

Annual report 2017.



xmreality

XMReality AB (publ) develops and sells solutions that revolutionize knowledge sharing through augmented reality (AR). The company is a market leader in remote guidance, which uses AR to guide onsite staff so that they can resolve or prevent problems. XMReality's customers are mainly global industrial companies, including Bosch Rexroth, Siemens Industrial Turbomachinery, Electrolux, and Bombardier. XMReality is headquartered in Linköping, Sweden, and is listed on Nasdaq First North (ticker: XMR).

	2017	2016
Total operating income, SEK	13,625.9k	8,419.4k
EBITDA, SEK	-20,705.2k	-8,980.6k
Earnings before tax, SEK	-22,740.9k	-10,040.7k
Net margin, %	neg	neg
Earning per share	neg	neg
Order backlog, SEK	2,290.7k	1,343.3k
Total assets, SEK	66,723.7k	32,504.8k

Highlights of the year

2017 was a year of growing market traction and growing sales that is set to keep accelerating into 2018. Net sales were up 30% on the previous year, many existing orders were renewed, and 22 new customers underlined that a new urgency and speed around AR uptake across industry is underway.

22 new customers

22 new customers included many of Sweden's and the world's largest manufacturing and engineering corporations: Alfa Laval, Electrolux, Eltel Networks, Hitachi Construction Equipment, Husqvarna, Saab and Stena Line.

New Generation 6 launch attracts 50% in one month

Over 50% of customers bought the XMReality Generation 6 within one month of its launch. The new version includes enhanced interface, improved UX, KPIs and user management.

New contracts signed

Many XMReality customers renewed their contracts in 2017, signing new agreements. It underlines their confidence in both XMReality and AR as a core technology for future services.

Haas Group. Head of service: "Haas is offering Remote Guidance to customers, accomplishing tasks on Haas equipment in close collaboration between customer's staff and Haas' customer support."

Electrolux. Digital Transformation Director: "Electrolux has decided to enable remote assistance solutions ... across Europe. The XMReality solution clearly appeared to us as the best in the field."

New strategic positions in management team

Four new faces and four new strategic appointments strengthened XMReality's Management Team in 2017, consolidating a powerful base for increasing sales and growth in 2018.

Marketing Director Åsa Davidsson: Åsa has long experience of leading positions within marketing in global software industries. She is passionate about digital marketing and communication.

COO Henrik Krohn: Henrik inspires and motivates rollout teams to exceed their own goals, and has over 17 years' experience managing international businesses and projects.

CTO Per Unell: Per has a background as senior strategic manager in global IT corporations, and is a passionate advocate of customer-centric product development.

CSO Marcin Szymanski: With over a decades' experience in senior sales and KAM roles, Marcin has exceptional insights into mobility, cloud solutions and digitalization.

Confident listing on Nasdaq First North

On April 26 XMReality was listed on Nasdaq First North stock exchange, giving the company a stable ownership base and simplifying future capital procurement.

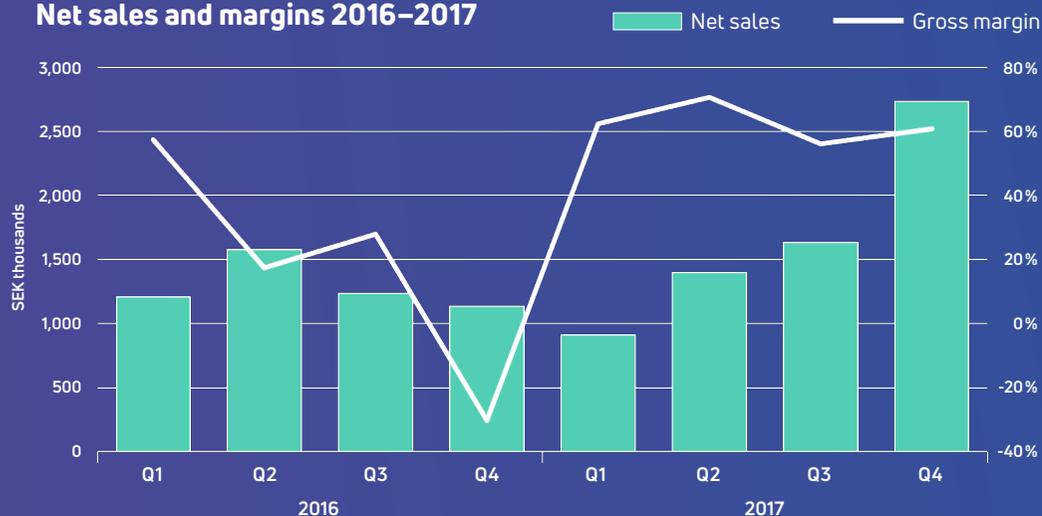
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Net sales and margins 2016–2017



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"We are superbly placed to seize the world of opportunities accelerating all around us with our leading AR-enabled knowledge sharing tool XMReality Remote Guidance."

Johan Castevall
CEO



Towards a new AR tipping point

For XMReality, 2017 was a dynamic, decisive year. We saw accelerating business and growing market confidence. A series of strategic and technological milestones built a strong foundation for thriving sales. And the year ended with a historic increase in orders, a powerful kick-start to 2018.

2017 was a productive year with plenty of action and results. We saw growing customer confidence combined with the new capabilities of XMReality Generation 6. This produced exceptionally positive results in our final quarter. We broke all previous records for order intakes, increasing our order backlog by 70%.

The pedigree of the year's 22 new customers shows how far we travelled in 2017 towards becoming a world leader in industrial AR. Our new customers included Alfa Laval, Electrolux, Eltel Networks, Hitachi Construction Equipment, Husqvarna, Saab and Stena Line. New customers, combined with the growing usage of our solution by our existing customers, built a solid foundation for strong future growth.

The launch of Generation 6 of XMReality Remote Guidance software was a vital milestone. It received a highly positive reception from customers. They warmly praised its robustness and easy-to-use interface. And uptake was swift. Both the positive response and fast uptake show how strong customer confidence in AR-enabled services is becoming—and XMReality's growing position within that.

We began negotiations on many long-term framework agreements in 2017. These too show how 2017 moved us decisively towards a new AR tipping point. When a customer signs a long-term framework agreement with us they commit to integrating our solution into the heart of their customer service operations. This is way beyond running the solution as a proof-of-concept project.

We saw increased use of our software on smartphones in 2017 and we'll see mobile software move even further center-stage in 2018. We remain committed to our strategy to be platform neutral regarding smart glasses. In 2017 we signed a partnership with ODG and will continue to add more hardware vendors to our ecosystem.

We strengthened our management team powerfully in 2017, ahead of what we're convinced will be an exciting, transformative year for the company.

2018 will continue to see growing confidence and urgency around AR-enabled industrial software, and XMReality Remote Guidance, our leading AR-enabled knowledge sharing tool for industrial

use. It will become an ever more crucial differentiator, an essential for remaining competitive. We believe we'll see new exciting application areas open up. And more opportunities to target new verticals will emerge.

We're well on the way to new growth. We're eager to seize the new opportunities accelerating all around us. And we're ideally placed to do so. We have a powerful new-generation system and a strengthened, fighting-fit management team. We've established longer, stronger strategic relationships with existing customers, and a towering portfolio of new global corporate clients. We look forward to the coming year!





The launch of a new generation

5 questions on Generation 6

*Launched in November 2017, XMReality's Generation 6 update decisively took XMReality Remote Guidance beyond the 'App' and established it as a complete AR system. Here XMReality's Chairman of the Board' **Claes Nylander** poses five key strategic questions on Generation 6 to XMReality CEO **Johan Castevall**.*

Feedback from users has been overwhelmingly positive, but why is Generation 6 important for XMReality?

– It's a leap forward technologically and strategically for us. We're now offering a whole system, with management as well as field guidance capabilities. It lets us and our customers start exploiting the strategic potential of Remote Guidance together. It is a big step beyond 'the App.'

What are some of the new more strategic capabilities?

– There's a new user interface, enhanced UX, more efficient usage and speedier connectivity. As a platform it's easier to scale up and on-board new users. The new web portal makes it easier to create teams, manage users and track KPIs. Crucially, there's a new phone-to-phone capability. And it's all hardware-independent.

Which new capabilities are field managers and teams most positive about?

– The new phone-to-phone capability allows two people anywhere to use the solution over their cell phones, whether technician-to-technician in the field, or service center to technician. During the call they can switch from guiding to being guided, providing a new level of flexibility and mobility. The updated web portal makes it easier to build teams and track usage, both very popular. And it lets the client onboard and scale large numbers of new users easily and quickly.

How does it affect our customers' business?

– The effects can be huge. Remember that our customers can offer the solution in turn to their customers, so that they too can augment their service offering. That way both can increase efficiencies, maximizing their equipment performance, delivering better products and services, and keep a close eye on service KPIs. It gives a powerful competitive edge both to our customers, and our customers' customers.

What's in the pipeline for product development in 2018?

– We're always innovating and have three update releases planned for 2018. Our customers are at the heart of our future developments, so now's an interesting time for product development as we take in more feedback, learnings and data on the new XMReality generation 6.



Mission

To enable companies to generate new business opportunities and stay ahead of competition by delivering a higher quality of service at a lower cost.

Vision

To revolutionize knowledge sharing by using augmented reality (AR).

Business model

Software subscription model

With flexibility and scalability built in, the subscription model has proved itself a natural fit and high performer on mobile and digital platforms. Accessing XMReality Remote Guidance via a subscription model makes it easy for customers to on-board new users with no extra work or disruption. Standard subscription is for 12 months, paid in advance and automatically renewed. 2017 saw a decisive growth in software over hardware in XMReality's sales results, with software sales expected to grow in 2018. The subscription model is an important enabler of future growth.

3-step implementation

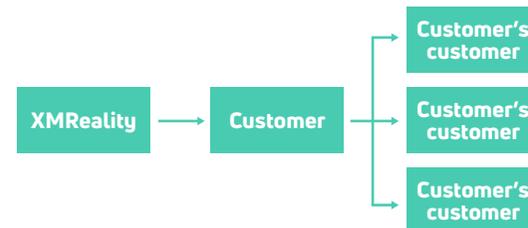
AR analysts and advisory groups recommend companies studying best practices carefully when selecting an AR vendor. XMReality's three-step implementation applies a carefully tested best practises approach to rollout. It lets customers build their service steadily, step-by-step, from Phase 1, where target areas and test cases in the organization are identified—to Phase 2, where the scope of the project and key stakeholders are defined—to Phase 3 where follow-up and metrics are decided to make sure the effects of the service are measured and maintained.



Each of the three phases has its own specific goal, actions, milestones and tips. Built on XMReality's extensive experience with rollouts it underlines the company's ever-increasing leadership in making XMReality's AR-enabled remote guidance tool a real, here-and-now solution.

Complete service offerings

XMReality Remote Guidance can be integrated into a complete service offering that XMReality's customers can then in turn sell to their customers, helping them generate new business opportunities.



Strategy

An unswerving focus on AR for industrial service

With its fluid melding of reality and design AR is a truly plastic technology. The possibilities are endless. Today XMReality explores new high-potential use cases identified by its customers like auditing and training, and continuously develops its system's capabilities.

However, the company's core focus has always been on AR leadership in the industrial service. This strategy has been borne out. A November 2017 IDC survey⁽²⁾ predicted that worldwide spending on AR and VR would reach 17.8 BUSD in 2018 (95% more than 2017's 9.1 BUSD) and stressed that *"the commercial sectors will represent more than 60% of AR/VR spending in 2018 and grow to more than 85% of the worldwide total in 2021. Each of the five commercial sectors is forecast to undergo triple-digit spending growth"*. The report identified the second largest commercial sector as manufacturing and resources, with a balanced spend across process manufacturing, construction, and discrete manufacturing. 2017 proved that the market is growing.

Open standards, hardware-independent

Whatever the hardware, whatever the device, XMReality makes sure its software will run on it. XMReality Remote Guidance is built to be completely hardware-agnostic —whether they want to run the system on smartphones, a tablet or smart glasses —the customer decides.

As a software provider XMReality hosts its service on a proven, scalable cloud infrastructure based on Amazon Web Services. Communication is based on standard internet technologies. This powerful commitment to open standards is the other foundation stone of XMReality's strategy. As a systems provider to a wide range of players in a diverse spread of global industries, interoperability is sink-or-swim. With a growing number of customers choosing to integrate the software into a complete service offering to their customers, this historic commitment to interoperability has been and will continue to be central to XMReality's growth.

⁽²⁾ IDC 2017, Worldwide Semiannual Augmented and Virtual Reality Spending Guide



Market outlook

Four megatrends are powering the uptake of remote knowledge-sharing and expertise. With a clear strategy for each, competitive companies stay competitive. These four megatrends are the foundation stones of the XMReality business case, underpinning strategy and future growth.

Megatrend #1: Digitalization

By 2020 a new generation of digital natives will be entering the market—not only as consumers, but as strategists, managers, engineers and technicians. Their need for remote digital technology, whatever the distance, will be instinctive. It will transform every aspect of how we produce, work and consume.

Right now, a fourth industrial revolution, of continuous digital development is creating new opportunities for companies across a wide range of industries. Digitalization makes it possible for companies to identify and develop smarter and better products and solutions. With IoT and AI continuously powering, and being powered by digitalization, it is reinventing how companies develop, maintain and take their products to market, and which services they can offer. The virtuous cycle of IoT, AI and digitalization powerfully enables those companies who keep up to become ever more efficient and profitable over an asset's lifetime, and beyond.



Megatrend #2: Globalization

“Global Mergers & Acquisitions will rise to a peak of 3.2 trillion USD in 2018”⁽¹⁾. Digitization continues to be a crucial driver of globalization. Increasingly, physical connectivity is being replaced with a growing number of digital links, many stored in the cloud. Global collaboration on global functions across global structures is the rule for many—from sourcing to manufacturing to supply, service and maintenance; via outsourcing, joint ventures, mergers or partnerships.

In this market, it's business-critical to be able to spread skills and talent cost-effectively across borders, getting the most out of a talent pool or international supplier network using digital connectivity. In the future businesses may not even need a significant physical presence, but being able to offer skills and expertise cost-effectively and remotely in real-time will be essential.

⁽¹⁾ Baker MacKenzie, Global Transactions Forecast 2018



Megatrend #3: Servitization

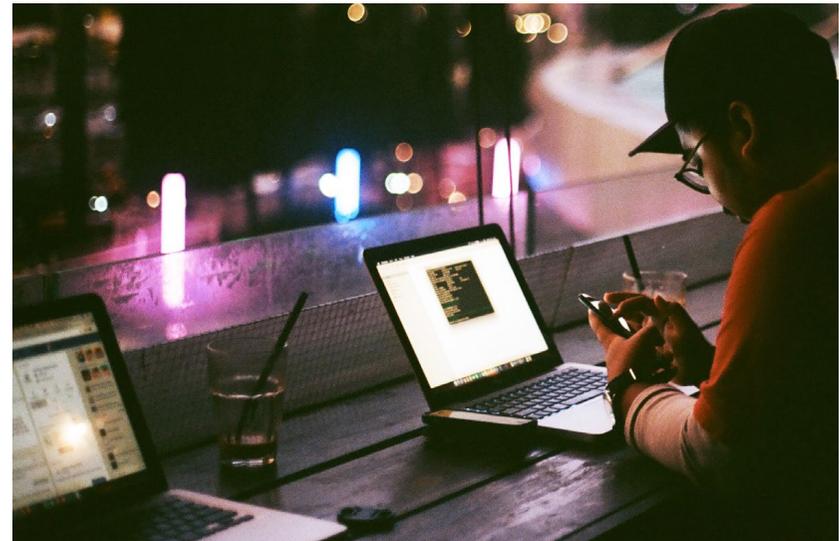
Servitization is reinventing the manufacturing business model in the Industry 4.0 world. Instead of focusing solely on selling a product, more and more manufacturers are changing their strategy to match the increasing needs of customers. As customers continue to expect additional benefits and long-lasting relationships with their dealers, more manufacturing companies will add service contracts to their product sales.

As a concept servitization depends on strong customer support, which only comes with high first-time fix rates and immediate help when needed. As services are given an increasingly important role, service changes from a cost item into an opportunity to improve offerings and generate revenue. The winners of tomorrow will include services in their offerings ranging from sales, field- services and training.

Megatrend #4: Workplace transformation

9-5? Not anymore. How, where and when we work is transforming. Today's powerful mobile devices, global internet access and cloud-based applications mean we can work anywhere, anytime, with new generations expecting to use their own devices at work as part of the company infrastructure.

Knowledge is key to an organizations' future success. Lifelong learning is vital in the complex, knowledge-intensive world we live in. By embracing workplace transformation, organizations increase their competitive advantage, and lower costs. As previous generations head for retirement, organizations need to understand the needs of younger generations to attract and retain the best talent and remain competitive. They may need to seek candidates from a broader geographic area, creating a virtual, digitized, globalized workforce. To younger generations seeking a better work/life balance the flexibility of a global workplace with seamless technology is an inspiring opportunity.



What we offer

XMReality Remote Guidance is a new generation of knowledge-sharing tools. Its AR technology lets service professionals be in two places at once, guiding teams and solving problems, hands-on and in real time, wherever they're needed most.

When disaster strikes or new knowledge needs to be taken in, nothing focuses and supports us like a human presence—the calming hand, the expert instruction. With XMReality's Remote Guidance, offsite service experts can demonstrate to onsite staff what to do, guiding their hands in real time with a shared view and pinpoint accuracy. XMReality's unique hands overlay technology gives service professionals the power of presence, revolutionizing knowledge sharing and delivering a powerful competitive edge.

A new reality for service providers

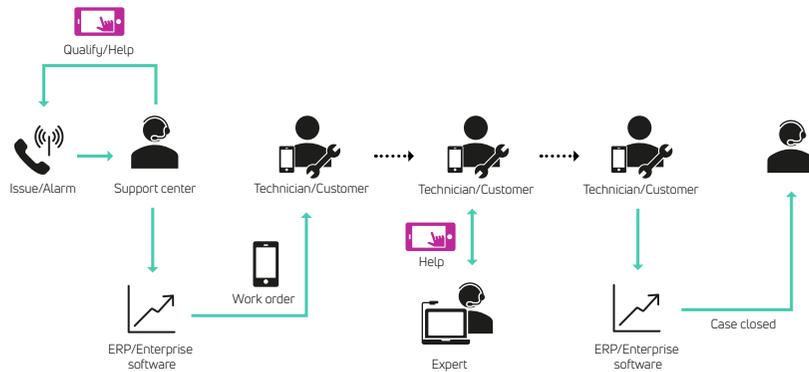
Services and servitization are at the heart of future profitability. Many of the world's largest global industry groups now use AR solutions to optimize knowledge-sharing, collaboration and troubleshooting. XMReality Remote Guidance is a leading solution.



How it works

XMReality Remote Guidance lets service center staff guide technicians in the field how to fix problems first-time. Its unique hands overlay technology bypasses the need for complex verbal instructions. Visual, gestural and pinpoint-accurate it extends and enhances service expertise everywhere.

In a typical service scenario, a service engineer in the field will manage all work orders on a mobile device, such as a smartphone or tablet. If an unexpected problem arises they can easily connect an expert who will provide guidance using AR. The first point of contact is often a call center or support center to qualify the issue, and maybe identify it without the need for a technician.



What you get

XMReality Remote Guidance grows profit—and people, reducing travel costs, increasing service quality, building closer customer relationships and sales opportunities, and building the brand.

Revenues

- Customers can improve their margins, significantly reduce travel costs, increase their existing revenues – and create new revenue streams.
- Remote troubleshooting means more uptime and less downtime, faster response and resolution time – and all with no costly field visits required.

Relationships

- Customers can increase their customer satisfaction and offer an unique customer experience. They can differentiate from the competition by offering new cutting-edge technology.

Retention

- A tool for training, transparency, retention and succession, XMReality gives staff increased flexibility in geography and location in industries often facing skills shortages.

Working for XMReality

Attracting and retaining top talent

Employer branding was a clear priority for XMReality in 2017. The company benefits from historic links to one of Sweden's most prestigious science and engineering institutions—Linköping University of Technology. XMReality regularly invites top postgraduates to the company for MSc placements, and offers summer work and internships. The result is a strong talent pipeline into the company for the future.

XMReality retains its outstanding talent pool by walking the talk when it comes to transparency and cooperation. Work is carried out in agile, cross-functional teams. Team members support and learn from each other, no matter how big or small the job. Outstanding performance is carefully rewarded and work-life balance taken seriously.

Building a Beacon

In 2017 XMReality defined its essential core values. This was to guide staff in a constantly changing business landscape in how best to consistently support each other and build a successful and sustainable workplace. A new performance Award—the Beacon—was inaugurated. Each year the Beacon will be awarded to an employee who has made an extraordinary effort. 2017's winner was Customer Project Manager Thorsten Wiechert.



THORSTEN WIECHERT
CUSTOMER PROJECT MANAGER
AND 2017 WINNER OF THE BEACON.

We are game changers

We're always seeking new ways of doing things. We aim to realize the almost unimaginable.

We are open-minded

We are curious and courageous. We encourage each other and have fun together.

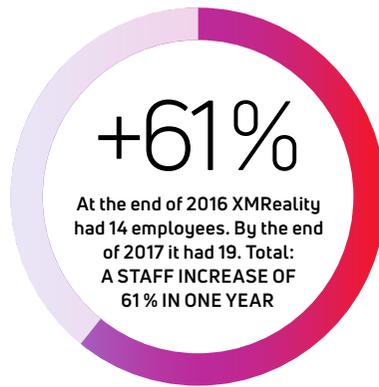
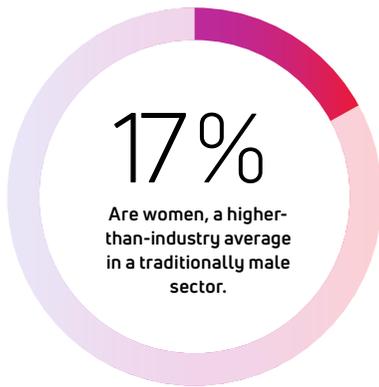
We love our customers' success

We strive for long-term relationships and long-term solutions. We lead the way.



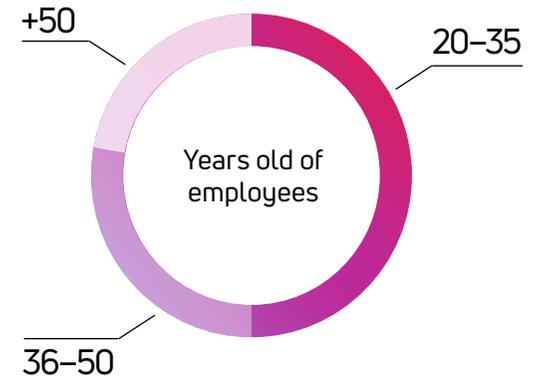
The year in numbers

2017 DIVERSITY INVENTORY



<1%

Short-term sick leave taken by the staff in the whole year.



2017 resources atlas

Up to 10 consultants regularly contributed their skills to the growth and development of XMReality in 2017, broadening the company's reach and capabilities. Operating in a diverse and extensive ecosystem XMReality regularly boosts its resources with strategic consulting partners.

Human resources divided by function:

Engineering:	12-15 resources	
Operations:	3 resources	
Marketing & Sales:	6 resources	
Finance & HR:	3 resources	

READY TO SERVE, READY TO GROW

Why Norden Machinery chose XMReality Remote Guidance

A world-leading supplier of tube-filling systems, Norden is growing from product manufacturer to global service provider. And XMReality is supporting them — every step of the way.

Challenges

- Norden manufactures and services high-performance machines that deliver high-volume output for high-profile brands — often from inaccessible locations in tough climates. So stoppages are not an option. Norden's Service Department works tirelessly to ensure machines run constantly at the excellent levels their customers expect.
- As Norden's machines, maintenance and services get more sophisticated and generate more revenues, the company intends to move from being a machine manufacturer to a full service provider. Norden is looking for robust, global service and maintenance solutions that can make the transition with them, around the world, around the clock.

Solution

- XMReality Remote Guidance with built-in augmented reality (AR) enables Norden's service staff to prevent stoppages and support service technicians in the field anywhere, anytime — *as if they were there*. Whatever the geography, whatever the language.
- XMReality Remote Guidance is a powerfully pedagogic tool. No matter how sophisticated the machine, this visual, gestural solution lets service staff carefully guide the hands of field technician, step by step, making them more confident and familiar with the system. The video function lets them film sessions, to study and practice later, and show colleagues. As an in-house training tool XMReality Remote Guidance helps Norden motivate, unite and train technicians all around the world, turning them into an ever stronger, more effective global service team.



a coesia company

Who are Norden Machinery AB?

A world-leading supplier of high-performance tube filling systems. Norden delivered its first system in 1934 and has been innovating ever since. Norden is owned by the Coesia Group, which owns 18 global innovation-based industrial and packaging solutions companies, and is headquartered in Bologna Italy.

Location: Headquarters Kalmar, Sweden, plus staff in 60 countries worldwide — from Belgium to Bangladesh, Vietnam to Venezuela.

Customers: Unilever, Colgate, GSK and L'Oréal are just a few of Norden's 1,400 active customers in the cosmetics, toothpaste, food, pharma and engineering industries.

Growth: Every year Norden attracts 20–30 new customers.

Global presence: Japan is a tough market for any industrial manufacturer to crack, with an engineering tradition second to none. Yet Norden runs 200 machines there, just one example of the company's global presence — and reputation. Norden has 10% of its machines in the US, 30% in North and South America, 30% in Europe, 20% in South East Asia and 10% in South Asia.

Innovation: A wide range of industries rely on Norden systems, so innovation is key to keeping machines adaptable and high-performance. Inline patented hydrogen detectors provide 100% leak inspection for plastic and laminate tubes. Tube swirl technology creates patterned effects with specially designed filling nozzles and servo technologies. Compact check weighing systems weigh all tubes, at speed, and include a reject system for faulty tubes.

100 CUSTOMERS, 30 COUNTRIES, INFINITE POSSIBILITIES:

Futura go hands-on globally, with remote guidance

Challenges

- In 2015 Futura decided to offer a remote troubleshooting solution to help customers solve mechanical, process-related problems in their lines.
- Futura already provided ProConnect, a remote diagnostic tool for electronic problems. The new solution would need to fit into Futura's existing suite of advanced remote services.
- Futura's customers include many large multinationals with closed, fixed architecture. Ease of integration and interoperability were key priorities.

Solution

- XMReality Remote Guidance™ with built-in augmented reality (AR) was the first remote troubleshooting solution to be used in the tissue converting sector. It underlined Futura's reputation for leading innovation.
- Under the name ProVision, the XMReality solution integrated smoothly into Futura's existing suite of remote aftermarket services.
- XMReality solution enabled Futura to use it over their ProTablet portable tracking device, with all their customers' solutions.

Result

Under the name ProVision, XMReality is now a standard part of Futura's suite of remote services. It is used regularly by all of Futura's global customers to solve a range of mechanical problems on their lines and is prized for its real-time versatility and ease-of-use.



"I really want to emphasize – this is way more than just a video call. When you use it, your hands guide your customers'. You can literally see through your customer's eyes. This solution breaks down the wall between you and your customer."

– ALESSANDRO VIANI

Who are Futura? A leading global manufacturer of tissue converting lines, providing a wide range of service solutions to manufactures of consumer and professional tissue roll products.

Location: HQ in Lucca, Italy. Sales & Service centers in Alpharetta, Georgia, US and Joinville Brazil. Customers in 30+ countries.

Customers: From SMEs to multinationals. Futura's approx. 100 customers include the world's major tissue manufacturers.

Innovation: With 80 patents and 200 high-performance projects since 2002 Futura is an innovation leader in its field.

Futura ProCare: Aftermarket is a core competency, giving customers 24-hour remote support through an advanced digital portal and ProTablet, an interactive 3D videos maintenance and data field instrument.

Hands-on global aftermarket 24/7: In 2015 Futura launched ProVision – a real-time Augmented Reality troubleshooting solution fully integrated into ProTablet.

Board of directors



Claes Nylander

Chairman of the Board since 2012

Born: 1952

Holdings in XMReality: 537 200 Shares (400,000 private shares and 147,200 shares through wholly-owned company Valunova AB).

Education and experience: Claes Nylander has a PhD in Applied Physics, and studies towards an MBA from Linköping University. He has also studied Growth Management at the Royal Institute of Technology. Claes has worked in senior positions at Unilever and Alcatel, was the CEO of Sensistor Technologies AB (now Inficon AB) and has extensive experience starting and operating subsidiaries in the UK, US and Hong Kong. Claes has had executive roles in the company as a Business Developer, Financial Controller, technical consultant and former CEO.

Current appointments: Chairman of Prodelox AB. Board member of Valunova AB and in Novavisus AB.

Appointments over the last 5 years: Chairman of the Board of Termisk Systemteknik i Sverige AB and Thermirage AB. Board member of Plasmon AB, Cognicatus AB, MPV Sensors AB and Sensorum AB.

Independent: Claes Nylander is independent of the Company's major shareholders, but not in relation to the Company and the company management.



Jonas Tornerefelt

Board member since 2016

Born: 1966

Holdings in XMReality: None

Education and experience: Jonas Tornerefelt holds an MSc in Industrial Economics from Linköping University and an M.B.A. from Uppsala University. Jonas is Head of Consumer and Customer Service at Electrolux Hemprodukter AB in the Nordic region, responsible for, amongst other things, mobile service operations. Previously, Jonas has been Marketing Manager and Business Area Manager Europe for Toyota, held CEO and Board positions in Toyota's subsidiary and joined the Management Team of N Holding AB.

Appointments over the last 5 years: Chairman of Toyota Material Handling Greece. Board member of Toyota Material Handling Sweden AB, Toyota Material Handling Denmark, Toyota Material Handling Finland and Toyota Material Handling Norway.

Independent: Jonas Tornerefelt is independent in relation to the Company, the company's Management and to the Company's major shareholders.



Lars Svensson

Board member since 2015

Born: 1944

Holdings in XMReality: 831,560 Shares through the 50% joint venture with Rambas AB.

Education and experience: MSc from Lund University and previous experience in IT-related roles at Saab and Ericsson. Lars worked for six years at ESA (European Space Agency) as part-project leader in a larger space project. He co-founded the IT company LinSoft and was its CEO for 17 years. Nowadays, Lars is involved in a number of board assignments in technology-oriented companies.

Current appointments: Board member and CEO of Rambas AB and Plumasoftware AB. Board member of Wematter AB, Linkura AB, Cardskippe AB, and Mimove AB. Co-operative of Handelsbolaget Dako.

Appointments over the last 5 years: Board member of MSC Group AB

Independent: Lars Svensson is independent of the Company, the company Management and the Company's major shareholders.

Björn Persson

Board member since 2016 (plus 2014–2015)

Born: 1975

Holdings in XMReality: None

Education and experience: MSc in Industrial Economics from Linköping University. Björn has also participated in a number of courses on Directorships, economics and law during his career. Currently Björn is working as CEO of Almi Invest Östra Mellansverige AB. Björn has over twelve years' experience in investing in entrepreneurs and Swedish technology companies as well as experience from being a Board member in several growth companies.

Current appointments: Chairman of the Board in PP7 Affärs-system AB and Clean Combustion Technologies Sverige AB. Board member in Renall AB, Roxen AB, Kanalhamnen Fastigheter AB, dapresy AB, Fyrvakten AB, Klösen AB, Cloudme AB and Urbans Spot & tankservice AB. On Deputy Board of Directors of PP7 Dynamics AB. CEO of ALMI Invest Östra Mellansverige AB.

Appointments over the last 5 years: Chairman of the Board of HANZA KA Åtvidaberg AB. Board member of Quickomat AB, Anacatum Design AB and Quicktic AB.

Independent: Björn Persson is independent in relation to the Company, the company's Management and the Company's major shareholders.



Anders Ferntoft

Board member since 2014

Born: 1960

Holdings in XMReality: 93 334 shares through the wholly-owned company A Ferntoft Consulting AB.

Education and experience: Economics Licentiate and MSc in Industrial Economics from Linköping University. Anders works among other things as a business coach on the LEAD start-up incubator program and manager for the regional business angel network East Sweden Tillväxtkapital. Anders has also been Business Development Manager at Agama Technologies AB and CEO of Anelda AB. Anders has previously worked within the company as a consultant in business development.

Current appointments: Board member and CEO of A Ferntoft Consulting AB. Board member in Active Partners East Sweden AB and Bostadsrättsföreningen Berzelii in Linköping. On Deputy Board of Directors of Eiram Management AB.

Appointments over the last 5 years: Board member of Markus Reklambyrå AB.

Independent: Anders Ferntoft is independent in relation to the Company's major shareholders, but not in relation to the Company and company Management.



Auditor

At the Annual General Meeting, April 12, 2017, a re-election of the registered auditing firm Öhrlings PricewaterhouseCoopers AB was decided. Authorized Public Accountant Dick Svensson is the Chief Accountant Auditor. Dick Svensson is a member of FAR. Öhrlings PricewaterhouseCoopers AB has the office address: Torsgatan 21, 113 21 Stockholm. Auditing firm Öhrlings PricewaterhouseCoopers AB, with Dick Svensson as Chief Accountant, has been appointed auditor throughout the period relating to historical financial information. Presented in this annual report.

Management



Johan Castevall

CEO since 2015

Born: 1978

Holdings in XMReality:

213,700 shares through the wholly-owned company Audendo Group AB och 10,000 warrants.

Education and experience:

Johan Castevall has an MSc in Industrial Economics from Linköping Technical University and has completed courses in Management at the University of Massachusetts. Johan has approx. ten years' experience in management with start-up company Medius AB. Johan has previously been Operations Manager within the company on a consultancy basis.

Current appointments: Board Chairman and CEO of Audendo Group AB. Board member of Bostadsrättsföreningen Bergsunds Strand 27.

Appointments over the last 5 years: Board member of Medius International AB, Medius Sverige AB, Medius Research and Development AB, Medius Ascendo AB, EG Dynamics AB (earlier Medius Dynamics AB) and Sensorum AB.



Claes Pettersson

CFO since 2017

Born: 1953

Holdings in XMReality:

2,222 shares, his own holdings.

Education and experience:

Claes Pettersson has a non-master's degree in mechanical engineering, studies in economics as well as a number of courses in leadership development, finance, business development, sales and board work. Claes has more than 35 years of experience from running and developing different companies in leading operational executive roles and through board work. Experience includes both private and public companies.

Current appointments: Board Chairman of Månsson Rör & Värmepumpar in Östergötland AB, Energicenter i Öst AB and Månsson Rör and Värmepumpar AB and Sinecura AB. Board member of Unitalent AB and NeoDynamics AB.

Appointments over the last 5 years: CFO, Managing Director and CEO of Impact Coatings AB (publ). CFO of AMRA Medical AB. Board member of Impact Coatings Systems AB and Impact Coatings Maxphase AB. Vice-chairman of Åtvidabergs Sparbanks Board of Directors. Board Chairman of Ternstedt Invent AB.



Åsa Davidsson

Marketing Director since 2017

Born: 1962

Holdings in XMReality:

5,220 shares, her own holdings.

Education and experience:

Åsa Davidsson has an BSc in Business Administration from Luleå Technical University. She has long experience in marketing and communication, most recently at IFS World Operations AB where, for 14 years, she had a range of leadership positions within strategic and digital marketing.

Current appointments: Board member of Nykil 616 Economic Association.



Henrik Krohn

COO since 2017

Born: 1973

Holdings in XMReality:
13,692 shares, his own holdings.

Education and experience:

Henrik Krohn has an Officer's Degree from the Swedish Naval Military Academy, and studied Industrial Economics at Linköping University of Technology. Henrik has more than 15 years' experience in senior positions in IT, Telecom and Digitalization at CGI, Motorola, Arris, LRF Konsult and Sogeti.

Current appointments: Board member, Vita Hästen AB.

Appointments over the last 5 years: Board member, Plustid AB.



Per Unell

CTO since 2018

Born: 1965

Holdings in XMReality:
1,000 shares, his own holdings.

Education and experience:

Per Unell has an MSc in Engineering Physics from Linköping Technical University. Per has more than fifteen years' experience in leadership positions within technology-intensive companies like Sectra, Ericsson and Agama Technologies.



Marcin Szymansky

CSO since 2018 (starting April 2018)

Born: 1982

Holdings in XMReality:
None

Education and experience:

BSc from Växjö University, MSc. Master's in Strategic Management in Dynamic Organizations. Marcin has approximately 10 years' experience in business processes, ERP implementation and rollout of digital platforms, focusing on optimizing core processes and business value for global industry companies. Marcin also has extensive experience in complex sales.



Sara Wennstam

HR Manager since 2017

Born: 1980

Holdings in XMReality:
None

Education and experience:

Sara Wennstam has an MSc in Human Resources from Linköping University. She has more than 10 years of experience in leadership, employee relations and recruitment, operationally as well as strategically, most recently from Toyota Material Handling where she was Group manager in the HR Department.



Capital stock

The capital stock in XM Reality AB (publ) totaled 730,399.10 SEK divided among 14,607,982 shares at a nominal value of 0.05 SEK each. All shares are within the same share class having the same voting power of one vote each.

During the fiscal year a new share issue was carried out, which brought in 53.0 million SEK (net). The issue concerned ordinary shares and was signed for both by institutional and private investors adjacent to the listing of the company's shares at Nasdaq OMX on April 24, 2017.

Stock options program

XMReality AB (publ) has three active stock option programs, with dates for exercising the options for signing of ordinary shares during 2018, 2019 and 2020 respectively. The number of outstanding stock options totals the right to sign 390,000 new shares which would increase the share capital by 19,500 SEK, equal to a dilution of about 2.6 percent.

Change in capital stock

Year	Activity	Increase in number of shares	Total shares	Increase in share capital (SEK)	Total share capital (SEK)	Nominal value (SEK)
2007	Formation of the Company	-	1,000	-	100,000	100
2012	New share issue	158	1,158	15,800	115,800	100
2013	New share issue	219	1,377	21,900	137,700	100
2014	New share issue	360	1,737	36,000	173,700	100
2014	New share issue*	48,080	221,780	48,080	221,780	1
2015	New share issue	34,884	256,664	34,884	256,664	1
2016	Use of warrant	17,297	273,961	17,297	273,961	1
2016	New share issue	144,460	418,421	144,460	418,421	1
2017	New share issue	93,000	511,421	93,000	511,421	1
2017	New share issue**	4,379,562	14,607,982	218,978.10	730,399.10	0.05

* On June 9th, 2014 the AGM resolved a split of shares, 100:1.

** On February 9th, 2017 the EGM resolved a split of shares, 20:1.

Ownership structure

About 1,625 institutional and private investors owned XMReality AB (publ) on December 31, 2017.

Shareholders December 31, 2017

	Number of shares/votes	%
JPMEL – Stockholm Branch	1,200,000	8.21 %
AMF Aktiefond, Småbolag	1,100,000	7.53 %
Almi Invest Östra Mellansverige	1,002,880	6.87 %
Rambas AB	831,560	5.69 %
Per Carleberg	800,000	5.48 %
Torbjörn Gustafsson	800,000	5.48 %
Försäkringsaktiebolaget, Avanza Pension	722,492	4.95 %
Total, stockholders holding over 5 % each	6,456,932	44.20 %
Other owners	8,151,050	55.80 %
Total	14,607,982	100.00 %

Share development, 2017



The share graph above shows the development of share price and numbers of traded shares per day from the time of listing on Nasdaq First North during 2017.

Shareholders agreements

As far as XMReality's board of Directors knows there are no existing shareholders agreements or similar agreements between shareholders in the company which aims to create a common influence over the company. The Board of Directors also does not know of any shareholders agreements or similar agreements which could lead to a change of control of the company.

Dividend policy

The company is still in its development phase and has so far not yet paid any dividends. The company will primarily focus on business opportunities that can be profitably developed, which is why no dividend is currently planned. The Board of Directors will establish a dividend policy when the business has been consolidated.

Warrant program

There are currently three running warrant programs, series 2013/2018, 2016/2019 and 2016/2020. The warrants has been issued on customary terms to employed personnel. If all warrants will be exercised the numbers of shares will increase by 390,000 shares.

Warrant programs

Series	Issuing date	Exercise period	Paid subscription price	Number of warrants	Number of shares	Subscription price per share, SEK
2013/2018	2013-02-08	March 1-31 st , 2018	283.0	75	150,000	11.0
2016/2019	2016-05-13	March 1-31 st , 2019	1.22	6,000	120,000	8.60
2016/2020	2016-12-09	January 1-31 st , 2020	13.74	6,000	120,000	15.0

The warrants are distributed as follows:

Warrant holder	Number of warrants	Giving the right number of shares
Johan Castevall	10,000	200,000
Niklas Rengfors	1,050	120,000
Mårten Nilsson	1,025	70,000

Overview of financial performance

The financial performance of XMReality AB (publ) for the period of 2014–2017 is summarized below. All figures for the financial years of 2014–2016 are based on material taken from official, published annual reports.

(SEKk)	2017	2016	2015	2014
Net sales	6,683	5,155	3,532	816
Operating profit (-loss)	-22,633	-9,976	-4,195	-3,943
Profit (-loss) after net financial income	-22,741	-10,041	-4,275	-3,956
Profit margin, %	neg	neg	neg	neg
Intangible assets	12,458	6,595	4,592	2,471
Tangible assets	1,705	901	0	0
Financial assets	0	25	25	25
Inventories	306	587	1,589	251
Current receivables	5,645	2,297	1,592	758
Cash and bank balances	46,241	22,100	1,184	2,082
Equity	56,826	26,556	2,749	4,025
Non-current liabilities	1,535	2,428	4,212	367
Current liabilities	7,994	3,521	2,021	1,195
Total assets	66,355	32,505	8,982	5,586
Return on average capital employed, %	neg	neg	neg	neg
Return on average equity, %	neg	neg	neg	neg
Equity/assets ratio, %	85.6	81.7	30.6	72.0
Debt/equity ratio, multiple	4.0	9.9	156.8	11.6
Interest coverage ratio, %	neg.	neg	neg	neg
Quick ratio, %	649.1	693.0	137.4	237.6
Number of employees (end of the period)	19	14	5	4
Investments				
Intangible assets	6,630	2,003	2,121	2,471
Tangible assets	994	901	0	0
Earnings per share, SEK	neg	neg	neg	neg
Average number of shares during the period ⁹	13,175,227 ¹⁴	7,202,593 ^{10,11}	4,822,763 ¹²	3,406,498 ¹³
Number of shares at the end of the period ⁹	14,607,982 ¹⁴	8,368,420 ^{10,11}	5,133,280 ¹²	3,474,000 ¹³
Average number of fully diluted shares during the period ⁹	13,565,227 ¹⁴	7,463,085 ^{10,11}	4,972,763 ¹²	3,556,498 ¹³
Average number of fully diluted shares at the end of the period ⁹	14,997,982 ¹⁴	8,758,420 ^{10,11}	5,283,280 ¹²	3,624,000 ¹³

Definitions of key data

Profit margin	Profit after net financial income or expense divided by sales
Equity	The sum of shareholders' equity, restricted reserves and non-restricted equity
Return on average capital employed	Profit or loss before interest expense divided by average capital employed
Return on average equity	Profit or loss after tax divided by average equity
Equity/assets ratio	Equity divided by total assets
Debt/equity ratio	Interest-bearing liabilities divided by equity
Interest coverage ratio	Earnings before interest divided by interest expenses
Earnings per share	Profit or loss after tax divided by average number of shares outstanding
Quick ratio	Cash and current assets excluding inventories divided by current liabilities

⁹ Restated after 20:1 split registered January 21, 2017.

¹⁰ Issue of 2,889,200 new shares registered May 11, 2016 and 345,940 shares subscribed against convertible debt instrument registered May 12, 2016

¹¹ Issue of 1,860,000 new shares subscribed in December, registered January 21, 2017

¹² Issue of 697,680 new shares registered June 18, 2015

¹³ Issues of 720,000 new shares registered March 6, 2014 and 961,600 new shares registered December 9, 2014

¹⁴ Issue of 4,379,562 new shares subscribed in April and registered on two dates, April 21 and June 1, 2017, respectively.

Annual report

Pages 26–32 are an internally made translation of the Swedish annual report as established by the Board of Directors. In the event of discrepancy, the original Swedish annual report shall prevail.

Board of directors' report

The board of directors and CEO of XMReality AB (publ), company registration number 556722-7284, registered office in Linköping, hereby present the annual report for the 2017 financial year, the company's eleventh year in operation.

Market

The market segments XMReality was focused on include remote guidance for large multinational companies.

Products and services

Software development continued in a powerful effort to meet the demands and expectations of operators and end users with the launch of the new Generation 6 in November. The software system has been adapted to the latest standards to work seamlessly with the main range of platforms and hardware on the market.

As in previous years, the development costs for the new Generation 6 software are capitalized.

Sales

Sales during the year were focused on larger customers representing global businesses that require remote guidance to increase sales and customer satisfaction.

Financial performance and position

Net sales for the year amounted to SEK 6,683k (5,154), an increase of 30 % year-on-year. The sales growth is attributable mainly to increased market interest of the company's product range and the launch of Generation 6 in November 2017.

The company is reporting a loss before tax of SEK -22,633k (-9,976). The loss is attributable to the buildup of market activities and the organization in order to meet expected future demand.

Investments in property, plant and equipment and intangible assets amounted to SEK 6,687k (2,998) and mainly represent investments in software development and hardware rentals.

The sales mix of hardware and software has changed in favor of software. Due to the company's accounting policies for software subscriptions, revenues from hardware and software sales were approximately equal in 2017. Subscription sales comprises subscriptions paid in advance, usually for a period of 12 months, creating an order backlog on mainly the software side. The order backlog increased by about 70 % to SEK 2,291k (1,343).

Equity totaled SEK 56,826k (26,556) at year-end. A new share issue was executed in connection with the listing of the company's shares on Nasdaq First North in April. The new share issue raised SEK 53,011k (33,848) after issue costs.

Financing and cash flow

The company had cash reserves of SEK 46,241k (22,100) at December 31, 2017.

Cash flow in 2017 was positive at SEK 24,141k (20,916), mainly consisting of SEK 52,619k (31,974) from financing activities, SEK -21,836k (-8,154) used in operating activities and SEK -6,642k (-3,904) used in investing activities.

Employees and organization

At the end of the year, XMReality AB (publ) had 19 (14) employees. During the year, consultants were engaged in XMReality AB (publ)'s development activities, financial and HR management at a level corresponding to five full time employees.

XMReality AB (publ) shares and shareholders

Share capital in XMReality AB (publ) totaled SEK 730,399.10 SEK divided among 14,607,982 shares with a quotient value of SEK 0.05 SEK each.

The company has three ongoing option programs that will involve the issue of 390,000 share if all are executed. Fully diluted, the number of shares outstanding would be 14,997,982.

A new share issue was executed during the financial year, which raised SEK 53,011k after issue costs.

The company has been listed on Nasdaq First North since April 2017. At year-end, the company was owned by 1,625 shareholders, including institutional investors, founders, employees and private investors. The 7 largest owners represented 44 % of total shares.

Significant events after financial year end

No significant events have occurred after financial year end.

Work of the board of directors

The board of directors held ten minutes meetings during the year. At these meetings, the board addressed regular business such as the business situation, forecasts, interim reports and annual reports. Strategic issues such as business planning, financing and organizational matters were also addressed.

Proposed allocation of profit and treatment of loss

The following funds are at the disposal of the general meeting:

Non-restricted equity	69,152,277
Loss for the year	-22,740,941
SEK	46,411,336

The board of directors and CEO recommended the result of SEK 46,411,336 be retained.

For further information concerning the company's financial performance and position, please refer to the following financial statements and associated notes.

Income statements (Amounts in SEK thousands)	Note	2017	2016
Operating income			
Net sales		6,683.1	5,154.5
Capitalized work for own account		6,686.7	2,998.6
Other operating income		279.4	266.3
Total operating income		13,649.2	8,419.4
Operating costs			
Raw material and consumables		-2,796.5	-4,272.8
Other operating expenses	3	-17,645.3	-5,658.7
Personnel costs	4	-13,889.2	-7,468.5
Depreciation, amortization and impairment of property, plant and equipment and intangible assets		-1,927.9	-995.8
Other operating costs		-23.2	0.0
Total operating costs		-36,282.2	-18,395.8
Earnings before interest and taxes (EBIT)		-22,633.1	-9,976.4
Financial income and expense			
Financial income and similar profit items		10.9	72.4
Financial expenses and similar loss items		-118.7	-136.7
Net financial income (-expense)		-107.8	-64.3
Earnings before taxes (EBT)		-22,740.9	-10,040.7
Income tax expenses		0	0
Net profit (-loss) for the year		-22,740.9	-10,040.7
Net profit or loss per share (SEK)		neg	neg
Average number of shares during the period ²		13,175,227	7,202,593
Shares outstanding at the end of period ²		14,607,982	8,368,420
Average shares outstanding during the period, fully diluted ²		13,565,227	7,463,085
Shares outstanding at the end of period, fully diluted ²		14,997,982	8,758,420

Balance sheets (Amounts in SEK thousands)	Note	2017-12-31	2016-12-31
Assets			
Non-current assets			
<i>Intangible assets</i>			
Capitalized development expenses	5	12,458.3	6,594.9
Total intangible assets		12,458.3	6,594.9
<i>Property, plant and equipment</i>			
Machinery and plant	6	1,022.5	901.0
Equipment, tools and systems	7	682.2	0.0
Total property, plant and equipment		1,704.7	901.0
<i>Financial assets</i>			
Investments in associates	8	0	25.0
Total financial assets		0	25.0
Total non-current assets		14,163.1	7,520.9
Current assets			
<i>Inventories</i>			
Finished goods and goods for resale		305.9	587.0
Total inventories		305.9	587.0
<i>Current receivables</i>			
Trade receivables		4,569.0	1,635.2
Other current receivables		561.3	364.4
Prepayments and accrued income		883.3	297.1
Total current receivables		6,013.6	2,296.7
Cash and bank balances		46,241.1	22,100.1
Total current receivables		52,560.7	24,983.9
Total assets		66,723.7	32,504.8

² Recalculated after 20:1 split registered January 21, 2017

Balance sheets (Amounts in SEK thousands)	Note	2017-12-31	2016-12-31
Equity and liabilities			
Equity			
<i>Restricted equity</i>			
Share capital		730.4	511.4
Fund development expenditure		9,685.2	2,998.6
Total restricted equity		10,415.6	3,509.9
<i>Non-restricted equity</i>			
Share premium reserve		107,802.4	48,020.6
Retained profit or loss		-38,650.1	-14,933.4
Loss for the year		-22,740.9	-10,040.7
Total non-restricted equity		46,411.3	23,046.5
Total equity		56,826.9	26,556.5
<i>Non-current liabilities</i>	9,10		
Other liabilities to credit institutions		1,535.4	2,427.1
Other non-current liabilities		0	0.7
Total non-current liabilities		1,535.4	2,427.8
<i>Current liabilities</i>			
Liabilities to credit institutions		725.0	225.0
Trade payables		3,433.7	1,047.0
Current tax liabilities		161.5	41.5
Other current liabilities		567.6	322.2
Accrued expenses and prepaid income		3,473.6	1,884.8
Total current liabilities		8,361.4	3,520.5
Total equity and liabilities		66,723.7	32,504.9
Collateral provided		3,700.0	3,700.0
Contingent liabilities		none	none

Statement of changes in equity

(Amounts in SEK thousands)

	Share capital	Restricted reserves	Non-restricted equity	Total equity
Balance at January 1, 2016	256.7	0	2,492.7	2,749.4
New share issue	254.8		33,593.0	33,847.8
Capitalization of development costs		2,998.6	-2,998.6	0
Profit (-loss) for the year			-10,040.7	-10,040.7
Total change of the year	254.8	2,998.6	20,553.8	23,807.1
Balance at December 31, 2017	511.4	2,998.6	23,046.5	26,556.5
New share issue	218.9		59,781.7	60,000.7
Issue costs			-6,989.3	-6,989.3
Capitalization of development costs		6,686.7	-6,686.7	0
Profit (-loss) for the year			-22,740.9	-22,740.9
Total changes for the year	218.9	6,686.7	23,364.8	30,270.5
Balance at December 31, 2017	730.4	9,685.2	46,411.3	56,827.0
Specification of share capital				
	Number of shares	Quotient value per share (SEK)		
Balance at January 1, 2017	8,368,420	0.05		
Balance at December 31, 2017	14,607,982	0.05		

Statements of cash flow

(Amounts in SEK thousands)

	Note	Jan–Dec 2017	Jan–Dec 2016
<i>Operating activities</i>			
Profit (-loss) after depreciation, amortization and impairment		-22,633.1	-9,976.4
Adjustment for non-cash items			
Depreciation, amortization and impairment		1,928.0	995.8
Other items			
Interest received		38.9	78.7
Interest paid		-146.7	-143.0
Income tax paid		-76.4	0.0
Cash flow from operating activities before changes in working capital		-20,889.3	-9,044.9
<i>Changes in working capital</i>			
Change in inventories		281.0	1,001.6
Change in receivables		-3,348.1	-730.1
Change in current liabilities		4,048.5	1,490.1
Cash flow from (-used in) operating activities		19,907.9	-7,283.3
<i>Investing activities</i>			
Purchases/sales of property, plant and equipment and intangible assets		-6,667.2	-2,903.8
Purchases and sales of shares		25.0	0
Cash flow from (-used in) investing activities		-6,642.2	-2,903.8
<i>Financing activities</i>			
New share issue		53,011.4	33,758.0
Debt repayment		-392.4	-1,658.9
Cash flow from financing activities		52,619.0	32,099.1
Net change in cash and cash equivalents		24,140.9	20,916.3
Cash and cash equivalents at 1 January		22,100.1	1,183.8
Cash and cash equivalents at 31 December		46,241.1	22,100.1
Cash balance at 31 December, %		694.1	693.0

Notes to the financial statements

All amounts in SEK if nothing else is specified.

■ Note 1 Accounting policies and notes to the financial statement

General information

XMReality's annual report was prepared in accordance with the Swedish Annual Accounts Act and BFAR 2012:1, Annual Report and Consolidated Financial Statements (K3).

The accounting policies are unchanged from last year.

Foreign currencies

Transactions in foreign currencies are translated at the spot rate on the transaction date.

Revenue recognition

Goods

Sales of goods are recognized when significant risks and benefits of ownership are transferred from the seller to the buyer in accordance with the terms of sale.

Subscription revenues from the provision of license rights

The company issues license rights to customers that are billed in advance for an agreed period. The revenue from these contracted and billed subscription fees is allocated straight-line over the term of the contract.

Intangible assets

Intangible assets are recognized at cost less accumulated amortization and impairment losses. As of 2014, the capitalization model is applied for internally generated intangible assets.

Amortization is taken on a straight-line basis over the estimated useful life of the asset. The amortization period for internally generated intangible assets is five years from the date the products begin generating revenue.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and impairment losses, if any.

Depreciation is taken on a straight-line basis over the estimated useful life of the asset, taking significant residual value into account.

The following depreciation periods are applied:

Equipment, tools and systems 5 years

Financial instruments

Financial instruments are measured at cost. The instrument is recognized in the balance sheet when the company becomes a party to the instrument's contractual terms.

Financial instruments are removed from the balance sheet when the right to receive cash flows from the instrument has expired or been transferred and the company has transferred virtually all risks and benefits associated with ownership.

Financial liabilities are removed from the balance sheet when the obligations have been paid or otherwise exterminated.

Trade receivables and other current receivables

Trade receivables and other current receivables are recognized as current assets at the amount expected to be paid less any individually assessed doubtful receivables.

Loan liabilities and trade payables

Loan liabilities and trade payables are initially recognized at cost less transaction costs. If the recognized amount differs from the amount to be repaid at maturity date, the difference is recognized as interest expense over the term of the loan using the instrument's effective interest rate. Upon maturity, the recognized amount and the amount to be repaid thus correspond.

Impairment testing of non-current financial assets.

At each reporting date, non-current financial assets are tested to determine whether there are any indications of impairment. If such an indication exists, the recoverable amount of the asset is calculated. If the recoverable amount is less than the carrying amount, an impairment loss is recognized in profit and loss. The impairment need is tested individually for all material assets.

Leases

All leases where the company is a lessee are recognized as operational leasing (rental agreement), whether the agreements are financial or operational. Leasing charges are recognized on a straight-line basis over the term of the lease.

Inventories

Inventory has been measured at the lower of cost and net realizable value on the reporting date. Net realizable value refers to the estimated sales price of the goods, less selling costs. The chosen measurement method means that inventory obsolescence has been taken into account.

Compensation to employees

Employees benefits refer to all form of remuneration from the company to the employees. Short-term benefits consists of, among others, salaries, paid holiday leave, paid absence, bonus and compensation after termination of employment (pension), Sort-term benefits are reported as cost and a liability when there is legal or informal obligation to pay compensation as a result of an earlier event and a reasonable estimate of the amount can be made.

Definitions of key data

Net sales

Main operating income, billed costs, ancillary revenue and revenue corrections.

Earnings before taxes (EBT)

Earnings after financial income and expense, but before taxes.

Balance sheet total

Total assets.

Equity ratio (%)

Adjusted equity (equity and untaxed reserves less deferred taxes) as a percentage of the balance sheet total.

Note 2 Estimates and assessments

Estimates and the application of accounting policies are often based on management's judgements, estimates and assumptions deemed reasonable when the estimate is made.

Estimates and assessments are based on historical experience and other factors deemed reasonable under current circumstances. The results of these estimates and assessments are used to assess the carrying amounts of assets and liabilities that are not otherwise apparent from other sources. The actual outcome may differ from these estimates and assessments. Estimates and assessments are reviewed regularly.

Capitalization of non-current intangible assets

To report own development of non-current intangible assets, the company must make a series of assessments regarding the future. Decisions to capitalize assets are taken by the board based on assessment of whether the following criteria are met:

- It is technically feasible to complete the asset
- The company intends to complete the asset
- It is probable that the asset will generate future economic benefits
- There are adequate resources to complete the asset

Impairment testing

The company has substantial values reported in the balance sheet representing non-current intangible assets. These assets are tested for impairment in accordance with the policies described in Note 1. When calculating recoverable values, certain estimates must be made regarding future cash flow and adequate assumptions concerning, for example, yield requirements.

Note 3 Leases

Leasing costs for the year amount to SEK 1,833k.

Note 4 Employees and personnel costs

Average number of employees	2017	2016
Female	3	1
Male	14	9
	17	10

Salaries, other remuneration and social security costs including pension expenses

Salaries and other remunerations	11,349,624	5,091,941
Social security costs and pension expenses	3,758,708	2,071,676
(of which pension expenses)	(809,725)	(459,902)
Total salaries, other remuneration, social security costs and pension expenses	15,108,332	7,163,617

Note 5 Capitalized costs of research and development and comparable work

	2017-12-31	2016-12-31
Cost, opening balance	7,590,652	4,592,102
This year's capitalized expenses, internal development	2,776,279	2,563,875
This year's capitalized expenses, purchases	3,910,408	434,675
Accumulated cost, closing balance	14,277,335	7,590,652
Amortization for the year	-206,921	0
Accumulated amortization, closing balance	-206,921	0
Impairment losses, opening balance	-995,778	0
Impairment losses for the year	-616,324	-995,778
Impairment losses, closing balance	-1,612,102	-995,778
Carrying amount, closing balance	12,458,312	6,594,874

Note 6 Machinery and plant

	2017-12-31	2016-12-31
Cost, opening balance	901,000	0
Purchases	1,137,953	
Reclassification	0	901,000
Accumulated cost, closing balance	2,038,953	901,000
Depreciation for the year	-1,016,460	0
Accumulated depreciation, closing balance	-1,016,460	0
Carrying amount, closing balance	1,022,493	901,000

Note 7 Equipment, tools and systems

	2017-12-31	2016-12-31
Cost, opening balance	12,400	12,400
Purchases	770,511	0
Accumulated cost, closing balance	782,911	12,400
Depreciation, opening balance	-12,400	0
Depreciation for the year	-88,260	0
Accumulated depreciation, closing balance	-100,660	-12,400
Carrying amount, closing balance	682,251	0

Note 8 Investments in associates

	2017-12-31	2016-12-31
Costs, opening balance	25,000	25,000
Sales/disposals	-25,000	0
Accumulated cost, closing balance	0	25,000
Carrying amount, closing balance	0	25,000

Specification of investments in associates

	Company registration number	Registered office
Sensorum AB	556799-1491	Linköping

Note 9 Non-current liabilities

	2017-12-31	2016-12-31
Matures later than one year but within five years after the reporting date		
Almi	1,535,413	2,421,084
	1,535,413	2,427,084

Note 10 Collateral provided

	2017-12-31	2016-12-31
For liabilities to credit institutions:		
Floating charges	3,700,000	3,700,000
	3,700,000	3,700,000

Signatures

Linköping 2018-05-02

Johan Castevall
CEO

Claes Nylander
Chairman of the Board

Anders Ferntoft

Lars Svensson

Björn Persson

Jonas Tornerefelt

My audit report was submitted 2018-05-02.

Öhrlings PricewaterhouseCoopers AB

Dick Svensson
Authorized Public Accountant

Auditor's report



Auditor's report

Unofficial translation

To the general meeting of the shareholders of XMReality AB (publ), corporate identity number 556722-7284

Report on the annual accounts

Opinions

We have audited the annual accounts of XMReality AB (publ) for the year 2017.

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 XMReality AB (publ) as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for XMReality AB (publ).

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 XMReality AB (publ) 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 and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act. 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 that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company'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 intend 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 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.

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

- Identify and assess the risks of material misstatement of the annual accounts, 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

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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 Director's and the Managing Director's use of the going concern basis of accounting in preparing the annual 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 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 or, if such disclosures are inadequate, to modify our opinion about the annual 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 the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of XMReality AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the loss dealt with 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 XMReality AB (publ) 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 type of operations, size and risks place on the size of the company'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 financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. [The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.]



Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts.

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

Linköping 8 May 2018

Öhrlings PricewaterhouseCoopers AB

Dick Svensson
Authorized Public Accountant

Some of our customers



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Want to know more?

Download paper: Augmented Reality & Digital Transformation:

The new reality for Service Providers

<http://go.xmreality.se/new-reality>

Video demonstrating how remote guidance works:

<http://go.xmreality.se/how>

Contact us at XMReality to learn more about implementation best practice. We can also help you calculate ROI.

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XMReality AB (publ) develops and sells solutions that revolutionize knowledge sharing through augmented reality (AR). The company is a market leader in remote guidance, which uses AR to guide onsite staff so that they can resolve or prevent problems. XMReality's customers are mainly global industrial companies, including Bosch Rexroth, Siemens Industrial Turbomachinery, Electrolux and Bombardier. XMReality is headquartered in Linköping, Sweden, and is listed on Nasdaq First North (ticker: XMR). www.xmreality.com

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The left side of the page features a vertical gradient from dark blue at the top to purple at the bottom. Overlaid on this gradient are several semi-transparent, light blue geometric shapes: a diamond at the top, a triangle pointing right in the middle, and another diamond at the bottom.

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