flow generated by operating activities per share
Net margin	Profit after tax, as a percentage of net sales	The net margin shows the percentage of net sales remaining after the company's expenses have been deducted
Net debt	Interest-bearing liabilities less cash and cash equivalents and interest-bearing current and long-term receivables	This measure shows the Group's total indebtedness
Net debt/EBITDA	Net debt in relation to operating profit before depreciation and amortization	A relevant measure from a credit perspective that shows the company's ability to handle its debt
Sales growth	The change in net sales compared with the year-earlier period expressed as a percentage	The measure is used to track the performance of the company's operations between periods
Order intake[1]	The value of all orders received and changes to existing orders during the period	Order intake is an indicator of future revenue and thus a key figure for the management of RaySearch's operations
Order backlog	The value of orders at the end of the period that the company has yet to deliver and recognize as revenue.	The order backlog shows the value of orders already booked by RaySearch that will be converted to revenue in the future.
Organic sales growth	Sales growth adjusted for currency effects	This measure is used to monitor underlying sales growth driven by changes in volume, pricing and mix for comparable units between different periods
P/E ratio	Share price at year-end divided by earnings per share	Shows how the market values the share from a shareholder perspective in relation to the company's recognized profit after tax
Interest-bearing liabilities	Liabilities requiring the payment of interest	Shows the actual interest-bearing debt burden
Working capital	The Group's working capital is calculated as current operating receivables less current operating liabilities	This measure shows how much working capital is tied up in operations and can be shown in relation to net sales to demonstrate the efficiency with which working capital has been used
Operating margin	Operating profit/loss expressed as a percentage of net sales	Together with sales growth, the operating margin is a key element for monitoring value creation
Operating profit	Operating profit before financial items and tax	Operating profit/loss provides an overall picture of the total generation of earnings in operating activities
Debt/equity ratio	Net debt in relation to equity	The measure shows financial risk and is used by management to monitor the Group's indebtedness
Equity/assets ratio	Equity, as a percentage of total assets at the end of the period	This is a standard measure to show financial risk, and is expressed as the percentage of the total restricted equity financed by the owners
Capital employed	Total assets less non-interest-bearing liabilities and deferred tax liabilities.	This measure shows how much capital is used in the business and is therefore one of two components for measuring return from the operations
Rolling 12 months' sales, operating profit/loss or other results	Sales, operating profit/loss or other results measured over the last 12-month period	This measure is used to more clearly illustrate the trends for sales, operating profit/loss and other results, which is relevant because RaySearch's revenue is subject to monthly variations
Dividend per share	Dividend divided by number of shares outstanding at year-end	Shows the direct return generated from a shareholder perspective

[1] "Order intake excluding service agreements" and "Order intake for RayStation excluding service agreements" have been removed and replaced by the key ratio "Order intake to facilitate comparability with revenue in profit or loss."

CALCULATION OF FINANCIAL MEASURES NOT INCLUDED IN THE IFRS CONCEPTUAL FRAMEWORK, SEK

Working capital	Dec 31, 2018	Dec 31, 2017
Accounts receivable (current billed customer receivables)	276,473	335,125
Current unbilled customer receivables	154,763	78,482
Long-term unbilled customer receivables	23,119	11,468
Inventories	9,617	33
Other current receivables (excl. tax)	30,385	25,742
Accounts payable	–32,366	–27,403
Other current liabilities (excl. tax)	–179,802	–115,083
Working capital	**282,189**	**308,364**

Capital employed	Dec 31, 2018	Dec 31, 2017
Total assets	1,105,422	915,064
Current interest-bearing liabilities	–212,517	–158,432
Deferred tax liabilities	–103,954	–92,424
Capital employed	**788,951**	**664,208**

Net debt	Dec 31, 2018	Dec 31, 2017
Current interest-bearing liabilities	124,283	74,033
Long-term interest-bearing liabilities	7,215	9,751
Cash and cash equivalents	–112,198	–104,156
Net debt	**19,300**	**–20,372**

EBITDA	2018[1]	2017[2]
Operating profit	94,461	159,669
Amortization and depreciation	113,844	71,317
EBITDA	**208,305**	**230,986**

[1] IFRS 15 compliance.
[2] IAS 18 compliance.

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ADVANCING CANCER TREATMENT

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