



PRODUCT  
DEVELOPMENT  
BASED ON  
HUMAN  
BEHAVIOUR.

ANNUAL REPORT  
2016

SEMCON • ANNUAL REPORT 2016.

## Contents

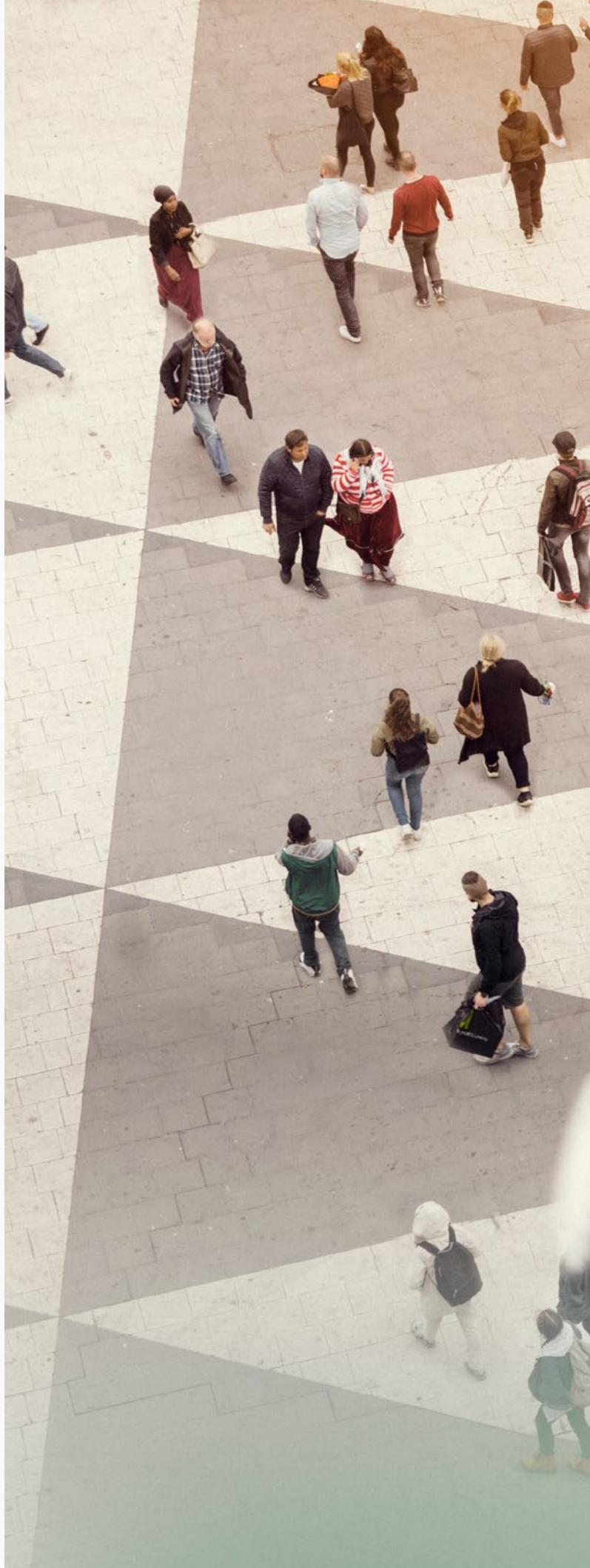
6	Semcon's 2016
8	CEO's comments
10	Strategy
12	Employees
15	History
16	Semcon's shares
18	Business models
22	Product development
26	Macro trends
28	Focus industries
30	Market
31	Research and development
32	Sustainability
34	Financial statements
74	Auditor's report
78	Definitions
79	Glossary
80	Corporate Governance Report
86	Board of Directors
88	Group management
90	Five-year summary

Information about Semcon's business, financial reporting, previous Annual Reports, share information, corporate governance, activities and press releases, etc. can be found on Semcon's website at [www.semcon.com](http://www.semcon.com), where you can also subscribe to and order financial information via e-mail.

For sustainability reasons, Semcon has chosen to only distribute the Annual Report to shareholders who have specifically requested a copy. Before the Annual Report is published each year, new shareholders are sent an order form giving them the opportunity of subscribing for the coming printed versions of the Annual Reports.

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This is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original the latter shall prevail.





3

**PRODUCT  
DEVELOPMENT  
BASED ON  
HUMAN  
BEHAVIOUR.**





# **FIRST PEOPLE, THEN TECHNOLOGY.**

For us, a deep understanding of people and their behaviours is central to everything we do. This knowledge makes it possible to develop better products. Better for the end user but also better for our customers, as a product of higher perceived quality provides a major competitive advantage - and usually increased sales too.

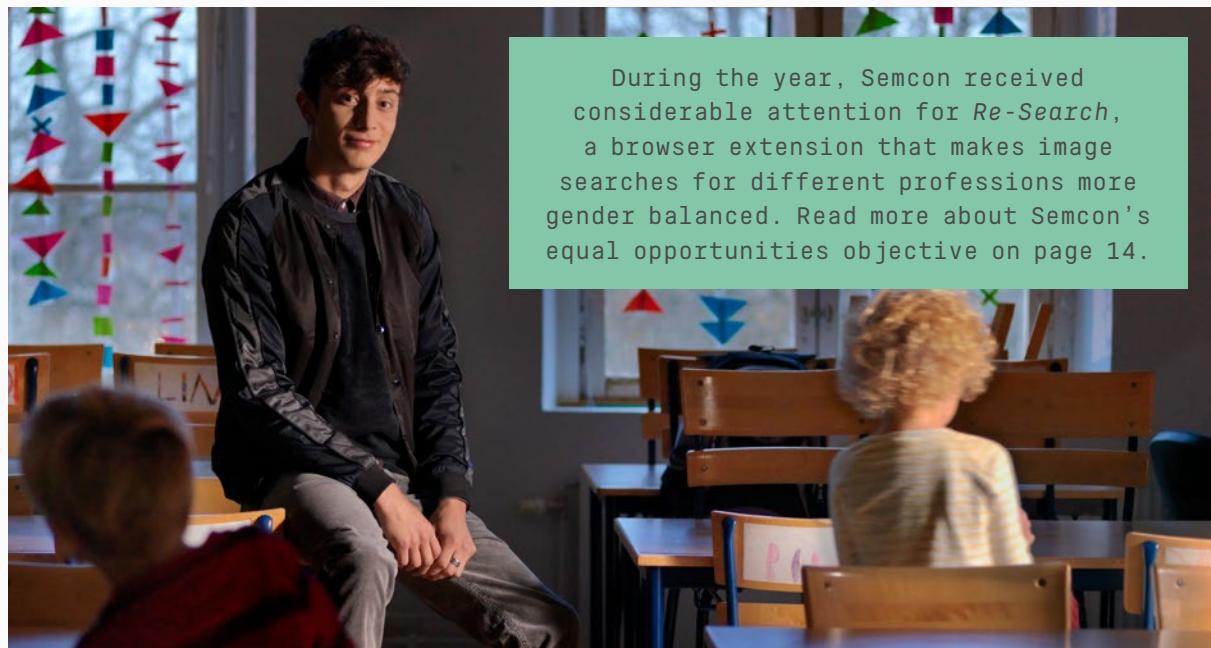
User experience is the real proof of quality and is crucial for all companies and organisations. We are convinced of this. And if it is crucial for our customers' future, then there is nothing more important for us at Semcon.

# SEMCON'S 2016.

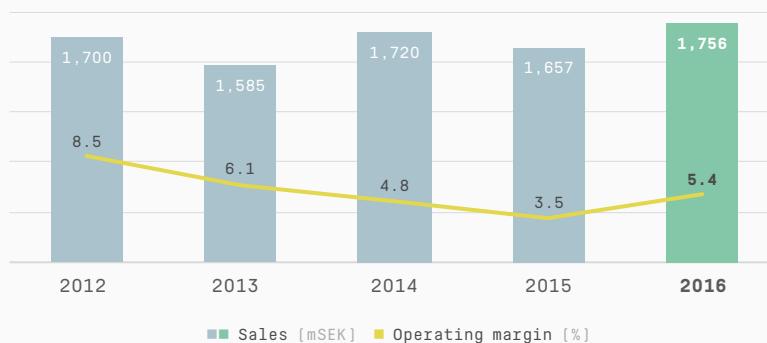
## This is Semcon

Semcon is an international technology company that develops products for our customers based on human needs and behaviours. We strengthen our customers' competitiveness by always starting from the end user, because the person who knows most about the user's needs creates the best products and the clearest benefits. Semcon's customers are primarily in the automotive, industry, energy, life science and telecom & IT sectors. With more than 2,000 dedicated employees, Semcon has the ability to take care of the entire product development cycle - from strategy and technology development to design and product information. Semcon was founded in Sweden in 1980 and has offices in over 30 locations in eight different countries.

Semcon divested Business Area Engineering Services Germany in February 2017. The information in this Annual Report refers to continuing operations unless otherwise stated.



## Sales and operating margin



OPERATING PROFIT  
**95**  
SEK MILLION

# INCOME

# 1.8

## SEK BILLION

### The year in brief

In 2016, we reported healthy growth and better results in all business areas compared with previous year.

Business Area Engineering Services Nordic noted favourable demand and efforts are continuing, in line with the strategy, to develop its offering to become more value-based. This shift is expected to lead to further improved growth and profitability moving forward.

Business Area Engineering Services International noted favourable growth during the year, including improved results in Brazil, despite a weak market.

During the year, Business Area Product Information signed new partnership agreements with global automotive customers and won new business within the telecom sector. There is continuing strong interest from companies that see the benefits of engaging the us to create and distribute product information digitally.

2016	Q1	Q2	Q3	Q4
Operating income	SEK 433 million [432]	SEK 473 million [417]	SEK 383 million [378]	SEK 467 million [430]
Operating profit	SEK 20 million [29]	SEK 27 million [12]	SEK 16 million [8]	SEK 32 million [9]
Operating margin	4.7% [6.8]	5.6% [2.8]	4.2% [2.0]	6.9% [2.2]
Number of employees at the end of the period	1,987 [1,923]	2,023 [1,889]	2,036 [1,884]	2,044 [1,979]

### Key figures

	2016	2015
Operating income [mSEK]	1,756	1,657
Operating profit [mSEK]	95	58
Operating margin [%]	5.4	3.5
Equity/assets ratio [%]	45	45
Debt/equity ratio [multiple]	0.2	0.2
Return on capital employed [%]	21.9	13.4
Dividend per share [SEK]	2.25*	1.25
Earnings per share after dilution [SEK]	3.75	2.36
Share price at year-end [SEK]	46.00	42.40
Number of employees at year-end	2,044	1,979

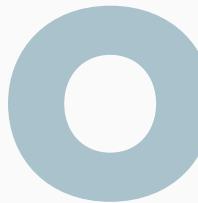
\*Board's proposal

### NUMBER OF EMPLOYEES

# 2,044

Important events during the year are presented in the Directors' Report on page 35.

# NECESSARY RESTRUCTURING GENERATED RESULTS IN 2016.



ur employees are continuing to develop products that create significant value for both customers and end users. They achieve this at the same time as technology shifts are occurring more rapidly in the sectors in which we operate: automotive, industry, energy, life science and telecom & IT sectors. Globalisation, digitalisation, increasing urbanisation, an aging population and increasing interest in sustainability are factors that influence us all. Semcon is becoming an increasingly important player in this world, owing to our strong tradition of interpreting and creating innovations using new fields of technology and trends.

## Improved profits and a strong fourth quarter

The measures taken during a year of adjustment in 2015 were necessary to create the right position for the company moving forward. These gave the desired results in 2016. All business areas reported improved profits and operating margins during the year, which ended with a strong fourth quarter.

## An eventful year – new partnerships and the divestment of the German engineering business

Our Business Area Engineering Services Germany, focused on the German automotive industry and with a large part of operations in prototype and testing activities, was divested in February 2017. Semcon's market share in Germany was too low and the business had a risk exposure that was too high in relation to returns. The divestment helps to achieve a better balance between the industries in

which we operate, which is one of the Group's long-term objectives.

In line with our strategy, Engineering Services Nordic continued its shift to become more value-based. Rising demand from the automotive industry, with successfully delivered projects, contributed to growth in the business area while the energy sector in Norway remained weak. New and exciting innovations, such as the electric engine for bikes and the autonomous snow removal vehicle, are a few examples of products that demonstrate our technical skills and creative ability. Customers also appreciate our packaged offerings, such as in strategic design, connected products and Project Excellence. The strategic shift has helped improve profitability and contributed to 7 per cent growth in 2016.

Engineering Services International also improved its operating margin, despite a weak Brazilian market. During the year, our business in India continued to play an important role in providing attractive offerings and supplying successful projects to our customers. Our operations in the UK reported favourable growth and contributed with specialist expertise, both in the local market and in several of Semcon's other markets.

Product Information noted another successful year, which resulted in new partnership agreements with global customers and new business within the telecom and automotive industries. The business area also reported a strong year-on-year improvement in operating margin.

Our customers and potential customers increasingly understand that product information is a

“

*By offering greater value in our deliveries, increasing internal efficiency and with an even stronger brand, we will gradually further improve profitability.*



Markus Granlund, President and CEO

central element in how end users experience a product. High-quality product information together with digital distribution and reduced costs form an attractive offering. To further strengthen our position in product information, we have developed our own cloud-based service for digital distribution (Lodges) with a focus on functionality and usability. There is also growing interest in our e-learning and augmented reality solutions, which streamline processes and reduce customer costs.

#### **Sustainability – part of our culture**

Sustainability, in all of its dimensions, is a key component in our operations – ranging from the objectives and communication of our important work on diversity to become an equal-opportunities company and convince more women to choose a career in engineering, to our partnership with SOS Children's Villages. A sustainability perspective is increasingly important in our deliveries to customers and we see substantial possibilities to influence the design of future products to include an environmental dimension.

During the year, we continued our proactive work to further strengthen internal processes and, for example, we introduced a whistleblowing function.

#### **Increased attractiveness through effective communication**

Launched in autumn 2016, our new positioning – Product development based on human behaviour – has had a substantial impact. Our communication is important to further increase pride among our employees, customers, shareholders and partners. Through our campaigns, we highlight our prod-

uct development potential, our values and how our technical solutions simplify and improve life for the end user.

#### **Priorities for 2017**

Our focus for 2017 is clear. We will develop our strong and attractive offering in markets where we see good growth potential. It is crucial that we continue to attract, develop and retain the best talents and leaders in the industry. The continuous improvement process will continue at all levels in the company to achieve greater efficiency and increased productivity.

By offering greater value in our deliveries, increasing internal efficiency and with an even stronger brand, we will gradually further improve profitability. Our hard work in recent years to strengthen the balance sheet has created a solid platform for increased growth moving forward. We can see good prospects for organic growth, but also continuously evaluate potential acquisitions that can complement our offering.

I am proud to represent Semcon and I would like to thank our employees for their efforts during the year. I would also like to thank our customers for the trust you have in us, and our suppliers for a successful collaboration. Last, but not least, I would like to thank our shareholders, who have shown such a large degree of interest and commitment.

Gothenburg, 20 March 2017

Markus Granlund  
President and CEO

# SEMCON'S STRATEGY FOR INCREASED GROWTH AND PROFITABILITY.

During 2016, Semcon's strategy was updated with a new mission. The aim has been to create a better alignment between the strategy and the company's focus on end users.

## **Mission: To turn technology into excellent user experiences.**

### **Semcon's desired position**

- ＊ A strong brand
- ＊ A sustainable business approach

### **From an employee's perspective to:**

- ＊ Attract, develop and retain the best talents and leaders in the industry

### **From a customer's perspective to:**

- ＊ Contribute to our customers' success through superior deliveries
- ＊ Establish close relationships with our customers
- ＊ Provide a customer-focused service portfolio that challenges market needs
- ＊ Ensure a balanced mix of customers, geographic markets and industries

### **Financial objectives**

- ＊ An operating margin of at least 8 per cent over a business cycle
- ＊ An equity/assets ratio of over 30 per cent
- ＊ A share dividend from a long-term perspective of at least one-third of profit after tax

### **Semcon's strategic priorities**

- ＊ Strengthen Semcon's brand as an employer through passion for technology and innovative ideas
- ＊ Add maximum value for each customer and exceed expectations
- ＊ Increase solution-based deliveries
- ＊ Prioritise profitable growth



## Strategic priorities and outcome in 2016

### \* Strengthen Semcon's brand as an employer through passion for technology and innovative ideas

**Outcome:** During the year, Semcon's new communication strategy and new visual identity was launched. This helps to distinguish Semcon from the competition by using a more distinct employer offering towards relevant target groups. The launch has used communication campaigns that have resulted in international impact and activities targeting both existing and potential employees. Semcon has been nominated by Universum as Innovator of the Year for its work in the Swedish market strengthening the employer brand. Starting in 2017, this strategic priority will be adapted to the company's new positioning.

### \* Add maximum value for each customer and exceed expectations

**Outcome:** During 2016, we conducted a number of customer surveys that show that our customers are overall highly satisfied with Semcon's deliveries. In addition, we see that repurchase rates are high and that Semcon is increasingly asked to carry out complex development projects for our customers. Internally we are continuing to follow-up and measure our deliveries with a significant emphasis on developing the customer offering that utilises the company's global pool of expertise.

### \* Increase solution-based deliveries

**Outcome:** Implementation of the Group-wide project methodology, Semcon Project Model (SPM), continued during the year. Training senior project managers was completed, and the online platform launched

in 2015 was updated and is now used to a greater extent. Our global customers still want to sign agreements with fewer suppliers who have global coverage. In these cases, we see that demand for our project-based deliveries is continuing to grow.

### \* Prioritise profitable growth

**Outcome:** During the year, the company had a strong focus on developing its customer offering in segments and markets with major growth potential. This means that both growth and profitability have improved compared with previous years.

### Financial objectives

#### \* An operating margin of at least 8 per cent over a business cycle

**Outcome:** The operating margin amounted to 5.3 per cent [3.5]. Operating profit improved in all business areas compared with last year.

#### \* An equity/assets ratio of over 30 per cent

**Outcome:** The equity/assets ratio was 45 per cent [45]. The Group's financial position remains healthy with an equity/assets ratio far above 30 per cent.

#### \* A share dividend from a long-term perspective of at least one-third of profit after tax

**Outcome:** The Board of Directors proposes a share dividend of SEK 2.25 per share [1.25], which represents 60 per cent of earnings per share after dilution for continuing operations.

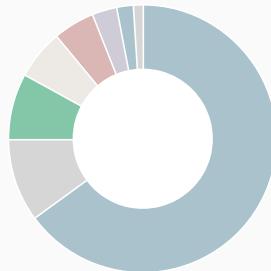
# DEDICATED HR WORK THAT BOOSTS SEMCON'S EMPLOYER BRAND.

What all employees at Semcon have in common is that we are driven by a genuine curiosity about people and their behaviour. Everything we do is about the people who use what we have developed – the end users. To achieve this, demands are made on how we nurture and develop our employees, which development opportunities are available and how we create a strong Semcon.

Over the past year, our extensive HR work has produced results. It is pleasing to see that all of our key figures related to HR are moving in the right direction. Our employees are thriving and more people are considering us as an employer. There is hard work behind this and a will to create an inclusive corporate culture, where our employees not only thrive but also develop and grow in their roles. This is important, not least, for us as a service providing company, where our employees are our main resource.

## Number of employees by country

Sweden	1,338	[1,300]
Brazil	193	[189]
Hungary	159	[125]
India	119	[114]
The UK	108	[110]
Norway	61	[77]
China	48	[49]
Germany	18	[15]



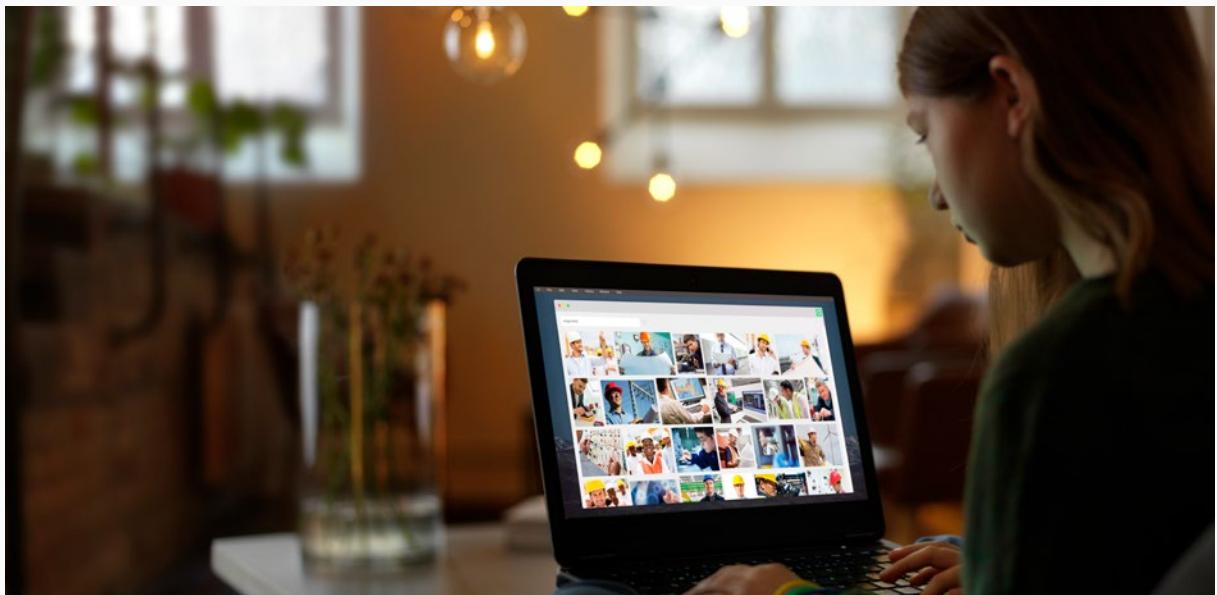
The basis of our HR efforts is each market's local conditions, as recruitment needs can vary between our different markets. However, there are certain common foundations that are applicable to the entire Group. We have recognised and further developed these, such as clearer career paths and skills development.

## Semcon's image is crucial when potential employees choose us

The image people have of Semcon as an employer has a significant impact on whether people choose us. Many new recruits already know one or more people who work at Semcon.

There is currently a great shortage of engineers and product information specialists. Our employees can often choose between different employers and it is therefore even more important to show what Semcon stands for as a company. During the year, we therefore continued to work with our strategic venture to strengthen our employer brand. This is a long-term initiative that targets both students and professionals. In 2016, a common concept was created for what we stand for as an employer, based on the company's new positioning.

Semcon was selected as the "Rocket of the Year" in the annual ranking conducted by the research company Universum, where we climbed more than 30 places. During autumn 2016, Semcon was nominated by Universum for the "Innovator of the Year" award, for its varied work to unite innovative communication with events in order to reach out to potential employees.



### New search function that makes the internet more gender balanced

Re-Search is a browser extension from Semcon that makes image searches of different professions more gender balanced. For example, a standard search for "engineer" gives a male-dominated picture – without female role models.

When you carry out an image search for various professions, Re-Search automatically activates an alternative search that balances the

images of women and men. Both search results are presented side by side in two separate windows. So why is this important for us at Semcon? To create the best products, we need to start from people's different needs and behaviours. And as half of the global population is women, we need to encourage more women to become engineers. Without role models, we may never achieve this.

### Successful talent programme for the next generation of managers

We have arranged talent programmes within the business areas Engineering Services Nordic and Product Information during the year. These were based on the early identification of talents and the next generation of managers at the company. The talents were nominated by their managers and were chosen on the basis of both historical performance and future development potential. Participants meet over twelve months, and each talent has a mentor in the form of an experienced colleague who has had a similar career path to the talent. The talents are also trained in business development, leadership and other subjects that are relevant for their continued development as a manager or specialist at Semcon.

### Professional development that sees and supports the individual potential of employees

Professional development can mean many different things, from everyday learning and exchange to courses and certifications. Employees have individual development plans, which are an important part of career development, and these also establish the expectations of both employees and their immediate manager. These are discussed during performance reviews and are used as a basis for

the continued development of employees. There are many career paths at Semcon, and these are defined in our "professional development roadmap", which clearly describes expectations, authorisation and responsibilities in each role. This provides a solid framework that also acts as guidance for employees in their development.

During the year, we continued to invest in internal training through our skills development days. These days are based on our experts teaching and training their own colleagues, which has proven to be highly successful. More than 200 training days were held during the year.

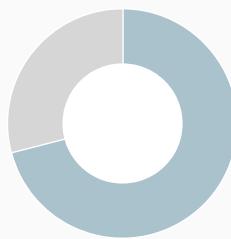
### An important step towards an equal-opportunities Semcon, by 2022

In 2016, Semcon took an important step towards becoming an equal-opportunities company. We believe that at Semcon, we develop products for everyone. It is therefore important to widen our perspective to understand all types of end users. To achieve this, we need employees with a wide range of experiences and backgrounds. This is why Semcon has chosen to prioritise diversity with a focus on equal opportunities. Our goal is ambitious and has a high priority. We want to be an equal-opportunities company by 2022 (40/60 gender balance), in all parts of the Group, including our managers.

### Gender division, women and men\* [%]

Men 71 [71]  
Women 29 [29]

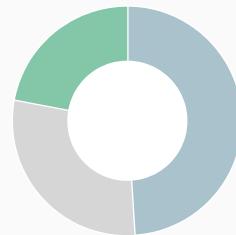
Percentage of women in Sweden: 31 [31]



\*31 December 2016

### Average employment duration\* [%]

> 3 years 49 [53]  
1-3 years 28 [28]  
< 1 year 23 [19]



### Key figures

	2016	2015	2014	2013	2012
Number of employees at year-end	2,044	1,979	2,990	3,001	3,000
Average number of employees	1,956	1,855	2,887	2,874	2,891
Average age	38	38	38	38	38
Employee turnover <sup>1</sup> [%]	22	22	21	20	23

2012-2014 including operations being divested.

<sup>1</sup>Average for the Group due to where major variations occur between countries.

# MORE THAN 35 YEARS OF PRODUCT DEVELOPMENT.

Semcon has a long tradition of being close to customer's business and needs. This is how we have grown into an international Group with cross-border partnerships in 2016.

- 1980** Semcon was founded in Västerås. The name is an abbreviation of Scandinavian Engineering and Marketing Consultants.
- 1983** Expansion to more locations and fields of competence begins.
- 1985** Head office moves to Gothenburg.
- 1994** International expansion starts with operations in the UK.
- 1997** Semcon listed on the stock exchange.
- 2006** JCE Group becomes main owner.
- 2007** Acquisition of IVM Automotive with operations in Germany, Brazil and Spain as well as Caran with operations in Sweden and India.
- 2010** 30th anniversary.
- 2012** Acquisition of Germany-based product information company Comet.
- 2013** Extensive organisational changes towards a market-oriented structure within engineering services.
- 2014** Acquisition of Norway-based ibruk AS, with operations in product information.
- 2015** Increased shareholding in Norway-based Kongsberg Devotek AS, active in engineering and development services.
- 2016** Launch of new communication strategy and positioning. Launch of Semcon Innovation Lab's first concept: electric engine for bikes.
- 2017** Business Area Engineering Services Germany divested in February

## Autonomous snow removal for airports

Every minute an aircraft stands still is costly. Heavy snow and poor visibility can cause delays. In this context, there is currently large unexploited potential for self-driving snow-removal vehicles. An autonomous snow-removal vehicle will provide both improved accessibility and safety.

Through Yeti Snow Technology AS, a jointly owned venture with Øveraasen, Semcon has signed an agreement with the Norwegian air-

port operator Avinor to develop a self-driving snow-removal vehicle. Innovation Norway, which is responsible for development of Norwegian industry, is also a partner in the project.

The project will be the first in the world in which large machines are adapted to autonomously manage the important task of keeping airport runways clear from snow. A first demonstration of a full-scale prototype of the vehicle will take place in March 2018.

# SEMCON'S SHARES.

Semcon's shares have been quoted on the Nasdaq Stockholm Small Cap in the industrial sector, under the SEMC ticker since May 1997.

## Price trend and sales

The company's share price noted a positive trend in 2016 with an 8 per cent increase. Overall, the share price rose by SEK 3.40 from SEK 42.60 to SEK 46.00, representing a market capitalisation of SEK 833 million. The highest price paid was SEK 50.50 on 5 September and the lowest price paid was SEK 34.20 on 27 June. Semcon's shares are quoted on Nasdaq Stockholm and trading on this exchange represented 100 per cent of overall turnover of shares in 2016. A total of 6.8 million Semcon shares were traded, valued at SEK 289 million. The turnover rate, calculated as the number of shares traded in relation to the overall number of shares in the company, was 38 per cent.

## Share capital and number of shares

Semcon's share capital on the closing date was SEK 18.1 million, divided between 18,112,534 ordinary shares all with a quotient value of SEK 1 each. Each ordinary share entitles the shareholder to one voting right and an equal right to a share of the company's capital and profits. Changes to the share capital and number of shares over time are presented in Note 21 on page 70.

## Holding of own shares

Semcon's holding of own shares on 31 December amounted to 242,718 [242,718].

## Ongoing incentive schemes

A decision was made at the Annual General Meeting on 28 April 2015 to introduce a long-term performance-based share savings scheme for around 110 senior executives and key employees in the Semcon Group. The scheme will extend for four years, starting in July 2015, and cover no more than 242,718 shares, equivalent to 1.34 per cent of the total number of shares outstanding.

## Shareholder structure

On 31 December, Semcon had 4,478 shareholders [4,671]. The registered amount of foreign ownership at year-end was 29.9 per cent [27.5], of which 14.0 per cent [13.4] is made up of owners in Finland, 2.9 per cent [5.0] in the UK and 8.2 per cent [5.7] in the US. The JCE Group owned 25.8 per cent [22.2] of Semcon's shares, Nordea Investment Funds 7.2 per cent [6.3], Ålandsbanken 5.1 per cent [5.2], Swedbank Robur Fonder 4.9 per cent [8.4] and DNB Carlson Fonder 3.3 per cent [1.7]. The ten largest shareholders controlled 56.8 per cent [58.7] of the share capital and voting rights, of which the three largest shareholders controlled 38.1 per cent [36.9].

## Share dividends

According to Semcon's financial objectives, a share dividend should be paid to shareholders and, from a long-term perspective, is to be at least one-third of profit after tax. The Board of Directors proposes a share dividend of SEK 2.25 per share [1.25], which represents 60 per cent of earnings per share after dilution for continuing operations. The dividend is equivalent to SEK 40.8 million [22.6].

## Analysts

In 2016, Semcon was monitored by Fredrik Lithell, fredrik.lithell@danskebank.se, at Danske Bank and Victor Höglund, victor.hoglund@seb.se, at SEB Enskilda Securities.

## Contacts with the market

The company regularly publishes information in order to facilitate an accurate valuation of Semcon's shares. In 2016, presentations and meetings were held with representatives from financial institutions, mainly in Gothenburg and Stockholm.

Stock market contacts are mainly carried out through interim and year-end financial reports, press releases, financial information at [www.semcon.com](http://www.semcon.com) and company presentations for investors and analysts. The financial information contacts are mainly Semcon's CEO and CFO as well as the Investor Relations Manager.

## Shareholder structure\*

Shareholding, %	No. of shareholders	No. of shares	Market value, tSEK
1-500	3,162	491,563	2.7 22,612
501-1,000	599	502,459	2.8 23,113
1,001-10,000	618	1,817,291	10.1 83,596
10,001-100,000	76	2,531,321	14.0 116,441
100,001-	22	12,527,182	69.1 576,250
Own shares	1	242,718	1.3 11,165
<b>Total</b>	<b>4,478</b>	<b>18,112,534</b>	<b>100.0 833,177</b>

Source: Euroclear Sweden AB shareholders' register.

## Semcon's shares

■ OMX Stockholm PI ■ Share

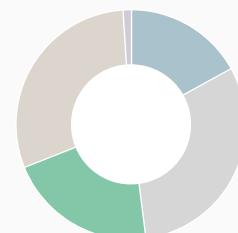


## 10 largest shareholders\*

Name	No. of shares	Shareholding, %
JCE Group	4,682,991	25.8
Nordea Investment Funds	1,294,945	7.2
Ålandsbanken	918,845	5.1
Swedbank Robur Fonder	894,446	4.9
DNB Carlson Fonder	596,370	3.3
CBNY - Norges Bank	542,195	3.0
BNYM RE Regents	473,676	2.6
Avanza Pension	468,637	2.6
Europea i Malmö AB	440,750	2.4
Länsförsäkringar i Skåne	394,119	2.2
<b>Total</b>	<b>10,706,974</b>	<b>59.1</b>
Own shares	242,718	1.3
Other	7,162,842	39.6
<b>Total</b>	<b>18,112,534</b>	<b>100.0</b>

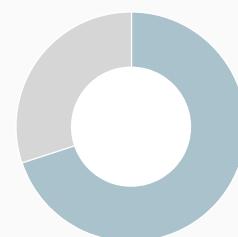
Source: Euroclear Sweden AB shareholders' register.

## Ownership structure\* [ % ]



- Financial companies 17 [21]
- Other Swedish legal entities 31 [28]
- Swedish nationals 21 [19]
- Owners living abroad 30 [28]
- Other 1 [4]

## Swedish and foreign shareholding\* [ % ]



- Swedish 70 [72]
- Foreign 30 [28]

\*31 December 2016. For information on key figures for the share, refer to page 91.

# BUSINESS MODELS AND VALUE CREATION.

Knowledge about users, design and technology in all areas of product development makes Semcon unique – and offers customers better control and quality. This has been our core competence for more than 35 years. In addition, we have broad experience in the industry and a solid knowledge bank in the form of our more than 2,000 employees. We also act as a partner to our customers, and our solutions are based on innovation, expertise and the courage to challenge when necessary. Always with a focus on sustainability and end users. In this way, we create value for our customers by making them successful through the products they offer end users.

In recent years, we have seen that more of our customers want to work with fewer suppliers and that the selected suppliers are expected to have an international presence. Companies are now looking for partners that can handle major projects and increasingly, entire functions within companies. Semcon has the required size, and also the flexibility to drive small projects using local specialists. Time-to-market has long been central as a means of competition. Therefore, it is also critical for customers that their products develop as quickly and efficiently as possible.

This is where we have an advantage, with more

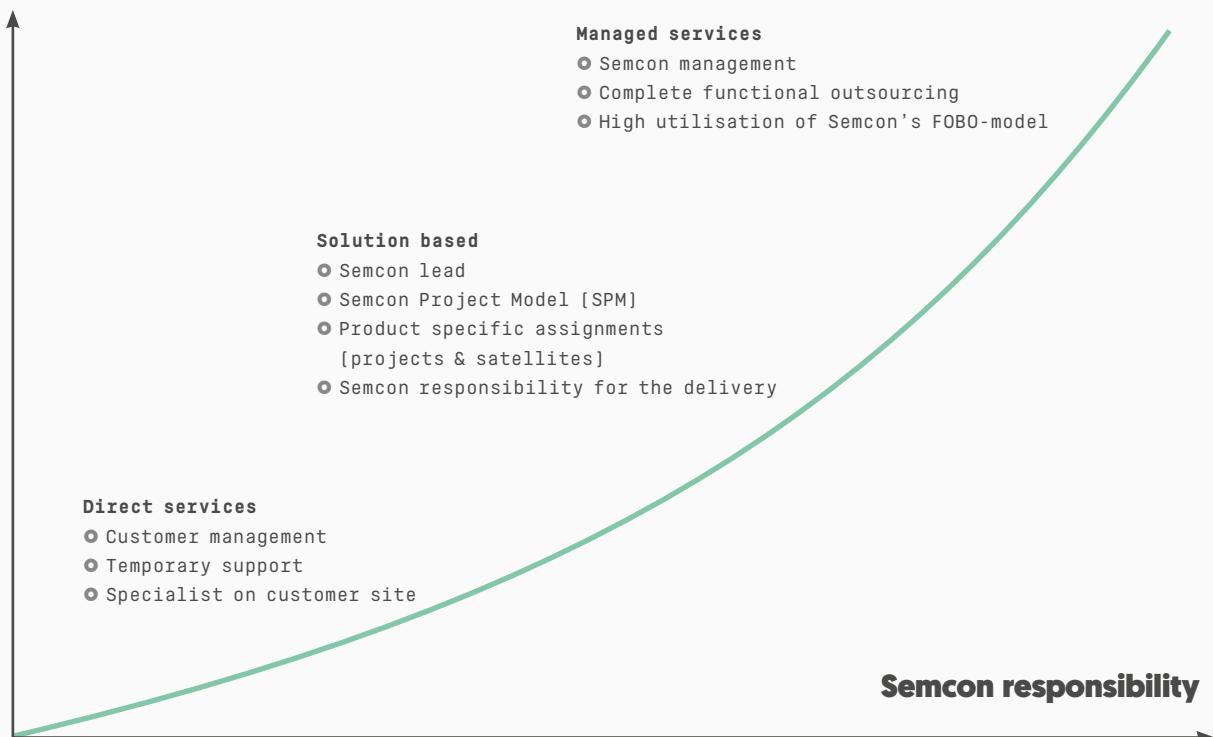
*Our solutions are based on innovation, expertise and the courage to challenge. With a focus on sustainability and end users, we create value for our customers.*

than 30 offices around the world. We meet customers locally, but also benefit from an international network, consisting of our partners. Specialists from offices in different countries often work on project assignments together, such as in the development of technology for self-driving vehicles or in the implementation of offshore wind turbines. By offering a cost-effective mix of expertise, we save time and money for customers. Our offices in India, China and Hungary play a vital role in these deliveries as skills centres for both engineering services and product information. We call this type of delivery model FOBO, where the Front Office [FO] is responsible for

project coordination, while the Back Office [BO] carries out several parts of the project. The offices are well established and have the capacity to take part in major, advanced projects. Semcon also works on satellite projects, whereby employees at a Semcon office work in a customer's IT system from our own offices.

Semcon's main business is based on three flexible delivery solutions with the ability to tie together our expertise around the world and give our customers the solution that best suits their situation.

## Semcon added-value



### \* Direct services

Semcon provides specialists in a number of areas. We work integrated in our customers' organisations, providing knowledge that strengthens their capacity.

assumes overall responsibility, we are responsible for the entire project process, from planning to final delivery.

### \* Solution based

Semcon is comprehensively responsible for all or part of a project, with delivery consisting of a specified result. In projects in which Semcon assumes responsibility for part of the process, We improve or develop elements of a product, plant or service for the customer. In cases in which Semcon

### \* Managed services

Semcon assumes overall responsibility for a defined function designed to deliver products and services, such as product information. Semcon takes over customer processes in this area and manages the work from our own offices. Customers receive the latest expertise in the field at the same time as their flexibility and cost-control are improved.



### The Smiling Car

With self-driving cars, you will no longer be able to communicate in traffic in the way we are used to. This is particularly true for pedestrians, who depend on eye contact. This is why Semcon has developed The Smiling Car, which is based on human behaviour. The concept was launched in autumn 2016. The self-driving cars interact by smiling - a message that is readily understood by everyone. When the self-driving car's sensors detect a pedestrian, a signal is sent to a display at the front of the car and a smile lights up that confirms that the car will stop.



“

*The strength behind The Smiling Car is that we allow people to communicate in the way they are used to, instead of taking an unnecessary detour via technology.*

– Karin Eklund, Head of User Experience, Semcon

Watch the film and learn about the technology:  
[www.semcon.com/en/smilingcar](http://www.semcon.com/en/smilingcar)



# PRODUCT DEVELOPMENT WITH A FOCUS ON END USERS.

Semcon is a partner for all phases of product development: from target group analysis and concept to production systems and user support. Our deliveries are often complex and can rarely be compared with each other, but generally we can divide what we do into four overarching areas which are all deeply rooted in product development.

## **Business Development**

Competition is increasing sharply in many industries, technology leaps are becoming longer and user behaviour is more and more difficult to follow. Mature and innovative business models play a central role in successful business. Through the development of products and solutions for many of the most successful and high-tech companies, we access new trends daily that add value and knowledge in all of our processes. We use this knowledge to generate successful business models together with our customers. Through an insight into how technology affects industries and ultimately end users, Semcon helps customers to create future value for sustainable and increased profitability. By taking advantage of and transferring knowledge from one industry to another, exciting exchanges occur that our customers benefit greatly from. It is not unusual that an established and proven business model

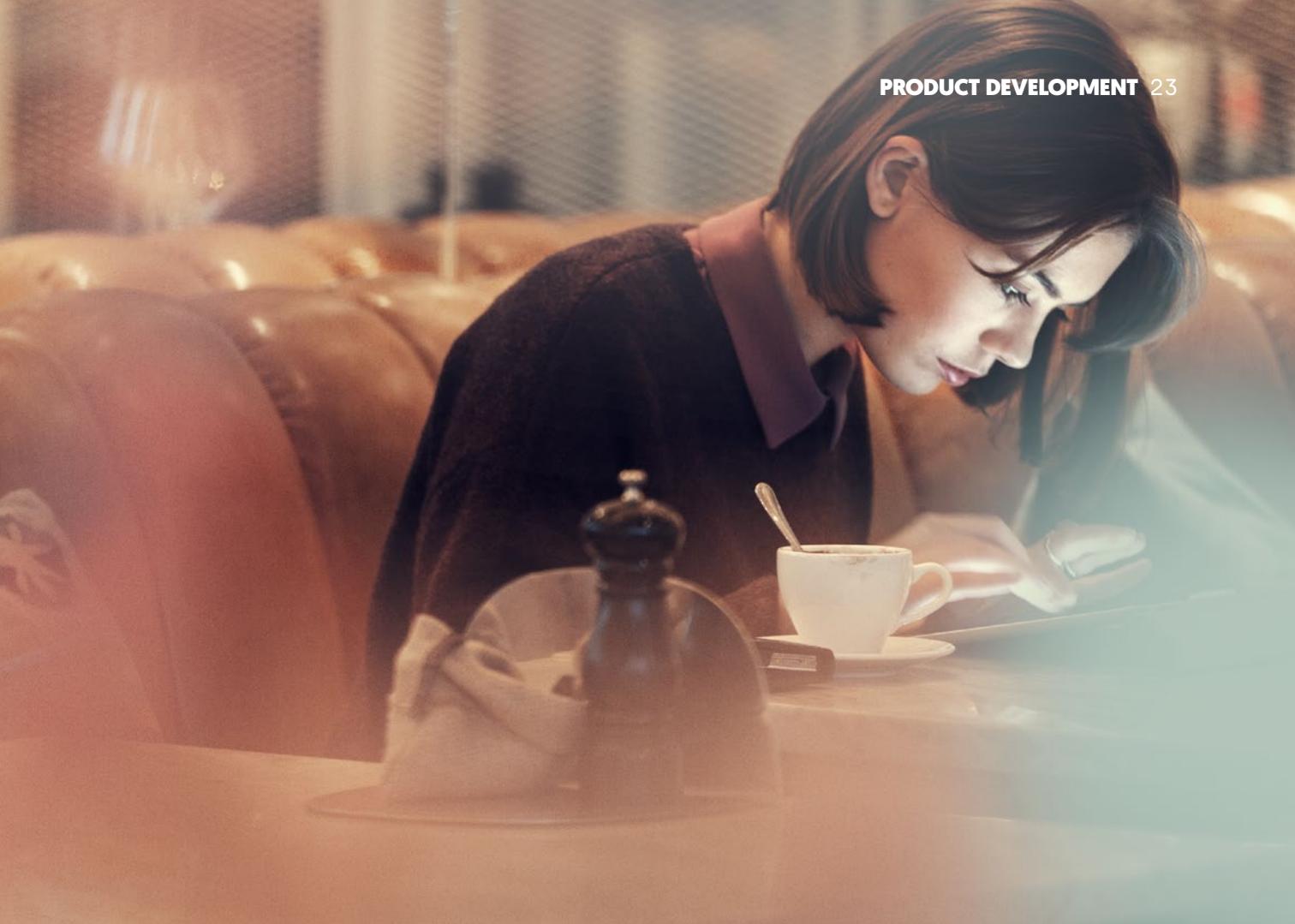
for one industry is revolutionary for another. This can be applied to everything from branding strategies to business models for aftermarket or the sustainable recycling of the product.

Businesses today are becoming more and more complex, while demands on security and availability are increasing. This places ever more exacting demands on quality control and documentation, something which is a challenge for many organisations. We have extensive experience from many different industries and know which methods and tools are most effective to ensure the quality of deliveries.

Semcon's offering includes business modelling, strategy services with a focus on product and product portfolio strategies, as well as services related to quality management and quality assurance.

## **Concept development and design**

Successful concept development begins with gathering information. Especially from the people who are going to use the final product. We work in close proximity to our customers, often in workshops, to distinguish what is important and what creates the most value and innovation. By rapid prototyping, we can try different routes and even challenge traditional methods to make the final



*Semcon has a strong tradition in technical development. More than 100 competencies collaborate to make the product optimal: in terms of production, the aftermarket and most importantly the user.*

product even easier, smarter, safer – and more profitable.

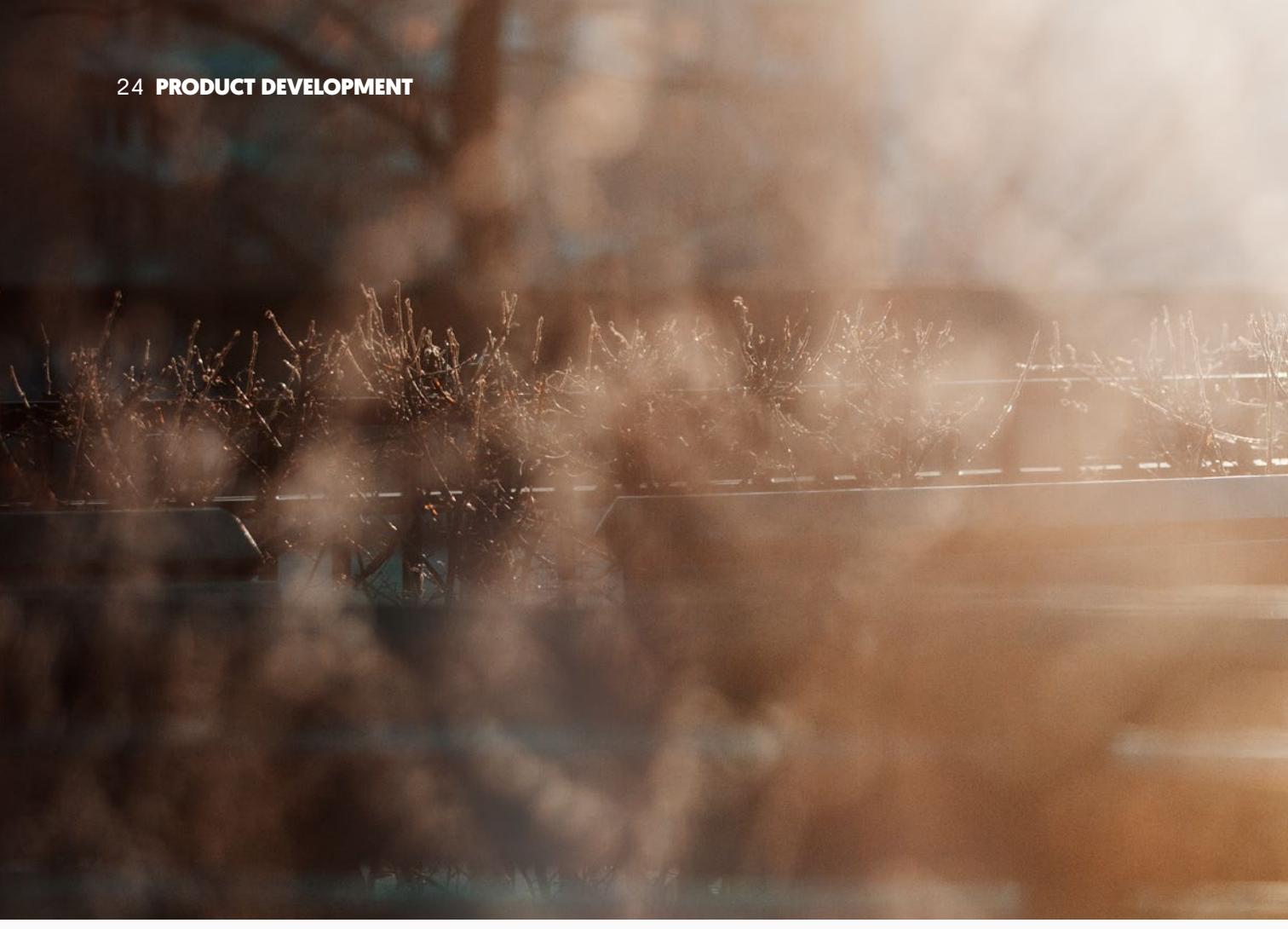
Semcon offers a range of design services targeting most industries. User experience (UX) is

an important puzzle piece in the product development process. Products are becoming increasingly complex and often have both a physical form and built-in software. They can also be interconnected and it is often possible to control them through cloud solutions and apps. Semcon's offering encompasses the entire design process and covers all aspects of the product, taking into account market conditions, aesthetics, ergonomics, function, the environment, production requirements and product specifications.

#### **Technical development**

Semcon has a strong tradition in technical development. More than 100 competencies within Semcon collaborate to make the product optimal: in terms of production, the aftermarket and most importantly the user. Within product development, Semcon's offering includes product development in the form of automation and production technology, calculation and simulation, embedded systems, sound and vibration solutions and mechanics.

To meet the requirements and keep focused, we use our own project methodology with clear processes and specific tollgates. Many disciplines work efficiently together and we continuously employ virtual verification methods within various fields



such as sound, vibration, structural strength and safety. We also work in modules so that different parts can be easily changed or adapted, without restarting the entire product development. Customers should be able to replace an electric motor in an industrial machine for one that uses less power, or connect it to the cloud.

Intelligent systems will soon be present in every new product in the home, the car, the office and industry. The ability to control a product using a smartphone or connect them with other products is something we increasingly take for granted. For this to be possible, the product needs to have an embedded system. By bringing in specialist expertise in strategic areas such as software, hardware, architecture, testing and verification, dynamic control systems and cabling, we help our customers to develop competitive products.

#### **Product Information**

Semcon's offering within product information covers the entire information development cycle and we offer services and complete information solutions, focusing on end users' needs. The current trend is digitalisation, where product information is integrated into the product, such as in infotainment systems or an operator panel, and is presented via

mobile applications or animations on the internet. This means the information is made available in the most appropriate way for the user - today this means wider distribution via digital solutions such as animations and mobile applications.

We help our customers by delivering throughout the product information development cycle, from strategy development and design, via production, to evaluation. This cycle can be described in the following six steps:

- ＊ *Strategy* – Analysis and definition of target groups, target definition plus strategic development plan
- ＊ *Design* – Designing information architecture, usability guidelines, illustrations, graphics and content guidelines and template design
- ＊ *Development* – Data collection, methodology and process development, content creation, as well as reviews, tests and verifications
- ＊ *Control* – Management of configuration, document management, quality assurance and document administration
- ＊ *Delivery* – Translation, publishing, distribution and training
- ＊ *Evaluation* – Statistics, accomplishment of targets and improvements



The importance of product information for advanced technology products and systems is increasing. Modern product information has to satisfy all user needs, whether it comes to marketing or selling a product, or providing a quick start to understanding and using a product, facilitating service and troubleshooting, ordering the right spare parts, or effectively carrying out repairs and maintenance.

Our product information services can be characterised in the following three categories:

#### **Aftermarket product information solutions**

Semcon's aftermarket services cover everything from information strategy and design through method development and information production to delivery to the end user and results evaluation. We also offer complete control and management of the entire customer product information development chain. In the development and production of after-market information, Semcon also invests in its own production systems and production tools as well as processes.

#### **Information distribution**

Semcon provides a cloud service for distributing digital information - Lodges. This service helps

our customers cut their distribution costs, boost business benefits and improve user experience of products.

To achieve this, we have developed an offering consisting of a standardised, effective distribution solution and an easy-to-use user interface. The solution means, for example, that product/service information can be simply made available in various digital platforms, such as web-based, tablet or mobile phones, and integrated into our customers' products. This also safeguards that the users of customers' information always have access to updated information that is customised according to their specific requirements.

#### **Information management**

Semcon offers services in information management that support customers' development processes. These could be developing configuration and document management plans, supporting change management, monitoring, and reviewing the final documentation. Moreover, Semcon creates frameworks for configuration and document management, and ensures that product configuration control is maintained throughout the product lifecycle.

# MACRO TRENDS.

Semcon has identified a number of macro and industry trends that influence the company's operations to varying degrees. These are often complex events that Semcon needs to consider and they entail challenges and opportunities depending on how they are managed. By having a

proactive approach, the courage to think differently, and a business acumen that permeates the organisation, opportunities are created both to develop our offering and to strengthen our brand.

## Fewer and larger suppliers

A growing number of customers choose fewer, larger suppliers with an international presence in order to increase cost-efficiency and resource utilisation in their projects.

**Business opportunities and challenges for Semcon:** Semcon is well-positioned with a global delivery capacity where cost-efficient solutions are provided through our flexible delivery models, such as overall responsibility for a defined function.

**Development 2016:** Demand has risen for this type of solution-based services and managed services.

## Resource streamlining

Processes and structures are needed to streamline resources and reduce costs and environmental impact. The world's population is growing and people are living longer, which changes consumer patterns and makes demands on product development.

### Business opportunities and challenges for Semcon:

The company has increased its investments in sustainability and various forms of streamlining projects, which provides Semcon with more opportunities to offer services and products.

### Development 2016:

Semcon has developed the customer offering within prioritised value fields where resource streamlining is a recurring theme.

## Consolidation

In recent years, the industry has undergone a structural change. Competitors have either become bigger and broader or smaller with more niched solutions.

**Business opportunities and challenges for Semcon:** It is becoming more important to position oneself with a clear brand strategy and to regularly review an attractive offering mix.

**Development 2016:** Semcon has developed customer offerings within prioritised value fields. In addition, Semcon launched its overarching communication strategy to strengthen the brand.

## Digital transformation

Traditional intermediaries are disappearing with the new digital services. This change has been identified in all of Semcon's focus industries.

**Business opportunities and challenges for Semcon:** This trend requires the development of existing competence and an increased focus on system development.

**Development 2016:** Semcon has noted a rise in demand for this type of expertise, and many customer projects look upon digitalisation as a competitive advantage.

### Outsourcing

Companies are concentrating on their core business, which means a growing share of product development is outsourced to external partners.

**Business opportunities and challenges for Semcon:** When outsourcing increases, markets where Semcon operates become stronger.

**Development 2016:** Outsourcing has increased during the year within most of Semcon's focus industries: automotive, industry, life science and telecom & IT.

### Big data

Information gathered through the Internet of Things about the behaviour of end users can be used to optimise existing products and services or as a business case for product development.

**Business opportunities and challenges for Semcon:** This area is evolving rapidly, which offers significant business opportunities at the same time as it makes demands on us as suppliers.

**Development 2016:** Semcon has identified rising demand in this field and has begun recruiting more employees with system development expertise.

### Shortage of engineers

In the near future, there will be a shortage of engineers and it is already tough competition for talented workers. This is mainly because too few engineers are trained and because of the large number of engineers who will shortly retire.

**Business opportunities and challenges for Semcon:**

The search for talent is tough, and it requires a clear positioning strategy to highlight Semcon's employer offering.

**Development 2016:**

During the year, Semcon launched its global strategy to strengthen its brand through activities in the markets where Semcon operates.

### Faster development processes

There is a growing number of products and models as well as faster development processes due to consumer demand for innovation and increasing international competition.

**Business opportunities and challenges for Semcon:** In this context, Semcon acts as a development partner for most of our customers, as our deliveries contribute to shorter development processes.

**Development 2016:** Semcon has noted healthy demand for deliveries in these areas.

# SEMCON'S FOCUS INDUSTRIES.

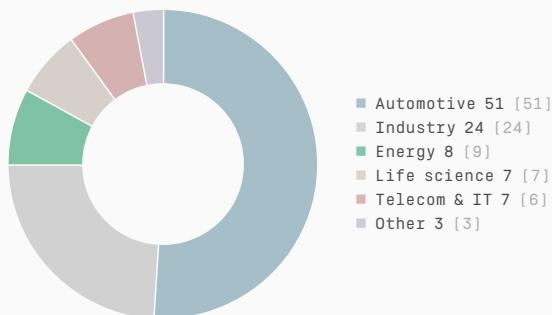
The industries where most of Semcon's customers operate are characterised by major development needs and a high rate of change.

## Automotive

The automotive industry is still experiencing tough competition. Players in the industry are strongly debating value creation and the constant requirement to enhance cost efficiency, combined with stricter demands on product development, sustainability and innovation.

According to a study carried out by analysts VDA and Berylls in 2015, the automotive industry's investments in R&D amounted to EUR 155 billion in 2014. The automotive industry's OEMs accounted for EUR 62 billion of these investments and the remainder was accounted for by subcontractors. Of the EUR 155 billion outsourced, EUR 8.8 billion was allocated to Engineering Service Providers, equivalent to around 6 per cent. Analysts Oliver Wyman estimate that the outsourcing trend in the automotive industry will increase over the 2015–2025 period, but will level off somewhat compared with developments of previous years. Oliver Wyman presented a study in 2012 that estimated that the outsourced share would amount to 7 per cent and is expected to increase to 12 per cent by 2025.

## Income per industry [%]



There are a number of important market trends that influence Semcon's focus and direction. One area where the rate of change is high is connected vehicles [Car IT], meaning when a vehicle collects, processes and presents information. In this field, there are growth opportunities for Semcon to establish a strong position using our expertise where the end user requirements and needs govern the technology. Another trend is alternative drivelines, i.e. growing demand for alternatives to fossil fuel-based cars, where OEMs' budgets are redistributed from traditional to alternative drivelines, for both hybrid and electric cars. Several models and derivatives are also expected to increase substantially by 2025. Demands on flexibility and time to market provide Semcon with an opening to offer complete solutions.

## Industry

The future trend is for consumers' demands for new products and models, plus increasing competition in the industry sector, to contribute to further shortening product lifecycles. This means extra technology development investment and innovative product development. R&D investments in this sector are, therefore, expected to increase by 3 per cent annually over the 2015–2025 period, according to Battelle.

We are in the middle of Industry 4.0, also known as the fourth industrial revolution. This entails the assembly of a series of technologies and concepts within automation, process industrial IT and manufacturing technologies. Another major trend is the Internet of Things [IoT], which creates opportunities and challenges, as completely new products and services have been created by connecting together computers and mobile phones into ubiquitous networks. By 2020, 50 billion products will be connected, which is expected to have a global impact on most industrial players. With its focus on end users and technology as a facilitator, Semcon has a good mix of product offerings. Semcon



can also help to shorten conversion and lead times for customers and create more flexible manufacturing processes.

Like most other sectors, the industrial companies' R&D investments are in strong correlation to the companies' net profits. It is likely that customer companies will continue with their strategies of entering partnerships with fewer major suppliers.

### **Energy**

World energy demand continues to rise while the effects on the environment are becoming more acute. In addition to political will and financial resources, major technological advances and innovations will be required to reduce carbon dioxide emissions. This challenge applies not least in Germany, which is decommissioning its nuclear power stations by 2022. Alternative energy sources and energy technology are the areas that will result in industry shares of the overall R&D investments increasing over the next few years, according to Battelle. In this context, Semcon acts as a partner to optimise processes and structures to reduce environmental impact and costs during energy production.

Advanced material developments for sustainable technology are also expected to drive increases in R&D investments. It is also expected that major R&D investments in the nuclear power industry will take place, mainly for upgrading existing systems, but also for the phasing out of old nuclear power stations. Oil prices in 2016 rose by around 60 per cent, with the price of a barrel rising from USD 33 to USD 52. Uncertainty over the past two years in the oil and gas industry has had a direct impact on R&D investments.

### **Life science**

The life science industry can generally be divided into the more established and global pharmaceutical companies, where outsourcing is relatively

low and the recently established and small pharmaceutical companies in terms of volume, where outsourcing is higher. Because it is costly and risky developing new pharmaceuticals, an increasing number of pharmaceutical companies choose to outsource and purchase complete development projects from small and medium-sized research companies, which ensures access to commercially viable medicines.

In the future, we will witness increasing and changing care needs as the population ages. This will make demands on both new medical device solutions and more efficient health and long-term care. This will provide substantial opportunities for Semcon's offerings within life science. Medical devices is one of the most important growth industries in the life science sector. According to Statista, global growth for medical devices is forecast at 5.5 per cent in 2016. Statista forecasts annual growth between 2017 and 2022 of 3.6 per cent to 4.3 per cent. A report from Espicom Business Intelligence indicates that the largest market for medical devices is the US, followed by France, Germany and the UK. Among the countries that stand out in terms of medical devices is China, which is expected to overtake Japan and Europe by 2020, according to a report from PwC.

### **Telecom & IT**

The telecom & IT industry has seen constant high investment driven by new technologies, a change in customer patterns and changes due to market demands. Digitalisation and servitisation are seen as the greatest structural changes in the industry in recent years. The industry is also undergoing a technological shift, where R&D investments are focusing on various kinds of cloud services. Semcon's offering for cloud services is strong and there is significant potential to grow in these segments. Technologies tied to cloud services are expected to increase, in future accounting for the majority of R&D investments in the industry.

# MARKET SITUATION.

## Global investments in R&D continue to grow

Global investments in research and development [R&D] are expected to rise by an average of 1.1 per cent annually, to EUR 1,253 billion by 2018, according to an analysis carried out by the research organisation Battelle. According to Battelle, the three factors mainly affecting and driving global R&D investments over the next few years will be: the ability of governments to understand scientific and technological changes, market demand for sustainable energy and global climate change.

According to the forecast, the rate of investment will rise but slow compared with previous years. The US, Europe, China and Japan are expected to account for 79 per cent of R&D investments in 2018. By 2022, China's investments in R&D are expected to overtake that of the US. Germany, France and the UK are expected to account for 37 per cent of European R&D investments in 2022.

## Good market growth for ESP services

The Engineering Service Provider [ESP] market is the market for technological R&D outsourced by industrial companies, mainly in the manufacturing industry. Many of Semcon's customers are found in this market. Continued healthy growth is expected for ESP services in the automotive industry as a result of a greater share of outsourcing. The global ESP market is expected to amount to EUR 175 billion by 2018, an increase of 7.2 per cent annually over the 2014–2018 period, according to analyses carried out by Battelle, OECD and the World Bank.

The annual growth rate for ESP services is greatest in Asia [12 per cent annually] and weaker in the more mature markets in Europe and North America.

## Trends for Semcon's main markets in 2016

\* Semcon's main market is Sweden, with a market share of about 5 per cent according to the company's own estimates. Sales of services related to product development and technical information [in industrial technology] were expected to reach SEK 23.7 billion in 2016 with 21,700 employees, according to the trade association Swedish Federation of Consulting Engineers and Architects. The trade association also ranks Semcon second in terms of sales amongst the top 50 companies active in industrial technology. Almega's service indicator [December 2016] forecasts that production in the private sector will rise by approximately 3.5 per cent in 2016, which is largely in line with the increase in 2015.

\* The UK is Semcon's second largest market, with a market share of about 1 per cent according to own estimates. The UK as a market is expected to have the potential for continued high growth, both in current and new industries, despite the UK's decision to leave the EU. According to the audit and advisory company KPMG, there are major opportunities for the UK automotive industry to – through greater innovation capacity and continuous improvements, together with digitalisation – increase production by GBP 74 billion over the next two decades.

## Competitor overview

Competitor	Domestic market	Number of employees	Income mSEK	Year
HCL Technologies	India	111,920	26,630	2015/2016
Alten	France	24,000	16,553	2016
ÅF	Sweden	9,133	11,070	2016
Tata Technologies	India	8,000	3,458	2015/2016
Rejlers	Sweden	2,027	2,341	2016
Sigma	Sweden	2,488	2,209	2015
Etteplan	Finland	2,545	1,741	2016
Combitech	Sweden	1,355	1,612	2015
Prevas	Sweden	548	697	2016
Knightec	Sweden	474	458	2015/2016

When translating from domestic currencies to SEK, the exchange rates were as follows: EUR 9.47, IND 0.13 and USD 8.56.

# RESEARCH AND DEVELOPMENT AT SEMCON.

“

*The Innovation Lab is a unique offer – an experimental workshop that brings together different skills at Semcon to test our own ideas and solve impossible customer assignments. User-centred innovation is the driving force and there is a solution to everything.*

Anders Sundin, Business Manager Semcon Innovation Lab

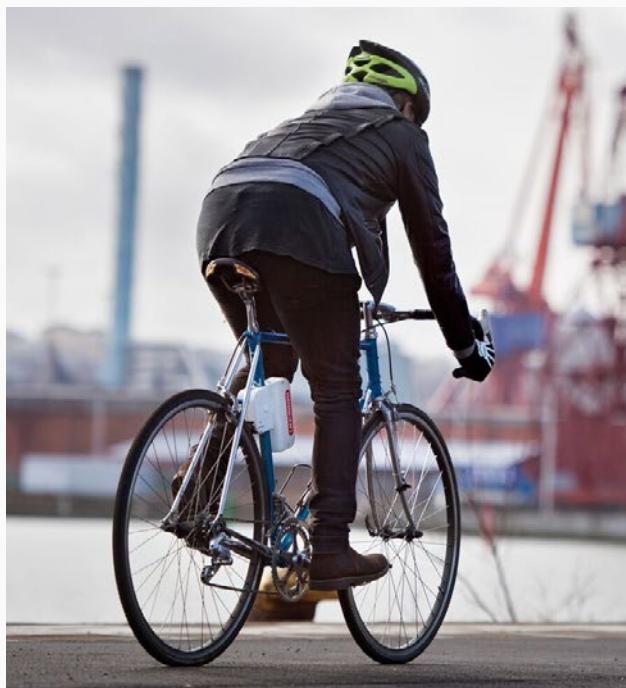
Semcon continually participates in many different research projects in collaboration with academia, institutes and customers. This provides us with the latest theoretical knowledge, and also valuable practical experience of future technologies and user needs.

Insights from research projects are then available for our customers when we discuss their future challenges. We share this knowledge in our customer projects both by actively proposing new solutions and projects and by regularly taking part in development on-site at customer premises.

The emphasis in research projects is in line with our focus areas, such as design, vehicles and connected products. For example, it could concern new solutions for connected products, or the challenge of safety in autonomous vehicles.

We also leverage the experiences gained from research projects in our Innovation Lab. Here, our customer can access the entire design and technology field in a lab environment, with the latest in simulation. Furthermore, the ability to quickly assemble prototypes enables new ideas and innovations to easily take form.

The Innovation Lab has a clear user perspective and a business-oriented approach. We operate some projects entirely on our own, such as the universal smart engine for bikes, an idea that was born, developed and implemented in our Innovation Lab.



## Smart engine makes your old bike electric

Electric bikes provide a welcome push up steep hills and are becoming increasingly popular. However, electric bicycles are expensive and conversion kits often both tricky to install and costly.

To solve this, Semcon has developed a smart and inexpensive engine prototype that can be easily fitted to any bike. To encourage more people to cycle, we designed an electrical engine that costs less than EUR 100 to produce and can easily be transferred between bikes. The engine contains a small computer with software that makes it possible for Semcon to develop different apps in future. This could include, for example, different modes, prioritizing speed or reach, or other applications such as theft-control or tracking.

# SUSTAINABILITY AT SEMCON.

## Structure and framework for Semcon's sustainability work

The foundation for Semcon's sustainability work is our Code of Conduct and our Quality and Sustainability Policy. Our Code of Conduct forms the basis for our entire business and serves as a framework that defines what is important for us at Semcon. It includes how we build long-term relations with our employees, customers, business partners and other stakeholders and how we create confidence in our brand.

Semcon's Code of Conduct is based on the UN's 10 Global Compact Principles relating to human rights, labour laws, environment and corruption.

Semcon's Quality and Sustainability Policy sets out the principles for our business projects. Semcon's Code of Conduct and our Quality and Sustainability Policy are applied within the entire Semcon Group and are available to read on our website, [www.semcon.com](http://www.semcon.com).

In order to guarantee that our ethical rules are followed within the Group, and to offer an opportunity to report any possible errors, a whistleblowing function was launched during the year. No cases were reported in 2016.

Semcon's Sustainability Manager reports to Group management and collaborates with various staff functions, such as HR, legal, quality, communication, IT and finance with regard to the implementation of various activities. Sustainability work is governed and followed-up in the company's integrated management system.

Semcon's aim is to contribute to a more sustainable world and work will begin in 2017 to see how the company can integrate the 17 UN Sustainable Development Goals that are relevant for the business.

## Semcon's sustainability goals

Semcon's overarching sustainability goal is to be the sought-after supplier and employer and the leading company with regard to sustainability in our industry. During the year, sustainability

goals and KPI:s were drawn up, which will be followed up and evaluated every year. The goals will be achieved by intensifying work to:

- \* increase awareness of the company's sustainability work
- \* increase the number of sustainability-related services in our product portfolio
- \* reduce our own climate impact
- \* be one of the most attractive employers in our industry

## Semcon's integrated approach to sustainable development

Working in a sustainable manner entails acting professionally and creating long-term relationships with our employees, customers and other stakeholders, with respect for the environment and social responsibility. Semcon has chosen to define sustainability using five perspectives that represent our integrated approach to sustainable development:

- \* Employees - through a corporate culture where our employees thrive
- \* Business activities - through responsible business focusing on long-term profitability
- \* Customers - through creating solutions together for a more sustainable society
- \* Environment - through environmental consideration
- \* Social - through social commitment

### Employees

Semcon works actively for greater diversity taking into consideration gender, age, religion, ethnicity and cultural and social background. We develop products for everyone. It is therefore important to widen our perspective to understand all types of end users.

To achieve this, we need employees with a wide range of experiences and from different backgrounds. This is why Semcon's Group management has intensified efforts in 2016 to achieve diversity with a focus on equal opportunities.



Semcon's aim is to be an equal-opportunities company by 2022 (40/60 gender balance), in all parts of the Group, including our managers. Semcon is taking part in a number of projects that promote integration among our employees in different countries. The employee and leadership surveys reveal that our employees enjoy working at Semcon and with their managers.

The trend for all internal employee targets is positive in 2016.

#### **Business activities**

Sound business acumen is essential to ensure long-term profitability and sustainable operations.

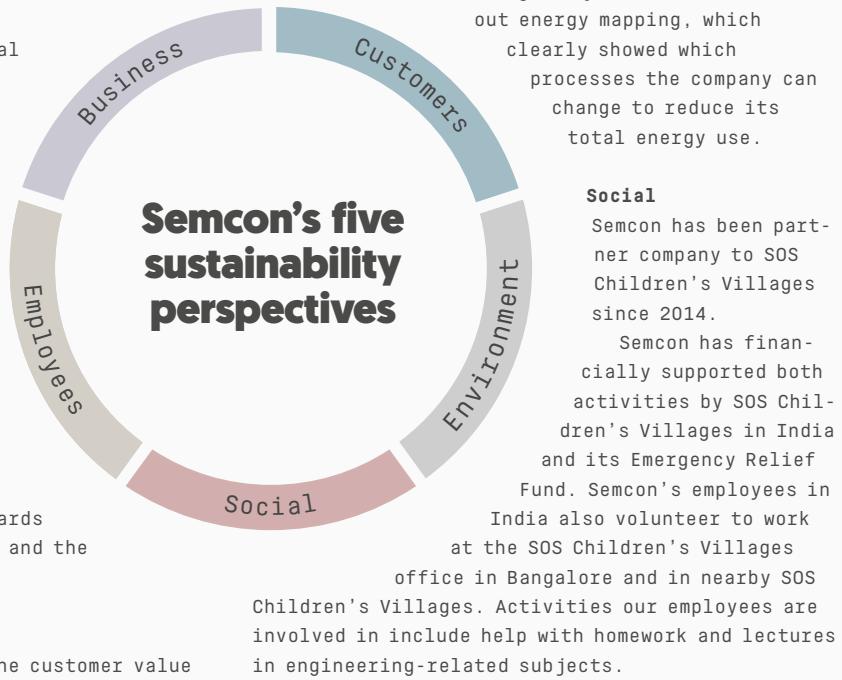
Our Code of Conduct provides a foundation for how we should act in our business relations, and to further clarify how Semcon should act as a company, we held several internal training sessions during the year about business acumen and created an e-learning course about the new bribery legislation.

We achieve and build our long-term business relations with respect for and responsibility towards our customers, business partners and the world around us.

#### **Customers**

Semcon's customers should feel the customer value in the form of deliveries with a focus on the end user. Semcon has the required expertise to support customers in their product development processes for a sustainable society, whether it concerns energy efficiency or the connected homes of the future.

Efficient processes in customer deliveries are as important as challenging customers to opt for sustainable solutions.



#### **Environment**

Semcon's main contribution towards sustainable development consists of the technical solutions we create for our customers. Our employees' know-how about environmental challenges is an important aspect of our deliveries. Internally, we consistently work to minimise our own environmental impact, which includes our travel, purchasing and waste management. Semcon is ISO 14001 certified.

During the year, Semcon carried out energy mapping, which clearly showed which processes the company can change to reduce its total energy use.

#### **Social**

Semcon has been partner company to SOS Children's Villages since 2014.

Semcon has financially supported both activities by SOS Children's Villages in India and its Emergency Relief Fund. Semcon's employees in India also volunteer to work at the SOS Children's Villages office in Bangalore and in nearby SOS Children's Villages. Activities our employees are involved in include help with homework and lectures in engineering-related subjects.

The annual Christmas collection among Semcon's employees is matched by an equivalent donation from Semcon. The collection for Christmas 2016 was sent to those affected by hurricane Matthew in Haiti.

In 2017, Semcon will, in addition to supporting parts of SOS Children's Villages activities in India, also part-finance the SOS Children's Villages youth centre in Hammarkullen, Gothenburg, which is the first of its kind in Sweden.

## Financial statements

	42	Notes	
<b>Consolidated income statements</b>	<b>42</b>		
<b>Consolidated statements of comprehensive income</b>	<b>43</b>	Note 1	General information
		Note 2	Significant changes during the reporting period
<b>Consolidated balance sheets</b>	<b>44</b>		
<b>Consolidated changes in shareholders' equity</b>	<b>45</b>	Note 3	Accounting policies
<b>Consolidated cash flow statements</b>	<b>46</b>	Note 4	Financial risks
<b>Consolidated specification of capital employed and net debt</b>	<b>47</b>	Note 5	Critical estimations and assessments
<b>Parent Company's income statements and statements of comprehensive income</b>	<b>48</b>	Note 6	Segment reporting
<b>Parent Company's balance sheets</b>	<b>49</b>	Note 7	Net sales
<b>Parent Company's changes in shareholders' equity</b>	<b>50</b>	Note 8	Remuneration to auditors
<b>Parent Company's cash flow statements</b>	<b>51</b>	Note 9	Employees
<b>Notes</b>	<b>52</b>	Note 10	Interest income and similar items
<b>Auditor's report</b>	<b>74</b>	Note 11	Interest expenses and similar items
		Note 12	Tax
		Note 13	Earnings per share
		Note 14	Intangible assets
		Note 15	Tangible assets
		Note 16	Shares in Group companies
		Note 17	Discontinuing operations
		Note 18	Accounts receivable
		Note 19	Accrued non-invoiced income and invoiced non-accrued income
		Note 20	Prepaid expenses and accrued income
		Note 21	Share capital
		Note 22	Borrowings
		Note 23	Overdraft facilities
		Note 24	Accrued expenses and deferred income
		Note 25	Pledged assets
		Note 26	Contingent liabilities
		Note 27	Transactions with related parties
		Note 28	Operational leasing
		Note 29	Events after the balance sheet date

# DIRECTORS' REPORT 2016.

The Board and CEO of Semcon AB [publ] co.id.no. 556539-9549  
 hereby present the annual report and consolidated accounts  
 for the 2016 financial year.

## Business

Semcon is an international technology company within engineering services and product information activities at more than 30 locations in Sweden, Germany, the UK, Brazil, Hungary, India, China, and Norway. Semcon divested Business Area Engineering Services Germany in February 2017. The divested business is presented in this Annual Report as discontinuing operations. The figures and information in this Directors' Report refer to continuing operations unless otherwise stated. For further information, see Note 17, page 68.

## Semcon's business areas

Semcon is organised into three business areas: Engineering Services Nordic, Engineering Services International and Product Information. The engineering services business areas work with product, plant and production development. Operations aim to help customers to develop products, systems and plants to strengthen their competitiveness by providing innovative solutions along the entire development chain, from studies to specify requirements to the finished product.

Engineering Services Nordic provides engineering services focused on the automotive, energy, industrial and life science industries in the Nordic region.

Engineering Services International works with services in product development in each geographic market: the UK, Brazil and India, particularly in the automotive industry.

Business Area Product Information offers services and complete solutions in product information. This includes information production and distribution. The information is made available in an appropriate manner for the user - which today means more frequent distribution via digital solutions, such as animations and mobile apps.

## Important events during the year

\* In March, Semcon was selected as the "Rocket of the Year" [most places climbed by a company] in Universum's annual survey of attractive employers in a poll of 24,000 engineering students.

- \* In April, Semcon signed a partnership agreement with China Euro Vehicle Technology AB [CEVT]. The agreement is for product information for a new model programme. The project will at most involve around 40 employees and is expected to run until the end of 2017.
- \* In April, Semcon signed a partnership agreement with the London Taxi Company. The contract is for aftermarket information with a clear focus on digital technology. The agreement will run for five years and initially involves around 25 employees.
- \* In April, Semcon's Innovation Lab launched its first product concept, a compact and cost-effective electric motor prototype that can be installed on any bicycle.
- \* In May, Semcon received a prestigious prize in Brazil for its focus on innovation and global collaboration for autonomous vehicles. The prize was linked to a project in which Semcon is developing software systems for autonomous vehicles for a European automotive manufacturer.
- \* At the end of May, Semcon was awarded an assignment to secure production of climate-neutral electricity in a project run by Fortum. The project will extend over three years and is the result of Semcon's long-term focus in the energy sector.
- \* During the autumn, Semcon's new communications strategy was launched, which seeks to more clearly communicate the company's new positioning. This was highlighted internally and externally through two communication campaigns, a new graphic profile and new website.
- \* Semcon is developing an autonomous snow removal vehicle as part of the Yeti Snow Technology AS joint venture together with Øveraasen. The project is the first of its kind in the world and a first demonstration of the vehicle is expected in March 2018.

## Sales and profit

Operating income amounted to SEK 1,756 million (1,657). Adjusted for currency effects, acquisitions and divestments, income increased by 5 per cent.

## 36 FINANCIAL STATEMENTS

Favourable growth was reported by, for example, Business Area Engineering Services Nordic with organic growth amounting to 7 per cent. The Group's operating profit amounted to SEK 95 million [58], yielding an operating margin of 5.4 per cent [3.5]. Business Area Product Information's operating profit was positively affected this year by recovered write-downs of accounts receivable of SEK 7 million.

Net financial items amounted to SEK - million [-1], yielding profit before tax of SEK 95 million [57]. The tax expense for the year amounted to SEK -27 million [-14]. Profit after tax amounted to SEK 68 million [43] and earnings per share after dilution was SEK 3.75 [2.36].

Loss after tax for the year, including operations being divested, amounted to SEK -48 million [3] and the loss per share after dilution was SEK -2.67 [0.19].

### Cash flow and financial position including discontinuing operations

Operating cash flow from current activities was SEK 33 million [27]. Cash flow during the fourth quarter was lower year-on-year due to a reduction in advanced payments from customers, mainly from discontinuing operations. The Group's cash and cash equivalents amounted to SEK 88 million [126]. In addition, the Group had non-utilised credit of SEK 240 million [226] as of 31 December.

Shareholders' equity amounted to SEK 529 million [604] and the equity/assets ratio was 45 per cent [45]. During the second quarter, a dividend of SEK 22 million [45] was paid to shareholders. The Group's net debt amounted to SEK 127 million [78]. Excluding pension commitments, net debt amounted to SEK 43 million [10]. The debt/equity ratio was 0.2 [0.2].

### Investments

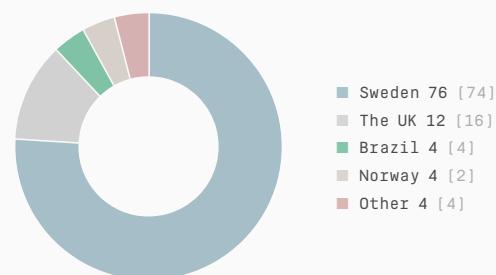
Investments in hardware, licenses, office supplies and equipment amounted to SEK 34 million [33].

### Acquisitions and divestments of companies

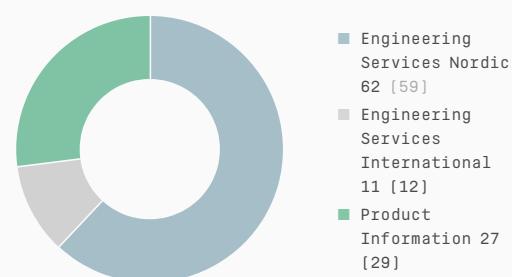
No acquisitions or divestments took place during the year.

Change in operating income	
compared with preceding year	
Acquisitions	3%
Currency effects	-2%
Organic growth	5%
Total	6%

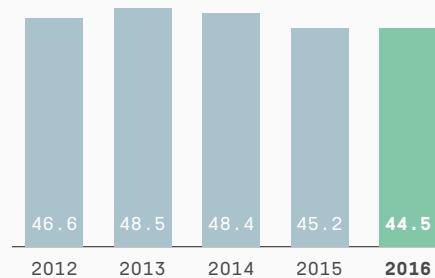
### Income per market [ % ]



### Income per business area [ % ]



### Equity/assets ratio [ % ]



### Debt/equity ratio [ multiple ]



## Engineering Services Nordic

### Business

The business area's around 1,100 employees provide services in areas such as product development, plant engineering and production development.

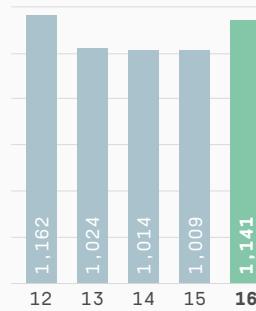
### Markets and customers

Business activities mainly focus on the automotive, industry, energy and life science sectors in the Nordic region. Customers include ABB, AB Volvo, Alstom, AstraZeneca, Bombardier, CEVT, Geely, Fortum, General Electric, Getinge, Husqvarna, Metso, Rolls-Royce Marine, Saab, Scania, Siemens, Vattenfall and Volvo Cars.

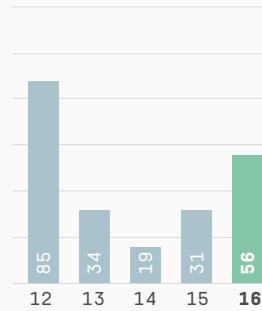
### Development in 2016

The business area's income amounted to SEK 1,141 million [1,009]. Adjusted for acquisitions, this represented an increase of 7 per cent. Sales to the automotive industry remained good, while demand from energy customers was at a lower level. Operating profit amounted to SEK 56 million [31], yielding an operating margin of 4.9 per cent [3.0]. Activities in Norway, which were acquired at the end of 2015, negatively affected operating profit during the year by SEK 10 million [-]. Measures were taken and the Norwegian business is expected to report improved profit in future. The business area is continuing its efforts to develop its range to become more value-based. This shift and associated measures are expected to lead to improved growth and profitability.

Income [mSEK]



Operating profit [mSEK]



## Engineering Services International

### Business

The business area's around 350 employees provide product and production development services.

### Markets and customers

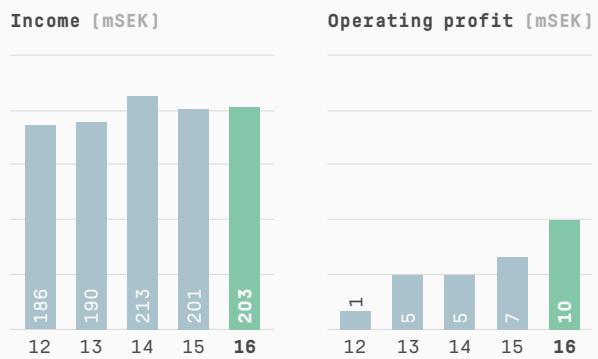
The business area has business activities in the UK, Brazil and India, mainly in the automotive industry. Customers include a number of leading industrial companies such as AB Volvo, Aston Martin, Autoliv, Bentley, BMW, Jaguar Land Rover, McLaren, MAN, Mercedes Benz, Scania, Siemens, Volvo Cars and VW.

### Development in 2016

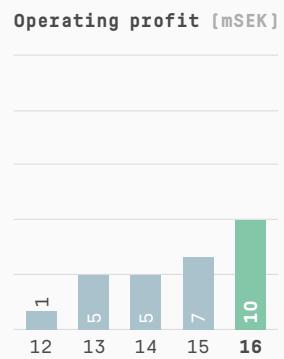
The business area's income amounted to SEK 203 million [201], which adjusted for currency effects represented an increase of 8 per cent. Operating profit amounted to SEK 10 million [7], yielding an operating margin of 4.7 per cent [3.2]. The operation in Brazil reported improved results despite a weak market.

In December 2015, a new agreement was signed with a global automotive partner for autonomous vehicle systems. The assignment has mainly been based in Brazil as part of Semcon's global strategy to involve cutting-edge expertise from different countries in high-tech development projects.

Income [mSEK]



Operating profit [mSEK]



## Product Information

### Business

The business area's around 600 employees provide complete solutions within product information, with the primary focus on customers' aftermarket business. The business area's offering supports products throughout the product life cycle: from sales and marketing to installation, diagnostics, maintenance, repairs and training material for service staff.

### Markets and customers

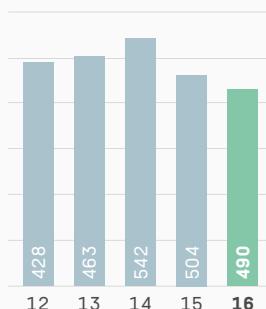
The business area has offices in Sweden, the UK, Germany, Hungary, China and Norway. Customers are mainly in the automotive, engineering, telecom and IT, energy and med-tech sectors. These include ABB, AB Volvo, Baxter, Bombardier, CEVT, ESAB, Jaguar Land Rover, Saab, Siemens, The London Taxi Company, UniCarrier and Volvo Cars.

### Development in 2016

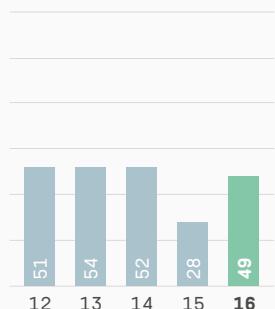
The business area's income amounted to SEK 490 million [504], which adjusted for currency effects represented an increase of 1 per cent. New business with sectors such as telecommunications compensated for the fall-off in deliveries in the UK since the fourth quarter of 2015 from the partnership with Jaguar Land Rover. Operating profit amounted to SEK 49 million [28], yielding an operating margin of 10.0 per cent [5.6]. The operating profit includes positive one-off effects from recovered write-downs of accounts receivable of SEK 7 million, of which SEK 5 million was in the first quarter and SEK 2 million in the second quarter.

Part of the business area's strategy is focused on increasing the proportion of partnership agreements, with two such larger agreements being signed in the second quarter with China Euro Vehicle Technology [CEVT] and The London Taxi Company [LTC]. The development and production of product information for both of these customers is carried out in networking teams that include employees from four of the six countries where the business area is currently represented. At the end of 2016, almost 80 employees were involved in our cooperation with CEVT and LTC.

Income [mSEK]



Operating profit [mSEK]



### Employees

At 31 December, there were 2,044 [1,979] employees and 1,956 [1,894] employees in active service. The average number of employees was 1,956 [1,855], of which 1,251 [1,213] in Sweden, 193 [185] in Brazil, 149 [113] in Hungary, 119 [114] in India, 108 [141] in the UK, 69 [20] in Norway, 49 [53] in China and 18 [16] in Germany.

Employees are trained on an ongoing basis, taking into account employees' requirements and the expertise Semcon expects its customers to require in the future. On 31 December 2016, 72 per cent [74] of employees had university or college education. 49 per cent [53] had worked for more than three years in the Group, 28 per cent [28] between one and three years and 23 per cent [19] shorter than one year. The proportion of women was 29 per cent [29]. In Sweden, the proportion of women was 31 per cent [31].

In the respective business areas, the number of employees was as follows: Engineering Services Nordic 1,098 [1,098], Engineering Services International 355 [352] and Product Information 591 [529].

### Research and development

The majority of Semcon's development costs concern development within the framework of customer projects. Other development costs are expensed in the accounts. These costs are not considered to be significant. Exceptions are made for costs for development of specific programs or technical platforms, which are capitalised in accordance with IAS 38. Semcon also takes part in several external research projects in the field of connected vehicles, sustainable product development and new materials to ensure a prominent position in terms of expertise.

### Sustainability

Semcon's main contribution for reducing environmental impact is in the products and services the company develops for customers. Semcon's extensive, specific expertise throughout the product lifecycle means that the company can create sustainable, complete solutions covering energy efficiency, both small and large-scale, light constructions, smart products, efficient production development and user behaviour. This provides technology that promotes eco-friendly use or communicates energy-saving functions in such a way that users understand.

To reduce the company's own environmental impact, Semcon minimises the number of journeys its employees make and arranges digital meetings when these are possible.

### Risks in the Group's business

Semcon is exposed to a number of risks that may

affect the Group's results. Semcon has chosen to divide the risks the company faces into financial and business-related risks. Semcon evaluates and identifies significant risks continually within the organisation and in strategic planning.

### Financial risks

The company has identified a number of financial risks that could affect earnings including: financial risk, interest rate risk, liquidity risk, credit risk and currency risk. For further information about financial risks, see Note 4 on page 57.

### Business-related risks

The company has identified the following main business-related risks:

#### Economic climate dependency

**RISKS:** Semcon's customers are affected to varying degrees by a poor economic climate as this can negatively impact demand for Semcon's services.

**MANAGEMENT:** Semcon continuously works to broaden its customer base to minimise dependency on different markets and industries as well as individual customers, which may be affected by a poor economic climate. Semcon's customer base consists mainly of European companies in the automotive industry and Nordic industrial companies in various industries even though new customers from other geographic markets such as China, India and Brazil have been added in recent years.

**EXPOSURE:** Semcon is a global company with activities in Sweden, Germany, Brazil, the UK, Hungary, India, China and Norway. The percentage of sales to customers outside Sweden amounts to 24 per cent.

#### Industry dependency

**RISKS:** Semcon's business is affected to varying degrees by developments and dependency on individual industries.

**MANAGEMENT:** To minimise the dependency on the automotive industry, Semcon is prioritising growth in other industries, such as energy and life science.

**EXPOSURE:** Since last year, exposure to the automotive industry has been reduced and amounts to 51 per cent of the Group's total sales.

#### Single-customer dependency

**RISKS:** A customer can end an assignment/project at short notice or gradually cut back on business volumes. This can result in a risk, since Semcon cannot always guarantee full cost coverage, particularly for employees who cannot immediately be transferred to another assignment.

**MANAGEMENT:** Semcon works continuously to broaden its customer base to minimise its dependency on single customers.

**EXPOSURE:** Semcon's customer base mainly comprises

Nordic industrial companies in various sectors and foreign customers in the automotive industry. The ten largest customers account for 57 per cent of the Group's total sales, which is 3 per cent lower than in 2015.

### Employees

**RISKS:** There is always a risk that key employees or a large number of employees choose to leave the company. There is immense competition for skilled employees, which generally means that salaries may rise above the agreed contracts, both for groups of employees and individual key employees.

**MANAGEMENT:** Semcon prioritises activities to be an attractive employer and thereby improve employees' job satisfaction. Resources are set aside for training, recruiting and induction activities.

**EXPOSURE:** In 2016, employee turnover was 22 per cent, which is unchanged compared with 2015.

### Sustainability

**RISKS:** Semcon's presence on the global market carries sustainability risks in the areas of human rights, working conditions, environment and corruption.

**MANAGEMENT:** Semcon reduces its exposure to sustainability-related risks using set regulations, such as the company's Code of Conduct, which adheres to the UN Global Compact, and its Quality and Sustainability Policy. Semcon has a certified environmental management system in place to ensure that environmental legislation is followed throughout the Group. Semcon takes a zero-tolerance approach to any form of corruption and has a framework in place that clarifies the ethical rules for Semcon's conduct in relationships with customers and other stakeholders. In 2016, a mandatory sustainability course was developed in addition to a training course for all employees regarding the new bribery legislation. In addition, a whistleblowing function was implemented during the year, according to which each employee is given the opportunity to anonymously report any suspected breaches of applicable regulations.

### Price pressure

**RISKS:** The risk of being exposed to price pressure is high in development-intensive industries.

**MANAGEMENT:** Semcon offers competitive prices in all markets but also gives customers the opportunity of using Semcon's entire network of local and international offices. Semcon is continuing to adhere to its set plan of moving away from fixed hourly-based pricing towards more performance-based deliveries. This can increase the risk but also provides opportunities to improve profitability. Price pressure has remained strong, although there are variations between different sectors and markets. Every

## 40 FINANCIAL STATEMENTS

reduction or increase in total annual fees by one percentage point impacts the outcome by about SEK 15 million. The main priority is to offer the right solutions for customers and that they are based on results instead of primarily hours delivered.

### Fixed price projects

**RISKS:** Fixed price projects expose the company to risks if projects cannot be completed to budget and/or if the project cannot be completed on time.

**MANAGEMENT:** All projects are planned, budgeted and carried out according to joint, fixed working methods. Semcon actively works with project management and is ISO 9001 and ISO 14001 certified. Meanwhile, projects give the Group the potential of improving profits through efficiency gains and by using employees from various Semcon offices on projects.

**EXPOSURE:** During the year, 51 employees received training as part of Semcon's project manager training, which is based on the Group's own project methodology, the Semcon Project Model. Additionally, six project managers were certified to lead major projects.

### Liabilities

**RISKS:** There is a risk that incorrectly carried out assignments and projects can affect results.

**MANAGEMENT:** The Group is insured according to industry practice for such eventualities.

**EXPOSURE:** During the year, a review of insurance cover took place in all of the Group's markets. Over the years, Semcon has only used its insurance on a few occasions.

### Sensitivity analysis

A change in the following variables would affect sales and results as follows:

Variable	Change	Income	Impact on profit before tax
Utilisation	± 1%	mSEK 17	mSEK 17
Price	± 1%	mSEK 15	mSEK 15
Staff costs	± 1%	mSEK 12	mSEK 12
No. working days	± 1 day	mSEK 7	mSEK 6
Interest	± 1%	-	mSEK 1

### Seasonal variations

The number of working days per quarter varies year on year, which is an important factor to consider when analysing the income for the various quarters. Each working day represents around SEK 7 million in income.

No. of working days Sweden	Q1	Q2	Q3	Q4	Total
2014	62	58	66	62	248
2015	62	59	66	63	250
2016	61	61	66	64	252
2017	64	58	65	63	250
2018	63	59	65	62	249

### Performance-based share savings scheme

A decision was made at the Annual General Meeting on 28 April 2015 to introduce a long-term performance-based share savings scheme for around 110 senior executives and key employees in the Semcon Group. The scheme will run for four years, starting in July 2015, and cover no more than 242,718 shares, equivalent to 1.34 per cent of the total number of shares outstanding.

### Work of the Board

The work of the Board is described in the Corporate Governance Report on page 80.

### Remuneration to the Board and senior executives

Remuneration to the Board was decided by the Annual General Meeting [AGM] in 2016 following proposals by the Nominations Committee. Remuneration to the Board until the 2017 AGM amounted to SEK 1,610,000, of which SEK 550,000 for the Chairman and SEK 265,000 for other Board members not employed by the company. The Board decides on remuneration to the CEO. Semcon has decided that the Board in its entirety will carry out the Remuneration Committee's assignments.

All senior executives in Group management are entitled to a fixed salary and variable remuneration of no more than six months' salary, based on how well they meet their respective targets. The remuneration shall be reasonable, competitive and in line with market conditions. The fixed salary is set every calendar year. In addition to following current collective agreements, etc. senior executives have the right to individually arrange a pension, upon which salary or bonus sacrifices can be made to increase pension provisions, provided it does not affect costs for the company over time.

All pension solutions agreed upon henceforth will be premium-based. Remuneration guidelines include the individuals, who during the time the guidelines applied, are members of Group management. The Board has the right to deviate from the guidelines if there is just cause to do so in special circumstances. Senior executives' remuneration and bonuses are reported in Note 9 on page 61.

### Class of shares and ownership structure

At year-end 2016, Semcon's share capital was SEK 18.1 million, or 18,112,534 shares all with a quo-

tient value of SEK 1. All shares carry the right to one vote and are of the same share class. Every share entitles the holder to equal shares in the company's assets and profits. There are no restrictions on the transferability of shares.

At 31 December 2016, JCE Group owned 25.8 per cent [22.2] of Semcon's shares, Nordea Investment Funds 7.2 per cent [6.3], Ålandsbanken 5.1 per cent [5.2], Swedbank Robur Fonder 4.9 per cent [8.4] and DNB Carlson Fonder 3.3 per cent [1.7].

The ten largest shareholders owned 56.8 per cent [58.7] of capital and voting rights in the company. Semcon owned 242,718 [242,718] of the company's shares. Semcon had 4,478 [4,671] shareholders, of whom 29.9 per cent [27.5] were registered abroad.

### Financial objectives

The objectives aim to create long-term shareholder value. Semcon aims to achieve the following financial objectives for the company:

- ✳ An operating margin of at least 8 per cent over a business cycle
- ✳ An equity/assets ratio of over 30 per cent
- ✳ A share dividend from a long-term perspective of at least one-third of profit after tax

### Events after the balance sheet date

In February 2017, Semcon divested Business Area Engineering Services Germany to Valmet Automotive. The business has 775 employees and income for 2016 amounted to SEK 863 million [901] with EBIT, before impairment losses, of SEK 15 million [-49]. The purchase price was paid in cash and amounted to EUR 14.1 million [SEK 135 million] plus the carrying amount of net assets at the date of transfer. The divestment entails an expected positive cash flow effect of approximately SEK 160 million and resulted in goodwill impairment during the fourth quarter of SEK 66 million and deferred tax assets of SEK 57 million. The divestment was completed on 28 February 2017. The business is presented in this Annual Report as discontinued operations. For further information, see Note 17, page 68.

No other significant events occurred after the end of the year.

### Proposed dividend

According to Semcon's financial objectives, a share dividend is to be paid to shareholders and, from a long-term perspective, is to be least one-third of profit after tax. The Board of Directors proposes a share dividend of SEK 2.25 per share [1.25], which represents 60 per cent of earnings per share after dilution for continuing operations. The dividend is equivalent to SEK 40.8 million [22.6]. The record day for the right to a share dividend is proposed as Friday, 28 April.

### Parent Company

Operating income for the Parent Company amounted to SEK 26 million [24] and mainly relates to payment for intra-Group services. Profit before tax amounted to SEK 14 million [18].

### Proposed allocation of profits

The Annual General Meeting has the following at its disposal in the Parent Company:

SEK	
Profit brought forward and other capital contributions	249,924,446
Profit for the year according to the income statement	10,357,614
<b>Total</b>	<b>260,282,060</b>

**The Board proposes that the profits be appropriated as follows:**

Dividend to shareholders	40,753,201
Carried forward	219,528,859
<b>Total</b>	<b>260,282,060</b>

For additional results of the Group and Parent Company and their financial position, refer to the following income statements, balance sheets, statements of comprehensive income, changes in shareholders' equity and cash flow statements, along with the accompanying accounting policies and notes.

# CONSOLIDATED INCOME STATEMENTS

mSEK	Note	2016	2015
<b>OPERATING INCOME</b>			
Net sales	6.7	1,755.9	1,656.6
<b>OPERATING EXPENSES</b>			
Purchase of goods and services		-365.4	-379.9
Other external expenses	8, 28	-137.5	-133.8
Staff costs	9	-1,146.0	-1,071.8
Amortisation of intangible assets	14	-3.3	-3.1
Depreciation of tangible assets	15	-8.4	-7.0
Loss from shares in associated companies		-0.2	-2.8
<b>Operating profit</b>		<b>95.1</b>	<b>58.2</b>
<b>FINANCIAL ITEMS</b>			
Interest income and similar items	10	3.4	2.2
Interest expenses and similar items	11	-3.6	-3.5
<b>Profit before tax</b>		<b>94.9</b>	<b>56.9</b>
Tax	12	-26.9	-14.2
<b>Net profit for the year from continuing operations</b>		<b>68.0</b>	<b>42.7</b>
<b>Net loss for the year from operations discontinuing operations</b>	17	<b>-116.3</b>	<b>-39.2</b>
<b>Profit/loss for the year</b>		<b>-48.3</b>	<b>3.5</b>
<b>Of which attributable to:</b>			
Parent Company's shareholders		-48.3	3.6
Non-controlling interests		-	-0.1
<b>Total profit/loss after tax</b>		<b>-48.3</b>	<b>3.5</b>
Earnings per share before dilution, SEK	13	-2.70	0.20
- of which continuing operations	13	3.81	2.38
Earnings per share after dilution, SEK	13	-2.67	0.19
- of which continuing operations	13	3.75	2.36
Number of shares at year-end	13	18,112,534	18,112,534
Average number of shares	13	18,112,534	18,112,534
Average number of shares excluding number of own shares	13	17,869,816	17,908,566

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

mSEK	2016	2015
Profit/loss for the year	-48.3	3.5
<b>Items that cannot be reclassified to profit or loss</b>		
Actuarial gains and losses	-10.0	-3.4
Tax	2.9	1.0
<b>Total</b>	<b>-7.1</b>	<b>-2.4</b>
<b>Items that can be reclassified to profit or loss</b>		
Translation differences for the year	14.8	-17.9
Hedging of net investments	-15.9	11.5
Cash flow hedging	-	0.3
Tax relating to hedging of net investments and cash flow hedging	3.5	-2.6
<b>Total</b>	<b>2.4</b>	<b>-8.7</b>
<b>Total other comprehensive income</b>	<b>-4.7</b>	<b>-11.1</b>
<b>Total comprehensive income</b>	<b>-53.0</b>	<b>-7.6</b>
<b>Comprehensive income attributable to:</b>		
Parent Company's shareholders	-53.0	-7.5
Non-controlling interests	-	-0.1
<b>Total comprehensive income</b>	<b>-53.0</b>	<b>-7.6</b>
<b>Total comprehensive income/loss for the year attributable to Parent Company's shareholders has arisen from:</b>		
Continuing operations	68.4	39.5
Discontinuing operations	-121.4	-47.1
<b>Total comprehensive loss</b>	<b>-53.0</b>	<b>-7.6</b>

# CONSOLIDATED BALANCE SHEETS

mSEK	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Intangible assets</b>	14		
Goodwill		274.7	465.9
Other intangible assets		14.7	18.9
<b>Tangible assets</b>	15		
Plant and machinery		25.1	30.8
Inventory, computers and equipment		7.9	20.2
<b>Financial assets</b>			
Deferred tax assets	12	4.2	61.3
<b>Total fixed assets</b>		<b>326.6</b>	<b>597.1</b>
<b>Current assets</b>			
Accounts receivable	18	278.9	433.1
Current tax receivables		0.3	4.5
Other receivables		2.0	12.8
Accrued non-invoiced income	19	133.7	108.2
Prepaid expenses and accrued income	20	28.1	54.4
Cash and cash equivalents		39.9	126.1
Assets held for sale	17	379.9	-
<b>Total current assets</b>		<b>862.8</b>	<b>739.1</b>
<b>Total assets</b>		<b>1,189.4</b>	<b>1,336.2</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	21	18.1	18.1
Other capital contributions		34.5	34.5
Reserves		-21.5	-16.8
Profit brought forward including profit for the year		498.3	568.7
<b>Total shareholders' equity</b>		<b>529.4</b>	<b>604.5</b>
<i>Of which non-controlling interests</i>		-	-0.1
<b>Long-term liabilities</b>			
Pension obligations		3.5	68.4
Deferred tax	12	36.8	28.9
<b>Total long-term liabilities</b>		<b>40.3</b>	<b>97.3</b>
<b>Current liabilities</b>			
Accounts payable		45.8	81.0
Current tax liability		3.1	4.7
Borrowings	22, 23	131.3	136.1
Other liabilities		68.9	93.6
Invoiced non-accrued income	19	11.9	86.1
Accrued expenses and deferred income	24	178.7	232.9
Liabilities held for sale	17	180.0	-
<b>Total current liabilities</b>		<b>619.7</b>	<b>634.4</b>
<b>Total shareholders' equity and liabilities</b>		<b>1,189.4</b>	<b>1,336.2</b>
Pledged assets	25	-	3.3
Contingent liabilities		-	-

## CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

mSEK	Share capital	Other capital	Profit brought forward	Non-controlling interests	Total share-holders' equity
	Share capital	Contributions Reserves	Total	Non-controlling interests	Total share-holders' equity
<b>Opening balance on 1 January 2015</b>	<b>18.1</b>	<b>34.5</b>	<b>-5.7</b>	<b>615.6</b>	<b>662.5</b>
<b>Comprehensive income</b>					
Profit/loss for the year	-	-	-	3.6	3.6
<b>Items that cannot be reclassified to profit or loss</b>					
Actuarial gains and losses	-	-	-3.4	-	-3.4
Tax	-	-	1.0	-	1.0
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-2.4</b>	<b>-</b>	<b>-2.4</b>
<b>Items that can be reclassified to profit or loss</b>					
Exchange rate differences for the year	-	-	-17.9	-	-17.9
Hedging of net investments	-	-	11.5	-	11.5
Cash flow hedging	-	-	0.3	-	0.3
Tax relating to hedging of net investments and cash flow hedging	-	-	-2.6	-	-2.6
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-8.7</b>	<b>-</b>	<b>-8.7</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-11.1</b>	<b>-</b>	<b>-11.1</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-11.1</b>	<b>3.6</b>	<b>-7.5</b>
<b>Transactions with shareholders</b>					
Buy-back of own shares	-	-	-	-5.6	-5.6
Share-based remuneration	-	-	-	0.1	0.1
Share dividend	-	-	-	-44.9	-44.9
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-50.4</b>	<b>-50.4</b>
<b>Opening balance on 1 January 2016</b>	<b>18.1</b>	<b>34.5</b>	<b>-16.8</b>	<b>568.8</b>	<b>604.6</b>
<b>Comprehensive income</b>					
Profit/loss for the year	-	-	-	-48.3	-48.3
<b>Items that cannot be reclassified to profit or loss</b>					
Actuarial gains and losses	-	-	-10.0	-	-10.0
Tax	-	-	2.9	-	2.9
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-7.1</b>	<b>-</b>	<b>-7.1</b>
<b>Items that can be reclassified to profit or loss</b>					
Exchange rate differences for the year	-	-	14.8	-	14.8
Hedging of net investments	-	-	-15.9	-	-15.9
Cash flow hedging	-	-	-	-	-
Tax relating to hedging of net investments and cash flow hedging	-	-	3.5	-	3.5
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2.4</b>	<b>-</b>	<b>2.4</b>
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-4.7</b>	<b>-</b>	<b>-4.7</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-4.7</b>	<b>-48.3</b>	<b>-53.0</b>
<b>Transactions with shareholders</b>					
Acquisitions	-	-	-	-0.1	-0.1
Share-based remuneration	-	-	-	0.2	0.2
Share dividend	-	-	-	-22.3	-22.3
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-22.2</b>	<b>-22.2</b>
<b>Closing balance on 31 December 2016</b>	<b>18.1</b>	<b>34.5</b>	<b>-21.5</b>	<b>498.9</b>	<b>529.4</b>

## CONSOLIDATED CASH FLOW STATEMENTS\*

mSEK	Note	2016	2015
<b>CURRENT ACTIVITIES</b>			
Operating profit		44.1	9.6
Depreciation/amortisation & impairment	14, 15, 17	88.7	21.3
Profit/loss from fixed assets sold		-	-1.4
Shares in associated companies		-	2.1
Other items not affecting cash flow		4.1	1.5
Pensions paid and payments into pension plans		-3.1	-4.1
Interest received and similar items		0.6	1.3
Interest paid and similar items		-3.7	-3.9
Income tax paid		-14.4	-27.1
<b>Cash flow from current activities before changes in working capital</b>		<b>116.3</b>	<b>-0.7</b>
<b>CHANGE IN WORKING CAPITAL</b>			
Change in work in progress		-10.6	54.1
Change in current receivables		40.3	-13.2
Change in current liabilities		-112.6	-12.9
<b>Total change in working capital</b>		<b>-82.9</b>	<b>28.0</b>
<b>Cash flow from current activities</b>		<b>33.4</b>	<b>27.3</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of subsidiaries		-	2.6
Investments in intangible assets	14	-0.8	-7.4
Investments in tangible assets	15	-33.2	-25.4
Payment from sales of fixed assets		0.4	0.4
<b>Cash flow from investing activities</b>		<b>-33.6</b>	<b>-29.8</b>
<b>FINANCING ACTIVITIES</b>			
Change in overdraft facilities	23	-7.0	40.2
Repayment of loans	22	-11.5	-9.6
Buy-back of own shares		-	-5.6
Share dividend		-22.3	-44.9
<b>Cash flow from financing activities</b>		<b>-40.8</b>	<b>-19.9</b>
<b>Cash flow for the year</b>		<b>-41.0</b>	<b>-22.4</b>
Cash and cash equivalents at the start of the year		126.1	152.3
Translation differences		2.7	-3.8
<b>Cash and cash equivalents at year-end</b>		<b>87.8</b>	<b>126.1</b>
<b>Cash flow for the year has arisen from:</b>			
Continuing operations		5.0	-21.8
Discontinuing operations	17	-46.0	-0.6
<b>Total cash flow</b>		<b>-41.0</b>	<b>-22.4</b>

\*Including discontinuing operations.

## CONSOLIDATED SPECIFICATION OF CAPITAL EMPLOYED AND NET DEBT

mSEK	2016	2015
<b>CAPITAL EMPLOYED</b>		
Total assets	809.5	764.2
Deferred tax liabilities	-36.8	-28.9
Accounts payable	-45.8	-60.0
Other non-interest-bearing current liabilities	-262.6	-251.8
<b>Total capital employed</b>	<b>464.3</b>	<b>423.5</b>
<b>Average capital employed</b>	<b>443.9</b>	<b>439.4</b>
<b>CHANGE IN NET DEBT*</b>		
Opening balance	78.4	14.0
Cash flow from current activities	-33.4	-27.3
Net investments	33.6	32.4
Acquisition of subsidiaries	-	-2.6
Share dividend	22.3	44.9
Buy-back of own shares	-	5.6
Other	25.8	11.4
<b>Closing balance</b>	<b>126.7</b>	<b>78.4</b>
<b>NET DEBT*</b>		
Interest-bearing liabilities	131.3	136.1
Pension obligations	83.2	68.4
Cash and cash equivalents	-87.8	-126.1
<b>Total net debt</b>	<b>126.7</b>	<b>78.4</b>

\*Including discontinuing operations.

## PARENT COMPANY'S INCOME STATEMENTS

mSEK	Note	2016	2015
<b>OPERATING INCOME</b>			
Net sales			
	7	26.3	23.7
<b>OPERATING EXPENSES</b>			
Other external expenses	8, 28	-32.0	-25.6
Staff costs	9	-30.2	-28.3
<b>Operating loss</b>		<b>-35.9</b>	<b>-30.2</b>
<b>FINANCIAL ITEMS</b>			
Interest income and similar items	10	4.5	20.5
Group contributions received		69.7	42.6
Interest expenses and similar items	11	-17.7	-3.8
<b>Profit after financial items</b>		<b>20.6</b>	<b>29.1</b>
<b>APPROPRIATIONS</b>			
Tax allocation reserve		-5.2	-7.1
Group contributions paid		-1.4	-3.6
<b>Profit before tax</b>		<b>14.0</b>	<b>18.4</b>
Tax	12	-3.6	-4.8
<b>Profit for the year</b>		<b>10.4</b>	<b>13.6</b>

## PARENT COMPANY'S STATEMENTS OF COMPREHENSIVE INCOME

mSEK	2016	2015
Profit for the year	10.4	13.6
<b>Other comprehensive income</b>		
Other comprehensive income		
Total comprehensive income	10.4	13.6

## PARENT COMPANY'S BALANCE SHEETS

mSEK	Note	31 Dec 2016	31 Dec 2015
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Financial assets</b>			
Shares in Group companies	16	100.1	84.1
Deferred tax assets		0.4	0.6
Receivables from Group companies		369.2	369.2
<b>Total fixed assets</b>		<b>469.7</b>	<b>453.9</b>
<b>Current assets</b>			
Receivables from Group companies		128.5	145.6
Other receivables		1.3	1.1
Prepaid expenses and accrued income		0.9	8.1
<b>Total current assets</b>		<b>130.7</b>	<b>154.8</b>
<b>Total assets</b>		<b>600.4</b>	<b>608.7</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
<b>Restricted shareholders' equity</b>			
Share capital	21	18.1	18.1
Statutory reserve		25.1	25.1
<b>Unrestricted shareholders' equity</b>			
Share premium reserve		12.9	12.9
Profit brought forward		237.0	245.8
Profit for the year		10.4	13.6
<b>Total shareholders' equity</b>		<b>303.5</b>	<b>315.5</b>
<b>Untaxed reserves</b>			
Tax allocation reserve		12.3	7.1
<b>Total untaxed reserves</b>		<b>12.3</b>	<b>7.1</b>
<b>Current liabilities</b>			
Accounts payable		0.9	1.8
Liabilities to Group companies		135.8	136.1
Current tax liability		5.9	2.6
Borrowings	22, 23	130.5	137.5
Other liabilities		0.6	0.7
Accrued expenses and deferred income	24	10.9	7.4
<b>Total current liabilities</b>		<b>284.6</b>	<b>286.1</b>
<b>Total shareholders' equity and liabilities</b>		<b>600.4</b>	<b>608.7</b>
Pledged assets			
Contingent liabilities	26	1.0	0.7

## PARENT COMPANY'S CHANGES IN SHAREHOLDERS' EQUITY

mSEK	Share capital	Statutory reserve	Share premium reserve	Profit brought forward incl. profit/loss for the year	Total shareholders' equity
<b>Opening balance on 1 January 2015</b>	<b>18.1</b>	<b>25.1</b>	<b>12.9</b>	<b>296.3</b>	<b>352.4</b>
<b>Comprehensive income</b>					
Profit for the year	-	-	-	13.6	13.6
Total other comprehensive income	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13.6</b>	<b>13.6</b>
<b>Transactions with shareholders</b>					
Share dividend	-	-	-	-44.9	-44.9
Buy-back of own shares	-	-	-	-5.6	-5.6
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-50.5</b>	<b>-50.5</b>
<b>Opening balance on 1 January 2016</b>	<b>18.1</b>	<b>25.1</b>	<b>12.9</b>	<b>259.4</b>	<b>315.5</b>
<b>Comprehensive income</b>					
Profit for the year	-	-	-	10.4	10.4
Total other comprehensive income	-	-	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10.4</b>	<b>10.4</b>
<b>Transactions with shareholders</b>					
Share dividend	-	-	-	-22.3	-22.3
<b>Total transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-22.3</b>	<b>-22.3</b>
<b>Closing balance on 31 December 2016</b>	<b>18.1</b>	<b>25.1</b>	<b>12.9</b>	<b>247.5</b>	<b>303.5</b>

## PARENT COMPANY'S CASH FLOW STATEMENTS

mSEK	Note	2016	2015
<b>CURRENT ACTIVITIES</b>			
Operating loss		-35.9	-30.2
Interest received and similar items		4.5	20.5
Interest paid and similar items		-17.8	-3.8
Income tax paid		-0.1	-1.4
<b>Cash flow from current activities before changes in working capital</b>		<b>-49.3</b>	<b>-14.9</b>
<b>CHANGE IN WORKING CAPITAL</b>			
Change in current receivables		93.8	60.2
Change in current liabilities		-15.2	-35.9
<b>Total change in working capital</b>		<b>78.6</b>	<b>24.3</b>
<b>Cash flow from current activities</b>		<b>29.3</b>	<b>9.4</b>
<b>FINANCING ACTIVITIES</b>			
Change in overdraft facilities	23	-7.0	40.2
Change in loans	22	-	0.9
Buy-back of own shares		-	-5.6
Share dividend		-22.3	-44.9
<b>Cash flow from financing activities</b>		<b>-29.3</b>	<b>-9.4</b>
<b>Cash flow for the year</b>		-	-
Cash and cash equivalents at the start of the year		-	-
<b>Cash and cash equivalents at year-end</b>		<b>-</b>	<b>-</b>

# NOTES.

## NOTE 1

### General information

Semcon AB [publ] is a Swedish listed public company registered with the Swedish Companies Registration Office with co.id.no. 556539-9549. The company is registered in Gothenburg, Sweden. The company is listed on the Nasdaq Stockholm Small Cap list under the SEMC ticker.

The Group's main business is providing engineer-

ing services and product information, which are described in the Directors' Report in this Annual Report. The consolidated accounts for the financial year ending 31 December 2016 were approved by the Board on 20 March 2017 and will be presented to the Annual General Meeting on 26 April 2017 for final approval.

## NOTE 2

### Significant changes during the reporting period

In February 2017, Semcon divested Business Area Engineering Services Germany. The divestment resulted in an impairment of goodwill during the fourth quarter of 2016 amounting to SEK 66 million and deferred tax assets of SEK 57 million. The oper-

ation's assets and liabilities are recognised as holdings for sale in this Annual Report. Financial information about discontinuing operations is provided below in Note 17 on page 68.

## NOTE 3

### Accounting policies

The most important accounting policies applied when these consolidated accounts were prepared are stated below. These policies have been applied consistently for each year represented, unless otherwise stated.

#### Basis for preparing the reports

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards [IFRS] as adopted by the EU, IFRIC interpretations, the Swedish Annual Accounts Act and recommendation RFR 1 of the Swedish Financial Accounting Standards Council [Supplementary Accounting Rules for Groups]. Recommendations that come into effect after the closing date will not have any significant effect on either the results or the financial position of the Group. The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 [Accounting for Legal Entities].

The Parent Company's functional currency is SEK, which is also the Group's reporting currency. All sums in the financial statements are given in SEK millions, mSEK, unless otherwise stated. The consolidated accounts have been prepared in accordance with the acquisition method, with the exception of: **\* Financial assets and liabilities [including derivative instruments] - which are measured at fair value**

**\* Assets held for sale**  
- which are measured at fair value

Preparing reports in accordance with IFRS requires using a number of important estimates for accounting purposes. It is also necessary for Group management to make a number of estimates when applying the Group's accounting policies. The areas that require a high degree of assessment, which are complex or are such areas where assumptions and estimates are of considerable significance for the consolidated accounts are presented in Note 5 on page 58.

#### Changes to the accounting policies and disclosures

##### New and amended IFRS and new interpretations for 2016

New and amended standards and new interpretations did not have any effect on the Group's accounting policies or disclosures for the current or preceding financial year. Neither are they expected to impact forthcoming periods.

##### New and amended IFRS and new interpretations that have not yet come into force

The new and amended standards and interpretations issued, but which come into force on 1 January 2017 or later, have not yet been applied by the Group. The standards and interpretations expected to af-

fect the Group's financial statements when applied for the first time are presented below.

IFRS 15 Revenue from Contracts with Customers was issued on 28 May 2014 and will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 includes a revenue recognition model for almost all income arising through contracts with customers, with the exception of leasing contracts, financial instruments and insurance contracts. The basic principle of IFRS 15 is that a company is to recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. IFRS 15 provides significantly more guidance for specific areas and stipulates extensive disclosure requirements. IFRS 15 is applicable from 1 January 2018 or later with early application allowed. The Group intends to apply the standard prospectively with additional disclosure. Group management is currently evaluating the impact of the new standard, and a preliminary evaluation has revealed no significant effects on the financial statements. Semcon primarily provides services over a certain period of time, and revenue is expected to continue being recognised in accordance with the percentage of completion method for each assignment, given that these performances do not create an asset with an alternative use for the Group.

IFRS 16 Leases was issued on 13 January 2016 and will replace IAS 17 Leases. IFRS 16 introduces a right of use model, meaning that the lessee must report essentially all leases in the balance sheet. Classification in operational and financial leases is therefore not necessary. Exceptions are leases with lease terms of 12 months or less or leases of low-value assets. The income statement is also impacted since the cost is recognised as depreciation and interest expense instead of other external expenses. The cash flow statements will be impacted in that cash flows from current activities will be higher given that the bulk of the payments made in relation to the lease liability will be classified in financing activities. The standard includes greater information disclosure requirements compared with the current standard. IFRS 16 is applicable from 1 January 2019 with early application allowed only if IFRS 15 is applied at the same time. The standard will mainly impact reporting of the Group's operational leases, which mainly consist of rental agreements for office properties. The Group's future minimum leasing fees are presented in Note 28 Operational leasing. A detailed analysis of the effects when applying IFRS 15 has yet to be carried out, which is why the effects cannot yet be quantified.

Group management does not expect other new and amended standards and interpretations to have any material effect on the Group's financial statements when they are applied for the first time.

## Consolidated accounting

In addition to the Parent Company, the Group consists of all subsidiaries in which the Group owns shares and directly or indirectly has the majority of voting rights, or through agreements has a controlling influence. Acquired companies are included in the consolidated accounts from the acquisition date. These consolidated accounts have been prepared in accordance with the purchase method, which means that the cost of the shares in Group companies is divided among identifiable assets and liabilities at the acquisition date at the fair value. The difference between the cost and the calculated value of equity in the acquisition analysis is recognised as consolidated goodwill. All transaction costs relating to acquisitions are expensed. An allowance is made in the acquisition analysis for deferred tax on acquired untaxed reserves. In addition, deferred tax is seen as the difference between the fair values of assets and liabilities and taxable residual values. Untaxed reserves accumulated after acquisition are divided into deferred tax liability and the remaining portion, which is recognised under profit brought forward. The consolidated shareholders' equity includes the Parent Company's equity and the part of the subsidiaries' equity accumulated after the date of acquisition.

The current rate method was used for translating the income statements and balance sheets. This method means that the balance sheets are translated at the closing day rate and the income statements at the average rate for the year. Translation differences are recognised in other comprehensive income.

## Pricing between Group companies

Pricing of services between companies in the Group follows market norms.

## Transactions with related parties

Transactions with related parties follow market norms.

## Segment reporting

Operating segments are reported so they correspond to the internal reports submitted to the chief operating decision maker. The chief operating decision maker is the CEO, who runs the operation together with the other members of Group management.

## Cash flow statement

The cash flow statement is produced using the indirect method. Recognised cash flow includes only those transactions that have involved payments into or out of the company.

## Revenue recognition

### Income from sales of services

Work in progress is recognised as revenue in line with work being carried out. Fixed-rate work is recognised as revenue in accordance with the percentage of completion method on the closing date after reservation for risk of loss. The percentage

of completion is assessed on the basis of costs incurred for work performed in relation to the assignment's estimated total costs. On-account invoices received are recognised net against capitalized contract costs. If the net of the costs paid and on-account invoices received is positive, then the project is recognised as "Accrued non-invoiced income". Conversely, if on-account invoices received exceed contract costs incurred, projects are recognised as "Invoiced non-accrued income."

### *Income from sales of goods*

Income from the sale of hardware and software is recognised upon delivery, which coincides with the time when risks and benefits accrue to the buyer.

### **Receivables and liabilities in foreign currencies**

Receivables and liabilities in foreign currencies are measured at the closing day rates. Exchange rate differences in current receivables and liabilities are included in operating profit/loss, while the differences in financial receivables and liabilities are recognised under financial items.

### **Research and development costs**

The majority of Semcon's research and development costs concern development within the scope of customer projects. In other cases, the company's development costs are of an ongoing nature and are carried as an expense in the period in which they occur. These costs are not considered to be significant. Exceptions to this are costs incurred for the development of specific computer programs, which are recognised as an intangible asset (see below for more information).

### **Tangible assets**

Tangible assets mainly consisting of computers, inventories and investments in leased premises have been valued at cost with deductions for accumulated depreciation and impairment losses.

Depreciation is based on the cost and is carried out on a straight-line basis on the useful life of the asset. Depreciation according to plan has been based on the expected useful life as follows:

- ⌘ Plant and machinery depreciated over 5-10 years
- ⌘ Computers depreciated over 3-5 years
- ⌘ Inventories depreciated over 5 years

### **Intangible assets**

#### *Goodwill*

Acquired goodwill has an indeterminate useful life and is measured at cost with deductions for accumulated impairment. Goodwill is distributed among cash-generating units and is tested for possible impairment annually.

#### *Other intangible assets*

Other intangible assets include programs developed internally and acquired licenses. Other acquired intangible assets are measured at cost with deductions for accumulated amortisation and impairment losses. Cost comprises capitalised costs that arise from the date when the program is considered to be

commercially viable and other criteria according to IAS 38 have been fulfilled. Expenses are amortised over the expected useful life of 3-8 years. Expenses for internally developed goodwill, trademarks and similar rights are recognised as they arise.

### **Impairment**

Group management continually assesses the value of capitalised assets to identify any impairment requirement. Impairment is made in the event an asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the value in use of the asset in the business and the net realisable value. The value in use is the current value of all inward and outward payments relating to the asset during the period in which it is expected to be used in the business, plus the current net realisable value at the end of its useful life. A previous impairment is reversed when the assumptions used to establish the asset's recoverable amount have changed, meaning the impairment is no longer considered necessary. Reversals of previous impairments are tested individually and are recognised in profit or loss. However, impairment of goodwill is not reversed in subsequent periods.

### **Financial instruments**

Financial instruments are measured and recognised in the Group according to the regulations in IAS 39. Financial instruments recognised in the balance sheet include, among assets, accounts receivable and cash and cash equivalents. Liabilities and shareholders' equity include accounts payable and borrowings. Financial instruments are initially recognised at cost equivalent to the instruments' fair value plus transaction costs for all financial instruments, except those belonging to the financial assets [liabilities] category, which are recognised at fair value in profit or loss. Recognition and measurement subsequently take place according to how the financial instruments have been classified.

Trade date accounting is applied when buying and selling money and capital-market instruments on the spot market. Other financial assets and liabilities are recognised in the balance sheet when the company becomes party to the instrument's contracted terms. Accounts receivable are recognised in the balance sheet when the invoice has been issued. Liabilities are recognised in the balance sheet when the counterparty has performed and there is a contractual obligations to pay, even if the invoice has not yet been received. Accounts payable are recognised in the balance sheet when the invoice has been received. A financial asset is derecognised from the balance sheet when the rights under the agreement have been realised, fall due or the company loses control over them. The same applies for parts of financial assets. A financial liability is removed from the balance sheet when the contractual obligations have been met or have been extinguished in any other way. The same applies for parts of a financial liability.

## Assessment of fair value of financial instruments

Official market listings on the balance sheet date are used when determining the fair value of financial instruments. If listings are not available, measurement is carried out by using generally accepted methods, such as discounting future cash flows to the listed market interest rate for the particular maturity. Translation to SEK is carried out at the price quoted on the balance sheet date. Unless otherwise stated, the carrying amount is considered to be a good approximation of the instrument's fair value due to the asset's or liability's short maturity or fixed-interest term.

## Amortised cost

Amortised cost is calculated using the effective interest method, meaning that any premiums or discounts and directly attributable costs or income are distributed over the term of the contract applying the estimated effective interest. The effective interest rate is the interest rate that provides the instrument's cost as a result in conjunction with current value calculation of future cash flows.

## Net recognition of financial assets and liabilities

Financial assets and liabilities are offset and recognised in a net amount in the balance sheet when there is a legal right to offset and when it is intended to settle the items with a net amount or to simultaneously realise the asset and settle the liability.

## Accounts receivable

Accounts receivable are categorised as "Loan receivables and accounts receivable," which entails recognition at amortised cost. The expected duration of accounts receivable is short, which is why the value is recognised at a nominal amount without discounting with deductions for any impairment. Doubtful accounts receivable are assessed individually and any impairment is recognised in operating expenses.

## Cash and cash equivalents

Cash and cash equivalents recognised in the balance sheets and cash flow statements include cash and bank balances as well as other current investments with a due date within three months of the acquisition date. Cash and cash equivalents are categorised as "Loan receivables and accounts receivable," which entails that recognition takes place at amortised cost. Because bank balances are payable on demand, the amortised cost is equivalent to the nominal amount.

## Accounts payable

Accounts payable are categorised as "Other financial liabilities", which entails recognition at amortised cost. Accounts payable are expected to have a short duration, which is why the liability is recognised at a nominal amount without discounting.

## Other liabilities

Liabilities to credit institutions, overdraft facilities and other liabilities are categorised as "Other financial liabilities" and measured at amortised cost. For liabilities in foreign currencies recognised in accordance with the method for hedging of net investments, the exchange rate gains and exchange rate losses are recognised under equity.

## Provisions

When a formal or informal commitment exists as a result of an event that has occurred and it is possible that resources will be required to fulfil the commitment and a reliable estimate can be made of the amount required, then such a commitment is recognised as a provision if the amount and settlement date are uncertain.

## Income tax

The Group's tax expense and tax income are recognised as current tax, changes in deferred tax as well as tax on changes to untaxed reserves.

### Current tax

Current tax is the tax estimated on the taxable results for the period in accordance with the tax regulations in each country. Current tax also includes possible adjustments originating from previous tax assessments.

### Deferred tax

Deferred tax is calculated on the basis of the taxable and tax-deductible temporary differences between the carrying amount and taxable values of assets and liabilities. The deferred tax as assets set relating to loss carry-forwards have only been taken into account to the extent that it is probable that the loss carry-forwards can be deducted from the taxable profit in the future.

## Leasing

The Group does not have any significant financial leases. The Group rents offices, cars and some office equipment. Rental agreements in which the risks and benefits associated with ownership remain to a significant extent with the lease provider are recognised as operational leases. The costs are recognised straight-line in the income statement over the rental period.

## Employee remuneration

Employee remuneration is recognised in the form of earned and paid salaries plus bonuses earned. Full remuneration is paid for various commitments such as unutilised holiday entitlement and social security contributions.

### Pensions

For pensions, Semcon recognises remuneration to employees according to IAS 19. According to IFRS, pensions are to be divided between defined contribution and defined benefit pensions. Defined contribution plans are defined as plans under which the company pays a fixed amount to a third party and

## 56 FINANCIAL STATEMENTS

the company has no further obligations once payment has been made. Such plans are recognised as a cost when the premium is paid. Other plans include defined benefit plans under which the obligation remains within the Group. Commitments for retirement pensions and family pensions for salaried employees in Sweden are safeguarded via insurance with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10, this is a defined benefit multi-employer plan. As in previous years, the company has not had access to information to enable it to recognise this plan as a defined benefit plan, which means that the ITP pension plans safeguarded via insurance with Alecta are therefore recognised as defined contribution plans.

### *Redundancy pay*

Redundancy pay is paid when employment ceases before reaching retirement age, or when an employee voluntarily terminates employment in return for redundancy pay. The Group reports redundancy pay when it is clear that it is either a case of termination of employment in accordance with a detailed formal plan that is irrevocable or that the redundancy offer given was to encourage the voluntary redundancy and accepted by the person who received the offer. Benefits that fall due for payment more than 12 months after the closing date are discounted to the current value, if they are material.

### *Bonus*

The Group reports liabilities and costs for bonus payments when they are linked to a contract or when there is an established practice that has created an informal obligation.

### *Share-based remuneration*

The Group has a share-based remuneration scheme (share savings scheme) according to which the company receives services from employees as payment for the shares. According to IFRS 2, salary costs should be recognised relating to the share savings scheme with an equivalent increase of the share capital. Costs are estimated on the basis of the number of shares expected to be issued by the end of the vesting period, conditional to an expected employee turnover rate being taken into consideration. The fair value of the shares has been based on the share price prevailing on the date the employee invested in the shares.

The total cost is recognised apportioned over the vesting period, which is the period during which the vesting conditions must be met. At the end of each reporting period, the Group re-evaluates its estimations of how many shares are expected to be vested. Any deviation from the original estimates that the re-evaluation gives rise to is recognised in the income statement and equivalent adjustments are made to shareholders' equity. When shares are issued, social security contributions must be paid on the value of the benefit for the employee. This value is generally based on the market value on the issue date. During the vesting period, a provision is made for these expected so-

cial security contributions, and costs are treated as cash-regulated share-based remuneration.

### **Accounting policies of the Parent Company**

The Parent Company has prepared its Annual Report in accordance with the Annual Accounts Act and RFR 2 Accounting for Legal Entities.

#### *Changes to accounting policies*

The changes in RFR 2 Accounting for Legal Entities, which came into force in the 2016 financial year, did not have any significant effect on the Parent Company's financial statements.

*Changes to RFR 2 that have yet to come into force*  
Group management does not expect changes to RFR 2 that have yet to come into force to have any significant effect on the Parent Company's financial statements when they are applied for the first time.

The differences between the Group and Parent Company's accounting policies appear below.

### **Group companies**

Participations in Group companies are recognised at cost in the Parent Company's financial statements. Dividends are recognised as income insofar as they refer to profits generated after the acquisition. Dividends in excess of these profits are considered as repayment of investments and thereby reduce the carrying amount of participations in Group companies.

### **Financial guarantees**

The Parent Company applies the exception rule in RFR 2 to avoid applying the rules in IAS 39 for financial guarantees concerning guarantee contracts for the benefit of Group and associated companies. In these cases, the rules in IAS 37 are applied, meaning that financial guarantee contracts must be recognised as a provision in the balance sheet when Semcon has a legal or informal commitment as a result of a previous event and it is likely that an outflow of resources will be required to settle the commitment. It must also be possible to reliably estimate the value of the commitment.

### **Tax**

In the Parent Company, untaxed reserves are recognised including deferred tax liabilities, unlike the consolidated accounts where untaxed reserves are divided into deferred tax liabilities and shareholders' equity.

### **Group contributions and shareholders' contributions**

The company recognises Group contributions according to RFR 2. Group contributions paid in order to minimise the Group's total tax are recognised under appropriations. Group contributions treated as dividends are recognised as financial income by the recipient. All Group contributions to the Parent Company are treated as dividends and therefore can be recognised in profit or loss.

## NOTE 4

## Financial risks

**Financing risks**

Financing risks are risks associated with financing the Group's capital requirements and refinancing of outstanding loans being made more difficult or more expensive. Credit agreements consist of an overdraft facility of SEK 152 million [153] and a revolving credit facility of EUR 22.8 million [22.8], which falls due on 13 October 2018. The revolving credit facility is conditional on the customary covenants being fulfilled in the form of debt/equity ratio, interest coverage ratio and net borrowings [excluding pensions] in relation to the operating profit/loss before depreciation/amortisation. All loan conditions were met with ample headroom as of 31 December.

31 December 2016, the annual interest payments are approximately SEK 1 million, calculated on utilised amounts at year-end.

**Currency risks**

Semcon's accounting is conducted in SEK, but the Group has operations in a number of countries around the world. This means that the Group is exposed to currency risks. The majority of the exchange rate differences comprises translation differences that arise when foreign companies' income statements are translated to SEK. For continuing operations, currency exposure mainly relates to GBP. A change in GBP against the SEK of +/- 10 per cent would affect profit before tax by about SEK 2 million and profit after tax and shareholders' equity by about SEK 1 million.

**Interest rate risks**

Interest risks are the risks associated with effects on earnings and cash flow in case of long-term changes to the market rates. However, earnings sensitivity can be limited in the short term through the selected interest maturity structure. The Group's average fixed interest rate term on loans is not to exceed two years. At year-end, the fixed interest term was three months. During 2016, the short-term interest rate was lower than the long-term interest rate. A change in market rates of ± 1 per cent would affect future earnings by around SEK 1 million based on borrowings as of 31 December.

**Transaction exposure**

Semcon has export income and expenses in a number of currencies, meaning the Group is exposed to currency fluctuations. This currency risk, referred to as transaction exposure, is currently very limited and does not affect the Group's operating profit.

**Translation exposure (net investments)**

The foreign subsidiaries' net assets constitute an investment in foreign currency that, upon consolidation, give rise to a translation difference. To limit the negative effects of the translation differences on the Group's shareholders' equity, hedging takes place to some extent through loans or forward agreements in the equivalent foreign currency.

**Translation exposure (income statement)**

Exchange rate changes also affect the Group's earnings in connection with translation of the income statements of foreign subsidiaries to SEK. Expected future earnings in foreign subsidiaries are not hedged.

**Credit risks***Customer credit risk*

Financial assets mainly consist of accounts receivable and accrued non-invoiced income. The creditworthiness of these items that have neither fallen due for payment nor require impairment have been assessed according to external credit ratings [if available] or on the basis of the customer's payment history. All new customers are checked with respect to their creditworthiness, and existing customers are continuously monitored. The Group's accounts receivable largely consist of receivables from major international companies whose financial position is considered solid. For certain customers, a separate bad debt insurance policy has been signed under which the excess component is 10 per cent. Of

**Liquidity risks**

Liquidity risks are the risks associated with not having access to cash and cash equivalents or unutilised credit facilities to fulfil payment commitments. At year-end, the Group's cash and cash equivalents amounted to SEK 88 million [126]. In addition, the Group has an unutilised overdraft facility of SEK 240 million [226]. Liquidity in the Group will be placed in cash pools. Cash pools enable Semcon to carry out centralised liquidity management at national levels. These cash pools match the excess and shortfalls in the local subsidiaries for the respective countries and currencies.

**Maturity analysis for contracted payment commitments**

Group, mSEK	Up to 3 months	3-12 months	Over 12 months
<hr/>			
Liabilities to credit institutions	47.8	83.5	-
Accounts payable	62.5	-	-
Other liabilities	91.4	-	-

In addition, interest is payable on any utilised credit. Based on the current interest and currency exchange rates on

the Group's total accounts receivable, the majority relates to accounts receivable not due for payment. The vast majority of the due and non-reserved accounts receivable have a very short maturity date. The joint credit risk is considered small. The maximum credit exposure corresponds to the assets' carrying amount. The maturity structure of accounts receivable is presented in Note 18 on page 69.

### **Cash and cash equivalents**

Cash and cash equivalents comprise bank balances at primarily all the major European banks and the assets are not considered to pose any risk. The maximum credit exposure corresponds to the assets' carrying amount.

### **Capital risk management**

The Group's aim regarding its capital structure is to safeguard the Group's ability to continue its business, so that it can continue to generate dividends for shareholders and value for other stakeholders, and maintain an optimal capital structure to keep capital costs down. One of Semcon's financial targets is to have an equity/assets ratio of over 30 per cent. This key figure is calculated as shareholders' equity divided by total assets. At

the end of 2016, the equity/assets ratio was 44.5 per cent [45.2]. To maintain or adjust the capital structure, the Group can change the dividend paid to shareholders, repay capital to shareholders, issue new shares, or sell assets to reduce liabilities. Borrowing is restricted by financial covenants in the loan agreements with banks, which is described in more detail in the section on financing risks.

### **Estimating the fair value**

For accounts receivable, accounts payable and other non-interest-bearing receivables and liabilities, which are recognised at amortised cost with deductions for possible impairment, the fair value is judged to correspond to the carrying amount.

The Group's borrowing mainly has a short fixed-interest term. The fair value is therefore judged to correspond to the carrying amount.

The fair value of currency forward agreements is set by using currency forward rates on the balance sheet date, where the resulting value is discounted to the present value. The fair value of these contracts amounts to SEK 3.9 million [2.7].

There are no other financial liabilities that are measured at fair value through profit or loss or any financial assets that can be sold.

## NOTE 5

### **Critical estimations and assessments**

When compiling the Annual Report in accordance with IFRS and generally accepted accounting principles, the Group has made estimations and assessments about the future, which affect the carrying amounts of the assets and liabilities. These estimations and assessments are reviewed on an ongoing basis and are based on historical experience and other factors considered reasonable under the prevailing conditions. In the event it is not possible to establish the carrying amounts of assets and liabilities using information from other sources, these estimations and assessments form the basis of the valuation. Using other estimations and assessments, the result may differ and the actual result will, by definition, rarely be equivalent to the actual result. The estimations and assessments that have the greatest influence over Semcon's results and financial position are detailed below.

#### **Impairment testing of goodwill**

Every year, the Group tests goodwill for impairment in accordance with the accounting policy presented in Note 3 on page 52. The test requires estimating the parameters that affect the future cash flow and establishing a discount rate. The recoverable amount of the cash-generating units has thereafter been set using an estimate of the value in use. An account of the significant assumptions made is presented in Note 14 on page 65. As of 31 December 2016, the carrying amount of consolidated goodwill in continuing operations was SEK 274.7 million.

#### **Valuation of projects**

The valuation of projects is based on estimates of the results of projects in progress. Some projects extend over a long period of time, which is why it cannot be ruled out that the results of projects in progress may have an effect on the Group's results and financial position.

#### **Assessment of loss carry-forwards**

The recognised deferred tax assets in the Group concerning loss carry-forwards amounted to SEK 3.1 million on 31 December 2016. The carrying amount of these tax assets was tested on the balance sheet date and it is judged likely that the tax relief can be used against future taxable profit. In addition, there are loss carry-forwards of SEK 47.8 million for which no deferred tax assets have been recognised due to uncertainty as to when sufficient taxable profit will be recognised in the future. The loss carry-forwards refer primarily to Norway where loss carry-forwards can be utilised for an unlimited period. Changes to assumptions regarding forecast future taxable profit might result in differences in measurements of deferred tax assets. If the future taxable profit in Norway deviates by SEK 10.0 million from management's estimate, then the deferred tax asset would increase or decrease by SEK 2.4 million.

## NOTE 6

## Segment reporting

The Group's four business areas, Engineering Services Nordic, Engineering Services Germany, Engineering Services International and Product Information, made up the Group's reportable operating segments in 2016. Engineering Services Nordic provides engineering services aimed at the energy, automotive, industrial and life science sectors in the Nordic Region. Engineering Services Germany provides engineering services to customers in the German industry sector, mainly to the automotive industry. Engineering Services International works with services in product development in each geographic market: the UK, Brazil and India, particularly in the automotive industry. Product Information provides complete information solutions, mainly focusing on customers' aftermarket business. These four segments are the highest level at which management and the Board carries out follow-ups. The chief operating decision maker in the Group is the CEO, who runs the operation together with the other members of Group management. The three first operating segments generate income mainly from engineering services for designing, developing products and production, while Product Information mainly generates its income by developing product information for entire product

lifecycles. No other information concerning income divided between services is provided as this does not form part of the financial reporting, and the cost of producing the information is not justifiable.

The segments' accounting policies adhere to the same policies as those applied in the preparation of the consolidated financial statements, which are presented in Note 3 on page 52.

The Group recognises sales between the operating segments at current market prices.

Group management follows up the segments' results on the basis of operating profit. Financial items are not allocated among segments given that these are affected by measures taken by the central finance function. Neither are taxes allocated among the operating segments. The operating segments' assets and liabilities include directly attributable items together with such items that can be reliably allocated to the respective segment. The Group's long-term borrowing is not considered a liability among the segments, and is instead attributable to the finance function.

Income, earnings and depreciation below relate to continuing operations.

mSEK	Engineering Services Nordic		Engineering Services International		Product Information		Non-allocated items		Group total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Income</b>	<b>1,141.3</b>	<b>1,008.7</b>	<b>202.9</b>	<b>200.8</b>	<b>489.8</b>	<b>503.7</b>	<b>-78.1</b>	<b>-56.6</b>	<b>1,755.9</b>	<b>1,656.6</b>
<b>Operating profit/loss</b>	<b>56.1</b>	<b>30.5</b>	<b>9.5</b>	<b>6.5</b>	<b>49.2</b>	<b>28.4</b>	<b>-19.7</b>	<b>-7.2</b>	<b>95.1</b>	<b>58.2</b>
Net financial items	-	-	-	-	-	-	-0.2	-1.3	-0.2	-1.3
<b>Profit/loss before tax</b>	<b>56.1</b>	<b>30.5</b>	<b>9.5</b>	<b>6.5</b>	<b>49.2</b>	<b>28.4</b>	<b>-19.9</b>	<b>-8.5</b>	<b>94.9</b>	<b>56.9</b>
<b>Other disclosures</b>										
Operating assets	538.4	525.4	41.2	32.6	152.0	124.6	-	-	731.6	682.6
Non-allocated assets	-	-	-	-	-	-	77.9	245.7	77.9	245.7
Discontinuing operations	-	-	-	-	-	-	379.9	407.9	379.9	407.9
<b>Total assets</b>	<b>538.4</b>	<b>525.4</b>	<b>41.2</b>	<b>32.6</b>	<b>152.0</b>	<b>124.6</b>	<b>457.8</b>	<b>653.6</b>	<b>1,189.4</b>	<b>1,336.2</b>
Operational liabilities	185.8	172.0	17.3	13.0	53.0	65.6	-	-	256.1	250.6
Non-allocated liabilities	-	-	-	-	-	-	223.9	260.5	223.9	260.5
Discontinuing operations	-	-	-	-	-	-	180.0	220.6	180.0	220.6
Total consolidated liabilities	185.8	172.0	17.3	13.0	53.0	65.6	403.9	481.1	660.0	731.7
Shareholders' equity	-	-	-	-	-	-	529.4	604.5	529.4	604.5
<b>Total shareholders' equity and liabilities</b>	<b>185.8</b>	<b>172.0</b>	<b>17.3</b>	<b>13.0</b>	<b>53.0</b>	<b>65.6</b>	<b>933.3</b>	<b>1,085.6</b>	<b>1,189.4</b>	<b>1,336.2</b>

## 60 FINANCIAL STATEMENTS

mSEK	Engineering Services Nordic		Engineering Services International		Product Information		Non-allocated items		Group total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Investments	0.5	1.0	1.9	1.7	20.6	1.1	11.0	22.0	34.0	25.8
- of which discontinuing operations	-	-	-	-	-	-	9.9	10.6	9.9	10.6
Depreciation/amortisation	2.4	1.3	1.6	1.7	3.5	2.8	4.2	15.5	11.7	10.1

Geographic location	Sales according to customers' geographic location		Intangible assets and tangible assets		Investments	
	2016	2015	2016	2015	2016	2015
Sweden	1,338.5	1,204.4	289.6	292.3	1.7	12.4
The UK	205.7	261.0	17.6	0.8	19.7	0.2
Other	211.8	191.2	15.2	242.6	12.6	13.2
<b>Total</b>	<b>1,755.9</b>	<b>1,656.6</b>	<b>322.4</b>	<b>535.8</b>	<b>34.0</b>	<b>25.8</b>

The Group has a single customer that accounted for income of more than 10 per cent of consolidated sales. Income from this customer amounted to SEK 202.3 million [142.1], which is equivalent to 11.6 per cent [8.7] of sales.

## NOTE 7

### Net sales

Of net sales, income from services accounted for 94.2 per cent [94.7]. Other sales comprise licenses, sales of computers, project computers, training income and sales of materials and goods in projects. The Parent Company's sales attributable to Group companies amounted to SEK 26.1 million [22.8] and purchases amounted to SEK 0.2 million [0.9].

## NOTE 8

### Remuneration to auditors

mSEK	Group		Parent Company	
	2016	2015	2016	2015
<b>Deloitte</b>				
Auditing assignment	2.3	2.3	0.4	0.4
Services in addition to auditing assignment	0.1	0.1	0.1	0.1
Tax consultancy	-	-	-	-
Other services	-	-	-	-
<b>Total</b>	<b>2.4</b>	<b>2.4</b>	<b>0.5</b>	<b>0.5</b>
<b>Other auditors</b>				
Auditing assignments	0.1	0.1	-	-
<b>Total</b>	<b>0.1</b>	<b>0.1</b>	<b>-</b>	<b>-</b>
<b>Total remuneration to auditors</b>	<b>2.5</b>	<b>2.5</b>	<b>0.5</b>	<b>0.5</b>

## NOTE 9

## Employees

Group	2016			2015		
	Average number of employees	of whom women, %	Average number of employees	of whom women, %		
Sweden	1,251	30	1,213	29		
Brazil	193	20	185	22		
Hungary	149	33	113	33		
India	119	13	114	9		
The UK	108	20	141	19		
Norway	69	13	20	15		
China	49	67	53	68		
Germany	18	52	16	44		
<b>Group total</b>	<b>1,956</b>	<b>29</b>	<b>1,855</b>	<b>28</b>		
<b>Parent Company</b>						
Sweden	13	31	14	36		
<b>Parent Company total</b>	<b>13</b>	<b>31</b>	<b>14</b>	<b>36</b>		
mSEK	2016			2015		
	Total salaries and other remuneration	Social security expenses	Of which pension costs	Total salaries and other remuneration	Social security expenses	Of which pension costs
<b>Salaries, remuneration and social security expenses</b>						
Parent Company	17.6	11.8	4.8	16.8	9.7	4.1
Subsidiaries	775.6	306.6	69.4	755.1	290.3	62.6
<b>Group total</b>	<b>793.2</b>	<b>318.4</b>	<b>74.2</b>	<b>771.9</b>	<b>300.0</b>	<b>66.7</b>
mSEK	2016			2015		
	Total salaries and other remuneration	Of which bonuses	Pension costs	Total salaries and other remuneration	Of which bonuses	Pension costs
<b>Of which remuneration to senior executives</b>						
CEO of the Parent Company	3.8	0.7	1.3	3.1	-	1.1
CEOs of subsidiaries	-	-	-	-	-	-
Board	1.6	-	-	1.6	-	-
Other senior executives	9.2	1.3	2.6	7.2	-	2.0

**Remuneration to the CEO.** According to the terms of the CEO's employment contract, the period of notice is 12 months if termination of employment is initiated by Semcon. If the CEO resigns, the period of notice is six months. A bonus may be paid in accordance with the rules established by the Board, which has been set at a maximum of six times the fixed monthly salary. The contract also includes a non-competition clause, which limits the CEO from pursuing a competitive business for 24 months from the time of termination of employment. The CEO is entitled to a retirement benefit in the form of a pension scheme. The monthly premium for this pension scheme is 35 per cent of the fixed monthly salary. Remuneration to the CEOs of subsidiaries does not include remuneration to CEOs who are members of the group "other senior executives." Benefits concerning company cars amounted to TSEK 74 [74] for the CEO. Furthermore, costs for share-based remuneration impacted profit for the year in the amount of TSEK 39 [21] relating to the CEO.

**Board of Directors.** Of the fees to the Board of Directors in 2016, the Chairman of the Board received TSEK 550 [550]. Other Board members elected by the Annual General Meeting each received TSEK 265 [265]. Board fees totalled TSEK 1,610 [1,610].

## 62 FINANCIAL STATEMENTS

**Other senior executives.** Other senior executives, five individuals [five], refers to Semcon's Group management [not including the company's CEO]. Other senior executives are entitled to bonuses based on how well they meet their respective business targets. The upper limit for bonuses has been set at six times the fixed monthly salary. The period of notice given to other senior executives is a maximum of 12 months. The pension agreements for senior executives are paid in accordance with the ITP plan, except for one executive whose monthly premium is 35 per cent of salary. Benefits concerning company cars amounted to TSEK 332 [292] for senior executives. Furthermore, costs for share-based remuneration impacted profit for the year in the amount of TSEK 76 [42] relating to senior executives.

**Gender distribution among senior executives.** Two of Semcon's five Board members elected by the Annual General Meeting are women. In 2016, Group management consisted of six individuals, of whom one is a woman.

**Pension obligations.** Commitments for defined benefit old-age pensions and family pensions [alternative family pension] under the ITP 2 plan for salaried employees in Sweden are covered through insurance with Alecta. According to a statement from the Swedish Financial Reporting Board UFR 10, Recognition of ITP 2 pension plan financed through insurance with Alecta, this is a multi-employer defined benefit plan. For the 2016 financial year, the company has not had access to the requisite information to allow reporting of its proportional share of the plan's obligations, plan assets and costs, which means that it was not possible to report the plan as a defined-benefit plan. Accordingly, the ITP 2 pension plan that is secured through insurance with Alecta is recognised as a defined contribution plan.

Expenses during the year for ITP 2 pension insurance policies signed with Alecta amounted to SEK 27.6 million [29.3]. Premiums for the defined benefit old-age pensions and family pensions are calculated on an individual basis and are influenced by items including salary, previously earned pension entitlements and remaining period of service. The collective consolidation level is the market value of Alecta's assets as a percentage of the insurance commitment calculated according to Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective consolidation level is usually permitted to vary between 125 and 155 per cent. If Alecta's collective consolidation level falls below 125 per cent or exceeds 155 per cent, then measures must be taken to create the conditions for the consolidation level to return to normal. One possible measure with a low consolidation level is to raise the contractual price for new subscriptions and expansion of existing benefits. One possible measure with a high consolidation level is to lower premiums. At year-end 2016, Alecta's surplus in the form of the collective consolidation level was 149 per cent [153].

**Share-based remuneration** A decision was made at the Annual General Meeting on 28 April 2015 to introduce a long-term performance-based share savings scheme for around 110 senior executives and key employees in the Semcon Group. The scheme will run for four years, starting in July 2015, and cover no more than 242,718 shares, equivalent to 1.34 per cent of the total number of outstanding shares. To be able to take part in the scheme, participants must invest in shares. Employees who participate in the scheme can save an amount equivalent to 5 per cent of their fixed gross salary to purchase ordinary shares on Nasdaq Stockholm over a 12-month period from the date the scheme was implemented. If the shares purchased by the employee are retained for three years from the date of the investment and the individual was employed within the Semcon Group throughout the three-year period, then the employee will receive the same amount of ordinary shares ("matching shares") from the Semcon Group and, as long as performance requirements have been met, then a further one to four performance shares will be issued. For performance matching to occur, the average annual percentage increase in Semcon's earnings per share (EPS) is to be at least 5 per cent between 2014 and 2017. The 2014 EPS will serve as the reference value for calculating this increase of EPS. The maximum number of performance-based shares will be issued if the average increase in EPS is 15 per cent or more. Performance-based shares will not be issued if the average annual EPS increase is less than 5 per cent. Matching of performance-based shares with an annual increase of between 5 and 15 per cent will be on a linear basis. The amount expensed for the share savings scheme was SEK 0.4 million [0.2].

## NOTE 10

## Interest income and similar items

Group	mSEK	2016	2015
Interest income		2.3	2.2
Exchange rate differences		0.6	-
Other financial income		0.5	-
<b>Total</b>		<b>3.4</b>	<b>2.2</b>
<hr/>			
Parent Company	mSEK	2016	2015
Interest income		4.5	6.1
Exchange rate differences		-	14.4
<b>Total</b>		<b>4.5</b>	<b>20.5</b>

## NOTE 11

## Interest expenses and similar items

Group	mSEK	2016	2015
Interest expenses		-3.6	-3.4
Other financial expenses		-	-0.1
<b>Total</b>		<b>-3.6</b>	<b>-3.5</b>
<hr/>			
Parent Company	mSEK	2016	2015
Interest expenses		-1.3	-2.3
Exchange rate differences		-14.9	-
Other financial expenses		-1.5	-1.5
<b>Total</b>		<b>-17.7</b>	<b>-3.8</b>

## NOTE 12

## Tax

Group	mSEK	2016	2015
Current tax		12.5	13.1
Tax concerning previous tax years		0.8	0.2
Deferred tax expense attributable to temporary differences		18.4	2.5
Deferred tax income attributable to temporary differences		-4.8	-1.6
<b>Total</b>		<b>26.9</b>	<b>14.2</b>
<hr/>			
Parent Company	mSEK	2016	2015
Current tax		3.4	4.7
Deferred tax expense attributable to temporary differences		0.2	0.1
<b>Total</b>		<b>3.6</b>	<b>4.8</b>

## 64 FINANCIAL STATEMENTS

	2016	2015
<b>Differences between the Group's recognised tax and tax expense based on current tax rate</b>		
Recognised profit before tax	94.9	56.9
Tax according to current tax rate in Sweden, 22.0% [22.0]	20.9	12.5
<b>Tax effect of:</b>		
Non-deductible expenses	2.4	2.2
Non-taxable income	-0.4	-0.2
Adjustments for previous tax years	0.9	-0.1
Effects of other tax rates abroad	0.8	0.1
Loss carry-forwards not measured in the financial statements	2.2	-
Other	0.1	-0.3
<b>Tax for the year</b>	<b>26.9</b>	<b>14.2</b>
<b>Differences between the Parent Company's recognised tax and tax expense based on current tax rate</b>		
Recognised profit before tax	14.0	18.4
Tax according to current tax rate in Sweden, 22.0% [22.0]	3.1	4.0
<b>Tax effect of:</b>		
Non-deductible expenses	0.6	0.9
Non-taxable income	-0.1	-0.1
<b>Tax for the year</b>	<b>3.6</b>	<b>4.8</b>
Temporary differences arise in the event of differences between the carrying amounts and taxable values of assets and liabilities.		
<b>The Group's temporary differences have resulted in deferred tax assets and deferred tax liabilities for the following items</b>		
	2016	2015
<b>Deferred tax assets</b>		
Loss carry-forwards	3.1	55.5
Temporary differences for inventories	0.2	-
Temporary differences for accounts receivable	0.1	0.1
Temporary differences for pension obligations	1.0	6.0
Other	0.1	0.4
Netting against deferred tax liabilities	-0.3	-0.7
<b>Total</b>	<b>4.2</b>	<b>61.3</b>
<b>Deferred tax liabilities</b>		
Untaxed reserves	5.8	4.5
Temporary differences, accrued non-invoiced income	22.5	16.3
Equity hedge loan	0.7	1.2
Goodwill	5.5	5.1
Other	2.6	2.5
Netting against deferred tax assets	-0.3	-0.7
<b>Total</b>	<b>36.8</b>	<b>28.9</b>

The taxable loss carry-forward is SEK 60.5 million [395.2]. Of this, SEK 8.9 million [11.2] falls due within five years, SEK 2.1 million [2.7] after five years and for the remaining 49.5 million [381.3] there is no maturity date. For SEK 47.8 million [207.7] of the taxable loss carry-forward, no deferred tax asset has been recognised due to uncertainty as to when sufficient taxable profit will be recognised in the future. A deferred tax asset relating to loss carry-forwards was recognised in the amount of SEK 3.1 million [55.5] as it is judged likely that taxable profit will be available in the future, against which this loss carry-forward can be offset.

## NOTE 13

## Earnings per share

Group	2016		2015	
	Before dilution	After dilution	Before dilution	After dilution
Profit/loss attributable to Parent Company's shareholders, mSEK	-48.3	-48.3	3.6	3.6
Weighted average number of shares during the year, [000]	17,870	18,113	17,909	18,113
<b>Earnings/loss per share, SEK</b>	<b>-2.70</b>	<b>-2.67</b>	<b>0.20</b>	<b>0.19</b>
<b>Of which continuing operations</b>				
Profit attributable to Parent Company's shareholders, mSEK	68.0	68.0	42.7	42.7
Weighted average number of shares during the year, [000]	17,870	18,113	17,909	18,113
<b>Earnings per share, SEK</b>	<b>3.81</b>	<b>3.75</b>	<b>2.38</b>	<b>2.36</b>

**Before dilution**

Earnings per share before dilution are calculated by dividing profit/loss attributable to the Parent Company's shareholders by a weighted average number of outstanding ordinary shares during the period excluding shares held as own shares by the Parent Company, see Note 21 on page 70.

**After dilution**

When calculating earnings per share after dilution, the weighted number of outstanding ordinary shares is adjusted for the dilution effect of all potential ordinary shares.

## NOTE 14

## Intangible assets

Group	mSEK	2016	2015
<b>Goodwill</b>			
Opening cost		654.4	648.8
Acquisitions		-	16.2
Translation differences for the year		14.4	-10.6
Discontinuing operations		-302.2	-
<b>Closing accumulated cost</b>		<b>366.6</b>	<b>654.4</b>
Opening impairment		-188.5	-192.5
Translation differences for the year		-4.6	4.0
Impairment of operations being divested		-66.0	-
Discontinuing operations		167.3	-
<b>Closing accumulated impairment</b>		<b>-91.6</b>	<b>-188.5</b>
<b>Closing carrying amount</b>		<b>274.7</b>	<b>465.9</b>
<b>Specification of goodwill</b>			
Goodwill is distributed across the Group's business areas as follows:			
Engineering Services Nordic		262.3	262.3
Engineering Services Germany		-	191.8
Product Information		12.4	11.8
<b>Closing carrying amount</b>		<b>274.7</b>	<b>465.9</b>

## 66 FINANCIAL STATEMENTS

Impairment of goodwill for the year totalling SEK 66.0 million relates to the operations being divested, where the value has been impaired to the net realisable value. Testing for goodwill impairment is carried out annually and when there are indications that an impairment requirement exists. Recoverable amounts for each business area [cash-generating units] have been set according to management's calculated value in use. These calculations are based on the budgeted future cash flows for 2017. The budgeted cash flows are based on the current year's results, order intake and management's expectations regarding market development in 2017. For 2018-2022, an assumption has been made that income will rise by 3 per cent annually, while a long-term growth rate of 2 per cent was used for the subsequent period. Sensitivity analyses have been carried out and if the assumed growth or operating margin deteriorates by 1 percentage point, there will be no need for impairment.

Cash flows have been discounted using a weighted cost of capital equivalent to 8 per cent [9]. This is calculated using the Group's targeted capital structure, current risk-free long-term interest rate and a risk premium for shareholders' equity of 5 per cent and a margin for borrowed capital of 1 per cent. If the discount rate were to increase by 1 per cent to 9 per cent, the value in use would still be higher than the carrying amount.

Further assumptions used when calculating value in use for 2016:

Exchange rates and share of income	Exchange rates	Share of income per currency		
		Engineering Services Nordic	Engineering Services International	Product Information
SEK	1.00	92%	13%	56%
EUR	9.50	1%	7%	12%
GBP	11.00	-	41%	23%
Other		7%	39%	9%
		100%	100%	100%
Average tax rates		23%	28%	20%

The estimated value in use for 2016 exceeded the carrying amounts by a good margin. The same long-term growth rate was used for estimating value in use for 2015. The tax rates used for 2015 were 23 percent for Engineering Services Nordic, 23 per cent for Engineering Services International and 20 per cent for Product Information. The exchange rates used in 2015 were EUR 9.00 and GBP 12.75.

Group	mSEK	2016	2015
<b>Other intangible assets</b>			
Opening cost		83.9	78.8
Sales/disposals		0.1	-
Investments		0.8	7.4
Translation differences for the year		2.3	-2.3
Discontinuing operations		-22.2	-
<b>Closing accumulated cost</b>		<b>64.9</b>	<b>83.9</b>
Opening amortisation		-65.0	-62.1
Amortisation for the year		-4.7	-5.0
Sales/disposals		-0.1	-
Translation differences for the year		-2.1	2.1
Discontinuing operations		21.7	-
<b>Closing accumulated amortisation</b>		<b>-50.2</b>	<b>-65.0</b>
<b>Closing carrying amount</b>		<b>14.7</b>	<b>18.9</b>

Other intangible assets in the Group consist of licenses and computer software. Amortisation occurs straight-line over the useful life.

## NOTE 15

**Tangible assets**

Group	mSEK	2016	2015
<b>Plant and machinery</b>			
Opening cost	142.3	99.2	
Acquisitions	-	2.0	
Investments	25.7	10.1	
Sales/disposals	-8.5	-2.4	
Reclassification	0.6	37.6	
Translation differences for the year	4.7	-4.2	
Discontinuing operations	-114.9	-	
<b>Closing accumulated cost</b>	<b>49.9</b>	<b>142.3</b>	
Opening depreciation	-111.5	-77.7	
Acquisitions	-	-0.2	
Sales/disposals	8.3	1.7	
Depreciation for the year	-9.7	-7.3	
Reclassification	-0.2	-31.4	
Translation differences for the year	-3.9	3.4	
Discontinuing operations	92.2	-	
<b>Closing accumulated depreciation</b>	<b>-24.8</b>	<b>-111.5</b>	
<b>Closing carrying amount</b>	<b>25.1</b>	<b>30.8</b>	
<b>Inventory, computers and equipment</b>			
Opening cost	110.1	147.7	
Investments	7.5	8.3	
Sales/disposals	-2.0	-4.0	
Reclassification	-0.8	-37.6	
Translation differences for the year	3.9	-4.3	
Discontinuing operations	-60.4	-	
<b>Closing accumulated cost</b>	<b>58.3</b>	<b>110.1</b>	
Opening depreciation	-89.9	-119.4	
Sales/disposals	1.9	3.8	
Depreciation for the year	-8.3	-9.0	
Reclassification	0.4	31.4	
Translation differences for the year	-3.0	3.3	
Discontinuing operations	48.5	-	
<b>Closing accumulated depreciation</b>	<b>-50.4</b>	<b>-89.9</b>	
<b>Closing carrying amount</b>	<b>7.9</b>	<b>20.2</b>	

## NOTE 16

## Shares in Group companies

Parent Company	Group company	Capital share, %	Voting rights, %	Carrying amount, mSEK	co.id.no.	Registered office
Semcon AB	Semcon Förvaltnings AB	100	100	58.8	556530-6403	Gothenburg
	Semcon Informatic AB	100	100	15.5	556608-0363	Gothenburg
	Semcon International AB	100	100	25.8	556534-4651	Gothenburg
<b>Total</b>				<b>100.1</b>		

The accumulated cost of shares in Group companies amounts to SEK 323.1 million. A statutory specification of co.id.no. and registered office of all Group companies in the Group can be obtained from Semcon's head office.

## NOTE 17

## Discontinuing operations

An agreement was signed in February 2017 to divest the engineering operations in Germany, which form the Business Area Engineering Services Germany, to Valmet Automotive. The purchase price was paid in cash and amounted to EUR 14.1 million [SEK 135 million] plus the carrying amount of net assets at the date of transfer. The divestment resulted in an impairment of goodwill during the fourth quarter amounting to SEK 66 million and deferred tax assets of SEK 57 million.

The divestment was completed on 28 February 2017 and entails a positive cash flow effect of approximately SEK 160 million. The operation's assets and liabilities are recognised as holdings for sale in this Annual Report. Financial information about discontinuing operations is provided below.

The business area's sales amounted to SEK 863 million [901], which adjusted for local currencies effects represented a decrease of 5 per cent. Operating profit before impairment amounted to SEK 15 million [-49], yielding an operating margin of 1.7 per cent [-5.4]. Operating profit in 2015 was impacted by restructuring costs totalling SEK 46 million. Measures were taken late last year to strengthen the customer offering and a new business structure and organisation are now in place. Demand during the year from a major automotive customer was at a lower level, meaning that operating profit is expected to be weak at the beginning of 2017.

Group	mSEK	2016	2015
<b>ANALYSIS OF EARNINGS</b>			
Income	863.2	900.8	
Costs	-837.2	-938.2	
<b>Operating profit/loss before depreciation/amortisation</b>	<b>26.0</b>	<b>-37.4</b>	
Depreciation/amortisation	-11.0	-11.2	
Impairment	-66.0	-	
<b>Operating profit/loss</b>	<b>-51.0</b>	<b>-48.6</b>	
Net financial items	-3.5	-3.0	
<b>Loss before tax</b>	<b>-54.5</b>	<b>-51.6</b>	
Tax	-61.8	12.4	
<b>Loss from discontinuing operations</b>	<b>-116.3</b>	<b>-39.2</b>	

Group	mSEK	2016	2015
<b>ANALYSIS OF CASH FLOWS</b>			
Net cash flow from current activities		-15.2	-16.0
Net cash flow from investing activities		-9.9	-10.7
Net cash flow from financing activities		-20.9	26.1
<b>Net reduction in cash and cash equivalents from discontinuing operations</b>		<b>-46.0</b>	<b>-0.6</b>
<b>ASSETS AND LIABILITIES HELD FOR SALE</b>			
<b>Assets held for sale</b>			
Intangible assets, goodwill		134.9	191.8
Other intangible assets		0.5	1.8
Tangible assets		34.6	32.9
Deferred tax assets		-	56.0
Accounts receivable		135.2	173.5
Other current assets		26.8	25.8
Cash and cash equivalents		47.9	90.2
<b>Total assets held for sale</b>		<b>379.9</b>	<b>572.0</b>
<b>Liabilities held for sale</b>			
Pension obligations		79.7	68.4
Accounts payable		16.7	21.0
Invoiced non-accrued income		8.0	61.7
Other non-interest-bearing current liabilities		75.6	103.8
<b>Total liabilities held for sale</b>		<b>180.0</b>	<b>254.9</b>

## NOTE 18

### Accounts receivable

Group	mSEK	2016			2015		
		Gross	Reserve	Carrying amount	Gross	Reserve	Carrying amount
Accounts receivable, not due for payment	264.9	-	264.9	357.8	-	357.8	
Due for payment, 1-30 days	13.4	-	13.4	69.3	-	69.3	
Due for payment, 31-60 days	0.8	-0.2	0.6	5.5	-	5.5	
Due for payment, over 60 days	1.9	-1.9	-	4.1	-3.6	0.5	
<b>Total</b>	<b>281.0</b>	<b>-2.1</b>	<b>278.9</b>	<b>436.7</b>	<b>-3.6</b>	<b>433.1</b>	
Group	mSEK	2016			2015		
<b>Change in provisions for doubtful accounts receivable</b>							
At the start of the year				-3.6			-11.7
Provision for expected losses				0.3			-8.5
Confirmed losses				0.5			5.4
Actual payment of reserved receivables				0.2			11.1
Translation differences				-			0.1
Discontinuing operations				0.5			-
<b>At year-end</b>				<b>-2.1</b>			<b>-3.6</b>

## NOTE 19

**Accrued non-invoiced income and invoiced non-accrued income**

Accrued non-invoiced income is recognised in the consolidated accounts by project at the net value of the invoice in line with the percentage of completion minus invoiced sub-amounts and deductions for possible losses. In 2016, accrued non-invoiced income totalled a net amount of SEK 121.8 million [22.1].

Projects for which the total of the contract costs as of the closing date exceeds progress billings including deductions for possible losses are recognised in the balance sheet as receivables from customers. Projects for which progress billings exceed the total contract costs are recognised as liabilities to customers.

Group	mSEK	2016	2015
<b>Accrued non-invoiced income</b>			
Income/contract costs		212.4	235.3
Progress billings		-78.7	-127.1
<b>Total</b>		<b>133.7</b>	<b>108.2</b>
<b>Invoiced non-accrued income</b>			
Income/contract costs		56.1	22.1
Progress billings		-68.0	-108.2
<b>Total</b>		<b>-11.9</b>	<b>-86.1</b>

## NOTE 20

**Prepaid expenses and accrued income**

Group	mSEK	2016	2015
Accrued income		3.0	3.8
Prepaid expenses		25.1	50.6
<b>Total</b>		<b>28.1</b>	<b>54.4</b>

## NOTE 21

**Share capital**

Date	Type of issue	Number of shares issued	Share capital after issue, SEK
7 March 1997	Formation of company	500,000	500,000
14 April 1997	Cash issue	4,003,700	4,503,700
14 April 1997	Non-cash issue	496,300	5,000,000
25 April 1997	Cash issue	12,338,521	17,338,521
31 August 2001	Cash issue	52,500	17,391,021
1 June-31 December 2006	Conversion of promissory note	351,245	17,742,266
1 January-31 May 2007	Conversion of promissory note	40,268	17,782,534
18 June 2008	New issue	330,000	18,112,534

The Parent Company's holding of own shares on 31 December was 242,718 [242,718].

## NOTE 22

**Borrowings**

Group	mSEK	2016	2015
<b>Borrowings</b>			
Liabilities to credit institutions		131.3	136.1
<b>Total</b>		<b>131.3</b>	<b>136.1</b>
<b>Information concerning the currencies of the loans raised</b>			
SEK		69.3	39.1
EUR		81.4	109.7
NOK		12.2	2.9
GBP		-31.6	-15.6
<b>Total</b>		<b>131.3</b>	<b>136.1</b>
<b>Parent Company</b> mSEK			
<b>Borrowings</b>			
Liabilities to credit institutions		130.5	137.5
<b>Total</b>		<b>130.5</b>	<b>137.5</b>
<b>Information concerning the currencies of the loans raised</b>			
SEK		69.3	39.1
EUR		80.6	111.1
NOK		12.2	2.9
GBP		-31.6	-15.6
<b>Total</b>		<b>130.5</b>	<b>137.5</b>

A loan was raised for the acquisition of Group companies and this was recognised in the Parent Company at the translated amount using the rate prevailing on the acquisition date, applying the method for hedging of net investments.

## NOTE 23

**Overdraft facilities**

Of the bank overdraft facilities granted to the Group totalling SEK 152.3 million [152.8], SEK 83.5 million [90.5] was utilised. The credit facilities are subject to annual renewal.  
Of the bank overdraft facilities granted to the Parent Company totalling SEK 150.0 million [150.0], SEK 83.5 million [90.5] was utilised.

## NOTE 24

**Accrued expenses and deferred income**

Group	mSEK	2016	2015
<b>Group</b> mSEK			
Staff-related costs		139.2	189.5
Other items		39.5	43.4
<b>Total</b>		<b>178.7</b>	<b>232.9</b>
<b>Parent Company</b> mSEK			
Staff-related costs		7.6	4.9
Other items		3.3	2.5
<b>Total</b>		<b>10.9</b>	<b>7.4</b>

## NOTE 25

**Pledged assets**

Group	mSEK	2016	2015
<b>For rental guarantees</b>			
Blocked bank assets		-	3.3
<b>Total</b>		-	<b>3.3</b>

## NOTE 26

**Contingent liabilities**

Parent Company	mSEK	2016	2015
Guarantees provided		1.0	0.7
<b>Total</b>		<b>1.0</b>	<b>0.7</b>

## NOTE 27

**Transactions with related parties****Group**

The JCE Group is Semcon AB's largest shareholder with a shareholding of 25.8 per cent [31 December 2016]. Sales amounting to SEK 2.4 million [-] were made to companies in the JCE Group. No purchases were made. The transactions were made at market prices.

**Parent Company**

No transactions occurred between shareholders. For purchases and sales between Group companies, see Note 7 on page 60. For remuneration to senior executives, see Note 9 on page 61.

## NOTE 28

**Operational leasing**

The Group rents offices at around 30 sites in Sweden, Brazil, the UK, India, China, Norway, Germany and Hungary. All rental contracts have been signed on commercial rates and with normal duration periods. In addition to rental contracts, the Group has a number of leases, mainly for company cars. These leases are subject to commercial terms and conditions and have a remaining contract term of one to three years.

Group	mSEK	2016			2015		
		Rent for premises	Other	Total	Rent for premises	Other	Total
Within 1 year		39.9	6.7	46.6	32.5	7.1	39.6
Between 1 and 5 years		128.2	5.6	133.8	96.8	5.5	102.3
More than 5 years		68.1	-	68.1	89.2	-	89.2
<b>Future minimum leasing charges</b>		<b>236.2</b>	<b>12.3</b>	<b>248.5</b>	<b>218.5</b>	<b>12.6</b>	<b>231.1</b>
Minimum leasing charges for the year		44.1	6.0	50.1	38.6	7.2	45.8
<b>Parent Company</b>							
Within 1 year		-	0.6	0.6	-	0.8	0.8
Between 1 and 5 years		-	0.3	0.3	-	1.0	1.0
More than 5 years		-	-	-	-	-	-
<b>Future minimum leasing charges</b>		<b>-</b>	<b>0.9</b>	<b>0.9</b>	<b>-</b>	<b>1.8</b>	<b>1.8</b>
Minimum leasing charges for the year		-	0.2	0.2	-	0.7	0.7

## NOTE 29

**Events after balance sheet date**

In February 2017, Semcon divested Business Area Engineering Services Germany to Valmet Automotive. See Note 17 on Page 68.

No other significant events occurred after the end of the year.

The Board and CEO give assurance that the consolidated accounts have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and give a true account of the Group's position and results. The Annual Report has been prepared in accordance with generally accepted accounting policies and gives a true account of the Parent Company's position and results. The Directors' Report for the Group and Parent Company gives a fair overview of the development of the Group's and Parent Company's business, position and results and describes significant risks and uncertainties that the Parent Company and the Group companies face.

Gothenburg, 20 March 2017

Markus Granlund  
CEO

Tore Bertilsson  
Chairman of the Board

Marianne Brismar  
Board member

Jan Erik Karlsson  
Board member

Jeanette Saveros  
Board member

Karl Thedéen  
Board member

Christer Eriksson  
Employee representative

Monique Pehrsson  
Employee representative

Mats Sällberg  
Employee representative

Our audit report was issued on 21 March 2017  
Deloitte AB

Jan Nilsson  
Authorised Public Accountant

# AUDITOR'S REPORT.

To the general meeting of the shareholders of Semcon AB [publ] corporate identity number 556539-9549

This is a translation of the Swedish language original. In the event of any differences between this translation and the Swedish original the latter shall prevail.

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Semcon AB [publ] for the financial year 2016-01-01 - 2016-12-31. The annual accounts and consolidated accounts of the company are included on pages 34-73 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 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards [IFRS], as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

### Basis for Opinions

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

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

### 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.

### Valuation of goodwill

#### Risk description

In the balance sheet goodwill amounts to mSEK 274.7 as of 31 December 2016. This goodwill arose from acquisitions.

The value of the goodwill is dependent on future income and profitability in the cash generating units which the goodwill relates to. It is assessed for impairment at least once a year. The impairment test is based on several assumptions, such as estimated future cash flows, discount rate and growth.

Incorrect judgments and assumptions may have a material impact on the group's result and financial position.

For further information, please refer to the section about accounting principles applied for the consolidated accounts on pages 52-56, note 5 about important judgments and assumptions on page 58 and note 14 Intangible assets on pages 65-66 in the annual report.

*Our audit procedures included, but were not limited to:*

- \* Review and testing of Semcon's procedures for impairment testing of goodwill and assessed the reasonability in assumptions made, that the procedures are consistently applied and that there is integrity in the computations. We have also tested the arithmetical correctness in the model used
- \* Review of completeness in relevant notes to the financial statements.
- \* Our valuation specialists have been involved in the audit procedures.

### Valuation projects

#### Risk description

All Semcon's operations are run in the form of projects. The projects are either at fixed prices or on current accounts. For the current account projects the accounting is performed using the percentage of completion method.

In the balance sheet as of 31 December 2016 work performed but not invoiced revenue from work in progress amounts to mSEK 133.7 and work invoiced but not yet performed amounts to mSEK 11.9.

The value of fixed price projects in progress is based on a number of judgments and remaining costs, degree of completion, profit margin and possible loss risks.

Incorrect judgments and assumptions may have a material impact on the group's result and financial position.

For further information, please refer to the section about accounting principles applied for



the consolidated accounts on pages 52-56, note 5 about important judgments and assumptions on page 58 and note 19 Work performed but not invoiced and Work invoiced but not yet performed on page 70 in the financial statements.

*Our audit procedures included, but were not limited to:*

- ✳ We have reviewed and assessed Semcon's procedures for agreement management and project accounting to ensure that the procedures are consistently applied and that the follow-up of projects in progress is performed continuously and in a structured manner.
- ✳ We have reviewed an appropriate selection of material projects in all business areas to ensure that assumptions made regarding remaining costs and degree of completion in the projects are reasonable.
- ✳ We have analyzed the profitability in a selection of projects in progress to ensure that the assumptions regarding loss risks in the projects are reasonable.

#### **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 1-33, 78-79 and 86-91. 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 scepticism 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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably

be expected to outweigh the public interest benefits of such communication.

## 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 Semcon AB [publ] for the financial year 2016-01-01-2016-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to 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 scepticism 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Gothenburg, 21 March 2017  
Deloitte AB

Jan Nilsson  
Authorised Public Accountant

## DEFINITIONS.

### **Capital employed**

The balance sheet total minus non-interest-bearing provisions and liabilities.

### **Cash flow per share**

Cash flow from current activities divided by the weighted average number of shares outstanding over the year adjusted for the dilution effect of potential shares.

### **Debt/equity ratio**

Net debt divided by shareholders' equity.

### **Earnings per share [EPS] before dilution**

Profit/loss after tax attributable to the Parent Company's owners divided by the average number of ordinary shares outstanding excluding shares held as own shares by the Parent Company.

### **Earnings per share [EPS] after dilution**

Profit/loss after tax attributable to the Parent Company's owners divided by the average number of ordinary shares outstanding adjusted for the dilution effect of potential shares.

### **Equity/assets ratio**

Shareholders' equity as a percentage of the balance sheet total.

### **Net debt**

Interest-bearing provisions and liabilities with deductions for cash and cash equivalents and interest-bearing receivables.

### **Organic growth**

Year-on-year increase in income adjusted for currency effects, acquisitions and divestments.

### **Operating margin**

Operating profit as a percentage of operating income.

### **Operating margin before depreciation**

Operating profit before depreciation/amortisation as a percentage of operating income.

### **Operating profit before depreciation**

Operating profit plus amortisation of intangible assets and depreciation of tangible assets.

### **P/E ratio**

Price per share at year-end divided by earnings per share after dilution.

### **P/S ratio**

Price per share at year-end divided by net sales per share.

### **Profit margin**

Profit before tax as a percentage of operating income.

### **Return on capital employed**

Profit before tax plus financial costs divided by average capital employed.

### **Return on shareholders' equity**

Profit for the year after tax divided by the average shareholders' equity.

### **Shareholders' equity per share before dilution**

Shareholders' equity divided by the number of shares at year-end, excluding shares held as own shares by the company.

### **Shareholders' equity per share after dilution**

Shareholders' equity divided by the number of shares at year-end adjusted for the dilution effect of potential shares.



## GLOSSARY.

### **Direct services**

Semcon provides specialists who work in the customer's organisations.

### **Front office/back office [FOBO model]**

Semcon's principle for the front office/back office model is that assignments and work should be carried out where we have the best skills and available resources. Back office carries out much of the work and the front office is responsible for project coordination and customer interaction.

### **Internet of things [IoT]**

Collective term for how connected products and services integrate, which, for example, enables new cloud services.

### **Life science**

Collective name for the pharmaceutical, med tech and biotech industries.

### **Managed services**

Semcon assumes overall responsibility for a defined function designed to provide products and services.

### **Original Equipment Manufacturer [OEM]**

Manufacturer of complete products intended for end users.

### **Product development cycle**

The cycle from idea to end product.

### **Production development**

Development of equipment, tools and processes to produce a product.

### **Satellite project**

Semcon works in the customer's IT system from a Semcon office.

### **Semcon Project Model [SPM]**

Semcon's project methodology, built on XLPM.

### **Solution based**

Semcon assumes comprehensive responsibility for parts of or a complete project.

# CORPORATE GOVERNANCE REPORT.

This Corporate Governance Report has been prepared in accordance with Swedish corporate law and Semcon's Articles of Association. The Articles of Association regulates the alignment of the business and share capital, and how and when the notice to attend the Annual General Meeting takes place. The Articles of Association are available in full on Semcon's website [semcon.com](http://semcon.com). Semcon also complies with applicable Swedish and foreign laws and regulations.

## Application

Semcon applies the Swedish Corporate Governance Code and has no deviations to report. The current code is available at:

[www.corporategovernanceboard.se](http://www.corporategovernanceboard.se).

## General Meeting of Shareholders

The General Meeting of Shareholders is Semcon's highest decision-making body. The notice to attend must be published in the Official Swedish Gazette [PoIT], on [semcon.com](http://semcon.com) and in a press release. That the notice to attend has been published must be advertised in *Dagens Industri*.

At General Meetings of Shareholders, shareholders have the opportunity to exercise their voting rights and, in accordance with Swedish corporate law and Semcon's Articles of Association, to take decisions concerning the composition of the Board and other central issues. Shareholders or proxies can vote for the number of shares he/she owns or represents at the meeting. Resolutions at General Meetings of Shareholders usually require a simple majority. However, a qualified majority is sometimes required for some resolutions.

## 2016 Annual General Meeting

The Annual General Meeting [AGM] for the 2015 financial year was held on Thursday, 28 April 2016 at Semcon's head office in Gothenburg, Sweden. Representatives of 46 per cent of the share capital were present, of which underlying shares held by the members of the Nominations Committee represented 34 per cent. Kjell Nilsson was elected to chair the meeting. The Board of Directors, Group management and a representative for Deloitte AB were present at the AGM.

### The AGM resolved on the following:

- \* for a dividend of SEK 1.25 per share [2.50] be paid
- \* to approve the Nominations Committee's proposal of Board members, remuneration to the Board and its chairman
- \* that the Board shall consist of five AGM-elected members
- \* to re-elect Tore Bertilsson and Marianne Brismar and elect Jan Erik Karlsson, Jeanette Saveros and

Karl Thedéen as new Board members. Tore Bertilsson was elected as Chairman of the Board

\* to re-elect Deloitte AB as the registered auditing firm until the close of next AGM

As in previous years, the AGM also granted the Board authorisation to:

- \* carry out a new share issue of a maximum 1,811,253 ordinary shares in the company
- \* acquire ordinary shares and transfer ordinary shares. Acquisitions may be made at any time for so many ordinary shares that the company holds a maximum of 10 per cent of all shares following acquisition.

Full minutes and information from the 2016 AGM are available at [semcon.com](http://semcon.com).

## 2017 Annual General Meeting

The AGM for the 2016 financial year will be held on Wednesday, 26 April 2017 at Semcon's head office in Gothenburg, Sweden. More information is available at [semcon.com](http://semcon.com).

## Share structure and voting rights

Semcon has one share class, ordinary shares, with a quotient value of SEK 1 and entitle the owner to one voting right. There were 18,112,534 [18,112,534] ordinary shares at year-end.

## Shareholder structure

At 31 December 2016, the JCE Group owned 25.8 per cent [22.2] of Semcon's shares, Nordea Investment Funds 7.2 per cent [6.3], Ålandsbanken 5.1 per cent [5.2], Swedbank Robur Fonder 4.9 per cent [8.4] and DNB Carlson Fonder 3.3 per cent [1.7]. Semcon had 4,478 [4,671] shareholders, of whom 29.9 per cent [27.5] were registered abroad.

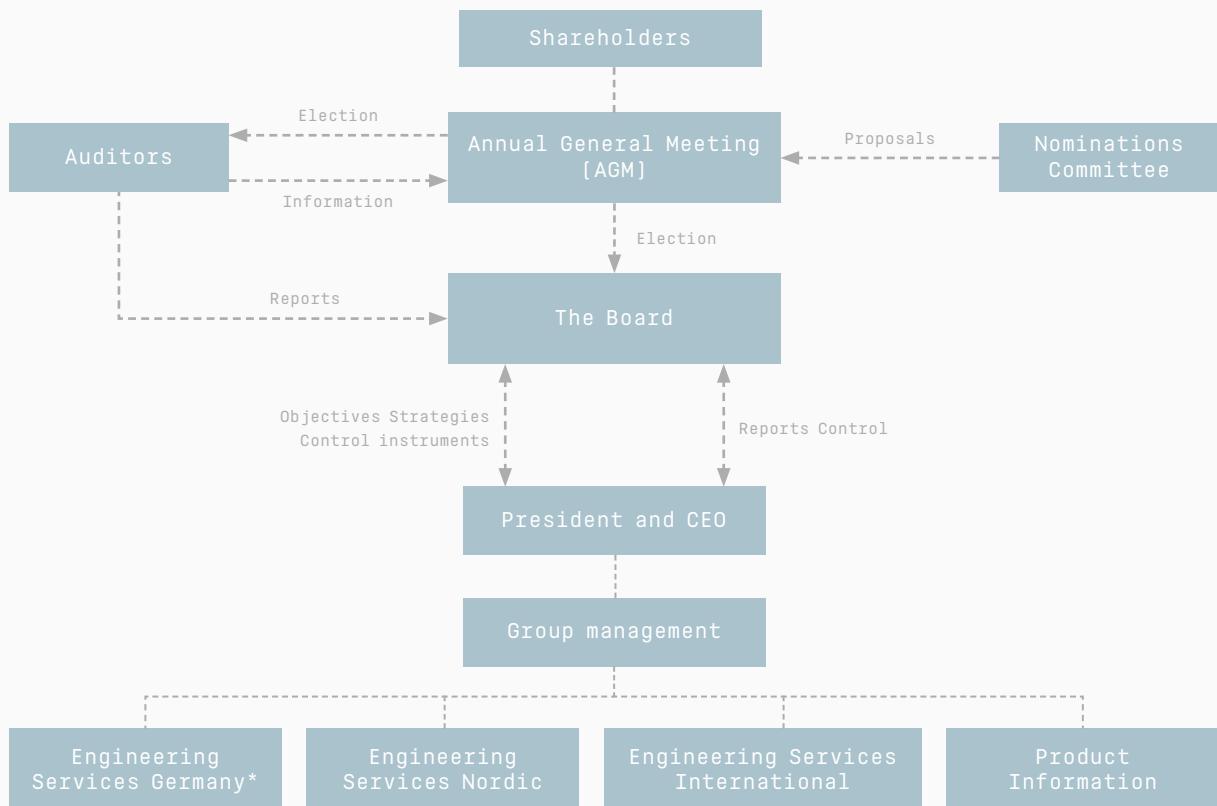
## Nominations Committee

According to a resolution by the AGM, based on ownership statistics from Euroclear Sweden AB on 31 August for each respective year, the Chairman of the Board must convene the three largest shareholders in the company in terms of votes, who each

Nominations Committee ahead of the 2017 AGM		Share of voting rights, %*
	Representing	
Ulf Gillgren	JCE Group	25.8
Mats Andersson	Nordea Investment Funds	7.2
Evert Carlsson	Swedbank Robur Fonder	4.9
Tore Bertilsson	Semcon AB [co-opted member]	
Total		37.9

\* Share of voting rights 31 December 2016

The summary below illustrates how responsibility for management and control of Semcon AB is divided between shareholders at the AGM, the Board and the CEO according to external regulations and internal policies.



\*Business divested in February 2017.

shall appoint one member to the Nominations Committee. Should any of abovementioned shareholders waive the right to nominate a member, this right will transfer to the next largest shareholder in terms of voting rights who is not already entitled to nominate a member to the Nominations Committee. The member nominated by the largest shareholder will serve as the chairman of the Nominations Committee.

*The Nominations Committee is to present proposals to the AGM concerning:*

- ✳ Chairman of the AGM
- ✳ Chairman of the Board and other Board members, remuneration to the Board and, in certain cases, auditors, and remuneration to the Board and auditors
- ✳ The decision concerning principles for the composition of the Nominations Committee

The Nominations Committee's members will be announced no later than six months prior to the AGM. Information about the Nominations Committee's members and how proposals to the AGM can be submitted is available in press releases at [semcon.com](http://semcon.com) and in the Interim Report for the third quarter.

#### 2016/2017 Nominations Committee

The Nominations Committee's members in 2016/2017

consisted of Ulf Gillgren, JCE Group Aktiebolag [Nominations Committee's Chairman] Evert Carlsson, Swedbank Robur Fonder, Mats Andersson, Nordea Investment Funds, and Tore Bertilsson, Chairman of the Board of Semcon AB [co-opted member]. No remuneration was paid to the members. The Nominations Committee met twice in the autumn of 2016 and once in February 2017. The basis of the Nominations Committee's work has mainly been the company's strategies and priorities and an evaluation of the Board and its size and composition. The Nominations Committee's proposal for election of Chairman of the Meeting, Board members, Chairman of the Board and auditors is outlined in the notice to attend the AGM, in addition to proposed remuneration to AGM-elected Board members and auditors. Furthermore, proposals are submitted for appointing a Nominations Committee, which is published at the same time on [semcon.com](http://semcon.com). Questions to the Nominations Committee can be submitted to: [valberedning@semcon.se](mailto:valberedning@semcon.se)

#### Board of Directors

The Board is ultimately responsible for the organisation and management of Semcon's business activities. The work of the Board is regulated by the Companies' Act, the Articles of Association and the rules of procedure adopted annually by the Board.

### *Board structure*

The General Meeting of Shareholders elects Board members and their deputies in Semcon AB. According to the Articles of Association, the Board must consist of no fewer than three members and no more than eight members with no more than two deputies. Semcon AB's Board consists of five members elected by the AGM with no deputies, and three members and one deputy elected by the employees. Of the eight Board members, of whom three are women, all are Swedish citizens. The Board's composition meets the requirements for being independent set by the Swedish Corporate Governance Code and by Nasdaq Stockholm. See table on page 83

### *Work of the Board*

During the 2016 financial year, the Board held nine regular meetings and five extraordinary meetings per telephone or per capsulam. The Board has adopted a number of steering documents and policies. The Board oversees the CEO's work by continuously monitoring the business throughout the year, and is responsible for ensuring that the organisation, management and guidelines for administering the company's affairs are suitably structured and that there is an appropriate level of internal control. Furthermore, the Board is responsible for developing and following up the company's strategies through plans and objectives, decisions regarding the acquisition and divestment of businesses and major investments. The Board sets out guidelines for the company's conduct in society to ensure its long-term value-adding capability. The Board also approves the six-monthly and annual accounts. The work of the Board adheres to an agenda with fixed points for Board members. The Chairman leads and delegates Board work and ensures that urgent matters in addition to the fixed points on the agenda are addressed. Attendance at Board meetings is presented in the table on page 83. Other employees in the company take part in Board meetings to present reports and as secretary.

### *Board meetings 2016*

**February:** Annual accounts and Year-end report 2015, financial report, remuneration issues, CEO evaluation, internal control, debriefing of audit [auditors present].

**March:** Review of Annual Report, proposed resolutions and notice to attend AGM.

**April:** Interim report, January–March, financial report.

**April:** Statutory meeting.

**June:** Review of market, trends and Semcon's position.

**July:** Interim report, January–June, financial report.

**August:** Follow-up and setting of strategies.

**October:** Interim report, January–September, financial report, debriefing of audit [auditors present].

**December:** Business plans and adoption of budget for

2017 for the Group and each of the business areas, Board evaluation.

In addition, five Board meetings were held by telephone or per capsulam to consider issues such as the approval of project contracts, acquisitions and divestments.

### *Statutory meeting*

At the statutory Board meeting in connection with the AGM, the Board adopted the rules of procedure for the Board, terms of reference for the CEO, subsidiary instructions, financial reporting instructions, authorisation procedures and the financial policy.

### *Board evaluation*

Board members have evaluated the Board's work, which has been summarised and made available to the Nominations Committee. The areas evaluated cover such aspects as the composition of the Board, its level of expertise, organisation, day-to-day work and working climate. In addition, the Nominations Committee met individually with the AGM-elected Board members.

### *Audit Committee*

Semcon has decided that the entire Board will carry out the Audit Committee's tasks. The entire Board strives to maintain close contact with the company's auditors so that it can satisfactorily monitor significant issues concerning the company's accounts, reporting procedures, management of company assets and internal control. These types of issues are therefore dealt with by the Board as a whole. To ensure that the Board's need for information is satisfied, the company's auditors report to the Board at least twice a year. Jan Nilsson, authorised public accountant and auditor in charge at Deloitte, has reported his views over the past year on the Group's internal control and procedures for reporting and accounting, and for reviewing the January–September interim report and annual accounts.

### **Remuneration issues**

#### *Remuneration Committee*

Semcon has decided that the Board in its entirety will carry out the Remuneration Committee's assignments.

#### *Remuneration to the Board*

Remuneration to the Board is decided by the AGM following proposals by the Nominations Committee. The AGM decided that remuneration to the Board in 2016/2017 should be SEK 550,000 for the Chairman and SEK 265,000 for each of the other Board members not employed by the company.

#### *Remuneration to the CEO and senior executives*

The AGM decides on remuneration principles and other employment guidelines for the CEO and senior executives who report to him. The Board decides on remuneration to the CEO.

The CEO's remuneration and benefits are presented in Note 9, page 61. Senior executives' remuneration is proposed by the CEO and approved by the Board. All senior executives in Group management are entitled to a fixed salary, which can be supplemented with a variable salary of no more than six months' salary based on how well they meet their respective targets. The fixed salary is adjusted to conditions in the market and set every calendar year. Remuneration guidelines include the individuals, who during the time the guidelines applied, were part of Group management. The Board has the right to deviate from the guidelines if there is just cause to do so in special circumstances. Senior executives' remuneration and benefits are presented in Note 9 on page 61.

### Auditors

Deloitte AB was re-elected as the company's auditor by the 2016 AGM until the 2017 AGM. The company's auditor in charge is Jan Nilsson (born 1962). His other audit assignments include Telia, Volvo Cars and Vitrolife.

The auditors' interaction with the Board is described above. In addition to auditing, Deloitte AB also provides Semcon with advice on accounting issues. All services provided in addition to the statutory auditing service are checked specially to ensure there is no conflict of interest or disqualification issue. No senior executive at Semcon has held any position at Deloitte. Semcon's remuneration to auditors and purchase of services in addition to auditing is presented in Note 8 on page 60.

### Group management

Group management consists of the CEO, CFO, General Counsel, Director Corporate communications and Marketing and business area presidents, see pages 88-89. Group management holds regular meetings led by the CEO. The meetings follow an agenda and are minuted. In addition to these meetings, a number

of meetings are held where all, or parts of, Group management are present along with other employees of the Group. Group management strives to maintain close contact with every business area in order to support and provide help and the tools to enhance efficiency and in relation to marketing, business development and internal exchange of knowledge.

### Business areas

Semcon's business activities were organised into four business areas in 2016. Semcon's organisation is characterised by far-reaching decentralisation, according to which every unit is highly independent and is granted extensive powers. In addition to continuous contacts, Group management's control of the business areas is carried out mainly in the form of monthly internal debriefings by business area presidents and controllers and through internal board meetings with members of Group management.

### Authorisation and decision-making procedure

The Group has an authorisation and decision-making procedure that clearly regulates powers at every level in the company, from individual employees to Semcon's management. The areas regulated include contract levels, processing of quotes/tenders, investments, rental and lease contracts and overheads. The organisation of an assignment or project varies according to its size, location and complexity. Semcon is certified and applies quality and environmental management systems according to ISO 9001:2008 and ISO 14001:2004, which are reviewed on a regular basis by external auditors.

*Further information about corporate governance*  
The following information is available at [semcon.com](http://semcon.com):

- \* More in-depth information about internal control instruments, such as the Articles of Association and Code of Conduct
- \* Information from Semcon's AGMs from 2005 and onwards [notices to attend meetings, minutes, etc.]

### Composition of the Board of Directors

		Elected	Attendance	Dependent	Audit Committee	Remunerations Committee
Tore Bertilsson	Chairman	2015	14 of 14	Yes*	Yes	Yes
Marianne Brismar	Member	2008	14 of 14	No	Yes	Yes
Jan Erik Karlsson	Member	2016	9 of 9	Yes**	Yes	Yes
Karl Thedéen	Member	2016	9 of 9	No	Yes	Yes
Jeanette Saveros	Member	2016	8 of 9	No	Yes	Yes
Christer Eriksson	Employee representative	2007	13 of 14		Yes	Yes
Mats Sällberg	Employee representative	2014	13 of 14		Yes	Yes
Monique Pehrsson	Employee representative	2014	10 of 14		Yes	Yes

\* Tore Bertilsson is not independent to major shareholders.

\*\*Jan Erik Karlsson is not independent to major shareholders.  
A presentation of Board members is available on pages 86-87.

## Internal control over financial reporting

The Swedish Companies Act regulates the Board and CEO's responsibility concerning internal control. The Board's responsibility is also regulated by the Swedish Corporate Governance Code, which includes requirements for annual external information disclosure concerning the manner in which the financial reporting is organised.

### Internal control

Semcon has defined internal control as a process designed to provide reasonable assurance that Semcon's objectives are achieved in terms of appropriate, efficient operations, reliable reporting, and procedures for complying with applicable rules and regulations. The internal control is influenced by the Board, CEO, Group management and other employees and is based on a control environment that creates the basis for the other four components in the process - risk assessment, control activities, information and communication, and monitoring. The process bases itself on the framework for internal control issued by the Committee of the Sponsoring Organizations of the Treadway Commission [COSO]. The control environment includes the values and ethics that the Board, CEO and Group management communicate and use and that are documented in Semcon's Code of Conduct. It also includes the Group's organisational structure, management, decision-making channels, authorisations and responsibilities as well as the expertise of employees. Semcon's mission, objectives and strategies are the basis of day-to-day work. Semcon is characterised by a decentralised organisation based in target-oriented management.

### Internal control over financial reporting

Internal control over financial reporting aims to provide reasonable assurance concerning reliability of the external financial reporting in the form of interim reports, year-end reports and annual reports, and that the external financial reports are prepared in accordance with laws, applicable accounting standards and other requirements imposed on listed companies. The following description has been drawn up in accordance with the Swedish Corporate Governance Code and the current application instructions and constitutes the Board's report concerning internal control over financial reporting.

#### Control environment

The Board has overall responsibility for the internal control over financial reporting. The Board has set out written rules of procedure that clarify



the Board's responsibilities and that regulate the work of the Board. The Board will ensure that established principles for financial reporting and internal control are observed and that appropriate relationships with the company's auditors are maintained. The Board has prepared terms of reference for the CEO and instructions for financial reporting. The Group's internal control function provides support for the internal control over financial reporting in the Group's companies and business areas. Internal control instruments for financial reporting consist of the Group's financial policy, credit policy, information policy, investment rules, authorisation rules and the Group's accounting and reporting rules. Semcon's ethical values are documented in the Group's Code of Conduct, and staff policies complement other rules and instructions for employees. In recent

years, much time and effort has been spent on the Group's management systems and to establish clearer procedures and regulations for submitting tenders/bids, contractual terms and for signing agreements. To ensure adherence to these rules, a number of training initiatives were completed during the year. A further two projects were carried out in 2015 and 2016 to fully harmonise the Semcon Group's project processes and financial processes at all subsidiaries.

#### Risk assessment

Semcon's risk assessment regarding financial reporting - meaning identification and evaluation of the most significant risks in the Group's companies, business areas and financial reporting processes - forms the basis for how these risks are managed. Management takes the form of accepting, reducing or eliminating the risk. Annual evaluation activities are carried out by the internal control function using a risk-based model. A number of criteria are considered to assess the degree of risk of inaccuracies occurring in financial reporting. Complex accounting policies might, for example, mean that the financial reporting risks being inaccurate for the items covered by such policies. Measuring certain assets or liabilities using various assessment criteria might also constitute a risk. The same applies to complex or changed business conditions.

#### Control activities

The significant risks identified for financial reporting are managed through various control activities and processes in the Group's companies and business areas, and aim to safeguard that the basic demands on external financial reporting are met.

The control activities build on the Group's minimum requirements for internal control over financial reporting and consist of comprehensive, detailed controls that can be preventative and exploratory in nature. The respective business areas are responsible for the Group's control instruments being implemented and observed and that any possible deviations are reported.

### Information and communication

Information and communication about internal control instruments for financial reporting is published on Semcon's intranet, which is accessible to every employee. External communication consists of, for example, external financial reporting, such as interim reports and the Annual Report. There is a communication manual to support the information procedures in the Group. This clearly states who is allowed to communicate what type of information and that the information must be correct, coordinated, consistent, prompt and transparent, both internally and externally.

### Monitoring

Monitoring to ensure effective internal control over financial reporting is carried out by the Board, CEO, Group management, the internal control function and the Group's companies and business

areas. Monitoring is carried out informally and formally and comprises follow-ups of monthly financial statements against budgets and objectives as well as quarterly reports, which in certain cases is supplemented with independent reviews by external auditors. Monitoring and reporting to the Board function effectively. Semcon has introduced a Group-wide reporting system for work related to internal control over financial reporting, which includes self-evaluation of all the Group's companies and business areas. This provides an overview of how the Group's subsidiaries and business areas meet the minimum requirements for internal control over financial reporting for material risks identified and also provides information concerning the status of the work. Each company and business area is responsible for preparing action plans for deviations, which are subsequently followed-up by the respective internal board of each business area. In view of the results of these activities, the company has thus far found no reason to introduce a special internal audit function.

Gothenburg, 20 March 2017

Board of Directors

### Auditor's report on the corporate governance report

To the general meeting of the shareholders in Semcon AB corporate identity number 556539-9549

#### Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance report for the financial year 2016-01-01-2016-12-31 on pages 80-85 in this document 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 report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and gen-

erally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

#### Opinions

A corporate governance report 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.

Gothenburg, 21 March 2017

Deloitte AB

Jan Nilsson

Authorised Public Accountant

# BOARD OF DIRECTORS.



## TORE BERTILSSON

CHAIRMAN OF THE BOARD SINCE 2016

BOARD MEMBER SINCE 2015

BORN 1951

QUALIFICATIONS: Master of Business of Administration (MBA) School of Business, Economics and Law, University of Gothenburg

PROFESSIONAL BACKGROUND: Former deputy CEO and CFO of AB SKF and bank director of SEB

NATIONALITY: Swedish

OTHER BOARD ASSIGNMENTS:

Chairman of Perstorp AB, PRI Pensionsgaranti and AB Ludvig Svensson. Board member of IKEA, JCE Group AB, Gunnebo AB, Stampen AB and Intrum Justitia AB

SHAREHOLDING IN SEMCON: 10,000

*Independent in relation to the company and company management. Not independent in relation to major shareholders.*

## MARIANNE BRISMAR

BOARD MEMBER SINCE 2008

BORN 1961

QUALIFICATIONS: Pharmacist Graduate and Master of Business Administration (MBA)

PROFESSIONAL BACKGROUND: Former CEO and owner of Atlet AB

NATIONALITY: Swedish

OTHER BOARD ASSIGNMENTS: Axel Johnson International Aktiebolag, Beijer Alma AB, Concentric AB, Creades AB, JOAB AB and Lindab International AB

SHAREHOLDING IN SEMCON: 5,000

*Independent in relation to the company, company management and major shareholders.*

## JAN ERIK KARLSSON

BOARD MEMBER SINCE 2016

BORN 1949

QUALIFICATIONS: Bachelor of Arts

PROFESSIONAL BACKGROUND: Former CEO of Capgemini Sverige AB and has held other senior positions at Capgemini Group.

NATIONALITY: Swedish

OTHER BOARD ASSIGNMENTS: Chairman of IC Quality AB. Board member of Itera AS.

SHAREHOLDING IN SEMCON: -

*Independent in relation to the company and company management. Not independent in relation to major shareholders.*

## JEANETTE SAVEROS

BOARD MEMBER SINCE 2016

BORN 1974

QUALIFICATIONS: Construction engineer, Mälardalen University

PROFESSIONAL BACKGROUND: CEO of Arcona AB

NATIONALITY: Swedish

OTHER BOARD ASSIGNMENTS: Board member of the Swedish Federation of Consulting Engineers and Architects, Sweden Green Building Council and Svensk Mark-service AB

SHAREHOLDING IN SEMCON: -

*Independent in relation to the company, company management and major shareholders.*



## KARL THEDÉEN

BOARD MEMBER SINCE 2016

BORN 1963

QUALIFICATIONS: Master of Science [Msc], KTH Royal Institute of Technology, Stockholm

PROFESSIONAL BACKGROUND: Senior Vice President and business area president of Infinera. Former CEO of Transmode AB. Previously held a number of senior positions at the Ericsson Group

NATIONALITY: Swedish

OTHER BOARD ASSIGNMENTS:

Edgeware AB

SHAREHOLDING IN SEMCON: 7,750

*Independent in relation to the company, company management and major shareholders.*

## CHRISTER ERIKSSON

EMPLOYEE REPRESENTATIVE SINCE 2007

EMPLOYED SINCE 2000

BORN 1969

QUALIFICATIONS: Master of Engineering [M.E.] in Mechanical Engineering, Materials and Mechanical technology, Luleå University of Technology

NATIONALITY: Swedish

SHAREHOLDING IN SEMCON: 2,492

## MONIQUE PEHRSSON

EMPLOYEE REPRESENTATIVE SINCE 2014

EMPLOYED SINCE 2011

BORN 1969

QUALIFICATIONS: Technical information, Karlstad University

NATIONALITY: Swedish

SHAREHOLDING IN SEMCON: -

## MATS SÄLLBERG

EMPLOYEE REPRESENTATIVE SINCE 2014

EMPLOYED SINCE 1998

BORN 1967

QUALIFICATIONS: Mechanical engineering qualifications from Erik Dahlberg upper-secondary school, Jönköping

NATIONALITY: Swedish

SHAREHOLDING IN SEMCON: 8,000

# GROUP MANAGEMENT.



## MARKUS GRANLUND

**PRESIDENT AND CEO AND  
BUSINESS AREA PRESIDENT  
ENGINEERING SERVICES  
INTERNATIONAL**

**BORN** 1975

**QUALIFICATIONS** Bachelor of Law, Lund University [LL.M]. Master of International Trade Law, Bond University, Australia

**OTHER BOARD ASSIGNMENTS**

Chairman of the Swedish Federation of Consulting Engineers and Architects, Board member of Almega - the Employers' Organisation for the Swedish Service Sector, and the Confederation of Swedish Enterprise

**EMPLOYED SINCE** 2008

**SHAREHOLDING IN SEMCON:**  
18,831



## BJÖRN STRÖMBERG

**CFO**

**BORN** 1960

**QUALIFICATIONS** Master of Business Administration [MBA], School of Business, Economics and Law, University of Gothenburg

**EMPLOYED SINCE** 2007

**SHAREHOLDING IN SEMCON:**  
15,393



## CARIN WIBERG

**GENERAL COUNSEL**

**BORN** 1978

**QUALIFICATIONS** Bachelor of Law, University of Gothenburg

**EMPLOYED SINCE** 2012

**SHAREHOLDING IN SEMCON:** 2,532



## PER NILSSON

**DIRECTOR CORPORATE  
COMMUNICATIONS  
AND MARKETING**

**BORN** 1975

**QUALIFICATIONS** Media and Communication, Karlstad University

**EMPLOYED SINCE** 2015

**SHAREHOLDING IN SEMCON:** 623



## OLOF CHRISTENSSON

**BUSINESS AREA PRESIDENT  
ENGINEERING SERVICES  
NORDIC**

**BORN 1966**

**QUALIFICATIONS** Bachelor in Business Administration, Karlstad University

**EMPLOYED SINCE 2013**

**SHAREHOLDING IN SEMCON: 1,653**

## JOHAN EKENER

**BUSINESS AREA PRESIDENT  
PRODUCT INFORMATION**

**BORN 1964**

**QUALIFICATIONS** Master of Science [MSc], Chalmers University of Technology. Master of Business Administration, School of Business, Economics and Law, University of Gothenburg

**EMPLOYED SINCE 2004**

**SHAREHOLDING IN SEMCON: 6,145**

# FIVE-YEAR SUMMARY.

Income statement mSEK	2016	2015	2014	2013	2012
<b>Net sales</b>	<b>1,755.9</b>	<b>1,656.6</b>	<b>2,725.7</b>	<b>2,508.4</b>	<b>2,570.9</b>
Operating expenses	-1,660.8	-1,598.4	-2,623.3	-2,383.6	-2,377.6
<b>Operating profit</b>	<b>95.1</b>	<b>58.2</b>	<b>102.4</b>	<b>124.8</b>	<b>193.3</b>
Financial income	3.4	2.2	1.0	1.3	1.9
Financial expenses	-3.6	-3.5	-6.0	-8.3	-9.3
<b>Profit before tax</b>	<b>94.9</b>	<b>56.9</b>	<b>97.4</b>	<b>117.8</b>	<b>185.9</b>
Tax	-26.9	-14.2	-22.0	-29.7	-44.7
<b>Net profit for the year from continuing operations</b>	<b>68.0</b>	<b>42.7</b>	<b>75.4</b>	<b>88.1</b>	<b>141.2</b>
<b>Loss for the year from discontinuing operations</b>	<b>-116.3</b>	<b>-39.2</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net profit/loss for the year</b>	<b>-48.3</b>	<b>3.5</b>	<b>75.4</b>	<b>88.1</b>	<b>141.2</b>
Balance sheet mSEK	2016	2015	2014	2013	2012
Accounts receivable	278.9	433.1	416.1	371.3	346.6
Accrued non-invoiced income	133.7	108.2	157.9	172.7	174.4
Assets held for sale	379.9	-	-	-	-
Cash and cash equivalents	39.9	126.1	152.3	153.3	115.6
Deferred tax assets	4.2	61.3	46.3	44.5	50.1
Goodwill	274.7	465.9	456.3	440.3	433.3
Other current assets	30.4	71.7	57.6	48.9	51.1
Other financial assets	-	-	17.0	18.8	19.1
Other intangible assets	14.7	18.9	16.7	16.6	17.7
Tangible assets	33.0	51.0	49.8	39.2	35.4
<b>Total assets</b>	<b>1,189.4</b>	<b>1,336.2</b>	<b>1,370.0</b>	<b>1,305.6</b>	<b>1,243.3</b>
Current liabilities	439.7	634.4	615.9	593.7	453.2
Liabilities held for sale	180.0	-	-	-	-
Long-term liabilities	40.3	97.3	91.6	78.5	211.0
Shareholders' equity	529.4	604.5	662.5	633.4	579.1
<b>Total shareholders' equity and liabilities</b>	<b>1,189.4</b>	<b>1,336.2</b>	<b>1,370.0</b>	<b>1,305.6</b>	<b>1,243.3</b>
Cash flow statement mSEK	2016	2015	2014	2013	2012
Cash flow from current activities	33.4	27.3	82.3	135.0	186.2
Cash flow from financing activities	-40.8	-19.9	-65.7	-78.5	-83.2
Cash flow from investing activities	-33.6	-29.8	-29.3	-23.9	-23.9
<b>Cash flow for the year</b>	<b>-41.0</b>	<b>-22.4</b>	<b>-12.7</b>	<b>32.6</b>	<b>79.1</b>

Key figures	2016	2015	2014	2013	2012
Growth in sales [%]	6.0	-1.5	8.7	-2.4	4.9
Organic growth, [%]	4.8	-2.8	4.8	-1.0	6.1
Operating margin [%]	5.4	3.5	3.8	5.0	7.5
Profit margin [%]	5.4	3.4	3.6	4.7	7.2
Return on equity [%]	12.0	6.7	11.6	14.6	27.7
Return on capital employed [%]	21.9	13.4	12.7	16.1	26.2
Equity/assets ratio [%]	44.5	45.2	48.4	48.5	46.6
Debt/equity ratio [multiple]	0.2	0.2	-	-	0.1
Number of employees at year-end	2,044	1,979	2,990	3,001	3,000
Data per share	2016	2015	2014	2013	2012
Earnings per share before dilution [SEK]	3.81	2.38	4.20	4.90	7.86
Earnings per share after dilution [SEK]	3.75	2.36	4.16	4.86	7.80
Shareholders' equity per share before dilution [SEK]	29.63	33.83	36.87	35.25	32.23
Shareholders' equity per share after dilution [SEK]	29.23	33.37	36.58	34.97	31.97
Share price/shareholders' equity per share [multiple]	1.57	1.27	1.35	1.73	1.49
Cash flow per share [SEK]	1.84	1.51	4.54	7.45	10.28
Dividend per share [SEK]	2.25*	1.25	2.50	2.50	2.00
P/E ratio	12	18	12	12	6
P/S ratio	0.5	0.5	0.3	0.4	0.3
Share price at year-end [SEK]	46.00	42.40	49.40	60.50	48.00
Market value at year-end [mSEK]	833	768	895	1,096	869
No. of shares at year-end [000]	18,113	18,113	18,113	18,113	18,113
Average no. of shares [000]	18,113	18,113	18,113	18,113	18,113
Number of own shares at year-end [000]	243	243	143	143	143
Average no. of own shares [000]	243	204	143	143	157
No. of shareholders	4,478	4,671	3,657	3,782	3,828

2012-2014 including discontinuing operations.

\*Board's proposal

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