

# Corporate Governance Report

## Corporate governance

Corporate governance refers to the manner in which rights and obligations are allocated among the companies' various entities, pursuant to applicable legislation, rules and processes. Corporate governance involves decision-making systems and the structure through which shareholders directly or indirectly govern the company.

Fingerprint Cards AB (FPC) is listed on the NASDAQ OMX Stockholm Exchange. The company applies the Swedish Corporate Governance Code in accordance with current rules.

A Swedish public limited liability company with listed securities is obliged to comply with the rules that affect the company's governance, of which the most important are the Swedish Companies Act; Rules and regulations for issuers, NASDAQ OMX Stockholm; and the Swedish Code of Corporate Governance, with effect from February 1, 2010.

There are no deviations from the Swedish Code of Corporate Governance. The Code states the purpose of corporate governance as being "to ensure that companies are managed as efficiently as possible on behalf of the shareholders".

Swedish limited liability companies with publicly traded shares are also subject to legislation governing securities and their trading, market and price-sensitive information, of which the most important are: the Financial Instruments Trading Act, the Swedish Act concerning Reporting Obligations for Certain Holdings of Financial Instruments and the Market Abuse Penalties Act.

## Shareholdings

For information on shareholders that directly or indirectly exceed one tenth of the voting rights for all of the shares in the company, refer to page 21 of the Administration Report.

## Annual General Meeting

Ultimately, it is FPC's approximately 9,000 shareholders who determine corporate governance. Shareholders exercise their rights at the General Meetings of Shareholders. The Annual General Meeting (AGM) is the supreme governing body. The AGM resolves on any amendments of the Articles of Association, which is the fundamental governance document, approves the financial results and balance sheet, discharges the Board from liability, elects a new Board, elects auditors, resolves on remuneration of the Chairman of the Board, Board members and auditors and resolves on guidelines for the remuneration of senior executives.

Notice of the AGM is dispatched no earlier than six and no later than four weeks prior to the Meeting. The notice includes information regarding the manner of notification of attendance, the right to vote at the Meeting, numbered agenda showing the matters to be dealt with, information on the appropriation of earnings, and the main content of other proposals.

Shareholders or their representatives may vote for the full number of shares owned or represented. One Series A share confers 10 votes and one Series B share confers one vote at the Meeting. The ways of notifying intention to attend the Annual General Meeting include an e-mailing option in accordance with the instructions in the official notification. For participation as a representative, the shareholder must issue a power of attorney to the representative. If the shares are registered with a nominee, they must be re-registered in the shareholder's name in the share register no later than the record date of the Meeting. The record date is noted in the notice of the meeting. Notice of an Extraordinary General Meeting (EGM) at which the matter of the Company's Articles of Association is to be dealt with must be issued no earlier than six weeks and no later than four weeks prior to the Meeting. Notice of any other EGMs must be issued no earlier than six and no later than three weeks ahead of the Meeting.

Proposals concerning matters to be dealt with by the Meeting must be addressed to the Board and be submitted well in advance of the issuance of the notice of the Meeting.

Ahead of the AGM on June 16, 2011, requests from shareholders to have a matter discussed at the AGM must be received no later than May 12, 2011 to be included in the official notice of the Meeting.

Most resolutions at the AGM are passed by a simple majority. In certain cases the Swedish Companies Act states that resolutions must be passed by a qualified majority. This concerns, for example,

resolutions regarding amendments of the Articles of Association, which require the support of at least two-thirds of shareholders in terms both of the votes cast and the shares represented at the Meeting.

## AGM 2010

The AGM for the 2009 fiscal year was held in Gothenburg on June 17, 2010. Notice of the meeting was published on May 19. Shareholders attending the Meeting represented 26.32 percent of the number of votes and 6.26 percent of the number of shares. Resolutions passed by the Meeting included:

- Approval of the Income Statement and Balance Sheet
- Approval of the appropriation of profit
- Discharge of liability for the Board and President
- Determination of the remuneration of the Board and auditors
- Adoption of Articles of Association
  - Adjustment of the number of Board members from four to seven
  - Raising of the limits for the minimum and maximum share capital
  - Holding of the AGM in Stockholm in addition to Gothenburg
- Election of Board members and auditors
- Election of the members of the Nomination Committee
- Establishment of guidelines for senior executives
- Authorization of the Board during the period up until the next AGM to make decisions regarding the issuance of up to 8,000,000 Series B shares, within the framework of the increased number of shares. Issuance was to be conducted subject to preferential rights for shareholders
- Authorization of the Board, for the period up to the next AGM, for the issuance of up to 8,000,000 Series B shares within the framework of the increased number of shares. Disapplying the preferential rights of shareholders, the shares may be issued to institutional, industrial and financial investors.

Two Extraordinary General Meetings held during 2010:

An EGM was held on March 3, 2010 in Gothenburg. Notice of the Meeting was published on February 16, 2010. Shareholders attending the Meeting represented 32.79 percent of the number of votes and 14.4 percent of the number of shares. The Meeting passed resolutions regarding:

- Approval the Board's motion concerning the issuance of warrants.
- An EGM was held on November 9, 2010 in Stockholm. Notice of the Meeting was published on February 16, 2010. Shareholders attending the Meeting represented 22.36 percent of the number of votes and 3.94 percent of the number of shares. The Meeting passed resolutions regarding:
- Election of Mats Svensson as a new Board member
  - Determination of the remuneration of the Board
  - Approval of the Board's motion regarding the issuance of warrants

Minutes of the general meetings were published on FPC's website: [www.fingerprints.com](http://www.fingerprints.com)

## Nomination Committee and the nomination process

The AGM determines the composition of the Nomination Committee. At the 2010 AGM, the then Chairman of the Nomination Committee, Robert Liljeson, presented the proposals of the Nomination Committee regarding Board members, who were subsequently elected as Board members: Christer Bergman, Urban Fagerstedt, Anders Hultqvist, Sigrun Hjelmqvist; and Tommy Trollberg, as Chairman of the Board.

At the 2010 AGM, it was resolved that the Chairman of the Board would be appointed a member of the Nomination Committee and he was assigned to appoint another two candidates by October 1, 2010, in consultation with the largest shareholders in terms of votes. The Nomination Committee is to appoint from its own numbers a chairman who must not be the Chairman of the Board. In the event that a shareholder who is represented by a member of the Nomination Committee should cease to be among the largest shareholders in terms the number of votes, or in the event that a member of the Nomination Committee for some other reason resigns from the Nomination Committee ahead of the 2011 AGM, the members of the Nomination Committee shall in consultation be entitled to appoint another representative on behalf of the major shareholders, to replace the member. FPC's Nomination Committee consists of:

- Dmitriy Titov (Chairman of the Nomination Committee, independent in relation to the company, corporate executive management and shareholders)

- Tommy Trollborg (Chairman of the Board)

- Lars Söderfjäll (Representing the shareholder Sunfloro AB, which holds 23.77 percent of the votes).

The tasks of the Nomination Committee ahead of the Annual General meeting for the 2010 fiscal year are to issue:

- A proposal regarding the Chairman of the meeting
- A proposal regarding Board members
- A proposal regarding the Chairman of the Board
- A proposal regarding remuneration of the Board
- A proposal regarding auditing fees
- A proposal regarding the composition of the Nomination Committee ahead of the AGM in 2011.

Shareholders may submit proposals to the Nomination Committee to [investrel@fingerprints.com](mailto:investrel@fingerprints.com)

### Board of Directors

The Board must consist of four to seven members with a maximum of five deputy members. Up until the AGM in 2011, FPC's Board shall consist of six people. FPC's Board has ultimate responsibility for the control of operations between AGMs. Board members are elected annually by the AGM for the period up until the end of the next AGM. Changes in the composition of the Board may be made through a decision of an Extraordinary General Meeting, between the AGMs or by a member choosing to resign prematurely from his/her assignment. Board members have broad-based and extensive experience from business and industry and all members are or have been corporate presidents or senior executives. A number of them have other assignments as board members for relevant companies as viewed from the perspective of management, market, technology or international perspectives.

The Swedish Code of Corporate Governance includes provisions to the effect that a majority of the Board members elected at the AGM

shall be independent in relation to the company and executive management, and that at least two of the independent members shall also be independent vis-à-vis shareholders who control ten percent or more of the shares or votes in the company. An assessment by the Nomination Committee concluded that all six members are independent vis-à-vis major shareholders. Four of the members are independent in relation to major shareholders. In accordance with the Code, the Chairman of the Board is also elected by the AGM. In line with the Code, the Chairman of the Board is also elected at the AGM. There are no rules determining the maximum period during which a Board member may remain in office. The Board is responsible for FPC's organization and manages FPC's business on behalf of the shareholders. The Board shall continually assess FPC's financial situation and ensure that FPC is organized so that bookkeeping, management of funds and the company's financial situation in general is controlled in a satisfactory manner.

The Board appoints the President and makes decisions concerning matters involving the strategic direction of operations and the Company's overall organization. The Board sets corporate policy and instructions for ongoing operations, which are headed by the President. In turn, the President ensures that the Board is kept continually aware of events that are of significant for the Group's development, financial results, position and liquidity. The President may be elected to the Board; however, according to the Swedish Companies Act, the said person may not be elected as Chairman of the Board in a public limited liability company.

Member of the Board in 2010 (the members are presented separately on page 46 of the Annual Report).

Pursuant to the Swedish Companies Act, the Board has established a working procedure that states how work is to be allocated between the Board as a whole, its committees, and between the Board Chairman and President. This is a complement to the Swedish Companies Act and the Articles of Association. The Board reviews, evaluates and adopts work procedures at least once annually.

As stated in the work procedures for the Board of Directors and other provisions, the Chairman of the Board is responsible for

### Board members during 2010:

Name	Function	Elected	Assign- ment ceased	Committee work	Independent* vis-à-vis		Board meeting atten- dance	Annual fees (SEK)
					The com- pany	Major share- holders		
Christer Bergman	Member	2008-08-08	-	Remuneration Committee Auditing Committee	Yes	Yes	18 of 19	100 000
Urban Fagerstedt	Member	2009-06-04	-	Remuneration Committee Auditing Committee	Yes	No	19 of 19	100 000
Anders Hultqvist	Member	2009-06-04	-	Remuneration Committee Auditing Committee	Yes	Yes	19 of 19	100 000
Tommy Trollborg	Chairman	2008-05-23	-	Nomination Committee Remuneration Committee Auditing Committee	Yes	Yes**	19 of 19	170 000
Sigrun Hjelmqvist	Member	2010-06-17	-	Remuneration Committee Auditing Committee	Yes	Yes	5 of 6	100 000
Mats Svensson	Member	2010-11-09	-	Remuneration Committee Auditing Committee	Yes	No	2 of 2	100 000
Geza Fülöp	Member	2008-05-23	June 17, 2010	Remuneration Committee Auditing Committee	Yes	Yes	12 of 13	60 000

\*Independent is defined in line with the Swedish Code of Corporate Governance.

\*\*Independent from 2010, September 10.



ensuring that the work of the Board is conducted efficiently and effectively and that the Board fulfills its obligations. These include organizing and supervising the work of the Board and creating optimal conditions for its work. In addition, the Chairman of the Board shall ensure that Board members are continually updated and that they increasingly familiarize themselves with the company's operations, and that new members receive a suitable introduction. The Chairman shall be available as an adviser and discussion partner for the President and shall also evaluate the latter's work as well as presenting his/her assessment for the Board. The Chairman is responsible for the evaluation of the Board's performance and shall inform the Nomination Committee of his evaluation.

During 2010, the Board held 19 meetings. The work of the Board tracks an annual cycle and commences with a statutory meeting after the AGM. 2010 was marked by a high level of activity during which decisions by the Board or consultation with the Board were required; in addition to two Extraordinary General Meetings, decisions were made concerning the incentive program, positive revenue and earnings development and extensive development projects.

FPC's employees participate in Board meetings when required as presenters of information.

The annual work cycle of the Board commences with the statutory meeting after the AGM. Recurring items on the agenda for subsequent meetings include the company's executive management debriefings as regards business conditions, operations, organization and recruitment, financial results and trends in cash and cash balances. The business plan and budget are dealt with during the autumn. In conjunction with interim quarterly, six-month reports and year-end report for the entire year, meetings are held involving decisions regarding the publication of reports. Ahead of the AGM, meetings are held in order to get a decision on notification, annual report, corporate governance documents and other matters for the AGM.

The Remuneration Committee regularly prepares matters regarding remuneration and employment terms for executive management, and draws up guidelines for the remuneration of the President and senior executives for approval by the AGM. As part of this responsibility, the Remuneration Committee is to monitor the remuneration trend among comparable players to ensure that the Company's pay offering is competitive. The Board sets the President's remuneration. Remuneration of other senior executives is decided by the President following consultation with the Remuneration Committee. At FPC, the entire Board handles the Remuneration Committee's tasks.

The task of the Audit Committee is to support the work of the Board in ensuring high-quality internal control, financial reporting and external auditing. Among other responsibilities, this involves examining interim and year-end reports ahead of publication and dealing with all critical accounting issues and assessments. The Board meets the external auditor on at least two occasions. At FPC, the entire Board handles the Audit Committee's tasks.

### Auditing

KPMG – represented by Johan Kratz, authorized public accountant, as the auditor-in-charge – was elected as FPC's auditor. Since the 2003 AGM – with re-election in 2007, KPMG – with Jan Malm as auditor-in-charge – has been selected as FPC's auditor. Johan Kratz has been an authorized public accountant since 1995. He is also auditor at companies including Concordia Maritime AB, Eka Chemicals AB and Nobel Biocare AB.

The auditor examines the administration, financial statements, internal procedures and control systems, interim financial statements and interim reports. Each year, the Board receives a report from the auditor as to whether the company's organization is appropriately configured to ensure that accounting, management of funds and conditions in general are controlled satisfactorily. The auditor reported to the Chairman of the Board and the President on one occasion in respect of the 2010 fiscal year. During 2010, the auditor attended the AGM and also attended the EGM held on March 3, and the AGM on June 17 2010.

### President

FPC's President, Johan Carlström, is in charge of the company's business operations. The allocation of responsibility between the Board and the President is defined in written instructions for the

President. The President reports to the Board and regularly presents a special President's report to the Board, which, in addition to financial reporting, includes information on how operations are progressing in terms of the strategies established and decisions made by the Board.

### Internal governance processes and internal control

FPC has a relatively small and straightforward organization. The President has, to a certain extent, delegated responsibility for internal control to department managers. Responsibility entails that there are appropriate instructions and procedures for operations that must be monitored regularly and reported on. Responsibility for internal controls, compliance with rules and operational risks are thus an integral part of managerial responsibility. Financial policy includes frameworks for investments, cash management and currency hedging. Credit policy is regulated in connection with sales. Credit is granted only if there is good reason to assume that the credit recipient will meet his obligations. Otherwise, sales are conducted against advance payment. FPC seeks to ensure the continuance of its low customer losses, thereby contributing to profitability and a solid financial position.

### The Board reports on the organization of internal control, insofar as it relates to financial reporting.

The financial reports are prepared in compliance with the laws and regulations with which FPC must comply in its capacity as a public company listed on NASDAQ OMX Stockholm.

The fundamental platform in the control environment consists of the guidelines and controlling documents described earlier in the corporate governance report, as well as the allocation of responsibility and authority that is adapted to business organization. An additional component in the internal control process is risk assessment, identification and management of the risks that can affect financial reporting and the control activities aimed at preventing, identifying and correcting failings and deviations.

Operational control of FPC proceeds from the business concept, strategies and goals. Subordinate to the Board, the President and Executive Management Group are responsible for ongoing operations. The Executive Management Group includes managers in charge of Production, Market/Sales, Business Development, Administration and Development.

Each month, a report is submitted to the Board in the form of the President's report, which includes sections for business functions and commented closing accounts. Interim, six-month and annual closing accounts are submitted ahead to the Board for its review and subsequent decisions at Board meetings. Interim, six-month and annual closing financial statements with accompanying financial statements are audited in all cases by FPC's elected auditor. Risk assessment of financial reporting is conducted by the Board as a whole. There is no audit committee per se. Auditing issues are dealt with at Board meetings.

External financial reporting is conducted each quarter and internal financial reporting takes place each month. FPC exercises control on the basis of a business plan that is broken down into an annual budget for the year ahead. The budget is revised during the year, which thus becomes a forecast and action plan for ongoing business governance. Financial reports are drawn up on a quarterly and monthly basis. In conjunction with reporting, analyses and comments are reported for development vis-à-vis set targets. The control of development projects is done via ongoing project monitoring with debriefing in respect of sub-projects. Performance and costs expended are related to plans and project budgets. The anticipated remaining project expenses for project completion are reported. The follow-up of liquidity and cash flow is conducted on an ongoing basis with the updating of forecasts and resulting liquidity planning.

Control activities are built into the entire process for financial reporting. The Accounting Department is responsible for consolidated accounting and consolidated closing financial statements, as well as for the financial and administrative control system. The department's responsibility also includes liquidity, controlling and reporting to official authorities. These tasks include continuous reconciliation and checks of reported amounts as well as analysis of income statements and balance sheets as well as cash-flow statements. The Executive Management Group meets frequently and regularly reviews trends in

sales, profitability, margins, development projects and other events that have a financial impact.

High IT security is a prerequisite for favorable internal control of financial reporting. Consequently, there are rules and guidelines to ensure availability, confidentiality and traceability of information in the business systems.

### Basic remuneration principles

All employees are covered by a division of remuneration into fixed and variable components. The proportion of variable pay rises with the remuneration level, responsibility, level of executive position and the input of sales and markets in the position. The proportion of variable salary is thus higher for employees in sales and marketing functions. The purpose of variable remuneration is to move the company towards relevant goals. Variable remuneration shall be based on results vis-à-vis predetermined set targets based on company targets, team targets and individual targets. The corporate target refers to growth, revenue and profitability. Team targets and individual targets pertain to projects, quality and efficiency.

### Guidelines for the remuneration of the Board

The Chairman and Members of the Board are remunerated in accordance with an AGM resolution. No special remuneration is paid for committee work. Remuneration for 2010/2011 amounted to SEK 170,000 for the Chairman of the Board and SEK 100,000 for Board members, totaling SEK 670,000. Board members appointed during the year receive fees in relation to the remaining period up to the next AGM.

### Guidelines for the remuneration of senior executives

The Remuneration Committee, which is appointed from among Board members, shall prepare guidelines in respect of pay and other employment terms for the President and senior executives and shall present the Board with proposals in respect of these issues. The Board decides on pay and other remuneration of the President.

Remuneration of the President and other senior executives comprises basic salary, variable remuneration, other benefits, pension and financial instruments. The variable remuneration may not exceed 30 percent of basic salary. Other senior executives are those people who, in addition to the President, constitute Group Management. The period of notice

amounts to a maximum of six months for both parties. If the company terminates employment, severance pay is payable in an amount corresponding to not more than six monthly salaries. Resolutions concerning share and share-price-based incentive programs are made by a General Meeting of shareholders. Pension provisions are defined-contribution amounts.

### For 2011, the Board of Directors will make the following proposals concerning amended guidelines concerning the remuneration of senior executives:

For the President and other senior executives, variable remuneration may not exceed 40 percent of total salary. During the salary revision in 2011 and following years, the largest portion of the revised salary is to be allocated to the variable increment in order to increase the share of performance-based salary.

During the period of notice of not more than six months, full salary is payable and employment benefits remain unchanged.

### Investor relations

FPC regularly provides external information to the stock market. Information must be up-to-date, correct, complete, relevant, reliable, and compliant with law, regulations and principles, accurate and support analysis, valuations and investments. Information must be provided in good time and in the right manner. The information is aimed at strengthening FPC's brand and creating credibility among customers, capital markets and society at large. The information is to be published as soon as possible and simultaneously to news agencies, exchanges, investors, analysts and other media.

Price-sensitive information that is communicated externally but is provided as part of business operations or other contexts is included in the company's log.

FPC's information to shareholders and other stakeholders is provided via the website, year-end and interim reports, press releases and the annual report. As in the case of press releases and financial reports, presentations and information material presented in connection with investor meetings and road shows are also published on FPC's website [www.fingerprints.com](http://www.fingerprints.com)

Inquiries regarding information, investment and the Nomination Committee may be made to [investrel@fingerprints.com](mailto:investrel@fingerprints.com).

Board of Directors  
Gothenburg, May 16, 2011

### Auditors' report on the Corporate Governance Report

To the Annual General Meeting of the Fingerprint Cards (publ)  
Corp. Reg. No. 556154-2381

It is the Board of Directors and the President who are responsible for the 2010 Corporate Governance Report on pages 42-45 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Report has been prepared and is consistent with the other parts of the annual accounts and the consolidated accounts, we have read the Corporate Governance Report and assessed its statutory content based on our knowledge of the company.

In our opinion, a Corporate Governance Report has been prepared and its statutory content is consistent with the other parts of the annual accounts.

Gothenburg, May 18, 2011  
KPMG AB  
Johan Kratz Authorized Public Accountant