

The MSAB logo is displayed in white, bold, sans-serif capital letters on a solid blue rectangular background in the top right corner of the page.

MSAB



Annual Report
2020

CONTENT

OPERATIONS

2020 in brief.	1
Comments by the CEO	2
Market and customers	4
Business model and strategies	8
Products and services	10
Employees and societal benefits	14
Comments by the Chairman	16

THE SHARE AND SHAREHOLDERS

The share and shareholders	18
Five-year overview	20

ANNUAL ACCOUNTS

Report of the Directors.	22
Financial reporting for the Group	26
Financial reporting for the Parent Company	29
Notes	32
Approval of financial reports	52
Auditor's report	53
Corporate governance report	56
Shareholder information and financial calendar	59
Board of Directors	60
CEO and executive management	62
Addresses.	63
History	64

This is a translated version of the original Swedish Annual Report. 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, has 195 employees and is listed on Nasdaq Stockholm.



NET SALES (SEK MILLIONS)

310

EARNINGS PER SHARE (SEK)

0.88

EBIT (SEK MILLIONS)

28.6

EBIT MARGIN

9.1%

2020 in brief

Net sales for the year increased 0.8 percent till SEK 310.1 (307.6) million. In local currencies, net sales increased 3 percent. EBIT amounted to SEK 28.6 (6.2) million, corresponding to an EBIT margin of 9.1 (2.0) percent.

Q1

Net sales are at the same level as the previous year despite the slow down in the global economy due to the Corona pandemic. EBIT margin is -13.2 percent.

The move to digital meetings and the possibility to conduct training online are two important factors in meeting customers' needs and for continuing strong sales growth during the year.

Q2

Net sales increase 15.1 percent and the EBIT margin is 2.2 percent.

The 2020 Annual General Meeting decides not to distribute any dividends despite the strongest second quarter in the company's history and a strong financial position generally, as a cautionary measure given the ongoing pandemic.

Q3

Net sales are unchanged in SEK compared to the previous year. In local currencies net sales increase 3.4 percent. The EBIT margin is 31.5 percent.

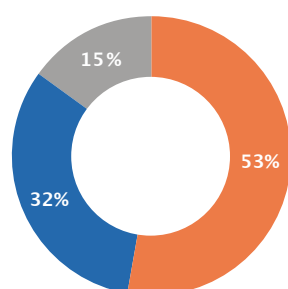
The latest version of XRY supports more than 33,000 devices, an increase of almost 20 percent compared to the previous year.

Q4

Net sales decrease 20.6 percent and the EBIT margin is -6.0 percent.

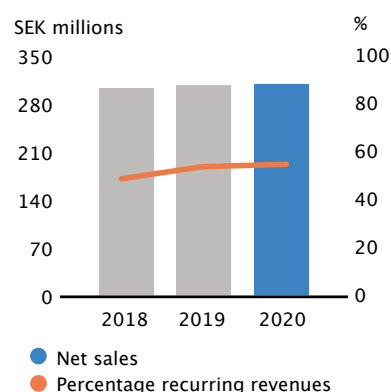
All of the markets where MSAB is active demonstrate growth with the exception of North America. A reorganisation is implemented to strengthen management and to facilitate a rebound in growth in 2021.

SALES PER REGION



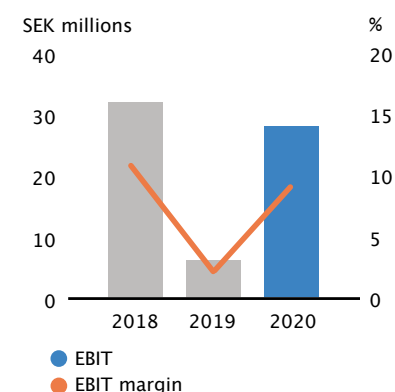
- EMEA & Latin America
- North America
- Asia & Russia

NET SALES AND RECURRING REVENUE*



*) See definitions page 21

EBIT AND EBIT MARGIN



Exceptional challenges have sharpened MSAB's offering and processes

2020 was a year of exceptional challenges for MSAB requiring unique efforts to tackle the new normal.

The pandemic has reshaped the landscape where we and our customers are active. While social distancing and limitations have decreased or stopped the many ways in which we as individuals can meet, there has been no decline in criminal activity. Because the pandemic has forced these actors to change their habits, we have changed too. Perpetrators engaged in human trafficking, narcotics smuggling, or other criminal activities have switched tactics and techniques. In many cities, even where curfews were in place during 2020, criminal activity did not disappear. Rather, it has intensified and gone underground. This situation has demanded a more extensive use of digital forensic tools and techniques in general.

Political change strengthens the focus on integrity

2020 was also a year of political change in many countries, especially in the USA. In many cases, these changes renewed focus on securing a balance between the power inherent in the tools we provide and personal integrity. As a global market leader, MSAB continues to demonstrate that these two goals are not mutually exclusive, but complementary. When governments around the world increase their focus on domestic threats, our position and history with human rights and integrity gives us a competitive edge. Digital forensics can and must keep us safe even as it simultaneously protects our personal integrity and prevents unnecessary government intrusion worldwide.

Because large-scale criminal activity has shifted from commercial roads and hubs, and because there are fewer law enforcement resources available in less densely populated areas, those investigating and prosecuting these crimes need powerful technology. MSAB's focus on providing powerful digital forensic tools is more critical than ever. Previously, an advanced degree and a laboratory were required, which was often in the hands of line managers in the field. Our position on the playing field is tactical – we provide fast and easy-to-use intelligence when our customers within the police and other law enforcement agencies need it. This will remain an important focus in 2021.

Increased profitability and activity despite the pandemic

One of the most important lessons of 2020 is our flexibility, our feeling for customers' needs, and our ability to adapt. This gives the prerequisites for further growth, at the same time sharpening our business edge. During this exceptional year, we continued to grow. In 2020, our profitability rose more than 400 percent compared with the previous year. This proves that we have a strong capacity to adapt and act according to prevailing circumstances, in a way that few companies of our size could.

In 2021, MSAB will implement several important initiatives that will enable us to contact our customers digitally in new ways. These will make interaction with existing and potential customers simpler and more efficient when public health crises limit physical interaction. Once the pandemic subsides, many previously known, as well as many new possibilities, will remain an important part of our marketing and sales efforts.

We have a new approach for how we provide our solutions to key customers. This includes packaging of our most unique products as a separate service for delivery to selected customers under strict confidentiality agreements. We have also reworked our approach for how we provide training globally. With employees in sixteen countries around the world, this new process has been absolutely necessary.

Strong growth in EMEA

During 2020, MSAB's Europe, Middle East, and Asia regions experienced differentiated growth. Europe demonstrated strong growth and in several of the largest European countries, growth was 30 percent or more. This is no coincidence but rather the result of ambitious marketing and sales efforts, in combination with the cutting edge solutions we offer. We will continue to break new ground in the EMEA and we see continued growth in the region in 2021. Revenues in North America declined compared to 2019. Since it is our largest potential market, we have also made significant changes in the USA and implemented a



“ Digital forensics can and must keep us safe even as it simultaneously protects our personal integrity and prevents unnecessary government intrusion worldwide.

digital shift for how we reach our customers and follow up on their interest internally. These measures will provide short- and long-term benefits to our sales and marketing and make it possible for us to handle even future limitations for meeting our customers eye-to-eye. These new opportunities and our new leadership in North America will pave the way for us to increase our market share there in 2021 and in the years to come.

MSAB is also helping our customers to change. Our updated XEC and XRY Cloud offering provides even our largest customer organisations the opportunity to manage all their digital forensic activities. These solutions not only take the work of management to the next level, but also enable them to withstand the increased scrutiny anticipated from the processing of digital evidence.

He who is strong, must also be kind.

Much of what MSAB does is technically complex and our products are powerful, efficient and improve the degree of efficacy within the judicial system. But these products can – if used in the wrong way – also cause damage. Hence the requirement for export permits for several of our products to certain countries outside of Europe and North America.

As always, MSAB works not just to meet or even exceed the standards for responsible utilisation of digital forensic tools – we continue to develop that standard in today's world.

MSAB plays an important role in strengthening the judiciary, while taking into consideration personal integrity when digital evidence is secured. We have great hope for 2021. Our global organisation has a unique capacity and our offering is stronger than ever. Regardless of how long Covid-19 burdens our global society, MSAB is robustly equipped to meet the challenges that may arise.

I am extraordinarily proud over MSAB's efforts to contribute to a safer world and I am looking forward to the continuing journey, together with our customers, in 2021.

Joel Bollö

Chief Executive Officer

The challenges that actors within mobile forensics face

Mobile phones, smart watches, GPS devices and tablets – today there are significantly more mobile devices in the world than there are people. No matter where we go or what we do, our mobile phones go with us.

Mobile digital forensics is an area where conditions for companies like MSAB change almost daily. It is a cat-and-mouse game that we are playing with criminals as well as the producers of mobile phones and operating systems both of which are being updated continuously. At any moment, weaknesses in a phone's hardware or software can be remedied, while our solutions for accessing

information on the phones can be around for a long time. The technology for accessing and analysing data from mobile devices evolves rapidly. More and more crime is committed using digital devices. This leaves a trail that can be important evidence in a criminal investigation. The advanced and continuously improving methods for analysis of digital evidence makes mobile forensics a



CORRECTIONS



CUSTOMS



BORDER CONTROL



fast-growing area, and an increasingly important component in the daily work of law enforcement agencies.

What is digital forensics?

Digital forensics is the process of successfully accessing and interpreting electronic data. The goal of the process is to preserve all evidence in its original form while a structured investigation is conducted by gathering, identifying, and validating digital information to reconstruct past events. The most common application area is for use of data in a court of law, although digital forensics can also be used in other ways.

Mobile devices have become an integrated part of our lives and they play an important role in investigations. The value of a digital forensic investigation is in its capacity to recreate what a user has done on the digital device during the weeks or months leading up to a specific event. When you consider how much a person uses their digital devices, it is inevitable that they leave an electronic trail.

When a mobile device is found during the course of an investigation, many questions arise: What is the best method for preserving the evidence? How should the

device be handled? How can valuable or potentially relevant information on the device be extracted?

Password security and encryption

Making mobile devices secure for the user has been the focus of mobile phone manufacturers for the last few years and remains a priority. This is because personal integrity is becoming increasingly important for their customers, and on the markets where they are active. As a result, methods for securing and/or encrypting data vary greatly from device to device and from one operating system to another. Extracting data from unlocked smartphones is relatively simple, but gaining access to locked devices can be much more challenging. Manufacturers develop password and encryption systems that make it practically impossible for law enforcement agencies to access information. And in almost the same moment that a security loophole is discovered, manufacturers plug the leak. Encryption on mobile phones will continue to improve and hinder the work of law enforcement agencies.



Mobile operating systems

An operating system (OS) is the software that enables a user to utilise a mobile device. It uses a system for storing and retrieving data according to the rules of the file system. There are many operating systems out there, but the most common mobile operating systems are Google Android and Apple iOS. Other operating systems have come and gone, e.g. Windows Mobile and SymbianOS. Many feature phones, i.e. older mobile phones, use unique, proprietary operating systems that are less known to users.

At some point, a forensics medical examiner will need a digital forensics investigation, especially when persons with links to terrorism, hacking, espionage, etc. are involved. When examining such phones, law enforcement agencies need proper training to ensure that the extracted information is managed and extracted in a legally secure manner.

Unintentional recovery

Correct handling of mobile devices is crucial for maintaining the integrity of the information on the phones. Incorrect handling of a device can have devastating consequences, including – in a worst case scenario – that information relevant to the investigation is destroyed.

Lack of tools and equipment

There are a wide range of mobile devices available. A single tool may not support all devices or apps on the market, or perform all necessary functions. Thus it is important that a digital forensic tool has several functions. The more tools available, the greater the possibility of unlocking the phones and decoding retrieved information. This does not apply just to tools constructed to extract data from mobile devices, including the countless cables available for various devices, but also the analytical tools used to make sense of the retrieved data.

Technologies that make data extraction difficult

Because personal integrity in many cases is important to the general public, it is not uncommon that app designers develop extra security features that impede law enforcement efforts. Criminals often use apps where they can conceal their criminal activities, and there are various apps and functions that are designed to circumvent mobile forensic examinations by hiding or distorting data, or permanently deleting information. When these products become generally available at a price that makes them accessible for the average user, their utilisation will likely increase dramatically.

The cloud-based messaging app Telegram is an example of an app that became popular because it offered a Secret Chat function, which has increasingly been exploited by criminals. Secret Chat uses end-to-end encryption, but unlike regular messaging, secret chats are not cloud-based and can only be accessed on the devices where it is used.

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 judicial system

An overwhelming majority of police officers believe that digital forensics capacity is a bottleneck. There is an ever-increasing need for more tools, more trained specialists, faster data access 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. Seized 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 demanding physical conditions in the field.

Migration authorities

The volume of international migration flows has increased steadily over the last 20 years. This increase has posed enormous challenges for migration and border control authorities worldwide. 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.

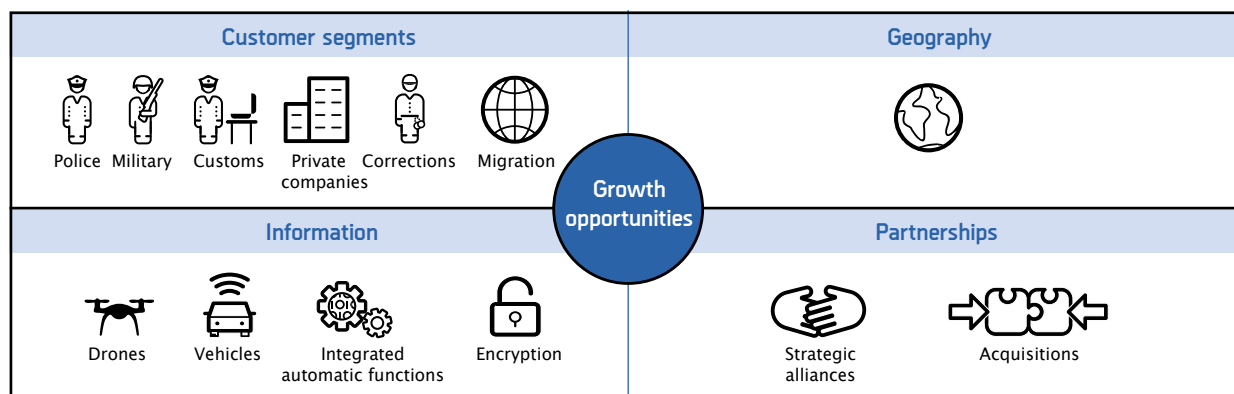
Customs authorities

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

OPPORTUNITIES FOR GROWTH



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 correction facilities use external forensic laboratories, often geographically distant, which creates delays in access to critical information. Use of MSAB's products and solutions on site means a significant improvement in efficiency and security at the facilities.

Customer segments – greatest growth within law enforcement

To summarise, there are several trends and factors driving the market where MSAB is active, where technology developments and our customers' challenges in dealing with them are most central. With its technology, long history, and solid knowledge of methods and ways of working, MSAB is well-positioned to be the obvious partner for handling the challenges that the police and other law enforcement agencies face. For MSAB as a company, there are strong conditions for growth: geographically through the company's different customer segments, via the increasing number of information sources that mean an increasing need for forensic tools, and through the different partnerships established over time.

Different police agencies are MSAB's greatest customer segment today, and it is the segment with the greatest growth potential. Police forces worldwide face huge challenges in handling vast quantities of mobile phones and digital evidence, and in being able to present important information quickly enough. Continuing decentralisation of police work in assimilating digital evidence is central for MSAB's future growth. To this end, MSAB has developed the Frontline solution, which consists of the extraction tool XRY and hardware such as MSAB Office, Kiosk, Tablet and software such as XRY Express, where every platform is optimised for different users and environments. Effective analysis tools are also needed to make sense of the data and find relevant information. MSAB offers this through its XAMN product family. In

addition to traditional police operations, MSAB delivers products and solutions to other important actors within society such as the military, intelligence services, customs, and border and migration authorities. All of these societal functions require information and evidence to successfully meet their mandate. The challenges facing them are the same as for the police, i.e., the information they need is to a great extent digital and difficult to access. Hence there is a need for the products and solutions MSAB delivers.

Geography – same challenges regardless of country

MSAB has a customer base with products sold to more than 120 countries worldwide. MSAB divides the market into three geographic areas: EMEA & Latin America, North America, and Asia & Russia. The digital challenge is global in nature as use of mobile phones does not differ significantly between different parts of the world, and crime is an element in the societies of all countries. Thus, MSAB sees strong growth opportunities through continuing geographic expansion.

Demand for handling of multiple types of information sources

MSAB has the competence to extract data from several mobile devices, and now even from vehicles and drones. This development will lead to further opportunities for growth for MSAB in the form of adapting and offering customers solutions which can handle multiple types of information sources.

Partnerships sharpen MSAB's offering

Today, MSAB's partnerships include the American company Berla, a collaboration which means MSAB can offer its customers the capacity to extract data from vehicles and drones. Additionally, MSAB has signed an agreement with the British computer forensics company Detego, which means the company can deliver forensic technology for computers as well. MSAB sees promising opportunities to develop new and existing agreements, and to evaluate possible acquisitions for the purpose of improving our customer offering, and thereby creating further growth.



Global leader 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 worldwide network of distributors. The Company has been engaged in mobile communication since 1984 but since 2003 has focused 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 worldwide, 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 listed on the Stockholm-based Nasdaq OMX since 2011 (MSAB B).

Business concept

The company delivers solutions that enable law enforcement agencies worldwide 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 development 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 2020, MSAB is represented in 15 countries with its own staff and in another 60 countries through various partnerships. Through representation on many geographical markets and through its own establishments or via partners, proximity to existing and potential customers is created.

License renewals

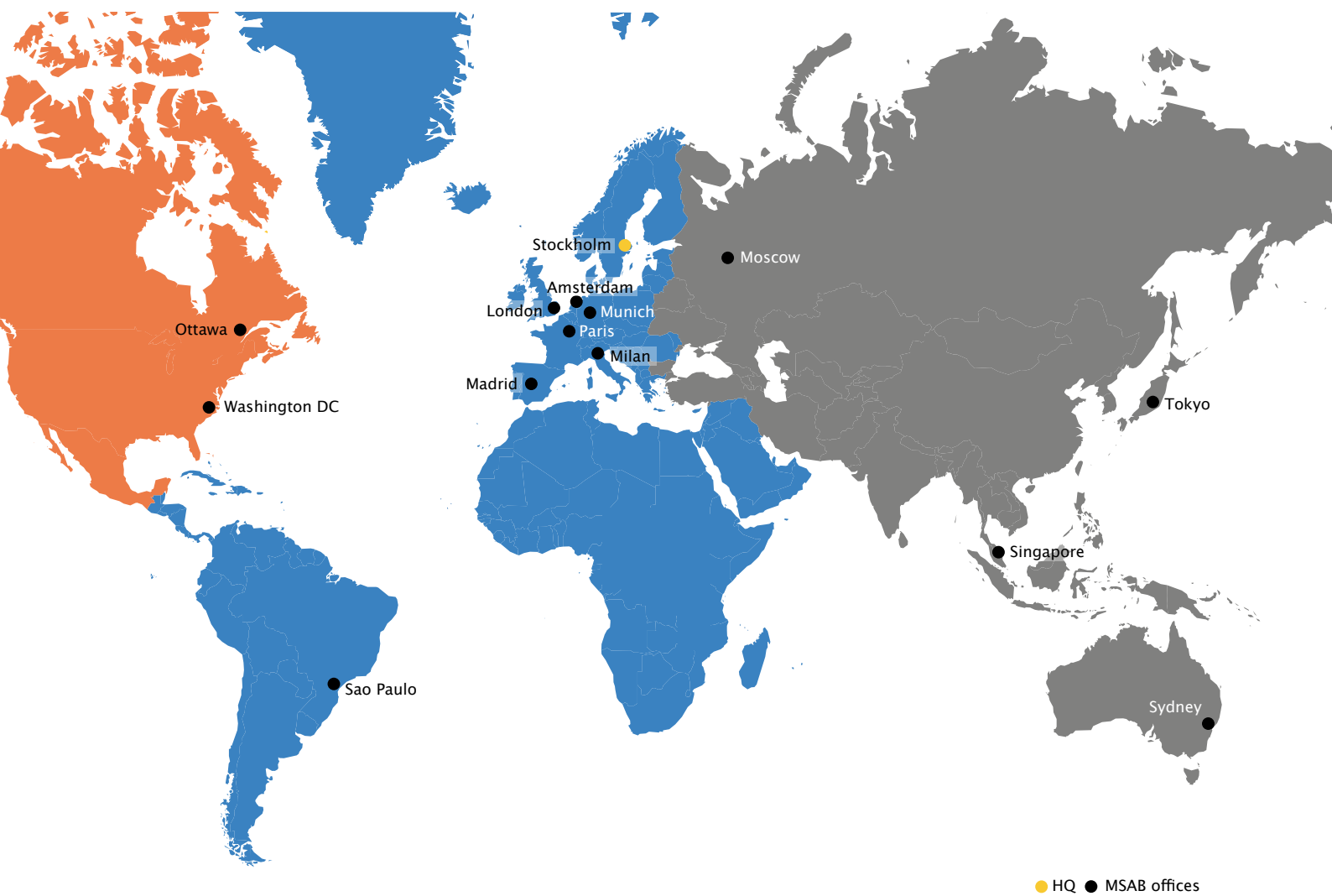
Through annual product license renewals, MSAB creates the prerequisites necessary for continuous investment in expanded support for new models of digital devices and new functions, thereby successively refining products for the customer. The continuous development of phones and applications drives both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

Growth

MSAB is active on a market where there is a high level of underlying growth and is consolidating its market position through long-term investment in product development, market proximity, and organisational strength. The company is convinced that the need for professional tools for extraction and analysis of data from digital devices will continue to increase. MSAB is mainly oriented towards 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.

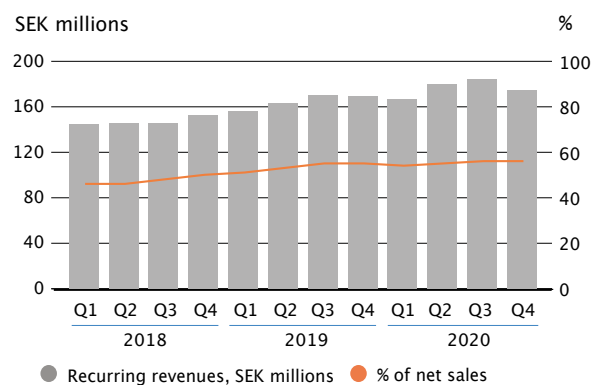


- A start-up package from MSAB consists of a license and a small amount of hardware depending on the product.
- Products such as Kiosk, Tablet, XRY Express and Field include a hardware platform with pre-installed software.
- The length of the license varies from one to three years depending on what the 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 it to ensure access to the latest versions of MSAB's software, which guarantees the latest implemented solutions for extraction of data from the greatest number of phone manufacturers and operating systems. This is a powerful driving force for customers to renew their licenses and give MSAB a high degree of recurring revenue.

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 and the five-year overview, see pages 20-21.

The ecosystem that secures the chain of custody

1. Crime scene

Immediate data recovery is required when a delay could lead to loss of evidence due to remote wipe, battery expiration, or lock of device. This is where a forensic tool is critical. MSAB's tablet solution is simple to use and easy to understand.

3. Investigator office

Individual detectives working alone or as part of a large investigative team gain access to evidence with the help of the XAMN product to examine single pieces of evidence, e.g. a text message or video, in preparation for gathering additional evidence or to interrogate a suspect.

2. Police station

When immediate intervention is not needed, officers can take mobile devices to a station for quick extraction and overview with our Kiosk or Office products. Additionally, photos, videos and other potential evidence can be easily extracted from mobile devices that belong to witnesses.

4. Forensic lab

Should the crime be more serious, e.g. rape, robbery or murder, or if the task is more technically complex, devices can be sent to specialist centres. Skilled experts will use Office versions of XRY Logical, Physical, PinPoint, Cloud and XAMN Elements to reconstruct data.

MSAB's ecosystem consists of a complete system for digital forensics that support customers through the entire chain of custody, regardless of the type of user, location, mobile device or environment. MSAB has tools that are designed to suit the specific need. MSAB's products and platforms comprise a range of tools for different purposes, situations and users. XRY is the file format that drives the system and is shared by all tools in the product families, which makes extractions done in the field by officers or

investigators can be sent to digital forensic labs or examined locally with analysis tools.

Investigators and technical experts can collaborate in new ways via the ecosystem. For example, an investigator can note interesting information and ask lab experts to look for related evidence without logging out of the ecosystem. And once the lab has recovered new data, it becomes immediately visible and of use to investigators.

5. Forensic analysts

If the mobile device is part of a bigger case involving several examined devices, the evidence may need specialist analysis. XAMN Horizon creates an overview of how each device fits into the investigation with help of 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. Courtroom

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

Sources of mobile data

MSAB's ecosystem supports the most important sources of mobile data.



Mobile devices



Drones



Vehicles



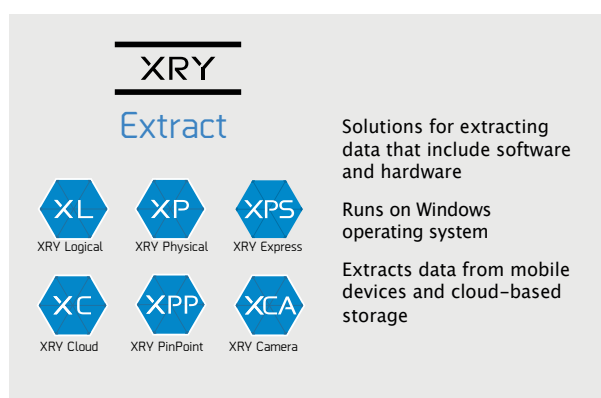
Cloud services



Internet of Things

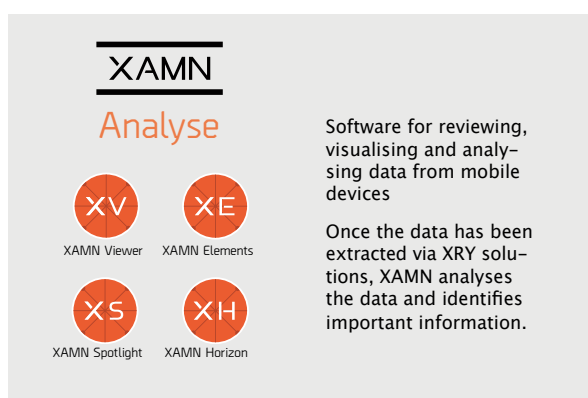
All investigative phases are covered

MSAB's products are divided into three product families: XRY, XAMN and XEC, where each one is dedicated to a different stage of an investigation for securing digital evidence: extraction, analysis and administration/monitoring. The products are adapted for four different platforms depending on whether the customer is active in the field or the office.



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 years, MSAB has built up comprehensive support for these older, so-called "burner phones" and is continually adding support for new devices. This competence relating to older phones and their widely divergent operating systems makes it very demanding for new actors to enter the market. At the end of 2020, XRY was compatible with over 33,000 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 communicated. XAMN allows several XRY files to be compiled in one place to compare data from different devices simultaneously and search for common denominators. 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.

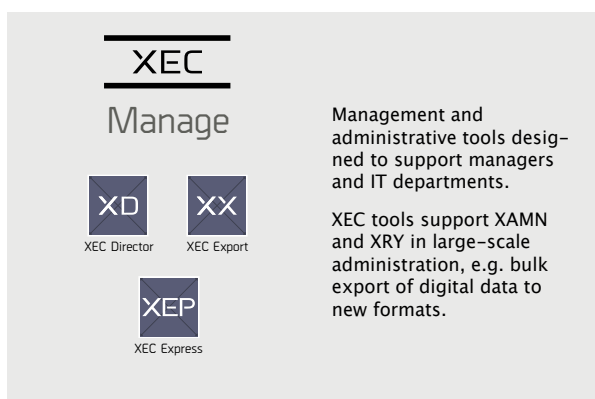
Services and training

MSAB complements its software and platforms with training and professional services. These help improve digital forensic processes and educate personnel to maximise the benefit of these forensic solutions. 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 2020, the development department, together with the test and support department, consisted of 95 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). MSAB releases four major updates to products annually. Between these major releases, there are so-called micro releases, so that the software is up-to-date and compatible with as many mobile phones and applications as possible.

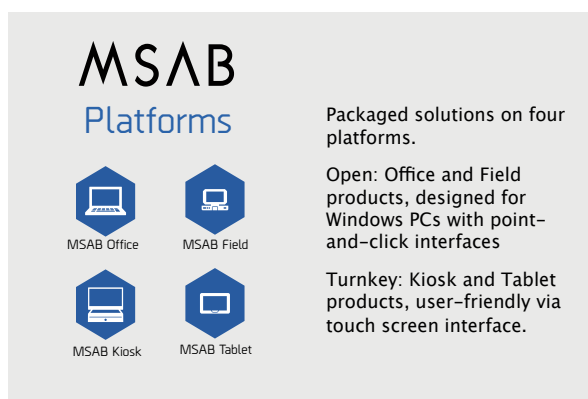


XEC – administration and monitoring

The need for technical solutions to extract information from mobile devices is rising continuously. This also creates a demand for enabling measuring and monitoring for how these solutions are being used and how they work. 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 to a wider group of users;
- 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.

MSAB – contributing to a safer world

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 contribute to a safer and more law-abiding society, and we strive to be a reliable supplier and partner to law enforcement agencies worldwide. 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 takes 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 impact the environment. The company's operations consist primarily of software development with limited environ-

mental 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, that production of components meets EU environmental requirements. MSAB has customers in over 100 countries worldwide. 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 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 per 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, and 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:

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

1) RoHS Directive (2002/95/EG)



In addition to the Swedish Parent Company, MSAB has wholly-owned subsidiaries in the United Kingdom, the USA, Canada, Australia, 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 2020, there were 196 employees in the Group. At year-end, there were 195. The average number of employees in 2020 was 202 compared to 189 the previous year.

MSAB's reason for being

MSAB's ground-breaking use of mobile forensics has been helping the police and other law enforcement agencies prevent and solve crime for more than 20 years. We developed our technology in the middle of the dot.com era which had swept around the world at that time, and our original idea was actually not to use the technology to solve crime.

But the police in Sweden had begun experimenting with our technology to do just that. They contacted us and asked if we would work with them. We quickly learned that by being a reliable partner with the police we could create innovative solutions that could make the world a safer place.

Today, our technology is used by law enforcement agencies all over the world. Our employees, located in many different countries, come to work every day with a sense of pride that our technology makes a significant difference in society. We help solve (and often prevent) crime, and we help strengthen society founded on the rule of law. Most importantly, our employees know that we are driven by an unwavering commitment to do the right thing, in an ethical and responsible manner, and without compromise. That commitment starts here – with me and the executive management at MSAB.

It's all about doing what's right

We are pivotal within mobile forensics and we intend to continue leading the way in the coming years. Our commitment is long-term in the true meaning of the word. But leadership – true leadership – is about doing what's right. For MSAB this means that the needs of a society founded on the rule of law – and built on the idea of human rights, freedom of speech and democracy – must be prioritised ahead of short-term profit. We will not compromise on this. Ever.

As with any technology, our products can wind up in the wrong hands or be used in a way that conflicts with our values. When this happens, we act. It was with these same moral principles in mind that MSAB has chosen to withdraw its products and services from regimes that turned their back on democracy. An important aspect of our systems is that their use can be limited or closed down if they are used in ways inconsistent with our values.

Our technology is not for sale to oppressive regimes

We support and encourage every democracy, new or old. We work to prevent mass surveillance wherever it is introduced. We know that business leaders carry an extraordinary responsibility to help counter oppression and violence in all its forms, and we take that role very seriously.

It was recently reported in the media that our technology was being used by the military in Myanmar to crack down on peaceful demonstrations. So here's the way it is: we have never sold our technology to the military in Myanmar. They might want to buy it, but we do not sell to oppressive regimes.

We sold four systems for limited use to the police in Myanmar when Nobel Peace Prize winner Aung San Suu Kyi led the country. These systems could not recover deleted data and could not be used to gain access to hard-locked mobile phones. But even these very limited systems were immediately shut down when the military coup began. If our platforms come into the wrong hands in any way, we act as forcefully as we can to shut them down so the technology becomes useless. Our solutions cannot now – and never will – be available for mass surveillance. At least not as long as I am part of the team.

It pays to be ethical and sustainable

This commitment is in our DNA. We are driven by a purpose and values that guide our operations every day. That's who we are. Maybe it's because we have our roots in Sweden, but for me and for MSAB, the ethical choice is the only choice. Granted, it's also good for our business. We know that there is a financial reward for being an ethical and sustainable player. It makes us a reliable partner and contributes to a world that's a little safer for all of us.

Stockholm, April 2021

Henrik Tjernberg
Board Chairman

” If our platforms come into the wrong hands in any way, we act as forcefully as we can to shut them down so the technology becomes useless. Our solutions cannot now – and never will – be available for mass surveillance.



The share and shareholders

MSAB's B share is listed on Nasdaq Stockholm Small Cap (ticker: MSAB B). On the last day of the year, 31 December, the share price was SEK 40.6 and share capitalisation amounted to SEK 778 million.

Share capital

Share capital on 31 December 2020 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 2020 was 3,884 compared with 3,521 the previous year. The ten largest shareholders in MSAB on 31 December 2020 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 16.5 and SEK 43.9, finishing at SEK 40.6 on the last trading day of the year. During the year, MSAB's share price rose 11.2 percent. MSAB's market capitalisation at year-end was SEK 778 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. For financial year 2020, the Board proposes that no dividends be paid in light of the uncertainty related to future business development due to the ongoing global pandemic.

SHARE PRICE TREND AND VOLUMES 2016–2020



SHARE PRICE TREND AND VOLUMES 2020



TEN LARGEST SHAREHOLDERS, 31 DECEMBER 2020

Shareholder	Total no. shares	A shares	B shares	C shares	% of capital	% of votes
Henrik Tjernberg	930,522	865,000	65,522	–	4.85	30.94
Edastra AB	1,278,592	135,000	1,143,592	–	6.67	8.85
Swedbank Robur Ny teknik BTI	1,236,403	–	1,236,403	–	6.45	4.39
Försäkringsaktiebolaget, Avanza Pension	1,136,327	–	1,136,327	–	5.93	4.03
Strawberry Capital AS	1,079,404	–	1,079,404	–	5.63	3.83
Öhman Sweden Micro Cap	843,313	–	843,313	–	4.40	2.99
Alcur Select	818,714	–	818,714	–	4.27	2.91
Sijoitusrahasto Aktia Nordic MIC	750,000	–	750,000	–	3.91	2.66
Länsförsäkringar Småbolag Sweden	598,954	–	598,954	–	3.12	2.13
Kock, Christian Axel	590,134	–	590,134	–	3.08	2.09
Ten largest shareholders	9,262,363	1,000,000	8,262,363	–	48.31	64.82
Micro Systemation AB	703,596	–	81,596	622,000	3.67	2.50
Other	9,206,041	–	9 206,041	–	48.02	32.68
Total	19,172,000	1,000,000	17,550,000	622,000	100.00	100.00

SHARE CAPITAL EVENTS UP TO 31 DECEMBER 2020

Year	Month	Transaction	Changes in no. of shares	Total no. of A shares	Total no. of B shares	Total no. of 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 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 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 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 issue	440,000	1,000 000	17,460,000	622 000	19,082 000	0.0	88,000	3,816 400
2018	July	New issue	30,000	1,000,000	17,490,000	622,000	19,112,000	0.2	6,000	3,822 400
2018	August	New issue	45,000	1,000,000	17,535,000	622,000	19,157,000	0.2	9,000	3,831 400
2018	September	New 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 2020

Holdings	No. of shareholders	A shares	B shares	C shares	% of capital	% of votes
1-500	2,739	0	36,3913	0	1.90	1.29
501-1,000	440	0	36,4609	0	1.90	1.29
1,001-5,000	491	0	118,0482	0	6.16	4.19
5,001-10,000	99	0	731,608	0	3.82	2.60
10,001-15,000	23	0	281,782	0	1.47	1.00
15,001-20,000	17	0	313,899	0	1.64	1.11
20,001–	75	1,000,000	14,313,707	622,000	83.12	88.51
Total,	3,884	1,000,000	17,550,000	622,000	100.00	100.00

Five-year overview

	2020	2019	2018	2017	2016
Profit/loss, SEK thousands					
Net sales	310,057	307,632	303,871	301,763	242,355
Operating expenses	-281,424	-301,285	-271,224	-232,993	-183,947
EBIT	28,633	6,347	32,646	68,770	58,408
Net financial income/expense	-6,318	1,115	2,509	858	2,163
Profit before tax	22,315	7,462	35,155	69,628	60,571
Tax	-6,052	-2,368	-7,407	-16,738	-15,335
Profit/loss for the year	16,263	5,094	27,748	52,890	45,236
Balance sheet, SEK thousands					
Non-current assets	22,949	33,210	2,571	2,042	2,816
Other current receivables	64,490	92,974	91,122	70,779	53,290
Cash and cash equivalents	101,286	63,950	98,816	127,430	123,199
Total assets	188,726	190,134	192,508	200,250	179,305
Equity	88,296	76,057	110,096	114,608	104,415
Other current liabilities	100,430	114,077	82,413	85,642	74,890
Total equity and liabilities	188,726	190,134	192,508	200,250	179,305
Cash flow, SEK thousands					
Cash flow before changes in working capital	33,080	17,627	28,622	49,149	52,487
Cash flow from changes in working capital	18,960	171	-23,388	-1,295	-342
Cash flow from operating activities	52,037	17,799	5,234	47,854	52,145
Cash flow from investing activities	-635	-1,499	-1,495	-874	-655
Cash flow from financing activities	-10,567	-53,226	-34,521	-40,172	-32,574
Cash flow for the year	40,835	-36,926	-30,782	6,808	18,916
Key figures					
Net sales, SEK millions	310.1	307.6	303.9	301.8	242.4
Net sales growth, %	0.8	1.2	0.7	24.5	6.8
EBIT, SEK millions	28.6	6.3	32.7	68.8	58.4
EBIT margin, %	9.2	2.10	10.8	22.8	24.1
Earnings per share*, SEK (after dilution)	0.88	0.1	1.50	2.88	2.46
Return on equity, %	19.79	5.47	24.7	48.3	46.3
Return on capital employed, %	32.2	12.9	37.0	68.3	63.9
Equity/assets ratio, %	46.8	40.0	57.2	57.2	58.2
Liquidity ratio, %	157.0	132.0	223.5	196.2	230.7
Net worth per share, SEK	4.8	4.1	5.99	6.24	5.68
Dividend per share, SEK	2.0	0.0	2.2	2.20	2.20
Cash flow from operating activities per share, SEK	2.8	1.0	0.28	2.60	2.84

Reconciliation of measurements not defined as per IFRS	2020	2019	2018	2017	2016
Capital employed, SEK millions					
Total assets	188.7	190.1	192.5	200.3	179.3
Trade payables	-6	-4.6	-3.7	-5.0	-4.6
Current tax liabilities	-1.1	-1.2	-0.5	-3.6	-6.2
Lease liabilities for right of use assets	-7.8	-11.8			
Other liabilities	-66.3	-79.9	-78.2	-77.0	-64.1
Capital employed	107.5	92.6	110.1	114.6	104.4
Average capital employed	100.1	101.4	112.4	109.5	98.2

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 mobile digital forensics. MSAB was founded in 1984 and its 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 means as much as possible of user-specific information on a mobile phone or other digital device is transferred to a computer for further analysis. XAMN simultaneously performs sophisticated analysis on data from different digital devices to efficiently identify links between them. 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 33,000 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 2020

- Because of the pandemic, travel to meet prospective and existing customers has been impossible. Hence MSAB is implementing a shift to continue to attend meetings and deliver training digitally, rather than physically, thus meeting customers' expectations.
- With the launch of XRY 9.3, there is now support for over 33,000 mobile phone profiles and app versions, compared to 29,000 at the end of 2019.
- A decision was taken to close Hong Kong operations completely as there was a risk that the Company's tools would be used in a way that was incompatible with MSAB's values.
- The North American organisation has been restructured to better utilise the potential in this important market.

Profit/loss and financial position

For definitions of key metrics and the five year overview, see pages 20–21.

	2020	2019	2018
Net sales, SEK millions	310	307.6	303.9
EBIT, SEK millions	28.6	6.2	32.7
EBIT margin, %	9.1	2	10.8
Profit/loss before tax, SEK millions	22.3	7.3	35.2
Balance sheet total, SEK millions	189	190.1	192.5
Equity/assets ratio, %	46.8	40	57.2
Return on equity, %	17.5	5.5	24.7
Average number of employees	202	196	157

Comments on financial performance

Consolidated net sales for the year increased 0.8 percent to SEK 310.1 (307.6) million. In local currencies, net sales rose 3 percent. Cost of goods for resale for the year were SEK 28.1 (29.5) million. 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 62.0 (82.8) million. Personnel expenses for the year were SEK 191.3 (189.0) million. The lower cost base compared with the previous year is partly attributable to active efforts to review and optimise the Company's resources, without compromising quality or the business in general. For example, consulting services were replaced by employees. The ongoing pandemic has meant that significantly fewer resources could be spent on travel, exhibitions, etc. MSAB was early in identifying the importance of finding alternatives to physical contact with customers, and has thus been able to maintain customer presence primarily through digital channels, without negatively affecting sales. At the same time, the Company has had significantly lower costs related to these activities. EBIT for the year was SEK 28.6 (6.2) million, corresponding to an EBIT margin of 9.2 (2.0) percent. Net financial income/expense was SEK –6.3 (1.1) million 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 16.3 (4.9) million. Consolidated sales and profit both tend to vary between quarters, mainly due to changes in our customers' purchasing patterns which are often tied to budget periods, where the USA's financial year ends on 30 September, while on other markets the financial year follows the calendar year. Additionally, size of orders varies, where single, larger orders can mean greater variation in sales, and with the Company's relatively fixed cost base, this in turn leads to 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 in 2017. The equity/assets ratio was 46.8 (40.0) percent. Cash and cash equivalents at year-end amounted to SEK 101.2 (63.9) million.

Markets

North America

The North American market experienced the greatest impact from the global pandemic, combined with the troubled political situation in the USA. Shut-downs and uncertainty surrounding federal budgets have meant that the region did not deliver according to expectations. This situation can continue to negatively affect Q1 2021. Hopefully, there is then a return to a more normal situation where the Company can continue to benefit from its good relations with federal, civilian, state and local agencies.

The strong Swedish krona in 2020 generally, and in Q4 specifically, has also meant that consolidated sales figures reported in SEK have been affected negatively. Since the USA is the single largest market, the strong krona has been an

additional contributing factor to the development. The Company has expenses in USD, but cost savings in the stronger Swedish kronor do not compensate for the reduction in income, where the effect of the exchange rate on profit was about 11 percent.

EMEA & Latin America

The EMEA & Latin America region performed best in 2020 relative to the previous year. Revenue from new sales as well as license renewals increased significantly, and the potential for continuing strong growth is great. The single largest increase in sales is attributable to AAL (Advanced Acquisition Lab), demand for which has risen rapidly in the region.

Asia & Russia

(Commonwealth of Independent States)

The region experienced marginal growth in local currencies, but this region has also been affected by the strengthening of the Swedish krona. The closure of our operations in Hong Kong in the third quarter impacted sales negatively. A marginally negative impact on sales for the region cannot be ruled out if the loss of revenue from Hong Kong cannot be offset by increased business in other areas of the region.

Sustainability

The Company's sustainability work is focused on employees and organisation, 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 the Company's procurement procedures are orchestrated fairly, that employees are treated equally and that the Company has as much knowledge as possible about the working conditions and production methods of its 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 2020, our development department, along with the test and support department, consisted of a total of 95 persons (87). 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 evolves quickly, with new functions and application areas being created continuously. On the one hand, new phone models are continuously launched from a growing group of manufacturers, and on the other, updates to existing models are constantly being released. Sometimes this means that previously identified opportunities to extract information from phones become irrelevant when these opportunities are identified and closed by the manufacturers. 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 law enforcement agencies. There were a number of breakthroughs in 2020 when it comes to identifying and including new options for MSAB's extraction products on some of the most sought after mobile phone models. In the Company's judgement, all

expenses relating to development efforts should be expensed in their entirety as incurred due to the rapid pace of change on the market, which makes it impossible to know which research and development initiatives will de facto be included in future product updates and generate revenue. The cost of research and development amounted to SEK 68.2 (68.4) million.

Financial position

The equity/assets ratio at year-end was 46.8 (40.0) percent. Cash flow from operating activities for the year amounted to SEK 52.0 (17.7) million. Due to prevailing uncertainty relating primarily to Covid-19, the Board decided against proposing a dividend to the AGM. No dividends were distributed during the year. For the previous year, dividends of SEK 40.6 million were distributed. Cash and cash equivalents at year-end amounted to SEK 101.2 (63.9) million.

Parent Company

The Parent Company's net sales for the period were SEK 230.4 (213.8) million. EBIT for the period was SEK 20.9 (0.1) million. Investments for the period were SEK 2.0 (1.5) million and were essentially IT-related. There were 151 (148) employees at the Parent Company at the end of the period. Risks and uncertainty factors are the same for the Parent Company as for the Group.

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 risk carry a lower risk factor. Currency risk arises largely from the Group's income from sales being in currencies other than Swedish kronor, while the majority of operating expenses are paid in Swedish kronor. In 2020, the Group's export sales in foreign currencies accounted for approximately 97 (98) percent 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 202 (189) of which 21 (21) percent were women. At year-end, the number of employees was 195 (196).

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

On 15 May 2018, MSAB's AGM voted to implement a long-term incentive programme (for the period 2018 – 2021) for the Company's senior executives and certain key persons (a maximum of 20 persons). Participants are 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 and CEO

MSAB's Board of Directors consists of six persons. Over the year, the Board held eight 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 56–58 of this annual report.

Guidelines on remuneration of senior executives in 2020

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 founded on market conditions and consist of the following components: a fixed salary, variable remuneration, pension benefits and other benefits. Fulfilment of criteria for payment of the variable cash remuneration must be measurable over a period of one year. The variable cash remuneration shall not exceed 150 percent of the fixed annual salary.

Additional variable cash remuneration may be paid in exceptional circumstances, provided that such exceptional arrangements are time-limited and are made only at an 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 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 reimbursement of dental and medical care costs (including medicine), 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. For additional information on remuneration, refer to Note 8.

The 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 2020, no currency hedging was in place.

Outlook

MSAB has a wide-ranging customer offering for law enforcement agencies worldwide. 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 through existing IT labs or through forensics. Capacity must be increased and this can only be done by regular, uniformed law enforcement. The digital revolution that has impacted our lives as individuals is challenging law enforcement agencies in a way never seen before. MSAB knows what is needed to make customers more efficient, better and able to reverse negative trends – i.e., a proper strategy for digital investigation and evidence. The market we operate in is still substantially underinvested, customers face an exceptional need to invest if they are to perform their role amidst the on-going digital revolution.

Proposal for distribution of unappropriated profit

Parent Company

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

Retained profit from the previous year	22,581,116
Net profit/loss for the year	16,976,860
Total, SEK	39,557,976

The Board proposes:

Proposed dividend	38,344,000
To be carried forward	1,213,976
Total, SEK	39,557,976

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

MSAB's Board of Directors proposes that the AGM approves a dividend of SEK 2 per share. The proposal reflects the Company's strong financial position, the strong, global interest in the Company's solutions, and confidence in continuing, strong development for the year, despite the on-going pandemic.

The Company and the Board have carefully analysed the current situation regarding the on-going pandemic as well as possible uncertainties in future cash flows and concluded that the Company is well-equipped to meet future challenges.

Significant events during the financial year

MSAB follows developments regarding Covid-19 and evaluates the extent to which these may affect the Company's operations both in the short- and long-term. At present, it is not possible to assess the extent to which the pandemic may affect the business. MSAB operates in a market that is relatively unaffected by business cycles, as the customers are primarily government authorities around the world. The Company's assessment is that this partly explains why Covid-19 has not affected the Company's strategies, goals or outcomes to any significant extent. The opportunity to meet customers and stakeholders at conferences, trade fairs or in other contexts has, for MSAB, just as for many others, been considerably more difficult. Early in 2020, the Company identified this and largely switched to digital meetings and remote training, which has thus far been appreciated by many customers. As there is a general, worldwide uncertainty about the duration of the current situation, this also means that the Company feels that certain decisions by customers are taking longer. This entailed a shift in expected revenue related mainly to new sales in the fourth quarter.

The Group

Income statement			
Group, SEK thousands	Note	2020	2019
Net sales	5	310,057	307 632
Operating income		310,057	307,632
Goods for resale		-28,130	-29,479
Other external expenses	6,7	-49,662	-70,863
Personnel expenses	8	-191,311	-188,992
Depreciation/amortisation	13,14	-12,322	-11,951
Operating expenses		-281,425	-301,285
EBIT		28,632	6,347
Financial income	9	3,467	5,636
Financial expenses	10	-9,785	-4,521
Net financial income/expense		-6 318	1,115
Profit/loss before tax		22,314	7,462
Tax	11	-6,052	-2,368
Profit/loss for the year		16,262	5,094
Profit/loss for the year attributable to:			
Holders with non-controlling interests		–	–
Holders with shares in Parent Company		16,262	5,094
Earnings per share before dilution, SEK	12	0.88	0.28
Earnings per share after dilution, SEK		0.88	0.28
Total no. of shares outstanding before dilution, thousands		18,468	18,468
Total no. of shares outstanding after dilution, thousands		18,468	18,468
Average no. of shares outstanding before dilution, thousands		18,468	18,468
Average no. of shares outstanding after dilution, thousands		18 ,468	18,468

Statement of comprehensive income		
Group, SEK thousands	2020	2019
Net profit/loss for the year	16,262	5,094
Other comprehensive income for the year:		
Exchange rate differences	-3,550	1,377
Tax on exchange rate differences	-472	120
Comprehensive income for the year	12,240	6,591
Comprehensive income for the year attributable to Parent Company shareholders	12,240	6,591

Balance sheet			
Group, SEK thousands	Note	2020-12-31	2019-12-31
ASSETS			
Intangible assets	13	1	46
Equipment, tools and installations	14	2,176	2,728
Deferred tax assets	11	22	620
Right-of-use assets	7	20,750	29,816
Total non-current assets		22,949	33,210
Finished goods and goods for resale		8,126	6,378
Trade receivables	16	46,129	75,159
Other receivables		2,243	6,652
Prepaid expenses and accrued income	17	7,993	4,785
Cash and cash equivalents	18	101,286	63,950
Total current assets		165,777	156,924
TOTAL ASSETS		188,726	190,134
EQUITY AND LIABILITIES			
Share capital	19	3,834	3,834
Other contributed capital		28,058	28,058
Reserves		-757	3,265
Retained profit including profit/loss for the year		57,161	40,899
Total equity attributable to Parent Company's shareholders		88,296	76,056
Long-term lease liabilities relating to right-of-use assets	7	7,196	18,429
Total non-current liabilities		7,196	18,429
Trade payables		5,961	4,559
Tax liabilities	11	1,098	1,183
Current liabilities relating to right-of-use assets	7	12,147	9,884
Other liabilities		7,704	12,168
Accrued expenses and deferred income	20	66,324	67,855
Total current liabilities		93,234	95,649
TOTAL EQUITY AND LIABILITIES		188,726	190,134

Changes in equity

Group, SEK thousands	Share capital	Other contributed capital	Translation reserve	Cash flow hedge	Retained profit	Total equity
2019						
Opening balance 2019-01-01	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, 2019-12-31	3,834	28,058	3,265	0	40,899	76,056
2020						
Opening balance equity 2020-01-01	3,834	28,058	3,265	0	40,899	76,056
Comprehensive income for the year			-4,022	0	16,262	12,240
Comprehensive income for the year	0	0	-4,022	0	16,262	12,240
Transactions with shareholders:						
Dividend						0
Reclassification						
Closing balance equity 2020-12-31	3,834	28,058	-757	0	57,161	88,296

Statement of cash flow

Group, SEK thousands	Note	2020	2019
Operating activities			
Profit/loss before tax		22,314	7,462
Adjustments for non-cash items	21	12,232	12,391
Income tax paid		-1,466	-2,226
Cash flow from operating activities before changes in working capital		33,080	17,627
Cash flow from changes in working capital			
Changes in inventory		-1,748	-665
Changes in operating receivables		26,343	-25,544
Changes in operating liabilities		-5,633	26,380
Cash flow from operating activities		52,039	17,798
Investing activities			
Investments in current assets		-635	-1,499
Cash flow from investing activities		-635	-1,499
Financing activities			
Dividends paid		–	-40,630
New share issue, conversion of share warrants		–	–
Amortisation, lease liabilities		-10,567	-12,596
Cash flow from financing activities		-10,567	-53 226
Cash flow for the year		40,837	-36,927
Cash and cash equivalents at the beginning of the year		63,949	98,816
Translation differences in cash and cash equivalents		-3,500	2,060
Cash and cash equivalents at year-end	18	101,286	63,949

Parent Company

Income statement

Parent Company, SEK thousands	Note	2020	2019
Net sales	5	230,447	213,822
Operating income		230,447	213,822
Goods for resale		-28,129	-29,478
Other external expenses	6,7	-33,105	-42,069
Personnel expenses	8	-137,204	-131,428
Depreciation/amortisation	13,14	-11,090	-10,715
Operating expenses		-209,528	-213,690
EBIT		20,919	132
Income from participations in subsidiaries		5,476	–
Other interest income and similar items	9	2,934	9,189
Interest expenses and similar items	10	-9,126	-4,013
Net financial income/expense		-716	5,176
Profit/loss before tax		20,203	5,308
Tax	11	-3,226	-536
Net profit/loss for the year		16,977	4,772

Statement of comprehensive income

Parent Company, SEK thousands	2020	2019
Profit/loss after tax	16,977	4,772
Comprehensive income for the year	16,977	4,772

Balance sheet

Parent Company, SEK thousands	Note	2020-12-31	2019-12-31
ASSETS			
Intangible assets	13	1	46
Equipment, tools and installations	14	2,176	2,728
Right-of-use assets	7	20,154	27,934
Total non-current assets		22,331	30,708
Participation in Group Company	15	404	404
Total non-current financial assets		404	404
Finished goods and goods for resale		8,126	6,378
Trade receivables	16	20,138	27,416
Intra-Group receivables	16	20,103	13,738
Tax asset		15	5,357
Other receivables		1,514	887
Prepaid expenses and accrued income	17	5,091	4,590
Cash and bank balances		56,137	37,018
Total current assets		105,648	95,384
TOTAL ASSETS		133,859	126,496
EQUITY AND LIABILITIES			
Restricted equity			
Share capital	19	3,834	3,834
Statutory reserve		20,288	20,288
Non-restricted equity			
Cash flow hedging		–	–
Share premium reserve		7,770	7,770
Profit/loss carried forward		14,811	10,041
Net profit/loss for the year		16,977	4,772
Total equity		63,680	46,705
Non-current lease liabilities relating to right-of-use assets	7	7,839	16,518
Total non-current liabilities		7,839	16,518
Trade payables		3,067	3,888
Intra-Group liabilities			1,603
Tax liabilities		860	–
Short-term lease liabilities relating to right-of-use assets	7	10,761	9,884
Other liabilities		5,627	9,465
Accrued expenses and deferred income	20	42,025	38,433
Total current liabilities		62,340	63,273
TOTAL EQUITY AND LIABILITIES		133,859	126,496

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	
2019							
Opening balance, equity 2019-01-01	3,834	20,288	-7	7,770	30,030	20,648	82,563
Appropriation of profit from previous year					20,648	-20,648	0
Net profit/loss for the year						4,772	4,772
Other comprehensive income	–	–	–		–	–	–
Comprehensive income for the year	0	0	0		0	4,772	4,772
Transactions with shareholders:							
Dividends					-40,630		-40,630
Reclassification			7		-7		0
Closing balance, equity 2019-12-31	3,834	20,288	0	7,770	10,041	4,772	46,703
2020							
Opening balance, equity 2020-01-01	3,834	20,288	0	7,770	10,041	4,772	46,703
Appropriation of profit from previous year					4,772	-4,772	0
Net profit/loss for the year						16,977	16,977
Other comprehensive income	–	–	–		–	–	–
Comprehensive income for the year	0	0	0		0	16,977	16,977
Closing balance, equity 2020-12-31	3,834	20,288	0	7,770	14,813	16,977	63,680

Statement of cash flow

Parent Company, SEK thousands	Note	2020	2019
Operating activities			
Profit/loss before tax		20,203	5,307
Adjustments for items not included in cash flow	21	11,091	10,715
Income tax paid		228	-1,769
Cash flow from operating activities before changes in working capital		31,522	14,253
Cash flow from changes in working capital			
Changes in inventory		-1,889	-665
Changes in operating receivables		3,691	12,983
Changes in operating liabilities		2,894	7,028
Cash flow from operating activities		36,218	33,599
Investing activities			
Investments in current assets		-6,532	-1,003
Cash flow from investing activities		-6,532	-1,003
Financing activities			
Dividends paid		–	-40,630
Amortisation lease liability		-10,567	-11,508
Cash flow from financing activities		-10,567	-52,138
Cash flow for the year		19,119	-19,542
Cash and cash equivalents at the beginning of the year		37,018	56,560
Cash and cash equivalents at year-end	18	56,137	37,018

Notes

Note 1 General information

Micro Systemation AB (publ) "MSAB", Corporate ID no. 562443050, 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 Hornsbruksgratan 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 2020 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 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. Intra Group transactions and 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 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 and fair values of the shares acquired, identifiable assets and liabilities are 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.

Note 2 continued

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.

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

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.

For 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.

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

Note 2 continued

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.

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.

Tangible assets

Tangible assets are stated at historical cost less allowance for 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 to be brought into service.

Subsequent costs are only included in the asset or recognised as a separate asset when it is probable that future financial benefits attributable to the item will flow to the Group and the cost of same can be measured reliably. All other expenses for repairs, maintenance, and any additional expenses are recognised in the Income Statement in the period in which they occur. Depreciation of tangible assets are expensed so that the asset's value less estimated residual value at end of useful life are amortised on a straight-line basis which is estimated at:

Inventory, equipment, fixtures and fittings 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:

Inventory, equipment, fixtures and fittings 5 years

Research and development

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 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 an intangible asset and amortised, from the point in time when

Note 2 continued

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.

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.

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 from the time of acquisition. Cash and bank balances are measured at amortised cost. 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 of tangible and intangible assets and shares 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

EA 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

Note 2 continued

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:

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.

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.

Anticipated dividends

Anticipated dividends from subsidiaries are recognised when the Parent Company alone has the right to decide the size of the dividend and the Parent Company has decided on the size of the dividend before it publishes its financial reports.

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 required 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 risk 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 2020, approximately 97 (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 2020, the Company held no forward contracts.

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 a 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):

	Group		Parent Company	
Market risk, SEK thousands	2020	2019	2020	2019
Currency				
AUD	971	900	873	0
CAD	408	617	286	307
EUR	17,522	27,011	15,840	26,664
GBP	4,738	3,910	5,088	3,145
HKD	0	0	2,295	2,295
SGD	2,656	320	3,259	6,837
USD	17,979	41,807	1,528	336
JPY	334	291	1,565	1,184
Total trade receivables in foreign currencies	44,607	74,856	30,734	40,768
SEK	1,530	303	1,630	400
Total trade receivables	46,129	75,159	32,364	41,168

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: 1,108 (1,109) thousand; EUR: 789 (1,320) thousand; GBP: 764 (854) thousand. For the Parent Company, the corresponding impact on profit/loss would be: USD: 257 (28) thousand; EUR: 789 (1,320) thousand; GBP: 228 (854) thousand.

Note 4 continued

Interest rate risk

Interest rate risk is 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 is 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:

2020	Group					Parent Company				
Liquidity and financing risk, SEK thousands	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
Trade payables	5,961				5,961	3,067				3,067
Leasing liabilities	2,937	8,180	8,145		19,262	2,677	7,659	8,145		18,481
Accrued expense	12,713	13,053			25,766	10,495	12,759			23,254
Other liabilities	7,822				7,822	5,746		–		5,746
Total	29,433	21,223	8,145	–	58,811	21,985	20,418	8,145	–	50,548

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

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 mainly 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 law enforcement agencies. 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 instruments. In accordance with the Board's instructions, surplus liquidity is placed in interest-bearing bank accounts or interest-bearing securities/fixed-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 EUR 100,000 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:

	Group		Parent Company	
Credit risk, SEK thousands	2020	2019	2020	2019
Trade receivables	46,129	75,159	32,364	41,168
Other receivables	2,243	6,652	1,514	887
Cash and cash equivalents	101,286	63,950	56,137	37,018
Maximum exposure to credit risk	149,658	145,761	90,015	79,073

Note 4 continued

Concentration risk

Trade receivables consist primarily of a small number of major customers with a high credit rating. The ten largest customers accounted for 27 (30) percent of total revenue. Approximately 32 (47) percent 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 32 (38) percent 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 risk

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 2020, consolidated equity was SEK 88,296 (76,057) thousand. 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, provided that this is compatible with maintaining an adequate amount of liquidity for planned operations.

Classification and valuation of financial instruments

The book values of financial assets and financial liabilities distributed as per valuation category in accordance with IFRS 9 (see Note 2), and the classification of financial assets and fair values are shown in the table below.

	Group		Parent Company	
Classification of financial instruments, SEK thousands	2020	2019	2020	2019
Financial assets measured at amortised cost				
Trade receivables – contractual assets	46,129	75,159	32,364	41,168
Cash and cash equivalents – other assets	101,286	63,950	56,137	37,018
Accrued income	7,993	4,785	5,091	4,591
Total financial assets	155,408	143,894	93,592	82,777
Financial liabilities measured at amortised cost				
Other financial liabilities				
Trade payables	5,961	4,559	3,067	3,888
Leasing liabilities	19,262	34,189	18,481	32,296
Accrued expenses	25,766	25,208	23,254	17,525
Total financial liabilities	50,989	63,956	44,802	53,709

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.

	Group		Parent Company	
Net profit/loss for financial instruments, SEK thousands	2020	2019	2020	2019
Trade receivables and other financial receivables				
Currency gains	-1	-219	-1	-219
Currency losses	-15	-404	3	-366
Other financial liabilities				
Currency gains	2,460	5,025	-2,383	4,946
Currency losses	-8,055	-3,614	7,997	-3,284
Total	5,610	788	5,613	1,077

Note 5 Operating income

Group	Asia & Russia	EMEA & Latin America*	North America	Total
Revenue breakdown 2020**, SEK thousands				
Product sales	40,430	138,503	93,592	272,525
Training and other services	5,404	25,370	6,758	37,532
Total	45,834	163,873	100,351	310,057
Performance obligations fulfilled at a certain point in time	40,147	141,943	82,711	264,801
Performance obligations fulfilled over time	5,687	21,929	17,640	45,256
Total	45,834	163,873	100,351	310,057

* Of which Sweden SEK 5,886 thousands

** The breakdown is based on customers' domicile

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	39,441	120,366	102,891	262,698
Performance obligations fulfilled over time	6,953	18,728	19,253	44,934
Total	46,395	139,094	122,143	307,632

* Of which Sweden SEK 7,139 thousand

Parent Company	Asia & Russia	EMEA & Latin America	North America	Total
Revenue breakdown 2020, SEK thousands				
Product sales	35,763	134,016	44,865	214,644
Training and other services	26	15,777	0	15,803
Total	35,789	149,794	44,865	230,447
Performance obligations fulfilled at a certain point in time	34,763	134,283	44,840	213,885
Performance obligations fulfilled over time	1,026	15,511	25	16,562
Total	35,789	149,794	44,865	230,447

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

Note 5 continued

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.

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Opening balance, contractual liabilities	42,651	43,897	17,819	19,230
Of opening balance, taken up as revenue during the year	-31,378	-34,716	-14,042	-14,208
Additional contractual liabilities during the year	28,026	33,470	14,477	12,797
Closing balance, contractual liabilities	39,299	42,651	18,254	17,819
Of which				
Current liabilities	31,158	32,630	14,053	14,018
Non-current liabilities	8,141	10,021	4,201	3,801
Total	39,299	42,651	18,254	17,819

Revenue for remaining performance obligations

Revenue for remaining performance obligations is expected to be recognised as follows:

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
2020	–	32,630	–	14,018
2021	31,158	7,031	14,053	2,579
2022	5,502	2,097	2,736	954
2023 and beyond	2,640	893	1,465	268
Total	39 300	42 651	18 254	17 819

Breakdown of Group's non-current assets

The Group's fixed assets are broken down as follows: Emea & Latin America SEK 22,949 (31,111) thousand, of which Sweden SEK 22,330 (2,728) thousand, Asia & Russia SEK 0 (0) thousand, North America SEK 0 (0) thousand.

Intra-Group purchases and sales

Purchases and sales from the Parent Company to other Group companies amounted to SEK 113,163 (106,179) thousand in sales and SEK 0 (0) thousand in purchases.

Currency exposure

Of the Group's total net sales, SEK 1 (219) thousand consisted of foreign exchange differences attributable to translation of trade receivables. The impact on profit was SEK – 5,623 (788) thousand.

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

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Audit assignment, KPMG	713	350	713	350
Auditing services other than audit assignment, KPMG	14	24	14	24
Tax advisory services				
Auditing services, other	108	111	–	–
Total	835	485	727	374

Audit assignments refer to statutory audits of the annual and consolidated accounts and accounting, as well as the Board's and the CEO's administration, as well as audits and other reviews performed in accordance with an agreement or contract. This includes

other tasks assigned to the Company's auditor to perform as well as advice or other assistance that arises from observations during such review or the implementation of such other tasks.

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 short-term and/or of low value. The Group has elected not to recognise right-of-use assets and lease liabilities for such leases.

On the balance sheet date 2020, the Group had outstanding commitments under non-cancellable operating leases, with maturities as follows:

Group	2020			2019		
SEK thousands	Buildings	Fixtures & Fittings	Total	Buildings	Fixtures & Fittings	Total
Opening balance, historical cost	40,044	385	40,429	39,687	385	40,072
Additional rights-of-use	–	2 204	–	357	–	357
Completed rights-of-use	–	–	–	–	–	–
Exchange rate differences	-360	–	–	–	–	–
Closing balance, acc. historical cost	39,684	2,589	42,273	40,044	385	40,429
Opening balance, depreciation	-10,485	-128	-10,613	–	–	–
Planned depreciation for the year	-10,483	-425	-10,908	-10,485	-128	-10,613
Sales/disposals	–	–	–	–	–	–
Closing balance, acc. depreciation	-20,968	-553	-21,521	-10,485	-128	-10,613
Closing balance, planned residual value	18,714	2,036	20,751	29,558	257	29,816

Parent Company	2020			2019		
SEK thousands	Buildings	Fixtures & Fittings	Total	Buildings	Fixtures & Fittings	Total
Opening balance, historical cost	37,057	385	37,442	36,700	385	37,085
Additional rights-of-use	–	2,204	–	357	–	–
Completed rights-of-use	–	–	–	–	–	–
Exchange rate differences	–	–	–	–	–	–
Closing balance, acc. historical cost	37,057	2,589	39,646	37,057	385	37,442
Opening balance, depreciation	-9,380	-128	-9,508	–	–	–
Planned depreciation for the year	-9,559	-425	-9,984	-9,380	-128	-9,508
Sales/disposals	–	–	–	–	–	–
Closing balance, acc. depreciation	-18,939	-553	-19,492	-9,380	-128	-9,508
Closing balance, planned residual value	18,117	2,036	20,153	27,676	257	27,933

Note 7 continued

	Group	Parent Company
Cost disclosures, fiscal year ending 31 December 2020		
Amortisation of right-of-use assets	10,908	9,984
Interest expense, lease liability	443	443
Lease expense, short-term leases	208	
Lease expense, low value assets	387	387
Cost of variable lease fees	876	876

	Group	Parent Company
Cash flow disclosures, fiscal year ending 31 December 2020		
Total cash outflow, leases	12,028	11,820

Note 8 Salaries, other remuneration and social security contributions

	2020		2019	
Average no. of employees	Total	Of which men	Total	Of which men
Parent Company				
Sweden	159	118	148	87
Group subsidiaries				
USA	25	20	28	21
United Kingdom	11	10	12	11
Canada	1	–	1	–
Australia	2	2	1	1
Hong Kong	–	–	–	–
China	–	–	2	1
Singapore	3	3	3	3
Japan	1	1	1	1
Total	202	154	196	125
Gender representation, executive management				
	Total	Of which men	Total	Of which men
Parent Company and Group subsidiaries				
Board members	6	4	5	3
Other senior executives	2	2	2	2
Total Parent Company	8	6	7	5

Note 8 continued

Salaries and remuneration, SEK thousands	2020	2019
Parent Company		
Salaries and remuneration	92,509	86,389
Pension expenses	11,702	9,195
Other social security contributions	28,483	26,858
Total	132,694	122,442
Subsidiaries		
Salaries and remuneration	45,664	47,303
Pension expenses	1,170	1,125
Other social security contributions	3,150	3,502
Total	49,984	51,930

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 members, CEO and senior executives in 2020, SEK thousands	Salaries / Board fees	Incentive Programme	Pension expenses	Other benefits	Total
Board members					
Henrik Tjernberg, Board Chair	500	–	–	–	500
Carl Bildt, Board member	185	–	–	–	185
Jan-Olof Backman, Board member	185	–	–	–	185
Peter Gille, Board member	–	–	–	–	–
Ann Hellenius, Board member	185	–	–	–	185
Linda Nyberg, Board member	185	–	–	–	185
Other senior executives:					
Joel Bollö, CEO	3,273	–	515	77	3,865
Other senior executives (1 person)	2,289	–	510	55	2,854
Total	6,802	–	1,025	132	7,959

Remuneration to Board members, CEO and senior executives in 2019, SEK thousands	Salaries / Board fees	Incentive Programme	Pension expenses	Other benefits	Total
Board members					
Henrik Tjernberg, Board Chair	500	–	–	–	500
Robert Ahlén, Board member*	93	–	–	–	93
Jan-Olof Backman, Board member	185	–	–	–	185
Carl Bildt, Board member	185	–	–	–	185
Katarina G Bonde, Board member*	93	–	–	–	93
Ann Hellenius, Board member	93	–	–	–	93
Linda Nyberg, Board member	93	–	–	–	93
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	8,149

* Resigned 2020.

** Elected 2020 – No fee paid in 2020; to be paid in 2021.

Note 8 continued

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 2020. 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 (maximum 20 persons). Participants are 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.

Pension

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 2020 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 2020, 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 notice period from the Company or the CEO for termination of employment is three months. 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

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Dividends from Group subsidiaries	–	–	5,476	3,721
Interest income	102	70	63	67
Exchange rate gains	3,365	5,566	2,871	5,401
Total Financial income	3,467	5,636	8,410	9,189

Note 10 Financial expense

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Interest expense	495	653	443	476
Exchange rate losses	9,290	3,868	8,684	3,538
Total Financial expense	9,785	4,521	9,127	4,014

Note 11 Tax

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Current tax	-6,052	-2,988	-3,226	-536
Deferred tax	–	620	–	–
Total tax expense recognised	-6,052	-2,368	-3,226	-536
Reconciliation of tax for the year				
Profit/loss before tax	22,314	7,462	20,203	5,307
Standard tax rate Sweden, 21.4 %	-4,775	-1,597	-4,323	-1,136
Effect of different tax rates in foreign operations	-1,203	-1,369	–	–
Non-taxable income	–	797	1 172	797
Non-deductible expenses	-74	-199	-74	-199
Tax expense	-6,052	-2,368	-3,226	-536
Average tax rate, %	27.1	31.7	16.0	10.1
Deferred tax in balance sheet				
Temporary difference relating to recognition of income over time in the USA (MSAB Incorporated)	–	598	–	–
Total	–	598	–	–

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.

Group, SEK thousands	2020	2019
Profit for the year after tax	16,262	5,094
Average no. of shares before dilution	18,468	18,468
Average no. of shares after dilution	18,468	18,468
Earnings per share in SEK before dilution	0.88	0.28
Earnings per share in SEK after dilution	0.88	0.28

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 Intangible assets

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
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	-2,356	-2,230	-2,356	-2,230
Depreciation for the year	-45	-126	-45	-126
Sales/disposals	–	–	–	–
Closing balance, accumulated depreciation	-2,401	-2,356	-2,401	-2,356
Closing balance, planned residual value	1	46	1	46

Note 14 Inventory, equipment, fixtures and fittings

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Opening balance, historical cost	11,145	9,546	10,509	9,038
Purchases	649	1,599	510	1,471
Sales/disposals	–	–	–	–
Exchange rate differences	–	–	–	–
Closing balance, accumulated historical cost	11,794	11,145	11,019	10,509
Opening balance, depreciation	-8,418	-7,208	-7,781	-6,700
Planned depreciation for the year	-1,200	-1,210	-1,061	-1,081
Sales/disposals	–	–	–	–
Closing balance, accumulated depreciation	-9,618	-8,418	-8,842	-7,781
Closing balance, planned residual value	2,176	2,727	2,176	2,728

Note 15 Participations in Group subsidiaries

Parent Company, SEK thousands	2020	2019
Opening balance, historical cost	404	404
Share capital, MSAB Japan K.K.	–	–
Closing balance, historical cost	404	404

SEK thousands	Number of shares	Corporate ID number	Capital and voting rights, %	Book value	Domicile	Equity	Profit/loss
Micro Systemation Ltd	1		100	–	England	3,997	2,139
MSAB Incorporated	3,000		100	6	USA	20,375	3,874
Micro Systemation Canada Inc	100,000		100	–	Canada	587	106
Micro Systemation Pty Ltd	100		100	1	Australia	1,680	547
MSAB Pte Ltd	1,000	201617865E	100	6	Singapore	-538	206
Micro Systemation HK Ltd	10,000		100	–	Hong Kong	-433	-51
– MSAB Technology (Beijing) Co., Ltd			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	2020	2019	2020	2019
Trade receivables	46,329	75,359	34,765	41,254
Reserve for doubtful trade receivables	-200	-200	-100	-100
Total	46,129	75,159	34,665	41,154
Age analysis trade receivables, SEK thousands				
Not yet due	25,877	45,124	22,619	29,107
Overdue 30 days	9,551	18,140	6,389	4,598
Overdue 31–60 days	3,652	6,486	382	5,754
Overdue 61–90 days	4,468	3,182	1,815	254
Overdue > 90 days	2,781	2,427	3,560	1,541
Total	46,329	75,359	34,765	41,254

Overdue trade receivables were SEK 20,452 (30,235) thousand. Total provisions for doubtful trade receivables were SEK 200 (200) thousand. Confirmed bad debt losses were 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 are essentially law enforcement agencies who pay the amounts they owe, although delays are not uncommon due to cumbersome administration. Hence, 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 2016–2020, the Group had no confirmed bad debt losses. In 2015, there was a bad debt loss of SEK 32,000, 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 2020 regarding the type of customer that would justify an adjustment to future probability.

Note 17 Pre-paid expenses and accrued income

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Pre-paid rent	210	220	210	220
Pre-paid insurance premiums	218	1,035	218	1,035
Pre-paid inventory purchases	183	928	183	928
Other items	7,382	2,603	4,480	2,408
Total	7,993	4,786	5,091	4,591

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 3 share classes. 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 10 votes and each Series B and C share entitles the holder to 1 vote. There are 1,000,000 Series A and 17,550,000 Series B shares. There are 622,000 Series C shares, all 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 Dec 2011. A trading lot in MSAB is one share.

Translation reserve

The translation reserve includes all exchange rate differences arising from translation of financial statements of foreign operations that prepare their financial statements in a currency other than the currency in which the Group's are presented. The Parent Company and the Group present their financial statements in Swedish kronor. Further, 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

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Accrued vacation pay	13,053	11,197	12,759	10,965
Accrued bonuses	4,392	3,715	3,573	2,370
Accrued social fees	5,022	4,190	5,022	4,190
Deferred income	40,131	46,070	18,771	18,318
Other items	3,726	2,683	1,899	2,590
Total	66,324	67,855	42,024	38,433

Note 21 Adjustments for non-cash items

	Group		Parent Company	
SEK thousands	2020	2019	2020	2019
Depreciation/amortisation	12,322	11,951	11,091	10,715
Unrealised exchange rate fluctuations	-90	440	-	-
Total	12,232	12,391	11,091	10,715
Interest received	-	0	-	65
Interest paid	-	-	-	-

	Opening balance 2020	Cash flow	Changes in new leases not affecting cash flow	Closing Balance 2020
Reconciliation of liabilities arising from financing activities, Group, SEK thousands				
Bank overdraft facilities	-	15,000		15,000
Lease liabilities	28,313	-10,567	1,597	19,343
Total liabilities arising from financing activities	28,213	4,433	1,597	34,343

	Opening balance 2020	Cash flow	Changes in new leases not affecting cash flow	Closing Balance 2020
Reconciliation of liabilities arising from financing activities, Parent Company, SEK thousands				
Bank overdraft facilities		15,000		15,000
Lease liabilities	26,402	-10,567	2,765	18,600
Total liabilities arising from financing activities	26,402	4,433	2,765	33,600

	Opening Balance 2019	Cash flow	Changes in new leases not affecting cash flow	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

Note 21 continued

	Opening Balance 2019	Cash flow	Changes in new leases not affecting cash flow	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 Dividend

As proposed by the Board, no dividend was distributed during the year due to the uncertain conditions prevailing world-wide related mainly to the Corona pandemic. The previous year, a dividend of SEK 2.20 per share was distributed, corresponding to SEK 40.6 million. MSAB's Board proposes that the Annual General Meeting decide on a dividend of SEK 2 per share. The proposal reflects the Company's strong financial position, the strong, global interest

in the Company's solutions, and confidence in continued strong growth during the year – despite the current pandemic.

The Company and the Board have carefully analysed the current situation with the ongoing pandemic as well as possible uncertainties in future cash flows and concluded that the Company is well-equipped to meet future challenges.

Note 23 Pledged assets and contingent liabilities

SEK thousands	2020	2019
Group		
Mortgage on overdraft	15,000	15,000
Mortgage on rental agreement	2,265	2,265
Total	17,265	17,265
Parent Company		
Mortgage on overdraft	15,000	15,000
Mortgage on rental agreement	2,265	2,265
Total	17,265	17,265

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	2020	2019
Available for distribution (Swedish kronor)		
Retained profit from the previous year	14,810,716	10,039,154
Share premium reserve	7,770,400	7,770,400
Net profit/loss for the year	16,976,860	4,771,562
Total	39,557,976	22,581,116
Proposed dividend	38,344,000	–
To be carried forward	-1,213,976	22,581,116
Total	39,557,976	22,581,116

Note 25 Related parties

Related party relationships

The Parent Company has a related party relationship with its subsidiaries, see Note 15. Information on remuneration to key personnel in senior positions, see Note 8.

	Year	Sale of goods/ services to related parties	Interest from related parties	Receivables from related parties 31 December	Liabilities to related parties 31 December
Summary of related party transactions, Parent Company, SEK thousands					
Related party relationships					
Subsidiaries					
Micro Systemation Ltd	2020	37,378		5,088	
MSAB Incorporated	2020	42,036		1,528	
Micro Systemation Canada Inc	2020	3,320		286	
Micro Systemation Pty Ltd	2020	10,886		873	
MSAB Pte Ltd	2020	18,825		3,259	
Micro Systemation HK Ltd	2020			2,004	
MSAB Technology (Beijing) Co., Ltd	2020				
MSAB Japan K.K.	2020	1,405	14	1,516	
Subsidiaries					
	2019				
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		

Related party transactions are priced on market terms.

Note 26 Significant events since the financial year-end

No significant events have occurred since the financial year-end.

Note 27 Inventory

Group, SEK thousands	2020	2019
Raw materials and consumables	–	–
Goods under construction	–	–
Completed goods and goods for resale	8,126	6,375
Rights to recover returned goods	–	–

The consolidated cost of goods sold includes an impairment of inventories of SEK 0 (0) after reversal of previously made impairments of SEK 0 (0).

Approval of financial reports

The consolidated accounts and annual accounts of Micro Systemation AB (publ) for fiscal year 2020 were approved for publication by the Board of Directors and the Chief Executive Officer on 20 April 2021. The consolidated accounts and the annual accounts will be put before the Annual General Meeting for adoption on 11 May 2021.

- 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, 20 April 2021

Henrik Tjernberg
Board Chair

Joel Bollö
Chief Executive Officer

Jan-Olof Backman
Board member

Carl Bildt
Board member

Peter Gille
Board member

Ann Hellenius
Board member

Linda Nyberg
Board member

Our Audit Report was submitted on 20 April 2021.

KPMG

Mattias Lötborn
Authorised Public Accountant

Auditor's report

To the Annual General Meeting of Micro Systemation AB (publ), Corporate ID no. 556244–3050.

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Micro Systemation AB (publ) for the year 2020. The annual accounts and consolidated accounts of the Company are included on pages 22–52 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the Parent Company as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of 31 December 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent Company and the Group.

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

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent Company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited Company or, where applicable, its Parent Company or its controlled companies within the EU.

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

Key audit matters

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

Revenue recognition

See Note 5 and accounting principles on pages 32–33 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

Net sales for the financial year 2020 were SEK 310.0 (307.6) million

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 an amalgamation of products and services. If a pledge regarding goods or service meet criteria for being "distinct", then it is a performance undertaking that shall be reported separately from other goods and services in the agreement. Income 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 can have a significant impact on when consolidated sales are reported, which affects consolidated profit and financial position.

Response in the audit

Our audit measures included but were not limited to:

- evaluation of the Group's principles for revenue recognition and review of compliance with these for respective material revenue streams
- obtain an understanding of essential transaction flows and for these, evaluation of the Group's significant controls for managing the risk for 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.

We have also audited the completeness in underlying facts and circumstances presented in the annual report and assessed whether the information is sufficient.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–21 and pages 56–64. The Board of Directors and the CEO are responsible for this other information.

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

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

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

Responsibility of the Board of Directors and the Chief Executive Officer

The Board of Directors and the CEO are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the CEO are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and

consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibility

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

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

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

the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

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

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

Report on other legal and regulatory requirements Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the CEO of Micro Systemation AB (publ) for the year 2020 and the proposed appropriations of the Company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Basis for opinions

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

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

Responsibilities of the Board of Directors and Chief Executive Officer

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

The Board of Directors is responsible for the Company's organization and the administration of the Company's affairs. This includes among other things continuous assessment of the Company's and the Group's financial situation and ensuring that the Company's organisation is designed so that the accounting, management of assets and the Company's financial affairs otherwise are controlled in a reassuring manner.

The CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the Company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

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

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Micro Systemation AB (publ)s by the general meeting of shareholders on 13 May 2020. KPMG AB or auditors operating at KPMG AB have been the Company's auditor since 15 May, 2019.

Stockholm, 20 April 2021

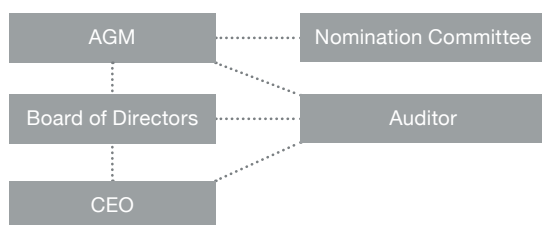
KPMG AB

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 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 may deviate from the Code provided that each deviation can be explained satisfactorily.



Annual General Meeting (AGM)

The AGM is the Company's highest decision-making body. The Company complies with the Swedish Companies Act for how the AGM is organised, how shareholders exercise their rights and what decision-making powers the AGM has. The AGM was held on 13 May 2020 on the Company's premises at 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
- re-election of Henrik Tjernberg as Board Chair, and re-election of Jan-Olof Backman, Ann Hellenius, Carl Bildt and Linda Nyberg, and election of Peter Gille as Board members
- election of KPMG AB, with Mattias Lotborn 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
- Re-election of Henrik Tjernberg and Erik Hermansson as members of the Nomination Committee and election of Leo Gillholm as a third member to be appointed no later than 30 September 2020. Erik Hermansson was appointed as Nomination Committee Chair.

The full minutes from the AGM are available on the Company's website, [msab.com](https://www.msab.com).

Share ownership

The Company's B share (MSAB B) is listed on the Nasdaq Stockholm exchange. The total number of shareholders on 31 December 2020 was 3,884. At the end of the period, Henrik Tjernberg held shares or votes exceeding 10 percent.

Nomination Committee

The Nomination Committee is elected at the AGM. The Nomination Committee for MSAB consists of Board members Henrik Tjernberg and Kenneth Andersen (Strawberry Capital). The Nomination Committee's Chair Erik Hermansson (Humble Kapitalförvaltning) advised during the year that due to a new situation at work, he could no longer be the Nomination Committee's Chair. In response, Wilhelm Grubberg (Alcur fonder) was offered and accepted the position of Nomination Committee Chair.

All Board members represent all of the Company's shareholders.

The Board and its work in 2020

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 and annual reports, and poses control questions on process descriptions and procedures prepared by senior management. The CEO and 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

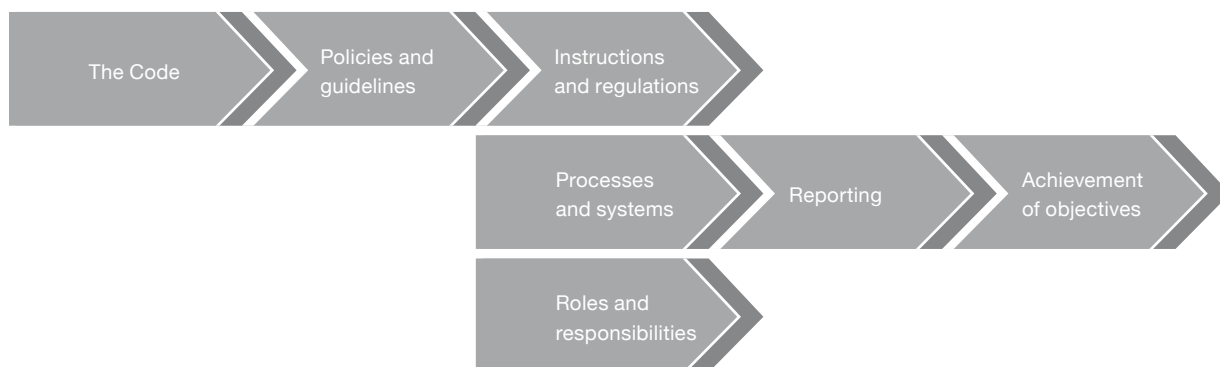
The Board continuously evaluates the CEO's performance within the framework of the regular work of the Board. The Board's evaluation has been performed partly via the Chair's reporting to the Nomination Committee on the Board's work and how it functions, and partly via jointly compiled surveys completed 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 2020, the Board held eight Board meetings in Stockholm.

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

Board 2020	Function	Elected	Independent	Attendance at Board meetings
Henrik Tjernberg	Chairman	1986	No	8 of 8
Jan-Olof Backman	Member	1999	Yes	8 of 8
Carl Bildt	Member	2016	Yes	3 of 8
Ann Hellenius	Member	2019	Yes	8 of 8
Linda Nyberg	Member	2019	Yes	8 of 8
Peter Gille*	Member	2020	Yes	5 of 5

* Elected to the Board at the 2020 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, 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 2020 AGM, the audit firm KPMG 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 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.

Sustainability

MSAB's mission is to deliver solutions worldwide 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. Hence, 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 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 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 works continuously on product improvements and packaging to meet customer requirements for the best tools.
- The speed of technological advancement 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 2021.

Remuneration of Board of Directors and senior executives

The Nomination Committee prepares proposals for Board remuneration. The fees are presented to the AGM for approval and are paid to Board members who are not Company employees. For the amounts of Board remuneration by fiscal year see 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 CEO. 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 (maximum 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 volu-

me-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 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 2020, 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 2020, 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. 5562443050

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 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 the review provided us 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, 20 April 2021
KPMG AB

Mattias Löfborn
Authorised Public Accountant

Shareholder information

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 MSAB proposes that the Annual General Meeting (AGM) approves a dividend of SEK 2 per share. The proposal reflects the Company's strong financial position, the strong interest in the Company's solutions globally, and confidence in continued strong development during the year – despite the current pandemic. The Company and the Board have carefully analysed both the current situation with the ongoing pandemic and any uncertainties in future cash flows and concluded that the Company is well-equipped to meet future challenges.

Annual General Meeting (AGM) 2021

The AGM will be held at the Company's offices at Hornsbruksgatan 28, Stockholm, at 18.00 hrs on Tuesday, 11 May 2021.

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 3 May, 2021, as per the instructions below.

Registration

Registration for participation must be received by the Company no later than 24.00 hrs on 5 May 2021; either via the form available at msab.com; by telephone (+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 names of any advisors (maximum 2 persons).

Advance voting

Shareholders may exercise their voting right at the meeting by voting in advance (postal voting) in accordance with Section 22 of the Act (2020:198) on temporary exceptions to facilitate the execution of general meetings in companies and other associations.

A special form must be used for advance voting. The form is available at www.msab.com. A shareholder who exercises his voting right through advance voting does not need to register specifically for the meeting. The advance voting form is valid as a notification.

The completed form must be received by Euroclear Sweden AB no later than Wednesday, 5 May 2021. The completed form must be sent to Micro Systemation AB, Annual General Meeting 2021, c / o Euroclear Sweden AB, Box 191, 101 23 Stockholm. Completed forms may also be submitted electronically and must then be sent to GeneralMeetingService@euroclear.com. Shareholders who are natural persons can also vote in advance electronically by verifying with BankID on MSAB's website. If the shareholder is a legal entity, a registration certificate or other authorisation document must be attached to the form. The same applies if the

shareholder votes in advance through a proxy. The shareholder may not provide the advance vote with special instructions or conditions. If this happens, the vote is invalid. Further instructions and conditions can be found on the advance voting form.

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 5 May 2021 to enable the re-registration to be completed in time.

Notice of the meeting

EA notice to convene the meeting will be issued no later than four weeks before the AGM in the Swedish Official Gazette 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, Chief Executive Officer
Tel: +46 8-739 02 70
Email: joel.bollo@msab.com

Financial calendar 2021

The AGM will take place at the Company's offices at Hornsbruksgatan 28, Stockholm, at 18.00 on Tuesday, 11 May 2021.

Interim report January–March 29 April, 08:00
Interim report January–June 22 July, 08:00
Interim report January–September 28 October, 08:00
Year-end report 27 January, 2022, 08:00

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 of 2020-04-22:

865,000 A shares, 55,522 B shares

Other Board assignments:

Board Chair at Tjernkraft AB, Flowscape Technology AB and Deputy Board member at Spinn-Y 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 of 2020-04-22:

181,310 B shares privately and via Company

Other Board assignments: Board member at 24Storage, Tagehus and Credentia



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 Internet Governance; Co-Chair European Council on Foreign Relations; Senior Advisor Wallenberg Foundations

Previous assignments: Prime Minister, Foreign Minister, Member of Parliament

Board member since: 2016

Shareholdings as of 2020-04-22: 0

Other Board assignments: Board member at Fastator AB, Bildt Global AB and Point Properties AB



Peter Gille

Board member
Independent in relation to the Company,
senior management and major shareholders
Born: 1962
Education: Uppsala universitet (Computer
Science) and Executive MBA at École des
Ponts Business School
Current employment: CEO, Cambio
Healthcare Systems
Previous assignments: Oracle, CEO Nexus
Technology.
Board member since: 2020
Shareholdings as of 2020-04-22:
8,000 B shares
Other Board assignments: Board member
at Swecare Foundation, XMReality AB,
Kvalprak AB



Ann Hellenius

Board member
Independent in relation to the Company,
senior management and major shareholders
Born: 1974
Education: University of Linköping
Current employment: Managing Director
Capgemini Invent Sweden and Finland
Previous assignments: CDO/CIO at Scandic
Group; CIO at Bankgirot; CIO på City of
Stockholm
Board member since: 2019
Shareholdings as of 2020-04-22: 0
Other Board assignments:
Board member at Volvofinans Bank AB,
Synsam AB and HSB Affärsstöd



Linda Nyberg

Board member
Independent in relation to the Company,
senior management and major shareholders
Born: 1969
Education: Uppsala University, University of
Alberta, Canada, Université de Sorbonne,
Paris
Current employment: Head of Marketing and
Business Development at Flaire AB. AniCura
Group Corporate Affairs and Brand Director
Previous assignments: Head of Marketing
and Business Development at Flaire AB, Head
of Marketing and Communication at Apoteket
AB, and Vice President Media Relations and
Online Communications, Essity (previously
SCA AB), journalist at SVT, TV3, TV4 and
Aljazeera
Board member since: 2019
Shareholdings as of 2020-04-22: 0
Other Board assignments: Board member at
C-Green Technology AB, Flaire AB and Elly
Media AB.

CEO & 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
Shareholdings as of 2018-04-22: 54,222 B shares



President, North America

Jansen Cohoon

Employed: 2010
Previous experience: Several management roles at MSAB within Business Development, Sales, etc; management positions within the American Dept. of Defence and Intel



Deputy Officer

Mike Dickinson

Employed: 2009
Previous experience: Management positions at Mouchel and Reliance, former police 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



CFO

Daniel Hilmgård

Employed: 2020
Previous experience: Head of Controlling at Bambora, CFO at Seamless Distribution (publ) and NaturalCycles



HR

Susanne Jegendal

Employed: 2009
Previous experience: Finance positions at ÅF and Combra



CPO

Bradley Sipes

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



COO

Per-Olof Stark

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



CMO och CCO

Carolén Ytander

Employed: 2020
Previous experience: Several senior positions within the finance and technology sectors

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History

1984

MSAB is founded by Bo Ericsson as a Company focussed on advanced data communication. Current Board Chairman Henrik Tjernberg is hired the following year.

1998

The first GSM-related product, SoftGSM, an entirely new software-based GSM modem, is launched. The same year, the Company carries out a first new share issue 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, over 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 products are merged under the brand Mobile Communication Suite. The first version of the SoftGSMXRY 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 the first training courses in forensics focussed on securing evidence from mobile phones.

2006

MSAB reports a profit of just over SEK 10 million. Fortune magazine describes XRY under the headline "How to get the most 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, corresponding to 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 for mobile forensics. The complementary product, XACT, which also recovers deleted data, is launched. Dagens Industri business newspaper names MSAB a Gazelle, i.e. Sweden's fastest growing Company of 2008. MSAB also makes the Technology Fast 500 list, where only companies demonstrating continuous profits and strong growth for at least five consecutive years are listed. 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 agencies to assimilate digital evidence faster and with greater precision.

2020

The latest versions of XRY support over 33,000 devices and app profiles, an increase of almost 20 percent. The Corona pandemic leads to MSAB switching to digital channels for meetings and remote training. The AGM decides not to distribute any dividends to shareholders.

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 faster 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

MSAB registers a subsidiary in China enabling local sales 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