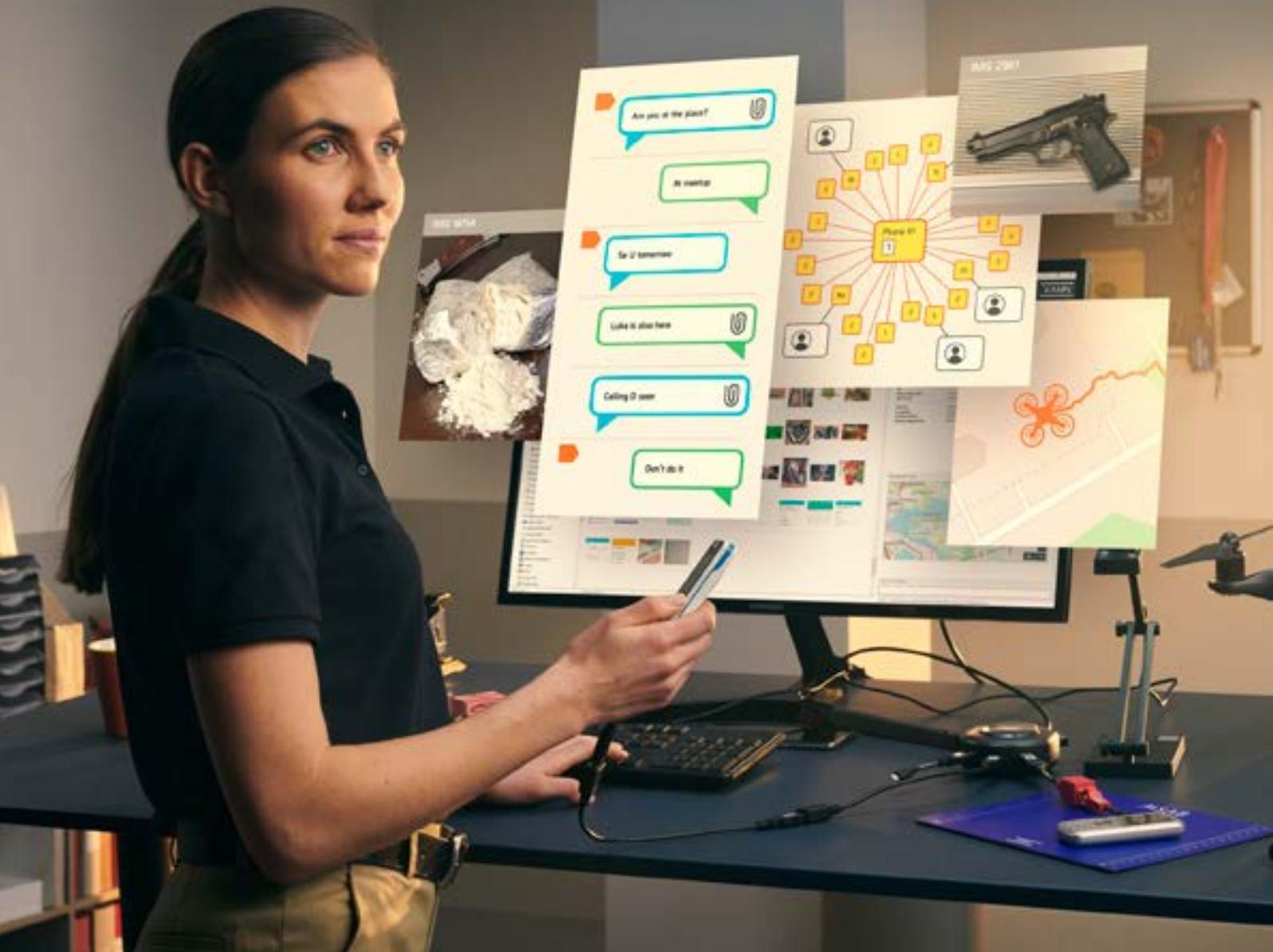


MSAB



Annual Report 2019

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This is a translated extract of the original Swedish version. In the event of any discrepancies between the two versions, the original Swedish version shall take precedence.

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MSAB in brief

MSAB is an international actor within the field of digital forensics. The Company supplies systems for extraction and analysis of data from digital devices such as mobile phones, tablets and drones, as well as products which can unlock digital devices, extract information and then decrypt it.

The Company stands for new ways of working to ensure the security of the chain of evidence – faster, simpler, and more efficiently – and in this way creates great value for its customers, such as law enforcement agencies, the military, intelligence agencies, customs and migration authorities, and corrections. MSAB has clear growth strategies combined with a business model that entails scalability and a high degree of recurring revenues. The Company is represented in 17 countries and has 196 employees.



NET SALES (SEK MILLIONS)

308

AVERAGE GROWTH
FIVE YEARS

11.8%

EBIT (SEK MILLIONS)

6.3

EBIT MARGIN

2.1%

2019 in brief

Net sales for the year increased 1.2 percent to SEK 307.6 (303.9) million. In local currencies, net sales decreased 4 percent. EBIT amounted to SEK 6.2 (32.7) million, corresponding to an EBIT margin of 2.0 (10.8) percent.

Q1

Net sales increase 1.5 percent and the EBIT margin is -8.6 percent.

The updated version of XRY supports over 27,000 devices and app profiles.

Q2

Net sales increase 1.7 percent and the EBIT margin is -17.8 percent.

The 2019 Annual General Meeting decides to distribute a dividend of SEK 2.2 per share to shareholders.

Q3

Net sales increase 4.4 percent and the EBIT margin is 21.3 percent.

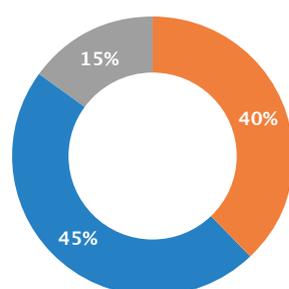
With XRY 8.1, there is now support for more than 28,000 devices and app profiles.

Q4

Net sales decline 2.5 percent and the EBIT margin is 4.4 percent.

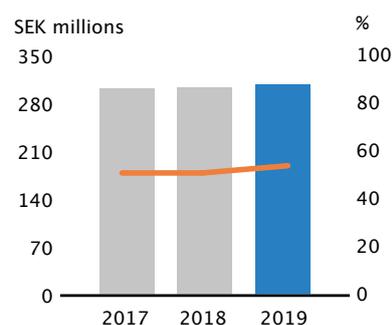
Investments targeting future growth within Frontline and analysis products continues. XRY now supports more than 29,000 devices and app profiles.

SALES PER REGION



- North America
- EMEA & Latin America
- Asia & Russia

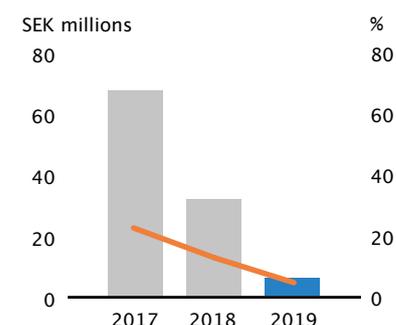
NET SALES AND RECURRING REVENUES*



- Net sales
- Percentage recurring revenues

*) See definitions page 21

EBIT AND EBIT MARGIN



- EBIT
- EBIT margin

Full focus on future growth

Ten years ago, both Nokia and Sony Ericsson were the leading manufacturers of mobile phones. Smart phones were at the beginning of their establishment, and the market was changing rapidly. XRY was MSAB's only customer offering. It was available in a small number of configurations and by 2009 it was possible to recreate deleted information in mobiles.

Today the situation is different. The market is dominated by smart phones based on Apple's or Google's operating systems. MSAB now has a comprehensive product offering for law enforcement authorities globally. It consists of 16 different products for extraction, analysis and system administration. Several of the products are available in different configurations to satisfy differing client needs.

This development has not occurred without significant investment in product R&D and in our organisation. Since 2009, we have grown from 37 employees to a workforce of around 200, and our turnover has grown from SEK 81 million in 2009 to just over SEK 307 million today. Neither profitability nor sales growth has been linear. We have stressed that our primary goal is to profitably offer law enforcement authorities tools to help them become more efficient in their work. To do this, we have to stay on the cutting edge of technological development. It also means profitability will vary over time.

Growth in license renewals

Over the past decade, the capacity of the police to solve crime has declined continuously. In Sweden alone, only one in ten crimes is solved. Our original product, XRY

Office, remains the main generator of revenues but also represents the lion's share of our license renewals and thus our growth. License renewals grew in 2019 in all regions, and this underlines the importance of the comprehensive product development efforts. We are building customer confidence and quality.

At the same time, the gap between what the police can do and what is actually possible must close, and this can occur through increased use of all our products. But it's a long process. Organisations managed through budgets are seldom as open to change as result-oriented organisations are.

Investments in business area Frontline

During the past year, we have made comprehensive investments in business area Frontline. We did this because we see how demand to utilise information from mobile devices is growing, and that this need can no longer be satisfied within existing IT labs or through forensics. Capacity must increase and this can only happen through the regular police force. Frontline's purpose is to create advanced products to be used by police officers with minimal instruction. Preliminary and in-depth investiga-



Developing the new XAMN, the world's fastest analysis product for mobile phones.



MSAB kick-off 2020 at Djurönäset – panel debate on the challenges facing law enforcement authorities as regards mobile phones.

“ I am proud of the contribution that MSAB and our products make in the work of criminal investigative authorities world-wide.

tions can thus become decentralised and more efficient. For Frontline and our analysis products, we have not yet exploited the great potential that we are convinced exists. Our efforts in these areas are conscious and will continue.

The digital revolution that pervades in all of our lives challenges law enforcement authorities as never before. MSAB knows what is needed to help our clients improve and become more efficient, and we know what it takes to reverse negative trends – a sound strategy for digital investigation and a secure chain of custody for evidence.

The market where we are active is seriously underinvested; our customers have a great need to invest if they are to succeed within the digital revolution that is underway.

Finally, I would like to take this opportunity to say how proud I am of the contribution that MSAB and our products make in the work of criminal investigative authorities world-wide. Our products make a difference. Every single day.

Stockholm, April 2020

Joel Bollö

Chief Executive Officer



MSAB kick-off 2020 at Djurönäset – our employees gathered and getting ready to continue making the world a safer place.



Digitalisation of society – a challenge for law enforcement authorities

Digitalisation, and mobile technology in particular, continue to change the world and create new challenges for law enforcement. Today, mobile phones and other portable digital devices are relevant in nearly all investigations as sources of evidence and intelligence.

The result is that the technical divisions of forensic labs are drowning in phones, while investigators must wait for results and then sift through vast quantities of data to find evidence. This is why we can no longer see the extraction of digital evidence as a separate, specialist field. With the

right tools and solutions, all investigators can benefit from handling this evidence. Digital forensic expertise is freed up to concentrate on more complicated work, while those on the front line and investigators can take care of the initial collection of evidence. This requires powerful, user-



friendly tools for different roles, and a smarter process to facilitate cooperation and provide faster access to critical information.

Digital forensics is the process of extracting and interpreting digital data. The goal is to preserve all evidence in its original form, while simultaneously conducting a structured investigation by gathering, identifying and validating digital information to reconstruct earlier events. The context is most often for final use of data as evidence in a court of law. Digital forensics can also be used in other types of cases as described in the section on MSAB's various customer segments.

The challenges law enforcement agencies face regarding digital evidence can be summarised as follows:

- Today, more and more evidence in investigations is digital and comes from many different sources: smart phones, mobile apps, tablets, drones, vehicles, smart watches, IoT devices, etc.
- These sources and types of evidence are evolving rapidly as a consequence of the continuous technical development that is underway.
- Data volumes are rising dramatically. It is more difficult, more time-consuming and more expensive than ever to search for, filter, analyse, store and handle data.

- Manufacturers (Apple, Samsung, Google, Microsoft, Facebook, etc.) are providing their law-abiding users with encryption and security layers that make it increasingly difficult for law enforcement agencies to access data.
- The average number of seized mobile phones is rising rapidly, which places enormous pressure on the teams responsible for extraction and analysis.
- The rising demands to follow standards, secure consistent methods, meet legal requirements and protect personal integrity, must be respected.

Meeting the above challenges will require an overarching digital strategy from all law enforcement authorities and investments in appropriate tools and solutions.

Challenge confirmed at a high political level

MSAB is the only private actor chosen to play a key role in the EU-financed consortium, FORMOBILE, a project aimed at creating a standardised digital forensic methodology for extraction and handling of digital evidence. The overall objective is improved security within the EU.

The project background is described thus: "Mobile phones are an important part of modern life, but they also



present a unique challenge for law enforcement agencies due to the volume and variants in circulation. They are also analysed differently from other devices such as computers and laptops, meaning the investigation requires a separate, forensic process. Criminals are using mobile phones to communicate, coordinate, organise and execute illegal activities. It is imperative that law enforcement agencies have ways to access, decode and use the data as evidence – in a safe, trustworthy and reliable manner.”

Meeting the EU consortium’s goals means striving to develop:

- new tools and technologies to unlock, acquire, decode and analyse previously unavailable data
- a new standard for data forensics for mobiles
- training in the new standard to ensure consistency and a high level of quality in investigations and forensic analysis of mobile data.

FORMOBILE secured EU support and put together a proposal which met demands for technology to improve the fight against crime and terrorism through use of digital forensics. In this way, the consortium contributes to the European security agenda, which means ensuring that people can live in an area with freedom, security and justice, without inner borders.

Project work began in May 2019 and will continue for three years.

Decentralisation of technology is the future

Decentralised solutions give non-experts the possibility to legally extract and secure evidence from seized mobile phones. MSAB calls these products Frontline. MSAB is the company that has installed the most frontline solutions in the world. For every customer, where there is a limited number of experts working with digital forensics, the wait times for recovery are often long. MSAB has mapped the world’s major cities and found that only a small percentage of these has implemented some form of decentralised solution for securing digital evidence. It is MSAB’s firm opinion that we could help the police greatly in making their law enforcement more effective by implementing Frontline solutions. A popular expression within law enforcement is the first “critical 48 hours”, i.e. if relevant evidence can be secured within this timeframe, the possibility of solving a crime increases by as much as 50 percent. Today, more or less all suspects have a mobile phone or some other form of digital device. This is also where the lion’s share of critical evidence can be found. Decentralisation of competence for obtaining digital evidence is thus crucial if law enforcement agencies are to obtain good results.

MSAB’s customer segments

Historically, MSAB has defined three main customer segments: the police and judiciary system, the military, and intelligence services. These three groups comprise most of MSAB’s business. However, the need for tools and methods for handling digital forensics is growing for other stakeholders such as customs and migration authorities and corrections.

Police and judiciary system

An overwhelming majority of law enforcement officers believe that digital forensics capacity is a bottleneck which limits effective law enforcement. There is an ever-increasing need for more tools, more trained specialists, faster data recovery and analysis, as well as access to the latest mobile devices and apps. Different types of law enforcement authorities are MSAB’s largest and most important customer segment, and several of the Company’s products and services are designed to solve the challenges they face. MSAB’s Frontline solutions are designed primarily with this segment in mind.

Military and intelligence services

In conflict zones world-wide, military and intelligence services need equipment for fast extraction and analysis of information from mobile devices found or seized from suspicious individuals. A major driving force behind this is the increase in global terrorism. Often the need is for so-called “actionable data”, i.e. information that must be extracted quickly to prevent additional crimes. Restored mobile devices are critical sources of intelligence, and the fastest possible extraction and analysis of data is important for saving lives and completing assignments. MSAB offers different types of forensic tools adapted for the demanding physical conditions in the field.

Migration authorities

The volume of international migration flows has increased steadily the last 20 years. This increase has posed enormous challenges for migration and border control authorities world-wide. In many cases, access to data on mobile phones is one of the most precise methods for confirming identity and origin – fundamental data for ensuring compliance with laws and regulations, and to prevent entry of criminals and extremists.

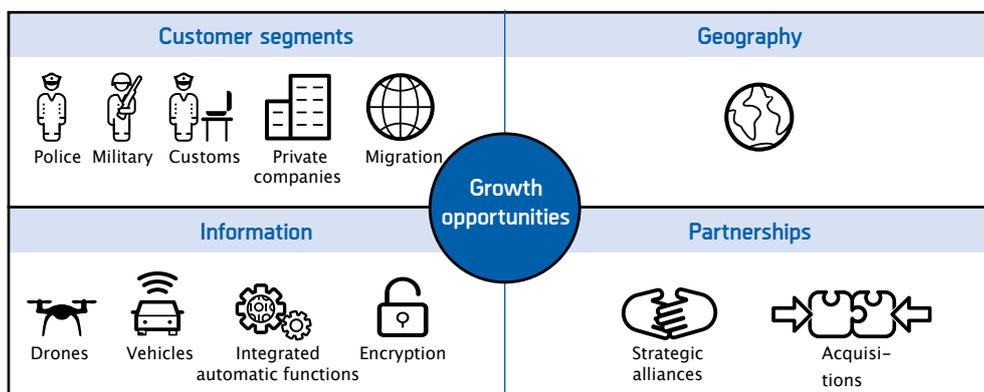
Customs authorities

Few authorities have a mandate as challenging as customs authorities. With an ever-increasing global trade flow via air, sea, rail, and road, customs authorities face great difficulties in finding and blocking illegal goods and identifying criminals without impacting the important flow of goods and people. Data in mobiles is an important source of information and evidence for customs investigators, and many are dependent on MSAB’s tools to fulfil their mission.

Corrections

Prohibited use of mobile phones presents a challenge for corrections operations. Phones are used to help commit additional crimes, coordinate gang activities, facilitate attempted escapes, and in some cases even attack personnel. Drones are often used to smuggle information and material into correctional facilities. All these mobile devices contain critical evidence and information needed to protect lives and maintain order. Many prisons use external forensic laboratories, often geographically distant from the facilities which creates delays in access to

GROWTH OPPORTUNITIES



critical information. Use of MSAB's products and solutions on site at correctional facilities means a significant improvement in efficiency and security.

Geographic overview

MSAB has a customer base with products sold in over 120 countries world-wide. The Company divides the market into three geographic areas: North America, EMEA & Latin America, and Asia & Russia. Digital challenges are global in nature as use of mobile phones does not differ notably between different parts of the world and crime is an element in the societies of all countries. Hence MSAB sees good growth potential in continued geographic expansion.

Growth potential in several vertical markets

To summarise, there are a number of trends and factors that drive the market where MSAB is active, and where technical development and the challenges our customers face in handling this technical development are central. With its technology and long history, and its knowledge of methods and best practices, MSAB is well-positioned to be the obvious partner for managing our customers' challenges. For MSAB as a company, there are good conditions for growth: customer segments, geography, an increasing number of information carriers which require additional forensic tools, and a variety of partnerships.

Customer growth

Various law enforcement agencies are MSAB's largest customer segment today, and there is enormous growth potential there. Law enforcement agencies world-wide are experiencing major challenges in managing the quantity of digital evidence, and in being sufficiently quick in presenting important evidence and information. Continuing decentralisation of police work so as to take advantage of digital evidence is central for MSAB's future growth. To this end, MSAB has developed Frontline. To be able to obtain and identify relevant information in the vast quantities of data requires efficient analysis tools. MSAB offers these through its XAMN product family. In addition to traditional law

enforcement operations, MSAB also delivers products and solutions to other critical societal functions including the military, intelligence agencies, customs, border control and migration authorities. All of these functions require information and evidence to perform their assignments. Their challenge is the same as for the police, i.e. the information they seek is to a great extent digital and difficult to access, hence the need for MSAB's products and solutions.

Several important data information sources

MSAB has the competence to extract data from most mobile devices, and most recently, even from vehicles and drones. This development will mean additional growth opportunities for MSAB in the form of adapting and offering customers solutions to handle multiple sources of data information.

Partnerships

Today, MSAB's partnerships include American companies Berla and Kovar, which enables MSAB to offer its customers extraction of data from vehicles and drones. MSAB sees good opportunities to develop new and existing partnerships, and to evaluate possible acquisitions, all with a view to improving our product offering and thereby creating further growth.



Pioneers in securing evidence from mobile phones

MSAB is the world leader within digital forensics for investigations involving mobile devices, with offices in Europe, the USA and Asia, and a world-wide network of distributors. The Company has been engaged in mobile communication since 1984 but since 2003 has focussed exclusively on digital forensics for the extraction and analysis of data from mobile devices.

MSAB focuses exclusively on solutions for the extraction of digital information which create legally-secure, reliable results for different law enforcement agencies. MSAB's products and solutions are used by the police, military, intelligence agencies and other authorities in more than 100 countries world-wide, with a goal of solving crimes, gathering intelligence, investigating fraud, and fighting corruption. In the UK alone, we supply 97 percent of the British police force with XRY for examination of mobile devices. The Company is based in Stockholm and has been listed on the Swedish stock market since 1999.

Business concept

MSAB shall deliver solutions world-wide that empower law enforcement authorities to effectively secure evidence recovered from digital devices.

Strategies

MSAB has identified several basic prerequisites that the Company sees as crucial for successful operations and thus for value creation for shareholders.

Product and service quality assurance

MSAB shall be the best provider of quality systems for recovery and analysis of data from digital devices. The ability to unlock digital devices, extract information, and then decrypt it is central for MSAB's success. A strong R&D department is necessary to achieve this. It is not just about building advanced systems with a high degree of functionality. Adapting the systems to end users and situations is just as important. Quality also entails a high degree of delivery assurance and first-class support.

Market presence

To be the best provider within a geographical market, MSAB must understand users' needs and conditions at the local level. As of 2019, MSAB is represented in 17 countries with its own staff, and in many more through various partnerships. In this way, proximity to existing and potential customers is created.

License renewals

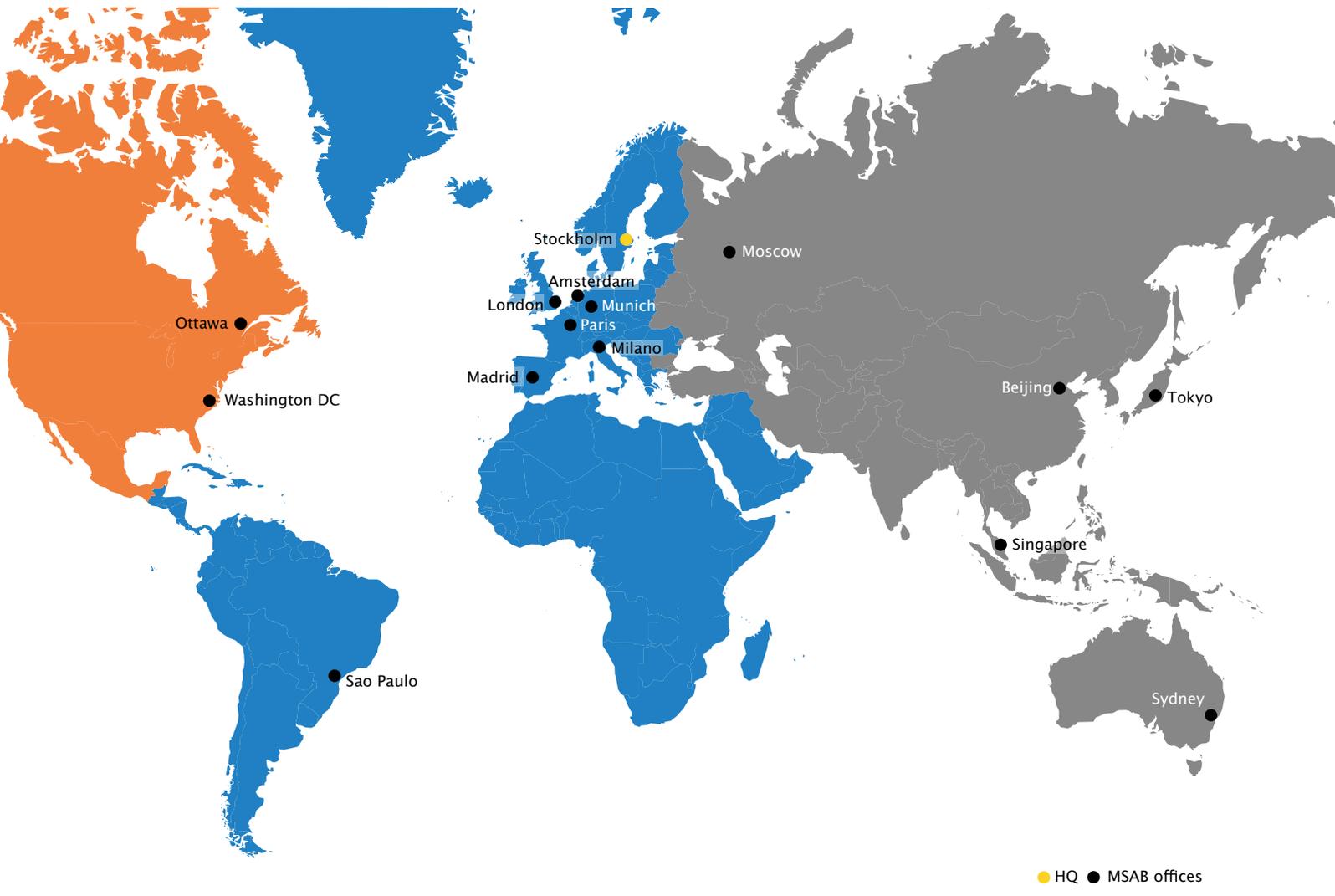
Through annual product license renewals, MSAB creates the prerequisites necessary for continuous investment in expanded support for new models of digital devices and new functions, thereby successively refining products for the customer. The continuous development of phones and applications drives both MSAB and our customers to continuously update software. This is a strong driving force behind the high degree of license renewal.

Growth

MSAB operates in a market with a high level of underlying growth. By investing long-term in product development, market presence and organisational strength, MSAB consolidates its market position. The Company is convinced that the need for professional tools for recovery and analysis of data from digital devices will continue to rise. MSAB is mainly focussed on organic growth, but in some cases also evaluates acquisitions.

Business and revenue model

- MSAB's core business consists of software where users purchase a license to use the basic software they have selected.
- A start-up package contains a license and a small amount of various hardware depending on the product.

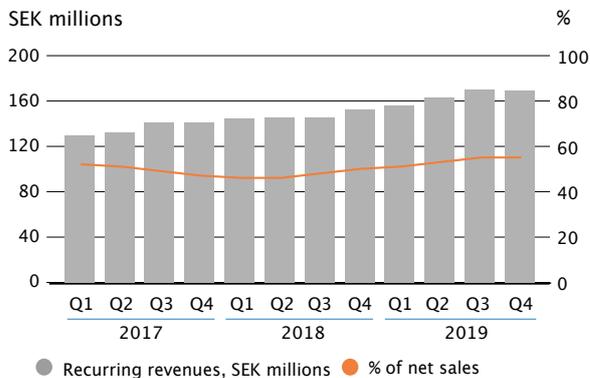


- Products such as Kiosk, Tablet, XRY Express and Field, include an actual platform (hardware) with pre-installed software.
- The length of a license varies from one to three years depending on what the customer wants, and where one year is most common.
- A license includes software updates which are being released continuously.
- When a license expires, the customer must renew the license to ensure access to the latest product updates.
- Invoicing usually occurs in advance or at the time of delivery.

Since MSAB's core business consists essentially of software, an increase in sales generates relatively low levels of direct costs. Thus, MSAB has a scalable business model where an increase in sales to a large extent increases revenue. MSAB continuously releases software updates for extraction of data. This is necessary as phones and applications are constantly being updated and developed, which affects software functionality. To guarantee our customers the best possible functionality, they must always have the latest version, and for that they need

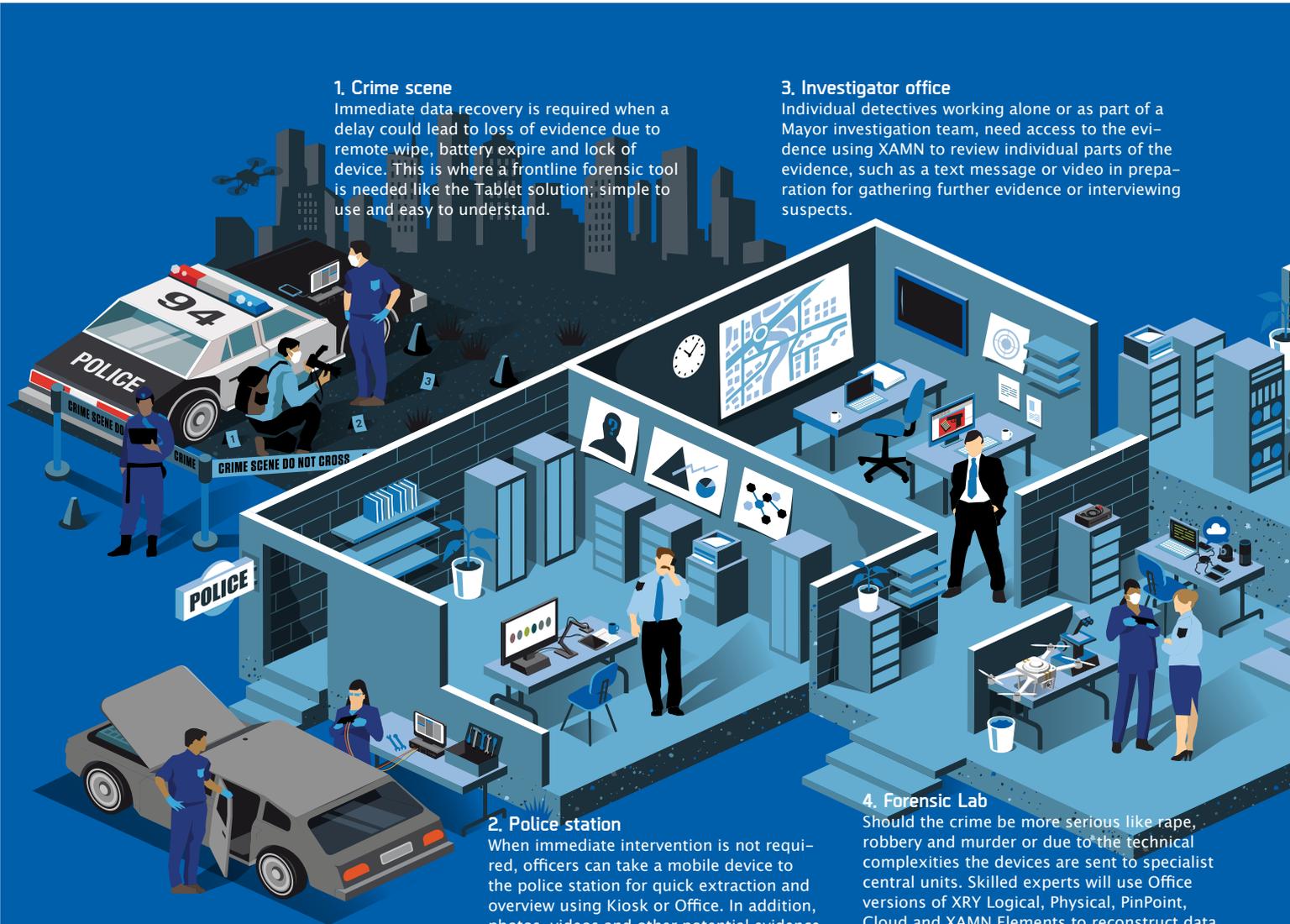
a valid license. This is a powerful driving force for our customers to renew their licenses, which gives MSAB a high percentage of recurring revenues.

RECURRING REVENUES¹ ROLLING 12 MONTHS



¹ For definitions of key figures, see Five-year Overview, page 21.

MSAB offers a complete ecosystem for handling of digital evidence



1. Crime scene

Immediate data recovery is required when a delay could lead to loss of evidence due to remote wipe, battery expire and lock of device. This is where a frontline forensic tool is needed like the Tablet solution; simple to use and easy to understand.

3. Investigator office

Individual detectives working alone or as part of a Mayor investigation team, need access to the evidence using XAMN to review individual parts of the evidence, such as a text message or video in preparation for gathering further evidence or interviewing suspects.

2. Police station

When immediate intervention is not required, officers can take a mobile device to the police station for quick extraction and overview using Kiosk or Office. In addition, photos, videos and other potential evidence can be pulled easily from mobile devices belonging to witnesses.

4. Forensic Lab

Should the crime be more serious like rape, robbery and murder or due to the technical complexities the devices are sent to specialist central units. Skilled experts will use Office versions of XRY Logical, Physical, PinPoint, Cloud and XAMN Elements to reconstruct data.

XRY
Extract

Extract and recover forensic data

The .xry file format

The XRY-file holds evidence securely throughout the investigation process, from the initial acquisition through analysis to the final presentation.

.xry

XAMN
Analyse

Visualise and analyse data for examination

MSAB's ecosystem is divided into three areas: products, platforms and services. Together they comprise a complete system for digital forensics that supports our customers throughout the entire chain of custody, regardless of type of user, site, mobile device or environment. MSAB has tools designed to suit the specific need. Our products and platforms comprise a range of tools for different purposes, situations and users. XRY is the driving file format and is common to all tools in our product families, which means

that extractions completed in the field by officers or investigators using Frontline solutions can immediately be sent to digital forensic labs, or examined locally with analysis tools without conversion. Investigators and technical experts can cooperate in a new way. Without leaving the ecosystem, an investigator can note interesting information and ask lab experts to search for related evidence. Once the lab has recovered new data, it becomes immediately visible and of use to investigators.

5. Analyst Office

If the device is part of a bigger case with several examined devices, the evidence may need specialist analysis to review. XAMN Horizon creates an overview of how each device fits into the investigation using advanced data visualisation.



7. Administration

Supervisors and IT staff want flexible, easy-to-manage mobile forensic systems, especially now that MSAB tools can be linked into networks. XEC Director gives supervisors control from one central location, so they can send watch lists as well as software and security updates, generate reports and monitor processes and users.

6. Court room

Evidence is often presented in court through printed reports. XAMN meets that need and can also be used to securely present evidence in its original digital form.

XEC
Manage
Efficient tools for management, administration and process

Sources of mobile data

MSAB Ecosystem supports the most important sources of mobile data.



Products and services for all phases of an investigation

MSAB's products consists of three product families: XRY, XAMN and XEC, where each one is dedicated to different stages of an investigation for securing digital evidence: extraction, analysis and administration/monitoring. For a more detailed and interactive description of MSAB's product portfolio, please visit our website: www.msab.com.

XRY – quickest extraction of maximum data

Criminal investigations in today's digitalised societies rely to a large extent on fast extraction of quality information from digital devices. MSAB's tool is called XRY and it offers a fast, legally-secure method for extracting and decrypting data, whether it be from mobile phones, drones, or other common mobile devices. Rapid development of mobile phones is central for MSAB. However, when investigating crimes, the simpler, older phones are most common. The reason is that these phones are cheaper for criminals to throw away when they want to get rid of evidence. Over the year, MSAB has built up comprehensive support for older phones and is continually adding support for new devices. MSAB's competence when it comes to older phones and their widely divergent operating systems makes it very demanding for new actors to enter the market. At the end of 2019, XRY was compatible with over 29,000 mobile devices and applications.

XAMN – finds specific evidence by sifting through vast quantities of data

Data volumes are increasing continuously, which is especially true for mobile phones with their ever-increasing capacity. Once data has been extracted from a device, a tool is necessary to identify information needed in a specific investigation. XAMN is a series of analytical tools, designed to enable investigators, reviewers or analysts to find key information or evidence as quickly as possible. This is achieved through powerful functions for searching, filtering and reporting. For example, investigators may want to learn who a suspect has been in contact with, when, and what was said or written. XAMN allows several

XRY files to be compiled in one place to compare data from different devices simultaneously and search for common links. Geodata stored in mobile phones is also critical information for linking one or more persons to a specific place. XAMN is composed of powerful, AI functions, such as automatic image recognition with sorting of certain types of images, e.g. weapons, drugs, etc. XAMN also has the critical capacity to reconstruct deleted data.

XEC – administration and follow-up

The need for technical solutions to extract information from mobile devices is rising continuously. This also creates a demand for enabling follow-up and measuring these solutions. XEC is the software that provides managers and administrators the tools for handling the entire installed solution, e.g. follow-up on number of extractions completed, compilation of results, issuance of policies and standards, and license updates, all in an efficient manner.

Several platforms to suit different users

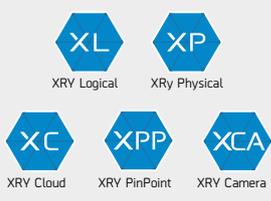
MSAB develops primarily different types of software for securing digital evidence. This software can be used on different platforms designed for our customers' differing needs within law enforcement. These needs vary greatly between police operations and military field operations. MSAB offers four platforms: MSAB Office, an open platform designed for skilled users in the digital forensics laboratory who already have a suitable Windows PC; MSAB Field, an open, robust laptop built to serve military units working in difficult environments while on the move; MSAB Kiosk, a turnkey solution for rapid and user-friendly extraction, where digital forensic data and tools are disseminated

XRY
Extract

Solutions for extracting data that include software and hardware

Runs on Windows operating system

Extracts data from mobile devices on cloud-based storage

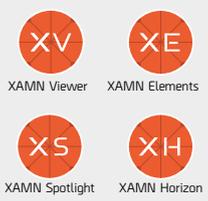


XL XRY Logical XP XRY Physical
XC XRY Cloud XPP XRY PinPoint XCA XRY Camera

XAMN
Analyse

Software for reviewing, visualising and analysing data from mobile devices.

Once the data has been extracted via XRY solutions, XAMN analyses the data and identifies important information.



XV XAMN Viewer XE XAMN Elements
XS XAMN Spotlight XH XAMN Horizon

XEC
Manage

Management and administrative tools designed to support managers and IT departments

XEC tools support XAMN and XRY in large-scale administration, e.g. bulk export of digital data to new formats



XD XEC Director XX XEC Export
XEP XEC Express

MSAB
Platforms

Packaged solutions on two main platforms

Open: Office and Field products, designed for Windows PCs with point-and-click interfaces

Turnkey: Kiosk and Tablet products, user-friendly via touch screen interface



MSAB Office MSAB Field
MSAB Kiosk MSAB Tablet

to a wider group of users; and MSAB Tablet, an easy-to-use tablet designed to quickly extract and restore data in minutes, optimal for use at crime scenes. Both MSAB Kiosk and Tablet fall under the concept Frontline, and are intended to enable decentralisation of digital forensics – from the lab to the users on the frontline.

Services and training

MSAB complements its software and hardware platforms with training and professional services. These help improve digital forensic processes and educate personnel to maximise the benefit of the forensic solutions that MSAB offers. This is done partly through structured training and partly through more strategic, in-depth analyses and mapping of customers’ specific situations. Furthermore, MSAB also offers product-related services called Access Services and Advanced Acquisition Lab. Within the framework of these two services, MSAB performs advanced extractions that enable access to the most encrypted and advanced mobile phones.

MSAB’s product development

At year-end 2019, the R&D department, together with the test and support department, consisted of 87 employees.

For the most part, the development department is organised according to our three main product families. The market for mobile phones and applications is evolving rapidly. The development department puts most of its efforts into maintaining and adding support for new and updated mobile devices and applications. That’s why it is critical that the Company’s products are continually updated so our customers can experience reliable functionality during the license period. As a rule, new functionality is included in the software. Some functionality can, however, be packaged as a service (see Access Services above). Normally, the Company releases four major updates to products annually. However, between these major releases, there are so-called micro releases, so that the software is compatible with as many mobile phones and applications as possible. At the end of 2019, XRY was compatible with over 29,000 different mobile phone profiles.

Our vision: working with our clients to make the world safe

Contributing to a more secure society is at the very heart and soul of MSAB and its employees. To this end, we develop products, services and solutions that work toward and contribute to a more legally secure society, and we strive to be a good supplier and partner to law enforcement authorities all over the world. Hence, our credibility as a company and partner is of the utmost importance.

This includes ensuring that our procurement procedures are orchestrated fairly, that employees are treated equally, and that we have as much knowledge as possible about the working conditions and production methods of our sub-contractors. MSAB's product offering is developed and designed in close cooperation with law enforcement authorities. Hence, the Company has a natural tradition of efficient, profitable business operations combined with good ethics, accountability and environmental protection.

Good business ethics

MSAB is a global company with sales on all continents. This presents opportunities as well as challenges and sometimes requires that the Company take a stand. To ensure good business ethics, MSAB applies its own framework in addition to applicable laws and regulations. This framework is formulated in the Company's Code of Ethics and covers such issues as bribes, conflicts of interest, and personal behaviour. The code stresses the basic principles by which MSAB runs its operations and manages relations with employees, partners and other stakeholders.

Equal treatment

MSAB strives to recruit the best employees regardless of background, which has led to a high level of diversity within the Company. The Company has guidelines for equal treatment of employees to counter discrimination relative to positions or tasks on the basis of gender, religion, age, sexual orientation, or other non-relevant distinguishing characteristics.

Environmental accountability and sustainable development

MSAB shall be a positive, contributing actor in areas which can impact the environment. The Company's operations

consist primarily of software development with limited environmental impact. However, our solutions contain some material in the form of cables, hubs and bags. Most of these are purchased in Asia, where we ensure that all products are RoHS-certified. This directive ensures, amongst other things, that production of components meets EU environmental requirements. MSAB has customers in over 100 countries world-wide. To manage this global customer base, we have local representation in 17 countries and cooperate with local distributors. Some meetings require a physical presence from various MSAB representatives, which can entail travel. As much as possible, the Company strives to use alternative forms of communication, e.g. phone and video conferencing.

None of the Company's operations are subject to notifications or permits as described in the Swedish Environmental Code. Other important environmental aspects within the Group are resource and energy questions, and handling of some waste products. Daily considerations include avoiding unnecessary waste of resources, taking care of waste responsibly and recycling materials, considering environmental issues when choosing or designing office space, and complying with environmental legislation in each market where the Company is active.

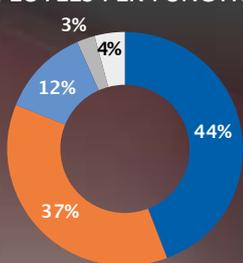
Employees and organisation

MSAB's organisational structure is based on the Company's various functions, which differs to some extent from its legal structure. The functional structure is based on management's assessment of how the business can be most efficiently run as regards innovation, decision-making, implementation and monitoring. The Company is organised into the following functions within the Group:

- Marketing and sales

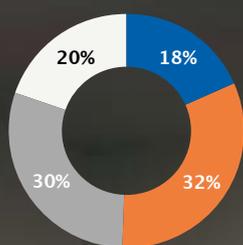
1) RoHS-direktivet (2002/95/EG)

EMPLOYEES PER FUNCTION



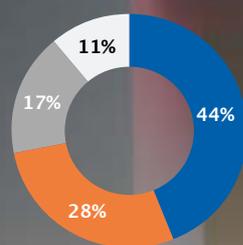
- Development and support
- Marketing and sales
- Administration
- Production
- Training

AGE DISTRIBUTION



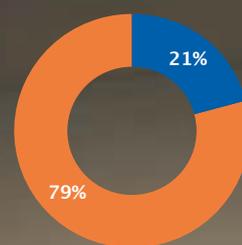
- <30 years
- 31-40 years
- 41-50 years
- >50 years

LENGTH OF EMPLOYMENT



- <2 years
- 3-5 years
- 6-10 years
- 11-22 years

PERCENTAGE WOMEN/MEN



- Women
- Men



- Development and support
- Training
- Administration
- Production

In addition to the Swedish Parent Company, MSAB has wholly owned subsidiaries in the United Kingdom, the USA, Canada, Australia, Hong Kong, China, Singapore, and Japan and one representational office in Russia. Adaptation of the legal structure is reviewed as needed.

Common issues include employment conditions in specific countries where MSAB deems it necessary to hire local staff and establish permanent premises. At the beginning of 2019, there were 178 employees in the Group. At year-end, this number had grown to 196. The average number of employees during the period was 189 compared to 157 the previous year.

Time for law enforcement agencies to digitalise

A famous quote attributed to Henry Ford goes like this: “If I had asked people what they wanted, they would have answered faster horses”. That’s just about what law enforcement agencies are asking for today. A little more of what’s already there. More law enforcement officers, stricter laws, tougher penalties.



This illustrates how difficult it is to think in new ways and outside the box. People mix objectives and methods in one big pot. Most of all, people want to limit technological advancement. But that is not the way to achieve more effective law enforcement. Development has not made it more difficult for law enforcement agencies. Rather the opposite. Today, almost all criminal activities are stored digitally. On criminals’ own mobiles, and often well-illustrated with pictures and video clips. Clues, times, methods, and positions can be collected by the police with surgical precision. The material can be analysed, is legally obtained, and trustworthy on a whole other level than was possible one century ago. From farm to fork. From extraction to conclusive evidence in a trial, the process is fast and efficient. Entirely new and until now unexploited opportunities for law enforcement have opened up. All that remains is to start exploiting these opportunities. Despite the fact that crime policy is at the centre of social debate, there is little – if any – reflection on law enforcement efficiency. Not even one in ten crimes are solved in Sweden, and no reversal of this trend is in sight. Zero of the Swedish government’s 34 points on their political agenda for crime relate to this. The opposition’s agenda is no better.

Unfortunately, law enforcement agencies belong to a sector that works with reverse incentives. This means that the worse the result, the more money they get. Resource distribution increases if politicians are dissatisfied with developments. Of course no individual law enforcement officer wants to do a bad job, but at the strategic level the driving forces become directly counter-productive. That means that making the work more effective, and changing methodologies to achieve faster results, is not self-evident. Digitalisation has impacted to a large extent all aspects of our society. To believe that law enforcement should somehow escape such radical social change is not just naive. It’s downright foolish. The increase in resource distribution is good, but it is being allocated incorrectly.

There is a prevailing idea that technology development has led to forensic laboratories having to do all analysis of mobile devices, e.g. mobile phones. This is not so, in the same way that forensic technicians do not conduct all witness interviews. Forensic technicians cannot perform this volume of work. Rather, they focus on the more advanced and technically complex tasks – a time-consuming and neglected area within investigative work. The vast quantities of information and volumes of mobiles that are not examined today must be dealt with. And all available enforcement officers must participate. It’s not difficult. And the right organisation, adequate equipment and workflows would have an immediate and remarkable impact on law enforcement’s capacity to solve crime. Today, the focus is on internal politics and defence of existing structures and areas of responsibility, and all for nothing.

Prevention, functioning integration and socio-economic explanatory models are necessary and invaluable aspects of an effective law enforcement policy. But we cannot ignore the fact that an 8 percent crime clearance rate provides a very attractive environment for criminal operations. Something we see all too clearly in Sweden today.

Of course we listen to our customers when they want “faster police horses”. But above all, we explain how the results of preliminary examinations and investigations are quicker and more legally secure with our system. And how the police can once more gain our trust and be seen as the heroes they are – and receive the recognition they deserve. You cannot compensate for galloping down the wrong path by galloping faster. But if the course is true, then we can quickly achieve a safer and more secure society.

Stockholm, April 2020

Henrik Tjernberg
Board Chairman

“ We explain how preliminary examinations and investigations can lead to faster and more legally secure results. Then the police will once again be seen as the heroes they are and get the recognition they deserve.



The share and shareholders

MSAB's B share is listed on Nasdaq Stockholm Small Cap under the ticker symbol MSAB B. The share price on the last trading day of the year, 30 December, was SEK 36.5 and share capitalisation was SEK 700 million.

Share capital

Share capital on 31 December 2019 was SEK 3,834,400 spread over 19,172,000 shares with a quote value of SEK 0.2. The Company has three share classes of which shares from series A and B have equal rights to the Company's assets and profit, and where C shares do not entitle the holder to dividends. Every A series share entitles the holder to ten votes, and every B and C series share entitles the holder to one vote. The number of shares in series A is 1,000,000 and in series B 17,550,000. The number of C series shares is 622,000, all of which are held in treasury. Additionally, 81,596 B shares are held in treasury.

Ownership

The total number of shareholders on 31 December 2019 was 3,521 compared with 2,974 the previous year. The ten largest shareholders in MSAB on 31 December 2019 as recorded in Euroclear's share register are listed in the table on the following page

Long-term incentive programme 2018-2021

On 15 May 2018 MSAB's AGM decided to implement a long-term incentive programme for the Company's senior position holders and certain key persons (maximum 20

persons). Participants are invited to subscribe for share warrants at fair market compensation (as per the Black & Scholes method). These entitle the holder to subscribe for new B series shares in the Company during the period 1 June 2021 up to and including 31 August 2021 at a price equal to 130 percent of the average, volume-weighted closing for the Company's B series shares for the period 16 May up to and including 29 May 2018. The maximum number of share warrants that any participant is offered shall not exceed 40,000.

Share price trend

During the year, the share price fluctuated between SEK 25.1 and SEK 60.8, finishing at SEK 36.5 on the last trading day of the year. During the year, MSAB's share price fell 52.3 percent. MSAB's market capitalisation at year-end was SEK 700 million.

Dividend policy

The Board has adopted a dividend policy whereby at least 30 percent of the Company's reported profit shall be returned to shareholders if this is compatible with sustaining adequate capital for planned operations.

SHARE PRICE TREND AND VOLUMES 2015-2019



SHARE PRICE TREND AND VOLUMES 2019



THE TEN LARGEST SHAREHOLDERS, 31 DECEMBER 2019

Shareholder	Total no. shares	A shares	B shares	C shares	% of capital	% of votes
Henrik Tjernberg	930,522	865,000	65,522	0	4.9	31.0
Edastra AB	1,278,592	135,000	1,143,592	0	6.7	8.9
Pine Vally BV	1,121,444	0	1,121,444	0	5.9	4.0
Swedbank Robur Ny teknik	1,348,000	0	1,348,000	0	7.0	4.8
Öhman Sweden Micro Cap	857,365	0	857,365	0	4.5	3.0
Handelsbanken svenska småbolag	581,516	0	581,516	0	3.0	2.0
Fjärde AP Fonden	935,623	0	935,623	0	4.9	3.3
Humle småbolagsfond	905,296	0	905,296	0	4.7	3.2
Aktia Nordic MIC	692,746	0	692,746	0	3.6	2.5
Strawberry Capital AS	775,741	0	775,741	0	4.0	2.8
Ten largest shareholders	9,426,845	1,000,000	8,426,845	0	49.2	65.5
Micro Systemation AB	703,596	0	81,596	622,000	3.7	2.5
Other	9,041,559	0	9,041,559	0	47.1	32.0
Total	19,172,000	1,000,000	17,550,000	622,000	100.0	100.0

SHARE CAPITAL EVENTS UP TO 31 DECEMBER 2019

Year	Month	Transaction	Changes in no. of shares	Total no. A shares	Total no. B shares	Total no. C shares	Total no. outstanding shares	Quote value	Changes in share capital, SEK	Total share capital, SEK
1984	June	Formation of Company		5,000			5,000	10.0		50,000
1998	February	Bonus issue 1:1	5,000	10,000			10,000	10.0	50,000	100,000
1998	November	Split 50:1	490,000	500,000			500,000	0.2		100,000
1998	November	New issue	205,000	500,000	205,000		705,000	0.2	41,000	141,000
1998	December	Bonus issue		500,000	205,000		705,000	1.0	564,000	705,000
1999	March	Split 5:1	2,820,000	2,500,000	1,025,000		3,525,000	0.2		705,000
1999	March	Reclassification		1,970,000	1,555,000		3,525,000	0.2		705,000
1999	December	New share issue	705,000	1,970,000	2,260,000		4,230,000	0.2	141,000	846,000
2000	October	Reclassification	200,000	1,970,000	2,460,000		4,430,000	0.2	40,000	886,000
2004	March	New share issue 3:1	13,290,000	1,970,000	15,750,000		17,720,000	0.2	2,658,000	3,544,000
2007	November	Reclassification		1,000,000	16,720,000		17,720,000	0.2		3,544,000
2011	June	New share issue	922,000	1,000,000	16,720,000	922,000	18,642,000	0.2	184,400	3,728,400
2014	June	Reclassification		1,000,000	17,020,000	622,000	18,642,000	0.2		3,728,400
2016	March	New share issue	440,000	1,000,000	17,460,000	622,000	19,082,000	0.0	88,000	3,816,400
2018	July	New share issue	30,000	1,000,000	17,490,000	622,000	19,112,000	0.2	6,000	3,822,400
2018	August	New share issue	45,000	1,000,000	17,535,000	622,000	19,157,000	0.2	9,000	3,831,400
2018	September	New share issue	15,000	1,000,000	17,550,000	622,000	19,172,000	0.2	3,000	3,834,400

OWNERSHIP STRUCTURE, 31 DECEMBER 2019

Holdings	No. of shareholders	A shares	B shares	C shares	% of capital	% of votes
1-500	2,435	0	322,570	0	1.73	1.18
501-1,000	433	0	360,890	0	1.88	1.28
1,001-5,000	466	0	1,124,143	0	5.86	3.99
5,001-10,000	90	0	664,435	0	3.47	2.36
10,001-15,000	20	0	251,697	0	1.31	0.89
15,001-20,000	7	0	136,590	0	0.71	0.48
20,001-	69	1,000,000	14,683,450	622,000	85.05	91.28
Total	3,621	1,000,000	17,550,000	622,000	100.00	100.00

Five-year overview

	2019	2018	2017	2016	2015
Profit/loss, SEK thousands					
Net sales	307,632	303,871	301,763	242,355	226,912
Operating expenses	-301,285	-271,224	-232,993	-183,947	-170,460
EBIT	6,347	32,646	68,770	58,408	56,452
Net financial income/expense	1,115	2,509	858	2,163	2,207
Profit before tax	7,462	35,155	69,628	60,571	58,659
Tax	-2,368	-7,407	-16,738	-15,335	-13,526
Profit/loss for the year	5,094	27,748	52,890	45,236	45,133
Balance sheet, SEK thousands					
Non-current assets	33,210	2,571	2,042	2,816	4,018
Other current receivables	92,974	91,122	70,779	53,290	52,038
Cash and cash equivalents	63,950	98,816	127,430	123,199	103,697
Total assets	190,134	192,508	200,250	179,305	159,753
Equity	76,057	110,096	114,608	104,415	90,851
Other current liabilities	114,077	82,413	85,642	74,890	68,902
Total equity and liabilities	190,134	192,508	200,250	179,305	159,753
Cash flow, SEK thousands					
Cash flow before changes in working capital	17,627	28,622	49,149	52,487	46,749
Cash flow from changes in working capital	171	-23,388	-1,295	-342	10,818
Cash flow from operating activities	17,799	5,234	47,854	52,145	57,567
Cash flow from investing activities	-1,499	-1,495	-874	-655	6,807
Cash flow from financing activities	-53,226	-34,521	-40,172	-32,574	-17,462
Cash flow for the year	-36,926	-30,782	6,808	18,916	46,912
Key figures					
Net sales, SEK millions	307.6	303.9	301.8	242.4	226.9
Net sales growth, %	1.2	0.7	24.5	6.8	25.4
EBIT, SEK millions	6.3	32.7	68.8	58.4	56.4
EBIT margin, %	2.10	10.8	22.8	24.1	24.9
Earnings per share*, SEK (after dilution)	0.1	1.50	2.88	2.46	2.48
Return on equity, %	5.47	24.7	48.3	46.3	58.6
Return on capital employed, %	12.9	37.0	68.3	63.9	84.0
Equity/assets ratio, %	40.0	57.2	57.2	58.2	56.9
Liquidity ratio, %	132.0	223.5	196.2	230.7	216.5
Net worth per share, SEK	4.1	5.99	6.24	5.68	4.99
Dividend per share, SEK	2.2	2.2	2.20	2.20	1.00
Cash flow from operating activities per share, SEK	1.0	0.28	2.60	2.84	3.16
Reconciliation of measurements not defined as per IFRS					
Capital employed, SEK millions	190.1	192.5	200.3	179.3	161.0
Total assets	-4.6	-3.7	-5.0	-4.6	-5.0
Trade payables	-1.2	-0.5	-3.6	-6.2	-1.4
Current tax liabilities	-11.8				
Other liabilities	-79.9	-78.2	-77.0	-64.1	-62.6
Capital employed	92.6	110.1	114.6	104.4	92.0
Average capital employed	101.4	112.4	109.5	98.2	77.6

Definitions

The Company presents certain financial metrics in its interim reports that are not defined under IFRS. The Company believes these metrics provide useful, supplemental information to investors and Company management as they allow for evaluation of the Company's performance.

Key figures	Definition/calculation	Utilisation
EBIT (operating profit)	Net sales less operating expenses.	Indicates the Company's profitability in current operations.
EBIT-margin (operating margin)	EBIT (operating profit) in relation to net sales.	Indicates the degree of profitability in current operations.
Earnings per Share *	Profit/loss after tax in relation to average number of outstanding shares after dilution.	Measure of the Company's profitability after tax per share. This indicator is greatly significant when evaluating share value.
Return on equity	Profit/loss after tax in relation to average adjusted equity.	Earning capacity of equity demonstrates the total return on owners' capital from an accounting perspective and reflects business profitability and financial leverage. The measure is mainly used to analyse owner profitability over time.
Return on capital employed	EBIT (operating profit) plus financial income in relation to average capital employed.	Earning capacity of capital employed demonstrates how well the business uses capital tied up in operations. Used to measure consolidated profitability over time.
Equity ratio	Equity in relation to total assets.	This key figure demonstrates the proportion of assets financed through equity and can be used as an indicator of the Company's long-term solvency.
Cash flow from operations/share	Cash flow from operations in relation to average number of outstanding shares after dilution.	Measures the Company's cash generation relative to the number of shares, i.e. from a shareholder perspective.
Equity per share	Equity in relation to number of shares at end of period.	Measures the Company's net value per share.
Average equity	Average equity during a 12-month period. Equity at beginning of period plus equity at end of period divided by two.	Measures the Company's net value.
Capital employed/ average capital employed	Capital employed is calculated as total assets less non-interest-bearing liabilities. Average capital employed is calculated as capital employed over a 12-month period. Capital employed at beginning of period plus capital employed at end of period divided by two.	Capital consists of those funds made available to the Company by shareholders and lenders. It shows the net capital invested in operations plus financial assets.
Revenue growth, %	Increase or decrease in sales expressed in percent relative to the corresponding period the previous year.	An indicator of the demand trend for the Company's products.
Recurring revenue	Refers to revenue from license renewals, i.e. when a license expires, a customer can choose to renew the license which generates revenue.	Recurring revenues are an important aspect of the Company's business model and provide financial stability. This key figure indicates to what degree.
Net financial items	Net financial income and expenses.	Net reporting of financial income and expenses – provides a simplified view of their impact on profit/loss.
Quick asset ratio, %	Current assets less goods for resale in relation to current liabilities.	An indicator of the Company's short-term solvency.
Net worth per share, SEK	Assets less liabilities in relation to number of outstanding shares.	An indicator of the Company's net value from an owner perspective.

* Defined in accordance with IFRS*

Report of the Directors

Operations

MSAB is engaged in product development, production, sales and marketing of solutions within the area of mobile digital forensics. MSAB was founded in 1984. MSAB's Series B shares have been listed since 1999 and on Nasdaq Stockholm since December 2011. The XRY product is used to extract and present data from digital devices, primarily mobile phones. In practical terms, this requires as much as possible of the user-specific information that is held on a mobile phone or other digital device to be transferred to a computer for further analysis. XAMN simultaneously performs sophisticated analysis on data from different digital devices to efficiently identify links between the different devices. The XEC range of tools supports XAMN and XRY in large-scale data management, e.g. bulk export of digital information to new formats. The Company also provides various hardware configurations adapted to the environment in which the customer operates. MSAB products are used mainly by police, military and intelligence agencies worldwide, and are effective tools for securing evidence. Other customer segments such as customs, border control and immigration authorities are also starting to realise the need for tools to secure digital information. The products are sold directly by the Company and through partners, depending on where in the world the sale takes place. MSAB products have been delivered in more than 120 countries, and together support more than 29,000 device profiles. There is an ever-increasing demand for recovery of data from confiscated mobile phones. Against this background, MSAB's products are serving a large and important need.

Significant events in 2019

- With the launch of XRY 8.2, support is now provided for more than 29,000 different mobile phone profiles and app versions, compared with 26,000 at year-end 2018.
- The 2019 AGM approved a dividend to shareholders of SEK 2.20 per share.
- The Company's is maintaining its concentrated focus on future growth in frontline and analytical products.

Profit/loss and financial position

For definitions of key metrics, see Five-year overview on pages 20–21.

	2019	2018	2017
Net sales, SEK millions	307.6	303.9	301.8
Operating profit, SEK millions	6.2	32.7	68.8
Operating margin, %	2.0	10.8	22.8
Profit/loss before tax, SEK millions	7.3	35.2	69.6
Balance sheet total, SEK millions	190.1	192.5	200.0
Equity/assets ratio, %	40.0	57.2	57.2
Return on equity, %	5.5	24.7	48.3
Average number of employees	176	157	134

Comments on the financial performance

Consolidated net sales for the year increased by 1.2 percent to SEK 307.6 million (303.9). In local currencies, net sales decreased by 4 percent. Costs of goods for resale in the year were SEK 29.5 million (37.7). Direct costs vary according to the mix of products sold, which in the preceding year included a higher proportion of hardware than in the year under review. Other external costs for the year, including depreciation, totalled SEK 82.8 million (72.6). Personnel expenses for the year were SEK 189.0 million (160.9). The increase in costs arose mainly through investments in personnel related to product and marketing, in order to promote further growth going forward, particularly in the Frontline and Analytics product segments. EBIT for the year was SEK 6.2 million (32.7), corresponding to an EBIT margin of 2.0 percent (10.8). Net financial income/expense was SEK 1.1 million (2.5) for the year. Net financial income/expense consists primarily of revaluation of cash and cash equivalents in foreign currencies. Profit after tax for the year was SEK 4.9 million (27.8). Consolidated sales and profit both tend to vary between quarters, mainly through changes in our customers' purchasing patterns and individual major orders, which given the Company's relatively fixed overall costs, result in a corresponding variation in profit. Even viewed over one-year periods, growth has taken place in waves. For example, growth was robust in 2015, more modest in 2016 and then significantly stronger again in 2017. The equity/assets ratio is 40.0 percent (57.2). Adjusted for the transition to IFRS 16, the equity/assets ratio as per 1 January 2019 was 47 percent. The remaining change is attributable to the change in equity, which amounts to SEK 46.7 million (82.6).

Markets

North America

Sales for the region are growing compared to the previous year, in which the United States is contributing, but also Canada, albeit from lower levels than the United States.

EMEA & Latin America

The region is slightly down for the year overall, compared with the previous year. This was mainly because the region did not secure a single large order, as last year for Frontline solutions to the French Gendarmerie Nationale. Otherwise, most countries in the region generated some growth.

Asia & Russia

The region is growing on an annualised basis, with growth especially strong in southeast Asia, but clearly weaker in China.

Sustainability

The Company's sustainability work is focused on employees and organization, equal treatment of individuals, business ethics, environmental responsibility and sustainable development with regard to the Company's products and consumption of resources.

This includes ensuring that our procurement procedures are orchestrated fairly, that employees are treated equally and that we have as much knowledge as possible about the working conditions and production methods of our sub-contractors. MSAB's product offering has been developed and designed in close cooperation with law enforcement authorities. As a result, the Company has built up a natural tradition of efficient, profitable business operations, combined with good ethics, accountability and environmental protection. This is described in more detail on pages 14–15.

Research and Development

At year-end 2019, our development department, along with the test and support department, consisted of a total of 87 persons (71). A major share of efforts in the development department focus on maintaining and adding support for new mobile devices and applications. The market for mobile phones is moving fast, with new functions and application areas being created continuously. Against that background, it is vital that the Company's products are continuously adapted to these changing conditions, so that we remain a competitive option for criminal investigation authorities. Over the past year, the Company continued to enhance existing products, with several product updates. In the Company's judgement, all expenses relating to development efforts should be expensed in their entirety as incurred. The cost of research and development totalled SEK 68.4 million (56.7).

Financial position

The equity/assets ratio at year-end was 40.0 percent (57.2). Cash flow from operating activities for the year amounted to SEK million 17.7 (5.2). During the year, dividends of SEK 40.6 million (40.4) were paid. Cash and cash equivalents at year-end totalled SEK 63.9 million (98.8).

Parent Company

The Parent Company reports net sales of SEK 213.8 million (221.0) for the year. EBIT for the period was SEK 0.1 million (24.4). The increase in costs arose mainly through investments in personnel related to product and marketing, in order to promote further growth going forward, particularly in the Frontline and Analytics product segments. Investments for the period, essentially IT-related, totalled SEK 1.5 million (1.5). At the end of the period, the Parent Company had 148 (129) employees.

Financial risks and instruments

Through its operations, MSAB is exposed to a variety of financial risks including market, liquidity, currency and credit risks. Market risk consists primarily of interest rate and currency risk. MSAB's Board of Directors is ultimately responsible for management and monitoring of the Group's financial risks. The framework governing management and monitoring of financial risks is established by the Board. More information on the Group's financial risks and risk management is provided in Note 4 Financial risk management and financial instruments. Currency risk represents the most significant financial risk, while interest rate risk, liquidity and financing carry a lower risk factor. Currency risk arises largely from the Group's income from sales being conducted in foreign currencies, while operating expenses are in the main paid in Swedish kronor. In 2019, the Group's export sales in foreign currencies

accounted for approximately 97 percent (98) of total sales. The dominant currencies are the Euro (EUR), the British pound (GBP) and the American dollar (USD). Other currencies include the Canadian dollar (CAD), the Australian dollar (AUD), the Singapore dollar (SGD) and the Chinese renminbi (CNY).

Employees

The average number of employees was 189 (157), of whom 21 (21) percent were women. At year-end, the Company had 196 employees (178).

Profit-sharing

In 2006, the Board launched a profit-sharing programme for all employees, except for the CEO and CTO. The programme aims to motivate, stimulate and reward employees for efforts that lead to an improvement in Company results. The Board is convinced that performance-based financial incentives create fertile ground for creating the best solutions and providing the best service to customers.

Incentive programme

Long-Term Incentive Programme 2018–2021

On 15 May 2018, MSAB's AGM voted to implement a long-term incentive programme for the Company's senior executives and certain key persons (a maximum of 20 persons). Participants are to be offered the chance to subscribe for share warrants at a fair market consideration (according to the Black & Scholes method). These entitle the holder to subscribe for new Series B shares in the Company in the period 1 June 2021 up to and including 31 August 2021, at a price equal to 130 percent of the average volume-weighted closing price for the Company's Series B shares in the period 16 May up to and including 29 May 2018. The maximum number of share warrants offered to any programme participant shall not exceed 40,000.

Board of Directors and CEO

MSAB's Board of Directors consists of five persons. Over the year, the Board held nine minuted meetings. The Board was kept continually informed of Company developments between meetings. The Board acts in accordance with written rules of procedure, a division of work between the Board and the CEO, and the Board's instructions to the CEO. At every meeting, information is presented on finances, employees, operations and the competition. The work of the Board is described in the Corporate Governance Report, which is available on the Company's website (msab.com) and on pages 51–53 of this annual report.

Guidelines on remuneration to senior executives in 2019

The Company shall offer remuneration and other employment conditions that enable the Company to recruit, motivate and retain senior executives with the competencies the Company needs to execute its strategy and achieve its operational objectives.

The overall principles for remuneration to senior executives shall be founded on market conditions. Remuneration shall be based on position, individual performance and the Group's results, and shall be competitive. Total remuneration to senior executives shall consist of fixed salary and variable remuneration based on attainment of incentive-based per-

formance targets. The same principles also apply to those who are members of the Company's operational management group.

A maximum amount shall be set for variable remuneration paid in cash. Variable remuneration in the form of share and share-related incentive programmes shall be designed to stimulate a sense of shared interest between participating executives and the Company's shareholders, and to promote long-term value creation.

Terms and conditions for pensions shall be market-based, relative to executives in similar positions in the market in which the executive works. In addition, conditions apply governing termination and severance pay. The Board shall have the right to deviate from proposed guidelines on specific grounds. For more information, see Note 8.

Guidelines on remuneration to senior executives effective from the Annual General Meeting after 31 December 2019

The Company shall offer remuneration and other employment conditions that enable the Company to recruit, motivate and retain senior executives with the competencies the Company needs to execute its strategy and achieve its operational objectives.

Remuneration to senior executives shall be market-based and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. Compliance with the criteria for the payment of variable cash remuneration shall be measurable over a period of one year. Variable cash remuneration may not exceed 150 per cent of the fixed annual cash salary.

Additional variable cash remuneration may be paid in exceptional circumstances, provided that such exceptional arrangements are time-limited and are made only at individual level for the purpose of retaining an executive, or as remuneration for exceptional work over and above the person's regular duties. Such remuneration may not exceed an amount equal to 25 percent of the fixed annual cash salary and shall not be paid more than once a year per individual. Any such remuneration shall be subject to approval by the Board of Directors.

For the CEO, pension benefits shall be of the defined-contribution type, in accordance with ITP1. Variable cash remuneration shall not be pensionable. For other senior executives, pension benefits shall be of the defined-contribution type, in accordance with ITP 1. Variable cash remuneration shall not be pensionable. Other benefits may include, for example, reimbursement of dental and medical care costs (including medicines), medical insurance and use of a company car. Such benefits may be paid to the CEO to a limited extent, in accordance with general practice.

The variable cash remuneration shall be linked to pre-determined and measurable criteria that may be financial or non-financial. Such criteria may consist of individualised quantitative or qualitative targets. The criteria shall be designed to promote the Company's business strategy and long-term interests. The Board of Directors is responsible for the assessment of variable cash remuneration to the CEO. In the case of variable cash remuneration to other executives, the assessment is the responsibility of the CEO.

In the event of termination of employment, the CEO is entitled to compensation corresponding to one year's fixed

salary. The Company pays insurance compensation relating to severance pay. Severance pay is not offset against other income. When termination of employment of other senior executives is initiated by the Company, the Swedish Employment Protection Act (LAS) applies.

The MSAB share

The share capital of MSAB totals SEK 3,834,400, represented by 19,172,000 shares with a quota value of SEK 0.20. The Company has three classes of shares, wherein holders of Series A and B shares are entitled to equal rights to the Company's assets and profit, but holders of Series C shares are not entitled to any share in dividends. In the event of the Company being liquidated, assets shall be distributed equally over all shares regardless of class. In the case of C shares, however, the holder shall not be entitled to an amount higher than one corresponding to the quota value of the share. Holders of Series A shares are entitled to ten votes per share, while holders of Series B and C shares are entitled to one vote per share. The number of shares in Series A and Series B is 1,000,000 and 17,550,000, respectively. The number of Series C shares is 622,000, all of which are held in treasury. The number of Series B shares held in treasury is 81,596. Shareholders attending the AGM are entitled to vote for the full number of shares they hold, without any restrictions. Holders of Series A shares can by way of a written request to the Company's Board of Directors request that their Series A shares be converted to Series B shares. Series C shares held in treasury can by decision of the Board be converted to Series B shares. At year-end, Henrik Tjernberg owned shares representing 4.9 percent of the capital and 31.0 percent of the votes. The Board has the right to resolve on a reduction of the share capital, although not to below the minimum capital stipulated in the Articles of Association, through redemption of all Series C shares. On redemption, holders of Series C shares are obliged to accept a price corresponding to the share's quota value. MSAB's Articles of Association include a record day provision and the Company's shares are registered with Euroclear, meaning that Euroclear administers the Company's share register and that no share certificates are issued for the Company's shares. All shares are denominated in Swedish kronor. In accordance with the Swedish Companies Act, shareholders have preferential rights to subscribe for new share issues and other equity-based securities, but such preferential rights can be waived at the discretion of the AGM.

Shares in MSAB are not under any offer made as a result of mandatory bids, redemption rights or redemption obligations. No public takeover bids for the Company's shares were made during the current or previous fiscal years. The Company has no knowledge of any agreements between shareholders that might result in the restriction of transfer of shares. The Articles of Association have no specific provisions on the appointment or dismissal of Board members, or on amendment of the Articles of Association. No significant agreements exist to which the Company is part, and which would come into effect, be amended or expire, if control of the Company changed as a result of a public offer. No agreements exist between the Company and Board members or other employees that prescribe compensation for termination of employment as a result of a public takeover bid.

Significant risks and uncertainty factors

MSAB's success is to a major extent linked to its ability to recruit, develop, motivate and retain engineers and other highly skilled personnel. In the IT sector, there is fierce competition for highly skilled personnel. MSAB has a relatively small development department and is thus dependent on a small number of key individuals. Another potential risk is that any fault in the Company's products could lead to claims for compensation and damages. However, the Board is of the view that the Company has sufficient insurance cover for product liability, such that any direct risk should be regarded as limited. Of total sales, those in foreign currencies represent 97 percent of income. To reduce currency risk, MSAB from time to time uses currency hedging in line with the financial policy established by the Board. At year-end 2019, no currency hedging was in place.

Outlook

MSAB has a wide-ranging customer offering to investigation authorities all over the world. This consists of 16 different products in data extraction, analysis and system management. Several of the Company's products are also available in different packages to meet a variety of customer needs. This has been made possible by extensive investment in research and development. In recent years, the Company has invested in the Frontline business area. We have done so because it has become clear to us that the demand for extraction of information from mobiles is growing and that the need can no longer be satisfied via within existing IT labs or through forensics. Capacity must be increased and this can only be done by ordinary police officers. The digital revolution that has impacted all our lives is challenging law enforcement authorities in a way never seen before. MSAB knows what is needed to make our customers more efficient, better and able to reverse negative trends – which is to have a proper strategy for digital investigation and evidence. The market we operate in is still seriously underinvested, our customers face a very major need to invest if they are to perform their role amidst the digital revolution that is under way.

Proposal for distribution of unappropriated profit

Parent Company

The following unappropriated profit is at the disposal of the AGM (SEK):

Retained profit from the previous year	17,809,554
Net profit/loss for the year	4,771,562
Total	22,581,116

Proposal of the Board of Directors and the CEO:

To be carried forward	22,581,116
Total	22,581,116

Board's statement on proposed dividend pursuant to the Swedish Companies Act, Chapter 18, Section 4

The Board of Directors of MSAB (publ) has decided to amend its proposal to the 2020 Annual General Meeting regarding dividends to the shareholders of MSAB (publ) for the 2019 financial year. The previous proposal, communicated in the year-end report for 2019, was that a dividend of SEK 0.10 per share should be paid. The new proposal is that no dividend be paid for the 2019 financial year.

Events after the end of the financial year

MSAB is monitoring developments regarding the coronavirus Covid-19 and is assessing the extent to which this may affect the Company's operations in the short and long term. At present, it is not possible to assess the extent to which it may affect the business.

Income statement			
Group, SEK thousands	Note	2019	2018
Net sales	5	307,632	303,871
Operating income		307,632	303,871
Goods for resale		-29,479	-37,746
Other external expenses	6, 7	-70,863	-71,688
Personnel expenses	8	-188,992	-160,857
Depreciation/amortisation	13, 14	-11,951	-933
Operating expenses		-301,285	-271,224
EBIT		6,347	32,647
Financial income	9	5,636	8,982
Financial expenses	10	-4,521	-6,473
Net financial income/expense		1,115	2,509
Profit/loss before tax		7,462	35,156
Tax	11	-2,368	-7,407
Net profit/loss for the year		5,094	27,749
Profit/loss for the year attributable to:			
Holders with non-controlling interests		-	-
Holders of shares in Parent Company		5,094	27,749
Earnings per share before dilution, SEK	12	0.28	1.51
Earnings per share after dilution, SEK		0.28	1.50
Total no. shares outstanding before dilution, thousands		18,468	18,488
Total no. shares outstanding after dilution, thousands		18,468	18,488
Average no. shares outstanding before dilution, thousands		18,468	18,433
Average no. shares outstanding after dilution, thousands		18,468	18,433

Statement of comprehensive income			
Group, SEK thousands		2019	2018
Net profit/loss for the year		5,094	27,749
Other comprehensive income			
Exchange rate differences ¹		1,377	1,942
Tax on exchange rate differences		120	317
Comprehensive income for the year		6,591	30,008
Comprehensive income for the year attributable to Parent Company shareholders		6,591	30,008

¹ Exchange differences refer to translation of foreign operations

Balance sheet			
Group, SEK thousands	Note	31/12/2019	31/12/2018
ASSETS			
Intangible assets	14	46	172
Equipment, tools and installations	13	2,728	2,338
Deferred tax assets	11	620	61
Right-of-use assets	7	29,816	–
Total non-current assets		33,210	2,571
Finished goods and goods for resale		6,378	5,713
Trade receivables	16	75,159	67,574
Other receivables		6,652	7,470
Prepaid expenses and accrued income	17	4,785	10,364
Cash and cash equivalents	18	63,950	98,816
Total current assets		156,924	189,937
TOTAL ASSETS		190,134	192,508
EQUITY AND LIABILITIES			
Share capital	19	3,834	3,834
Other contributed capital		28,058	28,058
Reserves		3,265	1,793
Retained profit including profit/loss for the year		40,899	76,410
Total equity attributable to Parent Company's shareholders		76,056	110,095
Long-term lease liabilities, right-of-use assets	7	18,429	
Total non-current liabilities		18,429	
Trade payables		4,559	3,699
Tax liabilities	11	1,183	519
Short-term lease liability, right-of-use assets	7	9,884	
Other liabilities		12,168	8,234
Accrued expenses and deferred income	20	67,855	69,961
Total current liabilities		114,078	82,413
TOTAL EQUITY AND LIABILITIES		190,134	192,508

Changes in equity						
Group, SEK thousands	Share capital	Other contrib- uted capital	Translation reserve	Cash flow hedge	Retained profit	Total equity
2018						
Opening balance, equity 01/01/2018	3,816	28,058	-492	25	83,201	114,608
Comprehensive income for the year			2,260	0	27,748	30,008
Comprehensive income for the year	0	0	2,260	0	27,748	30,008
Transactions with shareholders:						
Dividend					-40,432	-40,432
Conversion of share warrants	18				5,893	5,911
Closing balance, equity 31/12/2018	3,834	28,058	1,768	25	76,410	110,095
2019						
Opening balance, equity 01/01/2018	3,834	28,058	1,768	25	76,410	110,095
Comprehensive income for the year			1,497	0	5,094	6,591
Comprehensive income for the year	0	0	1,497	0	5,094	6,591
Transactions with shareholders:						
Dividend					-40,630	-40,630
Reclassification				-25	25	0
Closing balance, equity 31/12/2019	3,834	28,058	3,265	0	40,899	76,056

Statement of cash flows			
Group, SEK thousands	Note	2019	2018
Operating activities			
Profit/loss before tax		7,462	35,156
Adjustments for non-cash items	21	12,391	1,844
Income tax paid		-2,226	-8,378
Cash flow from operating activities before changes in working capital		17,627	28,622
Cash flow from changes in working capital			
Changes in inventory		-665	246
Changes in operating receivables		-25,544	-18,948
Changes in operating liabilities		26,380	-4,686
Cash flow from operating activities		17,798	5,234
Investing activities			
Investments in current assets		-1,499	-1,495
Cash flow from investing activities		-1,499	-1,495
Financing activities			
Dividends paid		-40,630	-40,432
New share issue, conversion of share warrants		-	5,911
Amortisation, lease liability		-12,596	-
Cash flow from financing activities		-53,226	-34,521
Cash flow for the year			
Cash and cash equivalents at the beginning of the year		98,816	127,430
Translation differences in cash and cash equivalents		2,060	2,168
Cash and cash equivalents at year-end	18	63,949	98,816

Parent Company

Income statement

Parent Company, SEK thousands	Note	2019	2018
Net sales	5	213,823	220,968
Operating income		213,823	220,968
Goods for resale		-29,479	-37,746
Other external expenses	6, 7	-42,069	-48,202
Personnel expenses	8	-131,428	-109,792
Depreciation/amortisation	13, 14	-10,715	-933
Operating expenses		-213,691	-196,673
EBIT		132	24,295
Other interest income and similar items	9	9,189	8,697
Interest expenses and similar items	10	-4,013	-6,304
Net financial income/expense		5,176	2,393
Profit/loss before tax		5,308	26,688
Tax	11	-536	-6,040
Net profit/loss for the year		4,772	20,648

Statement of comprehensive income

Parent Company, SEK thousands	2019	2018
Profit/loss after tax	4,772	20,648
Comprehensive income for the year	4,772	20,648

Balance sheet

Parent Company, SEK thousands	Note	31/12/2019	31/12/2018
ASSETS			
Intangible assets	14	46	172
Equipment, tools and installations	13	2,728	2,338
Right-of-use assets	7	27,934	–
Total non-current assets		30,708	2,510
Participations in Group companies	15	404	404
Total non-current financial assets		404	404
Finished goods and goods for resale		6,378	5,713
Trade receivables	16	27,416	31,221
Intra-Group receivables	16	13,738	16,803
Tax asset		5,357	4,124
Other receivables		887	1,536
Prepaid expenses and accrued income	17	4,590	10,054
Cash and bank balances		37,018	56,560
Total current assets		95,384	126,011
TOTAL ASSETS		126,496	128,925
EQUITY AND LIABILITIES			
Restricted equity			
Share capital	19	3,834	3,834
Statutory reserve		20,288	20,288
Non-restricted equity			
Share premium reserve		7,770	7,770
Profit/loss carried forward		10,041	30,030
Net profit/loss for the year		4,772	20,648
Total equity		46,705	82,563
Long-term lease liabilities, right-of-use assets	7	16,518	–
Total non-current liabilities		16,518	–
Trade payables		3,888	3,120
Intra-Group liabilities	25	1,603	–
Tax liabilities		–	–
Short-term lease liability, right-of-use assets	7	9,884	–
Other liabilities		9,465	5,019
Accrued expenses and deferred income	20	38,433	38,223
Total current liabilities		63,274	46,362
TOTAL EQUITY AND LIABILITIES		126,496	128,925

Changes in equity

Parent Company, SEK thousands	Restricted Equity		Non-restricted equity				Total equity
	Share capital	Statutory reserve	Cash flow hedge	Share premium reserve	Retained earnings	Net profit/loss for the year	
2018							
Opening balance, equity 01/01/2018	3,816	20,288	-7	7,770	17,793	46,776	96,436
Appropriation of profit from preceding year					46,776	-46,776	0
Net profit/loss for the year						20,648	20,648
Comprehensive income for the year	0	0	0		0	20,648	20,648
Transactions with shareholders:							
Conversion of share warrants	18				5,893		5,911
Dividend					-40,432		-40,432
Closing balance, equity 31/12/2018	3,834	20,288	-7	7,770	30,030	20,648	82,563
2019							
Opening balance, equity 01/01/2019	3,834	20,288	-7	7,770	30,030	20,648	82,563
Appropriation of profit from preceding year					20,648	-20,648	0
Net profit/loss for the year						4,772	4,772
Comprehensive income for the year	0	0	0		0	4,772	4,772
Transactions with shareholders:							
Dividend					-40,630		-40,630
Reclassification			7		-7		0
Closing balance, equity 31/12/2019	3,834	20,288	0	7,770	10,041	4,772	46,705

Statement of cash flows

Parent Company, SEK thousands	Note	2019	2018
Operating activities			
Profit/loss before tax		5,307	26,688
Adjustments for non-cash items	21	10,715	933
Income tax paid		-1,769	-12,969
Cash flow from operating activities before changes in working capital		14,253	14,652
Cash flow from changes in working capital			
Changes in inventory		-665	246
Changes in operating receivables		12,983	-6,839
Changes in operating liabilities		7,028	-2,564
Cash flow from operating activities		33,599	5,495
Investing activities			
Investments in current assets		-1,003	-1,495
Investments in subsidiaries		0	-391
Cash flow from investing activities		-1,003	-1,886
Financing activities			
Dividends paid		-40,630	-40,432
Conversion of share warrants		0	5,911
Amortisation, lease liability		-11,508	-
Cash flow from financing activities		-52,138	-34,521
Cash flow for the year		-19,542	-30,912
Cash and cash equivalents at the beginning of the year		56,560	87,472
Cash and cash equivalents at year-end	18	37,018	56,560

Notes

Note 1 General information

Micro Systemation AB (publ) "MSAB", corporate ID no. 5562443050, is a listed company registered in Sweden. Its headquarters are in Stockholm. The address of the headquarters is Box 17111, SE-104 62 Stockholm, Sweden. The street address is Hornsbruksgatan 28. The Company and its subsidiaries ("the Group") are engaged

in product development and marketing of software solutions in mobile digital forensics.

A description of the Group's composition is provided in Note 15. MSAB's Series B shares have been listed since 1999 and on Nasdaq Stockholm since December 2011.

Note 2 Significant accounting policies

The consolidated accounts for MSAB have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the interpretations of the IFRS Interpretations Committee (IFRIC) applicable for periods starting 1 January 2019 or later.

Furthermore, the Group applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 1, Supplementary Accounting Rules for Groups. In the consolidated accounts, items have been measured at historical cost, except for certain financial instruments, which have been measured at fair value. Significant accounting policies are described below.

New and revised standards and interpretations applicable to 2019

The new and revised standards and interpretations from IASB and IFRS that have had an impact on the Group's financial reporting in 2019 are described below. Other new and revised standards and interpretations from IASB and the IFRS Interpretation Committee have not had any significant impact on the Group's financial reporting.

IFRS 16 Leases

The new IFRS 16 Leases standard applied as of 1 January 2019. Previously, the Group classified leases as operating or financial leases based on whether the lease transferred the significant risks and benefits accrued by the Group through ownership of the underlying asset. Operating leases were not recognised as assets and liabilities in the statement of financial position and a leasing/rental cost was recognised on a straight-line basis over the lease period of the contracts. In accordance with IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases, including leases previously classified as operating leases, with depreciation/amortisation and interest expense being recognised in the income statement and the statement of other comprehensive income. Exceptions have been made for the following contracts with a remaining lease term of no more than 12 months and for low-value leases (value of underlying asset <SEK 50 thousand).

The Company has inventoried all leases covered by the new standard, including operating leases already entered into. The results of the analysis showed that in all material respects, the leases affected by the new standard are those for the Group's office premises. The Company has chosen to transition using the modified retrospective approach. The effect was that, as per 1 January 2019, the Company recognised an asset totalling approximately SEK 40 million arising from a future right-of-use. The value was determined by discounting future agreed payments using the Company's marginal loan interest, adjusted to reflect prepayments made for the period 1 January 2019 and thereafter. The corresponding liability is calculated at approximately SEK 38 million. The Com-

pany's total assets as per 31 December 2018 were SEK 193 million; this meant that, all else being equal, assets as per 1 January 2019 totalled SEK 233 million. The transition to IFRS 16 had no significant impact on the Company's EBIT or net profit. However, under the new standard previously recognised rental expense is recognised as amortisation and to some extent as interest expense, compared with the earlier method whereby rental expense was in its entirety recognised as Other external expense. The Company reports the key figure equity/assets ratio, which is affected by the new standard. The reported equity/assets ratio as per 31 December 2018 was 57 percent. Adjusted to reflect the transition to IFRS 16, the equity/assets ratio as per 1 January 2019 was 47 percent.

New IFRS not yet adopted

New and amended IFRS for future adoption are not expected to have any material effect on the Company's financial statements.

Consolidated financial statements

The consolidated financial statements include the Parent Company and the companies in which the Parent Company exercises a controlling interest (subsidiaries). The Group exercises a controlling influence over a company when the Group is exposed, or has the right, to variable returns from its investment in the company and can use its influence to affect the size of the returns. Normally, a controlling influence exists when a parent company directly or indirectly holds more than 50 percent of votes in another company. A controlling influence may also be exercised in ways other than through shareholdings. The results for subsidiaries acquired or disposed of during the year are included in the consolidated income statement from and until, respectively, the date on which the transaction takes place, i.e. when controlling influence commences or ceases. If accounting policies applied in subsidiaries differ from the Group's, the subsidiary's accounting is adjusted to ensure consistency with the policies applied by the other Group companies. Internal transactions between Group companies and intra-Group balances are eliminated in the preparation of the consolidated financial statements. A non-controlling interest is the portion of earnings and net assets in a partly-owned company that accrues to other owners. A portion of non-controlling interests is included in profit or loss in the consolidated income statement after tax. The portion of net assets is included in equity in the consolidated balance sheet but reported separately from equity attributable to the Parent Company's shareholders.

Business combinations

Subsidiaries are companies that are under the control of the parent company. Control exists if the parent company has influence over the investee, is exposed to or is entitled to variable returns from its involvement, and can use its influence over the investment to

Note 2 (cont.)

influence the return. In determining the existence of a controlling interest, potential voting rights and whether de facto control exists are taken into account.

Subsidiaries are accounted for using the acquisition method. In this method, acquisition of a subsidiary is treated as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis determines the fair value, on the date of acquisition, of identifiable assets and liabilities assumed and any non-controlling interests. Transaction costs incurred, with the exception of transaction costs attributable to the issue of equity instruments or debt instruments, are recognised directly in profit or loss for the year.

In the case of business combinations where the consideration transferred, any non-controlling interest and the fair value of the previously owned share (in the case of incremental acquisitions) exceed the fair value of acquired assets and liabilities recognised separately, the difference is recognised as goodwill. When the difference is negative, in what is termed a bargain purchase, this is recognised directly in the profit or loss for the year.

A non-controlling interest is recognised by statement of the non-controlling interest's share of a proportional share of the recognised fair value of assets, liabilities and contingent liabilities. On acquisition of shares from non-controlling interests, any differences between the historical cost of acquisition of the shares acquired and the fair values of acquired, identifiable assets and liabilities is recognised directly against equity.

Revenue

The basic principle is that MSAB recognises revenue such as to represent the transfer of promised goods or services to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for the goods or services. This is done via the five-step model defined in IFRS 15:

- Step 1 Identify the contract
- Step 2 Identify the performance obligations
- Step 3 Determine the transaction price
- Step 4 Allocate the transaction price to each performance obligation
- Step 5 Recognise revenue when (or as) the Company fulfils its performance obligations.

The Company has two types of revenue: product sales; and training and other services.

Product sales

A product sale consists of a licence to use MSAB's software and some type of hardware, depending on which platform the customer chooses. The customer contract also includes the right to support and any updates to the software during the license period. In MSAB's judgement the Company has the following performance obligations: the hardware used, software licenses, right to support, and any software updates released during the license period. Hardware and software are usually priced as a package and the transaction price is defined in the contract. Hardware and software licenses are delivered immediately on receipt of an order. These performance obligations are regarded as being met at the time of delivery, whereupon the revenue is recognised. Performance obligations for support and updates apply from the time of delivery and are fulfilled over time during the license period. A license period is between one and three years, with one year being most common option.

The transaction price for the various performance obligations has been assessed on the basis of their relative sales price using a method based on expected costs plus a profit margin. In the Company's judgement, this method is the fairest one for allocating the portion of the transaction price that is attributable to future performance obligations. Monitoring is performed on an ongoing basis to ensure that the calculation is fair. A contract liability for support and updates is recognised at the time of invoicing, after

which income is recognised on a straight-line basis during the license period. Payment terms for product sales are normally 30 days. Note 5 describes what proportion of the Company's performance obligations is fulfilled at a certain point in time and what proportion is fulfilled over time. Furthermore, Note 5 specifies the Company's total contract liabilities and how much of the opening balance was recognised as revenue during the year. The maturity structure of the contract liability is recognised, indicating the point in time when the closing balance of the contract liability will be recognised as revenue.

Training and other services

A sale of training or other service commits MSAB to deliver a service. The performance obligation consists of MSAB delivering training to the customer, in many cases on their premises. The transaction price is defined in the contract. The performance obligation is regarded as being fulfilled when the training has been completed, whereupon the revenue from the training operation is recognised in the period when the service was performed. Payment terms for training and other services are normally 30 days.

Dividends and interest income

Dividend income is recognised when shareholders' right to receive payment has been confirmed. Interest income is recognised over the term using the effective interest method. The effective interest renders the present value of all future receipts and payments during the fixed interest term equal to the recognised value of the receivable.

Government grants received

Government grants received are recognised in the income statement and accrued in the same way as the expenses they are intended to compensate. Government grants attributable to operating expenses are offset against those expenses.

Lease contracts

Principles applied as of 1 January 2019

When a contract is entered into, the Group determines whether the agreement is, or includes, a lease. A contract is, or includes, a lease if the contract confers the right to determine for a certain period the use of an identified asset in exchange for compensation.

The Group recognises a right-of-use asset and a lease liability on commencement of the lease. The right-of-use asset is initially measured at historical cost, which consists of the initial amount of the lease liability plus lease payments paid at or before the date of commencement plus any initial direct expenses. The right-of-use asset is amortised on a straight-line basis from the date of commencement to the end of the asset's useful life or the end of the lease term, whichever is the shorter. In the Group's case, this is normally the end of the lease term.

The lease liability — which is divided into long-term and short-term portions — is initially measured at the present value of the remaining lease payments during the expected lease term. The lease term consists of the non-terminable period plus additional periods in the contract if at the commencement date it is deemed reasonably certain that these will be used.

Lease payments are normally discounted at the Group's marginal borrowing rate, which, in addition to the Group's/Company's credit risk, reflects the respective contract's lease term, currency and quality of the underlying asset as intended collateral.

The amount of the liability is increased by adding the interest expense for each period and reduced by deduction of the lease payments. The interest expense is calculated by multiplying the amount of the liability by the discount rate.

In the case of leases with a term of 12 months or less, or with an underlying asset of low value, i.e. less than SEK 50,000, the right-of-use asset and lease liability are not recognised. Lease payments for these leases are recognised as an expense on a straight-line basis over the lease term.

Note 2 (cont.)

Principles applied until 31 December 2018

In periods prior to 2019, the Group, as both lessee and lessor, classified leases — contracts that conferred a right to use an asset for an agreed period in exchange for a payment or series of payments — as operating or financial leases based on whether the contract in all essential respects transferred the risks and benefits associated with ownership of the asset.

As a lessee, operating lease costs were recognised in profit or loss for the year on a straight-line basis over the lease term. Benefits received in connection with the signing of a contract were recognised in profit or loss for the year as a reduction in lease payments on a straight-line basis over the lease term. Variable fees were expensed in the periods they arose.

Financial leases in which the Group was a lessee were in all material respects recognised in a way that meets the requirements of recognition of leases as described above, with effect from 1 January 2019. The main difference was that in leases where the Group guaranteed the residual value, the entire residual value amount was included in the calculation of the lease liability (and indirectly the lease asset).

Foreign currencies

Items included in the financial statements for the various entities within the Group are recognised in the currency used in the primary financial environment where the respective entity conducts its operations (functional currency). In the consolidated financial statements, all amounts are translated to Swedish kronor (SEK), which is the Parent Company's functional currency and reporting currency. Transactions in foreign currencies are translated into the functional currency in each respective entity using the exchange rates prevailing on the transaction date. On every balance sheet date, monetary items in foreign currencies are recalculated using the exchange rate on the balance sheet date. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate on the date when the fair value was established. Non-monetary items measured at historical cost in a foreign currency are not translated. Exchange rate differences are recognised in the income statement in the period in which they occur, except for transactions that constitute hedges which met the conditions for hedge accounting for cash flow or for net investment, where profit and loss are recognised in other comprehensive income. When preparing the consolidated financial statements, the assets and liabilities of foreign subsidiaries are translated to Swedish kronor at the exchange rate on the balance sheet date. Revenue and expense items are translated using the average exchange rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rate on the transaction date is used instead. Any translation differences are recognised in equity and in other comprehensive income. When a foreign subsidiary is disposed of, any translation differences arising are recognised in the income statement as part of the capital gain. Goodwill and adjustments to fair value arising on acquisition of a foreign operation are treated as assets and liabilities in that operation, and are translated at the exchange rate on the balance sheet date.

Employee remuneration

Employee remuneration in the form of salaries, paid vacation, paid sick leave, pensions, etc. are recognised as they are earned. Pensions and other post-employment benefits are classified as defined-contribution or defined-benefit pension plans.

Profit-sharing

The Group recognises the expected cost of profit-sharing payments when the Company has a legal or constructive obligation to make such payments due to prior events and the obligation can be reliably calculated. The Group recognises a liability and cost for profit-sharing based on 5 percent of consolidated profit before tax. Profit-sharing payments fall due for payment within 12 months

after the end of the period in which the employees perform the services, and are therefore recognised as a current liability.

Incentive programme

Share-related remuneration that is settled via equity instruments are measured at fair value on the date of issuance. The fair values established on the date of issuance are recognised as an expense in the income statement. The cost of allocated rights is recognised as a personnel expense in the income statement and in equity. The provision for social security contributions is recognised as a personnel expense in the income statement and as a liability on the balance sheet.

Defined-contribution pension plans

At MSAB, only defined contribution pension plans are operated. MSAB pays fixed fees for these plans to a separate and independent legal entity. The Group has no commitment to pay any further fees. The consolidated profit or loss is charged with expenses as the benefits are earned, which normally coincides with the point in time when the premium is paid.

Taxes

Tax expense consists of the total of current and deferred taxes.

Current tax

Current tax is calculated on the taxable profit for the period. Taxable income differs from the recognised profit/loss in the income statement, in that it has been adjusted for non-taxable income and non-deductible expenses, and for revenue and expenses that are taxable or deductible in other periods. The Group's current tax liability is calculated in accordance with tax rates enacted or substantively enacted on the balance sheet date.

Deferred tax

Deferred tax is recognised as the difference between the carrying amount for assets and liabilities in the financial statements and the tax base used in the computation of taxable income. Deferred tax is reported in accordance with the balance sheet method. In principle, deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to that extent that the amount is likely to be offset against future taxable surpluses. Deferred tax liabilities and tax assets are not recognised if the temporary difference is attributable to goodwill or if it occurs as a result of a transaction that is the initial recognition of an asset or liability (which is not a business combination), and which at the time of the transaction affects neither recognised nor taxable profit. Deferred tax liabilities are recognised for taxable temporary differences attributable to investments in subsidiaries and associated companies, except in the cases where the Group can control the timing of the reversal of the temporary differences, and it is likely that such reversals will not take place in the foreseeable future. Deferred tax assets attributable to deductible temporary differences for such investments and interests are only recognised to the extent that it is likely that the amounts can be used against future taxable surpluses, and such use is likely to occur within the foreseeable future. The carrying amount for deferred tax assets is reviewed at every balance sheet date and is reduced to the extent that it is no longer likely that sufficient taxable surpluses will be available to be used, in whole or part, to offset the deferred tax asset. Deferred tax is calculated at the tax rates expected to apply for the period when the asset is recovered or the liability is settled, based on the tax rates (and tax laws) enacted or substantively enacted as per the balance sheet date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same authority, and where the Group intends to settle the tax by a net amount.

Note 2 (cont.)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or revenue in the income statement, except when the tax is attributable to transactions that are recognised in other comprehensive income or directly in equity.

In such cases, the tax shall also be recognised in other comprehensive income or directly in equity. If the tax is attributable to a business combination or merger, the tax effect is taken into account when calculating goodwill or when determining the size of any excess amount that arises if the fair value of the acquired share of the acquirer's identifiable assets, liabilities and contingent liabilities exceed the historical cost of the business combination.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairments. Historical cost includes the purchase price, costs directly attributable to the acquisition and expenses for preparation of the asset until it is ready for use. Subsequent costs are only included in the asset or recognised as a separate asset when it is likely that future financial benefits attributable to the item will flow to the Group and the historical cost of same can be measured reliably. All other costs for repairs and maintenance, and any other expenses, are recognised in the income statement in the period in which they are incurred. Depreciation of property, plant and equipment are expensed so that the asset's value less the estimated residual value at end of the useful life is amortised on a straight-line basis which is estimated at:

Equipment, tools and installations 5 years

Intangible assets

Intangible assets are stated at historical cost less accumulated amortisation and any impairments. Historical cost includes the purchase price, costs directly attributable to the acquisition and expenses for preparation of the asset until it is ready for use. Subsequent costs are only included in the asset or recognised as a separate asset when it is likely that future financial benefits attributable to the item will flow to the Group and the historical cost of same can be measured reliably. Amortisation of intangible assets is expensed so that the asset's value less the estimated residual value at end of its useful life are amortised on a straight-line basis which is estimated at:

Equipment, tools and installations 5 years

Research and Development

Research and development expenditure is expensed as incurred. Expenditure incurred in development projects is recognised as intangible assets when the following criteria are met:

- It is technically possible for the Company to complete the intangible asset so that it can be used.
- Management intends to complete the intangible asset and use or sell it.
- The conditions necessary to use or sell the intangible asset are in place.
- It can be demonstrated how the intangible asset will generate likely future financial benefits.
- There are adequate technical, financial, and other resources necessary to complete development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditure that does not meet these conditions is recognised as incurred. Development expenditure previously recognised as an expense is not recognised as an asset in any subsequent period. Capitalised development expenditure is recognised as intangible assets and is amortised, from the point in time when

the asset is ready for use, on a straight-line basis over the period of its useful life.

Inventory

Inventory is recognised at the lower of historical cost or net realisable value. Historical cost is determined using the first-in, first-out method (FIFO). The historical cost of finished goods consists of raw materials and direct labour costs. The net realisable value is the estimated selling price in the ordinary course of business, less the variable costs necessary to make the sale. No part of inventory has been pledged as collateral for loans or other liabilities.

Financial instruments

A financial asset or liability is recognised in the balance sheet when the Company becomes party to the instrument's contractual terms and conditions. A financial asset is derecognised from the balance sheet when the contractual rights are exercised, when it matures or when the Company no longer has control over it. A financial liability is derecognised from the balance sheet when the contractual obligation is fulfilled or otherwise extinguished. A financial asset (other than trade receivables that do not have a significant financing component) or financial liability is measured at fair value at initial recognition, plus, in the case of financial instruments not measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue. A trade receivable without a major financing component is measured at the transaction price.

Classification and measurement of financial assets

In accordance with IFRS 9, financial assets are classified into categories according to the business model for management of the assets and according to the characteristics of the contractual cash flows. The latter refers to the way in which the agreed terms for the financial asset at certain times gives rise to cash flows that consist solely of payments of principal and interest on the outstanding capital amount. The Company only has financial assets classified as financial assets measured at amortised cost.

Financial assets measured at amortised cost: assets held, according to the business model, to collect contractual cash flows that solely consist of payments of principal and interest on the outstanding capital amount.

Impairment of financial assets

The provision for losses from trade receivables and contractual assets is always measured at an amount corresponding to expected loan losses over the remaining life of the receivable. During the assessment, account is taken of quantitative and qualitative information and analysis based on the Group's historical experience and credit assessment and including forward-looking information.

For all trade receivables, a credit loss provision is made for losses expected within 12 months. For trade receivables where a major increase in credit risk has materialised, and for those that are doubtful, a credit loss is recognised regarding the loss expected over the entire remaining term of the asset. Impairment of trade receivables is recognised in operating costs. See also the section on Credit Risk and Note 16 Trade receivables.

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and recognised in a net amount on the balance sheet where there is a legally enforceable right to offset, and where there is an intention to settle items on a net basis or to realise the asset and settle the liability. There was no offsetting of financial assets or liabilities in 2018 or 2017.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, and other current, liquid investments that are easily converted to cash and that carry an insignificant risk of value change. To be classified as a cash equivalent, the maturity must not exceed three months

Note 2 (cont.)

from the time of acquisition. Cash and bank balances are measured at amortised cost through the income statement. Because bank balances are payable on demand, the amortised cost corresponds to the nominal amount.

Financial liabilities – Classification and subsequent valuation

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss. All of the Company's financial liabilities are classified as measured at amortised cost. Subsequent measurement of other financial liabilities is performed at amortised cost using the effective interest method. Interest expenses and exchange rate gains and losses are recognised in profit or loss. Gains or losses on derecognition from the accounts are also recognised in profit or loss.

Impairment losses on property, plant and equipment and intangible assets, as well as on interests in associates and joint ventures

The Group's recognised assets are assessed at each balance sheet date to determine whether there is any indication of impairment. IAS 36 is applied to impairment losses on non-financial assets recognised in accordance with IFRS 9, assets for sale and disposal groups recognised in accordance with IFRS 5, investment properties recognised at fair value in accordance with IAS 40, inventories, managed assets used to finance employee benefits, biological assets and deferred tax assets. In the case of exempt assets as described above, the carrying amount is assessed according to the relevant standard.

If an indication of impairment is found, the recoverable amount for the asset is calculated (see below). In addition, for goodwill, other intangible assets with an indeterminable useful life and intangible assets that are not yet ready for use, the recoverable amount is calculated annually. If it is not possible to determine substantially independent cash flows for an individual asset, and its fair value less selling costs cannot be used, the assets are grouped for impairment testing at the lowest level where substantially independent cash flows can be identified, a "cash-generating unit".

An impairment loss is recognised when the carrying amount for an asset or cash-generating unit (group of units) exceeds the recoverable amount. An impairment loss is recognised as an expense in profit or loss for the year. When impairment is identified for a cash-generating unit (group of units), the impairment charge is in the first instance allocated to goodwill. A proportional write-down of other assets included in the unit (group of units) is then applied.

The recoverable amount is the higher of either fair value less selling costs or value in use. When calculating the value in use, future cash flows are discounted by a discount factor that takes into account the risk-free interest rate and the risk associated with the specific asset.

An impairment of assets within the scope of IAS 36 is reversed if there is both an indication that the impairment no longer exists and there has been a change in the assumptions used to calculate the recoverable amount. However, impairment of goodwill is never reversed. A reversal is made only to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been recognised, less amortisation where appropriate, if no impairment loss has been applied.

Earnings per share

Earnings per share before dilution are calculated on the Group's profit or loss for the year attributable to the owners of the Parent Company and on the weighted average number of shares outstanding during the year. In calculating diluted earnings per share, earnings and the average number of shares are adjusted to reflect the effects of potential ordinary shares, which during periods reported originate from share options acquired by employees at market

prices based on a valuation according to the Black & Scholes model. The dilution arising from the share options occurs when the strike price is less than the current share price.

Provisions

A provision differs from other liabilities in that there is uncertainty as to the date of payment or the amount of the payment required in order to settle the provision. A provision is recognised in the statement of financial position when there is an existing legal or constructive obligation as a result of a past event, and it is likely that an outflow of financial resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are made in the amount that is the best estimate of what will be required to settle the existing obligation at the balance sheet date. Where the effect of when payment is made is material, provisions are calculated by discounting the expected future cash flow at a pre-tax interest rate that reflects current market assessments of the time value of money and, if applicable, the risks associated with the liability.

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical data on warranties and a weighting of possible outcomes in relation to the probabilities associated with the outcomes.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits that the Group is expected to receive from a contract are lower than the unavoidable costs of fulfilling the obligations under the contract.

Accounting principles for the Parent Company

The Parent Company complies with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Application of RFR 2 means that as far as possible, the Parent Company is required to apply all IFRS adopted by the EU within the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, and to take into account the relationship between accounting and taxation. The differences between the accounting policies of the Parent Company and the Group are described below:

Amended accounting policies

The amendments to RFR 2 Accounting for Legal Entities that have entered into force and apply to the fiscal year 2019 have had no significant impact on the Parent Company's accounting. The new policies on leases, in accordance with IFRS 16, are also applied in the Parent Company. The Parent Company has elected not to apply the opt-out option in RFR 2. See also the Group's accounting policies on leases in accordance with IFRS 16. Of the revisions to RFR 2 not yet in force, it is the Company's judgement that these will not have any impact on the Parent Company's financial position and results. For more information, see the section in Note 2 on new and revised standards and interpretations that apply to the Group in 2019.

Shares in subsidiaries

Shares in subsidiaries are recognised in accordance with the historical cost method. Acquisition-related costs for subsidiaries, which are expensed in the consolidated financial statements, are included as part of the historical cost of participations in the subsidiary. The carrying amount for participations in subsidiaries is tested for impairment when there are indications of an impairment.

Note 2 (cont.)

Leases

Principles applied until 31 December 2018

All leases in the Parent Company are recognised in accordance with the rules for operating leases.

Policies applied from 1 January 2019.

See Group

Financial instruments

The Parent Company has elected not to apply IFRS 9 to financial instruments. However, some of the principles of IFRS 9 are still applicable – for example, regarding impairment, posting/cancellation, criteria for applying hedge accounting and the efficiency method for interest income and interest expenses.

In the Parent Company, non-current financial assets are measured at historical cost less any impairment, and financial current assets according to the lowest-value principle. For financial assets recognised at amortised cost, the impairment rules stated in IFRS 9 are applied.

Note 3 Estimates and assumptions in the financial statements

Preparation of financial statements to conform with IFRS requires Company management to make certain assessments, estimates and assumptions that affect the application of accounting policies and the recognised amounts for assets, liabilities, revenue and costs. The actual results may differ from these estimates and assumptions. These estimates and assumptions are reviewed regularly. Changes in the estimates are recognised in the period when a change is made if the change only affects that period, or in the period the change is made and future periods if the change affects both current and future periods. At year-end, special attention is focused on measurement of trade receivables, which are considered to be the Company's single most important asset. Provision for future credit losses in connection with trade receivables is made in accordance with IFRS 9, based on historical experience and credit

evaluation, including forward-looking information, as described in Note 16. The Group recognises revenue in accordance with IFRS 15 – Revenue from Contracts with Customers, the IFRS standard that deals with revenue recognition. The basic principle is that a company recognises revenue in a way that reflects the transfer of promised goods or services to the customer, in the amount that the company considers itself entitled to receive in exchange for the goods or services. In accordance with the description in Note 2, transaction prices are allocated for future performance obligations to deliver support and product updates based on the resources deemed necessary to fulfil these obligations. This forms the basis for measurement of the various sub-components bearing on revenue recognition.

Note 4 Financial risk management and financial instruments

The overall objective of MSAB's financial risk management is to identify and control the Group's financial risk. MSAB's Board of Directors is ultimately responsible for exposure, management and monitoring of the Group's financial risks. The frameworks that apply to exposure, management and monitoring of financial risks is established by the Board. The most significant financial risks to which the Group is exposed are market, liquidity, and credit risks. Market risks consist primarily of currency risk and interest rate risk.

Market risks

Currency risk

Currency risk refers to the risk that the Group's profit and equity are negatively impacted by changes in exchange rates. Exposure to currency risk arises from payment flows (transaction exposure) in foreign currencies and from translation of balance sheet items in foreign currencies, as well as from recalculation of the income

statements and balance sheets of foreign subsidiaries to the Group's presentation currency, Swedish kronor (translation exposure).

Transaction exposure

Transaction exposure arises in connection with MSAB's export sales. Of the Group's total sales in 2018, approximately 98 (97) percent were to export, together with sales through foreign subsidiaries in foreign currencies. Inflows in foreign currencies consist primarily of euros (EUR), British pounds (GBP) and American dollars (USD). The majority of purchases of goods and services are in Swedish kronor (SEK). The net exposure in relation to the inflow of payments in foreign currencies is thus considerable. MSAB applies hedge accounting from time to time and uses forward contracts to minimise major currency fluctuations. At year-end 2018, the Company held no forward contracts.

Note 4, cont.

Translation exposure

Translation exposure arises primarily when translating asset and liability posts in foreign currencies, and income statements and balance sheets for foreign subsidiaries to SEK. Exchange rate

fluctuations may have negative impact on the Group's equity and profit. The table below shows the Group's and Parent Company's net currency exposure on closing day (foreign currencies translated to SEK thousands in the table):

Market risks, SEK thousands Currency	Group		Parent Company	
	2019	2018	2019	2018
AUD	900	3,536	0	2,459
CAD	617	943	307	482
EUR	27,011	28,667	26,664	27,079
GBP	3,910	8,618	3,145	8,787
HKD	0	0	2,295	2,195
SGD	320	156	6,837	2,626
USD	41,807	21,862	336	505
JPY	291	0	1,184	0
Total trade receivables in foreign currencies	74,856	63,781	40,768	44,134
SEK	303	3,793	400	3,890
Total trade receivables	75,159	67,574	41,168	48,024

A change of +/-5 percent in relevant exchange rates relative to Swedish kronor would have the following impact on the consolidated profit/loss for respective currencies on the balance sheet date: USD–SEK 1,109 thousand (875), EUR–SEK 1,320 thousand (917), GBP–SEK 854 thousand (170). For the Parent Company, the corresponding impact on profit/loss would be: USD–SEK 28 thousand (60); EUR–SEK 1,320 thousand (915); GBP–SEK 854 (227) thousand.

Interest rate risks

Interest rate risks consist of the risk of a negative impact on the consolidated income statement and cash flow as a result of changes in market interest rates. MSAB has no interest-bearing liabilities and interest rate risk is primarily limited to the Group's surplus liquidity, which is placed in interest-bearing bank accounts and other fixed-income investments. Surplus liquidity is to be invested at a low risk with short, fixed-interest rate periods, as per the Board's instructions. Against that background, the Group has elected to place excess liquidity in different bank accounts, mainly at SEB.

Liquidity and financing risk

Liquidity risk is the risk of the Group being impacted negatively by inadequate management and control of liquidity and payment flows. Financing risk refers to the risk of the Group not being able to raise enough cash to meet its obligations. Liquidity and financing risk are currently very low. The Group has good liquidity and a high earnings capacity. The Group's surplus liquidity is placed in bank accounts. On that basis, liquidity preparedness is high and there is currently no need for external credit to finance operations or create liquidity. The duration and distribution of contractual payment obligations related to the Group and Parent Company's financial liabilities are shown in the table below:

2019	Group					Parent Company				
	Within 3 months	3-12 months	1-5 years	More than 5 years	Total	Within 3 months	3-12 months	1-5 years	More than 5 years	Total
Liquidity and financing risk, SEK thousands										
Trade payables	4,559	0	0	0	4,559	3,888	0	0	0	3,888
Lease liability	3,034	9,095	22,060	0	34,189	2,768	8,288	21,240	0	32,296
Accrued expense	10,799	14,409	0		25,208	6,205	14,409	0		20,614
Other liabilities	12,168	–	–	–	12,168	9,465	–	–	–	9,465
Total	30,560	23,504	22,060	0	76,124	22,326	22,697	21,240	0	66,263

2018	Group					Parent Company				
	Within 3 months	3-12 months	1-5 years	More than 5 years	Total	Within 3 months	3-12 months	1-5 years	More than 5 years	Total
Liquidity and financing risk, SEK thousands										
Trade payables	3,699	0	0	0	3,699	3,120	0	0	0	3,120
Accrued expense	7,327	9,092	0		16,419	6,667	9,092	0		15,759
Other liabilities	8,234	–	–	–	8,234	5,019	–	–	–	5,019
Total	19,260	9,092	0	0	28,352	14,806	9,092	0	0	23,898

Note 4, cont.

Credit risk

Credit risk refers to a counterparty not being able to meet their contractual obligations vis-à-vis the Group, resulting in a financial loss. The Group's exposure to credit risk arises in the main from trade receivables. Sales of MSAB's products are conducted either directly to the end-customer or via partners. End-customers consist almost exclusively of criminal investigation authorities. Given the category of customers which the Company addresses, the risk of non-payment due to insolvency is very low. To limit the Group's exposure to credit risk, a credit rating is performed for every new customer. The financial situation of existing customers is also monitored on an ongoing basis to identify warning signals at an early stage. A credit rating is always performed before the Company enters into any new sales partnership, after which the partner's financial situation is continuously monitored to identify warning signals. The Group may also establish credit limits for partners, or require bank guarantees for larger contracts. To further minimise

credit risk, the Group can also choose to invoice an end-customer directly, and instead allow the sales partner to invoice MSAB for their commission. The risk of future credit losses is continuously assessed, leading to changes to provisions for doubtful trade receivables. See also Note 16 Trade Receivables. Credit risk also arises when the Company's surplus liquidity is invested in various types of financial instrument. In accordance with the Board's instructions, surplus liquidity is placed in interest-bearing bank accounts or interest-bearing securities/fix-income funds. Eligible parties are the Swedish State and banks, whose credit rating has been assessed by the Company. The Group's lending to banks is covered by the government deposit guarantee, which amounts to SEK 500 thousand per bank. The Group's and the Parent Company's maximum exposure to credit risk is matched by the book values of all financial assets and is shown in the table below:

Credit risk, SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Trade receivables	75,159	67,574	41,168	48,024
Other receivables	6,652	7,470	887	1,536
Cash and cash equivalents	63,950	98,816	37,018	56,560
Maximum exposure to credit risks	145,761	173,860	79,073	106,120

Concentration risk

Trade receivables consist primarily of a small number of major customers with a high credit rating. The ten largest customers accounted for 30 percent (32) of total revenue. Approximately 47 percent (46) of the Group's sales are made in the European market, of which the UK represents the single largest geographical exposure. North America accounts for 38 percent (41) of sales. The majority of the Company's customers operate in the judicial sector. The purchasing process may differ between countries, where procurement is conducted centrally in some and decision-making is local in others. Similarly, procurement is conducted from within certain branches of the military. In such cases, customers can be referred to centrally procured purchasing companies, meaning that in a given period, a purchasing company may account for a relatively high proportion of the Company's net sales. Procurement through purchasing companies is ongoing and varies from year to year. In practice, this means that in any given year, purchasing companies may account for more than 10 percent of total net sales. In the past year, no single customer accounted for 10 percent or more of the Company's total net sales. Note 16 Trade receivables

provides an age analysis of the Group's and the Parent Company's trade receivables.

Management of capital risks

MSAB defines its managed capital as the aggregate of consolidated net liabilities and equity. Because the Group currently has no loans, managed capital and consolidated equity are the same. At year-end 2018, consolidated equity was SEK 110,095 thousand (114,608). The Company's objectives regarding its capital structure is to secure its ability to sustain operations, generate returns for shareholders and benefit to other stakeholders and to ensure that the capital structure is optimal as regards cost of capital. Dividends to shareholders, redemption of shares, issuance of shares and sales of assets are examples of measures the Group can take to adjust its capital structure. The Board has adopted a dividend policy whereby no less than 30 percent of the Company's reported earnings are returned to shareholders, on the proviso that this is compatible with maintaining an adequate amount of liquidity for planned operations.

Note 4, cont.

Classification and valuation of financial instruments

The book values of financial assets and financial liabilities in 2019 according to the classification set out in IFRS 9 (see Note 2),

together with the classification of financial assets and fair values, are shown in the table below.

Classification of financial instruments, SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Financial assets measured at amortised cost				
Trade receivables – contractual assets	75,159	67,574	41,168	48,024
Cash and cash equivalents – other assets	63,950	98,816	37,018	56,560
Accrued income	4,785	10,364	4,591	10,054
Total financial assets	143,894	176,754	82,777	114,638
Financial liabilities				
Other financial liabilities				
Trade payables	4,559	3,699	3,888	3,120
Lease liability	34,189	–	32,296	–
Accrued expenses	25,208	17,067	17,525	15,761
Total financial liabilities	63,956	20,766	53,709	18,881

No reclassifications between the valuation categories above were made during the year.
The carrying amounts for all financial assets and liabilities are a reasonable estimate of fair value.

Net profit/loss for financial instruments, SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Trade receivables and other financial receivables				
Currency losses	-404	-124	-366	–
Other financial liabilities				
Currency gains	5,025	8,469	4,946	8,326
Currency losses	-3,614	-6,342	-3,284	-6,341
Total	788	2,261	1,077	2,243

Note 5 Operating income

	Asia & Russia	EMEA & Latin America*	North America	Total
Group, revenue breakdown 2019, SEK thousands				
Product sales	41,131	123,728	115,520	280,380
Training and other services	5,256	15,373	6,623	27,253
Total	46,388	139,101	122,143	307,632
Performance obligations fulfilled at a certain point in time	39,434	120,366	102,891	262,691
Performance obligations fulfilled over time	6,953	18,728	19,253	44,934
Total	46,388	139,094	122,143	307,625
*Of which, Sweden		7,139		
**The breakdown is based on the customer's domicile.				
Group, revenue breakdown 2018 (SEK thousands)				
Product sales	41,492	127,422	109,161	278,075
Training and other services	3,469	15,008	7,319	25,796
Total	44,961	142,430	116,480	303,871
Performance obligations fulfilled at a certain point in time	37,519	125,236	98,501	261,256
Performance obligations fulfilled over time	7,442	17,193	17,980	42,615
Total	44,961	142,429	116,481	303,871
*Of which, Sweden		5,465		
**The breakdown is based on the customer's domicile.				

	Asia & Russia	EMEA & Latin America	North America	Total
Parent Company, revenue breakdown 2019, SEK thousands				
Product sales	34,886	105,232	65,544	205,662
Training and other services	1,210	6,950	–	8,160
Total	36,096	112,182	65,544	213,822
Performance obligations fulfilled at a certain point in time	32,432	104,388	65,531	202,351
Performance obligations fulfilled over time	3,664	7,794	13	11,471
Total	36,096	112,182	65,544	213,822
Parent Company, revenue breakdown 2018, SEK thousands				
Product sales	34,312	119,091	59,020	212,423
Training and other services	725	7,775	45	8,545
Total	35,037	126,866	59,065	220,968
Performance obligations fulfilled at a certain point in time	30,415	114,850	59,065	204,330
Performance obligations fulfilled over time	4,622	12,016	–	16,638
Total	35,037	126,866	59,065	220,968

Note 5 (cont.)

Contractual liabilities – performance obligations over time

MSAB has performance obligations for support and product updates that are fulfilled over a license period. The Company recognises these performance obligations as contractual liabilities, which are

taken up as revenue on a straight-line basis over the license period. See also the section on revenue in Significant accounting policies.

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Opening balance, contractual liabilities	43,897	45,946	19,230	19,317
Of opening balance, taken up as revenue during the year	-34,716	-31,538	-14,208	-12,529
Additional contractual liabilities during the year	33,470	29,489	12,797	12,442
Closing balance, contractual liabilities	42,651	43,897	17,819	19,230
Of which				
Current liabilities	32,630	33,842	14,018	14,192
Non-current liabilities	10,021	10,055	3,801	5,038
Total	42,651	43,897	17,819	19,230

Revenue for remaining performance obligations

Revenue for remaining performance obligations as per 31 December 2019 is expected to be recognised as follows:

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
2019	–	33,841	–	14,192
2020	32,630	7,681	14,018	4,031
2021	7,031	2,272	2,579	934
2022 and beyond	2,990	103	1,222	73
Total	42,651	43,897	17,819	19,230

Breakdown of the Group's non-current assets

The Group's fixed assets are as follows: EMEA & Latin America SEK 31,111 thousand (2,914), Asia & Russia SEK 0 thousand (0), North America SEK 0 thousand (0).

Intra-Group purchases and sales

Purchases and sales from the Parent Company to other Group companies amounted to SEK 106,179 thousand (104,559) in sales and SEK 0 thousand (0) in purchases.

Currency exposure

Of the Group's total net sales, SEK 219 thousand (258) consisted of foreign exchange differences attributable to translation of trade receivables. The impact on profit was SEK 788 thousand (2,261).

Segment reporting

The Company sells and markets a small number of products that are for the most part packaged and sold to the same customers. The Company's operations and management are organised by function, e.g. development, support, sales and administration. The Company's internal monitoring is currently organised at aggregated level only. Geographical areas are only monitored with regard to sales in the countries or regions concerned. As a result, the Group does not recognise operating segments in its financial statements

Note 6 Auditor's fees, reimbursement of auditor's expenses

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Audit assignment, KPMG	350	–	350	–
Audit assignment, Deloitte	–	340	–	340
Auditing services other than audit assignment, KPMG	24	–	24	79
Auditing services other than audit assignment, Deloitte	–	79	–	–
Tax advisory services	–	25	–	25
Auditing services, other	111	124	–	–
Total	485	568	374	444

Note 7 Leasing

Property leases

The Group leases office premises in Sweden, China and the USA. The leases for office premises in Sweden have a term of four years with an option for an extension of three years at a time and a period of notice of nine months. In calculating its lease liability, the Group has not taken the extension option into account. The leases on the office premises include lease payments based on changes in price indices and also require the Group to pay fees relating to property taxes accruing to the lessor. These amounts are fixed annually.

Other leases

The Group leases cars and other technical equipment with lease terms of one to three years. In some cases, the Group has an option

to purchase the asset at the end of the lease term. In others, the Group guarantees the residual value of the leased asset at the end of the lease term. Options to extend are included only to an insignificant extent. The Group also leases machinery and IT equipment with lease terms of one to five years, where the leases are for short terms and/or are of low value. The Group has elected not to recognise right-of-use assets and lease liabilities for such leases.

The year's cost for operating leases relating to vehicles and rent amounted to SEK 7,761 thousand for the Group and SEK 6,421 thousand for the Parent Company. On the balance sheet date 2018, the Group had outstanding commitments under non-cancellable operating leases with maturities as follows:

	Group	Parent Company
SEK thousands	2018	2018
Within a year	11,259	10,047
Within two to five years	33,677	31,782
Total	44,936	41,829

Adjustment from operating leases under IAS 17 to lease liability in accordance with IFRS 16:

	Group	Parent Company
SEK thousands		
Operating leases under IAS 17 as per 31 December 2018	44,936	41,829
Effect of discounting on operating leases under IAS 17 as per 31 December 2018*	-1,159	-1,094
Short-term leases posted on a straight-line basis	-55	
Leases for which the underlying asset is of low value, expensed on a straight-line basis	-400	-400
Variable lease payment (property tax)	-3,250	-3,250
Lease liability in accordance with IFRS 16 as per 1 January 2019	40,072	37,085

*Weighted average marginal borrowing interest rate is 1.6 percent.

SEK thousands	Group			Parent Company		
	Buildings	Fixtures and fittings	Total	Buildings	Fixtures and fittings	Total
Opening balance, historical cost	39,687	385	40,072	36,700	385	37,085
Additional rights-of-use	357	-	357	357	-	-
Completed rights-of-use	-	-	-	-	-	-
Exchange rate difference	-	-	-	-	-	-
Closing balance, accumulated historical cost	40,044	385	40,429	37,057	385	37,442
Opening balance, depreciation	-	-	-	-	-	-
Planned depreciation for the year	-10,485	-128	-10,613	-9,380	-128	-9,508
Sales/disposals	-	-	-	-	-	-
Closing balance, acc. depreciation	-10,485	-128	-10,613	-9,380	-128	-9,508
Closing balance, planned residual value	29,558	257	29,816	27,676	257	27,933

Note 7 (cont.)

	Group	Parent Company
Cost disclosures, fiscal year ending 31 December 2019		
Amortisation of right-of-use assets	10,613	9,508
Interest expense, lease liability	437	468
Lease expense, short-term leases	297	–
Leasing expense, low-value assets	569	569
Cost of variable lease payments	944	944

	Group	Parent Company
Cash flow disclosures, fiscal year ending 31 December 2019		
Total cash outflow, leases	14,406	13,021

Note 8 Salaries, other remuneration and social security contributions

	2019		2018	
Average no. of employees	Total	Of which men	Total	Of which men
Parent Company				
Sweden	148	87	99	68
Group subsidiaries				
USA	28	21	25	19
United Kingdom	12	11	11	8
Canada	1	–	1	1
Australia	1	1	1	1
Hong Kong	–	–	–	–
China	2	1	2	1
Singapore	3	3	2	2
Japan	1	1	1	1
Total	196	125	157	120
Gender representation, senior executives				
	Total	Of which men	Total	Of which men
Parent Company and Group companies				
Board members	5	3	5	4
Other senior executives	2	2	2	2
Total, Parent Company	7	5	7	6

Note 8 (cont.)

Salaries and remuneration, SEK thousands	2019	2018
Parent Company		
Salaries and remuneration	86,389	71,592
Pension expenses	9,195	8,830
Other social security contributions	26,858	21,448
Total	122,442	101,870
Subsidiaries		
Salaries and remuneration	47,303	42,586
Pension expenses	1,125	1,039
Other social security contributions	3,502	3,094
Total	51,930	46,719

Pension expenses relate to the amount recognised as an expense for defined contribution plans in the income statement and associated payroll tax.

Remuneration to Board of Directors, CEO and senior executives in 2019, SEK thousands	Salaries/Board fees	Incentive programme	Pension expenses	Other benefits	Total
Board of Directors					
Henrik Tjernberg, Board Chair	500	–	–	–	500
Jan-Olof Backman, Board member	185	–	–	–	185
Ann Hellenius, Board member	93	–	–	–	93
Robert Ahldin, Board member	93	–	–	–	93
Katarina G. Bonde, Board member	93	–	–	–	93
Linda Nyberg, Board member	93	–	–	–	93
Carl Bildt, Board member	185	–	–	–	–
Other senior executives					
Joel Bollö, CEO	3,409	–	500	77	3,986
Other senior executives (1 person)	2,318	–	494	109	2,921
Total	6,969	–	994	186	7,871

Remuneration to Board of Directors, CEO and senior executives in 2018, SEK thousands	Salaries/Board fees	Incentive programme	Pension expenses	Other benefits	Total
Board of Directors					
Henrik Tjernberg, Board Chair	500	–	–	–	500
Örjan Gatu, Board member	–	–	–	–	–
Jan-Olof Backman, Board member	185	–	–	–	185
Robert Ahldin, Board member	185	–	–	–	185
Katarina G. Bonde, Board member	185	–	–	–	185
Carl Bildt, Board member	185	–	–	–	185
Other senior executives					
Joel Bollö, CEO	3,021	–	471	82	3,575
Other senior executives (1 person)	2,295	–	467	104	2,866
Total	6,556	–	939	186	7,681

1 Örjan Gatu does not receive any fees as a Board member, only remuneration as a member of senior management.

Principles of remuneration

Remuneration to the Board Chair and other Board members is subject to approval by the AGM. The overall principles governing remuneration to senior executives are based on position, individual performance and the Group's profits, and that the remuneration should be competitive. Total remuneration for senior executives shall consist of fixed salary, and variable salary in the form of incentives based on performance targets. In addition, conditions apply governing termination and severance pay. Senior executives are those persons who, along with the CEO, constituted Group management during 2019. All senior executives were employed throughout the year.

Variable remuneration

MSAB operates a profit-sharing programme, in which five percent of the Group's profit before tax is distributed to employees, excluding the CEO and Deputy CEO. The total includes social welfare contributions and the amount allocated shall not exceed three months' salary.

Incentive programme Long-term incentive programme 2018–2021

On 15 May 2018, MSAB's AGM voted to implement a long-term incentive programme for the Company's senior executives and certain key persons (a maximum of 20 persons). Participants are to be

Note 8 (cont.)

offered the chance to subscribe for share warrants at a fair market consideration (according to the Black & Scholes method). These entitle the holder to subscribe for new Series B shares in the Company in the period 1 June 2021 up to and including 31 August 2021, at a price equal to 130 percent of the average volume-weighted closing price for the Company's Series B shares in the period 16 May up to and including 29 May 2018. The maximum number of share warrants offered to any programme participant shall not exceed 40,000. At year-end 2019, 79,546 (79,546) share warrants were outstanding. The subscription price for the warrants is SEK 89.14. At year-end 2019, 79,546 (79,546) share warrants were outstanding. The subscription price for the warrants is SEK 89.14.

Pensions

The contractual retirement age for the CEO and other senior executives is 65 years. The pension premium for the CEO complies with the rules for a defined-contribution pension plan according to ITP1. Other senior executives also subscribe to a defined-contribution

pension plan according to ITP1, and for 2019 pension premiums amounted to an average of 20 percent of basic salaries. Variable remuneration is not pensionable, either for the CEO or for other senior executives. All pensions are unvested, that is, they are not conditional upon future employment.

Severance pay

At year-end 2019, the CEO had a fixed annual salary of SEK 3,240,000. The CEO also receives variable remuneration, up to a maximum of 8 months' salary (SEK 2,160,000), linked to the Company's targets for growth and profitability. In the event of termination of employment, the CEO is entitled to compensation corresponding to one year's fixed salary. The Company pays insurance compensation relating to severance pay. Severance pay is not offset against other income. When termination of employment of other senior executives is initiated by the Company, the Swedish Employment Protection Act (LAS) applies.

Note 9 Financial income

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Dividends from Group companies	-	-	3,721	-
Interest income	70	159	67	17
Exchange rate gains	5,566	8,824	5,401	8,680
Total financial income	5,636	8,983	9,189	8,697

Note 10 Financial expenses

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Interest expenses	653	20	476	19
Exchange rate losses	3,868	6,453	3,538	6,377
Total financial expenses	4,521	6,473	4,014	6,396

Note 11 Tax

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Current tax	-2,988	-7,446	-536	-6,040
Deferred tax	620	61	-	-
Total recognised tax expense	-2,368	-7,407	-536	-6,040
Reconciliation of tax for the year				
Profit/loss before tax	7,462	35,155	5,307	26,688
Tax at standard tax rate in Sweden, 21.4%	-1,597	-7,734	-1,134	-5,872
Effect of different tax rates in foreign operations	-1,369	495	-	-
Non-taxable income	797	-	797	-
Non-deductible expenses	-199	-168	-199	-168
Tax expense	-2,368	-7,407	-536	-6,040
Average tax rate, %	31.7	21.1	10.1	22.6
Deferred tax in balance sheet				
Temporary difference relating to recognition of income over time in the USA (MSAB Incorporated)	598	61	-	-
Total	598	61	-	-

Note 12 Earnings per share

Earnings per share before and after dilution is calculated by dividing profit attributable to the Parent Company's shareholders by the

weighted number of ordinary shares outstanding during the year. Number of shares is indicated in thousands

SEK thousands	Group	
	2019	2018
Profit for the year after tax, SEK thousands	5,094	27,749
Average no. of shares before dilution, thousands	18,468	18,433
Average no. of shares after dilution, thousands	18,468	18,488
Earnings per share before dilution, SEK	0.28	1.51
Earnings per share after dilution, SEK	0.28	1.50

Dilution arises from the Company's employee share-warrant programme, in which dilution occurs when the exercise price falls below the market price for the period.

Note 13 Inventory, equipment, fixtures and fittings

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Opening balance, historical cost	9,546	8,051	9,038	7,543
Purchases	1,599	1,495	1,471	1,495
Sales/disposals	-	-	-	-
Exchange rate difference	-	-	-	-
Closing balance, accumulated historical cost	11,145	9,546	10,509	9,038
Opening balance, depreciation	-7,208	-6,405	-6,700	-5,897
Planned depreciation for the year	-1,210	-803	-1,082	-803
Sales/disposals	-	-	-	-
Closing balance, accumulated depreciation	-8,418	-7,208	-7,782	-6,700
Closing balance, planned residual value	2,727	2,338	2,726	2,338

Note 14 Intangible assets

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Opening balance, historical cost	2,402	2,402	2,402	2,402
Purchases	-	-	-	-
Sales/disposals	-	-	-	-
Closing balance, accumulated historical cost	2,402	2,402	2,402	2,402
Opening balance, depreciation	-2,230	-2,100	-2,230	-2,100
Amortisation for the year	-126	-130	-126	-130
Sales/disposals	-	-	-	-
Closing balance, accumulated depreciation	-2,356	-2,230	-2,356	-2,230
Closing balance, planned residual value	46	172	46	172

Note 15 Participations in Group

	Parent Company	
SEK thousands	2019	2018
Opening balance, historical cost	404	13
Share capital MSAB Japan K.K.	–	391
Closing balance, accumulated historical cost	404	404

SEK thousands	Number of shares	Corp. ID number	Capital and voting rights, %	Book value	Domicile	Equity	Profit/loss
Micro Systemation Ltd	1	6783784	100	–	England	3,997	2,139
MSAB Incorporated	3,000	33-1211059	100	6	USA	20,375	3,874
Micro Systemation Canada Inc.	100,000	850091-6	100	–	Canada	587	106
Micro Systemation Pty Ltd	100	164546632	100	1	Australia	1,680	547
MSAB Pte Ltd	1,000	201617865E	100	6	Singapore	-538	206
Micro Systemation HK Ltd	10,000	1986284	100	–	Hong Kong	-433	-51
MSAB Technology (Beijing) Co., Ltd		09557804-X	100	–	China	4,117	1,833
MSAB Japan K.K.	100	0104-01-138205	100	391	Japan	191	-209
Total				404			

Note 16 Trade receivables

	Group		Parent Company	
SEK thousands	2019	2018	2019	2018
Trade receivables	75,359	67,674	41,254	48,024
Reserve for doubtful trade receivables	-200	-100	-100	–
Total	75,159	67,574	41,154	48,024

Trade receivables, age analysis, SEK thousands	2019	2018	2019	2018
Not yet due	45,124	47,062	29,107	38,621
Overdue 30 days	18,140	7,375	4,598	1,931
Overdue 31–60 days	6,486	6,360	5,754	6,172
Overdue 61–90 days	3,182	4,157	254	1,028
Overdue 90–60 days	2,427	2,720	1,541	272
Total	75,359	67,674	41,254	48,024

Overdue trade receivables totalled SEK 30,235 thousand (20,612). Total provisions for doubtful trade receivables amounted to SEK 200 thousand (100). Confirmed bad debt losses amounted to SEK 0 (0) thousand. In management's judgement, the carrying amount for trade receivables corresponds to fair value. The Company has calculated provisions for bad debt losses with a probability of default, i.e. customers default on payment, based on historical bad debt losses. The Company's customers consist essentially of law enforcement authorities who pay the amounts they owe, although delays are not uncommon due to extensive, cumbersome administration. As a result, the Company assesses the likelihood of default

as applied to trade receivables as a whole, since the maturity structure in itself says nothing about the risk of non-payment. For the 2016–2019 period, the Group had no confirmed bad debt losses. In 2015, a bad debt loss of SEK 32 thousand was confirmed, meaning that bad debt losses relative to average trade receivables were 0.07 percent that year. This is the basis for calculations of probability of default. Adjustments are made on the basis of this assumption if risk is assessed as increasing as sales rise. The Company notes that there was no change in 2019 regarding the type of customer that would justify an adjustment to future probability.

Note 17 Prepaid expenses and accrued income

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Pre-paid rent	220	229	220	229
Pre-paid insurance premiums	1,035	774	1,035	774
Pre-paid inventory purchases	928	2,922	928	2,922
Accrued income	–	4,755	–	4,755
Other items	2,603	1,685	2,408	1,374
Total	4,786	10,364	4,591	10,054

Note 18 Cash and cash equivalents

Cash and cash equivalents consist only of the cash available in the Group's standard bank accounts. Net book value for these assets is deemed to correspond to their fair value.

Note 19 Share capital

Share capital is represented by 19,172,000 shares with a quota value of SEK 0.20.

The Company has three classes of shares. Each share entitles the holder to an equal right to the Company's assets and profit, but each Series A share entitles the holder to ten votes and each Series B and C share entitles the holder to one vote. The number of Series A and B shares is 1,000,000 and 17,550,000, respectively. The number of Series C shares is 622,000, all of which are held in treasury. 81,596 Series B shares are held in treasury.

Micro Systemation's Series B shares have been listed on Nasdaq OMX Stockholm since 27 December 2011. A trading lot in MSAB is one share.

Translation reserve

The translation reserve includes all exchange rate differences arising from the translation of financial statements from foreign operations that have prepared their financial statements in a currency other than the currency in which the Group's financial statements are presented. The Parent Company and the Group present their financial statements in Swedish kronor. In addition, the translation reserve consists of exchange rate differences arising from the revaluation of liabilities entered as hedging instruments by a net investment in a foreign business.

Note 20 Accrued expenses and deferred income

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Accrued vacation pay	11,197	9,300	10,965	9,093
Accrued bonuses	3,715	4,218	2,370	2,900
Accrued social fees	4,190	3,768	4,190	3,768
Deferred income	46,070	47,189	18,318	20,032
Other items	3,028	5,485	2,590	2,430
Total	68,200	69,960	38,433	38,223

Note 21 Adjustments for non-cash items

SEK thousands	Group		Parent Company	
	2019	2018	2019	2018
Depreciation/amortisation	11,951	933	10,715	933
Unrealised exchange rate fluctuations	440	911	–	–
Total	12,391	1,844	10,715	933
Interest received	–	92	65	92
Interest paid	–	–	–	–

	Opening balance 2019	Cash flows	Non-cash changes in new leases	Closing balance 2019
Reconciliation of liabilities arising from financing activities, Group, SEK thousands				
Lease liabilities	40,072	-12,596	837	28,313
Total liabilities arising from financing activities	40,072	-12,596	837	28,313

	Opening balance 2019	Cash flows	Non-cash changes in new leases	Closing balance 2019
Reconciliation of liabilities arising from financing activities, Parent Company, SEK thousands				
Lease liabilities	37,085	-11,508	825	26,402
Total liabilities arising from financing activities	37,085	-11,508	825	26,402

Note 22 Dividends

The dividend approved by the AGM and paid out in 2019 amounted to SEK 2.20 per share, totalling SEK 40,630 thousand.

Note 23 Pledged assets and contingent liabilities

SEK thousands	2019	2018
Group		
Mortgage on overdraft	15,000	–
Mortgage on rental guarantee	2,265	1,863
Total	17,265	1,863
Parent Company		
Mortgage on overdraft	15,000	–
Mortgage on rental guarantee	2,265	1,863
Total	17,265	1,863

Pledges relate to a performance guarantee for payment of rent on headquarters in Stockholm and an unutilised overdraft facility of SEK 15,000 thousand. MSAB has no contingent liabilities.

Note 24 Appropriation of profit

SEK	2019	2018
Available for distribution (SEK)		
Retained profit from the previous year	10,039,154	30,021,623
Share premium reserve	7,770,400	7,770,400
Net profit/loss for the year	4,771,562	20,648,020
Total	22,581,116	58,440,043
Proposed dividend	–	40,630,489
To be carried forward	22,581,116	17,809,554
Total	22,581,116	58,440,043

Note 25 Related parties

Related party relationships

The Parent Company has a related party relationship with its subsidiaries, see Note 15.

	Year	Sales of goods/ services to related parties	Interest from related parties	Receivable from related parties 31 December	Liability to related parties as of December 31
Summary of related party transactions, Parent Company, SEK thousands					
Subsidiaries					
Micro Systemation Ltd	2019	25,188		3,145	
MSAB Incorporated	2019	53,087			-1,603
Micro Systemation Canada Inc.	2019	2,226		307	
Micro Systemation Pty Ltd	2019	9,411		528	
MSAB Pte Ltd	2019	15,642		6,837	
Micro Systemation HK Ltd	2019			2,251	
MSAB Technology (Beijing) Co., Ltd	2019				
MSAB Japan K.K.	2019	66	14	1,170	
Subsidiaries					
	2018				
Micro Systemation Ltd	2018	32,829		8,787	
MSAB Incorporated	2018	55,770		252	
Micro Systemation Canada Inc.	2018	2,003		482	
Micro Systemation Pty Ltd	2018	10,947		2,459	
MSAB Pte Ltd	2018	1,475		521	
Micro Systemation HK Ltd	2018			1,920	
MSAB Technology (Beijing) Co., Ltd	2018	366			
MSAB Japan K.K.	2018				

Related party transactions are priced on market terms.

Note 26 Events after the end of the financial year

MSAB is monitoring developments regarding the coronavirus Covid-19 and is assessing the extent to which this may affect the Company's operations in the short and long term.

At present, it is not possible to assess the extent to which it may affect the business.

Approval of financial reports

The consolidated accounts and annual accounts of Micro Systemation AB (publ) for the 2019 financial year were approved for publication by the Board of Directors and the Chief Executive Officer on 22 April 2020.

The consolidated accounts and the annual accounts will be put before the Annual General Meeting for adoption on 13 May 2020.

The Board of Directors and the Chief Executive Officer hereby give their assurance that the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and RFR2.2, that they provide a true and fair view of the Company's financial position and results, that the Report of the Board of Directors gives a true

and fair view of the Group's business activities, financial position and results and describe the significant risks and uncertainties to which the Company is exposed.

The Board of Directors and the Chief Executive Officer hereby give their assurance that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and that they give a true and fair view of the Group's business activities, financial position and results, and describe the significant risks and uncertainties to which the Group is exposed.

Stockholm, 22 April 2020

Henrik Tjernberg
Board Chair

Joel Bollö
Chief Executive Officer

Jan-Olof Backman
Board member

Linda Nyberg
Board member

Ann Hellenius
Board member

Carl Bildt
Board member

Our audit report was submitted 22 April 2020

KPMG

Mattias Lötbörn
Authorised Public Accountant

Auditor's Report

To the Annual General Meeting of Micro Systemation AB (publ), Corporate ID number 556244-3050.

Report on the annual accounts and the consolidated accounts

Opinions

We have performed an audit of the annual report and consolidated accounts of Micro Systemation AB (publ) for the year 2019. The annual accounts and consolidated accounts of the Company are included on pages 22–52 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of the Parent Company as per 31 December 2019 and its financial performance and cash flow for the year, in accordance with the Swedish Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as per 31 December 2019 and its financial performance and cash flow for the year, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Swedish Annual Accounts Act. The statutory administration report is consistent with other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the Annual General Meeting of shareholders adopt the income statements and balance sheets of the Parent Company and the Group.

Our opinions in this report on the annual accounts and the consolidated accounts are consistent with the content in the supplementary report submitted to the Parent Company's Board of Directors in accordance with Article 11 of the EU Accounting Regulation (537/2014).

Basis for opinion

We conducted our audit in accordance with the 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 according to these requirements. This means that to the best of our knowledge and belief, no prohibited services as outlined in Article 5.1 of the Accounting Regulation (537/2014) have been provided to the audited Company, its Parent Company, if appropriate, or any companies with controlled interests within the EU.

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

Other information

The audit of the annual report and consolidated accounts for 2018 has been performed by another auditor who submitted an auditor's report dated 22 April 2019 with unmodified opinions on the annual accounts and consolidated accounts.

Key audit matters

Key audit matters are those which in our professional judgement were most significant for the audit of the annual accounts and the consolidated accounts for the period under review. These matters were addressed in the context of our audit of, and in forming our opinion on, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue recognition

See Note 5 and the accounting policies on pages 41–42 of the annual report and consolidated accounts for detailed information and a description of the area.

Description of the area

Net sales for the 2019 financial year were SEK 307.6 million (303.9) and were generated primarily from sales of goods, but also of services. We have identified this as a key audit area, as the Company's revenue is a significant item that in some cases consists of a combination of products and services. If a pledge regarding a good or service meets the criteria for being "distinct", then it is a performance undertaking that is to be reported separately from other goods and services in the agreement. Revenue is recognised when control of underlying goods or services for a performance commitment has been transferred to the customer. Identification of distinct pledges (performance obligations) depends on management's assessment and may significantly impact on when the consolidated net sales are reported, which affects consolidated profit and financial position.

How the area has been addressed in the audit

Our audit measures included but were not limited to

- evaluation of the Company's principles for revenue recognition and review of compliance with these for each material revenue stream
- acquisition of an understanding of essential transaction flows and, for these, evaluation of the Company's significant controls for managing the risk of errors in the financial reporting
- for a selection of individual revenue transactions, verification that revenue was reported at the established fair value for each sub-component and in the period when the Group fulfilled its commitments.

Information other than the annual accounts and consolidated accounts

This document also contains information other than the annual accounts and consolidated accounts, which is provided on pages 1–21 and 56–65.

The Board of Directors and the Chief Executive Officer are responsible for this other information.

Our opinion as regards the annual accounts and consolidated accounts does not include this information and we offer no opinions to corroborate this other information.

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

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

Responsibilities of the Board of Directors and Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for preparation of the annual accounts and consolidated accounts, and for ensuring they provide a true and fair view as

per the Swedish Annual Accounts Act, and for the consolidated accounts in accordance with IFRS as adopted by the EU. The Board of Directors and the Chief Executive Officer are also responsible for the internal controls they deem necessary to ensure that the annual accounts and consolidated accounts do not contain any material misstatement, whether due to fraud or error.

In preparing the annual accounts and the consolidated accounts, the Board of Directors and the Chief Executive Officer are responsible for assessing the Company's and the Group's ability to continue as a going concern. They disclose, when appropriate, conditions that may affect the ability to continue operating, and to use the going concern basis of accounting. The going concern basis of accounting is not applied, however, if the Board of Directors and the Chief Executive Officer intend to liquidate the Company, discontinue operations or do not have any realistic alternative to either of these actions.

Auditor's responsibilities

Our objective is to obtain a reasonable degree of assurance that the annual accounts and the consolidated accounts as a whole do not contain any material misstatement, whether due to fraud or error, and to issue an auditor's report that contains our opinions. Reasonable assurance is a high degree of assurance but is not a guarantee that an audit performed in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement if such exists. Misstatements may arise from fraud or error and are considered material if they individually or in the aggregate can reasonably be expected to impact the financial decisions of users who base their decisions on the 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 in 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may include collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of the part 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 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 CEO.
- draw a conclusion on the appropriateness of the Board of Directors' and the CEO's use of the going concern basis of accounting when preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether a 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 the audit report to the related disclosures in the annual accounts and consolidated accounts,

or, if such disclosures are inadequate, to modify our opinion on the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company and the 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 provides a fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information for 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, among other matters, the planned scope and timing of the audit. We must also inform the Board of significant audit findings, including any significant deficiencies in internal control that we have 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 that are therefore the key audit matters. We describe these areas in our Auditor's Report unless laws or other regulations prevent disclosure of the matter.

Report on other legal and regulatory requirements Opinions

In addition to our audit of the annual accounts and the consolidated accounts, we also performed an audit of the Board of Directors' and the Chief Executive Officer's administration of Micro Systemation AB (publ) for the 2019 financial year, and for the proposed appropriation of the Company's profit or loss.

We recommend that the Annual General Meeting appropriate the profit in accordance with the proposal in the statutory administration report, and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the fiscal year.

Basis for opinion

We conducted the audit in accordance with generally accepted accounting 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 according to 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 Chief Executive Officer

The Board of Directors is responsible for the proposal for appropriation of the Company's profit or loss. In the event of a dividend being proposed, this includes an assessment of whether the dividend is justifiable considering the requirements that the Company's and the Group's type of operations, size and risks place on the Parent Company's and the Group's equity, capital, consolidation requirements, liquidity and financial position in general.

The Board of Directors is responsible for the Company's organisation and for 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 organisation is designed so that accounting, management of assets, and the Company's financial affairs are otherwise controlled in a reassuring manner.

The Chief Executive Officer shall manage the ongoing administration in accordance with the Board of Director's guidelines and instructions, including taking necessary measures to ensure that the Company's accounting is conducted in full compliance with the law and that assets are managed in a reassuring manner.

Auditor's responsibilities

Our objective as regards the audit of the administration, and hence our opinions on discharge of liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Chief Executive Officer in any material respect has:

- undertaken any action or been guilty of any negligence that can give rise to liability for the Company, or
- in any way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act, or the Company's Articles of Association.

Our objective with the audit of the proposed appropriation of the Company's profit or loss, and thereby our opinion on this, is to assess with a reasonable degree of assurance whether the proposal complies with the Companies Act.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit performed in accordance with generally accepted auditing standards in Sweden will always detect actions or negligence that may result in liability for the Company, or whether the proposal for the appropriation of the Company's profit or loss does not comply with the Swedish 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 review of the management and the proposed appropriation of the Company's profit or loss is based primarily on the audit of the accounts. Any additional audit procedures performed are based on our professional assessment based on risk and materiality. This means that our review focuses on such procedures, matters, and conditions that are material to the business and where deviation and infringement would have special significance to the Company's situation. We examine and test decisions taken, documentation supporting decisions, actions taken, and other conditions that are relevant to our statement on discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriation of the Company's profit or loss, we examined whether the proposal is consistent with the Swedish Companies Act.

KPMG AB, Box 382, SE-101 27, Stockholm, Sweden, was appointed as Micro Systemation AB (publ)'s auditor by the Annual General Meeting on 15 May 2019.

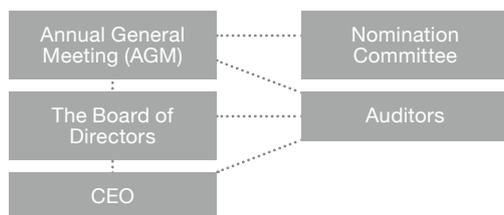
KPMG AB or auditors working at KPMG AB have been the Company's auditors since 15 May 2019.

Stockholm, 22 April 2020
KPMG AB

Mattias Lötbörn
Authorised Public Accountant

Corporate Governance Report

MSAB applies the revised Swedish Corporate Governance Code as of 1 January 2020. Corporate Governance at MSAB is based on Swedish legislation, and the regulations and recommendations set out by relevant organisations such as the Swedish Corporate Governance Board, Nasdaq Stockholm, the Swedish Securities Council and others. Corporate Governance is conducted via the AGM, the Board of Directors ("the Board") and the Chief Executive Officer (CEO). The Company's auditors, appointed by the AGM, review the financial statements and the administration of the Company as conducted by the Board and CEO. The Nomination Committee prepares proposals to the AGM on the election and remuneration of the Board and auditors. The Code is built on the principle comply or explain, which means that a Company that applies the Code may deviate from its provisions provided that each deviation can be explained in a satisfactory manner.



Annual General Meeting (AGM)

The AGM is the Company's highest decision-making body. The Company complies with the Swedish Companies Act with regard to how the AGM is organised, how shareholders exercise their rights and what decision-making powers the AGM has. The AGM was held on 15 May 2019 on the premises of Spårvagnshallarna Stockholm. Resolutions at the AGM included:

- adoption of the income statement and balance sheet, as presented in the annual report, and discharge of Board members and the CEO from liability
- approval of the Board's proposed dividend of SEK 2.20 per share
- re-election of Henrik Tjernberg as Board Chair, and election of Linda Nyberg, Jan-Olof Backman, Carl Bildt and Ann Hellenius as Board members
- election of Deloitte AB, with Erik Olin as Auditor-in-Charge for the period up to the conclusion of the next AGM
- adoption of the Nomination Committee's proposal for non-employee Board member remuneration in the amount of SEK 185,000 and SEK 500,000 to the Board Chair
- adoption of the Board's proposal for remuneration of senior executives
- adoption of the Board's proposal authorising the Board to make decisions regarding issuance of shares, share warrants and convertibles
- adoption of the Board's proposal authorising the Board to make decisions on transfer of shares held in treasury
- election of Henrik Tjernberg and Leo Gillholm as members of the Nomination Committee and appointment of Erik Hermansson as Chair of the Nomination Committee.

The full minutes from the AGM are available on the Company's website, msab.com.

Share ownership

The Company's B share (MSABB) are listed on the Nasdaq Stockholm exchange. The total number of shareholders on 31 December 2018

was 2,974. At the end of the period, Henrik Tjernberg held shares or votes exceeding 10 percent.

Nomination Committee

The Nomination Committee is elected by the AGM. At the 2019 AGM, Erik Hermansson and Henrik Tjernberg were re-elected to the committee. The Nomination Committee is responsible for preparing proposals for fees for the AGM Chair, Board Chair, Board members and auditors, and for preparing proposals for procedures for the Nomination Committee itself. Shareholders wishing to submit proposals to the Nomination Committee can do so via email to: valberedning@msab.com.

The Board and its work in 2019

The Board consisted of five members elected by the AGM. The Board is ultimately responsible for how the Company is organised and for administration of the Company's affairs. Information about the business and its economic and financial status is provided regularly at Board meetings. As part of the internal control of financial information, the Board reviews financial year-end reports, interim reports and annual reports, and poses control questions on process descriptions and procedures prepared by senior management. The CEO and the Board Chair communicate frequently regarding the business. The Board is also responsible for ensuring that appropriate policies are drawn up and implemented within the organisation. The distribution of tasks between Board members, the Board Chair and CEO are defined in the following written instructions:

- the rules of procedure for the Board,
- the distribution of tasks between the Board and CEO, and
- instructions to the CEO.

Evaluation of Board and CEO performance

The Board continuously evaluates the CEO's performance within the framework of the regular work of the Board. The Board's evaluation has been performed partly via the Chair's reporting to the Nomination Committee on the Board's work and how it functions, and partly via jointly compiled surveys completed by each board member. Great emphasis is placed on following up on former high-profile issues and on continuity in the process of change and improvement. When necessary, complementary, in-depth interviews with individual Board members are conducted. The results have served as a basis for the Nomination Committee's ongoing work and have to a certain extent been reported back to the Board. During 2019, the Board held nine Board meetings in Stockholm.

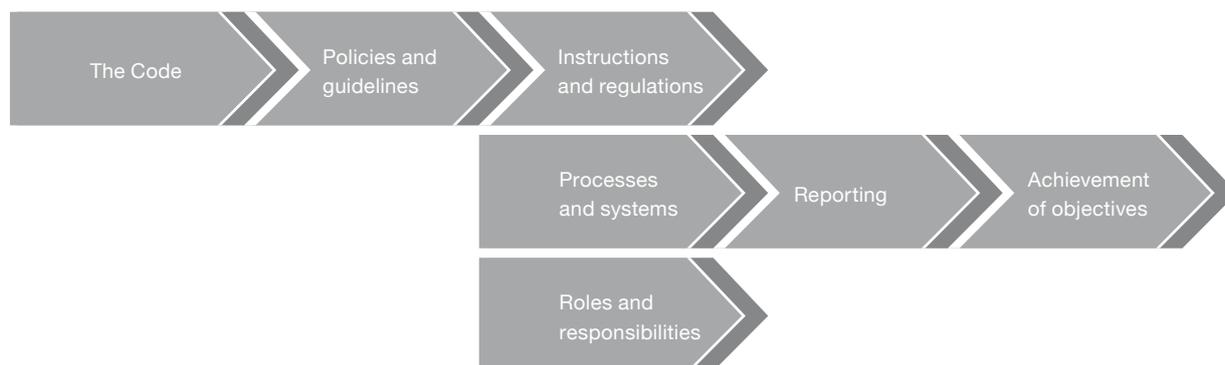
Attendance at the year's Board meetings was as follows:

Board of Directors 2019	Function	Elected	Independent	Attendance at Board meetings
Henrik Tjernberg	Chair	1986	No	9 out of 9
Jan-Olof Backman	Board member	1999	Yes	9 out of 9
Linda Nyberg**	Board member	2019	Yes	5 out of 5
Ann Hellenius**	Board member	2019	Yes	5 out of 5
Katarina G. Bonde	Board member	2011	Yes	4 out of 4
Robert Ahldin*	Board member	2013	No	4 out of 4
Carl Bildt	Board member	2016	Yes	4 out of 9

* Left the Board at the 2019 AGM

**Elected to the Board at the 2019 AGM

Corporate Governance



Board independence

The Board of Directors considers itself independent in relation to major shareholders, management and the Company, with the exception of Henrik Tjernberg, Chair, whose voting rights exceed 10 percent.

The Board has not established special committees for remuneration and auditing as the Company and Board employ relatively few people. These issues are dealt with by the Board as a whole. The Board has discussed the Company's focus, product development, growth, future strategy and other significant operational issues. MSAB works actively according to targets set by the Board, communicated to operational units via the CEO and management.

Senior management

The CEO is responsible for preparing and implementing MSAB's strategies for achieving agreed targets. The CEO oversees regular meetings with operational management teams, and with a team dedicated to product development issues. Meetings are also regularly convened for the entire Company, or certain departments, to disseminate information and review activities with the Company's employees.

Auditors

At the 2019 AGM, the audit firm Deloitte was elected as the Company's external auditor for the period until the next AGM. Mattias Lötbörn is the Auditor-in-Charge. The auditor reports its conclusions to the Board and the Audit Committee annually and meets with the Board without management presence in accordance with the Swedish Code of Corporate Governance.

Internal control

The Board has overall responsibility for effective internal control of the Company. The CEO is responsible for ensuring that a process and organisation are in place that assure internal control and the quality of the financial reporting to the Board and the market. The essential components of the Company's internal control structure are the control environment itself, risk assessment, control activities and monitoring.

Control environment

The basis of MSAB's control environment is the corporate culture established in the Company. MSAB works actively to communicate the Company's values to ensure that high morals, ethics and integrity permeate the organisation. The framework for internal control is built on the Company's guidelines, instructions, policy documents and the accountability and authority structure adapted to the organisation. During the year, the Board established a Code of Conduct to ensure good behaviour vis-à-vis customers, suppliers, employees and other stakeholders, and to ensure long-term value creation by the Company. The Group-wide ERP system has been upgraded and to some extent integrated into the Company's

Group-wide CRM system. The intention is to assure efficiency in the sales process, reduce the need for manual processing and contribute to reinforcing the internal control environment.

Sustainability

MSAB's mission is to deliver solutions world-wide that empower law enforcement authorities to effectively secure evidence recovered from digital devices. This means that, through its solutions, the Company strives to create a more legally secure society where more crimes are cleared up and prevented. In this way, the Company's entire existence is a major contribution to a sustainable society. Since the Company is essentially engaged in developing software, its impact on the environment is limited. However, the Board also strives to ensure that the Company complies with the environmental requirements in the various markets in which the company operates.

Risk assessment

Risks relating to the financial reporting are evaluated and monitored continuously by the Board and management. Risks are assessed at both the Company and functional level for critical processes, including the IT environment. The Company's accounting is characterised by precautionary principles and management strives to limit financial risks. In addition, management's objective is that the Company's IT environment should be reliable and risk-minimised, and that the Company's business systems should be fit-for-purpose, given the nature of the Company's operations. The Company strives to maintain strong control of the production flow, such as by ensuring that all development and design takes place within the Company's organisation, and that all designs are proprietary. The Company is not dependent upon any single supplier, although some production is external. MSAB's operations are affected by a number of business risks that impact on the Company's earnings and financial strength. When assessing future developments, it is important to weigh opportunities for growth in profitability against the risks. The most significant risks identified relating to business operations are currently:

- Exposure in various foreign currencies. The value of the Swedish krona relative to relevant currencies fluctuates, which creates uncertainties in forecasting future revenue in Swedish kronor. More than 90 percent of the Company's total sales are for export, while approximately 60 percent of expenses are in Swedish kronor.
- Competition for customers is intensifying, and the Company is working continuously on product improvements and packaging to meet customer requirements for the best tools.
- The speed of technological advance and the launch rate of new and more advanced mobile phones is placing even greater demands on development resources.
- Legal risks.

Control activities

Several control activities are performed in the day-to-day business processes to ensure that any errors or deviations in financial reporting are prevented, detected and corrected. The aim is to operate an authorisation structure where the same individual cannot perform and control the same task. Finance personnel are also involved in ongoing dialogue with subsidiaries and make visits to monitor and ensure that routines and policies are adhered to in accordance with Group management instructions.

Monitoring

The CEO reports monthly to the Board through a report covering the trend of the Group's earnings compared to budget and the previous year, as well as the Group's financial position. MSAB does not have a separate audit function, i.e. an internal audit, as the Company is relatively small. The Board's view is that the Company's business model, current structure and scope do not require such a function. The function is instead performed by Group management and the Group's finance department, with support from the external auditors. An ongoing dialogue is maintained between the Company and its external auditor, and the controls performed by Group management are currently assessed as adequate in ensuring that the internal control is of a good standard. This assessment will be evaluated continuously and will be reviewed again in 2020.

Remuneration of Board of Directors and senior executives

The Nomination Committee prepares proposals for remuneration of the Board. The fees are presented to the AGM for approval and are paid to Board members who are not Company employees. The amounts for remuneration to the Board, shown by fiscal year, are reported in Note 8.

Principles of remuneration

Remuneration to the Board Chair and other Board members is subject to approval by the AGM. The overall principles governing remuneration to senior executives are based on position, individual performance and the Group's profits, and that the remuneration should be competitive. Total remuneration for senior executives shall consist of fixed salary, and variable salary in the form of incentives based on performance targets. In addition, conditions apply governing termination and severance pay. In 2020, Group management comprised one senior executive and the Chief Executive Officer. All senior executives were employed throughout the year. In addition to senior executives, the Group also has an operational management team, whose remuneration principles do not differ from those described above for senior executives.

Long-Term Incentive Programme 2018–2021

On 15 May 2018, MSAB's AGM voted to implement a long-term incentive programme for the Company's senior executives and certain key persons (a maximum of 20 persons). Participants are to be offered the chance to subscribe for share warrants at a fair market consideration (according to the Black & Scholes method). These entitle the holder to subscribe for new Series B shares in the Company in the period 1 June 2021 up to and including 31 August 2021, at a price equal to 130 percent of the average volume-weighted closing price for the Company's Series B shares in the period 16 May up to and including 29 May 2018. The maximum number of share warrants offered to any programme participant shall not exceed 40,000.

Pensions

The contractual retirement age for the CEO and other senior executives is 65 years. Pension premiums for the CEO amount to no more than of 22 percent of pensionable salary and are paid under a defined-contribution pension plan. Other senior executives also subscribe to a defined-contribution pension plan. In 2019, pension premiums amounted to an average of 18 percent of basic salaries. Variable remuneration is not pensionable, either for the CEO or for other senior executives. All pensions are unvested, that is, they are not conditional upon future employment.

Severance pay

At year-end 2019, the CEO had a fixed annual salary of SEK 3,240,000 and variable remuneration of no more than 8 monthly salary payments (SEK 2,160,000). In the event of termination of employment, the CEO is entitled to compensation corresponding to one year's fixed salary. The Company pays insurance compensation relating to severance pay. Severance pay is not offset against other income. When termination of employment of other senior executives is initiated by the Company, the Swedish Employment Protection Act (LAS) applies.

Auditor's Review of the Corporate Governance Report

To the Annual General Meeting of shareholders in Micro Systemation AB (publ), Corp. ID no. 556244-3050

The Board of Directors is responsible for the Corporate Governance Report and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

Focus and scope of the review

Our review has been conducted in accordance with FAR's Statement RevU 16 Auditor's Review of the Corporate Governance Report. This means that our review of the corporate governance report has a different focus to, and is substantially lesser in scope than, an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the review has provided us with sufficient grounds for our opinions.

Opinion

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, section 6, paragraph 2, points 2–6 of the Swedish Annual Accounts Act and Chapter 7, section 31, paragraph 2 of the same law are consistent with the other parts of the annual report and consolidated accounts and are in accordance with the Swedish Annual Accounts Act.

Stockholm, 22 April 2020
KPMG AB

Mattias Lötborn
Authorised Public Accountant

Information for shareholders

Financial information

Annual reports, interim reports and other press release information may be ordered from Micro Systemation AB, Hornsbruksgatan 28, SE-117 34 Stockholm, Sweden; by phone on +46 8 739 02 70; by e-mail at info@msab.com; or at msab.com.

Dividend

The Board of Directors proposes that the Annual General Meeting resolves not to pay any dividend.

Annual General Meeting (AGM) 2020

The AGM will be held at the Company's offices at Hornsbruksgatan 28, Stockholm, at 18.00 hrs on Wednesday 13 May 2020.

Right to participate

Shareholders in Micro Systemation AB (publ.), Corporate ID no. 5562443050, wishing to participate at the AGM must be registered in Euroclear Sweden AB's shareholder register by 7 May 2020, as per the instructions below.

Registration

Registration for participation must be received by the Company no later than 24.00 hrs on 7 May 2020; either via the form available at msab.com; by telephone on +46 8 402 90 75 between 9.00 hrs and 16.00 hrs on weekdays; or by letter to the following address: Micro Systemation AB, AGM 2020, c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden. Notification by other means will not be accepted. Notification of participation must include name, personal ID or organisation ID number, address, telephone number and the name of any assistant. Proxy forms, registration certificates and other authorisation documentation should be received by the Company at the above address above no later than by 7 May 2020 to facilitate access to the AGM.

Nominee-registered shares

Shareholders who have registered their shares with a nominee must temporarily re-register their shares in their own name with Euroclear Sweden AB. Shareholders wishing to re-register their shares in their own name must advise their nominee in good time before 7 May 2020 to enable the re-registration to be completed in time.

Notice of the meeting

A notice to convene the meeting will be issued no later than four weeks before the AGM in Post and Inrikes Tidningar and will also be posted on the Company's website www.msab.com. In addition, an advertisement will be placed in the Svenska Dagbladet newspaper declaring that the notice has been issued.

Shareholder contact:

Joel Bollö, CEO
Tel: +46 8 739 02 70
joel.bollo@msab.com

Financial calendar 2020

The Annual General Meeting will take place at the Company's offices at Hornsbruksgatan 28, Stockholm, at 18.00 hrs on Wednesday 13 May 2020.

Interim report January–March 29 April
Interim report January–June 22 July
Interim report January–September 28 October
Year-end report 27 January 2021

The Board of Directors



Henrik Tjernberg

Board Chair

Independent in relation to the Company and senior management. Not independent in relation to major shareholders.

Born: 1960

Education: Studies at KTH (Royal Institute of Technology, Stockholm).

Current employment:

Investor Relations Advisor.

Board member: 1986–2002

Board Chair since: 2002

Shareholdings as per 22/04/2020:

865,000 A shares; 55,522 B shares.

Other Board assignments:

Chair of the Board, Tjernkraft AB; Flowscape Technology AB, and deputy Board member, Spinn-Y AB.



Ann Hellenius

Board member

Independent in relation to the Company, senior management and major shareholders.

Born: 1974

Education: Linköping University.

Current employment:

CDO/CIO, Scandic Group.

Previous assignments: CIO, Bankgirot; CIO, City of Stockholm.

Board member since: 2019

Shareholdings as per 22/04/2020: 0

Other Board assignments:

Board member, H&H Group; HiQ International AB; Volvofinans Bank AB; Synsam AB; Conapto Group Holding AB.



Linda Nyberg

Board member

Independent in relation to the Company, senior management and major shareholders.

Born: 1969

Education: Uppsala University.

Current employment:

Marketing and Business Development Manager at Flaire AB.

Previous assignments: Marketing and Communications Manager at Apoteket AB, Vice President Media Relations and Online Communications, Essity (formerly SCA AB); journalist at SVT, TV3, TV4 and Aljazeera.

Board member since: 2019

Shareholdings as per 22/04/2020: 0.

Other Board assignments:

Board member, Elly Media AB; and Flaire AB.



Jan-Olof Backman

Board member

Independent in relation to the Company, senior management and major shareholders.

Born: 1961

Education: M.Sc. Engineering, KTH and University of Washington.

Current employment:

Self-employed

Previous assignments: Senior positions at Coor Service Management and McKinsey & Company.

Board member since: 2002

Shareholdings as per 22/04/2020: 181,310 B shares privately and via company.

Other Board assignments:

Board member, Vasakronan AB; Logent Holding AB; AB Torgfastigheter; J & R Backmans Fastighets och Företagsutveckling Aktiebolag; Byggnads Aktiebolaget O. Tjärnberg; and several 24Storage companies and several housing co-operatives.



Carl Bildt

Board member

Independent in relation to the Company, senior management and major shareholders.

Born: 1949

Education: Stockholm University

Current employment:

Chair, Global Commission on Internet Governance. Co-Chair European Council on Foreign Relations. Senior Advisor, Wallenberg Foundations.

Previous assignments: Minister for Foreign Affairs, Member of Parliament.

Board member since: 2016

Shareholdings as per 22/04/2020: 0

Other Board assignments:

Fastator AB; Bildt Global AB; and Point Properties AB.

CEO and Operational Management

CEO and President

Joel Bollö

Born: 1968
Education: Engineer
Current employment: CEO and President
Previous assignments: CEO, DLX AB (own company); Key Account Manager, Netwise AB.
Shareholding as per 22/04/2018: 54,222 B shares.



Deputy CEO

Örjan Gatu

Born: 1971
Education: Upper Secondary School qualifications
Current employment: Vice President, worked in development at MSAB since 1994.
Shareholding as per 22/04/2019: 102,908 B shares.



Interim CFO

Lotta Ferm

Employed: 2020
Previous experience: CFO at several unlisted and listed companies.



Deputy Officer

Mike Dickinson

Employed: 2009
Previous experience: Management positions at Mouchel and Reliance. Former police officer and naval officer.



Sales Manager EMEA & Asia

Mikael Falkovén

Employed: 2017
Previous experience: Several senior positions at SAAB and several years in the Swedish Armed Forces.



CTO

Joakim Grundvall

Employed: 2017
Previous experience: Management positions at Dice and Klarna.



CMO

Steele Hays

Employed: 2017
Previous experience: Marketing manager at several technology companies, including Wynyard and DellSecure Networks.



President North America

Glenn Hickok

Employed: 2014
Previous experience: Several senior positions at Cross Match Technologies; several years in the US army.



HR

Susanne Jegendal

Employed: 2009
Previous experience: Finance positions at ÅF (Ångpanneföreningen) and Combra AB.



CPO

Bradley Sipes

Employed: 2016
Previous experience: Management positions at Ericsson and Verizon; self-employed as consultant.



COO

Per-Olof Stark

Employed: 2018
Previous experience: Management positions at Cisco Systems, PacketFront, Fujitsu and Oracle.

Addresses

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Singapore

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Minato-ku, Tokyo
Japan

History

1984

MSAB is started by Bo Ericsson as a company focusing on advanced data communications. Current Board Chairman Henrik Tjernberg is hired in the following year.

1998

The first GSM-based product, SoftGSM, an entirely software-based GSM modem, is launched. In the same year, the Company carries out an IPO and an unofficial listing.

1999

The Company is listed on NGM (formerly SBI). An OEM agreement is signed with Option International. In June and July 1999, more than 10,000 units of SoftGSM are sold.

2000

Launch of SoftNet, which connects laptops to the internet automatically via cable, wireless or GSM modem.

2002

Joel Bollö succeeds Henrik Tjernberg as CEO and initiates discussions with the Swedish Police Authority regarding the need for systems for retrieval of data from mobile phones.

2003

SoftGSM and the subsequent Softnet product are merged under the brand Mobile Communication Suite. The first version of the SoftGSM-XRY is sold.

2004

A new share issue of SEK 10 million is used to finalise and initiate sales of the XRY system, which is launched globally and is the first product in the field of mobile forensics.

2005

The Company receives orders for XRY from Germany, Austria and other countries. MSAB launches its first training courses in forensics, with the focus on the securing of evidence from mobile phones.

2006

MSAB reports a profit of just over SEK 10 million. In Fortune magazine, XRY is described under the headline "How to get the best out of a mobile phone". Version 3.0 of XRY makes it possible to create reports in local languages.

2007

MSAB has sales of more than SEK 50 million and a net profit of SEK 23 million, representing growth of 93 percent. 2007 is the first year of the new launch plan, involving five product updates per year. XRY now supports 500 phone models. MSAB is the successful bidder in a tender issued by the French Ministry of the Interior and receives a large order.

2008

XRY has become the de facto standard in mobile forensics. The complementary product XACT, which can also recover deleted information, is launched. The Dagens Industri business newspaper names MSAB as Gazelle Company of 2008, Sweden's fastest growing company of that year. MSAB also makes Technology Fast 500's list of companies that have reported continuous profits and strong growth for at least five consecutive years. A subsidiary is established in the USA. The AGM approves dividends of SEK 11.5 million for distribution to shareholders.

2009

The company opens offices in Washington DC and establishes operations in other key markets such as the UK, Australia and Asia. A three-year framework agreement with the French Ministry of the Interior is signed and one of the Company's largest orders follows. The AGM approves dividends of SEK 11.5 million for distribution to shareholders.

2019

At year-end 2019, XRY supports more than 29,000 mobile devices and apps. MSAB continues to invest in the Frontline and XAMN product areas, with the aim of enabling law enforcement authorities to assimilate digital evidence faster and with greater precision.

2018

The number of mobile devices and apps supported by XRY grows steadily to 26,000+. XRY Drone is introduced and XAMN 4.0 and XAMN Horizon are launched, with time-saving functions for presenting and analysing mobile data. A new subsidiary is established in Japan.

2017

XEC Director and XAMN Elements are launched. MSAB announces a strategic partnership with Nuix, a manufacturer of a market-leading digital criminal investigation platform. XAMN Spotlight 2.0 is launched, allowing users to analyse extracted data more quickly and with greater precision. New updates expand XRY support for additional mobile devices, including drones.

2016

MSAB launches a whole new concept in mobile forensics – the MSAB Ecosystem. The 2016 AGM approves dividends of SEK 40.4 million for distribution to shareholders. A new subsidiary is established in Singapore. A new version of XRY is launched. A single, major order worth SEK 11 million is received from Asia. MSAB and Berla, a leading global actor in automotive-related criminal technology, enter into a strategic collaboration.

2015

The Company launches a new graphic profile and thereafter is known as MSAB. An updated version of XRY Kiosk is launched, followed by a major order from the Metropolitan Police Services in London. The AGM approves dividends of SEK 17.9 million for distribution to shareholders.

2014

A subsidiary is registered in China, making local sales possible via distributors. XRY Tablet is launched – expanding the range of products for staff working in the field. The AGM approves dividends of SEK 1.7 million for distribution to shareholders.

2013

XRY Kiosk, a desktop solution that allows for fast, simple data extraction, is launched. New offices are established in Canada and Australia. The Company wins several substantial contracts in Russia during the year. The AGM approves dividends of SEK 10.6 million for distribution to shareholders.

2012

MSAB presents XAMN, an entirely new product that significantly improves customers' ability to analyse volumes of data from several sources. The Company establishes operations in Russia, Brazil and China. The AGM approves dividends of SEK 17.7 million for distribution to shareholders.

2011

MSAB announces its intention to start preparing for a listing of the Company on Nasdaq Stockholm, a process that is completed in December. During the year, the Company receives two supplementary orders, from a major governmental organisation in the USA and from the French Ministry of the Interior. In June, the Company receives a strategically important order from the FBI. The AGM approves dividends of SEK 14.2 million for distribution to shareholders.

2010

In the second half of the year, an American government organisation orders Field Version II for a total value of SEK 50 million. Financial goals are presented: 25 percent growth and an operating margin of 25 percent over a three-year period. The AGM approves dividends of SEK 17.7 million for distribution to shareholders.

MSAB