

**FINGERPRINTS**

ANNUAL REPORT  
2018

## FINGERPRINTS IN BRIEF

# THE LEADING GLOBAL BIOMETRIC COMPANY

Fingerprint Cards AB, or Fingerprints, is a leading global biometric company with Swedish roots. Our solutions are integrated into millions of devices and applications and are used billions of times every day. We deliver secure and convenient identification and authentication and create value by facilitating the everyday lives of our global user base.

Fingerprints develops biometric systems consisting of sensors, algorithms, software and packaging technologies. Our success is built on product development with leading edge-specialist competence that spawns world-leading products in terms of security, user-friendliness and performance. Most of our current product offering consists of fingerprint sensors, and our

customer base mainly comprises companies that manufacture smartphones. As the usage of biometric solutions expands, Fingerprints is endeavoring to broaden its offering, adding more biometric modalities, and bringing solutions into new market segments like smart cards, vehicles and the Internet of Things (IoT).

Fingerprints is listed on Nasdaq Stockholm (ticker FING B). Most of its workforce is located in Sweden, but the company also has offices in Denmark, China, Japan, South Korea, Taiwan and the United States.

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### VISION

A secure and seamless universe, where you are the key to everything.

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### MISSION

To provide safe and convenient identification and authentication with a human touch.

This Annual Report is an English translation of the Swedish original. In the event of any discrepancies, the Swedish version shall govern.

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Fingerprints Cards AB was incorporated in 1997, but the patent that prefaced our history, later dubbed the Löfberg Patent, had been granted 15 years before this. The patent was granted to Swedish film director and passionate inventor Bo Löfberg. Accordingly, we have been in business for 20 years. In this period, a huge amount has happened in the world of technology. But one thing that hasn't changed is our conviction that people should be able to avoid the hassle of PINs and passwords.

Product development and innovation are our lifeblood, and patent protection is an essential part of our business. With our competence and curiosity, we want to keep Löfberg's legacy alive every day across our whole business, from Silicon Valley to Shanghai.

# 2018 IN BRIEF

## SEK -772 M

OPERATING RESULT  
(SEK 155 M)

## 0%

GROSS MARGIN  
(33%)

## SEK 1,535 M

REVENUES (SEK 2,966 M)

## SEK 275 M

CASH FLOW FROM  
OPERATING ACTIVITIES  
(SEK 377 M)

## -2.01 SEK

EARNINGS PER SHARE  
(0.38 SEK)

## 10 BILLION

Fingerprints' technology is used  
over 10 billion times a day

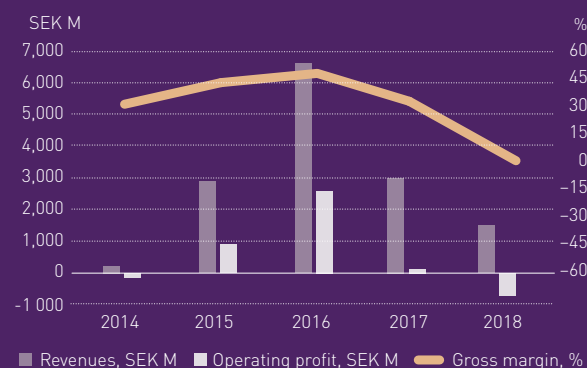
## 7

Fingerprints sells 7 sensors  
every second throughout the year

## 16

Fingerprints' technology used in all publicly  
announced market tests of contactless  
biometric payment cards in 2018

### REVENUES, OPERATING PROFIT AND GROSS MARGIN



### FIVE-YEAR SUMMARY

SEK M	2018	2017	2016	2015	2014
Revenues, SEK M	1,535.1	2,966.0	6,638.3	2,900.5	233.6
Gross profit, SEK M	2.4	988.9	3,165.3	1,255.3	71.6
Gross margin, %	0	33	48	43	31
Operating result, SEK M	-771.6	154.6	2,578.5	910.3	-145.2
Operating margin, %	-50	5	39	31	-62
EBITDA, SEK M	-505.2	234.0	2,627.1	953.7	-83.6
Profit before tax, SEK M	-796.7	141.8	2,613.5	910.0	-143.6
<b>Net result for the year, SEK M</b>	<b>-630.7</b>	<b>120.3</b>	<b>2,034.7</b>	<b>798.3</b>	<b>-144.0</b>
Earnings per share, SEK	-2.01	0.38	6.40	2.53	-0.49
Equity/asset ratio, %	77	66	64	60	71
Number of coworkers	263	558	438	254	175



Fingerprints' technology is used over 10 billion times a day

## FIRST QUARTER

# 17

mobile devices with the company's touch sensors launched by seven OEM customers

- In January 2018, the 300th mobile phone was launched with Fingerprint's touch-sensors
- Fingerprints and Gentex entered a 10-year exclusive collaboration agreement for the development of biometric systems for the automotive industry
- Fingerprints participated in two market tests for biometric smart cards.

## SECOND QUARTER

# 16

mobile devices with the company's touch sensors launched by seven OEM customers

- FPC1511, the fourth-generation fingerprint sensor, was launched
- Initial order from two global card manufacturers for Fingerprints' T-Shape module for biometric smart cards
- Cost reduction program implemented.

## THIRD QUARTER

# 12

mobile devices with the company's touch sensors launched by six OEM customers

- First volume order received for FPC1511, the fourth-generation capacitive fingerprint sensor
- Fingerprint sensor adapted for the automotive sector launched
- Fingerprints supports Zwipe to launch dual-interface biometric payment cards with banks and loyalty programs in China.

## FOURTH QUARTER

# 18

mobile devices with the company's touch sensors launched by six OEM customers

- Strategic cooperation agreement on biometric doorlocks signed with China Synodata and Jianfeng. Fingerprints participate in market tests of biometric cards in Middle East, Italy, the Philippines and France.
- Agreement to deliver T-Shape to FEITIAN's contactless biometric cards.

# ORGANIZATIONAL ADAPTATION AND DIVERSIFICATION

Fingerprints' strategy is focused on defending and building on our strong position in the smartphone segment, while broadening our business into new areas.

For Fingerprints, 2018 was a year marked by adjusting and adapting the operations to rapidly changing conditions. Our revenues declined to SEK 1,535 M, mainly due to a drop in the ASP for our products of over 30 percent compared with 2017.

The start of the year was particularly weak, due to a negative trend in the Chinese smartphone market and a continued shift toward smaller and cheaper fingerprint sensors. The revenue trend stabilized somewhat starting in the second quarter, and we reported sequential growth during the second and third quarters when the domestic Chinese smartphone market showed a slight recovery and our sales benefited from an improved product and customer mix.

Fingerprints is still the leading provider in the smartphone segment. In 2018, our share of the market for capacitive fingerprint sensors for smartphones (excluding Apple) was about one-third of the approximately 700 million smartphones equipped with capacitive fingerprint sensors delivered during the year.

In response to the revenue decline, we carried out measures during the year that

reduced our overall cost base by approximately two-thirds compared with the highest 2017 level. That obviously entailed a substantial workforce reduction, but the adjustment was necessary to safeguard our competitiveness. At year-end, the number of employees was 220, compared with 415 at the end of 2017. During the same period, we reduced the number of consultants from 143 to 43. Layoffs of this magnitude are never simple or painless, and I would like to say that I am impressed by the manner in which everyone here at Fingerprints has handled this difficult situation. The cost-adjustment program we implemented during the year was delivered professionally, and according to a challenging schedule. I would like to thank those employees who left us during the year, as well as those who have remained with us for the next stage of Fingerprints' development.

Fingerprints' financial position is solid, with cash assets that amounted to SEK 540 M at the end of the year. Net cash assets grew from SEK 455 M to SEK 540 M in 2018. In the fourth quarter, we repaid the remaining portion of the acquisition loan for the purchase

of Delta ID. As a result of this, Fingerprints is now debt-free.

## BIOMETRICS – AN INDUSTRY OF THE FUTURE

Today, around four years after biometrics had its commercial breakthrough in mobile phones, about 65 percent of all smartphones sold in the world have some form of biometric sensor. Biometric solutions for smartphones will also remain an attractive and growing market. At the same time, the mobile industry is fast-paced and dynamic with rapidly changing trends and intense competition. While capacitive fingerprint sensors have dominated the smartphone segment to date, they are now increasingly challenged by alternative technologies.

In-display solutions that integrate fingerprint sensors into a smartphone's display were launched in 2018. The volumes are still relatively small but in 2019, I expect that in-display technology will account for a significant share of the total value of the fingerprint sensor market for smartphones.

This also means that biometric solutions for smartphones are once again a growing market.

The interest in adopting biometric solutions is large and growing, even outside the mobile segment, in areas where strong and user-friendly authentication is important. The automotive industry is a good example, where biometrics – in particular touchless solutions, e.g. iris recognition – can help to deliver personalized features that improve security and convenience. Biometrics in lock and access control systems is another interesting field and we expect to see rapid growth in this segment.

But the area in which I see the greatest potential in the coming years is biometric smart cards. Much seems to indicate that the major card brands' certifications of contactless biometric cards may be completed in the near future. This is an important milestone and a prerequisite for card issuers being able to start planning and budgeting for a broader commercial launch. The introduction of biometric cards will then take place gradually with major regional differences.

” Biometric solutions for smartphones are once again a growing market.

The penetration rate will probably rise at a slower pace than in the mobile industry, where fingerprint sensors had a major impact within the space of a couple of years. However, in the longer term, the potential market is huge, with over four billion smart cards produced every year.

#### **STRONG STARTING POINT FOR FINGERPRINTS**

Fingerprints' objective is to be a leading global player in our selected segments and application areas. We want to be recognized as an innovative, high-tech and entrepreneurial company, and a provider of high-level security solutions. Our starting point is strong, with a market-leading position in the mobile segment where Fingerprints is recognized for its high quality, functionality and security. We are also well-positioned to capture a significant share of new, emerging global markets for biometric solutions – especially biometric smart cards. Our strategy for the coming years is based on defending and building on our strong position in the smartphone segment while diversifying and broadening

the business into areas outside the mobile industry.

#### **DEFEND AND CAPITALIZE ON FINGERPRINTS' LEADING POSITION IN THE MOBILE SEGMENT**

I am optimistic about the mobile segment and Fingerprints' ability to maintain the leading position through continued product innovation. Our strategy in the smartphone segment comprises three focus areas.

Firstly, to defend our market share and margins in capacitive fingerprint sensors by ensuring production-cost competitiveness. In 2018, we launched FPC1511 – a sensor with lower production costs than the previous generation of sensors, but continued high biometric performance. FPC1511 received a positive response from several major OEM customers and, in 2019, this product will play a leading role in our product portfolio of capacitive sensors.

Our second focus area in Mobile is to capture a major share of the growing market for in-display sensors. In February 2019 we



” We intend to capture a significant share of the growing market for in-display sensors.

launched FPC1610, our first optical in-display sensor.

The third part of our Mobile strategy is focused on further developing and making our iris recognition technology even more user-friendly, with the aim of providing a more secure and cost-efficient alternative to advanced facial recognition.

### EXPANSION INTO NEW BIOMETRIC MARKETS

Diversifying the business into areas outside the smartphone segment is a key strategic priority. Our goal for 2018 was to generate 10 percent of our sales outside capacitive sensors for smartphones, which we also achieved. A major share of these revenues derives from sales of sensors for biometric door locks and laptops. The goal is to continue growing our revenues from these areas.

At the same time, we are focused on securing a leading position as a provider of biometric solutions for smart cards. The market tests carried out around the world to date confirm that Fingerprints' solutions can be found in all tests of contactless biometric

cards, which is the main application area for biometrics in relation to cards. As previously announced, we signed a partnership agreement with Gemalto in February 2019 and secured the world's first volume order of fingerprint sensors for dual-interface payment cards. This testifies to the strength of our offering. Fingerprints is well-positioned to capture a significant share of this emerging market. In 2019, activities will be expanded further with a considerable number of tests. Business volumes in 2019 will be modest. However, we expect to see a wider commercial launch starting in 2020.

During the year, we also strengthened our offering to the automotive industry, where we already have an exclusive partnership agreement with Gentex for the development of biometric systems for authenticating drivers using iris recognition technology. We have also launched a fingerprint sensor for the automotive sector now, where biometric solutions can help to deliver personalized features that increase both comfort and safety. The first product development projects to

### SUSTAINABLE BUSINESS DEVELOPMENT

Fingerprints' operations contribute to sustainable development and have a positive impact on society, not least because our product portfolio adds value for customers, users and society at large, with secure identification and authentication in an increasingly vulnerable digital environment. Our solutions therefore help to reduce the risk of fraud.

It is also important that we conduct our business in accordance with high ethical standards. As a member of the UN Global Compact, Fingerprints stands wholeheartedly behind its ten principles with respect to human rights, labor, the environment and anti-corruption. Our sustainability targets are aligned with the UN Sustainable Development Goals (SDGs). Read more on pages 18–27.

integrate this fingerprint sensor with vehicles are expected to commence this year.

We are still only at the beginning of the development of biometrics. The increasing degree of digitalisation in society has led to greater security awareness, which means that solutions for safer and more comfortable authentication and identification are being sought in an increasing number of areas.

Fingerprints will continue to make selective investments in new technologies to secure long-term growth.

Gothenburg, April 2019

Christian Fredrikson  
President and CEO





” Fingerprints’ sensors are used in all publicly announced market trials of contactless payment cards to date.

# BIOMETRICS CREATE VALUE IN MORE AND MORE SEGMENTS

The market for biometric solutions in the smartphone segment is becoming increasingly fragmented, with multiple competing technologies. At the same time, we are approaching the first commercial launches of biometric smart cards, the starting signal for the next biometrics mass market.

## WEAK MOBILE MARKET AND GREATER DIVERSITY OF BIOMETRIC SOLUTIONS FOR SMARTPHONES

In 2018, the market for fingerprint sensors was impacted by a weak trend in the global smartphone market. Deliveries of smartphones worldwide declined by approximately 5 percent compared with 2017, with a particular slowdown in demand in China and the US. Several external sector analysts anticipate the weak market trend to continue in 2019, with approximately zero growth.

One of the key factors behind the weak mobile market is that consumers are replacing their devices less frequently than before. This is particularly apparent in China, where the replacement frequency has traditionally been higher than in Europe and the US. In recent times, we have seen China approach the levels that exist in other major world markets, partly because the operators in China have made strong reductions in their subsidies for mobile phones. Another factor may be that the degree of innovation among mobile phone manufac-

turers is perceived to be lower than previously, meaning that people are retaining their old phones a little longer.

The total market in 2018\* for capacitive fingerprint sensors for smartphones, in terms of volume, was essentially unchanged compared with 2017 and amounted to 700 million devices. Fingerprints' market share at the OEM level was about one third. The average price of capacitive sensors for smartphones declined by more than 30 percent compared with 2017, meaning that the value of this market declined by the same amount.

To date, capacitive fingerprint sensors have dominated the market for biometric solutions in the smartphone segment. However, during 2018, alternative technologies began to gain ground, not least in-display sensors that integrate fingerprint sensors in the displays of smartphones. The market for in-display is still immature and is developing very rapidly. We are going to see a number of product variations adapted to different display types and other conditions. Since the average price of in-display sen-

sors is currently significantly higher than for capacitive sensors, in-display will probably represent a considerable portion of the total value of the market for fingerprint sensors for smartphones in 2019.

After Apple launched a smartphone with advanced facial recognition in 2017, the interest in touchless solutions also increased. We saw a number of launches by Chinese manufacturers in 2018, primarily using so-called 2D facial recognition, but aside from Apple, the technology has not yet achieved a definitive breakthrough as an adequate alternative to fingerprint recognition.

Biometric solutions for smartphones will remain an attractive market. However, we see that the market for capacitive fingerprint sensors in this segment is continuing to decline in value, while alternative solutions are advancing in the market. It is clear that the market for biometric solutions in the smartphone segment is becoming increasingly fragmented, with multiple competing technologies.

## INCREASED SMART CARD ACTIVITY – NEXT MASS MARKET FOR BIOMETRICS

In 2018, players throughout the value chain for smart cards increased their activity level and their investments in the further development of biometric cards. Biometric charge cards are the area in which Fingerprints foresees the largest potential in the next few years, although the growth curve is not expected to be as steep as when biometrics had its breakthrough in smartphones. However, the potential market is huge, with about four billion smart cards produced every year.

Payments is an area that is associated with comprehensive regulations, control mechanisms and global standards, and large-scale launches of new technologies demand carefully considered and gradual implementation to ensure a secure and friction-free experience for the consumer. For example, the initial registration of the customer's fingerprint (enrollment) is a highly important area that must be resolved in a cost-effective and user-friendly manner.

\* Excluding Apple

In this area, there are a number of approaches with their unique advantages and disadvantages, and it is not always obvious which method will prove the best. Accordingly, market tests are a key feature of trying out different solutions under real conditions, collecting feedback from consumers and fine-tuning parts of the system ahead of a broader roll-out.

16 market tests for contactless biometric smart cards commenced in various parts of the world during the year. Fingerprints' biometric module was used in all of these tests. The number of market tests is set to increase significantly in 2019, since a number of card brands, including Visa, Mastercard, JCB and China Union Pay, are on the verge of establishing specifications and standards for biometric debit cards. The next step in this process is a certification of established standards. The certifications are a key requirement for card issuers being able to budget and plan for initial launches. Business volumes in 2019 will be small, but a broader commercial launch could occur starting in 2020, given that the

card brands' certifications will be completed in the first half of 2019.

#### **AUTOMOTIVE AND EMBEDDED SYSTEM SOLUTIONS**

The interest in biometric solutions is large and growing, even outside the mobile segment and smart cards. Potential applications include vehicles, locks, entry systems, manufacturing technology and medical devices, as well as everyday home usage. The growing number of devices that are connected to the internet accentuates the need for secure and user-friendly systems to verify personal identities, such as entry systems in airports, hospitals and workplaces. Overall, this means systems need to be user-friendly, cost-efficient, and obviously, secure. This is driving the need for biometric solutions.

Development has progressed furthest in Asia, where biometric door locks are an area that displayed strong growth during 2018. There are indications that the interest in these types of biometric solutions is also increasing in other parts of the world.



Another area of considerable potential is the automotive industry, where biometric solutions can contribute to the provision of customized functionality, thus enhancing convenience and security. Biometric vehicle solutions can be applied in different ways, and associated with different functionality –

access, personal settings such as driving positions, infotainment or mileage reporting, leasing, linking to insurance, etc.

# DIVERSIFICATION IN FOCUS

Fingerprints will generate profitable growth by assuming a leading position in selected segments, and being recognized as a provider of very high-level security solutions in the mobile industry and the FinTech sector.

Fingerprints' strategy is based on defending and building on our strong position in the smartphone segment while diversifying the business into prioritized areas outside the mobile industry.

Fingerprints was one of the pioneers when biometrics had its global breakthrough in mobile telephony about four years ago. We have maintained a leading position in the industry ever since. While biometric solutions for smartphones will remain an attractive and growing market moving forward, the mobile sector is characterized by a high level of competition and rapidly shifting trends. Capacitive sensors, which have dominated so far, have experienced sharp price falls and are now facing increasing competition from alternative technologies. In Mobile, which accounted for approximately 90 percent of sales in 2018, the most important strategic priority is to expand the product portfolio to defend and capitalize on the company's strong position.

Biometric solutions are being adopted in more and more areas outside the mobile

industry. Fingerprints sees great potential in utilizing the company's economies of scale and experience of mass production of sensors in its expansion into new customer segments. Biometric smart cards represent the application that Fingerprints regards as having the greatest potential in the coming years, since the potential market is very large, with about four billion smart cards produced each year. Fingerprints deems that the major card brands' certifications of contactless biometric cards are imminent. This would mark the starting signal for a new mass market for biometric solutions. Fingerprints has a very strong starting point from which to be able to secure global leadership in this area.

Biometrics are expanding in an array of other areas, where secure and user-friendly authentication is critical. However, the biometrics market, apart from smartphones and smart cards, is fragmented and Fingerprints has chosen to assign priority to entry systems and vehicles, where the near-term potential is deemed to be greatest.

<b>Mobile</b> Defend and capitalize on Fingerprints' strong position	<b>Smart cards</b> Secure a position as the leading provider of biometric solutions	<b>Automotive &amp; Embedded</b> Grow in prioritized segments in a fragmented market
<ul style="list-style-type: none"> <li>• Defend our market share and margins in capacitive fingerprint sensors by ensuring production-cost competitiveness.</li> <li>• Capture a major share of the growing market for in-display sensors.</li> <li>• Further develop our iris recognition technology to offer a more secure and cost-efficient alternative to advanced facial recognition.</li> </ul>	<ul style="list-style-type: none"> <li>• Collaborate with players throughout the smart card ecosystem to promote the creation and acceleration of a new world market for biometrics.</li> <li>• Secure an undisputed global leadership position within contactless biometric cards, the next mass market for biometrics.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain our leading position in selected areas of application.</li> <li>• Initial focus on biometric solutions for entry systems and vehicles.</li> <li>• Capture a significant share of the market for iris recognition in Aadhaar devices in India.</li> </ul>
<b>Fingerprints' strengths</b>		

- Strong, market-leading brand
- Independent Swedish provider, recognized for high quality, functionality and security
- Full-coverage system expertise
- Strong patent portfolio
- Established, well-functioning sales channels and strong customer relations
- Extensive experience of high-volume production

# CONTINUOUS PRODUCT DEVELOPMENT A PREREQUISITE

Fingerprints operates in an industry characterized by rapid technological progress. Continuous product development is crucial for maintaining and strengthening competitiveness.

At the end of 2018, the R&D organization represented 40 percent of Fingerprints' coworkers.

Product development is based on several technologies to create user-friendly solutions. These include touch, that is, the touching of a sensor, and touchless, in which no physical contact with the device is required.

## BIOMETRIC SYSTEM DEVELOPMENT IN FOUR DIMENSIONS

Fingerprints' development of biometric sensors is integrated across four dimensions: developing algorithms, software development, hardware development of biometric sensors and packaging. The development work is based on fingerprints and the iris of the eye.

## IN-DISPLAY – A PRIORITIZED R&D AREA IN 2019

In-display solutions, which integrate a fingerprint sensor into the display of a smartphone, will account for a major share of the total value of the market for fingerprint sensors for smartphones in 2019. Fingerprints' objective is to capture a significant share of this rapidly expanding market. The project is proceeding as planned, and Fingerprints' first optical in-display sensor, FPC1610, was launched in February 2019.

### 1.

#### Algorithms—reading the unique biometric pattern

Algorithms are the software optimizing image quality and executing image processing, that is the information in the image of, for example, of a fingerprint or an iris. Our in-house algorithm competence enables partnerships with customers, and thus addresses their requirements for biometric development.

### 2.

#### Software development for enhanced end-user experience

Software development focuses on Fingerprints' biometric systems solutions in smartphones, for example. This process manages sensor communication with the mobile platform for verification in a secure platform combined with user-friendly functionality.

### 3.

#### Hardware development

Hardware development primarily involves fingerprint sensors and focuses on functionality and design solutions in the creation of the sensor.

For capacitive fingerprint sensors, this translates to chip area and thickness, power consumption and the capability to detect images through different types of material.

Fingerprints also develops technology for optic and ultrasound-based fingerprint recognition.

### 4.

#### Packaging—physical integration

Packaging focuses on integrating the sensor in other materials, as well as complete system solutions with processes for plug-and-play functionality. Complete system solutions of this type are primarily developed for applications in solutions other than smartphones and smart cards.

# EFFECTIVE SOLUTIONS FOR DIFFERENT APPLICATIONS

Fingerprints offers a strong product portfolio of biometric system solutions that help create easier and more secure everyday lives for users.

Fingerprints' solutions are suitable for a broad range of product segments. Apart from smartphones, currently the largest application segment for the company's products, Fingerprints' solutions are also applicable to product segments like smart cards, door locks, vehicles and the IoT. Fingerprints' biometric systems solutions are protected by extensive patents. We always endeavor to obtain a balanced and growing patent portfolio extending from algorithms, through biometric image processing to sensors and hardware packaging technology.

## SMARTPHONES

### Fewer and more efficient capacitive sensors for broad applications

Historically, most of Fingerprints' revenues have been generated from solutions for fingerprint verification for the mobile sector. In 2018, the product portfolio in the smartphone segment was concentrated to fewer capacitive sensors that combine lower production costs with high-quality performance to meet the demand for more uni-

form solutions for the various smartphone segments. The sensors can be placed on the front, back or side of the unit with a color and material-adapted coating.

### In-Display

In-display solutions integrate the fingerprint sensor in the display of a smartphone, providing enhanced flexibility in where to place the sensor. In 2019, Fingerprints intends to take a position in the market for in-display sensors using the company's optical sensor technology.

### Touchless

In the mobile segment, fingerprint sensors are starting to be supplemented by alternative biometric modalities, such as face and iris recognition. Interest in these touchless technologies grew in 2018. A key focus area for Fingerprints is to further develop and make our iris recognition technology even more user-friendly, with the aim of providing customers with a more secure and cost-efficient alternative to advanced facial recognition.

## SMARTCARDS

Fingerprints has developed T-Shape™, a capacitive sensor module optimized for integration in smart cards conforming to the relevant in sector standard and ISO requirements, and which is ready for efficient mass production. It functions for contact and contactless cards. T-Shape™ is the market's most power efficient module, with very good contactless charging characteristics, which is a fundamental requirement for functional biometric contactless cards. Fingerprints' sensors were used in all publicly announced market tests of contactless biometric cards during 2018.

## AUTOMOTIVE & EMBEDDED

Fingerprints also offers solutions for the IoT and the automotive industry. Example applications include door locks, entry systems, home electronics and smart watches.

Solutions for vehicles comprise complete modules for fingerprint recognition, as well as ActiveIRIS, Fingerprints' technology for iris recognition. These can be placed in several locations, including a door, key, steer-

ing wheel, vehicle dashboard or integrated into a rear-view mirror. In January 2018, Fingerprints entered into an exclusive partnership agreement with Gentex, a leading automotive industry technology vendor, to jointly develop biometric systems capable of authenticating drivers using iris recognition.

Once verified, the car can start and the passenger compartment is adapted automatically, including mirrors, steering wheel settings, seat positions and satnav systems.



# BUSINESS RELATIONS SPANNING SEVERAL LEVELS

Our business is based on the sale of complex biometric systems that integrate high value-added hardware and software. We create business relationships with multiple partners through our supply chain.

## MOBILE

Most of Fingerprints' revenues are generated from shipments of capacitive fingerprint sensors to mobile phone manufacturers in China. This business is part of the semiconductor industry and features a value chain with a large number of participants and long lead times. Fingerprints has good visibility over forthcoming launches of smartphones that use our sensors. However, the company has limited visibility over the sales volumes these smartphone models will generate, which is what ultimately drives revenues. The inventory levels of the various participants in the value chain are affected by fluctuating demand. This inventory dynamic can have a material impact on Fingerprints' sales volumes and earnings in individual quarters.

### Semiconductor manufacturers

Fingerprints manufactures its hardware using external contractors. The company's largest procurement item in volume terms are our silicon chips, the core of the sensor, mainly sourced from two of the world's largest

semiconductor manufacturers, SMIC of China, which is listed on the NYSE and Hong Kong Stock Exchange, and TCMC of Taiwan, which is listed on the NYSE and Taiwan Stock Exchange. Sensors are constructed in wafers, layers of silicon in standard format.

Product development and more efficient algorithms are enabling Fingerprints to gradually reduce sensor footprints, which means lower unit cost because significantly more sensors can fit on each wafer. This is an important component of addressing price downturns for sensors, a consequence of the sector very rapidly evolving into a mature mass market with high competitive pressure.

Fingerprints' delivery reliability is ensured as a result of high volumes and effective forward planning, since the manufacture of silicon wafers has similarities to the processing industry, where once a production line is started, it is continuous and assumes the lowest volume to maximize the utilization of production capacity, and thus attain the lowest possible unit cost. Accordingly, semiconductor manufacturers primarily

select customers that can fill their capacity.

Thanks to high volumes and good planning, Fingerprints has secured very positive relationships with semiconductor manufacturers, thus enhancing potential to manufacture a broader-based product mix with varying volumes. To ensure delivery reliability at higher volumes and more hardware versions, Fingerprints utilizes dual sourcing for every chip series, i.e. two different producers. Apart from procurement from semiconductor manufacturers, value is also added through channels including OSAT (Outsourced Semiconductor Assembly & Test) suppliers, which encapsulate chips for subsequent assembly.

### Distributors

Distributors are an established part of the electronics industry, and the party that Fingerprints delivers its hardware to. Fingerprints' revenues arise from hardware in the form of silicon wafers (sensors in their original format) or packaged sensors being shipped to the distributor. Normally,

software development is included in the agreement.

### Module suppliers

The production of smartphones is conducted through the assembly of modules sourced from a range of subcontractors. In the mobile industry, they are largely produced by module suppliers, with each OEM having selected module supply partners. Module suppliers account for the assembly and packaging of various components into modules that are ready for assembly in a smartphone.

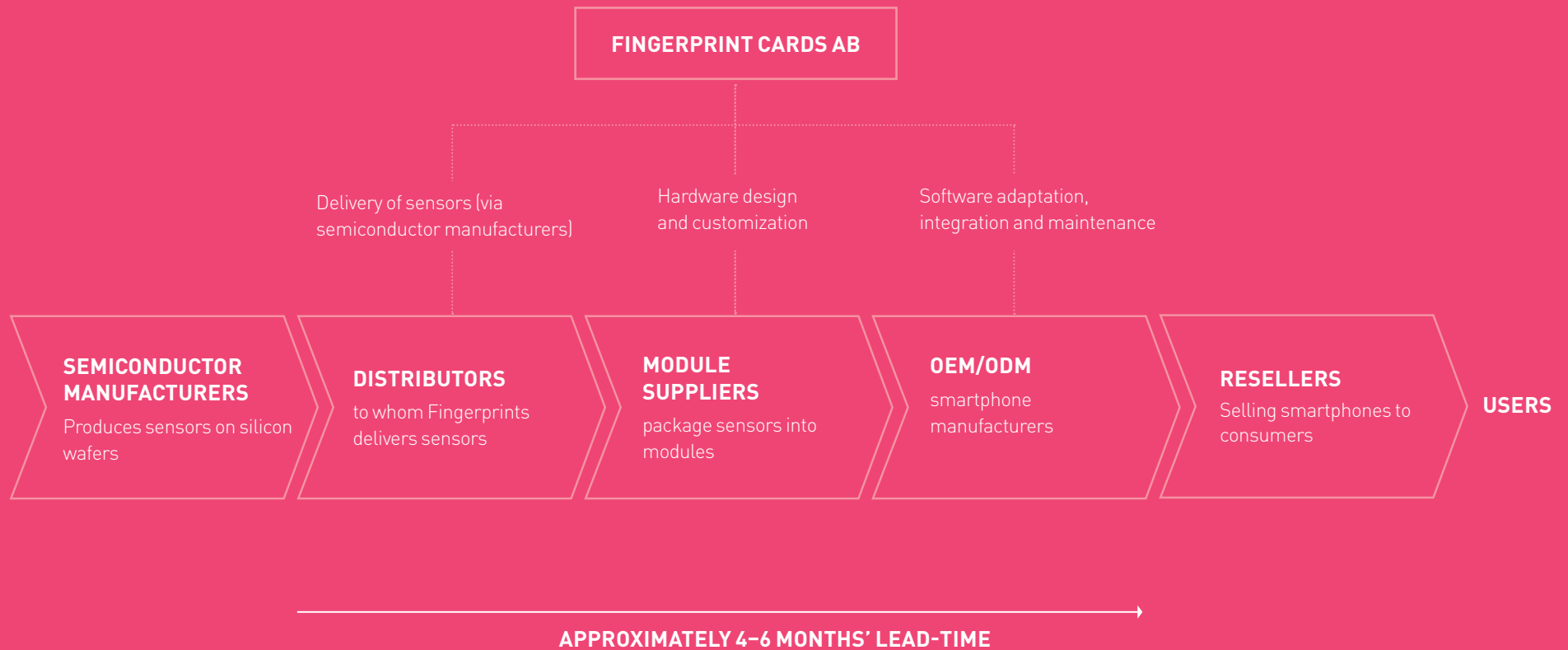
Fingerprints has established close partnerships with about ten module suppliers. Module suppliers can be viewed as partners and customers, because they set standards, while also serving as a collaborative partner in Fingerprints' product customization process.

### OEM

Smartphone manufacturers (OEMs and ODMs, the latter: original design manufacturers, who manufacture products sold



# A VALUE CHAIN WITH MULTIPLE PARTICIPANTS AND LONG LEAD TIMES



SMART CARDS ECOSYSTEM

# FINGERPRINTS COLLABORATES WITH SEVERAL LEADING PLAYERS\*



\* Published partnerships

under other parties' brands) make decisions on, and specify constituent components in, their technical specifications. For selected suppliers, these decisions mean a design win. Customization of hardware and software then commences, and a large batch of sensors is then shipped for production and functional testing. Assuming these tests are successful, mass production commences.

Smartphone producers maintain a high tempo in the development and launch of new models. The commercial lifespan of a smartphone model is some 12–18 months, with the main volumes shipped in the first 12 months.

### SMARTCARDS

The value chain in the smartcards market (all cards with chips, mainly charge cards) differs from the smartphone value chain in many respects. But there are also fundamental similarities, because both sectors feature mass production by a limited cluster of global manufacturers that are part of complex value chains with multiple mem-

bers. The dominant card manufacturers are based in Europe.

### Subcontractors

Subcontractors in various segments deliver products and solutions to card manufacturers such as chips, and in Fingerprints' case, fingerprint sensor modules.

### Manufacturers and issuers

Charge/credit cards are issued by banks who have contracts with the card brands. The leading brands who dominate this market are VISA, MasterCard and China UnionPay.

### Standardization and certification

Payments and cards are a sector characterized by regulation and a high degree of standardization. Certification and standardization of charge/credit cards with fingerprint sensors occur under the auspices of the EMVCo certification body. The international association Eurosmart is another important player, which develops smart security standards.



The major card brands are preparing certifications of contactless biometric cards, which are a prerequisite for the market for biometric cards to gain momentum.

### AUTOMOTIVE

Marketing and sales to the automotive industry occur through module suppliers and subcontractors. Fingerprints has collaboration with companies including Gentex, a US provider of driver assist systems for vehicles.

# INNOVATION DRIVES THE BIOMETRIC FUTURE

Fingerprints' biometric solutions contribute to sustainable development. With passion for innovation and a focus on end-user experience, our coworkers create solutions for secure identification and authentication.

## HIGH LEVEL OF COMPETENCE IN A FLAT ORGANIZATION

Fingerprints is an entrepreneurial company that is aware that diversity and experience form a competitive advantage in understanding our customers. In the organizational adjustment made in 2018, major focus was placed on retaining our delivery capacity and motivation.

## PROFESSIONALS CLOSE TO CUSTOMERS WITH A HIGH LEVEL OF TECHNOLOGY EXPERTISE

To succeed in a fast-moving, high-technology market, the capacity for innovative technology development is a basic requirement.

Fingerprints' coworkers share a genuine interest in technology and are driven by continuing to move the creation of our future biometric society in a positive direction. The company's innovative force is very strong, despite the personnel reductions made during the year. We have, for example, access to specialist competence in biometrics, electronics, materials technology, coding, production technology, marketing and

sales. The level of education is high, with a large proportion of graduate engineers. Approximately 25 percent of the coworkers in the R&D organization have PhDs in technology.

Our customers' needs are met because many of our coworkers have rigorous sector experience from such areas as telecom, banking, payments and charge cards.

## DIVERSITY

Fingerprints' success is also attributable to linguistic and cultural closeness to our customers, which is why we give our coworkers generous opportunities for international exchange between our operations. We regard the fact that our coworkers hail from all parts of the world as one of our greatest strengths. In the Swedish organization, we now have coworkers of ten different nationalities, who all contribute different perspectives and enrich our corporate culture.

## A VALUE-BASED WORKPLACE

Fingerprints' culture is characterized by entrepreneurship and innovation, motivated and solution-oriented coworkers and an open and non-hierarchical climate. Our corporate culture is also defined by our core values – SMART, BRAVE, OPEN, UNITED – which we work with constantly to ensure their implementation and that they permeate our daily operations. We are convinced that this not only improves customer relationships and results in more effective decision-making, but also results in greater job satisfaction, commitment and motivation.

## ... ALSO IN MANAGEMENT

The core values also represent a key parameter in management. During the year, a management forum was created, in which our CEO, HR and Fingerprints' managers work on such issues as commitment, motivation and trust. A number of management behaviors were identified in 2018 (in addition to the behaviors already identified that apply to all coworkers) which we connect with each core value. We are working with

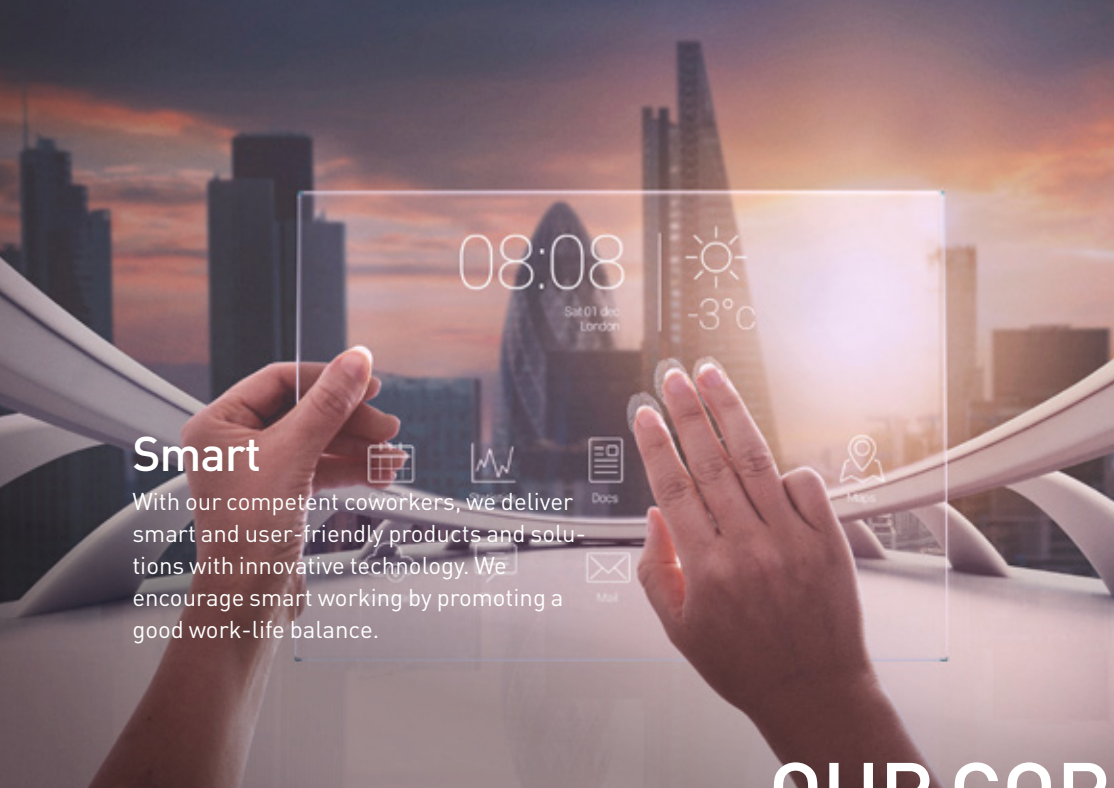
these behaviors and communicate with coworkers and managers.

The company's incentive program for its managers is connected to the company's financial performance and a number of individual goals.

## THE COWORKER EXPERIENCE A KEY PARAMETER

In 2018, for the third consecutive year, an employee-satisfaction survey was conducted by an external party. The survey was conducted in two steps, with the first measurement focused on coworker commitment and the second measurement focused on the psychosocial work environment and management. The employee-satisfaction survey, apart from being an important measure of the coworkers' perception of their workplace, is a key tool in identifying areas of improvement, which in turn leads to plans for action.

Despite large personnel reductions, the company has succeeded in maintaining a high level of commitment among its employees. The result for the Fingerprints



## Smart

With our competent coworkers, we deliver smart and user-friendly products and solutions with innovative technology. We encourage smart working by promoting a good work-life balance.

## Brave

We are encouraged to take initiatives and bravely take on challenges. Our people make a difference every day by assuming challenges and having the courage to take initiatives. We demonstrate integrity in our decisions and stand up for our values.

# OUR CORE VALUES

## Open

We communicate with each other and our customers openly and with compassion and integrity. We are open to new ideas, markets and products and continuously refine our ways of working. We build trust by communicating openly and transparently with stakeholders.



## United

We work together towards common goals. We build trust to create long-lasting relationships. We care for each other and treat each other with respect. We help each other and share our knowledge for continuous development. We have fun together.



Engagement Index 2018 was somewhat higher than the 2017 result and higher than the comparative index (benchmark).

### **2018 – A CHALLENGING YEAR OF ORGANIZATIONAL ADJUSTMENT**

Fingerprints undertook a comprehensive organizational adjustment during 2018 to adapt its costs to rapidly changed market conditions. The challenges were not only considerable on an individual level, but also for the company, particularly in terms of retaining competence and motivated coworkers. While many coworkers left us during the year, organizational changes were implemented with the aim of remaining at the absolute cutting edge of biometric authentication and identification. The number of coworkers declined from 558 – 415 employees and 143 consultants – and at the end of 2018 numbered 263 coworkers, comprising 220 employees and 43 consultants.

A number of measures have been initiated during the adjustment. The research and development organization is concentrated in Gothenburg and Copenhagen.

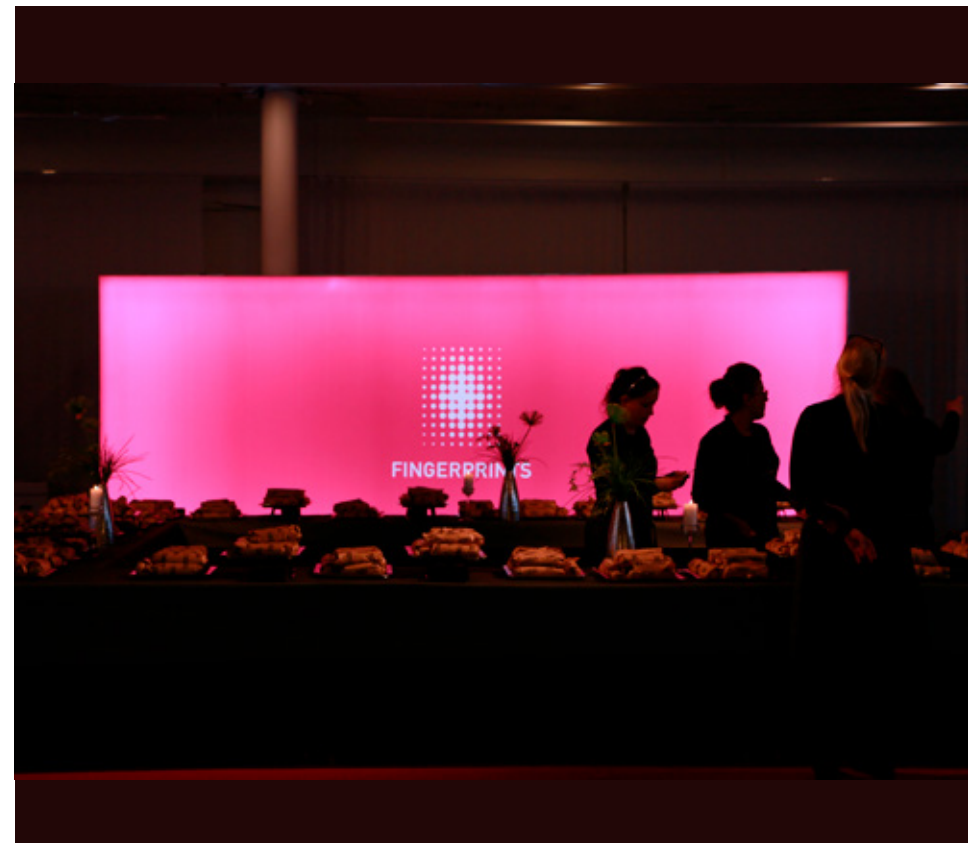
Malmö is our European commercial center for Smartcards, Automotive & Embedded. We have also centralized our planning and delivery function in Malmö. The operation for customized development and support in China was expanded, which has already generated results in the form of increased customer satisfaction. At the same time, one level of management was eliminated, thereby contributing to greater flexibility and shorter paths of decision-making. Meanwhile, supplementary recruitment is continuing to ensure the right competence for continued development.

Internal company communication was extended to include a monthly letter from the CEO, strategy roadshows and management days in Asia and Europe. In addition, we had focus groups and CEO breakfasts to listen to feedback from our coworkers and to stimulate discussion and collaboration.

### **SUSTAINABILITY AT FINGERPRINTS**

Fingerprints is working on strengthening and drawing attention to the benefits our products create from a sustainability per-

” Internal company communication has been extended to include strategy roadshows and management days.



263

COWORKERS IN 2018

220

EMPLOYEES  
(OF A TOTAL OF 263)

43

CONSULTANTS  
(OF A TOTAL OF 263)

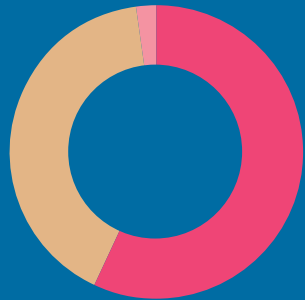
41 years  
AVERAGE AGE

171 MEN  
49 WOMEN  
(EMPLOYED)

The Executive Management Group comprises seven persons, of whom all are men, with four in the 30-50 age range and the remainder over 50 years of age.

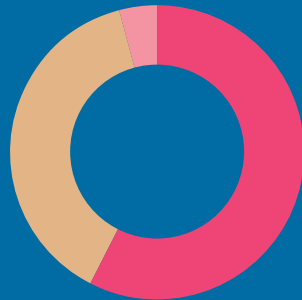
## EMPLOYEES BY AGE, GENDER AND REGION

Geographical division, women



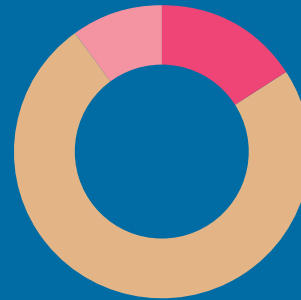
- employees, women in Europe, 57%
- employees, women in Asia, 41%
- employees, women in the Americas, 2%

Geographical division, men



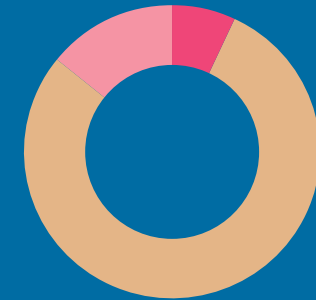
- employees, men in Europe, 57%
- employees, men in Asia, 38%
- employees, men in the Americas, 5%

Age division, women



- employees, women aged under 30, 16%
- employees, women aged 30-50, 74%
- employees, women aged over 50, 10%

Age division, men



- employees, men aged under 30, 7%
- employees, men aged 30-50, 79%
- employees, men aged over 50, 14%

spective and on reducing the negative impact Fingerprints has through its operations, products and supply chain.

Fingerprints has been a member of the UN Global Compact since 2016 and wholeheartedly supports the work to develop the UN Global Compact's Ten Principles and the UN's Global Sustainable Development Goals. Fingerprints' role in developing Aadhaar is a good example of how the company's products can contribute to sustainable development. Aadhaar is operated on behalf of the Indian Government with the aim of creating official identities and thus ensuring access to local and national social insurance systems in a simple and secure manner for citizens. ActiveIRIS®, which is part of this project, is Fingerprints' first Aadhaar-certified product. Aadhaar is an example of an application segment supporting UN Global Sustainable Development Goal 1 (No Poverty), by delivering a technology that supports people's rights to an official identity.

Another example of how Fingerprints' operations contribute to the UN Global Sus-

tainable Development Goals is our offering of biometric solutions for smart cards, which enable secure payments. This supports Goal 16 (Peace, Justice and Strong Institutions) by reducing the risk of fraud and enabling more secure authentication and payments. We believe that companies working collectively on sustainability challenges is the best way to achieve long-term results. To this end, Fingerprints has been a member of Eurosmart since 2017, which is a sector organization for businesses that work in smart security, such as digital identities, data security, cyber security, Internet of Things (IoT), payment solutions and interface controls.

#### **HANDS-ON SUSTAINABILITY FRAMEWORK**

Sustainability work in Fingerprints is carried out close to the business within the company's sustainability framework, which comprises a vision, core values and all of the company's policies, including its Code of Conduct and sustainability targets.

The sustainability framework comprises four areas, which cover our entire business and are also set out in our Code of Conduct:

- Trusted, Transparent Business Conduct
- Environmental Protection and Efficient use of Resources
- Respecting and Rewarding People
- Smarter and Safer Solutions

Fingerprints has defined a number of core sustainability targets that are connected with the four focus areas (see pages 26 – 27). The continuous implementation of the targets represents the core of the company's sustainability work and is part of Fingerprints company-wide balanced scorecard, with sustainability goals being part of the assessment criteria, which helps sustainability aspects secure equal status with the company's other objectives. The targets have been broken down by feature and business area to determine how they can contribute to sustainability goals. These enhance both commitment and participation. The visibility and integrity of sustainability goals also facilitate Fingerprints' managers following up on work where relevant.

To integrate sustainability into our internal processes, we have gained inspiration from the Global Reporting Initiative (GRI). Our management system is also certified in accordance with ISO 14001 and ISO 9001. A working method has been produced to manage our overall policies and our Code of Conduct, with the aim of managing all policy areas equally. Fingerprints' work on responsible sourcing is a very important policy area. All direct suppliers must sign our Code of Conduct for Suppliers.



Sustainability work in Fingerprints is carried out close to operations, within the company's sustainability framework.



# Solutions that contribute to sustainable development

Fingerprints' biometric solutions contribute to sustainable development. Our offering enables secure identification and authentication in a formerly high-risk environment.

## RESOURCES

### INTELLECTUAL CAPITAL

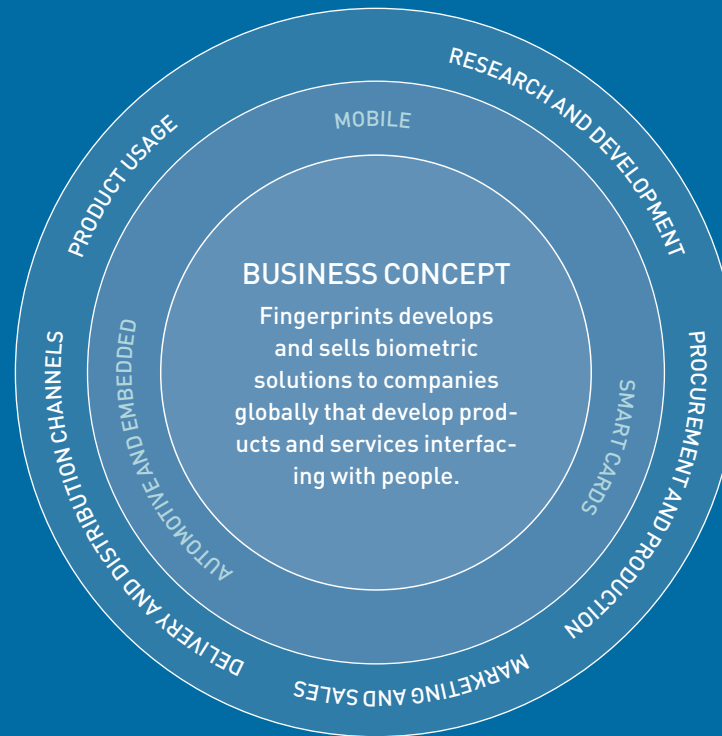
263 coworkers, 109 in R&D  
Patent portfolio

### FINANCIAL CAPITAL

Cash and cash equivalents	SEK 540 M
Development costs	SEK 244 M
Selling costs	SEK 189 M

### SOCIAL AND RELATIONSHIP CAPITAL

Customers  
Coworkers  
Shareholders  
Partners  
Suppliers  
Users  
Regulators  
Communities  
NGOs  
Academia



## PERFORMANCE

### FINANCIAL

Customers, sales	SEK 1,535 M
Suppliers, manufacturing costs	SEK 1,533 M
Employees, salaries	SEK 381 M
Public sector, income tax	SEK +166 M
Shareholders, dividends and buy-backs	SEK 0 M

### SOCIAL

#### FOR END-USERS

Greater integrity and security  
63 models launched with Fingerprints' solutions.

#### FOR WIDER SOCIETY

More security for people and property, prevention of fraud and identity theft.

#### FOR COWORKERS

Jobs are also created with Fingerprints' subcontractors.

## STAKEHOLDER AND MATERIALITY ANALYSIS

In 2017, Fingerprints did its first work on a structured stakeholder and materiality analysis. The materiality analysis is the foundation for the sustainability goals for 2018–2020 presented on page 26-27. These goals also linked to the UN Global Sustainable Development Goals.

All business lines and features were involved and the stakeholder analysis was approved by management.

Fingerprints has defined the following groups as stakeholders and identified dedicated activities for each stakeholder group.

- End users
- Module suppliers and distributors
- Coworkers
- Private investors
- Financial analysts
- Suppliers
- Business partners within ecosystems
- Non-Governmental Organizations (NGOs)
- The media
- Competitors
- Users
- Political decision-makers

The Global Reporting Initiative (GRI) and stipulations of the Swedish Annual Accounts Act on non-financial information (ÅRL Ch. 6 Sect. 10) have been combined as the starting point of the methodology for producing Fingerprints' materiality analysis, which is integrated into the company's overall risk management process.

Fingerprints considers the following as the most material sustainability segments.

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## SOCIAL ASPECTS

- Attract and retain competence and talent
- Secure access to the right competence and attract, develop and retain talented individuals
- Diversity
- Occupational health & safety
- Conflict minerals
- Accessing citizens' rights and social insurance systems through official identities
- Biometric integrity

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## ENVIRONMENTAL ASPECTS

- CO<sub>2</sub> emissions
- Environmental impact of providers
- Recycling
- Utilization of materials

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## ECONOMIC ASPECTS

- Corruption
- Reduced risk of fraud
- Product quality
- Entry barriers for biometrics.




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Fingerprints' coworkers share a genuine interest in technology and are driven by taking the creation of our future biometric society in a positive direction.

SUSTAINABILITY GOAL	DESCRIPTION OF GOAL FOR 2018	ACHIEVEMENTS IN 2018 WITH COMMENTS	DESCRIPTION OF GOAL FOR 2020	GOAL 2020
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### TRUSTED AND TRANSPARENT BUSINESS CONDUCT

Acceptance and compliance with the Code of Conduct (Corporate Responsibility) 	A. Code of Conduct to be confirmed by all coworkers.	A. All coworkers sign the Code of Conduct when signing their employment contract and complete training in the Code of Conduct in conjunction with on-boarding.	A. Written confirmation of Code of Conduct by all coworkers.	A. Annually by 100% of all coworkers.
	B. In addition to the introductory training for new employees, refresher training is to be conducted for all employees every other year.	B1. 50% of the coworkers completed the Code of Conduct E-Learning 2017. Code of Conduct E-Learning, contains in-depth information on anti-corruption, insider information samt sexual harassment, including #MeToo.	B. Percentage of coworkers that have taken the Code of Conduct E-Learning.	B. 100% of all coworkers.



### ENVIRONMENTAL PROTECTION AND EFFICIENT USE OF RESOURCES

Reduce CO <sub>2</sub> emissions 	A. Continuously reduce directly generated carbon emissions <sup>1</sup> . B. Achieve CDP (Carbon Disclosure Project) level C.	A. Scope 2: 17 ton aggregate reduction or minus 33% in CO <sub>2</sub> equivalents achieved. This reduction was achieved by actively selecting providers with renewable energy, and by reduced office space. • Greenhouse gas emissions – Unit: ton CO <sub>2</sub> -eq 2018: 34; 2017: 51 • Energy – Unit: MWh 2018: 1427; 2017: 1 659 B. Did not achieve CDP level C.	A. Reduce CO <sub>2</sub> emissions pursuant to scope 2 with 2017 as base year (including all offices).	A. 20% reduction achieved.
			B. Work continuously to reduce CO <sub>2</sub> emissions from scope 3 by identifying practical activities at the supplier level, business travel and product usage.	B. Specific activities defined and 70 % of activities fully implemented with measurable effect.
Utilization of resources in production 	A: At least 95% of sensors produced are to be usable <sup>2</sup> .	97.7 % utilization on average during 2018. Fingerprints continuously measures how much of the silicon wafer for fingerprint sensors is utilized.	Work continuously on improving the utilization of materials.	97,5% of silicon wafers are utilized

 Goal achieved  
  Goal proceeding as planned/partly achieved  
  Goal not achieved

#### Explanatory notes

<sup>1</sup> CO<sub>2</sub> emissions in Scope 2 cover the offices in Sweden and Denmark. The GHG Protocol Corporate Accounting & Reporting Standard, market-based approach was used to measure Scope 2.







<sup>2</sup> Utilization of materials in production is for wafers.

<sup>3</sup> Employees are defined as all individuals with a direct and valid employment contract with Fingerprints. Coworkers are defined as all employees and consultants with consulting assignments occupying at least 50% of their total working-hours.

<sup>4</sup> Benchmark data produced by Netsurvey.

<sup>5</sup> Equal opportunities information is for all employees.

<sup>6</sup> Information on sickness absence is for Sweden only.

SUSTAINABILITY GOAL	DESCRIPTION OF GOAL FOR 2018	ACHIEVED IN 2018 WITH COMMENTS	DESCRIPTION OF GOAL FOR 2020	GOAL 2020
 <h3>RESPECTING AND REWARDING PEOPLE</h3>				
Advance positioning as an attractive employer 	A. Maintain or improve achievements on the outcome of 80 (2016 base year) in the coworker satisfaction Netsurvey of Commitment index. The Commitment Index <sup>3,4</sup> shows total employee satisfaction. B. Retain or improve the Net Promotor Score 43 (2016 base year). The Net Promotor score illustrates willingness to recommend your workplace to friends and acquaintances.	The engagement index score for 2018 was 78, which is an improvement from 2017. Net Promotor Score was -51, which is worse compared to 2017. The sharp decline in the workforce in 2018 has affected the outcome. Fingerprints continuously work on issues regarding engagement, leadership and coworkmanship to increase the feeling of acting as ambassador for the company.	Identify and implement activities that create motivation and commitment of coworkers and improve leadership.	Coworker evaluation of motivation and commitment to return to 2016 levels – Engagemang index 80 – Net Promotor Score 43
Equal opportunities 	Reach 25% women of all employees at all levels of the company in 2020 <sup>5</sup> .	22% of the company's coworkers are women. 21% of managers are women. Collaboration with Women's Executive Search to actively attract more women. All applications are treated equally and decisions taken on the basis of how well a candidate satisfies predefined criteria and if all other things are equal, the female candidate is favored above the male.	Modification of goals; define and implement plans that support a diversified workforce with equal opportunities regardless of gender.	Reach 25% women of all employees at all levels in 2020.
Health and safety 	A No serious work-related accidents.  B No more than 1% of coworkers affected by work-related long-term sickness absence <sup>6</sup> .  C Perceived stress levels at a maintained or improved level compared to benchmark, with 2016 baseline index of 15 in perceived stress levels.	A No serious accidents occurred.  B 1 % of coworkers have been affected by long-term sickness leave.  C. Index 11 in perceived stress levels which is a decrease from 2017.	Identify and implement activities to improve work environment.	A. No serious work-related accidents.  B No more than 1% of coworkers affected by work-related long-term sickness absence.  C Perceived stress levels at a maintained or improved level compared to benchmark with 2016 as baseline index 15 in perceived stress level.
 <h3>SMARTER AND SAFER SOLUTIONS</h3>				
Customer satisfaction 	Customer satisfaction survey executed in 2018, as well as development of methodologies for gathering customer and end-user needs.	The Customer satisfaction survey was conducted in May. CSI (customer satisfaction index) increased to 4,10 (3,92). The NPS also increased compared with 2017.	Drive active improvement work in key corporate functions with the objective of increasing the CSI.	The CSI should be above benchmark (benchmark is 4.12) for corresponding peer companies and the sector.

# RISKS AND RISK MANAGEMENT

Like all business activities, Fingerprints' operations are associated with risk. Risks include Fingerprints' dealing with situations erroneously and events or decisions outside the company's control that could result in disruptions to operations, damage or losses with a material impact on the company. Fingerprints' risk management is critical to

the company's success. To anticipate risks and minimize their effects, Fingerprints has processes in place to continuously identify and manage risks that can affect its operations. As part of this process, the company evaluates the probability and consequences of operational risks, market risks, financial risks, as well as legal and other risks.

Name of Risk	How Fingerprints is impacted	Risk control and risk management
<b>OPERATIONAL RISKS</b>		
Delivery capacity of contracted suppliers	Financial damage as a result of delivery disruption.	Maintaining a diversified supplier base of hardware and input materials.
Reduced technological leadership	Loss of competence.	Continuous product development and understanding of customer demands, increased R&D collaboration with customers.
Leaks and infringements regarding business secrets	Financial consequences and loss of reputation in connection with leaks of development information.	Implement IT Policy through training and integration in management system. Develop procedures for platforms, systems and cloud when managing high risk data.
Internal scalability	Growing pains when the company's infrastructure and work methods are not involved to the same extent as the financial development.	Investments made in Management system, processes development is ongoing. Investment in HR system, implementation is ongoing.
<b>MARKET RISKS</b>		
Geopolitical instability	Loss of business opportunities for local/regional political reasons.	Differentiate Fingerprints biometric solutions vis-à-vis low cost products with low biometric integrity.
Supplier costs	Reduced margins due to increase in supplier costs.	Ensure market-aligned pricing by using several suppliers. Continuous reviews of suppliers' pricing and market analysis.
Economic fluctuations	Reduced demand that impacts the company's profits, inventories and the valuation of intangible assets.	Reduce cyclicality through diversifying to new markets and continuously analyze the whole value chain to foresee demand fluctuations. Broaden the product portfolio and customer base.
Currency risk	Negative financial impacts from currency fluctuations.	Fingerprints has elected not to hedge its net exposure in USD, since hedging may itself be viewed as currency speculation.
Loss of customers and price pressure due to increased competition	Sales revenues and market shares decline due to price pressure and customer requirements for a number of suppliers.	Aim to be a full solution provider. Increased focus on customer satisfaction, service, quality and quick response time. Maintain direct customer contacts. Cultivate new customers in new markets. Develop strategic partnerships.
<b>FINANCE RISKS</b>		
Credit risk	The counterparty does not fulfil his/her payment obligations.	Compliance with credit policy and established process for credit assessment and setting limits. Use of credit insurance.
Financing	Financing of capital requirements is made more difficult or more expensive.	Communicate proactively with the capital market and create conditions for implementing the necessary capital acquisition measures if required.
<b>LEGAL RISKS</b>		
Competitor IP	Patents held by others impede the applications of Fingerprints' technology.	Patent strategy and active patent monitoring. Close cooperation between patent manager and development department.
Value of Patent IP	Loss of revenue and earnings due to patent infringements.	Maintain well-protected patents and work actively to leverage proprietary IP.
Products defects and product liability	Financial consequences and impact on customer satisfaction.	Ensure the right product design and that all of Fingerprints' hardware products are tested prior to delivery. Work actively on resolving faults and product returns within the quality organization.

Name of Risk	How Fingerprints is impacted	Risk control and risk management
<b>OTHER RISKS</b>		
Corruption	Financial consequences and loss of reputation.	Further implement Fingerprints' Code of Conduct in Management system. All coworkers shall complete Code of Conduct E-learning where anti-corruption is included. Assess anti-corruption policy and update where needed. Conduct more in-depth training activities for target audience. Take steps to develop internal audit practices.
Conflict minerals	Impact of rumors and financial consequences.	Annual inspection of our suppliers. Assess suppliers through Responsible Minerals Initiative CMRT.
Limitations on planned business development	Entrance barriers, laws and regulatory barriers for new segments.	Structured stakeholder analysis to understand stakeholder requirements and expectations. Work with existing partners to reduce industry barriers for biometrics in general as well as for Fingerprints. Actively seek new partnerships to reduce entrance barriers.
Biometrics and integrity	Impact on demand if public confidence in biometric solutions diminishes.	Application of TEE (Trusted Execution Environment) to ensure that data be accessed through operating systems and apps. Communicate transparently about the secure usage of our solutions and be transparent about risks and Fingerprints risk mitigating activities. Project to ensure GDPR compliance completed in May 2018.
Discrimination and limited diversity	Negative effect of limited diversity, negative impact on attractiveness as employer.	Gender diversity in total has significantly affected the still uneven balance in seniority. Identify and support female and non-Swedish talents with progress plans.
Talent attraction and retention	Negative impact on competitiveness in terms of attracting talent and retaining talent.	Actively work on hiring and transferring skills to new market segments. Implement new performance management process with personal objectives and defined career paths. Work actively on coworker motivation and leadership and formulate targets to measure progress.
Environmental Impact	Negative environmental impact from Fingerprints production, suppliers, own operations and products usage. Loss of customers, brands and markets.	Work actively on environmental goals within CO <sub>2</sub> emissions and on the environmental performance of suppliers.
Reduced risk of fraud	FPCs biometric solutions can reduce risk of fraud when used to facilitate financial payments.	Actively working with developing procedures to measure fraud reduction from smartcards with biometric solutions.
Access to citizen and residential rights	FPC Delta ID is Aadhaar certified and can contribute to access to citizen rights in that project. FPC's biometric solutions provide a safer option for identification that can be used broadly for access to citizen or residential rights such as social security.	Work on issuing Aadhaar-certified products to the market.

# AUDITOR'S OPINION REGARDING THE STATUTORY SUSTAINABILITY REPORT

**TO THE GENERAL MEETING OF THE SHAREHOLDERS OF FINGERPRINT CARDS AB, CORP. ID NO. 556154-2381**

## **Engagement and responsibility**

It is the board of directors who is responsible for the sustainability report for the year 2018 on the pages 18-29 and that it is prepared in accordance with the Annual Accounts Act.

## **The scope of the examination**

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

## **Opinion**

A statutory sustainability report has been prepared.

Göteborg 16th April 2019  
Moore Stephens KLN AB

Ulf Lindesson  
Authorized Public Accountant



# THE SHARE

Fingerprint' class B shares have been listed on Nasdaq Stockholm since 2000. Initially, Fingerprints was listed on the Stockholm "Nya Marknaden" list in 1998.

The ISIN code is SE0008374250 (Industrial Goods & Services sector). The company is traded under the ticker FING B. Fingerprint Cards is a CSD company, which means the company's share register is maintained by Euroclear Sweden AB.

As of 31 December 2018, the share capital of Fingerprint Cards AB amounted to SEK 12,975,667, divided between 6,000,000 class A shares and 307,967,675 class B shares, each with a quotient value of SEK 0.04. Class A shares carry ten votes and class B shares carry one vote, the total number of votes amounts to 367,967,675.

All shares carry equal participation in capital, but different voting rights, and are freely transferable. One class A share lot corresponds to 16.3 percent of the votes and 1.9 percent of the capital of Fingerprints.

At year-end, the ten largest shareholders had total holdings corresponding to 32.1 percent of the votes. Foreign shareholders had holdings corresponding to 30.8 percent of the share capital. For more infor-

mation on ownership see pages 32-33 of this Annual Report.

## SHARE PRICE TREND

During 2018, the closing price of Fingerprints' class B share fell by 36 percent to SEK 10.13 kronor (15.81). During the same period, the OMX Industrial Goods index fell by 16 percent. In 2018, Fingerprints' class B share set a high of SEK 17.29 and a low of SEK 6.06. At year-end 2018, Fingerprints' market capitalization was approximately SEK 3,118 M (4,964).

## FINGERPRINTS' SHARE TURNOVER

In 2018, 1,760 (2,856) million class B shares were traded. An average of 7.0 (11.4) class B shares were traded per day.

## SHAREHOLDERS

At the end of 2018, there were 65,544 (70,056) shareholders, which is a 6 percent decrease compared to the same time of the previous year. Institutional shareholders held 10.6 (17.4) percent of the share capital, Swedish individuals 53.7 (47.9) percent, other shareholders 22.7 (15.6) percent and anonymous shareholders held 12.9 (19.1) percent.

## OPTIONS PROGRAMS

Fingerprints had no outstanding options programs at the end of the year.

## DIVIDEND POLICY

The Board of Directors' top priority is to ensure that Fingerprints maintains a financial position that is strong enough to support both organic growth and selective acquisitions. Fingerprints also wishes to maintain a strong balance sheet.

Transfers of capital to shareholders should be adapted to Fingerprints' earnings trend and cash flow, while at the same time considering the company's growth potential and financial position.

## DIVIDEND

The Board of Directors' proposes that no dividend be paid for the financial year 2018.

## SHARE REPURCHASES

The Board of Directors proposes that the 2019 AGM authorize the Board to repurchase, on one or several occasions up until the next AGM, as many Class B shares in the Company as may be purchased without the Company's holding at any time exceeding ten per cent (10 %) of the total number

of outstanding shares in the Company. The acquisitions shall take place on Nasdaq Stockholm and only at a price per share within the share price interval registered at that time, which means the difference between the highest buying price and the lowest selling price. Payment for the shares shall be made in cash.

It is also proposed that the Board of Directors be authorized to resolve, on one or several occasions up until the next AGM, to transfer the Company's Class B shares, deviating from the shareholders' preferential rights. Transfers of Class B shares can take place on Nasdaq Stockholm. The purpose of the authorizations is to promote efficient capital usage in the Company and to create flexibility in the Company's ability to seize attractive business opportunities by wholly or partly financing acquisitions of companies or business operations through the transfer of own shares. The Board's complete proposals for resolution will be presented in the convening notice to the AGM.

## INFORMATION DISCLOSURE

Fingerprints is not presenting a forecast for 2019.

## Shareholders, ten largest at 31 December 2018

	Class A shares	Class B shares	Capital	Votes
Johan Carlström incl companies	6,000,000	14,000,000	6.4%	20.1%
Avanza Pension		17,955,133	5.7%	4.9%
Nordnet Pension Insurance		5,705,218	1.8%	1.6%
Ålandsbanken Funds		5,419,815	1.7%	1.5%
Danica Pension		3,448,441	1.1%	0.9%
Svenska Handelsbanken for PB		3,021,500	1.0%	0.8%
Swedbank Insurance		2,406,906	0.8%	0.7%
DNB Asset Management SA		2,218,035	0.7%	0.6%
Dimensional Fund Advisors		2,076,979	0.7%	0.6%
Erik Svenonius		1,783,000	0.6%	0.5%
Other	0	249,932,648	79.6%	67.9%
<b>Total</b>	<b>6,000,000</b>	<b>307,967,675</b>	<b>100.0%</b>	<b>100.0%</b>

## Share class 2018-12-31

	Votes	No of shares	No of votes	Participating interest, %	Voting share, %
Class A	10	6,000,000	60,000,000	1.9%	16.3%
Class B	1	307,967,675	307,967,675	98.1%	83.7%
<b>Total</b>		<b>313,967,675</b>	<b>367,967,675</b>	<b>100%</b>	<b>100%</b>

Källa: Modular Finance

## Allocation of holdings

	No of shares	Capital	Votes	No of known shareholders	Proportion of known shareholders
1-1,000	12,710,330	4.0%	3.5%	48,150	73.5%
1,001-5,000	28,346,433	9.0%	7.7%	11,458	17.5%
5,001-10,000	20,360,594	6.5%	5.5%	2,680	4.1%
10,000-20,000	23,744,269	7.6%	6.5%	1,617	2.5%
20,001-	188,245,484	59.9%	65.8%	1,639	2.5%
Anonymous ownership	40,560,565	12.9%	11.0%		
<b>Total</b>	<b>313,967,675</b>	<b>100.0%</b>	<b>100.0%</b>	<b>65,544</b>	<b>100.0%</b>

## Shareholder type

	No of shares	Capital	Votes
Swedish private individuals	168,671,027	53.7%	45.8%
Other	71,289,218	22.7%	34.0%
Foreign institutional shareholders	18,238,665	5.8%	4.9%
Swedish institutional shareholders	15,208,200	4.8%	4.1%
Anonymous ownership	40,560,565	12.9%	11.0%
<b>Total</b>	<b>313,967,675</b>	<b>100.0%</b>	<b>100.0%</b>

## FINANCIAL ANALYSTS

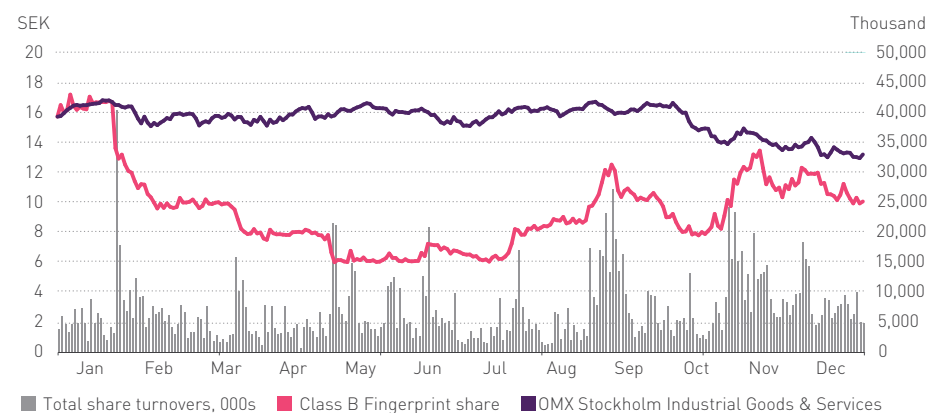
In 2018, Fingerprints was covered by the following financial analysts:

- Handelsbanken Markets, Daniel Djurberg (Light Coverage)
- Nordea, Jörgen Wetterberg
- Redeye, Viktor Westman
- UBS, François-Xavier Bouvignies

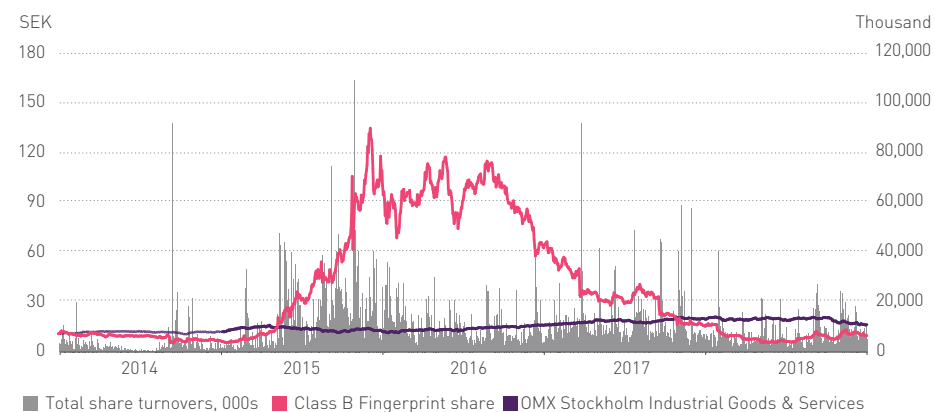
## Share capital development

Year	Event	Quotient value, SEK	Change in no of shares	Total no of shares	Increase in share capital	Total share capital
1997	Split 500:1	0.2	249,500	250,000	0	50,000
1997	Bonus issue	0.2	250,000	500,000	50,000	100,000
1997	New issue	0.2	2,000,000	2,500,000	400,000	500,000
1997	New issue, exercise of warrants	0.2	370,000	2,870,000	74,000	574,000
1998	New issue	0.2	2,000,000	4,870,000	400,000	974,000
2000	New issue	0.2	540,000	5,410,000	108,000	1,082,000
2000	New issue	0.2	938,258	6,348,258	187,651	1,269,651
2005	New issue	0.2	3,000,000	9,348,258	600,000	1,869,651
2006	New issue	0.2	2,804,475	12,152,733	560,895	2,430,546
2009	New issue	0.2	7,682,060	19,834,793	1,536,412	3,966,958
2009	New issue	0.2	19,834,793	39,669,586	3,966,959	7,933,916
2011	New issue	0.2	3,940,000	43,609,586	788,000	8,721,917
2012	New issue	0.2	4,198,549	47,808,135	839,710	9,561,927
2013	New issue, exercise of warrants	0.2	95,485	47,903,620	19,097	9,581,024
2013	New issue	0.2	1,400,000	49,303,620	280,000	9,861,024
2013	New issue	0.2	1,600,000	50,903,620	320,000	10,180,724
2013	New issue, exercise of warrants	0.2	335,407	51,239,027	67,081	10,247,805
2013	New issue, exercise of warrants	0.2	263,500	51,502,527	52,700	10,300,505
2013	New issue, exercise of warrants	0.2	158,608	51,661,135	31,722	10,332,227
2013	New issue	0.2	2,500,000	54,161,135	500,000	10,832,227
2014	New issue	0.2	2,500,000	56,661,135	500,000	11,332,227
2014	New issue, exercise of warrants	0.2	1,760,000	58,421,135	352,000	11,684,227
2015	New issue, exercise of warrants	0.2	4,818,000	63,239,135	963,600	12,647,827
2016	New issue, exercise of warrants	0.2	1,300,000	64,539,135	260,000	12,907,827
2016	Proforma reverse split 1:5*	0.04	0	322,695,675	0	12,907,827
2016	Repurchase of treasury shares	0.04	-10,424,000	312,271,675	0	12,907,827
2016	New issue, exercise of warrants	0.04	826,000	313,097,675	33,040	12,940,867
2016	New issue exercise of warrants registered 3 January, 2017	0.04	870,000	313,967,675	34,800	12,975,667
2017	Cancelling of treasury shares	0.04	0	313,967,675	-416,960	12,558,707
2017	Bonus issue	0.04	0	313,967,675	416,960	12,975,667

## SHARE PRICE DEVELOPMENT 2018



## SHARE PRICE DEVELOPMENT 2014–2018





## MESSAGE FROM THE CHAIRMAN

# FOCUS ON STRATEGY, RESOURCE ALLOCATION AND ORGANIZATION

Dear shareholder, Fingerprints is a special company with a unique culture and, ever since its inception, it has shown a rock-solid belief in the market potential and in its ability to play a leading role in the development of new markets for biometrics. In good times and bad, this has shaped the operations throughout the journey, from being a pure development company to being a market company to the present mass market business where Fingerprints operates today. If we take a look ahead, there are several challenges but my belief in Fingerprints' ability to create long-term value is as strong as ever. I have been involved in the development of this company for the past ten years, as CEO, Member of the Board and, since May 2018, as Chairman of the Board. Fingerprints has been a large and important part of my life since I joined the company as CEO in May 2009 and, throughout this time, I have felt a very strong personal commitment to the company, including during the period when I was not an active part of the organization.

The other members of the Board share my enthusiasm about Fingerprints and its potential, and we are 100 percent dedicated, together with the Executive Management Group, to make sure that Fingerprints continues to play a leading role and spearhead development in the industry. 2018 was a very intensive year for the Board of Directors. Strategy, resource allocation and organizational issues dominated the agenda, with frequent interaction between the Board and the Executive Management Group.

Major changes are under way in the company's existing markets, at the same time as new markets are about to emerge. The Executive Management Group and the Board have jointly adopted the strategic direction for Fingerprints and have made over-riding decisions on how the company's resources will be used. An in-depth strategy review was completed in the autumn, when the discussions focused on how Fingerprints will defend and build upon its leading position in the mobile industry while

simultaneously positioning itself for future growth in new verticals.

Considerable cost and organizational adaptations were implemented during the year, in parallel with focused investments in technological and product development. The Board of Directors spent a lot of time with the Executive Management Group in 2018 to ensure that the necessary organizational resources are in place to be able to implement the strategy; meaning to assess where the assets will generate the greatest return, how much that has to be reallocated and how the changes are to be implemented. Particular focus was on the R&D organization. This was also reflected in changes in the Executive Management Group, where the responsibility for product development projects was separated from the company's more long-term technological development. Compared with 2017, the Management Group was reduced from ten to seven members.

In view of the organizational changes, the Board also considered it important to review the company's governance, sustainability,

regulatory compliance and risk management structures during the year to make sure that they continue to be adequate.

Biometric solutions will play an ever-greater role in society as new application areas emerge. We are still at the infancy of this development. Biometrics has definite potential to create social and consumer value in the form of increased security and user-friendlier products and solutions in a variety of areas. Payments are possibly the most obvious example and this is where we will see the next mass market develop for Fingerprints' products and solutions.

Together with the other Members of the Board, I appreciate the great commitment shown by management and employees and we look forward to continued work to give the company the best possible prerequisites for generating value for our customers, partners and shareholders.

Johan Carlström  
Chairman of the Board

# CORPORATE GOVERNANCE REPORT

Fingerprint Cards AB (publ) (Fingerprints) is a Swedish public limited company with its registered office in Gothenburg in the County of Västra Götaland, and is listed on Nasdaq Stockholm.

The corporate governance of Fingerprints is based on legislation and other regulations: the Swedish Companies Act, the Articles of Association, Nasdaq Stockholm’s Rulebook for Issuers, the Swedish Code of Corporate Governance (www.corporate-governanceboard.se), (the “Code”), other applicable laws and ordinances, and internal regulations.

Fingerprints endeavors to create long-term value for shareholders and other stakeholders. This involves ensuring an effective organizational structure, systems for internal control and risk management, as well as transparent internal and external reporting.

This Corporate Governance Report has been prepared in accordance with the Swedish Annual Accounts Act and the Code of Corporate Governance. Its primary purpose is to review corporate governance within Fingerprints. For this purpose, the Report will only be used to a lesser extent to report information that ensues from applicable regulation.

Fingerprint Cards’ auditors have read this report and a statement from the auditor has been appended to it.

**SEGREGATION OF DUTIES**

The shareholders exercise their influence at the Annual General Meeting, which is the company’s chief decision-making body. Responsibility for the company’s organization and administration of the company’s affairs rests with the Board of Directors and the CEO in accordance with applicable laws and regulations, and the Board of Directors’ internal control instruments.

**SHAREHOLDERS**

Fingerprints is a securities depository-registered company, and the company’s share register is maintained by Euroclear Sweden AB.

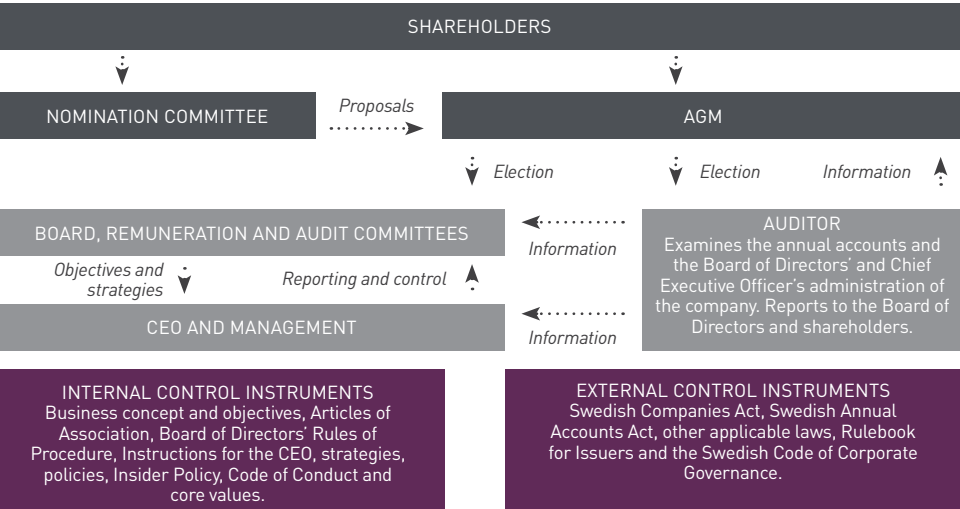
At year-end 2018, the company had 65,544 (70,056) known shareholders, which was a decrease of six percent compared with the same date in the previous year.

The registered share capital was SEK 12,975,667, divided between 6,000,000 class A shares and 307,967,675 class B shares.

Class A shares each carry ten votes and class B shares each carry one vote. Class A and B shares carry the same participating interest in the company and equal entitlements to dividends. At year-end, the ten largest shareholders held 32.1 percent of the vote. For more information on ownership, see pages 31-33 of this Annual Report.

**ANNUAL GENERAL MEETING**

The Annual General Meeting (AGM) approves the Income Statement and Balance Sheet for the previous financial year for the Parent Company and the group. The AGM also resolves on dividend and discharging the Directors and CEO from liability, elects the Board of Directors and the Chairman of



the Board, and approves their fees, elects the auditor, and resolves on audit fees, and also deals with other statutory matters. Resolutions are taken on the Nomination Committee and guidelines for remunerating senior executives, and other proposals from the Board of Directors and shareholders.

Invitations to shareholders' meetings shall be made through an announcement in the Swedish Official Gazette and on the company's website. Notification that the invitation has been issued is announced in Swedish daily newspaper Svenska Dagbladet. Notice of AGMs are issued at the earliest six and the latest four weeks prior to the Meeting. Meeting invitations are to contain information on the procedure for the notification of attendance and the closing date for notification, entitlement to participate in and vote at the Meeting, a numbered agenda with business for consideration, information on appropriation of profits and an outline of other proposals.

Invitations to an Extraordinary General Meeting (EGM), where an amendment to the Articles of Association is to be considered,

are to be issued at the earliest six, and at the latest four, weeks prior to the Meeting. Notifications of other EGMs are to be issued at the earliest six, and the latest three, weeks prior to the Meeting.

All shareholders recorded in the share register on the record date, and who have notified attendance on time, are entitled to participate in shareholders' meetings, and vote in accordance with the shares registered. Shareholders can attend via a proxy that has as been issued with power of attorney. However, the shares must still be registered with information regarding the proxy, and presentation of the power of attorney. In order to exercise voting rights at shareholders' meetings, shareholders with nominee-registered holdings must temporarily re-register their shares in their own name, pursuant to the stipulations of the invitation to the Meeting.

Shareholders who wish to have a matter considered at the AGM shall provide a written proposal to [investrel@fingerprints.com](mailto:investrel@fingerprints.com) or to Bolagssekretären, Fingerprint Cards AB, Birger Jarlsgatan 14 (5 tr.), SE-114 34 Stockholm, no later than seven weeks before

the AGM, to guarantee that the matter can be included in the invitation to the AGM.

Most resolutions at shareholders' meeting are passed by a simple majority. In certain cases, the Swedish Companies Act stipulates that resolutions must be supported by a qualified majority, for example resolutions on amending the Articles of Association, which require shareholders with at least two-thirds of both the votes cast and the votes represented at the Meeting to support the resolution. Resolutions regarding incentive programs require an even greater majority, with in certain cases, qualified majorities of up to 90 percent of the shares and votes represented at the Meeting.

#### AGM 2018

The AGM for the 2017 fiscal year was held in Gothenburg on 29 May 2018. The invitation to the AGM was published on 26 April 2018. 250 shareholders representing 24.90 percent of the votes and 11.98 percent of the number of shares attended the Meeting.

#### THE AGM PASSED RESOLUTIONS ON:

- Adopting the accounts for 2017 fiscal year.
- Approving the appropriation of profits with the earnings carried forward.
- Discharging the Board of Directors and CEO from liability for 2017 fiscal year.
- That the number of Directors must be seven.
- Election of Directors, Chairman of the Board and auditor.
- Approval of Directors' fees and fees to auditors.
- Nomination Committee instructions.
- Remuneration guidelines for senior executives.
- Authorization of the Board of Directors to repurchase and transfer treasury shares.

Additionally, the AGM resolved to authorize the Board of Directors to, up until the next AGM, on one or more occasions, waiving shareholders' preferential rights, take decisions regarding new issues of Class B shares, warrants and/or convertibles that carry entitlement to Class B shares reflecting at most ten percent of the total number of outstanding shares in

the Company as of the day before the notice of the AGM 2018.

More information on the AGM 2018 is available at Fingerprint Cards' website: [www.fingerprints.com](http://www.fingerprints.com).

### ANNUAL GENERAL MEETING 2019

The AGM will be held at 3 p.m. CEST on Wednesday, 22 May 2019 at Scandic Crown, Polhemsplatsen 3 in Gothenburg. For more information on the AGM 2019, see page 88 and the website, [www.fingerprints.com](http://www.fingerprints.com), where the necessary documentation for the Meeting is available.

### NOMINATION COMMITTEE

The AGM 2018 resolved that the company is to have a Nomination Committee consisting of four (4) members. During the year, the Chairman of the Board is to convene the three (3) largest shareholders of the company in terms of votes to each appoint a representative, plus the Chairman of the Board to also be a member. If one of the three largest shareholders declines entitlement to appoint a representative of the Nomination Committee, the next shareholder in terms of size will be offered the opportunity to appoint a member. If considered appropriate, the Nomination Committee can also decide to appoint a representative of a group of major shareholders that can be co-opted to the

Nomination Committee. The Chairman of the Board is to convene the Nomination Committee's first meeting. The member that represents the largest shareholder in terms of votes, but who is not Chairman of the Board, will be appointed Chairman of the Nomination Committee, unless the members agree otherwise. However, this person cannot be the Chairman of the Board. The term of office for the appointed Nomination Committee extends until a new Nomination Committee has been appointed. The composition of the Nomination Committee must be published no later than six months prior to the AGM.

The Nomination Committee must be established based on the largest shareholders recorded in the share register, or otherwise known as of the final banking day of August. If one or more of the shareholders that have appointed members of the Nomination Committee are no longer one of the three larger shareholders in terms of votes, its representative must put its seat at the disposal of the Nomination Committee, whereupon the or those shareholder(s) that have become one of the three largest shareholders in terms of votes will be entitled to appoint a new representative. However, marginal changes in numbers of votes can be disregarded, unless in special circumstances.

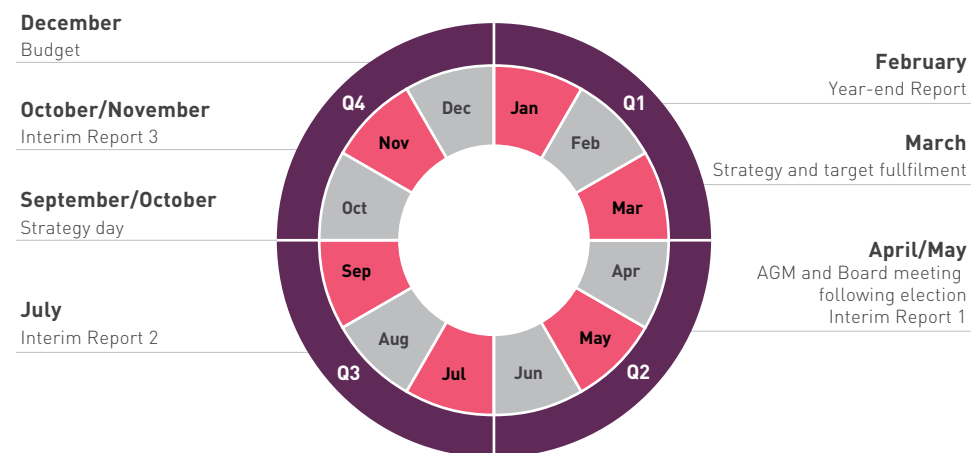
If a member leaves the Nomination Committee before its work is complete, the Nomination Committee will request that the shareholder that has appointed this member appoint a new representative within a reasonable time. If this shareholder does not appoint a new representative, the entitlement to appoint a new representative of the Nomination Committee defers to the next largest shareholder in terms of votes that is not already represented on the Nomination Committee. Any changes to the composition of the Nomination Committee

must be published as soon as they have occurred.

The Nomination Committee shall give proposals on the following issues to be presented to the AGM 2019 for resolution: proposal for the Chairman of the Meeting, proposal on the Board of Directors, proposal on the Chairman of the Board, proposal on the auditor, proposal on Directors' fees, proposal on audit fees and proposal for guidelines for appointing the Nomination Committee.

Fingerprints' Nomination Committee had the following members for the AGM 2019:

### Board of Directors' work



At all meetings—CEO's status report, investment decisions



- Johan Carlström (Chairman of the Board), member of the Nomination Committee
- Dimitrij Titov (appointed by Velociraptor LTD), chairman of the Nomination Committee
- Rikard Andersson (appointed by SEB Investment Management AB), member of the Nomination Committee

The Chairman of the Board tasked Fingerprint Cards AB's Legal Counsel with contacting the other major shareholders in terms of votes, but they declined to participate. The majority of the Nomination Committee, including the chairman, are members of the Company's Board of Directors, which means that the Company is deviating from the Swedish Code of Corporate Governance.

Shareholders may submit proposals to the Nomination Committee. Proposals are to be sent by email to: [investrel@fingerprint.com](mailto:investrel@fingerprint.com)

### **WORK OF THE NOMINATION COMMITTEE FOR THE AGM 2019**

For the AGM 2019, the Nomination Committee held five meetings, maintained regular intervening contact on various Nomination Committee matters and held meetings with candidates for Directorships. A Board evaluation was conducted through the Directors responding to a number of questions. The

responses were compiled and reviewed by the Chairman of the Board, and discussed within the Board of Directors. Subsequently, in order to make an accurate assessment on matters regarding the composition of the Board of Directors, the Nomination Committee read and reviewed the Board evaluation and the work of the Board of Directors, as well as the Chairman of the Board's report on the company's operations, objectives and strategies, jointly with the Chairman of the Board. The Nomination Committee also analyzed the competence and experience of the Directors, and their gender division, and compared them with identified needs. The Nomination Committee's opinion is that the Directors possess considerable breadth and extensive experience of activities including business operations, technology, the financial markets, telecom and IT, and of the semiconductor industry. The Board of Directors currently consists of seven men. The Nomination Committee strives to achieve an even gender balance on the Board of Directors. The Nomination Committee applies point 4.1 of the Code as its Diversity Policy, and continuously strives to satisfy the Code's standards for diversity, breadth and gender balance on the Board of Directors. The Nomination Committee also had several contacts with the Audit Committee regard-

ing the Audit Committee's recommendations on the election of an auditor.

### **BOARD OF DIRECTORS AND CEO**

Pursuant to the Articles of Association, Fingerprint's Board of Directors is to consist of four to ten Directors with a maximum of five deputies elected by the AGM for the period until the end of the following AGM. The Board of Directors and the Chairman of the Board are appointed at each AGM for the period until the following AGM, and accordingly, their term of office is one year.

Apart from the AGM, changes to the Board of Directors can be executed through an EGM resolution or by a Director choosing to resign his or her appointment in advance.

The AGM 2018 resolved to re-elect Urban Fagerstedt, Alexander Kotsinas, Tomas Mikaelsson and Dimitrij Titov as Directors, and to elect Johan Carlström, Ted Elvhage and Juan Vallejo. Johan Carlström was elected as Chairman of the Board. In the Nomination Committee's opinion, seven Directors are independent of the company and management. Six Directors are independent of major shareholders. Accordingly, the Board of Directors satisfies the independence requirements stipulated by the Code.

The Board of Directors is responsible for Fingerprint's organization and administration, in the interests of both the company and

its shareholders. The Board must regularly evaluate Fingerprint's financial situation and ensure that Fingerprint is organized so that its accounting, management of funds and the company's other accounting circumstances are controlled satisfactorily. The Board appoints the CEO and decides on issues regarding strategic direction of operations and the company's overall organization.

Each year, the Board adopts written Rules of Procedure that formalize the work of the Board and its internal segregation of duties, decision-making within the Board, the Board's meeting schedule and the duties of the Chairman. In addition, the Board has issued documents including written instructions regarding the segregation of duties between the Board and the CEO.

The Board also approves policies and instructions for operating activities. Operating activities are managed by the CEO. The CEO regularly provides the Board with information on events that are significant to the company's progress, results, financial position, liquidity or other information of such significance that the Board should be informed of. The Directors are presented on pages 44-45.

### **WORK OF THE BOARD OF DIRECTORS IN 2018**

Pursuant to the current Articles of Association, the Board of Directors must meet

on at least four scheduled occasions and one statutory meeting per year. Additional meetings can be held as required. In 2018, there were 17 Board meetings.

Scheduled agenda items at Board meetings during the year are Group Management's reporting of business conditions, operations, organizational resources, results of operations, financial position and liquidity. During the autumn, and before Christmas, Board meetings consider the budgets and business plan for the following year.

Board meetings are held quarterly to reach decisions on publications of interim, half-year and annual financial statements. Meetings to decide on invitations, annual accounts, corporate governance documentation and other matters for business are held prior to AGMs. Senior executives of Fingerprints participate in Board meetings as required.

### REMUNERATION COMMITTEE

The Remuneration Committee evaluates and consults on matters regarding remuneration and employment terms, and makes proposals and guidelines for remuneration of the CEO and senior executives for approval by the AGM. The Remuneration Committee must ensure that remuneration is commensurate with prevailing market conditions for corresponding executives in other companies, and accordingly, that the company's offering

to its employees is competitive. The CEO's remuneration is approved by the Board.

Remuneration of other senior executives is decided by the CEO after consulting with the Remuneration Committee. The Remuneration Committee consists of Board members Johan Carlström (Chairman), Ted Elvhage and Juan Vallejo. During the fiscal year 2018, the Remuneration Committee met on three occasions.

### AUDIT COMMITTEE

The Audit Committee's duty is to support the Board on ensuring high quality and efficiency within internal controls, financial reporting and external audits. This includes reviewing interim reports and annual financial statements prior to publication, and considering all critical accounting issues and judgments regarding assessments of risk. The Audit Committee meets the external auditor at least once per year and reviews and monitors the auditors' impartiality and independence, and identifies particularly whether the auditor is supporting the company on other services than auditing, and also provides support on proposals for AGM resolution and election of auditors.

In 2018, the Audit Committee's members were the Directors Alexander Kotsinas (Chairman), Johan Carlström and Dimitrij

Titov. During the fiscal year 2018, the Audit Committee met on five occasions.

### AUDITOR

The Articles of Association stipulate that Fingerprints must have one or two auditors with or without deputies, or one or two registered public accounting firms. The AGM 2018 elected Moore Stephens KLN AB as auditor until the AGM 2019. Moore Stephens KLN AB appointed Ulf Lindesson as Auditor in Charge. The duty of the auditor is to examine the company's annual accounts and accounting records, and the Board of Directors' and Chief Executive officer's administration on behalf of the shareholders. The auditor also conducts a summary review of one quarterly financial statement and issues opinions regarding the Board of Directors' reporting in connection with such events as new share issues and decisions on warrant programs. Each year, the Board of Directors meets the auditor for a report on whether the company's organizational resources are structured so that book-keeping, the management of funds and other circumstances can be controlled satisfactorily. The auditor has continuous contact with the Audit Committee and participates in at least one of the Audit Committee's meetings during the financial year. The auditor attended the 2018 AGM on May 29.

### INTERNAL CONTROLS AND RISK MANAGEMENT

The Swedish Annual Accounts Act stipulates that the Board of Directors shall submit a review of the material elements of the company's systems for internal control and risk management over financial reporting yearly.

The Board of Directors is responsible for the company's internal controls, whose overall purpose is to ensure protection of the company's assets, and thus its owners' investments.

The Board of Directors has adopted attestation instructions, a finance policy and other policy documents comprising instructions and procedures for operations that must be monitored regularly and reported. The attestation instructions include instructions regarding company signatories as well as roles and authorizations regarding decision-making and the approval of agreements, investments, expenses and other expenditure. The Finance Policy sets mandates for investments, management of liquidity, currency hedging and credit issuance on sales. Sales are subject to credit insurance as far as possible, when this is viable and where credit insurance is granted only if there are good grounds to expect the borrower to fulfill its commitments.

## CONTROL ENVIRONMENT

The fundamental control environment for financial reporting consists of guidelines and policy documents, including the Board of Directors' Rules of Procedure and instructions for the CEO, and the segregation of duties and authorization regarding the organization of operations. Primarily, it is the CEO's responsibility to establish in daily operations the control environment instructed by the Board of Directors. The CEO reports regularly to the Board according to established procedures. The auditor also submits reports from audits conducted.

## RISK ASSESSMENT

Risk assessment is an ongoing process encompassing the identification and management of risks that can impact operations and financial reporting. The primary risk within the auspices of financial reporting consists of material misstatement in accounting. Risk management is a part of operational processes and various methodologies are applied to ensure that risks are managed pursuant to regulation, instructions and procedures with the aim of making accurate disclosures.

## CONTROL ACTIVITIES

Control activities are designed to manage the risks that the Board and company

management consider material to internal controls of financial reporting.

Control activities designed to prevent, discover and rectify misstatement and deviations are evaluated. The segregation of duties and organization constitutes the structure for controls. Follow-ups are conducted within each area of responsibility, and across all operations. Approvals and the segregation of authorization constitute the structure of control activities, as do clear rules for decisions regarding investments, sales, procurement and contracts. Control activities also proceed from the business concept, strategies and objectives, and mission-critical activities. A high level of IT security is a prerequisite for good internal controls over financial reporting. Fingerprints' IT strategy emphasizes security and functionality, with security being more important because without security, functionality is compromised.

External financial reporting with the ensuing controls is conducted on a quarterly basis, and internal financial reporting on a monthly basis. Financial controls are based on business plans that are broken down to yearly budgets. Budgets are reviewed throughout the year and constitute forecasts and supporting data for monitoring against results achieved. Reporting involves analyses and comments on progress in relation to established objectives. Development projects are

managed through ongoing project monitoring with reporting of subprojects. Efforts made and expenditures incurred are related to plans and budgets, and expected remaining project expenditure until project completion are also reported.

Operational control is supplemented by monitoring of the quality and performance of suppliers, customers and internal processes.

Monitoring of liquidity and cash flow is conducted on an ongoing basis with updates of forecasts and the resulting liquidity planning. The continuous analysis of financial reports at various levels is central for ensuring that financial reporting does not contain material misstatement. Control activities and the division of various functions are embedded throughout the financial reporting process.

## REMUNERATION GUIDELINES FOR THE BOARD OF DIRECTORS

The AGM 2018 resolved on a total fixed Directors' fee of SEK 2,245,000, of which SEK 625,000 to the Chairman of the Board and SEK 270,000 per Director to the other Directors.

Fees for committee work of SEK 370,000 would be payable, to be allocated as follows: Audit Committee: SEK 115,000 to the Chairman and SEK 60,000 to the other members. Remuneration Committee: SEK 65,000 to

the Chairman and SEK 35,000 to the other members.

Directors receiving a salary from Fingerprints are not eligible for Directors' fees. Directors that join the Board in the year receive fees in relation to the remaining period until the following AGM.

## REMUNERATION GUIDELINES FOR SENIOR EXECUTIVES

The AGM 2018 approved the proposal that a Remuneration Committee internal to the Board of Directors will consult on guidelines regarding salary and other employment terms for the CEO and other senior executives, and submit proposals to the Board of Directors for decision on such matters. The Board of Directors takes decisions on salary and other benefits for the CEO. The CEO takes decisions on salary and other benefits to other senior executives pursuant to the Board of Directors' guidelines. Other senior executives are defined as individuals that together with the CEO are members of Group Management. Fundamental remuneration levels must be market aligned. Remuneration consists of fixed basic salary, variable salary computed in accordance with established objectives set in advance, other benefits, pensions and financial instruments in the form of performance-related shares. The division between basic salary and variable compensation must be

## Board of Directors - function, attendance and remuneration

Name	Function	Elected	Stepped down	Committee	Independent of		Attendance at meetings 2018	Directors' fee 2018/19 (SEK 000)	Committee fee 2018/19 (SEK 000)
					Company	Major shareholders			
Johan Carlström	Chairman of the Board	May 29, 2018	-	Remuneration Committee, Audit Committee:	Yes	No	8/8	625	125
Jan Wäreby	Chairman of the Board May 4, 2016 - May 29, 2018, Board Member	Jun 3, 2015	May 29, 2018		Yes	Yes	9/9	-	-
Urban Fagerstedt	Board Member	Jun 4, 2009	-		Yes	Yes	16/17	270	-
Carl-Johan von Plomgren	Board Member	Jun 3, 2015	May 29, 2018		Yes	Yes	8/9	-	-
Tomas Mikaelson	Board Member	May 4, 2016	-		Yes	Yes	17/17	270	-
Åsa Hedin	Board Member	May 4, 2016	May 29, 2018		Yes	Yes	9/9	-	-
Alexander Kotsinas	Board Member	Apr 20, 2017	-	Audit Committee	Yes	Yes	17/17	270	115
Ann-Sofie Nordh	Board Member	Apr 20, 2017	May 29, 2018		Yes	Yes	9/9	-	-
Dimitrij Titov	Board Member	Apr 20, 2017	-	Audit Committee	Yes	Yes	15/17	270	60
Ted Elvhage	Board Member	May 29, 2018	-	Remuneration Committee	Yes	Yes	8/8	270	35
Juan Vallejo	Board Member	May 29, 2018	-	Remuneration Committee	Yes	Yes	8/8	270	35

in proportion to the executive's duties and authorization. For the Chief Executive Officer and other senior executives, variable remuneration is capped at 100% of basic annual salary, apart from any sign-on bonus. Pension terms are to be defined contribution pension solutions. The notice period from the company's side must not exceed six months. During the notice period of a maximum of six months, full salary and employment benefits are payable. Upon termination by the company, severance pay may be payable up to an amount corresponding to a maximum of twelve months' salary. Decisions on share and share price-related incentive programs are taken by the AGM. The Board shall be entitled to depart from these guidelines if there are special reasons for this in an individual case.

#### ARTICLES OF ASSOCIATION

The Articles of Association stipulate the company's operations, the number of Directors and auditors, procedure for convening shareholders' meetings, matters for consideration at the AGM and where meetings are held, as well as share classes, preferential rights and pre-emption rights regarding the company's class A shares. The company's Articles of Association are available at Fingerprints' website: [www.fingerprints.com](http://www.fingerprints.com)

#### INFORMATION AND COMMUNICATION

Fingerprints' policies and guidelines are especially important for accurate accounting, reporting and corporate communication. Information shall increase knowledge of Fingerprints, increase confidence in Fingerprints, its management and employees, and promote business activities. A Cor-

porate Communication Policy is in place for communication with internal and external parties, containing guidelines for the company's corporate communication. The purpose is to ensure compliance with the communication obligation in an accurate and comprehensive manner.

#### MONITORING

Compliance with the Rules of Procedure, instructions, policies and procedures are monitored by the Board of Directors and Group Management. Board meetings consider the current business conditions and the company's financial position. The Board of Directors reviews financial statements, and decides on publication of financial reports. The Board of Directors appraises its own work, and the CEO's work, yearly.

At least one interim or half-year report, and all annual financial reports with the associated financial statements, are audited. The CEO provides monthly reports to the Board of Directors, involving all parts of operational functions. Management meets frequently and monitors business development, financial performance and position, and significant events. The Board of Directors meets the auditor during the year to review the audit of internal controls and other assignments. Forecasting and budgeting work is conducted continuously with a rolling, forward-looking forecast based on updated information on sales, procurement, operating expenses and product development and technology development.

Board of Directors  
Gothenburg, 11 April 2019

#### AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

To the general meeting of the shareholders in Fingerprint Cards AB (publ.), corporate identity number 556154-23811

##### Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the year 2018 on pages 36-43 and that it has been prepared in accordance with the Annual Accounts Act.

##### The scope of the audit

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

Translation from the Swedish original

##### Opinion

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

Göteborg 16 April 2019  
Moore Stephens KLN AB

Ulf Lindesson  
Authorized public accountant

# BOARD OF DIRECTORS



## JOHAN CARLSTRÖM

Chairman of the Board since 2018.  
Board member since 2018.  
Born in 1963.

### Employment and other Board assignments:

Private investments in own companies. Owner Velociraptor Ltd.

**Education:** Business Administration at Uppsala University and Stockholm University.

**Professional background:** CEO of Fingerprint Cards AB, 2009–2015. Member of the Board of Fingerprint Cards AB, 2013–2014. Salesperson, business developer and entrepreneur during 20 years in the Telecom & IT-business.

**Holdings in Fingerprints:** 6,000,000 Class A shares via Velociraptor Ltd. and 14,000,000 Class B shares\*.

Independent of the company and management, but not independent of major shareholders.



## TED ELVHAGE

Board member since 2018.  
Born in 1968.

**Employment and other Board assignments:** Private investments in own companies. Co-owner and Chairman of the Board of Keiretsu Forum Nordics AB. Owner and Member of the Board of Stockholms Affärsänglar Management AB, E14 Invest AB, Gradientech AB and Wonder Technology Solutions AB.

**Education:** BSc Biochemistry & Minor Business and Administration, Millersville University of Pennsylvania

**Professional background:** Sales and management positions in manufacturing, IT, software and consulting, e.g. former Sales Manager in subsidiary of Indutrade, and later also Sales Manager in Sweden at HP Software, as well as advisor and investor in innovative growth companies via his own company.

**Holdings in Fingerprints:** 872,270\*

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



## URBAN FAGERSTEDT

Board member since 2009.  
Born in 1953.

**Education:** MSc Electronics Engineering, Lund Institute of Engineering.

**Other positions and Board assignments:** Owner and Chairman of the Board of Fagerstedt Dynamics Radio AB, Fagerstedt Finance AB and Fagerstedt Dynamics UK Ltd. Board member of Cuptronic AB and Crowdsoft AB.

**Professional background:** Vice President and General Manager of Design unit Radio Networks in Ericsson AB, Vice president R&D, Huawei Technologies Sweden AB.

**Holdings in Fingerprints:** 57,000\*

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

\* Per December 31, 2018.



**ALEXANDER KOTSIKAS**

Board member since 2017.  
Born in 1967.

**Education:** M.Sc. (Eng. in engineering physics), the Royal Institute of Technology, Stockholm. MBA, Stockholm School of Economics.

**Other positions and Board assignments:** Finance Director at Lowell Sverige AB. Director of Delta Projects AB.

**Professional background:** Partner Nexttobe AB 2011-2017, Vice President and CFO of Q-Med AB (2008-2011), CFO of Life Europe AB (2007), CFO of mobile operator Tre (Hi3G Access AB) (2003-2006), Vice President of Investor AB (publ) (2000-2003), and various positions at Ericsson (1994-2000).

**Holdings in Fingerprints:** 3,500\*

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



**TOMAS MIKAELSSON**

Board member since 2016.  
Born in 1956.

**Education:** Degree in Business Administration from IHM Business School in Stockholm.

**Other positions and Board assignments:** Board member and CEO of ZetiQ AB and Board member of Sourcingprovider Sweden AB.

**Professional background:** Expertise in marketing and sales. Longstanding experience and extensive knowledge of the telecom and mobile communications industry, where he has held senior executive positions in such companies as Omnipoint (T-Mobile) and Affinity Internet. Also extensive marketing and sales experience from Europe.

**Holdings in Fingerprints:** 23,000\*

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



**DIMITRIJ TITOV**

Board member since 2017.  
Born in 1962.

**Employment and other positions:** Lawyer and Partner, Advokatfirman Titov & Partners. Chairman of the Board of the Italian Chamber of Commerce in Sweden, Italienska Handelskammarens Service AB, Din Studio Sverige AB and Phantome de Genolier AB. Member of the Board of Vrtcl Gaming Group Sweden AB and Järnlotet Förvaltning AB.

**Education:** Master of Laws (LL.M.), Stockholm University, Stockholm University.

**Professional background:** 31 years of experience as a business lawyer. Lawyer and Partner at Advokatfirman Fylgia 1995-2018, with main focus on M&A, corporate law and international agreements in the industry. Current chairman of the Nomination Committee of Fingerprint Cards AB (publ) chairman of the Nomination Committee of Mr Green & Co AB (publ).

**Holdings in Fingerprints:** 14,300\*

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



**JUAN VALLEJO**

Board member since 2018.  
Born in 1957

**Employment and other Board assignments:** Chairman of the Board of ITS Energy Group AB and Helenius Ingenjörbyrå AB. Member of the Board of Coromatic Group AB, Qmatic Group AB, Mercuri International Group AB and Elajo Invest Aktiebolag (publ).

**Education:** Master of Science ( MSc) in Engineering, Royal Institute of Technology

**Professional background:**

2011-2014: CEO, Imtech Nordic  
2006-2010: CEO, Niscayah Group  
1992-2006: Securitas Group Management

**Holdings in Fingerprints:** 100,000\*

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

\* Per December 31, 2018.

# GROUP MANAGEMENT



## CHRISTIAN FREDRIKSON

CEO since 2016.  
Born in 1964

**Education:** Master's Degree in engineering, Turku University.

**Previous assignments:** CEO F-Secure 2012-2016, Christian has also had a long career within Nokia Networks and Nokia Siemens Networks (1994-2012), where he held several leading positions, including Head of Asia Region (2008-2010) and Global Head of Sales, Mobile Infrastructure (2010-2012) at Nokia Siemens Networks.

**Other assignments:** Christian Fredrikson is a Board member of Stena AB and Remedy Entertainment Ltd. He is a member of the foundation for Åbo Akademi.

**Shareholding in Fingerprints:** 466,750\*



## PER SUNDQVIST

CFO since 2018.  
Born in 1966.

**Education:** Bachelor of Science in Business Management, University of Umeå

**Previous assignments:** CFO Driconeq 2014-2018, Interim CFO Solera Beverage Group 2012, Interim CFO Cybercom 2011, CFO HL Display 2008-2011, CFO Aura Light International AB 2002-2008, CFO Q-Med AB 2001-2002, CFO/CIO Stoneridge AB 2000-2001, Finance Director GE Healthcare 1997-2000, Controller Volvo AB 1994-1997

**Shareholding in Fingerprints:** 0\*



## CHARLES BURGEAT

Senior VP Corporate Strategy and Portfolio Management since 2019.  
Born in 1973.

**Education:** Master of Science (MSc) in Engineering, University of Paris, Ecole Nationale Supérieure des Télécommunications.

**Previous assignments:** Vice President Sales Mobile Fingerprints; Vice President Sales Business Unit Modems, Ericsson; Sales Director, ST-Ericsson, Sales Manager, STMicroelectronics.

**Shareholding in Fingerprints:** 0\*

\*Per December 31, 2018.





**PONTUS JÄGEMALM**

CTO since 2019. Previously Senior VP Research & Development 2009-2018. Born in 1971.

**Education:** Master's degree in and PhD in Engineering Physics, Chalmers University of Technology, Gothenburg.

**Previous assignments:** Extensive international experience, including Technical Lead and Head of System Design at Displaytech Inc, USA

**Shareholding in Fingerprints:** 800,125\*



**TED HANSSON**

Senior VP Business Line Mobile since 2017. Born in 1976.

**Education:** MSc Electronics Engineering, Blekinge Institute of Engineering.

**Previous assignments:** Country Manager Fingerprints, China 2013-2016, Marketing Director/China Country Manager Nanoradio AB 2010-2013, Customer Engineering Director ST-Ericsson Korea 2007-2010, Software Manager Ericsson Mobile Platforms Taiwan 2006-2007, Software Consultant Ericsson Mobile Platforms China 2003-2006.

**Shareholding in Fingerprints:** 20,000\*



**FREDRIK RAMBERG**

Senior VP Research & Development since 2019. Born in 1983.

**Education:** M.Sc. Engineering Physics, Chalmers University of Technology, Gothenburg.

**Previous assignments:** Senior Manager Customer Engineering System & HW development, Manager ASIC System integration and verification 2016-2018, ASIC Analog Design engineer 2014-2016. Other various assignments: Electrical engineer laser SAAB 2012-2013, Product engineer 2010-2012, Electrical engineering consultant Ericsson Mobile Platforms 2008-2009.

**Shareholding in Fingerprints:** 5000\*



**THOMAS REX**

Senior VP Business Line Smartcards, Automotive & Embedded since 2018. Born in 1963.

**Education:** Master of Electronics Engineering, Lund Institute of Engineering.

**Previous assignments:** Senior VP for Business Line Smartcards (2017-2018) and Sales Manager at Fingerprints (November 2011 – October 2016). Sales Manager Asia, Ericsson Mobile Platforms, Sales Manager Nanoradio.

**Shareholding in Fingerprints:** 1,000,000\*

\* Per December 31, 2018.

# STATUTORY ADMINISTRATION REPORT

The Board of Directors and the Chief Executive Officer (CEO) of Fingerprint Cards AB hereby present the Annual Accounts for the 2018 fiscal year.

## FINGERPRINTS' OPERATIONS

Fingerprint Cards AB (publ) is a leading high-technology company that develops, manufactures and markets biometric technology, which by analyzing and matching people's unique biometric characteristics, verifies personal identities. This enables secure and convenient processing for the user, obviating the need for passwords or PINs. Fingerprints' technology delivers world-leading performance, benefits and includes unique image quality, extreme robustness, low power consumption and complete biometric systems. With these benefits, and in combination with low manufacturing costs, the technology can be implemented in volume products including smartphones, tablets and smart cards, such as charge cards, which are subject to extreme standards in these respects. Fingerprints' technology is already tried and tested across a number of application segments.

## GROUP AND PARENT COMPANY

The annual accounts cover the fiscal year January 1-December 31, 2018.

Fingerprint Cards AB (Publ) (corporate ID No. 556154-2381) is the Parent Company of a Group including ten subsidiaries. All staff in Sweden are employees of the Parent Company. These companies' operations consist of marketing and customer support.

The registered office of the Parent Company is in the Municipality of Gothenburg in the County of Västra Götaland, Sweden. The company's shares are listed on Nasdaq Stockholm since 2000.

## SIGNIFICANT EVENTS DURING THE YEAR

Revenues for 2018 were SEK 1,535 M (2,966), a decrease of 48 percent on 2017. This reflects a rapid change in market conditions for capacitive fingerprint sensors for smartphones, a market that represents the majority of Fingerprints' business, which has quickly evolved into a mature mass market with high competitive pressure and falling prices. The average sales price of the company's products decreased by more than 30 percent in 2018. The shift toward smaller and cheaper sensors had a significant impact on revenues.

In response to the revenue decline, the company carried out measures during the year that reduced the overall cost base by about two-thirds compared with the highest 2017 level. At year-end, the number of employees was 220, compared with 415 at

the end of 2017. During the same period, the number of consultants was reduced from 143 to 43.

63 smartphone models featuring Fingerprints' fingerprint-recognition technology were launched in 2018, which included products from the world's largest and most recognized smartphone brands.

Fingerprints continued to invest in developing new products. Its product portfolio gained more breadth and depth in terms of application segments, technical performance and functionality; during the year, the company launched the FPC1511, the fourth generation of fingerprint sensors, with lower production costs in relation to earlier generations of sensors but with continued high biometric performance. This sensor represents an extremely important part of the company's product portfolio in 2019 and onward.

## EARNINGS TREND

The Group's revenues for 2018 decreased by 48 percent to SEK 1,535 M (2,966). The net result for 2018 was a loss of SEK 631 M (profit: 120). Revenues were impacted by a year-on-year decline of more than 30 percent in the average sales price of our products. The start of the year was particularly weak, due to a negative trend in the Chinese smartphone market and a continued shift toward smaller and cheaper fingerprint

sensors. However, starting in the second quarter, the revenue trend stabilized.

Gross profit for the year was SEK 2 M (989) and the gross margin declined to 0 percent (33). The lower gross profit was due to price reductions and an altered product mix. Inventory write-downs of SEK 303 M and restructuring costs of SEK 73 M also had a negative impact of 24 percentage point on the gross margin.

The operating result for the year was a loss of SEK 772 M (profit 155). Currency effects are recognized in the operating result under the Other external income and expenses item.

Fingerprints initiated two cost-saving programs in 2018. Operating expenses were reduced by two-thirds from the peak level in 2017. The number of employees declined from 415 at year-end 2017 to 220 at year-end 2018. The number of consultants was reduced from 143 to 43.

The result before tax for the year was a loss of SEK 797 M (profit 142), while a positive income tax item of SEK 166 M was reported (expense 22) deriving from deferred tax. Overall, the Group's full-year result declined to a loss of SEK 631 M (profit 120). The Group reported a loss per share for 2018 of SEK 2.01 (earnings 0.38).

## FINANCIAL POSITION

The net loss for the year reduced shareholders' equity to SEK 1,776 M (2,331). The equity/asset ratio rose to 77 percent (66) because shareholders' equity declined less than total assets.

Non-current assets declined slightly to SEK 1,161 M (1,235). The non-current asset share of total assets increased significantly. Inventories decreased to SEK 348 M (646) and outstanding accounts receivable to SEK 233 M (438).

Accounts payable at year-end amounted to SEK 256 M (268) and other current liabilities to SEK 236 M (541), of which the short-term portion of loans was SEK 0 M (243). During the fourth quarter of 2018, Fingerprints repaid the remaining part of the loan for the acquisition of Delta ID, which was finalized in June 2017. After this transaction, Fingerprints has no interest-bearing liabilities. Cash and cash equivalents in cash and bank balances amounted to SEK 540 M (920) at year-end.

## INVESTMENTS, DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES

Total net investments in 2018 declined to SEK 163 M (1,071). Of this total, investments in capitalized development and intangible assets accounted for SEK 81 M (203),

acquisitions 79 M (836) and property, plant and equipment for SEK 3 M (32).

Total plan depreciation and amortization increased to SEK -118 M (-80) in 2018. Of this total, plan amortization of intangible assets accounted for SEK -100 M (-66) and plan depreciation of property, plant and equipment for SEK -18 M (-14).

Accordingly, the carrying amounts of intangible assets in 2018 declined to SEK 1,103 M (1,188) and property, plant and equipment to SEK 30 M (47).

## CASH FLOW

The operating loss had a negative impact on cash flow of SEK 797 M (positive 142). Cash flow from changes in working capital components was affected by a reduction of SEK 243 M (1,080) in capital tied-up in operating receivables and a decrease in inventories by SEK 4 M (increase: 27). Cash flow contributed by operating activities decreased to SEK 275 M (377).

Cash flow from investing activities was a negative SEK 163 M (negative: 1,071).

Cash flow from financing activities was a negative SEK 508 M (positive 482), which pertained to the repayment of the acquisition loan for Delta ID. After this payment, Fingerprints has no interest-bearing liabilities.

The total net change in cash and cash equivalents for full-year 2018 was a negative

SEK 396 M (negative 212). Net cash assets increased to SEK 540 M at year-end 2018, compared with SEK 455 M at year-end 2017.

## FINANCE POLICY

Fingerprints' Finance Policy regulates and clarifies responsibilities, and states guidelines in specific areas within financing, credit insurance, investment and currency management with the aim of supporting operations, managing financial risks and controlling their impact on financial position, results of operations and cash flow. The most important net currency flow is in USD, whereupon a significant portion of Fingerprints' finance activities were in formulating a strategy for selling USD and purchasing SEK. The increased net surplus from the sale, which is denominated in USD, and increased operating expenses that are predominantly in SEK, generates a continuous need to convert USD to SEK. Materials procurement, manufacture and sales are basically denominated in USD only. Almost all liquidity is deposited with banks in Sweden. Fluctuations in other exchange rates have an insignificant impact on earnings. Currency hedging with derivatives and hedging instruments is not permitted pursuant to the Finance Policy. See note 25 for more information on financial risks.

## ORGANIZATION AND COWORKERS

In 2018, the total number of coworkers, including employees and consultants, declined to 263 at year-end, from 558 at the beginning of the year.

There were 220 (415) employees as of December 31, 2018, comprising 171 (311) men and 49 (104) women. Accordingly, including employees and consultants, Fingerprints had a total of 263 (558) coworkers at December 31, 2018.

## RESEARCH AND DEVELOPMENT OPERATIONS

Through continuous initiatives to enhance biometric technology, Fingerprints has attained leadership in fingerprint-recognition technology.

At the end of 2018, the research and development organization accounted for more than 40 percent of the workforce. Together with engineers in Business Lines and Customer Engineering in Asia, Fingerprints' overall engineering expertise accounted for more than 70 percent of all of the coworkers.

Expenditure for technology development is partly recognized as a cost in the Consolidated Statement of Comprehensive Income (Parent Company Income Statement) under the development costs heading, and partly through capitalization in the Consolidated Statement of Financial

Position (Parent Company Balance Sheet), and capitalized development expenditure, under intangible assets. Capitalization is done after an assessment of factors such as each project's commercial, financial and technical potential, its future value for the Group, disposal over rights to the product/solution, the potential for completing development, and the presence of a market for the product. The rate of amortization is determined on the basis of the technical and commercial lifespan of the product or solution related to the extant market. Accordingly, the amortization term varies between products and projects.

In 2018, the Group's expenditure for technology development and patents declined to SEK 324 M (595), of which SEK 80 M (204) was capitalized in the Consolidated Statement of Financial Position and the remaining SEK 244 M (391) was expensed in the Consolidated Statement of Comprehensive Income.

## SUSTAINABILITY REPORT

In accordance with chapter 6 §11 of the Swedish Annual Accounts Act, Fingerprints has decided to prepare a statutory Sustainability Report as a separate document from the annual accounts.

Fingerprints' Sustainability Report, which constitutes Fingerprints' statutory

Sustainability Report, has been prepared pursuant to GRI Standards, Core option, and satisfies the Swedish Annual Accounts Act's requirements for sustainability reporting. The Report is presented on pages 18-27. The scope of the Sustainability Report is stated in the GRI index on pages 84-87.

## OWNERSHIP STRUCTURE

The number of shareholders declined to 65,544 at year-end 2018 from 70,057 at the beginning of the year. At year-end 2018, Velociraptor Ltd. held all 6,000,000 class A shares.

## EXPECTATIONS REGARDING FUTURE PERFORMANCE

Fingerprints is not issuing a forecast for 2019.

As previously communicated, the company expects conditions in the global mobile market to remain challenging, which will have an impact on Fingerprints' sales performance in the first quarter of 2019. The first quarter is also generally a seasonally weak period.

The company is realigning its resources to ensure sufficient focus on new growth segments, and that its organization is adapted to successfully compete on an expanding global biometrics market. While we see significant potential for our sensors in new application segments, which will create

future growth, it will take some time before we achieve significant business volumes outside our core business in smartphones.

## SEASONAL VARIATIONS

As penetration of fingerprint sensors in the smartphone segment has increased, the company's market is increasingly tracing the same patterns and seasonality as the rest of the mobile phone sector, albeit with a time lag. There is a tendency for the fourth quarter to generate a very high share of yearly mobile phone volumes, and the second quarter is usually the weakest.

For component vendors to mobile phone manufacturers such as Fingerprints, volumes in the third quarter tend to be the year's highest, with volumes some 10 per cent higher than in the fourth quarter.

## REMUNERATION OF THE BOARD OF DIRECTORS

The AGM 2018 resolved on total fixed Directors' fees of SEK 2,245,000, of which SEK 625,000 to the Chairman of the Board and SEK 270,000 per Member to the other Members of the Board. Fees for work on committees will be payable in an amount of SEK 370,000, to be distributed as follows:

Audit Committee: SEK 115,000 to the Chairman and SEK 60,000 to the other members. Remuneration Committee: SEK 65,000 to the Chairman and SEK 35,000 to the other members.

Shareholder	Shares and capital, %		Votes at year-end, %	
	2018	2017	2018	2017
Velociraptor LTD	1.8	1.8	16.3	16.3

Share class	Number of shares			No. of votes
	2018	2017	2018	2017
A	6,000,000	6,000,000	60,000,000	60,000,000
B	307,967,675	307,967,675	307,967,675	307,967,675
<b>Total</b>	<b>313,967,675</b>	<b>313,967,675</b>	<b>367,967,675</b>	<b>367,967,675</b>

Shareholdings of at least one-tenth of the voting rights for all shares at December 31, 2018

Velociraptor LTD	16.3%
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## BOARD OF DIRECTORS' PROPOSAL FOR REMUNERATION GUIDELINES FOR SENIOR EXECUTIVES

The Board of Directors proposes that the 2019 AGM adopts the following guiding principles for remuneration of senior executives:

The Remuneration Committee, which is appointed from among Board members, is to prepare guidelines in respect of pay and other employment terms for the President and senior executives and present the Board with proposals in respect of these issues. The Board decides on pay and other remuneration of the President. The President is to determine the salary and other remuneration payable to other senior executives in accordance with the Board's guiding principles. The term "other senior executives" refers to the individuals who, in addition to the President, constitute the Executive Management Group. The basic remuneration levels are to be market-based. Remuneration comprises a fixed basic salary, variable remuneration calculated according to predetermined targets, other benefits, and pension. The distribution between fixed salary and variable remuneration is to be proportionate to the executive's responsibilities and authorities. The variable remuneration payable to the President and other senior

executives may not exceed one-hundred percent (100 %) of their fixed annual salary. Pension terms and conditions are to be based on defined-contribution pension schemes. The period of notice from the Company is not to exceed six (6) months. During the period of notice of no longer than six (6) months, full salary and employment benefits are payable. If employment is terminated by the Company, severance pay is payable in an amount corresponding to not more than twelve (12) monthly salaries. Decisions regarding share and share-price-based incentive programs are to be made by the AGM. In certain cases, the Board of Directors is to be entitled to dis-apply the guidelines if special circumstances prevail.

## EVENTS AFTER THE REPORTING DATE

On February 21, 2019, Fingerprint Cards announced that the company's technology has been selected by Gemalto, that will offer biometric EMV®\* payment cards to its bank customers, using Fingerprints' T-Shape sensor. Gemalto will also license Fingerprints' Biometric Software Platform for payments. This initial order comprises a few hundred thousand sensors to be delivered during 2019 and 2020 and is not, in itself, financially significant in relation to Fingerprints' total revenues. However, this is the first volume order in the biometric

smartcard industry, which strengthens Fingerprints' view that the global market for biometric payment cards is about to materialize.

## DESCRIPTION OF THE WORK OF THE BOARD OF DIRECTORS DURING THE YEAR

Scheduled agenda items in Board meetings during the year are the Executive Management Group's reporting of business conditions, operations, organizational resources, results of operations, financial position and liquidity. The Board meetings in the fall and before Christmas consider the budget and business plan for the coming year.

The Board met on 17 occasions in 2018. A more detailed description of corporate governance in 2018, including regulations, general meetings, the Nomination Committee, the composition and work of the Board and internal governance processes and internal control, is presented in the separate Corporate Governance Report.

## 2019 ANNUAL GENERAL MEETING (AGM)

The AGM will be held at 3 p.m. on Wednesday, May 22, 2019 at Scandic Crown, Polhemsplatsen 3 in Gothenburg.

## PROPOSAL FOR APPROPRIATION OF THE COMPANY'S PROFITS.

The following funds are at the disposal of the AGM.

Share premium reserve	79,059,431
Accumulated profit or loss	1,538,954,166
Net profit for the year	1,571,666
<b>Total</b>	<b>1,619,585,263</b>

The Board of Directors proposes that net profit for the year and unrestricted reserves, as well as the accumulated profit or loss, are appropriated as follows:  
Carried forward: SEK 1,619,585,263.

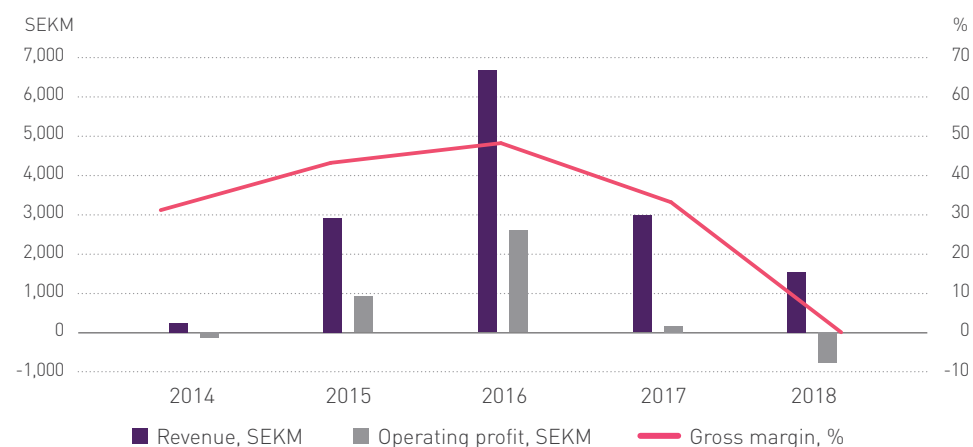
Regarding the company's results of operations and financial position otherwise, the reader is referred to the following financial statements with the associated notes.

# STATEMENT OF COMPREHENSIVE INCOME

## GROUP

SEK M	Note	2018	2017
Revenues	2, 3	1,535.1	2,966.0
Cost of goods sold	5, 10	-1,532.7	-1,977.1
<b>Gross profit</b>		<b>2.4</b>	<b>988.9</b>
Selling costs		-189.2	-236.9
Administrative expenses	9	-201.8	-145.6
Development costs	11	-243.6	-391.3
Other operating income	6	11.8	28.2
Other operating expenses	7	-151.2	-88.7
<b>Operating profit/loss</b>	3, 8, 10, 26, 27	<b>-771.6</b>	<b>154.6</b>
Financial income	12	0.1	0.5
Financial expenses	12	-25.2	-13.3
<b>Profit/loss before tax</b>		<b>-796.7</b>	<b>141.8</b>
Tax	14	166.0	-21.5
<b>Net profit/loss for the year</b>		<b>-630.7</b>	<b>120.3</b>
Earnings per share	15		
before dilution (SEK)		-2.01	0.38
after dilution (SEK)		-2.01	0.38
<b>Net profit/loss for the year</b>		<b>-630.7</b>	<b>120.3</b>
Translation differences for the year on translation of foreign operations		75.4	-15.2
<b>Other comprehensive income</b>		<b>75.4</b>	<b>-15.2</b>
<b>Comprehensive income for the year</b>		<b>-555.3</b>	<b>105.1</b>
Attributable to:			
Equity holders of the Parent Company		-555.3	105.1
		<b>-555.3</b>	<b>105.1</b>

## REVENUE, OPERATING RESULT AND GROSS MARGIN

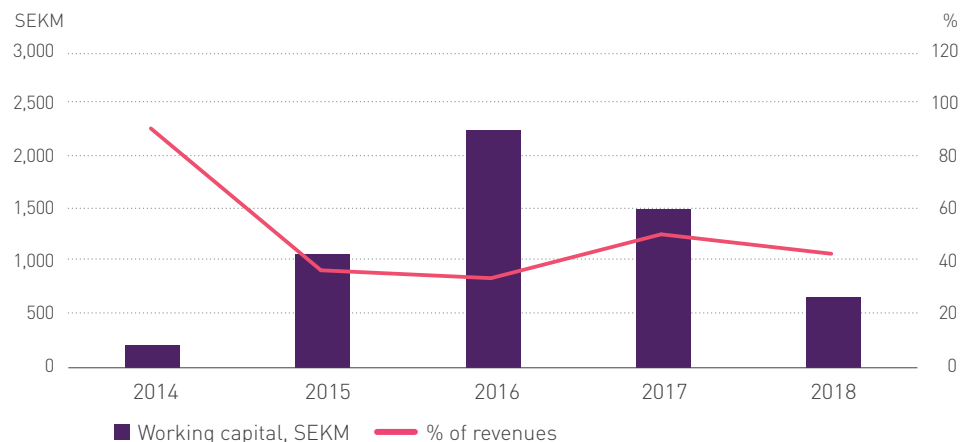


# STATEMENT OF FINANCIAL POSITION

## GROUP

SEK M	Note	31 Dec. 2018	31 Dec. 2017
<b>Assets</b>			
Intangible assets	16	1,102.7	1,188.3
Property, plant and equipment	17	30.2	46.6
Financial assets	14	27.8	-
<b>Total non-current assets</b>		<b>1,160.7</b>	<b>1,234.9</b>
<b>Current assets</b>			
Inventories	18	347.5	646.1
Accounts receivable	19,25	232.7	437.5
Other receivables		19.8	284.0
Prepaid expenses and accrued income	20	18.0	29.1
Cash and cash equivalents	19, 21	540.5	920.2
<b>Total current assets</b>		<b>1,158.5</b>	<b>2,316.9</b>
<b>Total assets</b>		<b>2,319.2</b>	<b>3,551.8</b>
<b>Shareholders' equity</b>			
Share capital	15	12.9	12.9
Other paid-up capital		854.4	854.4
Translation reserve		60.5	-14.9
Retained earnings including net profit for the year		847.7	1,478.4
<b>Total Shareholders' equity</b>		<b>1,775.5</b>	<b>2,330.8</b>
<b>Non-current liabilities</b>			
Deferred tax liability	14	51.9	189.8
Long-term loans lån	22	-	221.9
<b>Total non-current liabilities</b>		<b>51.9</b>	<b>411.7</b>
<b>Current liabilities</b>			
Short-term portion of long-term loans	22	-	243.4
Accounts payable	22	256.2	268.0
Current tax liability	14	1.3	1.5
Other current liabilities	23	27.1	106.5
Accrued expenses and deferred income	24	207.2	189.9
<b>Total current liabilities</b>		<b>491.8</b>	<b>809.3</b>
<b>Total shareholders' equity and liabilities</b>		<b>2,319.2</b>	<b>3,551.8</b>

## WORKING CAPITAL



# STATEMENT OF CHANGES IN EQUITY

## GROUP

SEK M	Share capital	Other paid-up capital	Translation reserve	Retained earnings incl. profit for the year	Total Shareholders' capital
Retained earnings incl. profit for the year					
Opening shareholders' equity, 1 Jan 2017	12.9	854.8	0.3	1,358.1	2,226.1
Net profit for the year				120.3	120.3
Other comprehensive income for the year			-15.2		-15.2
Cancellation of shares	-0.4			0.0	-0.4
Bonus issue	0.4	-0.4			0.0
<b>Closing shareholders' equity, 31 Dec 2017</b>	<b>12.9</b>	<b>854.4</b>	<b>-14.9</b>	<b>1,478.4</b>	<b>2,330.8</b>
Opening shareholders' equity, 1 Jan 2018	12.9	854.4	-14.9	1,478.4	2,330.8
Net profit/loss for the year				-630.7	-630.7
Other comprehensive income for the year			75.4		75.4
<b>Closing shareholders' equity, 31 Dec 2018</b>	<b>12.9</b>	<b>854.4</b>	<b>60.5</b>	<b>847.7</b>	<b>1,775.5</b>

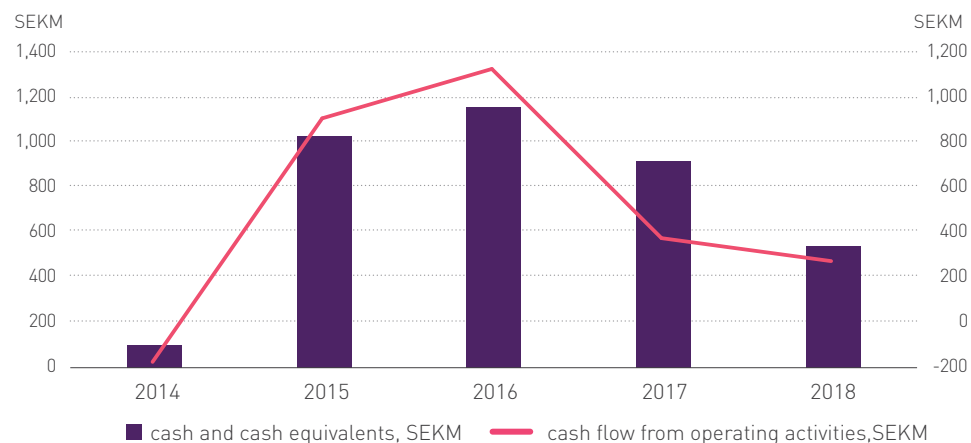


# STATEMENT OF CASH FLOWS

## GROUP

SEK M	Note	2018	2017
<b>Operating activities</b>			
Profit/loss before tax	29	-796.7	141.8
Adjustment for non-cash items		595.0	136.1
Income tax paid		232.0	-345.4
<b>Cash flow from operating activities before changes in working capital</b>		<b>30.3</b>	<b>-67.5</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in inventories		-4.1	26.7
Increase (-)/Decrease (+) in operating receivables		243.0	1,080.4
Increase (+)/Decrease (-) av rörelseskulder		5.4	-662.7
<b>Cash flow from operating activities</b>	3	<b>274.6</b>	<b>376.9</b>
<b>Investing activities</b>			
Purchase and internal development of intangible assets	16	-81.3	-203.5
Acquisition of subsidiaries	4	-79.3	-835.8
Sales of property, plant and equipment	17	1.6	-
Purchase of property, plant and equipment	17	-3.6	-31.7
<b>Cash flow from investing activities</b>	3	<b>-162.6</b>	<b>-1,071.0</b>
<b>Financing activities</b>			
Borrowings	22	-	508.1
Repayment of loans	22	-507.7	-26.0
Exercise of warrants		-	-0.4
Repurchase of treasury shares		-	-
<b>Cash flow from financing activities</b>	3	<b>-507.7</b>	<b>481.7</b>
Cash flow for the year		-395.7	-212.4
Cash and cash equivalents at beginning of year		920.2	0.0
Effect of translation difference on cash and cash equivalents		16.0	-29.6
<b>Cash and cash equivalents at end of year</b>	29	<b>540.5</b>	<b>920.2</b>

## CASH AND CASH EQUIVALENTS AND CASH FLOW



# INCOME STATEMENT

## PARENT COMPANY

SEK M	Note	2018	2017
Revenues	2,3	1,527.4	2,955.5
Cost of goods sold	5, 10	-1,496.6	-1,957.6
<b>Gross profit</b>		<b>30.8</b>	<b>997.9</b>
Selling costs		-188.0	-231.8
Administrative expenses	9	-214.1	-162.8
Development costs	11	-243.0	-382.3
Other operating income	6	10.5	-
Other operating expenses	7	-151.2	-70.7
<b>Operating profit</b>	3,8,10,26,27	<b>-755.0</b>	<b>150.3</b>
Profit from financial items	12	68.9	13.2
Interest expenses, etc	12	-25.1	-13.1
<b>Profit after financial items</b>		<b>-711.2</b>	<b>150.4</b>
Appropriations	13	716.0	-74.0
<b>Profit before tax</b>		<b>4.8</b>	<b>76.4</b>
Income tax	14	-3.2	-18.4
<b>Net profit for the year</b>		<b>1.6</b>	<b>58.0</b>

# BALANCE SHEET

## PARENT COMPANY

SEK M	Note	31 Dec, 2018	31 Dec, 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	16	96.9	230.1
Property, plant and equipment	17	23.4	39.2
Shares and participations in subsidiaries	28	417.3	338.0
Non-current receivables from group companies	27	538.3	493.9
Other non-current receivables		-	0.1
Deferred tax assets	14	29.9	32.8
<b>Total non-current assets</b>		<b>1,105.8</b>	<b>1,134.1</b>
<b>Current assets</b>			
Inventories	18	347.5	646.1
Receivables from group companies	27	23.4	1.1
Accounts receivable	19,25	232.3	437.3
Tax receivables	14	9.7	246.8
Other receivables		8.1	33.0
Accrued expenses and deferred income	20	13.7	25.8
Cash and bank balances	19, 21	496.2	878.9
<b>Total current assets</b>		<b>1,130.9</b>	<b>2,269.0</b>
<b>Total assets</b>		<b>2,236.7</b>	<b>3,403.1</b>

SEK M	Note	31 Dec, 2018	31 Dec, 2017
<b>Shareholders' equity</b>			
<b>Restricted equity</b>			
Share capital		13.0	12.9
Statutory reserve		41.4	41.5
Fund for development expenditure		84.1	209.1
<b>Non-restricted equity</b>			
Share premium reserve		79.1	79.2
Accumulated profit or loss		1,538.9	1,355.9
Profit for the year		1.6	58.0
<b>Total shareholders' equity</b>		<b>1,758.1</b>	<b>1,756.6</b>
<b>Untaxed reserves</b>			
	13	<b>8.0</b>	<b>724.0</b>
Long-term loans	22	-	221.9
<b>Total non-current liabilities</b>		<b>-</b>	<b>221.9</b>
<b>Current liabilities</b>			
Short-term portion of long-term loans	22	-	243.4
Accounts payable	22	254.7	266.9
Liabilities to group companies	27	16.4	8.9
Current tax liabilities	14	-	-
Other current liabilities	23	4.0	5.6
Accrued expenses and deferred income	24	195.5	175.8
<b>Total current liabilities</b>		<b>470,6</b>	<b>700,6</b>
<b>Total equity and liabilities</b>		<b>2,236.7</b>	<b>3,403.1</b>

# STATEMENT OF CHANGES IN EQUITY

## PARENT COMPANY

SEK M	Restricted equity			Non-restricted equity			Total shareholders' equity
	Share capital	Statutory reserve	Fund for development expenditure	Share premium reserve	Accumulated profit or loss	Net profit for the year	
<b>Opening shareholders' equity, 1 Jan 2017</b>	<b>12.9</b>	<b>41.5</b>	<b>46.7</b>	<b>79.6</b>	<b>0.0</b>	<b>1,518.3</b>	<b>1,699.0</b>
Net profit for the year						58.0	58.0
Fund for work performed by the company for its own use and capitalized			192.9		-192.9		-
Amortization of work performed by the company for its own use and capitalized			-30.5		30.5		-
Appropriation of profit					1,518.3	-1,518.3	0.0
Cancellation of shares	-0.4						-0.4
Bonus issue	0.4			-0.4			0.0
<b>Closing shareholders' equity, 31 Dec 2017</b>	<b>12.9</b>	<b>41.5</b>	<b>209.1</b>	<b>79.2</b>	<b>1,355.9</b>	<b>58.0</b>	<b>1,756.6</b>
<b>Opening shareholders' equity, 1 Jan 2018</b>	<b>12.9</b>	<b>41.5</b>	<b>209.1</b>	<b>79.2</b>	<b>1,355.9</b>	<b>58.0</b>	<b>1,756.6</b>
Net profit for the year						1.6	1.6
Fund for work performed by the company for its own use and capitalized			82.3		-82.3		-
Amortization of work performed by the company for its own use and capitalized			-207.3		207.3		-
Appropriation of profit					58.0	-58.0	-
Cancellation of shares							-
Adjustment previous year	0.1	-0.1		-0.1			-0.1
<b>Closing shareholders' equity, 31 Dec 2018</b>	<b>13.0</b>	<b>41.4</b>	<b>84.1</b>	<b>79.1</b>	<b>1,538.9</b>	<b>1.6</b>	<b>1,758.1</b>

# CASH FLOW STATEMENT

## PARENT COMPANY

SEK M	Note	2018	2017
<b>Operating activities</b>			
Profit before tax	29	4.8	76.4
Adjustment for non-cash items		-219.9	161.9
<b>Cash flow from operating activities before changes in working capital</b>		<b>-215.1</b>	<b>238.3</b>
Income tax paid		236.8	-345.4
<b>Cash flow from changes in working capital</b>			
Increase (-)/Decrease (+) in inventories		-4.2	26.6
Increase (-)/Decrease (+) in operating receivables		248.4	1,075.0
Increase (+)/Decrease (-) in operating liabilities		2.9	-628.9
<b>Cash flow from operating activities</b>		<b>268.8</b>	<b>365.6</b>
<b>Investing activities</b>			
Purchase and internal development of intangible assets	16	-81.3	-203.5
Purchase of property, plant and equipment	17	-0.8	-25.0
Acquisitions of subsidiaries		-79.3	-332.9
Sales of av property, plant and equipment	17	1.6	-
<b>Cash flow from investing activities</b>		<b>-159.8</b>	<b>-561.4</b>
<b>Financing activities</b>			
Borrowings	22	-	508.1
Repayment of loans	22	-507.7	-26.0
Loans to subsidiaries		-	-519.7
Exercise of warrants		-	-0.4
<b>Cash flow from financing activities</b>		<b>-507.7</b>	<b>-38.0</b>
Cash flow for the year		-398.7	-233.8
Cash and cash equivalents at beginning of year		878.9	1,142.3
Effect of translation differences on cash and cash equivalents		16.0	-29.6
<b>Cash and cash equivalents at end of year</b>	29	<b>496.2</b>	<b>878.9</b>

# NOTES TO THE FINANCIAL REPORTS

## NOTE 1 CRITICAL ACCOUNTING POLICIES

All amounts in millions of Swedish kronor (SEK M) unless otherwise stated.

### Basis of presentation

The consolidated accounts comprise Fingerprint Cards AB (Publ) (the Parent Company) and its subsidiaries (the Group). The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB) as endorsed by the EU. The Swedish Financial Reporting Board's recommendation RFR 1 (Supplementary Accounting Rules for Groups) has also been applied.

The Parent Company applies recommendation RFR2 (Accounting for Legal Entities) issued by the Swedish Financial Reporting Board, whereby the Parent Company applies the same accounting policies as the Group; i.e. IFRS to the extent possible under Swedish law.

The annual accounts and consolidated accounts were approved for publication by the Board and the President on 11 April 2019. The Consolidated Statement of Comprehensive Income and Statement of Financial Position and the Parent Company Income Statement and Balance Sheet will be adopted by the Annual General Meeting (AGM) on 22 May 2019.

The accounting policies are stated in the introduction of each note. The focus is on reviewing the accounting decisions the Group has made within the auspices of the applicable IFRS principle and avoiding repeating body text, unless considered of particular importance to understanding note content. Those accounting policies without a specific note are stated in note 1.

### Consolidation principles

#### Subsidiaries

The consolidated accounts comprise Fingerprint Cards AB (publ) (the Parent Company) and its subsidiaries (the Group). Subsidiaries are companies that are under the controlling influence of the Parent Company. A controlling influence is secured when the Parent Company has control over the investment, is exposed or entitled to a variable return from its holding in the company and can exercise control over the investment to influence the return.

All subsidiaries are wholly owned through direct or indirect ownership, and accordingly, are considered to lie under the group's control.

#### Transactions eliminated on consolidation

Intra-group receivables and liabilities, income or expenses and unrealized gains or losses arising from intra-group transactions between Group companies are eliminated in their entirety when the consolidated accounts are prepared.

#### OmTranslation to Swedish kronor on consolidation of companies in with different functional currencies

Subsidiaries prepare their financial statements in each entity's functional currency. Each Group company's functional currency is determined on the basis of the primary economic environment where the company conducts operations. The parent company's functional currency is Swedish kronor, which is also the presentation currency of the parent company and group. This means that the financial statements are presented in Swedish kronor. All amounts are in millions of Swedish kronor unless otherwise stated.

When preparing the Group's account closes, revenues and expenses in the Income Statement are translated at average rates of exchange for each year. Balance Sheet items are translated to Swedish kronor at closing day rates. Translation differences that are a result of this translation are recognized via other comprehensive income in the translation reserve in shareholders' equity. Such translation differences are recognized in profit or loss on the sale of the foreign operation.

#### Receivables and liabilities in foreign currency

Transactions in foreign currency are translated to the functional currency at the rate of exchange ruling on the transaction date. Monetary assets and liabilities in foreign currencies are translated to the functional currency at closing day rates. Non-monetary assets and liabilities recognized at their respective historical cost are translated at rates of exchange ruling on the transaction date. Non-monetary assets and liabilities measured at fair value are translated to the functional currency at the rate of exchange ruling on the date of fair value measurement.

Exchange rate differences are recognized in net profit for the year. Exchange rate differences on operating receivables and ope-

rating liabilities are recognized in operating profit and exchange rate differences on financial receivables and financial liabilities are recognized in net financial income/expense.

### Critical estimates and judgements

With its Audit Committee, management has discussed the progress, selection and disclosure of the group's critical accounting policies and estimates, as well as the application of these principles and estimates.

Pursuant to IAS 1, the company should disclose the assumptions and other important sources of uncertainty in estimates, which if actual outcomes differ, can have a material impact on the financial statements. In cases where this occurs, estimates and judgements have been moved to the relevant note. A summary of the segments management considers to contain material estimates and judgements follow:

- Deferred tax (note 14)
- Capitalization of development costs (note 16)
- Impairment testing of goodwill and other intangible assets (note 16)
- Inventory valuation (note 18)

### New accounting policies

#### New accounting policies for 2018

No new accounting policies applied from 1 January 2018 have a material effect on the financial statements.

#### New accounting policies, 2018 or later

A number of new and revised IFRS have been issued but not yet come into effect. Those IFRS are regarded as more material because they may influence the consolidated financial statements are reviewed below. Accordingly, these IFRS have been analyzed in terms of whether their effects are material or not. Fingerprints has not decided to adopt any of them prospectively.

#### IFRS 9 Financial Instruments

IFRS 9 has three components: classification and measurement, impairment and hedge accounting, and replaces IAS 39 Financial Instruments: recognition and measurement. This new accounting standard has a limited impact on the accounting of financial instru-

## NOTE 1 CRITICAL ACCOUNTING POLICIES, CONT.

ments in the Group. No effect has been demonstrated on classification and measurement, but a reclassification has been made of Financial Assets from "Loan receivables and accounts receivable" to "Financial assets at amortized cost". Regarding write-downs, the effect on expected credit losses are none from the write-down model. The transition is made with forward looking application.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. In Fingerprints' case, the adoption of IFRS 15 has primarily affected disclosures to be made in financial statements. Previously, revenue was reported in connection to that risks and benefits were transferred to the purchaser, which is determined by the terms of delivery. According to IFRS 15, the revenue shall be reported when the purchaser gains control over the product. The sales from Fingerprints entails that the revenue is reported at a time, as before, that is determined by the terms of delivery. Therefore, there is no change in the point of time of the revenue reporting.

For the above reason, there is no difference in revenue recognition for the relationship between IAS 18 and IFRS 15. The starting point on the sale of these goods is the same at an overall level.

### IFRS 16 Leases

In January 2016, the IASB published a new lease standard that will replace IAS 17 Leases and the associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities attributable to all leases, with some exceptions, are to be recognized in the balance sheet. Fingerprints will start to apply IFRS 16 Leases as of January 1, 2019, and, accordingly, will not apply the standard retroactively. Fingerprints' assessment is that the transition to IFRS 16 will not have any material impact on the Group's earnings. In its role as lessee, Fingerprints conducted a detailed review and analysis of the Group's leases, which mainly pertain to the premises where the Group's operations are conducted. The lease liability at January 1, 2019, amounted to approximately SEK 43 M and usufruct assets amounted to approximately SEK 47 M.

None of the other IFRS or IFRIC interpretations that have not yet taken effect is expected to have any material impact on the Group.

### Parent Company accounting policies

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. According to RFR 2, the Parent Company should apply all IFRSs and statements endorsed by the EU in

its annual accounts as far as possible within the auspices of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act and with respect to the relationship between accounting and taxation. The recommendation stipulates the exemptions from, and supplements to, IFRS that are to be applied.

### Differences between the group's and parent company's accounting policies

The main differences between the Group's and Parent Company's accounting policies are stated below. The accounting policies stated below for the Parent Company have been applied consistently to all periods presented in the Parent Company's financial statements.

### New accounting policies

Those amendments applying for the financial year beginning 1 January 2018 did not have any material effect on the financial statements.

### Subsidiaries

Shares and participations in subsidiaries are reported at cost in the Parent Company after deducting for impairment. On business combinations, the Parent Company includes expenditure relating to the acquisition in costs pursuant to RFR 2.

### Leased assets

In the Parent Company, all lease arrangements are recognized as operating leases.

### Intangible assets generated by the company

When development costs for intangible assets generated by the company are capitalized, the corresponding amount is transferred from retained earnings to the fund for development expenditure in restricted equity. This reserve is dissolved against retained earnings as the development expenditure is amortized. If the useful life of an intangible asset generated by the company cannot be measured reliably, this period is set at five years.

### Untaxed reserves

The Parent Company recognizes the difference between depreciation and amortization according to plan and depreciation and amortization conducted for tax purposes as accumulated excess depreciation and amortization, which is included in untaxed reserves.

### Classification and presentation formats

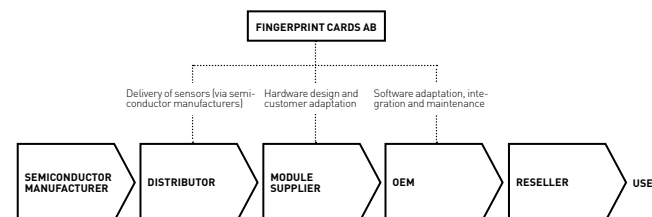
Earnings for the Group are recognized in the Statement of Comprehensive Income, and for the Parent Company, in the Income Statement. In addition, the Parent Company uses the terms Balance Sheet and "Cash Flow Statement" for the statements the Group refers to as the Statement of Financial Position and Statement of

Cash Flows respectively. The Parent Company Balance Sheet has been presented according to the format stipulated in the Swedish Annual Accounts Act, while the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement are based on IAS 1 Presentation of Financial Statements, and IAS 7 Statement of Cash Flows.

## NOTE 2 REVENUES

### Accounting policy

At present (on the implementation of IFRS 15), Fingerprint Cards' fundamental business model consists of the sale of wafers to distributors. This fundamental business generates the total net sales of the company. On this basis, the revenue-generating operation is straightforward; distributors order wafers, Fingerprint Cards receives the order and delivers the goods. Sensors consists of hardware, with software included as an integrated component. The transaction price is calculated to the recognized revenue adjusted for discounts that are reported to the most likely amount. The revenue is reported when the purchaser gains control over the product and is determined by the terms of delivery. The average payment period is 30 days net.



Revenues	Group		Parent Company	
	2018	2017	2018	2017
SEK M				
Sale of goods	1,535.1	2,966.0	1,527.4	2,955.5

## NOTE 3 OPERATING SEGMENTS

### Accounting policy

Each operating segment is defined as a business activity that can give rise to revenue or expenses and its operating profit is regularly monitored by the group's chief operating decision maker, and for which independent financial information is available. In Fingerprints' case, the chief operating decision maker is defined as Group Management, which decides how resources are to be allocated between the different segments, and which also regularly evaluates earnings.

Because Group Management monitors the results of operations and decides on the allocation of resources based on the products manufactured and sold by the Group, these comprise the Group's operating segments. Accordingly, the Group's internal reporting is structured to enable Group Management to review performance and results. The Group's segments have been identified based on the internal reporting structure. Fingerprints reports one operating segment, which is Fingerprint sensors, primarily for mobile phones.

Comprehensive income segments SEK M	Fingerprints sensors		Total	
	2018	2017	2018	2017
Revenues from external customers	1,535.1	2,966.0	1,535.1	2,966.0
Operating profit	-771.6	154.6	-771.6	154.6
Profit before tax	-796.7	141.8	-796.7	141.8

Assets/liabilities and cash flow by segment SEK M	Fingerprints sensors		Total	
	2018	2017	2018	2017
Assets	2,319.2	3,551.8	2,319.2	3,551.8
Liabilities	-491.8	-1,031.2	-491.8	-1,031.2
Cash flow from operating activities	274.6	376.9	274.6	376.9
Cash flow from investing activities	-162.6	-1,071.0	-162.6	-1,071.0
Cash flow from financing activities	-507.7	481.7	-507.7	481.7

Geographical regions SEK M	Revenue from external customers		Non-current assets*	
	2018	2017	2018	2017
Sweden	2.8	1.5	120.4	270.3
Asia	1,499.9	2,942.0	3.7	3.6
EMEA	5.0	2.8	2.8	3.3
South and North America	27.4	19.7	1,006.0	957.7
<b>Totalt</b>	<b>1,535.1</b>	<b>2,966.0</b>	<b>1,132.9</b>	<b>1,234.9</b>

\*Non-current assets excluding financial instruments

Revenue from external customers has been assigned to geographical regions according to where the customer is domiciled.

## NOTE 4 BUSINESS COMBINATIONS

### Accounting policy

The acquisition method has been applied, which means that an acquisition of a subsidiary is treated as a transaction through which the Group indirectly acquires the subsidiary's assets and takes over its liabilities and contingent liabilities. The consolidated cost is determined by conducting an acquisition analysis in conjunction with the acquisition. The analysis determines the cost of the participations or operations and the fair value of the acquired identifiable assets and the assumed liabilities and contingent liabilities on the acquisition date. The cost of the subsidiaries' shares and operations comprises the total of the fair value of the paid assets or liabilities arising or taken over on the acquisition date. For business combinations where the cost exceeds the fair value of the acquired assets and liabilities and contingent liabilities taken over that are recognized separately, the difference is recognized as goodwill.

Subsidiaries are consolidated effective the acquisition date until the date when the controlling influence ceases.

During 2018, no acquisitions were made.

On 7 June 2017, Fingerprint Cards acquired all the shares of Delta ID Inc. through its subsidiary India Acquisition Holding Inc. In 2017, Fingerprints had a cash outflow of SEK 836 M for the acquisition of Delta ID Inc. This acquisition means fingerprints is extending its technology portfolio into biometric security solutions based on the human eye.

From the acquisition date 7 June 2017 onwards, Delta ID contributed SEK 10 M of revenues, and reduced operating profit by SEK 15 M. If the acquisition had been executed at the beginning of the year, its contribution to revenues would have been SEK 16 M.

The goodwill item consists of Delta ID's ability to regenerate existing technology to remain competitive, and to apply the techno-

logy in other sectors to drive future growth. The goodwill item also consists of Delta ID's network for creating new customer relationships, and also of existing know-how.

Group SEK M	2018	2017
Intangible assets	-	245.0
<b>Total non-current assets</b>	<b>-</b>	<b>245.0</b>
Current assets	-	5.5
<b>Total current assets</b>	<b>-</b>	<b>5.5</b>
Deferred tax liability	-	-85.8
<b>Total deferred tax liability</b>	<b>-</b>	<b>-85.8</b>
<b>Total fair value acquired assets and liabilities taken over, net</b>	<b>-</b>	<b>164.7</b>
Consolidated goodwill	-	784.3
<b>Total purchase consideration</b>	<b>-</b>	<b>949.0</b>
Additional cash and cash equivalents in acquired group company	-	15.7
Adjusted for deductible purchase consideration*	-	-29.5
Adjustment working capital	-	3.2
Opening balance remaining portion to pay	102.6	-
Translation difference	-2.6	-
Remaining portion of purchase consideration payable as of 31 December 2018 and 31 December 2017**	-20.7	-102.6
<b>Cash flow from acquisitions of group companies/operations</b>	<b>79.3</b>	<b>835.8</b>

\*In accordance with the acquisition agreement, the purchase price has been reduced by SEK 29.5 M.

\*\*The liability restated at the closing day rate.

## NOTE 5 COST OF GOODS SOLD

Constituent items in cost of goods sold SEK M	Group		Parent Company	
	2018	2017	2018	2017
Materials	-1,410.5	-1,875.7	-1,410.5	-1,875.7
Amortization of capitalized development	-59.1	-39.9	-58.5	-39.9
Amortization of other intangible assets	-36.3	-19.5	-	-
Procurement and production overheads	-26.8	-42.0	-27.6	-42.0
<b>Cost of goods sold</b>	<b>-1,532.7</b>	<b>-1,977.1</b>	<b>-1,496.6</b>	<b>-1,957.6</b>



## NOTE 6 OTHER OPERATING INCOME

SEK M	Group		Parent Company	
	2018	2017	2018	2017
Exchange rate gains on operating receivables and liabilities	10.2	-	10.3	-
Gains on sale of property, plant and equipment	0.2	-	0.2	-
Restatement of additional purchase consideration	-	28.2	-	-
Leased offices	1.4	-	-	-
	<b>11.8</b>	<b>28.2</b>	<b>10.5</b>	<b>-</b>

## NOTE 7 OTHER OPERATING EXPENSES

SEK M	Group		Parent Company	
	2018	2017	2018	2017
Exchange rate losses on operating receivables and liabilities	-	-70.7	-	-70.7
Write-down of capitalized development	-148.6	-	-148.6	-
Transaction expenses acquisitions	-	-18.0	-	-
Other expenses	-2.6	-	-2.6	-
	<b>-151.2</b>	<b>-88.7</b>	<b>-151.2</b>	<b>-70.7</b>

## NOTE 8 EMPLOYEES, PERSONAL COST AND REMUNERATION OF SENIOR EXECUTIVES

### Accounting policy

#### Pension benefits to employees

The Group has defined-contribution pension plans. Defined-contribution pension plans are classified as plans whereby the company's obligation is limited to the contributions it has undertaken to pay. In such cases, the amount of the employee's pension depends on the contribution the company pays to the plan, or to an insurance company and the return on capital generated by the contributions. Consequently, the employee bears the actuarial risk and investment risk. The company's obligation regarding contributions to defined-contribution plans is recognized as an expense in profit or loss in line with contributions being vested by the employee rendering services for the company over a period of time.

#### Severance pay

An expense for severance pay when employees leave the company is recognized only if the company is demonstrably obligated, without

a realistic possibility of withdrawing, by a formal detailed plan to terminate employment before the normal point in time.

#### Short-term remuneration

Short-term remuneration to employees is computed without discounting and is recognized as an expense when the related services are received. A provision is recognized for the expected cost of the profit-sharing and bonus payments when the Group becomes subject to a legal or constructive obligation to make such payments as a result of the services rendered by employees and the obligation can be measured reliably.

#### Remuneration guidelines for senior executives

The AGM 2018 approved the proposal that the Remuneration Committee internal to the Board of Directors should consult on guidelines regarding salary and other employment terms for the Chief Executive Officer and other senior executives, and submit proposals to the Board of Directors for decision on such matters. The Board of Directors takes decisions on salary and other benefits for the Chief Executive Officer. The Chief Executive Officer takes decisions on salary and other benefits to other senior executives pursuant to the Board of Directors' guidelines. Other senior executives mean individuals that are members of Group Management together with the Chief Executive Officer. Fundamental compensation levels should be on market terms. Compensation should consist of fixed basic salary, variable salary computed in accordance with established objectives set in advance, and other benefits, pensions and financial instruments in the form of performance-related shares.

The division between basic salary and variable compensation should be in proportion to the executive's duties and authorization. For the Chief Executive Officer and other senior executives, variable

compensation is a maximum of 100 percent of basic annual salary, apart from sign-on bonus.

Pension terms should be defined contribution pension solutions. The notice period from the company's side should not exceed six months. During the notice period of a maximum of six months, full salary and employment benefits are due. Upon termination by the company, severance pay may be payable up to an amount corresponding to a maximum of 12 months' salary. The notice period for the Chief Executive Officer is six months on termination by the employee or the company. Decisions on share and share price-related incentive programs are taken by the AGM. The Board shall be entitled to depart from these guidelines if there are special reasons for this in an individual case.

Expenses for employee benefits	Group		Parent Company	
	2018	2017	2018	2017
Salaries and benefits, etc.	286.4	304.6	146.8	177.3
Pension cost, defined contribution plans	37.6	38.1	27.7	29.5
Other social security contributions	57.2	63.8	50.2	58.9
	<b>381.2</b>	<b>406.5</b>	<b>224.7</b>	<b>265.7</b>

Gender balance in management	Group		Parent Company	
	31 Dec 2018 Share of women	31 Dec 2017 Share of women	31 Dec 2018 Share of women	31 Dec 2017 Share of women
Board of Directors	0%	25%	0%	25%
Other senior executives	0%	0%	0%	0%

### Average number of employees

Group	Group						Parent Company					
	2018			2017			2018			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Sweden	127	52	179	181	76	257	127	52	179	181	76	257
Denmark	34	3	37	37	4	41	-	-	-	-	-	-
Japan	3	0	3	-	-	-	-	-	-	-	-	-
China	46	19	65	40	15	55	-	-	-	-	-	-
Korea	8	0	8	9	-	9	-	-	-	-	-	-
Taiwan	9	1	10	11	1	12	-	-	-	-	-	-
US	11	1	12	13	1	14	-	-	-	-	-	-
<b>Total group</b>	<b>238</b>	<b>76</b>	<b>314</b>	<b>291</b>	<b>97</b>	<b>388</b>	<b>127</b>	<b>52</b>	<b>179</b>	<b>181</b>	<b>76</b>	<b>257</b>

There were 220 (415) employees as of 31 December 2018, of which 171 (311) men and 49 (104) women.

## Salaries and other benefits allocated between senior executives and other employees, and social security contributions

SEK M	Group						Parent Company					
	2018			2017			2018			2017		
	Senior executives	Other employees	Total	Senior executives	Other employees	Total	Senior executives	Other employees	Total	Senior executives	Other employees	Total
Salaries and other benefits	21.7	264.7	286.4	26.8	277.8	304.6	19.5	127.3	146.8	24.9	152.4	177.3
Of which Chief Executive Officer	6.8	–	6.8	14.1	–	14.1	6.8	–	6.8	14.1	–	14.1
Of which Sweden	19.5	127.2	146.7	24.9	152.3	177.2	19.5	127.3	146.8	24.9	152.4	177.3
Of which foreign countries	2.2	137.5	139.7	1.9	125.5	127.4	–	–	–	–	–	–
<b>Total salaries and benefits</b>	<b>21.7</b>	<b>264.7</b>	<b>286.4</b>	<b>26.8</b>	<b>277.8</b>	<b>304.6</b>	<b>19.5</b>	<b>127.3</b>	<b>146.8</b>	<b>24.9</b>	<b>152.4</b>	<b>177.3</b>
Of which bonus	3.0	10.6	13.6	8.6	2.8	11.4	2.7	2.7	5.4	8.4	2.8	11.2
<b>Social security contributions total</b>	<b>10.8</b>	<b>84.0</b>	<b>94.8</b>	<b>13.2</b>	<b>88.7</b>	<b>101.9</b>	<b>10.0</b>	<b>67.9</b>	<b>77.9</b>	<b>12.5</b>	<b>75.9</b>	<b>88.4</b>
Of which pension costs												
Chief Executive Officer	2.1	–	2.1	1.8	–	1.8	2.1	–	2.1	1.8	–	1.8
Of which pension costs, either	2.6	32.9	35.5	3.1	33.2	36.3	2.4	23.2	25.6	3.0	24.7	27.7

Group and Parent Company	2018				2017			
	Basic salary, Directors' fee	Bonus, variable compensation	Pension	Total	Basic salary, Directors' fee	Bonus, variable compensation	Pension	Total
<b>Styrelsens ordförande</b>								
Johan Carlström, from June 2018	0.4	–	–	0.4	0.0	–	–	0.0
Jan Wäreby, until May 2018	0.4	–	–	0.4	1.0	–	–	1.0
<b>Directors</b>								
Alexander Kotsinas, from April 2017	0.5	–	–	0.5	0.3	–	–	0.3
Carl Johan von Plomgren, until May 2017	0.2	–	–	0.2	0.5	–	–	0.5
Katarina Bonde, until April 2017	0.0	–	–	0.0	0.3	–	–	0.3
Lars Söderfjell, until April 2017	0.0	–	–	0.0	0.2	–	–	0.2
Michael Hallén, until November 2017	0.0	–	–	0.0	0.5	–	–	0.5
Peter Carlsson, until April 2017	0.0	–	–	0.0	0.2	–	–	0.2
Juan Vallejo, from June 2018	0.2	–	–	0.2	0.0	–	–	0.0
Tomas Mikaelsson	0.3	–	–	0.3	0.4	–	–	0.4
Åsa Hedin, until May 2018	0.2	–	–	0.2	0.5	–	–	0.5
Ann-Sofie Nordh, from April 2017 to May 2018	0.2	–	–	0.2	0.3	–	–	0.3
Dimitrij Titov, from April 2017	0.4	–	–	0.4	0.2	–	–	0.2
Ted Elvhage from June 2018	0.2	–	–	0.2	0.0	–	–	0.0
Urban Fagerstedt	0.3	–	–	0.3	0.5	–	–	0.5
<b>Chief Executive Officer:</b>								
Christian Fredrikson	5.6	1.2	2.1	8.9	6.6	7.5	1.8	15.9
Other senior executives (7/8 people)*	13.1	1.8	2.6	17.5	14.0	1.1	3.1	18.2
<b>Total from Group and Parent Company</b>	<b>22.0</b>	<b>3.0</b>	<b>4.7</b>	<b>29.7</b>	<b>25.5</b>	<b>8.6</b>	<b>4.9</b>	<b>39.0</b>

\* One member of Group Management serves on a consulting basis during 2017-05 –2018-05

## NOTE 9 FEES AND REIMBURSEMENT OF AUDITORS

SEK M	Group		Parent Company	
	2018	2017	2018	2017
Audit fee Moore Stephens	-2.0	-	-2.0	-
Audit fee KPMG	-0.3	-1.5	-0.3	-1.5
Audit fee, other	-0.1	-0.1	-	-
Other services	-0.3	-0.4	-0.3	-0.4
<b>Total fees</b>	<b>-2.7</b>	<b>-2.0</b>	<b>-2.6</b>	<b>-1.9</b>

## NOTE 10 OPERATING EXPENSES BY COST CLASS

SEK M	Group		Parent Company	
	2018	2017	2018	2017
Cost of materials	-1,410.5	-1,875.7	-1,410.5	-1,875.7
Personnel costs	-381.2	-406.5	-224.7	-265.7
Depreciation, amortization and impairment	-266.4	-79.4	-226.4	-57.0
Other operating expenses	-248.6	-449.8	-420.8	-606.8
<b>Operating expenses</b>	<b>-2,306.7</b>	<b>-2,811.4</b>	<b>-2,282.4</b>	<b>-2,805.2</b>

## NOTE 11 DEVELOPMENT EXPENDITURE

The Group's expenses for technology development and patents amounted to SEK 323.9 M (594.8) of which SEK 80.3 M (203.5) or 25% (33%) has been capitalized in the Consolidated Statement of Financial Position and the remaining SEK 243.6 M (391.3) has been expensed. The corresponding expenses for technology development and patents for the Parent Company amounted to SEK 323.3 M (585.8), of which SEK 80.3 M (203.5) or 25% (33%) has been capitalized in the Parent Company's Balance Sheet, and the remaining SEK 243.0 M (382.3) has been expensed in the Parent Company's Income Statement.

## NOTE 12 NET FINANCIAL INCOME/EXPENSE

SEK M	Group		Parent Company	
	2018	2017	2018	2017
Dividend from group companies	-	-	1.4	-
Exchange rate gains financial receivables and liabilities	-	-	43.8	-
Interest income attributable to group companies	-	-	23.7	12.7
Other interest income	0.1	0.5	0.0	0.5
<b>Financial income</b>	<b>0.1</b>	<b>0.5</b>	<b>68.9</b>	<b>13.2</b>
Exchange rate losses financial receivables and liabilities	-10.3	-2.2	-10.3	-2.2
Other interest expenses	-10.4	-9.5	-10.2	-9.5
Other interest expenses	-4.5	-1.6	-4.6	-1.4
<b>Financial expenses</b>	<b>-25.2</b>	<b>-13.3</b>	<b>-25.1</b>	<b>-13.1</b>

## NOTE 13 APPROPRIATIONS

SEK M	Parent Company	
	2018	2017
<b>Appropriations</b>		
Change in depreciation and amortization above plan	0.0	-8.0
Change in tax allocation reserve	716.0	-66.0
<b>Appropriations</b>	<b>716.0</b>	<b>-74.0</b>
<b>Untaxed reseres</b>		
Accumulated depreciation and amortization above plan	8.0	8.0
Accumulated allocation reserve	0.0	716.0
<b>Untaxed reseres</b>	<b>8.0</b>	<b>724.0</b>

## NOTE 14 TAXES

### Accounting policy

The group's tax for the period consists of current tax and deferred tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be paid to or by the tax authorities based on the tax rates and the tax legislation that is enacted or substantively enacted on the reporting date. Current tax is tax pertaining to taxable profit for the period. Deferred tax is recognized on all temporary differences that arise between the taxable value and carrying amount of assets and liabilities, and on deductible loss carry-forwards.

Current and deferred tax is recognized in profit or loss with the exception of transactions recognized in other comprehensive income and shareholders' equity. Tax attributable to items recognized in other comprehensive income is also recognized in other comprehensive income and tax accruing on transactions recognized in shareholders' equity is recognized in shareholders' equity. Deferred tax assets are recognized in the Balance Sheet to the extent it is likely that they can be utilized to offset future taxable surpluses. When calculating the Group's deferred tax assets and tax liability, the tax rate applicable in the country concerned is applied.

### Estimates and judgements

Management especially considers the likelihood of whether deferred tax assets can be offset against services in future taxation. Deductible deficits are not recognized because they relate to a subsidiary with limited operations, and accordingly, there is uncertainty as to whether the deficit can be offset against future surpluses.

SEK M	Group		Parent Company	
	2018	2017	2018	2017
Current tax expense	-4.9	-49.4	-0.3	-44.6
Deferred tax expense	170.9	27.9	-2.9	26.2
<b>Total reported tax expense</b>	<b>166.0</b>	<b>-21.5</b>	<b>-3.2</b>	<b>-18.4</b>

## Reconciliation of effective tax

SEK M	Group				Parent Company			
	2018	%	2017	%	2018	%	2017	%
Profit before tax	-796.7		141.8		4.8		76.4	
Theoretical tax at applicable tax rate for parent company	175.3	-22.0	-31.2	-22.0	-1.1	-22.0	-16.8	-22.0
Non-deductible expenses	-2.2	0.3	-9.9	7.0	-2.1	-43.8	-1.7	2.2
Non-taxable revenues	0.3	0.0	7.5	-5.3	0.3	6.4	0.1	-0.1
Differences in tax rates for foreign subsidiaries	-5.5	0.7	0.2	-0.1	-	-	-	-
Restatement of deferred tax	0.0	0.0	12.1	-8.6	-	-	-	-
Rax attributable to previous year	-1.9	0.2	-0.3	0.2	-0.3	-6.2	-	-
<b>Reported effective tax</b>	<b>166.0</b>	<b>-20.8</b>	<b>-21.5</b>	<b>-15.2</b>	<b>-3.2</b>	<b>-66.7</b>	<b>-18.4</b>	<b>-24.1</b>

## Unreported deferred tax assets

Deductible loss carry-forwards for which deferred tax assets have not been recognized in the Statement of Financial Position:

SEK M	Group		Parent Company	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Deductible deficits	12.4	12.5	-	-

Deferred tax assets and tax liabilities are divided as follows:

Deferred tax assets SEK M	Group		Parent Company	
	2018	2017	2018	2017
Deferred tax assets to be settled after more than 12 months	27.8	-	29.9	32.8
<b>Total deferred tax assets</b>	<b>27.8</b>	<b>-</b>	<b>29.9</b>	<b>32.8</b>

Deferred tax liabilities SEK M	Group		Parent Company	
	2018	2017	2018	2017
Deferred tax liabilities to be settled after more than 12 months	51.9	189.8	-	-
<b>Total deferred tax liabilities</b>	<b>51.9</b>	<b>189.8</b>	<b>-</b>	<b>-</b>

Changes in deferred tax assets and tax liabilities are stated below:

## Group and Parent Company

Deferred tax assets, SEK M	Current assets	Total
As of 1 January 2017	6.7	6.7
Reported in Income Statement	26.1	26.1
As of 31 December 2017	32.8	32.8
Reported in Income Statement	-5.0	-5.0
<b>As of 31 December 2018</b>	<b>27.8</b>	<b>27.8</b>

## Group

Deferred tax liabilities, SEK M	Other*	Total
As of 1 January 2017	143.0	143.0
Reported in Income Statement	79.6	79.6
As of 31 December 2017	222.6	222.6
Reported in Income Statement	-170.7	-170.7
<b>As of 31 December 2018</b>	<b>51.9</b>	<b>51.9</b>

## NOTE 15 SHAREHOLDERS' EQUITY AND NUMBER OF SHARES

### Accounting policy

Earnings per share before dilution are measured as consolidated net profit for the year attributable to equity holders of the Parent Company divided by the average number of outstanding shares per financial year.

When measuring earnings per share after dilution, earnings and the average number of shares outstanding are adjusted for potential dilution effects that arise during reporting periods from warrants issued to employees.

SEK	Before dilution		After dilution	
	2018	2017	2018	2017
Earnings per share	-2.01	0.38	-2.01	0.38

### Net profit for the year attributable to ordinary shareholders of the parent company before dilution

SEK M	2018	2017
Net profit for the year attributable to equity holders of the parent company	-630.7	120.3

### Weighted number of outstanding ordinary shares before and after dilution

Number of shares	2018	2017
Class A shares at beginning of the year	6,000,000	6,000,000
<b>Total number of class A shares</b>	<b>6,000,000</b>	<b>6,000,000</b>
Class B shares at beginning of the year	307,967,675	307,967,675
<b>Total number of class B shares</b>	<b>307,967,675</b>	<b>307,967,675</b>
<b>Total number of outstanding shares</b>	<b>313,967,675</b>	<b>313,967,675</b>
Weighted average number of ordinary shares in the year before dilution	313,967,675	313,967,675
Weighted average number of ordinary shares in the year after dilution	313,967,675	313,967,675
<b>Quotient value, SEK per share</b>	<b>0.04</b>	<b>0.04</b>

As of 31 December 2018, registered share capital amounted to 313,967,675 common shares (313,967,675). Holders of common shares are entitled to receive dividends, and entitles the holder to vote at the shareholders' meetings, with one vote per share. On AGM 2017 a long-term incentive program ("LTIP 2017") assuming the satisfaction of certain terms. See more information at [www.fingerprints.com](http://www.fingerprints.com).

## NOTE 16 INTANGIBLE ASSETS

### Accounting policy

Intangible assets are recognized at original cost after deducting for accumulated amortization and potential impairment.

### Research and development

Development expenditure, aimed at achieving new or improved products or processes, is recognized as an asset in the Statement of Financial Position, if the product or process is technically and commercially viable, and the company has sufficient resources to complete the development process and subsequently use or sell the intangible asset. The carrying amount includes directly attributable expenses, such as materials and services used and consumed in connection with processing and registering legal rights. Other development expenditure is recognized in profit or loss as an expense when it arises.

Research expenses aimed at obtaining new scientific or technical knowledge are recognized as an expense when they arise. Since all research originates from products and market demand, no research arises.

### Patents

Acquired patents are capitalized as intangible assets.

### Goodwill

Goodwill is recognized as an intangible asset with indefinite useful life. Over and above indication, non-amortizable assets such as goodwill are subject to annual impairment tests by measuring the asset's recoverable amount. If the estimated recoverable amount is less than the carrying amount, the asset is impaired to its recoverable amount.

### Amortization and impairment

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, unless such useful lives are indefinite. Useful lives are determined on the basis of expected commercial potential, earnings and the patent's remaining term of validity and technical significance. Useful lives are reviewed at least yearly. Intangible assets with definite useful lives are amortized from the date when they are available for use. Amortizable assets are tested for impairment, if at the reporting date, there is an indication that a non-current asset is impaired.

Intangible assets with an indefinite useful life or that are not ready for use are tested for impairment every year and as soon as there is an indication of impairment. The recoverable amount of goodwill is measured through a value in use measurement according to the discounted cash flow method.

If it is not possible to associate materially independent cash flows with an individual asset, and the asset's fair value less selling expenses cannot be used, for impairment testing, the assets are grouped at the lowest level from which it is possible to identify significant independent cash flows, known as a cash-generating unit. An impairment loss is recognized when an asset's carrying amount exceeds its recoverable amount. An impairment loss is recognized as an expense in profit or loss.

Estimated useful lives are:

Products	1.5–4.0 years
Platforms	1.5–10.0 years
Customer relations	10 years
Patents	4–5 years

Useful lives are reviewed yearly.

### Estimates and judgements

#### Capitalized development expenditure

Significant estimates by management are necessary to determine whether expenses during the development phase should be capitalized as intangible assets, and which useful life these assets should have. These estimates focus on determining how long earnings potential exists for the products, and in turn, these estimates are based on the progress of markets, competitors and technology.

#### Impairment of goodwill and other intangible assets

To identify whether there is impairment of a non-current asset with definite useful life at the reporting date, management judges each asset's commercial potential. No indication has been identified for patents, and accordingly, no impairment test has been conducted for patents. The remaining portion of other intangible assets have been tested jointly with goodwill below.

For impairment tests, the recoverable amount of the cash-generating unit Delta ID Inc. has been measured based on its value in use. Value in use is measured as the present value of expected future cash flows in accordance with management's forecast.

The critical assumptions in this forecast are sales and operating margins, as well as the discount rate. Sales have been estimated in the short term based on estimated customer needs, from third-party research and global market progress for iris recognition for the medium term, and based on assumptions of a normalized growth rate for the long term. Initially, the operating margin has been estimated on the basis of current margins, and then based on sector experience.

A nine-year cash flow forecast has been applied, the term of the

period justified by the expectation that it will take many years before operations enter a mature developmental phase. After the end of the forecast period, a growth rate of 2% has been adopted.

The discount rate has been estimated based on the operation's estimated weighted average cost of capital (WACC). The WACC before tax has been estimated at 13.6%.

If the discount rates were to increase by 1 percentage point, the recoverable amount would decrease by 11%. If the adopted growth point, the recoverable amount would reduce by 7%. This would indicate impairment.

## NOTE 16 INTANGIBLE ASSETS, CONT.

Impairment, goodwill	2018
Recoverable amount SEK M	1,036.5
Carrying amount SEK M (of which goodwill SEK 811M)	954.1
Interest rate, % (WACC), before tax	13.6
Interest rate, % (WACC), after tax	10.4

SEK M	Group								Parent Company					
	Goodwill		Capitalized development expenditure		Patents & other acquired intangible assets		Intangible assets		Capitalized development expenditure		Patents & other acquired intangible assets		Intangible assets	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
<b>Accumulated cost</b>														
Opening balance	744.6	-	393.2	198.3	271.0	28.0	1,408.8	226.3	387.3	192.5	38.8	28.0	426.1	220.5
Internally developed assets	-	-	77.1	194.9	-	-	77.1	194.9	77.3	194.8	-	-	77.3	194.8
Purchases	-	784.3	-	-	1.2	255.8	1.2	1,040.1	-	-	1.2	10.8	1.2	10.8
Translation difference	66.8	-39.7	-	-	20.8	-12.8	87.6	-52.5	-	-	-	-	-	-
Closing balance	811.4	744.6	470.3	393.2	293.0	271.0	1,574.7	1,408.8	464.6	387.3	40.0	38.8	504.6	426.1
<b>Accumulated amortization</b>														
Opening balance	-	-	-161.6	-120.9	-39.9	-15.0	-201.5	-135.9	-156.5	-116.6	-20.5	-15.1	-177.0	-131.7
Amortization for the year	-	-	-59.1	-40.7	-40.8	-24.9	-99.9	-65.6	-58.5	-39.9	-4.5	-5.4	-63.0	-45.3
Translation difference	-	-	-	-	-2.9	-	-2.9	-	-	-	-	-	-	-
Closing balance	-	-	-220.7	-161.6	-83.6	-39.9	-304.3	-201.5	-215.0	-156.5	-25.0	-20.5	-240.0	-177.0
<b>Accumulated impairment</b>														
Opening balance	-	-	-19.1	-19.0	-	-	-19.1	-19.0	-19.0	-19.0	-	-	-19.0	-19.0
Impairment for the year	-	-	-148.6	-	-	-	-148.6	-	-148.7	-	-	-	-148.7	-
Closing balance	-	-	-167.7	-19.0	-	-	-167.7	-19.0	-167.7	-19.0	-	-	-167.7	-19.0
<b>Carrying amount</b>														
At beginning of year	-	-	212.5	58.4	231.1	13.0	1,188.2	71.4	211.8	56.9	18.3	12.9	230.1	69.8
<b>At end of year</b>	<b>811.4</b>	<b>744.6</b>	<b>81.9</b>	<b>212.6</b>	<b>209.4</b>	<b>231.1</b>	<b>1,102.7</b>	<b>1,188.3</b>	<b>81.9</b>	<b>211.8</b>	<b>15.0</b>	<b>18.3</b>	<b>96.9</b>	<b>230.1</b>
<b>Amortization is included in the following lines in the Statement of Comprehensive income</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Cost of goods sold	-	-	-59.1	-39.9	-36.3	-19.5	-95.4	-59.4	-58.5	-39.9	-	-	-58.5	-39.9
Development costs	-	-	-	-0.8	-4.5	-5.4	-4.5	-6.2	-	-	-4.5	-5.4	-4.5	-5.4

## NOTE 17 PROPERTY, PLANT AND EQUIPMENT

### Accounting policy

Property, plant and equipment are recognized in the Group at cost less accumulated depreciation and any impairment. Cost includes the purchase price and any expenses that are directly attributable to the asset to put it in place and in the condition to be utilized for the purpose for which it was acquired.

Assets leased through finance leases are recognized as non-current assets in the Statement of Financial Position and recognized initially at the lower of the item's fair value and the present value of minimum lease payments on entering the arrangement.

### Depreciation and impairment

Depreciation is on a straight-line basis over the estimated useful life of the asset. Leased assets are depreciated over their estimated useful life, or if it is shorter, the contracted lease term. Depreciation is recognized in each function the assets belong to.

Impairment testing of depreciable assets is conducted if there is an indication of impairment of the non-current asset at the reporting date. If there is an indication of impairment, the asset's recoverable amount is measured. The recoverable amount is the greater of the asset's net selling price and its value in use, which is based on management's estimate of future cash flows. If it is not possible to associate significant independent cash flows with an individual asset, and the asset's fair value less selling expenses cannot be used, the assets are grouped for impairment testing at the lowest level from which it is possible to identify significant independent cash flows, known as a cash-generating unit. An impairment loss is recognized when an asset's carrying amount exceeds its recoverable amount. An impairment loss is recognized as an expense in profit or loss.

### Estimated useful lives:

Machinery and other technical plant 5 years  
Equipment, tools, fixtures and fittings 3–5 years

### Estimates and judgements

#### Impairment of property, plant and equipment

Estimated future cash flows, which are based on internal business plans and forecasts, are used to determine value in use. Even if management considers an estimated future cash flows are reasonable, other assumptions regarding cash flows can have a material impact on measurements. No indication that property, plant and equipment is impaired has been identified, and accordingly, no impairment tests have been conducted.

	Group		Parent Company	
	Machinery and equipment		Machinery and equipment	
<b>Accumulated cost, SEK M</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>	<b>31 Dec 2018</b>	<b>1 Dec 2017</b>
Opening balance	79.2	48.0	67.0	42.1
Purchases	0.0	0.5	0.0	–
Sales/retirements	-9.7	-0.2	-8.4	-0.1
Purchases	3.6	30.9	0.8	25
Closing balance	73.1	79.2	59.4	67.0
<b>Accumulated cost</b>				
Opening balance	-32.6	-18.8	-27.8	-16.2
Purchases	–	-0.3	–	–
Reversed depreciation on sale and retirements	7.6	0.2	6.5	0.1
Depreciation for the year	-17.9	-13.7	-14.7	-11.7
Closing balance	-42.9	-32.6	-36.0	-27.8
<b>Carrying amonuts</b>				
At beginning of year	46.6	29.2	39.2	25.9
<b>At end of year</b>	<b>30.2</b>	<b>46.6</b>	<b>23.4</b>	<b>39.2</b>

	Group		Parent Company	
	2018	2017	2018	2017
<b>Depreciation is included in the following lines in the Statement of Comprehensive Income</b>				
Cost of goods sold	-2.8	-1.3	-2.8	-1.3
Administrative expenses	-12.2	-10.0	-10.8	-9.2
Selling expenses	-0.1	-0.2	-0.1	-0.1
Development expenses	-2.8	-2.2	-1.0	-1.1
<b>Total</b>	<b>-17.9</b>	<b>-13.7</b>	<b>-14.7</b>	<b>-11.7</b>

## NOTE 18 INVENTORIES

### Accounting policy

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is measured by applying the first-in, first-out method (FIFO) and includes expenses arising in conjunction with the purchase of inventory items and transportation to their current location and condition. Net realizable value is defined as sales price less expenses for completion and selling expenses.

### Estimates and judgements

Individual judgements regarding potential to sell products are necessary to determine net sales value. An impairment loss has been recorded due to net realizable value.

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Raw material inventory	262.8	460.1	262.8	460.1
Products in process	31.5	59.5	31.5	59.5
Finished goods	53.2	126.5	53.2	126.5
<b>Total</b>	<b>347.5</b>	<b>646.1</b>	<b>347.5</b>	<b>646.1</b>

Impairment of inventories amounts to SEK 302,8 M (173,7) as of 31 December 2018.

## NOTE 19 FINANCIAL ASSETS

### Accounting policy

A financial asset is recognized in the Statement of Financial Position when the group becomes party to the terms of the instrument's agreement. A receivable is recognized when the company has delivered and there is a contracted obligation for the counterparty to pay, even if no invoice has been sent. Accounts receivable are recognized in the Statement of Financial Position when an invoice has been sent and the company has an unconditional right of payment.

The Financial assets are in the category of amortized cost. Loan receivables and accounts receivable are non-derivative financial assets that have determined or determinable payments and that are not listed on an active marketplace. These assets are measured at amortized cost. Amortized cost is determined on the basis of the effective interest calculated at acquisition. Cash and cash equivalents and accounts receivable are recognized at the amount expected to be received, i.e. after impairment of expected bad debt.

Conversion to SEK is at the closing rate on the reporting date. Book value less impairment is an approximate fair value of accounts receivable.

Impairment losses (mainly the reserve for bad debt) are taken if management considers that there is sufficient objective evidence indicating that an asset's carrying amount will not be recoverable. Impaired accounts receivable are recognized at the present value of expected future cash flows. However, receivables with short maturities are not discounted. Impairment of saleable financial assets is recognized in net profit for the year in net financial income/expense.

Exchange rate fluctuations on operating receivables and liabilities are recognized in operating profit, while exchange rate fluctuations on financial receivables and liabilities are recognized in net financial income/expense.

Financial assets are derecognized from the Balance Sheet when the contracted rights to cash flows cease, or are transferred, and when essentially, the risks and rewards associated with ownership of the financial assets have been transferred.



## NOTE 19 FINANCIAL ASSETS, CONT.

### Fair value and book value of financial assets by balance sheet item and category

SEK M	Group				Parent Company			
	31 Dec 2018		31 Dec 2017		31 Dec 2018		31 Dec 2017	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>FINANCIAL ASSETS</b>								
<b>Current financial assets</b>								
Financial assets at amortized cost								
Accounts receivable	232.7	232.7	-	-	232.3	232.3	-	-
Cash and cash equivalents	540.5	540.5	-	-	496.2	496.2	-	-
Loan receivables and accounts receivable								
Accounts receivable	-	-	437.5	437.5	-	-	437.3	437.3
Cash and cash equivalents	-	-	920.2	920.2	-	-	878.9	878.9
<b>Financial assets, total</b>	<b>773.2</b>	<b>773.2</b>	<b>1,357.7</b>	<b>1,357.7</b>	<b>728.5</b>	<b>728.5</b>	<b>1,316.2</b>	<b>1,316.2</b>
<b>By category</b>								
Financial assets at amortized cost	773.2	773.2	-	-	728.5	728.5	-	-
Loan receivables and accounts receivable	-	-	1,357.7	1,357.7	-	-	1,316.2	1,316.2
<b>Financial assets, total</b>	<b>773.2</b>	<b>773.2</b>	<b>1,357.7</b>	<b>1,357.7</b>	<b>728.5</b>	<b>728.5</b>	<b>1,316.2</b>	<b>1,316.2</b>

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Total accounts receivable	232.7	441.5	232.3	438.8
Reserve for doubtful debt	0.0	-4.0	0.0	-1.5
Carrying amount	232.7	437.5	232.3	437.3

The expense for bad debt and doubtful debt for the Group amounted to SEK 0 M (2).

## NOTE 20 PREPAID EXPENSES AND ACCRUED INCOME

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Premises	3.4	7.5	2.8	6.1
Insurance expenses	3.5	5.4	1.1	5.1
License costs	3.4	8.4	3.3	8.3
Other operating expenses	7.7	7.8	6.5	6.3
	<b>18.0</b>	<b>29.1</b>	<b>13.7</b>	<b>25.8</b>

## NOTE 21 CASH AND CASH EQUIVALENTS

### Accounting policy

Cash and cash equivalents consist of cash funds and immediately available balances with banks and corresponding institutions, as well as short-term liquid investments that are exposed to only insignificant risk of value fluctuation.

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Cash and bank balances	540.5	920.2	496.2	878.9
<b>Total recognized in the Statement of Financial Position/ Balance sheet</b>	<b>540.5</b>	<b>920.2</b>	<b>496.2</b>	<b>878.9</b>

## NOTE 22 FINANCIAL LIABILITIES

### Accounting policy

A financial liability is recognized in the Statement of Financial Position when the Group becomes a party to the terms of the instrument's contract. Liabilities are recognized when the counterparty has delivered and there is a contractual obligation for the company to make a payment without an invoice having yet been received. Accounts payable are recognized when the invoice has arrived.

As of 31 december 2018, there were no liabilities measured at fair value. Loans and other financial liabilities, such as accounts payable, are measured at amortized cost.

Borrowings are measured at amortized cost by applying the effective interest method. Covenants to len-

ders are reported quarterly, with the company measured in terms of interest coverage ratio, as well as net debt/equity ratio in relation to EBITDA.

Exchange rate fluctuations on operating receivables and liabilities are recognized in operating profit while exchange rate fluctuations on financial receivables and liabilities are recognized in net financial income/expense.

A financial liability is derecognized from the Statement of Financial Position when the contractual obligations are fulfilled or otherwise extinguished.

### Fair value and book value of financial liabilities by balance sheet item and category

MSEK M	Group				Parent Company			
	31 Dec 2018		31 Dec 2017		31 Dec 2018		31 Dec 2017	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>Non-current financial liabilities</b>								
Long-term loans, maturing 2019 (USD 27 M)	-	-	221.9	221.9	-	-	221.9	221.9
<b>Current financial liabilities</b>								
Short-term portion of long-term loans	-	-	243.4	243.4	-	-	243.4	243.4
Remaining portion of purchase consideration for acquisition of subsidiary	20.7	20.7	95.0	95.0	-	-	-	-
Accounts payable	256.2	256.2	268.0	268.0	254.7	254.7	266.9	266.9
<b>Financial liabilities total</b>	<b>276.9</b>	<b>276.9</b>	<b>828.3</b>	<b>828.3</b>	<b>254.7</b>	<b>254.7</b>	<b>732.2</b>	<b>732.2</b>
<b>By category</b>								
Financial liabilities at amortized cost	276.9	276.9	828.3	828.3	254.7	254.7	732.2	732.2
<b>Financial liabilities total</b>	<b>276.9</b>	<b>276.9</b>	<b>828.3</b>	<b>828.3</b>	<b>254.7</b>	<b>254.7</b>	<b>732.2</b>	<b>732.2</b>

### Liabilities attributable to financing activities

SEK M	Group				Parent Company			
	CB 2017	Cash flows	Changes in exchange rate differences not affecting cash flow	CB 2018	CB 2017	Cash flows	Changes in exchange rate differences not affecting cash flow	CB 2018
Long-term loans	221.9	-221.9	0.0	0.0	221.9	-221.9	0.0	0.0
Short-term portion of long-term loans	243.4	-243.4	0.0	0.0	243.4	-243.4	0.0	0.0
	<b>465.3</b>	<b>-465.3</b>	<b>0.0</b>	<b>0.0</b>	<b>465.3</b>	<b>-465.3</b>	<b>0.0</b>	<b>0.0</b>

## NOTE 23 OTHER CURRENT LIABILITIES

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Employee withholding tax	5.3	6.7	3.5	5.6
Remaining portion of purchase consideration for acquisition of subsidiary	20.7	95.0	–	–
Other	1.1	4.8	0.5	–
<b>Total</b>	<b>27.1</b>	<b>106.5</b>	<b>4.0</b>	<b>5.6</b>

## NOTE 24 ACCRUED EXPENSES AND DEFERRED INCOME

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Salaries	28.0	31.9	16.7	19.9
Social Security contributions	12.7	17.5	12.6	17.5
Material and production expenses	1.8	1.7	1.8	1.7
Directors' fees and company expenses	0.1	1.7	0.1	1.7
Commissions	139.6	123.0	139.6	123.0
Audit	0.7	1.1	0.7	1.1
Restructuring expenses	22.9	0.0	22.9	0.0
Other overheads	1.4	13.0	1.1	10.9
<b>Total</b>	<b>207.2</b>	<b>189.9</b>	<b>195.5</b>	<b>175.8</b>

## NOTE 25 FINANCIAL RISKS AND RISK MANAGEMENT

### Group and Parent Company

The Group's activities expose it to a variety of financial risks.

Financial risks mean fluctuations in the company's earnings and cash flow due to variations in exchange rates, interest rates and risks relating to refinancing and credit issuance. The Group's financial policy for managing financial risks has been prepared by the Board and comprises a framework of guidelines and rules in the form of risk mandates and limits for financing activities. Financial transactions and risks are managed by the Parent Company's Finance function. The objectives are to:

- Manage and control financial risks
- Minimize the negative earnings impact of market changes in currencies and interest rates.
- Plan and ensure adequate liquidity for operating activities.
- Optimize the use of capital and cash flows.

### Financing risk

Financing risk is the risk of access to financing capital, and the price of financing capital varying, with the risk of unfavorable terms.

### Liquidity risk

Liquidity risk is the risk that the Group encounters problems meeting its obligations associated with financial liabilities. The Group has rolling liquidity planning, which is updated monthly. The Group's forecasts cover a minimum of six months of rolling liquidity planning over the medium term. Liquidity planning is used to manage liquidity risk and the cost of financing the Group.

The aim is that the Group should be able to meet its financial commitments and have the necessary contingency well in advance. It should be possible to offset upturns and downturns without incurring significant unforeseen costs. Available liquidity in the Group at year end amounted to SEK 540.5 M (920.2). In accordance with the Finance Policy, there should always be sufficient cash and cash equivalents and confirmed credit lines to cover short-term liquidity requirements.

The company's financial liabilities consist of supplier credits, totaling SEK 256.2 M (268.0) at year-end, with a short maturity of within one to two months. A loan of SEK 508.1 M (USD 60 M) was arranged in tandem with the acquisition of Delta, which is fully amortized during 2018.

The remaining portion of the purchase consideration for the acquisition of Delta ID Inc. amounts to SEK 20.7 M.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will vary due to changes in market prices. IFRS divides market risks into three types; currency risk, interest rate risk and other price risk. The market risks that primarily impact the Group are currency risk and commodity price risk, while the interest rate risk has less of an impact since the company has no deposits.

The Group's aim is to manage and control market risks within specific parameters and simultaneously optimize the results of risk-taking within specific parameters. These parameters are established with the aim of ensuring that market risks have only a marginal impact on the Group's earnings and financial position in the short term (6–12 months). However, protracted changes in exchange rates and interest rates will impact consolidated earnings in the longer term.

## NOTE 25 FINANCIAL RISKS AND RISK MANAGEMENT, CONT.

### Raw materials price risk

The raw materials cost of products may be affected by price variations, mainly silicon. Silicon is the largest constituent part of products. Historically, the price of silicon has not fluctuated significantly, and supply is good. If the supply of silicon on the global market were to reduce, there would be a risk of price increases. Accordingly, the company's purchasing from external suppliers could increase in per unit prices. There is no guarantee that in turn, Fingerprints is able to pass on increased costs to its customers. The inability to pass on increased costs to the company's customers may have negative consequences for the company's operations, results of operations and financial position.

### Currency risk

The risk that the fair value and cash flows of financial instruments will fluctuate when the value of foreign currencies changes. The Group is exposed to various types of currency risk. The main exposure is derived from the Group's sales and purchases in foreign currencies. These currency risks comprise the risk of fluctuations in the value of financial instruments, accounts receivables and accounts payable and the currency risk inherent in expected and contractual payment flows. Such risks constitute transaction exposure.

According to the Finance Policy, exchange risks should not be hedged. USD-denominated net surpluses are exchanged to SEK on a continuous basis. Net profit for the year includes exchange rate differences of SEK 10.2 M (-70.7) in operating profit and SEK -10.3 M (-2.2) in net financial income/expense.

### Transaction exposure

The Group's transaction exposure for sales and materials is allocated to the following currencies on the reporting date:

SEK M	Net flows
2018	
USD-exposure expressed in SEK och total	1,190.6
2017	
USD-exposure expressed in SEK och total	715.9

Transaction exposure has not been hedged.

### Sensitivity analysis

A 10% appreciation of the Swedish krona against other currencies as of 31 December 2018, would imply shareholders' equity and net profit for the period changing by SEK 147 M (71). The sensitivity analysis is based on all other factors remaining unchanged.

### Credit risk

The company has a credit insurance for all receivables and therefore don't do any reservations for bad debts.

### Age analysis, accounts receivable

SEK M	Group		Parent Company	
	2018 Carrying amount	2017 Carrying amount	2018 Carrying amount	2017 Carrying amount
Non-overdue accounts receivable	201,1	405,7	200,7	405,7
Overdue accounts receivable, 0-30 days	28,0	31,0	28,0	31,0
Overdue accounts receivable, 30-90 days	2,2	1,2	2,2	0,2
Overdue accounts receivable >90 days	1,4	3,6	1,4	1,9
Reserve for doubtful debt	0,0	-4,0	0,0	-1,5
<b>Total</b>	<b>232,7</b>	<b>437,5</b>	<b>232,3</b>	<b>437,3</b>

	Group						Parent Company					
	2018			2017			2018			2017		
Sales per year	Number of customers	% of total number of customers	% of value	Number of customers	% of total number of customers	% of value	Number of customers	% of total number of customers	% of value	Number of customers	% of total number of customers	% of value
< SEK 1 M	80	78%	0.5%	81	81%	0.3%	75	79%	0.4%	77	82%	0.3%
SEK 1 – 10 M	10	10%	1.4%	9	9%	0.9%	8	8%	1.1%	7	7%	0.6%
> SEK 10 M	12	12%	98.1%	10	10%	98.8%	12	13%	98.5%	10	11%	99.1%
<b>Total</b>	<b>102</b>	<b>100%</b>	<b>100%</b>	<b>100</b>	<b>100%</b>	<b>100%</b>	<b>86</b>	<b>100%</b>	<b>100%</b>	<b>94</b>	<b>100%</b>	<b>100%</b>

## NOTE 26 LEASES

### Accounting policy

Lease arrangements are classified either as finance or operating leases. Finance leases occur when the economic risks and rewards associated with ownership essentially transfer to the lessee. If this is not the case, the arrangement is an operating lease.

Assets leased through operating leases are not recognized as an asset in the Statement of Financial Position. Nor do operating leases give rise to a liability. Expenses relating to operating leases are recognized in profit for the year on a straight-line basis over the lease term. Rewards received on entering an arrangement are recognized in net profit for the year as the decrease in lease payments on a straight-line basis over the term of the lease. Variable charges are expensed in the periods they arise.

Asset leased through finance leases are recognized as non-current assets in the Statement of Financial Position and initially measured at the lower of the least item's fair value and the present value of minimum lease payments on entering the arrangement. The obligation to make future lease payments is recognized as non-current and current liabilities. Leased assets are depreciated over each asset's useful life, while the lease payments are recognized as interest and amortization of liabilities. Interest expenses are allocated over the lease term, so that each accounting period is charged with an amount that corresponds to a fixed interest rate for the liability reported during the relevant period. Variable charges are expensed in the periods they arise. The reported asset is recognized in accordance with the rules applying to corresponding assets, such as those for depreciation.

The Group's material lease arrangements are operating leases.

### Operating leases

Lease agreements where the company is the lessee, SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Irrevocable lease payments amount to:				
Within one year	26.4	33.4	18.8	25.4
Between one year and five years	42.6	55.6	38.8	43.5
<b>Total</b>	<b>69.0</b>	<b>89.0</b>	<b>57.6</b>	<b>68.9</b>

Operating leases consist of lease contracts the premises. The largest contracts terminate in 2019–2022, with extension options. These agreements are subject to ongoing indexation against the CPI or equivalent.

Lease payments made for operating leases in the year, SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	2017-12-31
Minimum lease payments	35.0	27.8	26.0	20.6
<b>Total lease expenses</b>	<b>35.0</b>	<b>27.8</b>	<b>26.0</b>	<b>20.6</b>

## NOTE 27 TRANSACTIONS WITH RELATED PARTIES

Purchases of goods and services, SEK M	Group		Parent Company	
	2018	2017	2018	2017
Purchases of group-wide services from subsidiaries	–	–	-211.4	-202.1
<b>Total</b>	<b>–</b>	<b>–</b>	<b>-211.4</b>	<b>-202.1</b>

Receivables and liabilities at the end of the period, SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Long-term loans to subsidiaries	–	–	538.3	493.9
Receivables from subsidiaries	–	–	23.4	1.1
Liabilities to subsidiaries	–	–	-16.4	-8.9

Transactions with related parties are price on an arm's length basis.

Transactions with key individuals in management positions are limited to individual, clearly delineated, small-scale consulting assignments, which require specific competence.

## NOTE 28 SHARES AND PARTICIPATIONS IN SUBSIDIARIES

SEK M	Parent Company Shares in subsidiaries	
	31 Dec 2018	31 Dec 2017
<b>Accumulated cost</b>		
Opening balance	366.8	33.9
Other investments	79.3	332.9
Closing book value	446.1	366.8
<b>Accumulated impairment</b>		
Opening balance	-28.8	-28.8
Impairment for the year	–	–
Closing balance	-28.8	-28.8
<b>Carrying amounts</b>		
At beginning of year	338.0	5.1
At end of year	417.3	338.0

## NOTE 28 SHARES AND PARTICIPATIONS IN SUBSIDIARIES, CONT.

The Parent Company's holdings in subsidiaries	Subsidiary reg office, country	Share-holders equity	Net profit	Participating interest 2018	Participating interest 2017
Anacatum Design AB	Sweden	5.5	0.1	100%	100%
Fingerprint Card Korea Co.,Ltd.	Korea	4.8	1.4	100%	100%
Fingerprint Cards ApS	Denmark	17.6	4.5	100%	100%
Fingerprint Cards (Shanghai) Co., Ltd	China	8.6	2.6	100%	100%
Fingerprint Cards Inc	US	6.6	2.0	100%	100%
Fingerprint Cards Taiwan Ltd	Taiwan	1.3	1.0	100%	100%
Fingerprint Security System Databärare AB	Sweden	2.2	-	100%	100%
India Aquisition Holding Inc	US	373.7	-	100%	100%
Delta ID Inc*	US	371.4	-56.2	100%	100%
Fingerprint Cards Japan K.K.	Japan	1.5	0.3	100%	100%

\* Indirect holding through subsidiary

### Specification of Parent Company's direct holdings of participations in subsidiaries

Subsidiary / Corporate identity number	Participations, number	Proportion, %	31 Dec 2018	31 Dec 2017
Anacatum Design AB, 556779-5371	24,466,668	100	1.0	1.0
Fingerprint Card Korea Co.,Ltd.	20,000	100	0.7	0.7
Fingerprint Cards ApS	800	100	0.1	0.1
Fingerprint Cards (Shanghai) Co., Ltd	-	100	2.4	2.4
Fingerprint Cards Inc	100	100	0.1	0.1
Fingerprint Cards Taiwan Ltd	-	100	0.1	0.1
Fingerprint Security System Databärare AB, 556239-5938	1,000	100	0.7	0.7
India Aquisition Holding Inc	1,000	100	331.8	331.8
Fingerprint Cards Japan K.K.	100	100	1.1	1.1
<b>Carrying amount, 31 December</b>			<b>338.0</b>	<b>338.0</b>

- Anacatum Design AB in Sweden:  
All the shares of this entity were acquired in 2014. This company conducts limited operations and has no employees.
- Fingerprint Cards Korea Ltd:  
This company was incorporated in 2015. Operations consist of marketing and technical customer support on the Korean market. All staff in Korea are employees of the Korean company.
- Fingerprint Cards Aps in Denmark:  
This company was incorporated in 2013. Operations consist of technology development on assignment from the Swedish operation. All staff in Denmark are employees of Fingerprint Cards Aps.
- Fingerprint Cards (Shanghai) Co., Ltd in China:  
This company was incorporated in 2016. Operations consist of marketing and customer support on the Chinese market. All staff in China are employees of the Chinese company.

- Fingerprint Inc. in the US:  
This company was incorporated in 2014. Operations consist of marketing and technical customer support on the US market. All staff in the US are employees of the American company.
- Fingerprint Cards Taiwan Ltd. in Taiwan:  
This company was incorporated in 2016. Operations consist of marketing and customer support on the Taiwanese market. All staff in Taiwan are employees of the Taiwanese company.
- Fingerprint Security System Databärare AB:  
This company has been a subsidiary since 1998. This company conducts limited operations and has no employees.
- India Acquisition Holding Inc:  
Incorporated to serve as a holding company for Delta ID Inc.
- Fingerprint Cards Japan K.K.:  
This company was incorporated at the end of 2017, has limited operations and had no employees in the year. From 2018 onwards, operations consist of marketing and customer support on the Japanese market, and staff in Japan are employees of the Japanese company. .

## NOTE 29 STATEMENT OF CASH FLOWS

### Accounting policy

The Cash Flow Statement has been prepared in accordance with the indirect method. Foreign group companies' cash flows are translated at average rates of exchange. Acquisitions of subsidiaries are included in cash flow from investing activities, seen note 4 for more information on the influence of the acquisition on cash flow.

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
The following components are included in cash and cash equivalents:				
Cash and bank balances	540.5	920.2	496.2	878.9
Total in Statement of Financial Position	540.5	920.2	496.2	878.9
<b>Total in Statement of Cash fFows</b>	<b>540.5</b>	<b>920.2</b>	<b>496.2</b>	<b>878.9</b>

### Adjustments for non-cash items

SEK M	Group		Parent Company	
	31 Dec 2018	31 Dec 2017	2018-12-31	31 Dec 2017
Interest not received	-	-	-12.2	-5.7
Depreciation and amortization	266.4	79.4	226.4	57.0
Impairment in inventories	302.8	-	302.8	-
Changes in tax allocation reserve	-	-	-716.0	66.0
Depreciation and amortization above plan	-	-	0.0	8.0
Currency revaluation	25.8	56.7	-20.9	36.6
<b>Total</b>	<b>595.0</b>	<b>136.1</b>	<b>-219.9</b>	<b>161.9</b>

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### NOTE 30 INFORMATION ON PARENT COMPANY

Fingerprint Cards AB (publ) (the Parent Company), corporate ID no. 556154-2381, is a limited liability company, with its registered office in Gothenburg, Västra Götaland, Sweden. The Parent Company's shares are listed on Nasdaq Stockholm. The address of the head office is Box 2412, SE-403 16 Gothenburg, Sweden and the visiting address is Kungsgatan 20, Gothenburg, Sweden. The consolidated accounts for 2018 comprise the Parent Company and its subsidiaries, jointly designated "the Group"

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### NOTE 31 POST BALANCE SHEET DATE EVENTS

On February 21, 2019, Fingerprint Cards announced that the company's technology has been selected by Gemalto, that will offer biometric EMV®\* payment cards to its bank customers, using Fingerprints' T-Shape sensor. Gemalto will also license Fingerprints' Biometric Software Platform for payments. This initial order comprises a few hundred thousand sensors to be delivered during 2019 and 2020 and is not, in itself, financially significant in relation to Fingerprints' total revenues. However, this is the first volume order in the biometric smartcard industry, which strengthens Fingerprints' view that the global market for biometric payment cards is about to materialize.

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### NOTE 32 ASSETS PLEDGED

Parent Company, SEK M	31 Dec 2018	31 Dec 2017
Assets pledged for operating credit; bank balances	0	15

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### NOTE 33 PROPOSED APPROPRIATIONS OF PROFITS

#### Proposal for appropriation of the company's profits.

The following funds are at the disposal of the AGM.

Share premium reserve	79,059,431
Accumulated profit or loss	1,538,954,166
Net profit for the year	1,571,666
<b>Total</b>	<b>1,619,585,263</b>

The Board of Directors proposes that net profit for the year, non-restricted reserves, as well as accumulated profit or loss are appropriated as follows:

Carried forward:	1,619,585,263
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# ASSURANCE BY THE BOARD

The Board of Directors and Chief Executive Officer hereby give their assurance that the annual accounts have been prepared in accordance with generally accepted accounting policies in Sweden and that the consolidated accounts have been prepared in accordance with the international accounting standards referred to in Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July, on the application of international accounting stan-

dards. The annual accounts and consolidated accounts give a true and fair view of the Parent Company's and the Group's financial position and results of operations. The Administration Reports of the Parent Company and the Group give a true and fair view of the progress of the Parent Company's and the Group's operations, financial position and results of operations, and state the significant risks and uncertainties faced by Parent Company and the com-

panies included in the Group. As stated above, the annual accounts and consolidated accounts were approved for issuance by the Board of Directors on 11 April 2019. The Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and the Parent Company Income Statement and Parent Company Balance Sheet will be subject to adoption by the Annual General Meeting 22 Maj 2019.

Gothenburg 11 April 2019

Johan Carlström  
Chairman of the Board

Ted Elvhage  
Board member

Urban Fagerstedt  
Board member

Alexander Kotsinas  
Board member

Tomas Mikaelsson  
Board member

Dimitrij Titov  
Board member

Juan Vallejo  
Board member

Christian Fredrikson  
Chief Executive Officer

Our Audit Report was presented on 16 April 2019  
Moore Stephens KLN AB

Ulf Lindesson  
Authorized Public Accountant



# AUDIT REPORT

Translation from the Swedish original

To the general meeting of the shareholders of Fingerprint Cards AB (publ.), corp. id 556154-2381

## Report on the annual accounts and consolidated accounts Opinions

We have audited the annual accounts and consolidated accounts of Fingerprint Cards AB (publ) for the year 2018. The annual accounts and consolidated accounts of the company are included on pages 48-78 in this document.

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

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

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

## Other matter

The annual accounts and the consolidated accounts for the year 2017 were audited by another auditor who issued an auditor's report dated 24 April 2018 with unmodified opinions in the Report on the annual accounts and consolidated accounts.

## Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional

ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

## Key Audit Matters

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

## Revenue recognition

See note 2 in the annual account and consolidated accounts for detailed information and description of the matter.

## Description of key audit matter

The group and the mother company's revenue for 2018 amounts to SEK 1,5 billion and comes from contracts with customers regarding delivery of goods. The invoices is recognised at the time when a customer take control of a promised asset and the company fulfil a performance obligation.

When recognising revenue the uncertainty of future payments, appendant costs, risks for returning goods and rebates is taken into account.

Agreements related to delivery of goods and the judgemental part and estimates included in the revenue recognition, resulting in risk that revenue could be over- or underestimated.

## Response in the audit

We have read the terms of the contracts with customers to evaluate the revenue recognition.

We have tested internal controls to make sure the revenue is recognised in the right period.

We have also evaluated time of revenue recognition based on

when goods is delivered and the terms related to the delivery, partly through random samples and partly based on historical precision.

## Valuation of goodwill and other intangible assets and valuation of mother company's shares in subsidiaries

See note 1, 4, 11, 16 and 28 in the annual account and consolidated accounts for detailed information and description of the matter.

## Description of key audit matter

The carrying value of goodwill and other intangible assets such as acquired technology, patents and customer relationships as well as capitalised development costs per 31 December 2018 amounts to SEK 1.1 billion at group level, which represents 48% of the group's total assets. A considerable share of the intangible assets is attributable to the acquisition of Delta ID Inc in 2017. The carrying value of capitalised development costs on the parent company balance sheet is SEK 0.1 billion. The impact of last year's acquisition of Delta ID Inc is seen indirectly in the carrying value of the shares in subsidiaries, which is SEK 0.4 billion. Goodwill should be subject to an annual impairment test. Other intangible assets should be tested whenever an indication of impairment is identified. The valuation of intangible assets is complex and involves significant levels of judgments regarding future developments. The expected residual value of assets is determined with reference to forecasted discounted cash flows based on estimated discount rates, revenues and long-term growth rates, which are inherently subjective and may be influenced by management. Similar calculation is performed whenever there is an indication that the parent company's shares in a subsidiary may be impaired.

## Response in the audit

We have obtained the documentation regarding the Delta ID Inc acquisition and analysed the allocation of the purchase price into the identifiable assets and goodwill. We have also evaluated the judgments made regarding the contingent consideration in connection with the acquisition. We have analysed the group's goodwill impairment test in order to determine whether it has been carried out in accordance with the prescribed IFRS methodology. Furthermore, we have assessed management's cash flow forecasts and the appropriateness of the underlying assumptions, such as the long-term growth rate and discount rates. As part of this analysis, we have considered how the numbers would be impacted as the

contingent consideration did not become payable. We have also reviewed valuation specialist's work to assist us in the impairment test analysis. In our assessment of whether there are indications of asset impairment, we have also considered management's sensitivity analyses and the potential impact of reasonable changes in assumptions. With regards to the valuation of other intangible assets and shares in subsidiaries, we have obtained and evaluated management's documentation and forecasts to ensure that there are no impairment indications. We have selected samples of capitalised costs for testing and vouched them to supporting documents.

Moreover, we have verified that the disclosures in the annual report in all material respects are in accordance with the requirements of the applicable accounting standards.

#### **Inventory valuation**

See note 1 and 18 in the annual account and consolidated accounts for detailed information and description of the matter.

#### **Description of key audit matter**

The carrying value of the group's and the parent company's inventory per 31 December 2018 amounts to SEK 0.3 billion, which represents approximately 15% of the group's total assets. The inventory balance consists of raw materials, work in progress and finished goods. The market for these products is constantly evolving and highly competitive. New products are continuously being marketed. The assessment of whether the inventory may be sold for more than the initial cost is complex and involves significant levels of judgment regarding whether the products may be sold as components in current or future constellations. There is a risk that the evaluation of the need for inventory write-off may be over- or underestimated.

#### **Response in the audit**

We have read and analysed management's assessment regarding the need to provide for inventory obsolescence. We have challenged management's assessment and their assumptions regarding future sales of the products currently in stock. Additionally, we have evaluated the accuracy of historical sales forecasts. We have considered whether the process of identifying a need for an inventory obsolescence provision seems appropriate and we have tested the operating effectiveness of relevant controls.

#### **Other Information than the annual accounts and consolidated accounts**

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–47 and 82–88. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

#### **Responsibilities of the Board of Directors and the Managing Director**

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

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

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

#### **Auditor's responsibility**

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures

in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions. We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

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

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

## Report on other legal and regulatory requirements

### Opinions

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

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statu-

tory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

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

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

### Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil 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
- any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

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

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

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Moore Stephens KLN AB, Lilla Bommen 4A, 411 04 Göteborg, was appointed auditor of Fingerprint Cards AB (publ.) by the general meeting of the shareholders on the 29th may 2018 and has been the company's auditor since 29th may 2018.

Göteborg 16th April 2019

Moore Stephens KLN AB

Ulf Lindesson

Authorized Public Accountant

# TEN-YEAR SUMMARY

<b>Income Statement</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues, SEK M	1,535.1	2,966.0	6,638.3	2,900.5	233.6	95.4	10.3	68.6	60.9	38.5
Gross profit, SEK M	2.4	988.9	3,165.3	1,255.3	71.6	39.2	-5.7	-37.0	20.4	6.0
Gross margin, %	0	33	48	43	31	41	-55	-46	33	16
Operating profit, SEK M	-771.6	154.6	2578.5	910.3	-145.2	-34.0	-38.7	2.7	1.6	-24.7
Operating margin, %	-50	5	39	31	-62	-36	-375	5	2.6	-64
Profit for the year, SEK M	-630.7	120.3	2,034.7	798.3	-144.0	-32.9	-38.1	3.4	2.0	-24.6
Profit margin, %	-41	4	31	28	-62	-35	-375	5	3.3	-64
Depreciation and amortization, SEK M	-117.8	-79.4	-48.6	-43.4	-32.1	-12.6	-10.8	-4.9	-6.4	-4.1
Impairment, SEK M	-148.6	-	-	-	-29.5	-	-	-	-	-5.9
EBITDA, SEK M	-505.2	234.0	2,627.1	953.7	-83.6	-21.4	-27.9	8.2	8.3	-14.7
<b>Financial position – Balance sheet</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Intangible assets, SEK M	1,102.7	1,188.3	71.4	49.7	69.8	54.3	29.1	28.2	22.9	12.3
Property, plant and equipment, SEK M	30.2	46.6	29.2	20.6	18.8	5.4	4.8	4.2	3.7	0.3
Financial assets, SEK M	27.8	-	-	1.0	-	-	-	0.9	-	-
Inventories, SEK M	347.5	646.1	672.7	153.0	98.8	19.9	11.4	4.3	7.9	9.1
Accounts receivable, SEK M	232.7	437.5	1,132.1	617.9	115.8	31.1	6.2	53.0	17.2	9.7
Other receivables + prepaid expenses, SEK M	37.8	313.1	435.4	36.6	19.5	10.1	3.1	3.2	3.8	2.3
Cash and cash equivalents + investments in securities etc, SEK M	540.5	920.2	1,162.2	1,031.3	101.9	211.7	60.6	23.0	30.8	50.1
Shareholders' equity, SEK M	1,775.5	2,330.8	2,226.1	1,146.8	301.1	289.7	101.9	106.3	78.0	74.3
Deferred tax, SEK M	51.9	189.8	136.3	-	-	-	-	1.2	-	-
Non-current liabilities, SEK M	-	221.9	-	-	0.2	0.4	0.7	-	-	-
Current liabilities, SEK M	491.8	809.3	1,140.6	763.2	123.3	42.3	12.7	9.3	8.3	9.5
Working capital, SEK M	666.7	1,507.6	2,261.8	1,075.6	212.7	230.5	68.6	74.2	51.4	61.7
Total assets, SEK M	2,319.2	3,551.8	3,503.0	1,910.1	424.6	332.5	115.3	116.8	86.3	83.8
Inventory turnover rate, days	117	120	43	29	132	94	181	74	103	154
Average credit period, days	79	95	47	46	113	99	1035	184	80	85
Return on capital employed, %	-43	6	117	126	-48	-12	-44	3	2.6	-33
Return on equity, %	-39	5	121	110	-48	-12	-44	3	2.6	-132
Return on total capital, %	-33	4	75	78	-34	-10	-38	3	2.3	-117
Equity/asset ration, %	77	66	64	60	71	87	87	91	90	89

## Definitions

Most of these key figures are Alternative Performance Measures according to ESMA's definition. How these key figures are used is described below, as is how they are calculated. The alternative performance measures are used to provide a more comprehensive description of how operational activities are developing, such as gross margin, gross profit, operating margin, EBITDA and revenue increase, while other alternative performance measures focus on the owner perspective, such as return on equity, and cases where certain balance sheet items or cash flow items are placed in relation to the number of shares. In addition, the equity/assets ratio is provided to describe the financial position and long-term financial sustainability.

**Average credit period** Average value of accounts receivable over the period in relation to net sales, multiplied by 360 day.

**Average number of shares** Average number of shares in the period.

**Average number of shares after dilution** Average number of shares plus an increase by the average number of shares that could be issued as a result of current remuneration and personnel programs.

**Capital employed** Total assets minus non-interest bearing liabilities.

**Cash flow from operating activities/share** Cash flow from operating activities after changes in working capital/average number of shares before and after dilution.

**Cost of goods sold** Cost of materials, production expenses and amortization according to plan of capitalized development expenditure.

**Earnings per share for the period** Profit for the period/number of shares outstanding at period end.

<b>Cash flow</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cash flow from operating activities, SEK M	274.6	376.9	1,130.3	910.4	-174.2	-28.8	14.5	-22.2	-0.6	-11.3
Cash flow from investing activities, SEK M	-162.6	-1,071.0	-78.3	-26.0	-90.6	-38.3	-11.4	-11.7	-20.4	-1.5
Cash flow from financing activities, SEK M	-507.7	481.7	-955.7	47.4	155.0	220.5	34.5	24.9	1.8	40.3
Cash flow for the year, SEK M	-395.7	-212.4	96.3	931.8	-109.8	151.1	37.6	-7.8	-19.3	27.5
<b>The share</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Earnings per share, SEK	-2.01	0.38	6.40	2.53	-0.49	-0.12	-0.17	0.02	0.01	-0.22
Earnings per share after full dilution, SEK	-2.01	0.38	6.33	2.48	-0.49	-0.12	-0.17	0.02	0.01	-0.22
Cash and cash equivalents + investments at year-end/ share, SEK	1.72	2.93	3.70	3.26	0.35	0.83	0.17	0.11	0.16	0.25
Equity per share, SEK	5.66	7.42	7.11	3.63	1.03	1.06	0.47	0.49	0.39	0.65
Equity per share after full dilution, SEK	5.66	7.42	7.09	3.57	0.97	1.04	0.47	0.50	0.39	0.65
Cash flow from operating activities per average number of shares, SEK	0.87	1.20	3.56	2.86	-0.61	-0.11	0.14	-0.10	0.00	-0.10
Number of shares at end of the year, 000	313,967	313,967	313,967	316,196	292,106	270,806	239,041	218,048	198,348	198,348
Average number of shares during the year, 000	313,967	313,967	317,726	315,349	287,574	254,470	228,841	216,943	210,719	89,283
Number of shares after dilution, 000	313,967	313,967	321,408	321,372	310,306	276,441	230,362	216,943	210,719	89,283
Dividend per share, SEK	-	-	-	-	-	-	-	-	-	-
Share price at end of the year, SEK	10.13	15.81	62.85	118.20	7.00	10.90	2.50	1.90	1.80	0.70
Market capitalization at end of the year, SEK M	3,180	4,964	19,733	37,374	2,033	2,938	559	406	355	131
Anställda vid periodens slut	220	415	306	150	104	48	19	19	19	13

**Earnings per share after dilution** Earnings per share plus adjustment for the number of shares and the paid exercise price resulting from current remuneration and personnel programs. Earnings per share after dilution can never exceed earnings per share before dilution.

**Shareholders' equity per share** Shareholders' equity attributable to equity holders of the Parent Company divided by the number of shares outstanding, before dilution, at the end of the period.

**Shareholders' equity per share after dilution** See "Shareholders' equity per share" plus adjustment for the number of shares and the paid exercise price in current remuneration and personnel programs.

**EBITDA** Earnings before interest, taxes, depreciation and amortization. Operating profit before financial income/expense, taxes, depreciation/amortization and impairment losses.

**Equity/assets ratio** Shareholders' equity divided by total assets.

**Gross margin** Gross profit as a percentage of net sales.

**Gross profit** Revenues less cost of goods sold.

**Inventory turnover rate, days** Average value of inventory over the period in relation to cost of goods sold, multiplied by 360 days.

**Net margin** Profit for the period as a percentage of revenues.

**Number of shares outstanding at period end** Number of shares less bought back shares held in treasury.

**Operating margin** Operating profit as a percentage of revenues.

**Operating profit** Operating profit before financial income/expenses and tax.

**Profit for the year** Profit after financial income/expenses and tax.

**Return on equity** Profit for the period in relation to average shareholders' equity for the period. Average shareholders' equity is defined as shareholders' equity at the start of the period plus shareholders' equity at the end of the period divided by two.

**Return on capital employed** Operating profit + financial income as a percentage of capital employed.

**Return on equity** Net income as a percentage of shareholders' equity.

**Return on total capital** Operating profit + financial income as a percentage of total capital.

**Revenue increase** The increase in revenues compared to the corresponding period one year previously, and expressed as a percentage.

**Working capital** Current assets less current non-interesting-bearing provisions and liabilities.

# GRI INDEX AND SUSTAINABILITY INFORMATION

Fingerprints' sustainability reporting is our yearly reporting of how we create value for the customer, the end-user and the society in general. The sustainability reporting also describe how we work with ethics as well as our environmental and social impact. The Report is found in its entirety on pages 18–30. The sustainability report pertains to the fiscal year 2018.

Fingerprints reported on its sustainability work for the first time in 2015. This is the second year the reporting has been prepared pursuant to Global Reporting Initiative (GRI) standards, Core option. The Report satisfies the standards on sustainability reporting stipulated by the Swedish Annual Accounts Act and the auditor's statement that a sustainability report has been prepared is found on page 30.

The sustainability reporting is also Fingerprints' communication on progress for the Global Compact.

Fingerprints have also been applying the Nasdaq Nordic & Baltic Guide for ESG reporting, which is a complement to GRI Standards and the UN Global Compact, since 2017. The Guide is based on recommendations from the Sustainable Stock Exchanges (SSE)

initiative. We want to participate in creating better and broader-based sustainability reporting for listed companies, and thus, more sustainable and transparent markets.

## GRI INDEX – GENERAL DISCLOSURE

Title	Page	Comment	Fulfillment	UN GC	NASDAQ
<b>ORGANIZATIONAL PROFILE</b>					
102-1 Name of the organization		Cover/Fingerprint Cards AB.	Achieved		
102-2 Activities, brands, products, and services	11-12	Products and solutions/Fingerprints' range does not include any products prohibited on any market.	Achieved		
102-3 Location of headquarters		Rear cover	Achieved		
102-4 Location of operations		Cover inside/Fingerprints in brief	Achieved		
102-5 Ownership and legal form	31-33	Cover inside/Fingerprints in brief The share	Achieved		
102-6 Markets served	11-12	Products and solutions	Achieved		
102-7 Scale of the organization	48-51	Statutory Administration Report	Achieved		
102-8 Information on employees and other workers	21	Human resource/ • All data as of 31 December 2018 • Employees; individuals with a direct employment contract • Coworkers; employees and consultants on assignment with at least of 50% of an FTE position • Fingerprints' operations are not affected by seasonality	Achieved		S5. Temporary Worker Ratio
102-9 Supply chain	14-17	Value chain	Achieved		
102-10 Significant changes to the organization and its supply chain	4-6 18-22	Message from the CEO Human resource	Achieved		
102-11 Precautionary Principle or approach	22-27	Sustainability • Fingerprints' Code of Conduct and Environmental Policy apply the Precautionary Principle. • Fingerprints' sustainability framework has specific environmental goals linked to the Precautionary Principle.	Achieved	Principle 7	
102-12 External initiatives	20-22	Sustainability/Fingerprints is a member of the UN Global Compact.	Achieved		
102-13 Membership of associations	20-22	Sustainability/Fingerprints is a member of the Responsible Business Alliance, Eurosmart and the UN Global Compact Network.	Achieved		

## GRI INDEX – GENERAL DISCLOSURES

Title	Page	Comment	Fulfillment	UN GC	NASDAQ
<b>STRATEGY</b>					
102-14 Statement from senior decision-maker	4 35	<b>Message from the CEO</b> <b>Message from the Chairman</b>	Achieved		
<b>ETHICS AND INTEGRITY</b>					
102-16 Values, principles, standards, and norms of behavior	22-27 19	<b>Sustainability/Sustainability Framework, Corporate Responsibility.</b> <b>Personnel/Fingerprints</b> has four core values: Smart, Brave, United and Open..	Achieved	Principle 3, 6, 10	G7. Anti-Bribery/ Anti-Corruption G6. Ethics—Code of Conduct G5. Supplier Code of Conduct
<b>GOVERNANCE</b>					
102-18 Governance structure	36-43 22	<b>Corporate Governance Report</b> <ul style="list-style-type: none"> <li>Governance of Fingerprints as a company.</li> </ul> <b>Sustainability</b> <ul style="list-style-type: none"> <li>Governance of sustainability is through the Sustainability Forum.</li> <li>Corporate responsibility governs all Policies and the Code of Conduct.</li> </ul>	Achieved		G2. Board—Transparent Practices E9. Environmental Policy S8. Global Health Policy G5: Supplier Code of Conduct G6: Code of Conduct G7: Bribery Anticorruption Code.
<b>STAKEHOLDER ENGAGEMENT</b>					
102-40 List of stakeholder groups	24	<b>Sustainability</b>	Achieved		
102-41 Collective bargaining agreements		Fingerprints does not apply collective bargaining agreements but encourages its employees to join trade unions.	Achieved		
102-42 Identifying and selecting stakeholders	24	<b>Sustainability</b>	Achieved		
102-43 Approach to stakeholder engagement	24	<b>Sustainability</b> <ul style="list-style-type: none"> <li>Fingerprints' management system is certified according to ISO 9001 and ISO 14001.</li> <li>Our materiality analysis is included in our management system and is followed up annually.</li> </ul>	Achieved		
102-44 Key topics and concerns raised	24 28-29	<b>Sustainability</b> <ul style="list-style-type: none"> <li>Stakeholder dialogue and risk analysis are the foundation for producing the materiality analysis.</li> </ul> <b>Risks and risk management</b> <ul style="list-style-type: none"> <li>Material issues that involve risks to operations are dealt with pursuant to Fingerprints' risk management procedures.</li> </ul>	Achieved		

# GRI INDEX AND SUSTAINABILITY INFORMATION

## GRI INDEX – GENERAL DISCLOSURE

Title	Page	Comment	Fulfillment	UN GC	NASDAQ
<b>REPORTING PRACTICE</b>					
102-45 Entities included in the consolidated financial statements	26-27	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Procedures for gathering sustainability information are in development. Accordingly, specific sustainability data is for the Scandinavian offices only. See the sustainability section for specific detail.</li> </ul>	Achieved		
102-46 Defining report content and topic boundaries	18-27	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Procedures for gathering sustainability information are in development.</li> <li>Report contents and its boundaries are presented jointly with sustainability goals.</li> </ul>	Achieved		
102-47 List of material topics	24 28-29	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Materiality analysis.</li> </ul> <b>Risks and risk management</b> <ul style="list-style-type: none"> <li>Other Sustainability Risks and Opportunities.</li> </ul>	Achieved		
102-48 Restatements of information		No restatements made since the previous year.	Achieved		
102-49 Changes in reporting		No restatements made on the previous year affecting the company's sustainability reporting.	Achieved		
102-50 Reporting period	84	1 January–31 December.	Achieved		G9. Sustainability Report
102-51 Date of most recent report	84	Reporting is yearly.	Achieved		G9. Sustainability Report
102-52 Reporting cycle	84	Reporting is yearly.	Achieved		G9. Sustainability Report
102-53 Contact point for questions regarding the report		Stefan Pettersson, Head of Investor Relations. Email; Investrel@fingerprints.com	Achieved		G9. Sustainability Report
102-54 Claims of reporting in accordance with the GRI Standards	84	GRI Standards, Core-nivå.	Achieved		G9. Sustainability Report
102-55 GRI content index	84-87	See this index.	Achieved		G9. Sustainability Report
102-56 External assurance		Fingerprints does not apply external examination of the sustainability information in its Annual Report. Certain information has been examined as part of certification according to ISO 14001, ISO 9001 and reporting to the CDP.	Achieved		G9. Sustainability Report G10 Other Framework Disclosures G11. External Validation & Assurance
<b>MANAGEMENT APPROACH</b>					
103-1 Explanation of the material topic and its Boundary	24 28-29	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Stakeholder analysis.</li> <li>Materiality analysis</li> </ul> <b>Risks and risk management</b> <ul style="list-style-type: none"> <li>Other Sustainability Risks, see in-depth review of each identified risk.</li> </ul>	Achieved		
103-2 The management approach and its components	22-27 28-29	Generally; Policies have been produced for material segments under Corporate Responsibility (including a speak-up policy for escalating sensitive issues) and specific targets related to each material segment are under sustainability targets. <b>Sustainability section</b> <ul style="list-style-type: none"> <li>Intressentanalys.</li> <li>Väsentlighetsanalys.</li> <li>Corporate Responsibility.</li> <li>Sustainability Framework.</li> <li>Sustainability targets</li> </ul> <b>Risks and risk management</b> <ul style="list-style-type: none"> <li>Other Sustainability Risks, see in-depth review of each identified risk.</li> </ul>	Achieved		
103-3 Evaluation of the management approach		Auditor's report.	Achieved		



## GRI INDEX – SPECIFIC DISCLOSURES

Title	Page	Comment	Fulfillment	UN GC	NASDAQ
<b>ECONOMIC</b>					
<b>Anti-corruption</b>					
205-1 Operations assessed for risks related to corruption.	28-29	<b>Risks and risk management</b> • A risk assessment for corruption is conducted at an overall level.	Partial	p. 10.	
205-2 Communication and training about anti-corruption policies and procedures.	18-27	<b>Sustainability section</b> • Sustainability targets/all employees undergo training in corporate responsibility, and specifically, on the Code of Conduct, in their induction training. • 50% of employees have taken e-learning in the Code of Conduct, which contains an in-depth section on corruption.	Achieved	p. 10.	
205-3 Confirmed incidents of corruption and actions taken.		Fingerprints did not have any corruption incidents in 2018.	Achieved	p. 10.	
<b>ENVIRONMENT</b>					
<b>Materials</b>					
Industry-specific targets for measuring spoilage levels in production.	26	<b>Sustainability section</b> Measures spoilage of silicon wafers and employs a target of continuous improvement.		p. 7, 8.	
<b>Emissions</b>					
305-2 Energy indirect (Scope 2) GHG emissions.	26	<b>Sustainability section</b> The sustainability targets state a reduction of CO2 emissions pursuant to scope 2. The methodology is described in the following notes.	Achieved	p. 7, 8.	E1. Direct & indirect GHG emissions
<b>Supplier environmental assessments</b>					
308-2 Negative environmental impacts in the supply chain and actions taken.	26	<b>Sustainability section</b> Targets set for developing a tool to enable comparisons between suppliers' environmental impacts.	Achieved		
<b>SOCIAL IMPACT</b>					
<b>Occupational Health and Safety</b>					
403-1 Workers representation in formal joint management-worker health and safety committees.	27	<b>Sustainability section</b> health & safety councils and health & safety representatives were appointed at all Swedish offices in 2017.	Partial		
403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	27	<b>Sustainability section</b> • Under health & safety.	Achieved		S7. Injury Rate
<b>Diversity and Equal Opportunity</b>					
405-1 Diversity of governance bodies and employees.	21 44-47	<b>Personnel</b> Fingerprints does not record the minority origin of its staff, and accordingly does not disclose this item, only gender, age group, and region. <b>Board of Directors/Group Management</b>	Partial	p. 6.	S12. Board – Diversity S4. Gender Diversity
<b>Human rights assessment</b>					
412-1 Operations that have been subject to human rights reviews or impact assessments.		Fingerprints judges that the impact of human rights can primarily be on purchasing raw materials for plants if conflict minerals are utilized. Also through biometric integrity being protected in the usage of Fingerprints' products. Impact has not been analyzed by country.	Partial	p.1, 2 & 4.	

# SHAREHOLDER INFORMATION

## Fingerprint's IR website

Updated corporate, share and insider information, an archive of financial reports and press releases, and a subscription facility for financial reports and press releases is available at [www.fingerprints.com](http://www.fingerprints.com). For environmental and cost reasons, Fingerprints has decided not to distribute physical Annual Reports to shareholders. Annual and Quarterly Reports, and Press releases, are available from the company's investor website.

## Reporting dates

- Q1 Interim Report 2019 January–March, 15 May 2019
- Q2 Interim Report 2019 January–June, 15 August 2019
- Q3 Interim Report 2019 January–September, 15 November 2019

## Annual General Meeting

The Annual General Meeting (AGM) will be held at 3 p.m. on Wednesday, 22 May 2019 at Scandic Crown, Polhemsplatsen 3, Gothenburg, Sweden.

Shareholders who wish to participate in the AGM should firstly be included in the share register maintained by Euroclear Sweden AB as of Thursday 16 May 2019, and secondly notify the company of their participation by no later than 4 p.m. on 16 May 2019, either via the company's website, [fingerprints.com/agm2019](http://fingerprints.com/agm2019), by telephone +46 (0)8 518 01552, or by mail to Computershare AB, "Fingerprint Cards AB AGM", Box 610, 182 16 Danderyd.

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# GLOSSARY

## Algorithm

A systematic procedure for how to conduct a calculation or solve a problem in a given number of steps. In Fingerprints' specific case, the method refers to the comparison of two fingerprints with each other.

## Authentication

Control process for a particular entity; in conjunction with logging on, for example. The word is synonymous with verification.

## Biometric system

A pattern recognition system that identifies or verifies an individual by studying a physiological characteristic of that individual, such as a fingerprint.

## Chip

A piece of silicon that an integrated circuit is embedded in, such as a sensor chip. Normally, a silicon wafer is divided into a number of chips, with each chip being essentially identical.

## Design win

Decision by a customer (OEM or ODM) to start developing one or several commercial products using Fingerprints' technology integrated into one or more of its products.

## Identification

Comparison of compiled biometric data with all stored templates for the purpose of identifying one of these templates (and thus an individual) from many.

## The Internet of Things

Internet-connected devices that are linked to the Internet and can thus communicate with/be controlled via the Internet.

## Matching

The process of comparing an image of a fingerprint with a pre-processed template, and assessing whether or not they are similar.

## Modality

Type of biometric feature, such as fingerprint sensors and iris sensors.

## ODM

Original Design Manufacturer, a company that develops and manufactures products sold under the trademarks of other companies.

## OEM

Original Equipment Manufacturers—companies that manufacture the end product that is sold on an open market.

## Smart card

Plastic card with an embedded chip containing information about the card and its owner.

## Smartphone/tablet

A combined mobile phone and handheld computer linked to the Internet via mobile broadband. A smartphone has a complete mobile operating system that is transferable between multiple devices enabling the user to easily install mobile apps, which are small third-party programs that increase the phone's functionality.

## Template

An arrangement of unique data that represents a specific fingerprint.

## Touch sensor

A sensor that scans a fingerprint directly when a fingertip touches the sensor surface; compare to swipe sensor.

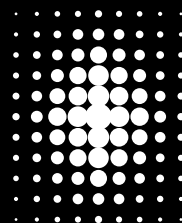
## Wafer

A thin circular slice of silicon containing a number of integrated circuits such as sensor chips.

## Verification

The comparison of compiled biometric data with a given template for the purpose of verifying that the two match. This enables the authentication of an individual with a high degree of certainty.





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