zenterio

reimagine TV

January – March 2017 report

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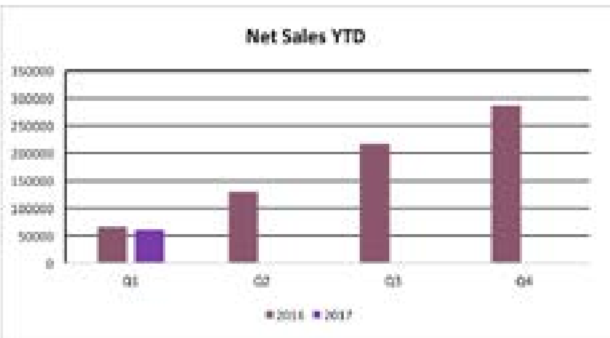
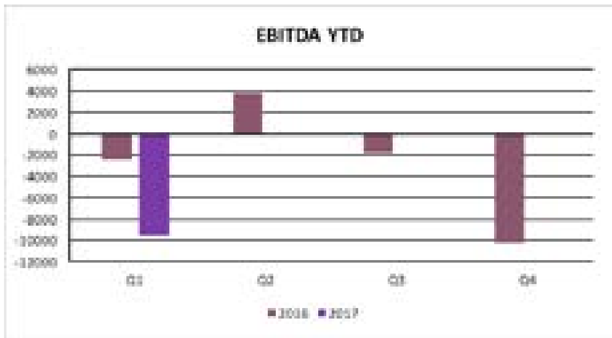
- Deployed license base
  o The VAS (value added services) enabled license base grew by
  22 thousand licenses to an accumulated base of 5,7 million.
- Net sales and other operating income decreased by -9 % year-on-year to SEK 60,3 million (SEK 66,6 million)
- EBITDA in the first quarter 2017 was SEK -9,6 million (SEK -2,5 million)Net result
- Net result in the first quarter 2017 was SEK -21,2 million (SEK -15,8 million)





Events after the reporting date

- None

Comments from Jörgen Nilsson, CEO

We have just concluded the first quarter of 2017 and our industry is definitely moving forward with increasing momentum. Not so much on the technology front, but more driven by the growing choice of options available to consumers for watching content whenever and however they want, underpinned by the increased simplicity and access provided by the combination of broadband and OTT services.

In Zenterio, as many projects came to delivery our first quarter has been a time for reflection on what this means for us and the strategic direction that we need to take in order to stay competitive. This has required an understanding of which trends impact us most and how we can respond based on what we are good at, whilst at the same time continuing to move the company's financial performance towards profitability and stability.

The financials in this quarter were heavily impacted by finally concluding some key legacy projects, after years of negative contribution. That decision was not easy to take as it created a strong impact on our costs, and at the same time reduced available resources for new revenue generating opportunities. In summary, the decision has had a negative effect on the quarterly results, reducing revenues compared to Q1 2016 by 8% to SEK 60.3 million, and increasing costs by 3% compared to the same period. On the EBITDA level the outcome was SEK -9.6 million, an increased loss of SEK 7.1 million compared to the result for Q1 2016 which was SEK -2.5 million. However, as a result of the actions that management initiated at the end of 2016, quarter-on-quarter we have reduced costs by 5% to SEK 80.4 million compared to SEK 84.3 million for Q4 2016.

On the TV client software side we have decided to further strengthen our focus on the multiscreen world. That means that our graphical user interface, JetUI, is becoming ever more important as it provides operators with the ability to unify the content experience across all screen choices and to significantly shorten the route to content discovery for their customers.

Similarly, our capture of TV user data and analytics solution brings knowledge and insight to operators on the viewing habits and content preferences of customers irrespective of the device that they choose to use. This is comparable to the data available to OTT providers, like Netflix. For Zenterio, however, it is not just a tool like it is for other vendors in our industry. For us it is a complete service from data collection through to the provision of actionable reporting delivered directly to decision makers. Later this year we will enhance this analytics product by adding user behavior forecasting which will further improve the monetization potential of the service. The innovative prediction model on which the system is based has been shown to have a very high accuracy in forecasting customers' viewing habits.

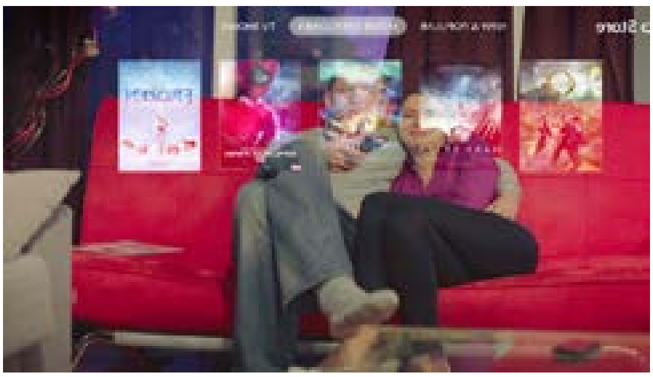
Finally, we have been investigating additional technologies that will support our ambition to secure a higher market share in future TV legacy migrations. As a result, we have decided to add an Android stack to our portfolio. We are very excited that this will be a solution differentiated from those of our competitors owing to the additional features that we are able to offer. Our philosophy is both to broaden the product portfolio, whilst at the same time using our huge TV and video expertise to offer value-added services that sit alongside and extend our recurring revenue propositions.

To sum up the expectation for the upcoming quarter, we are not only strengthening our product portfolio, but we are also preparing our organization for the positive market impact expected as a result of a series of product launches that will be coming soon from two of our Tier 1 operator customers. We have worked very hard together with our customers to make sure these launches will help take the company to the next level.

As our organization moves forward, we are continuing to add new competences and to establish partnerships which will enable us to swiftly scale our resources in a cost effective way. An additional benefit of this is that we will, if necessary, be able to site resources closer to our customers' locations.

We look forward to the rest of 2017 with confidence, as there are great opportunities, as well as of course challenges. However, with the right priority and focus we expect to both secure our growth and begin to see the positive effect of our strong focus on profitability, cash management and disciplined use of working capital.

Kind Regards,
Jorgen Nilsson, CEO



TV Industry Outlook

The pay TV market continues to grow, with the total number of subscribers now at around the one billion mark, and expected to reach 1.15 billion by 2020. These subscribers are generating around US$280bn annually, a number which is expected to grow to nearly US$310 billion on the same timescale.

Global set-top box shipments are steady at around 270 million per annum. Although stable over all, the composition of the market is evolving. The fastest growing segment is connected pay TV set-top boxes, which are expected to expand from 109 million boxes delivered in 2014 to 175 million in 2019. Connected pay TV boxes are set-top boxes that are connected to an IP network and are a key focus area for Zenterio.

Nowadays, broadcasting over cable, satellite or an operator's own IP network to a pay TV set-top box is no longer the only means of TV distribution. Transmission over the open internet – so called over-the-top or OTT transmission - is increasingly common, with over 500 OTT TV services having been launched globally over the past few years. Second screen devices such as tablets and smartphones are naturally suited to the viewing of this kind of content. There are estimated to be over 6 billion such devices worldwide representing a huge opportunity for Zenterio's JetUI multiscreen software as pay TV operators extend their services to these alternate devices.

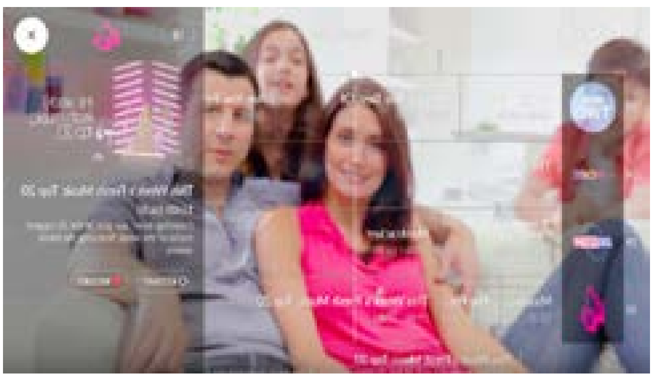
Set-top boxes dedicated to supporting only OTT TV apps are also increasingly available, representing around 15-20% of all STB shipments. These boxes provide a means to watch various types of internet-delivered on-demand programming on the main screen in the home. To support this, OTT providers are commissioning exclusive programming to win subscribers for their services even in homes that already have a TV and video-on-demand (VOD) service provided by an operator. In some cases this is leading to viewers dropping their pay TV service altogether – a trend known as 'cord-cutting'. More recently services offering live multichannel TV entirely over the internet have been launched, adding further competitive pressure in the market.

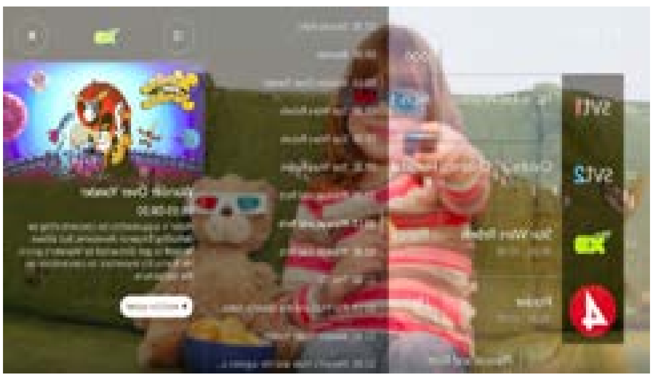
There are several different measures that incumbents can take to respond to these threats. They can enhance their VOD service to make it more competitive; they can launch their own OTT offering; or they can maintain their position as gatekeeper to the main screen by giving OTT providers access to their STBs in return for revenue share. All of these options add complexity to the operator's infrastructure and require upgrades to the STB software. Providing integration of online services of this kind for pay TV operators is a major ongoing opportunity for Zenterio.

In many cases the software in older set-top boxes is from a legacy supplier and so is not suitable for upgrade. In this case the operator is faced with either replacing the boxes with new ones - an expensive option - or converting the software by downloading a more capable middleware to run on the old hardware. Zenterio has extensive expertise in this area and is currently engaged in several migration projects of this kind.

One alternative method for dealing with the explosion of OTT services is to provide a set-top box that is able to run the apps that OTT providers already have available for smartphones and tablets. This is pushing some segments of the market to request STBs based on Android – either in its open source AOSP form or based on Google's Android TV. The latter provides access to Google's app store, UI and other services at the expense of some surrender of control to Google. AOSP on the other hand provides more control, but at the expense of requiring further integration work to fill in the missing pieces. Zenterio is able to advise operators on which option is right for their business, and support the implementation whatever platform is chosen.

The Android story is an example of how the increased complexity required of pay TV software, due to the impact of IP technologies, is reducing the number of middleware vendors that are able to provide solutions across all the possible platforms. This trend is likely to continue, offering scope for those with high engineering competence and a solid tier 1 operator base, such as Zenterio, to grow their market share.





TV Industry Outlook (Cont.)

Although the pay TV market is still growing there are regional variations. Subscriber numbers are growing rapidly in Asia and emerging markets, and are still on an upward trend in Europe, but the numbers in the US are now in slow decline. This is to some extent due to the peculiarities of the US market, which has not traditionally had many free-to-air services such as those provided by public broadcasters elsewhere. Without this constraint US operators have looked for growth mainly by increasing prices, justified by offering more and more channels, knowing that the subscriber had nowhere else to go. However subscription video on demand OTT services, such as Netflix, are now providing a low-cost alternative and so this model is beginning to unravel. Of course, for OTT services, customers still need a broadband connection, so cable TV and telco operators, who often have local monopolies on this type of service in the U.S., are still doing well.

As markets mature, operators' priorities move from trying to find the most efficient way to deal with the growth in the number of subscribers to how to keep the ones that they already have, and how to increase the revenue that they can generate from each subscriber. The key to this is customer intimacy. Operators need to ensure that the user experience is as good as it can be so that users can effortlessly access everything that the operator has to offer – wherever they happen to be and using whatever device they happen to be carrying. Zenterio's JetUI software has been designed with this scenario in mind – it makes content both easy to find and easy to view.

The other component of customer intimacy is understanding viewer behavior. The insights gained from analyzing patterns in behavioral data enable operators to present to customers the content that they are mostly likely to want to watch and pay for. This is the objective of Zenterio's audience measurement technology which is provided to the market through Zenterio's Adscribe subsidiary. Audience measurement has other spin-off benefits: as well as being useful for targeting content it can also be used to target advertising either inserted into the content itself or into the TV user interface. As a bonus, the aggregate data can be sold to the advertising industry which needs accurate viewing figures for its ad-supported channels. Adscribe takes care of these types of value-added services from end-to-end.

In summary the set-top box market is mature in size but its changing dynamic is increasingly generating requirements that call for an advanced middleware such as that provided by Zenterio. The proliferation of second screen devices and the explosion of OTT video services is rapidly increasing the size of the market for client software that is multiscreen capable, like JetUI. And the need to fully understand and monetize the pay TV customer through data collection, as offered by Adscribe, has moved from being optional to being essential for operators everywhere.

Zenterio's Business Model

Zenterio sells its products, software licenses and consulting services to TV & broadband operators, telcos, system integrators, set-top box providers and other relevant players in the TV industry.

Zenterio's product portfolio encompasses an independent OS, a state of the art user interface product, powerful data capture and data analytics tools as well as an interactive advertisement management system.

Zenterio has created Zenterio Services to complement this offering and position the company as a full solutions provider. Zenterio Services provides services and expertise in system integration, interface development, app development, device design and tech consultancy. Zenterio Services also supports customers in projects related to the Internet of Things and cloud-based services.

In addition to working directly with pay TV operators, Zenterio has implemented a unique, partner-driven business model. Zenterio's partners include three out of five of the biggest system integrators in the world: Ericsson, Huawei and Viaccess-Orca.

Being selected as a global partner validates Zenterio's strengths as well as its technical expertise and global market presence. Because of the complex and often very specific product requirements, combined with the high costs involved in launching new projects, each partner often selects only one or a very few global partners to supply client software.

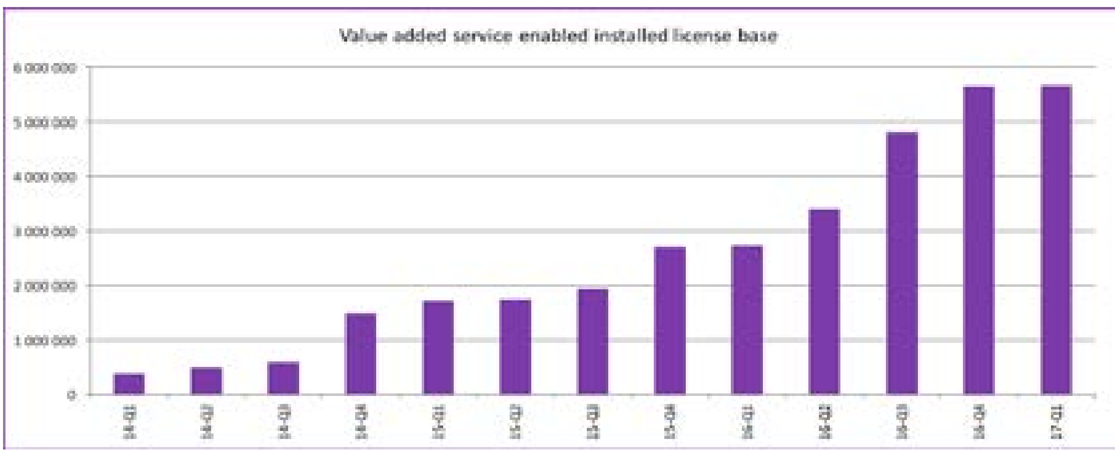
Currently, Zenterio generates revenue from software licenses, integration and consulting fees, maintenance and support contracts as well as from user interface, device and application design projects. Going forward, Zenterio will be implementing a subscription-based recurring revenue strategy for its Value Added Services.

The main driver behind this new business is the number of deployed VAS-enabled licenses. Zenterio expects to reach a critical mass in terms of deployed VAS- enabled licenses.

During 2016 Zenterio launched the first of these Value Added Services.

Value added services enabled installed license base

During Q1 of 2017 the value added services enabled license base increased with 22 thousand licenses to 5,7 million. The total installed base do not include any major volumes from Deutsche Telekom Group as these swap-out volumes are expected to be carried out during 2017, and will therefore serve as a firm volume base for future license growth. Q1 2017 increase of licenses was mainly due to Forthnet in Greece.



Zenterio has started to offer advertising solutions, applications, and services – such as Netflix, Amazon Prime video and YouTube – to operators that run Zenterio OS. The revenue model from such reseller agreements may be recurring and documented as average service revenue per user (ARPU) in Zenterio's reporting and is transforming the company revenue dynamics overall. Given the current growth projections of the value added services enabled installed license base, Zenterio expects that it will launch these services during 2017.

Financial highlights

January – March 2017

SEK million	Q1 2017	Q1 2016	Change
Net sales and other operating income	60,3	66,6	-9%
Total costs	-80,4	-78,3	
EBITDA	-9,6	-2,5	
Net result	-21,2	-15,8	

Sales amounted to SEK 60,3 million during the first quarter 2017, representing a decrease of 9% compared to the first quarter 2016.

In first quarter of 2017, total costs rose to SEK 80,4 million compared to SEK 78,3 million in the full year 2016. The total costs during the period were split between cost of goods sold of SEK 2,7 million (SEK 2,5 million), operating expenditures of SEK 69,9 million (SEK 66,6 million) and depreciation and amortization of SEK 10,5 million (SEK 9,3 million).

EBITDA for the first quarter of 2017 amounted to SEK -9,6 million compared to SEK -2,5 million in first quarter of 2016. This equals a 7,1 MSEK EBITDA decline and this is mainly driven by a few strategic customer engagements that Zenterio has worked on since the latter part of 2015 which in late 2016 was subject to revaluation in terms of future risk and expected earnings.

Cash flow

Operational cash flow during the first quarter of 2017 amounted to SEK -5,0 million compared to SEK -8,2 million for the first quarter in 2016. On March 31, 2017, cash and cash equivalents amounted to SEK 35,3 million compared to SEK 12,2 million on March 31, 2016. In addition there was SEK 11,0 million on non-used overdraft facilities on March 31, 2017.

Shares

The total number of Zenterio shares on March 31 2017, equaled 90,056,218.

Personnel

Personnel	Q1/2016	Q2/2016	Q3/2016	Q4/2016	Q1/2017
Average number of employees	204	202	178	172	178

The average number of employees increased by six during the quarter. This was due to additional heads in USA and Adscribe now being fully recognized as part of the group.

Events after the reporting date

No events to report after the reporting date.

Financial statements

Consolidated statement of profit or loss

Consolidated statement of profit or loss

Amounts in KSEK	Jan-Mar 2017	Jan-Mar 2016
Net sales	51 119	55 72
Capitalized research & development	8 889	10 305
Other operating income	301	576
Total revenue	**60 310**	**66 606**
Cost of good sold	-2 692	-2 473
Personnel expenses	-37 504	-41 217
Other external expenses	-28 418	-24 729
Other operating expenses	-1 274	-662
Depreciation, amortization and impairment of assets	-10 503	-9 253
Total operating expenses	**-80 390**	**-78 334**
Operating profit (loss)	**-20 080**	**-11 728**
Finance income	891	574
Finance costs	-2 433	-4 860
Net finance income (costs)	**-1 542**	**-4 286**
Profit (loss) before tax	**-21 622**	**-16 014**
Income tax expense	418	253
Profit (loss) for the period	**-21 204**	**-15 761**
Earnings per share, basic and diluted	**Neg.**	**Neg.**

Consolidated statement of comprehensive income

Amounts in KSEK	Jan-Mar 2017	Jan-Mar 2016
Profit (loss) for the year	**-21 204**	**-15 761**
Other Comprehensive Income:		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences	63	-8
Total Comprehensive Income for the period	**-21 141**	**-15 769**

Total Comprehensive Income (loss) is attributable entirely to owners of the parent company.

Consolidated statement of financial position

Amounts in KSEK	31 Mar 2017	31 Mar 2016
ASSETS		
Non-current assets		
Intangible assets		
Goodwill	105 469	82 988
Capitalized development costs	89 223	81 963
Other intangible assets	28 741	16 575
Total intangible assets	**223 433**	**181 523**
Tangible assets		
Property, plant and equipment	1 927	2,812
Total tangible assets	**1 927**	**2,812**
Financial assets		
Other non-current receivables	656	569
Shares in associated companies	-	4 585
Total financial assets	**656**	**5 155**
Total non-current assets	**226 015**	**189 492**
Current assets		
Inventory, etc.		
Raw materials and consumables used	592	-
Total inventory	**592**	**-**
Current receivables		
Trade receivables	28 308	21 985
Current tax assets	5 790	3 699
Other receivables	5 341	3 505
Prepaid expenses and accrued income	3 831	23 144
Total current receivables	**43 270**	**52 333**
Cash and cash equivalents	**35 263**	**12 244**
Total current assets	**79 125**	**64 577**
TOTAL ASSETS	**305 141**	**254 069**

Consolidated statement of financial position, cont.

Amounts in KSEK	31 Mar 2017	31 Mar 2016
EQUITY AND LIABILITIES		
EQUITY		
Share capital	3 002	1 692
Other capital contributions	773 830	572 292
Reserves	4	-75
Retained earnings (loss)	-590 784	-485 573
Total equity	**186 052**	**88 335**
LIABILITIES		
Non-current liabilities		
Liabilities to credit institutions	219	11 315
Other non-current liabilities	31 452	21 875
Deferred tax liabilities	6 323	3 647
Total non-current liabilities	**37 993**	**36 836**
Current liabilities		
Liabilities to credit institutions	14 973	51 232
Derivative instruments	3 986	9 625
Trade payables	19 873	14 050
Current tax liabilities	282	-
Other liabilities	8 634	20 368
Accrued expenses and prepaid income	33 348	33 623
Total current liabilities	**81 096**	**128 898**
TOTAL EQUITY AND LIABILITIES	**305 141**	**254 069**

Consolidated statements of changes in equity

Amounts in KSEK	Share capital	Other capital contributions	Reserves	Retained earnings (loss)	Total Equity
Balance at 1 January 2016	**1 692**	**562 229**	**-66**	**-459 751**	**104 104**
Profit (loss) for the year	-	-	-	-65 375	-65 375
Other Comprehensive Income for the year	-	-	7	-	7
Reclassification	-	37 870	-	-37 870	0
Issue of ordinary shares related to business combination	53	23 212	-	-	23 265
Payments of issued share	715	88 568	-	-	89 283
Issue of options	-	56	-	-	56
Loan converted to shares	542	64 458	-	-	65 000
Transaction cost	-	-9 148	-	-	-9 148
Balance at 31 December 2016	**3 002**	**767 246**	**-59**	**-562 996**	**207 193**
Balance at 1 January 2017	**3 002**	**767 246**	**-59**	**-562 996**	**207 193**
Profit (loss) for the period	-	-	-	-21 204	-21 204
Other Comprehensive Income for the year	-	-	63	-	63
Reclassification	-	6 584	-	-6 584	-
Balance at 31 Mars 2017	**3 002**	**773 830**	**4**	**-590 784**	**186 052**

Consolidated statements of cash flows

Amounts in KSEK	Jan–Mar 2017	Jan–Mar 2016
Cash flows from operating activities		
Operating profit (loss)	-20 080	-11 728
Adjustments for items not affecting cash flow	10 503	9 523
Interest received	1	574
Interest paid	-574	-4 860
Income tax paid	-791	-
Cash flows from operating activities before changes in working capital	**-10 941**	**-6 761**
Change in working capital	**5 984**	**-1 414**
Net cash from (used in) operating activities	**-4 957**	**-8 174**
Cash flows from investing activities		
Acquisition of subsidiary, net of cash acquired	-	-1 413
Acquisition of tangible assets	-	-133
Acquisition of intangible assets	-8 889	-10 305
Acquisition of financial assets	-76	-
Cash flows from investing activities	**-8 965**	**-11 851**
Cash flows from financing activities		
Change in credit facility	-	-737
Change in factoring	-1	-
Short term borrowings	-	35 000
Long term borrowings	-4 058	-2 618
Cash flows from financing activities	**-4 059**	**31 645**
Decrease/increase in cash and cash equivalents	**-17 981**	**11 620**
Cash and cash equivalents at the beginning of the period	53 280	624
Translation differences in cash and cash equivalents	-36	0
Cash and cash equivalents at the end of the period	**35 263**	**12 244**

Parent company income statement

Amounts in KSEK	Jan–Mar 2017	Jan–Mar 2016
Operating income		
Net sales	48 401	48 541
Work performed and capitalized	8 889	10 305
Other operating revenue	324	551
Total revenue	**57 615**	**59 397**
Cost of goods sold	-2 685	-2 470
Personnel expenses	-22 156	-23 851
Other external expenses	-45 233	-37 408
Other operating expenses	-1 271	-661
Depreciation, amortization and impairment of assets	-8 468	-7 858
Total operating expenses	**-79 813**	**-72 248**
Operating profit or loss	**-22 199**	**-12 851**
	22	-
Interest income and similar income items	-1 269	-4 214
Interest expenses and similar loss items		
Net finance income or costs	**-1 247**	**-4 214**
Profit or loss after net finance (costs)	**-23 446**	**-17 065**
Tax on profit (loss) for the period	-	-
Profit (loss) for the period	**-23 446**	**-17 065**

There are no items for the parent company recognized in Other Comprehensive Income; Total Comprehensive Income therefore corresponds to profit (loss) for the period.

Parent company balance sheet

Amounts in KSEK	31 Mar 2017	31 Mar 2016
ASSETS		
Non-current assets		
Intangible assets		
Capitalized development costs	88 769	79 925
Total intangible assets	**88 769**	**79 925**
Tangible assets		
Property, plant and equipment	1 250	1 939
Total tangible assets	**1 250**	**1 939**
Financial assets		
Investment in group companies	127 348	104 940
Other non-current receivables	636	569
Total financial assets	**127 984**	**105 509**
Total non-current assets	**218 003**	**187 373**
Current assets		
Inventory, etc.		
Raw materials and consumables used	592	-
Total inventory	**592**	**-**
Current receivables		
Trade receivables	24 246	15 936
Tax assets	4 148	2 604
Other receivables	5 275	3 388
Receivables from group companies	4 648	12 396
Prepaid expenses and accrued income	3 459	22 767
Total current receivables	**41 776**	**57 090**
Cash and bank balances	29 769	8 247
Total current assets	**72 137**	**65 337**
TOTAL ASSETS	**290 140**	**252 710**

Parent company balance sheet, cont.

Amounts in KSEK	31 Mar 2017	31 Mar 2016
EQUITY AND LIABILITIES		
EQUITY		
Restricted equity		
Share capital	3 002	1 692
Non-restricted equity	49 494	15 102
Total restricted equity	**52 496**	**16 794**
Non-restricted equity		
Share premium reserve	711 390	544 244
Retained earnings	-575 410	-466 101
Profit (loss) for the year	-23 446	-17 065
Total non-restricted equity	**112 534**	**61 078**
Total equity	**165 030**	**77 872**
LIABILITIES		
Non-current liabilities		
Liabilities to credit institutions	-	12 500
Other liabilities	35 438	31 500
Total non-current liabilities	**35 438**	**44 000**
Current liabilities		
Liabilities to credit institutions	15 712	47 423
Trade payables	18 032	12 127
Liabilities to group companies	25 816	31 832
Other liabilities	3 027	14 259
Accrued expenses and prepaid income	27 086	25 197
Total current liabilities	**89 672**	**130 838**
TOTAL EQUITY AND LIABILITIES	**290 140**	**252 710**

Risk factors

Zenterio's risk factors are described on pages 47-49 in Zenterio's 2016 annual report. Apart from the general concern about the economy and the political unrest in some countries, the assessment is that no new significant risks or uncertainties have arisen. The report is available on zenterio.com/investor-relations.

Accounting policies

This financial report is prepared by Zenterio AB in compliance with IFRSs (International Financial Reporting Standards). The consolidated financial statements for the Zenterio AB group have been prepared in compliance with IFRSs, IFRIC Interpretations as adopted by the EU, the Swedish Financial Reporting Board's Recommendation RFR 1 Supplementary Accounting Rules for Groups and the Swedish Annual Accounts Act.

Zenterio's accounting policies are described on pages 38-46 in Zenterio's 2016 annual report.

This report has not been subject to review by the company´s auditors

Linköping, 12th May, 2017

Zenterio AB
Jörgen Nilsson, Chief Executive Officer