

# ANNUAL REPORT 2017



FINGERPRINTS

# FINGERPRINTS IN BRIEF

# THE LEADING GLOBAL BIOMETRIC COMPANY

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

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

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

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

## VISION

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

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

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

In 2017, patent law firm Noréns rated Fingerprints as Sweden's most innovative company for the second consecutive year. Product development and innovation are our lifeblood, and patent protection is an essential part of our business. With our competence and curiosity, we want to keep Bo Löfgren's inheritance alive every day across our whole business, from Silicon Valley to Shanghai.

# 2017 IN BRIEF

**SEK 2,966 M**  
revenues (SEK 6,638 M)

**SEK 155 M**

OPERATING PROFIT  
(SEK 2,578 M)

**33 %**

GROSS MARGIN  
(48%)

**SEK 377 M**

CASH FLOW FROM OPERATING  
ACTIVITIES (SEK 1,130 M)

**0.38 SEK**

EARNINGS PER SHARE  
(6.40 SEK)

**10 billion**

Fingerprints' products are used over  
ten billion times a day

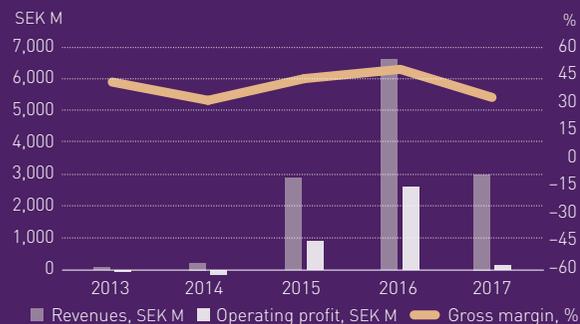
**1st**

place Sweden's most  
innovative company

**300**

smartphone models with  
Fingerprints' touch sensors

## REVENUES, OPERATING PROFIT AND GROSS MARGIN



## FIVE-YEAR SUMMARY

SEK M	2017	2016	2015	2014	2013
Revenues, SEK M	2,966.0	6,638.3	2,900.5	233.6	95.4
Gross profit, SEK M	988.9	3,165.3	1,255.3	71.6	39.2
Gross margin, %	33	48	43	31	41
Operating profit, SEK M	154.6	2,578.5	910.3	-145.2	-34
Operating margin, %	5	39	31	-62	-36
EBITDA, SEK M	234.0	2,627.1	953.7	-83.6	-21.4
Profit before tax, SEK M	141.8	2,613.5	910.0	-143.6	-32.9
<b>Net profit for the year, SEK M</b>	<b>120.3</b>	<b>2,034.7</b>	<b>798.3</b>	<b>-144.0</b>	<b>-32.9</b>
Earnings per share, SEK	0.38	6.40	2.53	-0.49	-0.12
Equity/asset ratio, %	67	64	60	71	87
Number of coworkers	558	438	254	175	80

“ Fingerprints’ fingerprint sensors are integrated in 300 smartphone models

## FIRST QUARTER

18

mobile devices with the company’s touch sensors launched by 13 OEM customers

- Contract signed to acquire Delta ID of the US
- Delivery of the world’s first fingerprint sensor on a smartphone keyboard for BlackBerry’s KEYone
- FPC1268 touch sensor integrated into Huawei’s P10 series

## SECOND QUARTER

19

mobile devices with the company’s touch sensors launched by 12 OEM customers

- For the first time, Fingerprints’ touch sensor is integrated by an Indian OEM
- New collaborations with module suppliers Fingerchip and A-Kerr (SPEED)
- The FPC1145 touch sensor is embedded in Huawei’s Matebook E PC

## THIRD QUARTER

27

mobile devices with the company’s sensors launched by 14 OEM customers

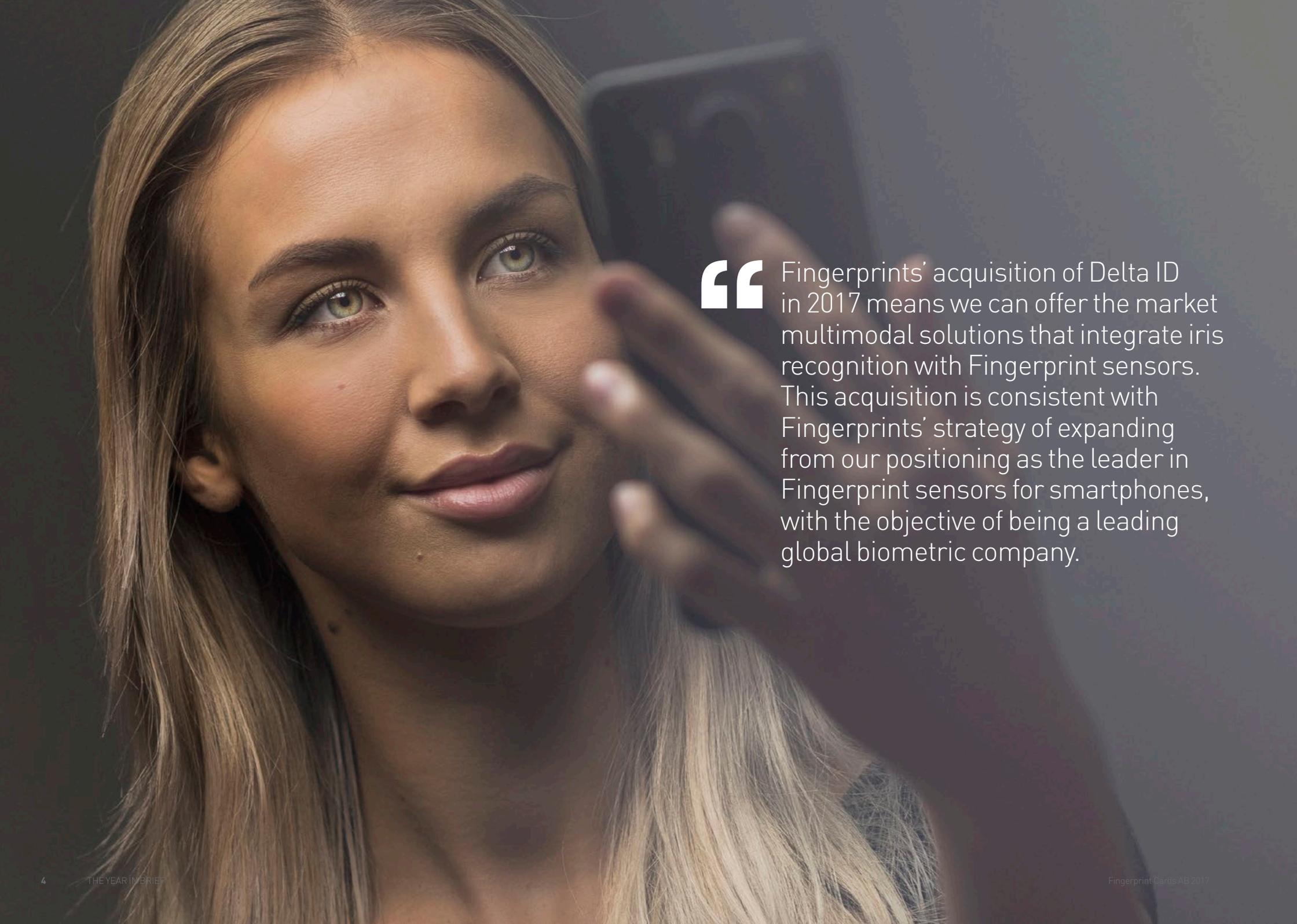
- Partnership with Qualcomm to integrate capacitive fingerprint technology into Qualcomm’s Snapdragon mobile platforms
- Membership of the Electronic Industry Citizenship Coalition (EICC) and Eurosmart
- Launch of T-Shape™ module design for biometric smart cards
- First product launch with the FPC1028 touch sensor

## FOURTH QUARTER

31

mobile devices with the company’s sensors launched by 13 OEM customers

- Two smartphones launched with multi-modality (ActiveIRIS® iris recognition and FPC fingerprint sensors)
- Collaboration with Idemia, a leading global vendor of charge cards, to develop the next generation of contactless biometric charge cards
- Partnership with NXP Semiconductors on contactless fingerprint-on-card technology breakthrough



“ Fingerprints’ acquisition of Delta ID in 2017 means we can offer the market multimodal solutions that integrate iris recognition with Fingerprint sensors. This acquisition is consistent with Fingerprints’ strategy of expanding from our positioning as the leader in Fingerprint sensors for smartphones, with the objective of being a leading global biometric company.

# FINGERPRINTS' VALUE CREATION MODEL

## BIOMETRIC SOLUTIONS FOR DIGITAL INTERACTION

### RESOURCES

#### INTELLECTUAL CAPITAL

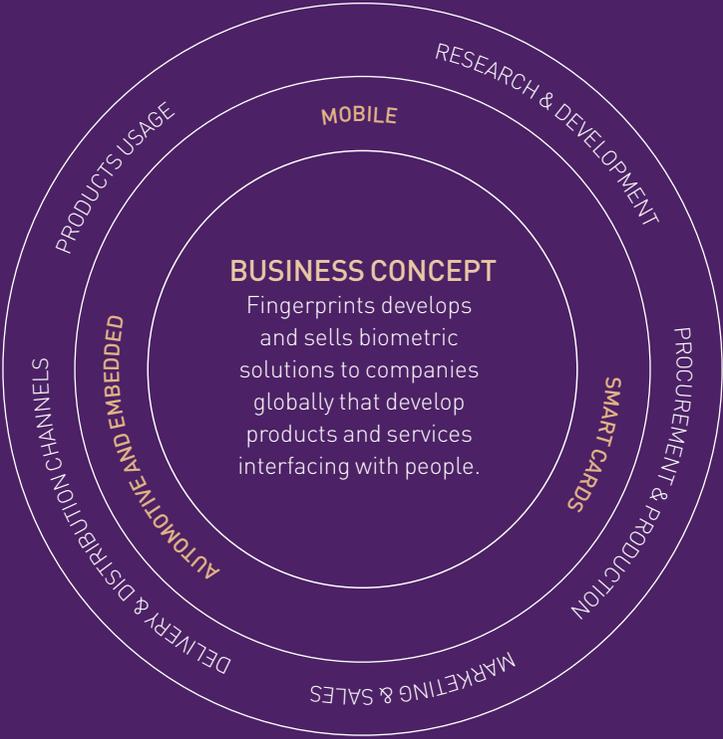
558 coworkers, 296 in R&D  
Patent portfolio

#### FINANCIAL CAPITAL

Cash and cash equivalents      SEK 920 M  
Development costs                    SEK 391 M  
Selling expenses                        SEK 237 M

#### SOCIAL AND RELATIONSHIP CAPITAL

- Customers
- Coworkers
- Shareholders
- Partners
- Suppliers
- Users
- Regulators
- Communities
- NGOs
- Academia



### PERFORMANCE

#### FINANCIAL

Customers, sales                              SEK 2,966 M  
Suppliers, manufacturing costs            SEK 1,977 M  
Employees, salaries                         SEK 406 M  
Public sector, income tax                    SEK 22 M  
Shareholders, dividends and buy-backs    SEK 0 M

#### SOCIAL

- For end-users  
Greater integrity and security  
95 models launched with Fingerprints' solutions
- For wider society  
More security for people and property, prevention of fraud and identity theft
- For coworkers  
Jobs are also created with Fingerprints' subcontractors

# MESSAGE FROM THE CEO

## A year when the conditions changed

The market for capacitive fingerprint sensors for smartphones has very rapidly evolved into a mature mass market with intense competitive pressure. We're focusing on driving cost-efficiency, while simultaneously developing new biometric technologies and expanding into new application segments.

2017 was a very challenging year for Fingerprints, when earnings were by no means satisfactory. Revenues fell by 55% to SEK 2,966 M, while our operating margin narrowed to 5%, from 39% in the previous year. The market for capacitive fingerprint sensors for smartphones, which makes up most of our business, has very rapidly evolved into a mature mass-market with intense competitive pressure. Demand did not increase to the extent that we, or Independent sector commentators, expected at the beginning of the year.

Our addressable market in the smartphone segment, expressed in volume terms (unit sales of smartphones equipped with fingerprint sensors excluding Apple), amounted to some 700 million units in 2017. Our full-year market share for 2017 was some 40%.

However, in the first half-year, a considerable share of demand was addressed by dis-

tributors and module suppliers progressively reducing previous stockpiling rather than placing new orders for sensors. This inventory dynamic impacted our earnings negatively in the first two quarters of 2017. Inventory levels didn't normalize in the value chain until mid-year, when the influx of new orders increased. However, the smartphone market is exceptionally dynamic and fast moving, and we experienced a significant shift in our product mix in the second half-year. Another clear change is that premium-segment smartphones are increasingly being equipped with smaller and cheaper sensors. We are also noting a trend towards smartphone displays covering chassis fronts completely. This tendency has meant many of our OEM customers transitioning to rear-mounted sensors, which have lower pricing. Overall, the average pricing of smartphone sensors was down by some 30% in the year.

Several external commentators estimate that smartphone deliveries on the Chinese market were down somewhat in the year compared to 2016. We think the Chinese smartphone market slowed further towards year-end.

I expect negative price progress to continue in 2018, and that in value terms, the market for smartphone fingerprint sensors will contract in 2018. All our major Chinese OEM customers are now using dual/triple sourcing strategies, firstly to guarantee their volumes, and secondly to strengthen their price negotiating position. We have fared well against the competition over business volumes, even if our market share was down on the previous year. This is a natural consequence of being active on a rapidly maturing market. Meanwhile, I want to emphasize that our ambition is to retain leadership in this segment, simultaneous with shifting the cen-

ter of gravity of our investments towards new, emerging biometric markets. In the smartphone segment, our investments will primarily target cost-efficiency by developing new, updated sensors that deliver high-performance and security at a competitive cost.

### 2018—A YEAR OF ADAPTATION

While we see major potential to grow in new segments—not least biometric smart cards—it will take some time before we achieve significant business volumes outside our core business of smartphones. 2018 will be a challenging year for Fingerprints because we'll be operating in harsh business conditions on the mobile side, simultaneous with investing for growth in new focus segments.

As previously announced, we initiated an extensive action plan at the beginning of 2018 to adapt the company's cost base to

“ Our objective is for new segments to make up some 10% of sales in 2018, as we diversify our business.

rapid changes in the market and ensure the company's long-term development and success. This will involve us downsizing our workforce by some 185 positions, while also reducing our external expenses. We estimate these measures will achieve cost savings of some SEK 360 M in 2018, taking effect in the second quarter. At the same time, we're realigning our resources to ensure we have a sharp enough focus on new growth segments, and that our organization is shaped to be able to compete successfully on an expanding global biometrics market. About half of our R&D investments already relate to initiatives designed to develop new biometric technologies and expand in new, promising applications in various sectors.

#### **STRONG POSITIONING TO CREATE SUSTAINABLE VALUE IN NEW SEGMENTS**

Biometrics made its true global breakthrough in mobile telephony. Fingerprints was one of the segment's pioneers, and our business in capacitive fingerprint sensors

for smartphones represented some 95% of our total sales in 2017. Our objective is for new segments to make up some 10% of sales in 2018, as we diversify our business into new growth segments. The rapid evolution of mobile telephony has also revealed the opportunities that biometrics presents in a raft of other application segments, which is now starting to translate into a growing number of development initiatives, market tests and product launches. We are well positioned to secure long-term advantage from this process. This includes new applications for our existing technology, and developing solutions based on new biometric modalities.

#### **NEW APPLICATION SEGMENTS**

Our technology in capacitive fingerprint sensors is tried and tested and something hundreds of millions of smartphone users appreciate worldwide. The fundamental technology can be adapted, enhanced and then applied in all-new segments like biometric door locks, which have sales of several million units every year in China alone.



## BIOMETRIC SMART CARDS—THE NEXT MASSMARKET

But in our view, the segment offering the greatest potential in the coming years is biometric smart cards. The potential market is huge, with some 4 billion smart cards (cards with chips) produced every year. About 3.5 billion of them are charge and credit cards, with the remainder being entry cards, ID cards and loyalty cards.

The combination of the scale of the global card market and the substantial benefits inherent in implementing biometric authentication in the payment segment, mean that smart cards have every prospect of becoming the next biometric mass market. The idea of replacing PINs with a fingerprint sensor in charge cards has been around a long time and was actually the foundation of this company (hence our name: Fingerprint Cards).

Even if it will still be some time before we achieve significant commercial volumes, there are clear signs that the market is starting to gather pace, with several market test programs executed and planned. For example, at the beginning of 2018, we announced a partnership with Visa on the first market test of contact and contactless biometric charge cards in the US, in partnership with Mountain America Credit Union. We are also witnessing how card

“ The fundamental technology can be adapted, enhanced and then applied in all-new segments like biometric door locks, which have sales of several million units every year in China alone.

brands have become more active in their communication and marketing about biometric cards, towards groups including retailers, where the advantages of smoother, faster and more secure payments are substantial.

Tests on a number of major markets, not only North America and Europe, but also Asia, are being executed in 2018. These moves are an important step in evaluating and qualifying various systems for the next phase of the process, the certification of technology solutions. Although the brands are in different stages of the process, much of the evidence indicates that the first certification process may be complete in late-2018. This will be a momentous milestone and may create an all-new volume market for Fingerprint's biometric solutions.

Fingerprint has well-established partnerships with several of the major card producers, such as IDEMIA and Gemalto (via Zwipe). We also started partnering with NXP

Semiconductors late in the year on their new contactless fingerprint-on-card technology breakthrough. We launched T-Shape™, an ultra-thin sensor module optimized for integration in smart cards, compliant with the applicable sector standard, in 2017. This is the lowest-current module on the market, with very positive contactless charging characteristics, a fundamental criterion for functional biometric contactless cards. We are already geared up to deliver commercial volumes.

### BIOMETRICS IN MORE SEGMENTS

We are also seeing a significant growth in interest in biometric solutions across an array of other segments where secure and user-friendly authentication is critical. To some extent, this is being driven by the growing Internet of Things (IoT), which accentuates the need for secure and user-friendly systems to verify user identities. The automotive industry is a good example,

where biometrics can help deliver individually tailored functionality that improves security and convenience. This is an important focus for Fingerprint.

In January 2018, we entered an exclusive collaborative agreement with Gentex, a leading automotive industry technology vendor, to jointly develop biometric systems that can authenticate drivers using iris scanning. When the driver's authorization to use the vehicle has been verified, the vehicle can start and its compartment modify automatically, including mirrors, steering wheel settings, seat positioning and satnav systems.

### DEVELOPING AND EXPANDING OUR BIOMETRIC TECHNOLOGY PORTFOLIO

Our strategic partnership with Gentex in the automotive industry is based on ActiveIRIS®, our iris recognition technology. This is a practical example of the strategy of expanding our biometric technology portfolio. In March 2018, we were able to announce our next step—we will be offering a facial recognition solution. This solution will be for smartphones initially, but because Fingerprint is expanding into new application segments across various sectors, it will also be suitable for customers in other fields.

Our objective is to be the leading biometric company, which requires us to continuously develop and enhance our technology. This is about building out our fingerprint sensing technology and adding specialist technology in other segments. Different biometric modalities have different characteristics, as well as unique advantages and disadvantages, making them more or less suitable for different application segments. Meanwhile, there is great potential in combining several modalities into a single application. This also enables greater security for especially sensitive systems or applications, through multi-stage authentication, for example. But it can also enhance user-friendliness by offering more authentication options for different situations.

In 2017, we were able to announce our first commercial multimodality launch, in the form of a smartphone that integrates a fingerprint sensor and iris scanning from Fingerprints. The development of multimodal solutions is a critical precondition for becoming a leading biometric company. Secure cloud solutions for central biometric matching are another important component, not least in terms of implementing biometrics in smart cities. We have developed a high-security solution for this application, for fingerprint and iris recognition, and I'm looking forward to being able to sign

“ The development of multimodal solutions is a critical precondition for becoming a leading biometric company.

Fingerprints' first commercial deal in this segment as soon as in 2018.

Our in-display fingerprint recognition technology is another priority development segment. By applying unique ultrasound technology that Fingerprints is developing, fingerprint recognition will become even more user-friendly. Our ambition is to enable users to authenticate themselves by placing their fingertips anywhere on a smartphone screen. This eliminates the need for a physical button. It also contrasts with other in-display sensor technologies, where fingerprints can only be read in a small dedicated section of displays. This technology will serve as the foundation for the continued development of a new generation of fingerprint sensing products, in collaboration with new and existing partners.

### **SUSTAINABLE BUSINESS DEVELOPMENT**

Fingerprints' operations contribute to sustainable development and have a positive social impact, not least through our product portfolio creating value for customers,

users and wider society, through secure identification and authentication in an increasingly vulnerable digital environment. In this way, our solutions also contribute to reducing the risk of fraud.

It's also important that we ensure our business is conducted within ethical guidelines. As a member of the UN Global Compact, Fingerprints stands wholeheartedly behind all its principles in human rights, labor, the environment and anti-corruption. Our sustainability goals are aligned to the UN's Global Sustainable Development goals.

In 2017, we brought our sustainability work onto a more strategic footing and enhanced our controls by integrating sustainability right across our business. Fingerprints executed a structured stakeholder and materiality analysis in 2017, which served as the foundation for new sustainability goals for 2018-2020. Read more about this on pages 26-31.

We'll be streamlining our organization in 2018 and continuing to realign our business towards new segments. I know this will

involve difficult changes for many of our coworkers, but adaptation is essential to protect our competitiveness. I'd like to take this opportunity to thank all our employees for their hard work and commitment in a challenging 2017.

**GOTHENBURG, SWEDEN, APRIL 2018**

Christian Fredrikson  
CEO & President

# OUR BIOMETRIC WORLD

## A technology that will transform society

Biometrics identify people using their characteristics. These characteristics may be physiological, but habits and behaviors can also be applied to human-machine interaction.

Fingerprints, faces, irises, voices, hand or blood vessel patterns are all biometric identification methods. In many senses, biometrics are the perfect way to identify and authenticate a human because the method is with the user—always and everywhere.

### **FINGERPRINTS—AN ANCIENT IDENTIFICATION METHOD**

Spirals, stripes and papillary lines—fingertips and palms have been used to identify individuals since before the modern era. The papillary layer contains papillae, whose functions include keeping skin in place. The papillae are larger in those places where the skin is thicker, forming tiny ridges, which is what creates our fingerprints.

By the mid-19th century, British colonial civil servant William Herschel's Bengali workers were signing for their wage and pension payments with fingerprints. But

history doesn't reveal whether it was Herschel himself that had the idea, or if the method was a Bengali tradition. What is clear, though, is that his intention was to prevent illiterate workers from accruing double salary payments.

Meanwhile, in the same period, Henry Faulds was working as a colonial physician in Tokyo. He observed fingerprints on antique Japanese ceramics, reporting his observations in scientific journal *Nature*. He proposed that because every individual retains their unique pattern for their whole life, fingerprints could be used to register criminals. Herschel also wrote an article for the same periodical, so exactly who had the idea first is open to debate.

About ten years later, anthropologist Francis Galton created the first system to classify fingerprints. He worked from the delta—the triangle form present in all fin-

gerprints, then classified patterns after the type of spiral, loop or curve. Edward Henry, Herschel's successor who was working as an administrator in India, assisted him. Scotland Yard started to use the Galton-Henry system, as it came to be known, in 1901. Even today, most countries use methods based on the same system. Fingerprints still retain very high evidential value in criminal investigations, but obviously, have many other applications.

### **IRIS RECOGNITION—A BIOMETRIC METHOD THAT STANDS THE TEST OF TIME**

The eyes are one of the most sensitive organs in the human body. They can be so spellbinding that they make us completely lose our perception of time and space. This may be one of the reasons our eyes never

lie. If we like someone, our pupils dilate, and if we don't, they contract.

Iris is the Greek word for rainbow. The rainbow membrane, or iris, is a thin, circular pigmented tissue that controls the amount of light falling on the retina. Iris recognition is one of the most effective biometric identification methods thanks to its permanence. Irises start to take on their structure two months after birth and adopt their final form after about one year. Frank Burch had the original idea of iris recognition as an identification method back in 1936. However, it did not become practical until several years later, when John Daugman of Harvard University created the algorithms that are the foundation of contemporary biometric iris recognition.

## BIOMETRICS—A TECHNOLOGY THAT TRANSFORMS AND CREATES VALUE IN SOCIETY

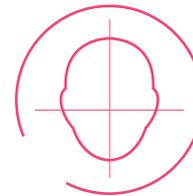
Biometrics are being applied in a growing number of segments and will transform our society in many ways. The need for secure authentication is growing as digitalization proliferates, with the IoT. This means we also need to remember more PINs and passwords. But they can be replaced using biometrics, which can improve security, saving time and making life more convenient. But we also know that biometrics bring everyday benefits at another level for many people worldwide. They can even help safeguard the rights to personal identities, as in a system called Aadhaar, which ably demonstrates the value of biometrics. Aadhaar is a rational, digital identification system issued by the Unique Identification Authority of India (UIDAI) an Indian Govern-

ment authority. By scanning fingerprints and irises into a biometric database, people's 12-digit ID numbers associate with their fundamental identity data such as name, address, date of birth and sex. This ID number becomes their personal identifier anywhere in India. Every individual, regardless of age and sex that is resident in India and satisfies the verification process stipulated by the UIDAI, can register with Aadhaar.

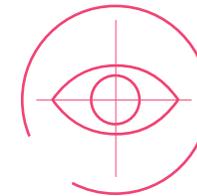
In other spheres, biometrics help reduce the risk of fraud. The rapid evolution of smart cards and payments using biometrics are evidence of the world's need for more secure payments. But regardless of context, we want to be there, helping create a more secure world—a biometric world.

“ The need for secure authentication is growing as digitalization proliferates with the Internet of Things.

## BIOMETRIC MODALITIES



Face



Iris



Voice



Palm blood vessel pattern



Finger blood vessel pattern



Fingerprint

“ Biometric smart cards have every prospect of becoming the next biometric mass market.



## MARKET AND TRENDS

# Biometrics—an expanding global market

In recent years, smartphone fingerprint sensors have evolved into a mature mass market. Simultaneously, biometrics are being applied across an array of new segments.

There is a pressing need for biometric verification and authentication methods, which is continuing to grow with the IoT. In our view, the big advantages of biometrics mean that this technology is now proliferating into a wealth of new segments, notably cards and payments.

### **CAPACITIVE SENSORS IN SMART- PHONES AND TABLETS—A MATURE MASS MARKET**

Fingerprint sensors for smartphones and tablets have evolved into a mature mass market very rapidly, with more competition and falling pricing. At present, some 60% of smartphones have integrated fingerprint sensors. As the pricing of sensors declines, devices in lower-end price segments are increasingly integrating them. Sensors are mainly used to unlock phones, make pay-

ments and control access to apps. Generally, security and user-friendliness are considered the biggest positives of biometric ID technology.

The total market for capacitive smartphone and tablet fingerprint sensors in 2017\* was some 700 million units. Fingerprints' market share for the full year was some 40% at the OEM level. A number of concurrent technology trends and uncertainty factors caused Chinese smartphone manufacturers to take a more hesitant approach in the year than previously.

Fingerprints are the most common biometric modality in smartphones. Capacitive sensors dominate the market, although more sector players are developing optical or ultrasound-based sensors. The purpose of these in-display sensors, as they are known, is to enable more complete integra-

tion of fingerprint sensors into device displays. This enables display sizes to be maximized, so displays cover the whole of the smartphone chassis front, while still embedding fingerprint recognition functionality. The first large-scale in-display sensor launches were announced at the end of 2017. If the technology gains a positive reception with end-users, the demand for capacitive sensors for mobiles in the premium segment may be adversely affected.

In tandem with this progress, we are seeing how fingerprint sensors are starting to be supplemented by alternative biometric modalities, such as face and iris recognition. Apple's introduction of facial recognition in one of its iPhone models in fall 2017 triggered significantly increased interest in this touchless technology. Fingerprints

expect that this modality will become more widespread, i.e. that phones or tablets utilize fingerprint recognition, as well as one or more other biometric technologies.

### **BIOMETRIC SMART CARDS—AN APPROACHING MASS MARKET**

Much of the evidence suggests that biometric smart cards—mainly charge cards—with user fingerprints replacing PINs, will become the next major biometrics market, the primary drivers being:

- User-friendliness—payments should be easy, quick and convenient
- Security—security standards for card payments are becoming ever more stringent, while greater security cannot be a threshold against ease of use.
- The need for contactless cards with higher transaction limits

\* Excluding Apple

- Biometric charge cards may be the key to reducing the incidence of fraud
- New potential for innovation and revenue for card producers, issuers and other market participants

Fingerprints' definition of the smart card market is all cards with chips. The yearly volume of new cards is some 4 billion units, of which 3.5 billion are charge cards. Half of new cards have dual interfaces, supporting contact and contactless transactions. Much of the remaining volume consists of ID cards and access cards to open doors and log in on devices. Half of new cards manufactured are dual interface, supporting contact and contactless payment transactions.

Card manufacture is dominated by three major players, which control some 70% of the market— Gemalto of the Netherlands, Idemia of France and Giesecke & Devrient of Germany. Charge cards are issued by banks, who have contracts with credit providers who serve as transaction intermediaries. Visa, MasterCard and China UnionPay represent some 80% of this market. The

chip providers for cards are a fourth player, although this segment is also dominated by a small cluster: NXP, Infineon and ST.

In 2017, card manufacturers, issuers, chip producers, biometric companies, and collaborative and certification bodies were highly active in their efforts to get the conditions in place for creating a mass market for biometric charge cards. Several market test schemes were executed and prepared for 2018, which marks another milestone towards the creation of a mass market for biometric cards. However, it will be some time before market volumes are expected to be comparable to those currently in smartphones.

#### **AUTOMOTIVE & EMBEDDED**

The market for biometrics in the automotive sector and other embedded system solutions covers a large and growing array of application segments. Potential applications include vehicles, locks, entry systems, manufacturing technology and medical devices, as well as everyday home usage.

“ The market for biometrics in the automotive sector and other embedded system solutions covers a large and growing array of application segments.

The growing IoT accentuates the need for secure and user-friendly systems to verify personal identities. Obviously, there is also a need to identify individuals quickly and easily, for entry systems in airports, hospitals and workplaces. Overall, this means systems need to be user-friendly, cost-efficient, and obviously, secure.

This is urging the need for biometric solutions. In this segment, most progress has been made in Asia, notably in the demand for door locks with integrated fingerprint sensors.

Biometric vehicle solutions can be applied in different ways, and associated with different functionality—access, personal settings such as driving positions,

infotainment or mileage reporting, leasing, linking to insurance, etc. The implementation of biometrics in vehicles is expected to start in the higher-end segments.

A woman wearing a headset is holding a silver smartphone. The background is a blurred red wall. The text is overlaid on the left side of the image.

“ Multimodality—fingerprint sensing supplemented by other biometric technologies—is becoming more common.

# PRODUCTS AND SOLUTIONS

## An offering that creates benefit

Fingerprints delivers a strong product portfolio of biometric system solutions that help create easier and more secure everyday lives for its users. At present, most of Fingerprints revenues are generated from sales of the company's biometric system solutions based on fingerprint verification.

Apart from smartphones, currently the largest application segment for the company's products, Fingerprints' solutions are also applicable to product segments like smart cards, vehicles and the IoT.

The portfolio comprises over 20 different products. Fingerprints' biometric systems solutions are protected by extensive patents. We are always endeavoring to obtain a balanced and high-growth patent portfolio extending from algorithms, through biometric image processing to sensors and hardware packaging technology.

### BIOMETRIC SYSTEM DEVELOPMENT IN FOUR DIMENSIONS

Fingerprints' development of fingerprint sensors is integrated across four focuses: developing algorithms, software develop-

ment, hardware development of biometric sensors, and packaging.

#### Algorithms—reading unique biometric patterns

Algorithms are the software that optimizes image quality and executes image processing that finds the information in images, which in the case of fingerprint sensors, are images of the fingerprint sourced from the chip. There is a continuous development process to increase the utilization of information from progressively smaller chips in a growing array of packaging options, i.e. sensor location and embedding solutions under different materials. Our in-house algorithm competence enables partnerships with customers, and accordingly addresses these requirements of biometric development.

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

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



#### Developing fingerprint sensors—the hub

The hardware development of fingerprint sensors focuses on functionality and design solutions in the creation of the sensor. For fingerprint sensors, this translates to chip area and thickness, power consumption and the capability to detect images through different types of material.

#### Packaging—physical integration

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

Fingerprints operates through three business lines, focusing on the Mobile (smartphones and tablets), Smart Cards (cards, mainly charge cards) and Automotive & Embedded (automotive industry, IoT etc.) segments.

#### MOBILE

The product portfolio in the smartphone/tablet segment is multi-faceted and broad-based, comprising solutions for all price levels, from low-end to premium.

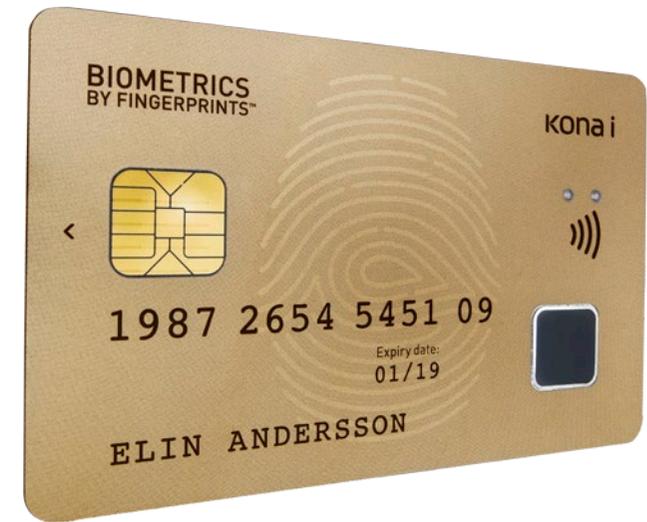
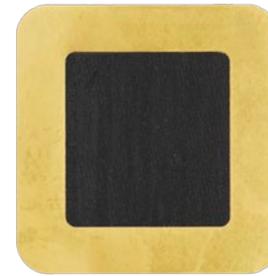
Low-end solutions are largely standardized, unlike the premium segment, where our products are generally delivered with more tailoring and unique system solutions. Fingerprint sensors can be delivered in a variety of sizes and with different surface coatings for easy integration into end-products. Design diversity confers flexibility facilitating sensor location in product design. In smartphones, sensors can be placed on chassis fronts, rears or on the side of units with pigmented surface coatings, adapted for placement under glass or ceramic surfaces. Most of our shipments to customers involve hard and software adaptation. Fingerprints has a dedicated function supporting end-customers, such as smartphone manufacturers, in adapting their solutions. This enables differentiated functionality.

#### SMART CARDS

In 2017, Fingerprints launched the T-Shape™ sensor module, optimized for integration in smart card conforming to the relevant sector standards, and ready for contemporary efficient mass production processes. It is designed to satisfy ISO smart card standards, and functions for contact and contactless cards. T-Shape™ is the market's lowest-current module, with very good contactless charging characteristics, which is the fundamental criterion for functional biometric contactless cards.

#### AUTOMOTIVE AND EMBEDDED

Automotive & Embedded includes solutions for the IoT and automotive industry. Example applications include door locks, entry systems, home electronics, smart watches and vehicle dashboard functionality.



Automotive solutions based on FPC-BM (plug and play module) or Active IRIS, Fingerprints' iris recognition technology, can be applied in several locations such as doors, keys, steering wheels, dashboards or integrated in rear-view mirrors. In January 2018, Fingerprints entered an exclusive collaborative agreement with Gentex, a leading automotive industry technology vendor, to jointly develop biometric systems capable of authenticating drivers using iris recognition. Once the driver's rights to use the vehicle have been verified, the car can start and the passenger compartment adapted automatically, including mirrors, steering wheel settings, seat positions and satnav systems.

**T-Shape™ is the lowest-current module on the market.**

## KEY FACTS—ACTIVE IRIS

### CONVENIENT AUTHENTICATION AND IDENTIFICATION

- The world's first iris recognition technology with mass market-ready production
- The combination of advanced iris recognition software and simple, low-cost and easily integrated hardware that enables usage in mobile devices
- When the user activates the iris system, the irises of both eyes are scanned in less than 150 milliseconds, then compared to stored templates to verify the user.



### TOUCHLESS—THE ROUTE TO SECURE BIOMETRIC MULTIMODAL SOLUTIONS

Fingerprints is the leading—and currently only—provider delivering fingerprint sensors and iris recognition in a single multimodal solution for smartphones. At present, the core of our customer base is in India, Japan and the US. Apart from applying this technology in smartphones, we see substantial potential across a number of other identification segments. Fingerprints' solutions, which combine fingerprint recognition with iris recognition, create twofold authentication systems that bring greater security and convenience to the user.

There are multiple factors driving the market at present, and this technology is applied in situations where quite simply, touchless is more suitable. This may be solutions in vehicles, secure entry and exit systems, or other applications with especially stringent security standards. For our consumers, iris identification technology means speed, user-friendliness and high security. For our customer base (OEMs,



R&D resources realigning from capacitive sensors for smartphones to other technologies.

mobile phone manufacturers), the solutions are cost-efficient and easy to integrate. Fingerprints expanded in this segment in 2017, launching multimodal solutions that include iris recognition technology. As announced in March 2018, Fingerprints is now expanding its portfolio in touchless by developing a facial recognition solution. This solution is being developed for smartphones initially, but may also be offered to customers in other segments.

### In-display—technology in development

A growing share of Fingerprints' R&D resources have been realigned from capacitive sensors in mobiles to other technologies, one of which is in-display sensor technology. Fingerprints is developing an ultrasound-based in-display fingerprint recogni-

tion technology, with the aim of enabling fingerprints to be read anywhere on the displays of smartphones or other devices, eliminating the need for physical buttons. This also contrasts with other in-display sensor technologies, where fingerprints can only be read in a small dedicated section of the display. We see multiple application segments, but our primary focus is on high-end smartphones. Fingerprints expects to collaborate with key customers in the first half-year 2018 to continue developing this technology and then bring it to the mass market.

\*Source: Noréns patent law firm.

A close-up photograph of a person's hands using a fingerprint card on a payment terminal. The terminal is a dark grey handheld device with a screen displaying "PAYMENT ACCEPTED" and "ML30". The person is holding the terminal in their left hand and the fingerprint card in their right hand, with their thumb on the card's sensor. The card is pink and features a fingerprint, a gold chip, and the text "FINGERPRINTS", "1234 5678 9101 2345", and "ANDERSSON GEBLIS 02/19". The background is a blurred car interior.

## The launch of T-Shape™

“ The launch of our module design T-Shape is a big step towards mass production of biometric smart cards.

# BUSINESS CONCEPT, OBJECTIVES AND STRATEGY

## Focusing on diversification and expansion into new segments

By managing the unique qualities of biometrics, Fingerprints provides solutions for simpler and more secure everyday lives. Operations are based on responsiveness to market needs, professionals with specialist competence, financial capital and long-term relationships.

### **A STRATEGY FOR LONG-TERM PROFITABLE GROWTH IN BIOMETRICS**

Fingerprints delivers biometric solutions that increase security and create value in users' everyday lives. To drive the biometric market and satisfy the world's need for secure biometric solutions, Fingerprints is upscaling investments in segments beyond smartphone capacitive fingerprint sensors and putting more focus on innovation for the continued strength of its patent portfolio, innovative products and long-term profitable growth.

### **FROM A SEMICONDUCTOR PRODUCER TO A BIOMETRIC COMPANY**

In recent years, Fingerprints has been a driving force in creating the first mass market for smartphone fingerprint sensors. We are the world's leading vendor of fingerprint sensors for this segment, a volume market

with a continuously increasing share of handsets equipped with fingerprint sensors and other biometric solutions.

We are now seeing how the major advantages of biometrics are causing the technology to proliferate into other segments. Fingerprints is extremely well positioned to benefit from the expanding global biometrics market.

Simultaneous with us continuing to focus on developing our core business—volume deliveries of capacitive mobile phone fingerprint sensors—we are realigning a growing share of our resources to new segments. Over half of our R&D expenditure is associated with initiatives designed to develop new, biometric technologies and expand in new, promising growth segments in different sectors. Our objective is that in 2018, 10% of our revenues will be sourced

from segments outside capacitive fingerprint sensors for mobile phones.

Our solutions can be applied across a raft of segments in different sectors, and are embedded in products including mobile phones, tablets, computers, mice, locks and smart cards.

Priority segments:

- Smartphones
- Smart Cards
- Automotive & Embedded

### **ENHANCING OUR TECHNOLOGY PORTFOLIO**

At present, Fingerprints is focusing on fingerprint and iris recognition, simultaneously with continuously evaluating other biometric modalities, and we are developing multimodal solutions in tandem with this process. Multimodality offers greater security and user-friendliness. The first product

embedding a multimodal solution based on iris and fingerprint technology launched in 2017. Fingerprints is currently the only provider of multimodal solutions that combine fingerprint and iris recognition, with market-leading security. The acquisition of Delta ID, completed in 2017, supports Fingerprints' ambitions to expand its customer base, regions and sectors where the company is active.

We are also conducting a high-priority development project in ultrasound technology, with the aim of enabling fingerprints to be read anywhere on the display of a smartphone or other device. Fingerprints expects to collaborate with key customers in the first half-year 2018 to continue developing the technology and then bring it to the mass market.

“ Fingerprints is well positioned to benefit from the expanding global biometrics market.

#### Expansion in new application segments

Fingerprints sees great potential in utilizing the company's economies of scale and experience of mass production of sensors in its expansion into new customer segments. The market we judge to offer the greatest potential in the short term is smart cards, with some 4 billion cards manufactured every year. Fingerprints also sees potential in the IoT, i.e. Internet-connected devices, the automotive industry, the care sector and the industry in entry and attendance systems. Several million biometric door locks are already sold every year in China.

The interest in Fingerprints' smart cards offering is high and growing, even if it will take time before expected market volumes become comparable with those currently in smartphones. Fingerprints started shipping small-scale commercial volumes of fingerprint sensors for access cards in 2017. We expect that commercial deliveries of smart cards with fingerprint sensors may get underway in 2018, with volumes then grad-

ually increasing. Fingerprints is in a very strong starting position as the market for biometric smart cards enters its next phase.

We took a major step towards high-volume production of Fingerprints' sensors for smart cards through the launch of our new module design T-Shape™ in 2017, which is distributed in a format compliant with sector standards for smart cards and compatible with card manufacturers' existing production infrastructures, contributing to lower overall cost. Cards also become aesthetically pleasing thanks to the module being ultra-thin and compact. T-Shape™ is the lowest-current module on the market, with very positive contactless charging characteristics. The module is already ready for commercial volumes, after an extensive development process and collaborations with Fingerprints' sector partners in smart cards.

Fingerprints has established collaborations with a number of the world's largest

card manufacturers to drive the market forwards in partnership with them. A number of market test schemes on charge cards with our sensors were conducted in 2017 in Germany, the Netherlands, Norway and Japan. In early-2018, we announced that Fingerprints is collaborating with VISA and Mountain America Credit Union on the first large-scale market test of biometric dual interface (contact and contactless) charge cards in the US. Fingerprints' sensors are also being used in a similar market test with the Bank of Cyprus and Gemalto (via Zwiipe) in early-2018.

Fingerprints expects activity levels to keep rising in 2018, focusing on qualifying technology solutions to achieve certification by the leading card brands in the next phase. Apart from several in-depth partnerships with card producers, subcontractors, the card brands and issuers, Fingerprints is also committed to central sector collaborative organizations, notably EMVCo and Eurosmart, who are keynote players in standardization and certification. For more information on our partnerships, see page 28.

#### A WELL-BALANCED AND FAST-GROWING PATENT PORTFOLIO

- Covering all aspects of our systems such as biometric algorithms, biometric image processing, recognition systems and packaging technology
- 206 patents granted in December 2017
- Over 125 of these patents relate directly to biometric solutions



# VALUE CHAIN

## Business relationships spanning several links

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

### MOBILE

Most of Fingerprints' revenues are generated from shipments of capacitive fingerprint sensors to mobile phone producers in China. This business is part of the semiconductor industry and features a value chain with a large number of participants and long lead-times.

Fingerprints has good visibility over forthcoming launches of smartphones that use our sensors. However, the company has limited visibility over the sales volumes these smartphone models will generate, which is what ultimately drives revenues. The inventory levels of the various participants in the value chain are affected by fluctuating demand. This inventory dynamic can have a material impact on Fingerprints' sales volumes and earnings in individual quarters. There was a significant inventory build-up in all links of the value chain in 2016, mostly as a consequence of several of

our major OEM customers setting higher sales targets than they were able to realize. This had a negative impact on Fingerprints' revenues in the first half-year 2017, as distributors and module suppliers gradually destocked.

### Semiconductor manufacturers

Fingerprints manufactures its hardware using external contractors. The company's largest procurement item in volume terms are our silicon chips, mainly sourced from two of the world's largest semiconductor manufacturers, SMIC of China, which is listed on the NYSE and Hong Kong Stock Exchange, and TCMC of Taiwan, which is listed on the NYSE and Taiwan Stock Exchange.

Sensors are constructed in wafers, layers of silicon in standard format. Product development and more efficient algorithms are enabling Fingerprints to gradually reduce

sensor footprints, which means lower unit cost because significantly more sensors can fit on each wafer. This is an important component of addressing price downturns of sensors, a consequence of the sector very rapidly evolving into a mature mass market with high competitive pressure.

The manufacture of silicon wafers has similarities to the processing industry, where once a production line is started, it is continuous and assumes the lowest volume to maximize the utilization of production capacity, and thus attain the lowest possible unit cost. Accordingly, semiconductor manufacturers primarily select customers that can fill their capacity. This not only affects the allocation of existing capacity, but also the likelihood of investing in new capacity.

Thanks to high volumes and good planning, Fingerprints has secured very positive relationships with semiconductor manufacturers, which enhances its potential to

manufacture a broader-based product mix with varying volumes. To ensure delivery reliability at higher volumes and more hardware versions, Fingerprints utilizes dual sourcing for every chip series, i.e. two different producers.

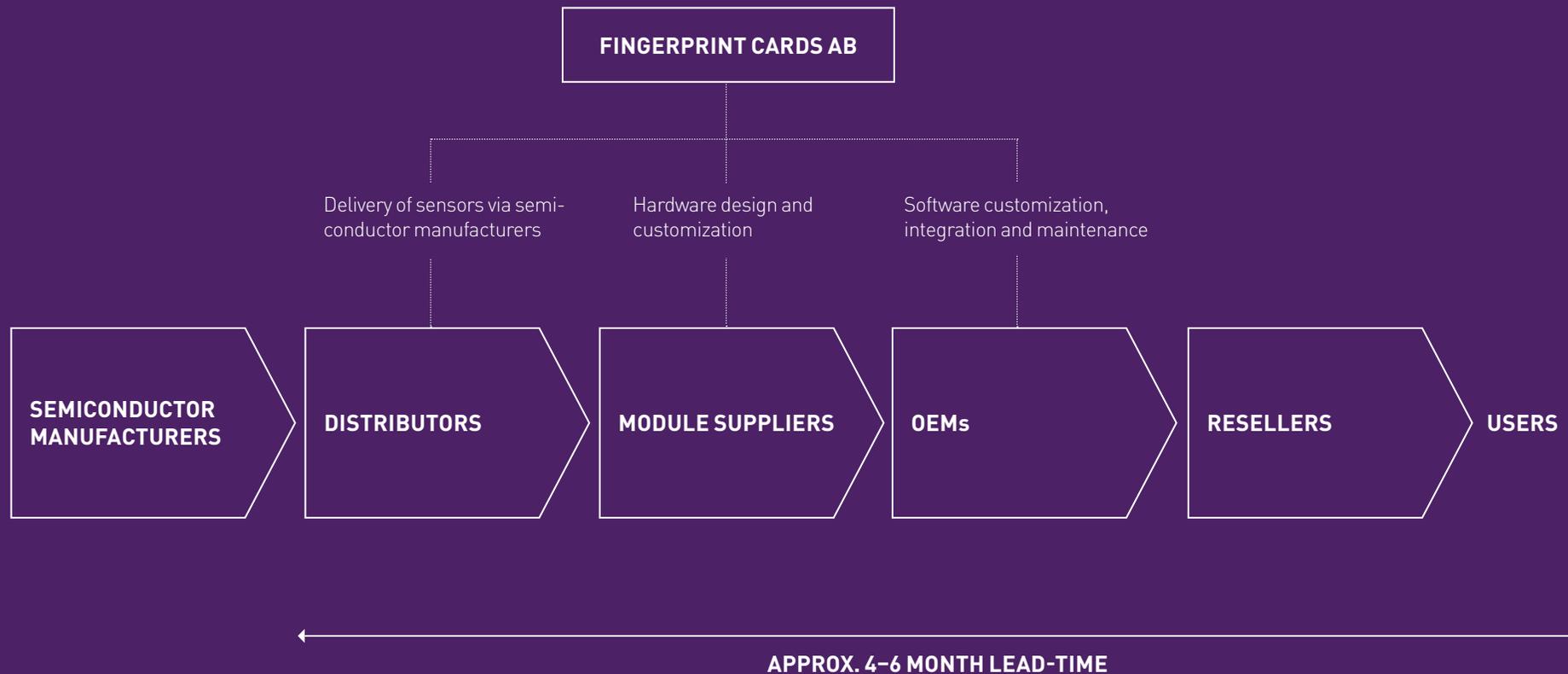
Apart from procurement from semiconductor manufacturers, value is also added through channels including OSAT (Outsourced Semiconductor Assembly & Test) suppliers, who encapsulate chips for subsequent assembly.

### Distributors

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

# MOBILE

## A VALUE CHAIN WITH MULTIPLE PARTICIPANTS AND LONG LEAD-TIMES



# SMART CARDS ECOSYSTEM

## FINGERPRINTS COLLABORATES WITH MANY OF THE LEADERS\*

### CARD ISSUER

AirPlus, MACU,  
Bank of Cyprus

### SECURE ELEMENT

NXP

### CARD HOLDER

### SOLUTION PROVIDERS AND INLAY MANUFACTURES

Zwipe, Linxen, CardLab



### CARD MANUFACTURER

IDEMIA, Gemalto (via Zwipe), Kona I, Jinco

### FINGERPRINT SENSOR

FPC 1300-series  
T-shape™

### PAYMENT SCHEME

VISA, JCB

\* Published partnerships

### Module suppliers

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

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

### OEMs

Smartphone and tablet manufacturers (OEMs and ODMs, the latter: original design manufacturers, who manufacture products sold under other parties' brands) make decisions on, and specify constituent components, in their technical specifications. For

selected suppliers, these decisions mean a design win. Customer adaptation of hardware and software then commences, and a large batch of sensors is then shipped for production and functional testing. Assuming these tests are successful, mass production commences.

Smartphone and tablet producers maintain high tempo in the development and launch of new models. The commercial lifespan of a smartphone model is some 12-18 months, with the main volumes shipped in the first 12 months. Tablets have a longer commercial lifespan of some three years.

### SMART CARDS

The value chain in the smart cards market (all cards with chips, mainly charge cards) differ from the smartphone value chain in many respects. But there are also fundamental similarities, because both sectors feature high volume production by a limited cluster of global manufacturers that enter complex value chains with multiple members. The dominant card manufacturers are based in Europe.



In 2017, Fingerprints was accepted as a member of Eurosmart, and also leads its Biometrics Committee.

### Subcontractors

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

### Manufacturers and issuers

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

Payments and cards are a sector featuring regulation and a high degree of standardization. Certification and standardization of charge/credit cards with fingerprint sensors is under the auspices of EMVCo certification body. International association Eurosmart is another important player, which develops security standards. In 2017,

Fingerprints was accepted as a member of Eurosmart, and also leads its Biometrics Committee. Standardization is a prerequisite for the market for smart cards with pay functionality and biometric verification to gain momentum. A number of market tests and pilot projects have already been executed and will continue in 2018.

# SUSTAINABILITY AT FINGERPRINTS

## An integrated component of Fingerprints' governance

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

### FOCUSING ON SUSTAINABILITY DESPITE NEW MARKET CONDITIONS

We secured our sustainability work on a firmer footing in 2017, and improved governance by integrating sustainability further into our business.

Fingerprints expanded its product portfolio in 2017, through channels including acquiring Delta ID. Meanwhile, we are considering new application segments for the company's biometric solutions, which in turn, open up opportunities for stronger integration of sustainability within different business segments.

With Delta ID, Fingerprints has played an active role in developing Aadhaar. Aadhaar is operated on behalf of the Indian Government with the aim of creating official identities, and thus ensure access to local and national social insurance systems in a simple and secure manner for citizens.

ActiveIris®, which is part of this project, is Fingerprints' first Aadhaar-certified product. Aadhaar is an example of an application segment supporting UN Global Sustainable Development Goal 1 (No Poverty), by delivering a technology that supports people's rights to an official identity.

Our offering in smart cards, which enable secure payments, is another example of our connection to UN Global Sustainable Development Goals. This supports Goal 16 (Peace and Justice Strong Institutions) by enabling more secure authentication and payments.

Fingerprints is working on sharpening and clarifying the benefits our products create from a sustainability perspective, and on reducing the negative impact Fingerprints has through its operations, products and supply chain. This work is primarily being

“ Fingerprints is working to sharpen and clarify the benefits our products create from a sustainability perspective.

conducted through continuous efforts towards sustainability goals.

### SUSTAINABILITY—AN INTEGRATED COMPONENT OF FINGERPRINTS' GOVERNANCE

Fingerprints' Sustainability Forum was created in 2016, and focuses on the sustainability aspects of its organization, developing work towards sustainability goals. The Forum also serves as a referral point, with certain segments subject to further approval by management and the Board of Directors.

Fingerprints is governed by a company-wide balanced scorecard, with sustainability goals being part of the assessment criteria, which helps sustainability aspects secure equal status with the company's other objectives. Sustainability targets were broken down by function and business line in the year two actualize how they can contribute to sustainability goals. This enhances commitment and participation in sustainability work. The visibility and integrity of sustainability goals also facilitates Fingerprints' managers following up on work where relevant.

## STAKEHOLDER AND MATERIALITY ANALYSIS

In 2017, Fingerprints did its first work on a structured stakeholder and materiality analysis. The materiality analysis was the foundation for the new sustainability goals for 2018–2020 presented on page 30–31. These goals also linked to the UN Global Sustainable Development Goals.

The work on stakeholder analysis was managed by the SVP of Strategy & Corporate Development and Fingerprints' Sustainability Manager. All business lines and functions were involved, and the stakeholder analysis was approved by management. A review of the stakeholder analysis is now a scheduled activity in our annual strategy work and an integrated component of our management system.

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

Fingerprints' end-customers are categorized according to: smart cards, smartphones and mobile phone manufacturers (OEMs), and for PCs and other application segments

- Module suppliers and distributors
- Coworkers
- Financial analysts
- Suppliers
- Collaboration partners within ecosystems
- Institutional investors
- NGOs
- Watchdogs
- The media
- Competitors
- Users
- Private investors
- Political decision-makers

## MATERIALITY ANALYSIS

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

Fingerprints considers the following as the most material sustainability segments.

A more detailed explanation on how Fingerprints works on risks associated with its materiality analysis are on page 39–41.

### SOCIAL ASPECTS

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

### ENVIRONMENTAL ASPECTS

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

### ECONOMIC ASPECTS

- Corruption
- Reduced risk of fraud (opportunity)
- Product quality
- Entry barriers for biometrics

In 2017, Fingerprints maintained internal focus on building processes to assure quality and a strong organization where everyone is working towards the same objectives. To integrate sustainability into our internal processes, we have gained inspiration from the Global Reporting Initiative (GRI). Our management system also has ISO 14001 and ISO 9001 certification, both of which were renewed in 2017. Apart from securing sustainability in the company's overall strategy process, we also focused on improving that part of corporate governance that includes sustainability—corporate responsibility and responsible sourcing.

**Corporate responsibility:** a working method has been produced to manage our overall policies and Code of Conduct. This has been approved by Fingerprints' management. Internal ownership of all policies was established in the year, and we have determined how new policies are to be issued, approved, updated, implemented and controlled. This approach enables all policy segments to be managed on an equal footing.

**Responsible sourcing:** Fingerprints' work on responsible sourcing was integrated into its management system in the year, and covers direct suppliers.

A three-step method has been developed, with step 1 implemented in 2016, and steps 2 & 3 implemented in 2017:

Step 1) all suppliers must sign our Code of Conduct for suppliers;

Step 2) selected suppliers respond to the self-assessment questionnaire and;

Step 3) selected suppliers undergo a third-party audit based on Responsible Business Alliance (RBA, formerly EICC) standards.

### COLLABORATIONS SECURED IN THE YEAR

We believe that companies working collectively on sustainability challenges is the best way to achieve long-term results. Fingerprints has been a member of the UN Global Compact since 2016, and decided to expand its external collaborations in the year by becoming a member of three strategically selected organizations.

“ Our sustainability goals were broken down by function and business line in the year to transform them into practical contributions to our goals

**Eurosmart:** sustainability work is conducted through its CSR committee, which Fingerprints' Sustainability Manager is a member of. Eurosmart is the sector organization for businesses that work in smart security, such as digital identities, data security, cyber security, the IoT, payment solutions and interface controls. Euro smart is headquartered in Brussels.

**Responsible Business Alliance (RBA)** formerly the Electronic Industry Citizenship Coalition (EICC). Fingerprints currently conducts much of its work on responsible sourcing based on the EICC's Code of Conduct and Validate Audit Process.

Membership brings Fingerprints access to the Conflict Free Sourcing Initiative's

work on conflict minerals. The RBA is the world's largest sector coalition for supply chains in electronics, which include semiconductor production. The RBA is headquartered in the US.

**United Nations Global Compact Nordic Network** As a business with its headquarters in Sweden and member of the UN Global Compact, Fingerprints thinks that the company should also work nationally and regionally on developing the UN Global Compact's Ten Principles and UN Global Sustainable Development Goals.

Fingerprints' Sustainability Manager is a member of the Network's Steering Committee.

“ Fingerprints currently conducts much of its work on responsible sourcing based on the EICC’s Code of Conduct.

All these collaborations were initiated in 2017, and Fingerprints plans even more active involvement in these organizations’ work in 2018. This means that Fingerprints will be able to exchange competence and best practice with other companies, thus driving the sustainability issue resolutely forward together.

Following up on sustainability goals in 2017, as presented in the Annual Report for 2016

Fingerprints’ sustainability framework consists of a vision, core values and all the company’s policies, including its Code of Conduct and sustainability targets. The framework has four segments that define how we organize our sustainability work. These cover our whole business and are also stated in our Code of Conduct.

Trusted and  
Transparent  
Business Conduct

Environmental  
Protection and  
Efficient use of  
Resources

Respecting and  
Rewarding People

Smarter and  
Safer Solutions

GOAL	DESCRIPTION OF GOAL FOR 2017	ACHIEVED IN 2017 WITH COMMENTS	DESCRIPTION OF GOAL FOR 2020	GOAL 2020	
<b>TRUSTED AND TRANSPARENT BUSINESS CONDUCT</b> 					
	Recognition of, and compliance with, the Code of Conduct (corporate responsibility)	A. Annual confirmation of Code of Conduct by all coworkers.	A. All coworkers sign the Code of Conduct on taking up employment and Code of Conduct mandatory introductory training for new coworkers.	A. Annual written acceptance of the Code of Conduct.	A. Annually by 100% of all coworkers
		B. Annual further training for selected target groups, e.g. anti-corruption.	B1. 50% of coworkers have taken Code of Conduct E-learning, which contains in-depth information within anti-corruption, insider information and sexual harassment including #metoo. B2. 33% of managers have taken further health & safety training.	B. Percentage of coworkers that have taken the Code of Conduct E-learning each year.	B. 100% of all coworkers
		C. Internal audits on the Code of Conduct executed on selected segments in accordance with predetermined plan.	C1. ISO 14001 and ISO 9001 external audits conducted. Internal audits conducted as part of ISO work, in accordance with predetermined plan. C2. Corporate responsibility framework prepared in 2017 dealing with issuance, approval, implementation, training and internal audit of all corporate policies (total 17) and the Code of Conduct.	N/A N/A	
New goal: recognition and compliance with corporate policies (corporate responsibility)	A. New goal segment for 2020		A. Annual written acceptance of all corporate policies	A. Annually by 100% of all coworkers	
	B. New goal segment for 2020		B. Percentage of workforce that have taken corporate policy training programs associated with roles, functions and areas of responsibility	B. 100% of all coworkers	
	Acceptance and compliance with the Code of Conduct for Suppliers (corporate responsibility)	A. 100% of suppliers of direct material should have accepted the Code of Conduct for suppliers. B. Audits executed to ensure compliance with the Code of Conduct on 1/3 of suppliers of direct materials. <sup>1</sup>	A. All suppliers of direct materials have signed the Code of Conduct for suppliers, which continues and is renewed as required B1. 3/4 of direct suppliers have conducted (RBA, formerly EICC) self-assessment questionnaire audits B2. 1/3 of direct suppliers have undertaken an external third-party audit in accordance with the RBA's validated assessment process.	N/A B1. The share of direct suppliers that have undertaken an industry-specific self-assessment questionnaire B2. The share of direct suppliers that have undergone audits and rectify potential non-compliances revealed in the audit on time	B1. 80% of total spend from direct suppliers covered by self-assessment questionnaires B2. 70% of total spend from direct suppliers covered by an audit, with all serious breaches concluded.
New goal: biometric integrity	New goal segment for 2020		Prepare a process to identify and mitigate potential ethical risks associated with misuse of Fingerprints' products	All risks have action-plans, all serious risks successfully executed action-plan.	
<b>ENVIRONMENTAL PROTECTION AND EFFICIENT USE OF RESOURCES</b>  					
	Reduce CO <sub>2</sub> emissions	A. Continuously reduce directly generated CO <sub>2</sub> emissions <sup>2</sup> B. Achieve CDP (Carbon Disclosure Project) level C	A. Scope 2: 36 ton aggregate reduction or -41% in CO <sub>2</sub> equivalents achieved despite brisk growth in the same period, with an aggregate increase in direct energy of 323 MWh, or 24%. Reduction achieved by actively selecting suppliers using renewable energy. • Greenhouse gas emissions—Unit: ton CO <sub>2</sub> -eq 2017: 51 2016: 87 • Energy—Unit: MWh 2017: 1,659 2016: 1,336 B. Achieved CDP level C	A1. Reduce CO <sub>2</sub> emissions pursuant to scope 2 with 2017 as base year (including all offices) B. Work continuously to reduce CO <sub>2</sub> emissions from scope 3 by identifying practical activities at the supplier level, business travel and product usage.	A1. 20% reduction achieved B. Practical activities defined and 70% of activities fully implemented with measurable effect
New goal: reduced environmental impact from suppliers	New goal segment for 2020		Develop a tool capable of evaluating and assessing and comparing suppliers' environmental impact.	80% of pre-defined existing suppliers have been assessed. 80% of new suppliers have been assessed based on pre-defined groups.	
New goal: implement procedures for utilizing resources and recycling	New goal segment for 2020		Develop and implement procedures for recycling Fingerprints' products Develop and implement procedures for waste management at offices	Procedures fully implemented and the effect is measurable	
	Utilization of resources in production	A. At least 95% of produced sensors should be usable (waste utilization) <sup>3</sup>	96.7% waste utilization achieved on average during 2017 Fingerprints continuously measures how much of the silicon wafer for fingerprints sensors is utilized	Work continuously on improving the utilization of materials	97.5% of silicon wafers are either recycled or disposed of.

GOAL	DESCRIPTION OF GOAL FOR 2017	ACHIEVED IN 2017 WITH COMMENTS	DESCRIPTION OF GOAL FOR 2020	GOAL 2020
<b>RESPECTING AND REWARDING PEOPLE</b>  				
 Advance positioning as an attractive employer	A. Maintain or improve achievements on the outcome of 80 (2016 base year) in the coworker satisfaction Netsurvey of Commitment Index. The Commitment Index <sup>4,5</sup> illustrates overall coworker satisfaction. B. Retain or improve the net promoter score of 43 (2016 base year). The net promoter score illustrates willingness to recommend your workplace to friends and acquaintances.	The engagement index score for 2017 was 71, and the net promoter score was -1, which is a significant deterioration. High growth with extensive hiring followed by a major change to market conditions and new focuses have adversely affected the motivation of some coworker groups. Active initiatives to increase motivation have been initiated, including an extended strategic conference for the company's 80 managers.	Identify and implement activities that create motivation and commitment of coworkers, and improve leadership.	Coworker evaluation of motivation and commitment to return to 2016 levels – Engagement index -71 – Net promoter score -1
New goal: attract and secure talent	New goal segment for 2020		Regular meetings for coworkers and managers to support coworker satisfaction, career development and progress towards goals set.	All coworkers take two formal meetings per year, ??divided by: gender, coworker category and region.
 Equal opportunities	Achieve 25% women of all coworkers of the company at all levels by 2020. <sup>6</sup>	25% of the company's coworkers are women, 9% in some form of managerial position. Collaboration with Women's Executive Search to actively attract more women. All applications are treated equally, and decisions taken on the basis of how well a candidate satisfies predefined criteria, and if all other things are equal, the female candidate is favored above the male.	Modification of goals; define and implement action-plans that support a diversified workforce with equal opportunities regardless of gender	All coworkers undergo formal meetings twice a year, by: – reviews and career development interviews – Gender – Coworker category – Region
 Health & safety	A. No serious work-related accidents.	A. 0 serious accidents occurred.	Identify and implement activities to improve occupational health & safety	A. No serious work-related accidents.
	B. Not more than 1% of coworkers affected by work-related long-term sickness absence. <sup>7</sup>	B. 2% of coworkers have been affected by long-term sickness absence.		B. Not more than 1% of coworkers affected by work-related long-term sickness absence.
	C. Perceived stress levels at a maintained or improved level compared to benchmark, with 2016 baseline index of 15 in perceived stress levels.	C. Index of 14 in perceived stress level		C. Perceived stress levels at a maintained or improved level compared to benchmark with 2016 as baseline index 15 in perceived stress levels.
 Conflict minerals	Work for all products to be free from conflict minerals	A conflict minerals policy has been created and reported pursuant to the Conflict Minerals Sourcing Initiative, CMRT Going forward, this goal will be dealt with in the same manner as other policy segments, and covered by corporate responsibility	Goal expires	Goal expires
<b>SMARTER AND SAFER SOLUTIONS</b>  				
 Customer satisfaction	Customer satisfaction survey executed in 2017, as well as development of methodologies for gathering customer and end-user needs.	Customer satisfaction survey conducted in May, followed up by 13 in-depth interviews with key customers Customers appreciate our products' performance, quality, flexible solutions and Fingerprints' high level of technology competence. Customers want more presence and local support.	Drive active improvement work in key corporate functions with the objective of increasing the CSI.	The CSI should be above benchmark (4.12) for corresponding peer companies and the sector
New goal: to capture the value creation of Fingerprints' biometric solutions	New goal segment for 2020		Actively define Fingerprints' biometric solutions' value creation for customers, users and wider society	Methodology to measure the sales share that contributes to reducing fraud established
New goal: strengthen strategic partnerships and collaborative platforms	New goal segment for 2020		Identify partnerships and collaborative segments with the aim of reinforcing and maintaining Fingerprints' positioning as biometric leader	100% of identified strategic partnerships and collaborations fully established

Explanatory notes

<sup>1</sup> Supplier audits only conducted on suppliers that delivered to Fingerprints throughout 2017. Direct suppliers are defined as those supplies that deliver materials that are constituent to the products Fingerprint sells to its customers.  
<sup>2</sup> CO<sub>2</sub> emissions in Scope 2 cover the offices in Sweden and Denmark. The GHG Protocol Corporate Accounting & Reporting Standard, market-based approach was used to measure Scope 2.  
<sup>3</sup> Utilization of materials in production is for wafers

<sup>4</sup> Employees are defined as all individuals with a direct and valid employment contract with Fingerprints. Coworkers are defined as all employees and consultants with consulting assignments occupying at least 50% of their total working-hours.  
<sup>5</sup> Benchmark data produced by Netsurvey.  
<sup>6</sup> Equal opportunities information is for all employees.  
<sup>7</sup> Information on sickness absence is for Sweden only.

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



Fingerprints' coworkers at a kickoff event in Malmö, Sweden, in February 2017.

# HUMAN RESOURCES

## An entrepreneurial and innovative company creating the biometric future

Fingerprints is an entrepreneurial company that is aware that diversity is a competitive edge for understanding our customers. As Sweden's most innovative company\* the birth of new, creative ideas, with a consistent focus on end-user experiences, happens every day.

### **PROFESSIONALS CLOSE TO CUSTOMERS WITH A HIGH LEVEL OF TECHNOLOGY EXPERTISE ARE THE CORE OF OUR BUSINESS**

Fingerprints' coworkers share a genuine interest in technology and are driven by taking the creation of our future biometric society in a positive direction. Our professionals possess specialist competence in biometrics, electronics, materials technology, coding, production technology, marketing and sales. Many are graduate engineers, and some 25% of these hold Ph.D.s in technology development. Because so many of our professionals have rigorous sector experience from telecom, banking, payments and charge cards, we understand our customer needs in a way that creates fruit-

ful collaborations worldwide. Fingerprints' success also depends on linguistic and cultural closeness to our customers, which is why we give our people great opportunities for international exchange between operations, depending on project—from Silicon Valley to Shanghai.

To maintain and improve our high-level of technology competence, we continued to invest in teams that produce new biometric solutions and develop new technologies in close partnership with our customers in 2017. Our goal has been to develop more solutions that can be applied to our offering across more sectors and with broader geographical coverage. Our acquisition of Delta ID plays a significant role in achieving this target.

Pontus Jägemalm, formerly our VP of Research & Development, was appointed as our CTO in Spring 2017. The focus in the year was to adapt Fingerprints' technology solutions for new application segments and to extend our basic technology. Consequently, we reallocated a significant share of resources to new biometrics segments in the year, as against our previous positioning, when most of our development resources were assigned to capacitive fingerprint sensors for smartphones.

### **A VALUE-BASED WORKPLACE WITH THE POTENTIAL FOR CONTINUOUS DEVELOPMENT**

In order to succeed in a fast-moving market, we need to constantly ensure that we possess the competence our customers demand, and accordingly, we work continuously on developing our professionals. Whether people join us straight after graduation or already possess many years of professional experience, it is important that we offer them stimulating and challenging development projects that are close to customers. There are no ready answers at Fingerprints, but rather, we believe in our coworkers learning from their experiences and each other. This is when we believe the innovation process becomes most

\* Source: Noréns patent law firm

# OUR CORE VALUES

## Smart

With our highly skilled and competent people, we deliver smart and user-friendly products and solutions to the global market. We encourage smart working by promoting a good work-life balance.

## Open

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

## Brave

We are encouraged to take initiatives and bravely take on challenges. Our people make a difference every day, with individual contributions being the key to our success. We demonstrate integrity in our decisions, and stand up for our values.

## United

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



**558**  
Coworkers in 2017

**40**  
Average age

**415**  
EMPLOYEES  
(of a total of 558)

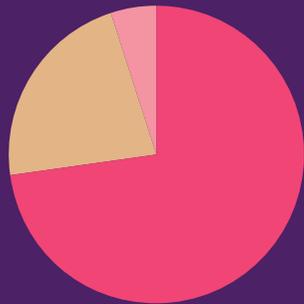
**311 men**

**143**  
CONSULTANTS  
(of a total of 558)

**104 women**

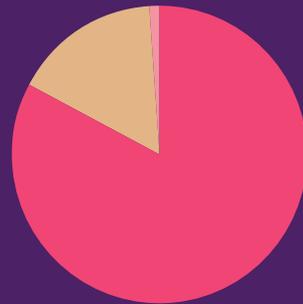
EMPLOYEES BY AGE, GENDER AND REGION

Geographical division, men



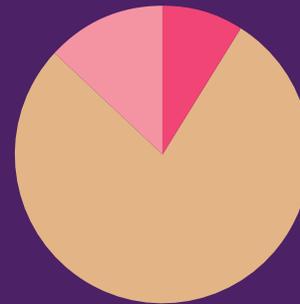
- Employees, men in Europe, 73%
- Employees men in Asia, 22%
- Employees, men in the Americas, 5%

Geographical division, women



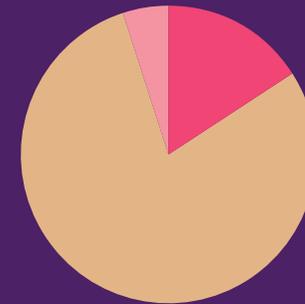
- Employees, women in Europe, 83%
- Employees, women in Asia, 16%
- Employees, women in the Americas, 1%

Age profile, men



- Employees, men aged under 30 år, 9%
- Employees, men aged 30–50 år, 78%
- Employees, men aged over 50 år, 13%

Age profile, women



- Employees, women aged under 30 år, 15%
- Employees, women aged 30–50 år, 80%
- Employees, women aged over 50 år, 5%

Management consists of ten people, all of them men, half in the 30–50 age range, and the remainder aged over 50.

interesting. But an impactful and competent organization doesn't come cheap. Accordingly, our core values are central, and are deeply rooted right through our organization. Our values permeate our whole business and are critical in search and selection, internal training programs and when introducing new coworkers, as well as for goal-setting and appraisal interviews.

We work tirelessly to achieve compliance with our core values during the working day, and are convinced that this not only improves customer relationships and more effective decision-making, but greater job satisfaction, commitment and long-term motivation.

### **FINGERPRINTS' FIRST KICKOFF EVENT**

Fingerprints held its first kickoff event ever for all coworkers at the beginning of 2017, which was a significant milestone in the company's history. Much of the agenda centered on discussions of our four core values, and many of the activities were about how Fingerprints will become a world-leading

biometric company by being smart, brave, open and united.

### **PARTNERSHIPS TO FIND TALENT**

Fingerprints maintains fruitful and close partnerships with relevant faculties at universities and institutes of further education in Denmark and Sweden to enhance its prospects of identifying young, talented candidates for our business. Apart from these partnerships, we also participate at job fairs, traditional advertising channels and work with recruitment agencies for special assignments. We also use referral programs in China.

### **2017—A YEAR TO LAY A STABLE FOUNDATION FOR OUR FUTURE**

We focused on getting working methods and structures in place in the year, so we can be the sustainable employer we are endeavoring to become. This, not least, considering that we have had the pleasure of welcoming new members to our family through the acquisition of Delta ID.

To bring all our businesses worldwide together, we launched an app called Fingerprint News in the year where we publish news affecting all coworkers in our organization. As part of bringing our management team members more into the spotlight and exchanging best practice between operations, we have also evolved our monthly all-employee meetings using our videoconferencing system, so that they now not only keep us all updated on what's happening in the company, but also enable dialogue between staff and management.

Last year, we also worked intensively towards our goal of getting a new digitalized HR system in place in 2018 to streamline, enhance quality, and not least, devote more man-hours to our core business. This is another major step towards facilitating our managers' duties, in turn enabling them to create better conditions for our coworkers. Fingerprint also started a partnership with Wes (Women's Executive Search), Sweden's fastest-growing management recruitment agency, in 2017. This collaboration is founded on us sharing the same values, and see-

ing the value of an equal opportunities and fair search & selection process, with the potential to access the market's best female candidates. Our aim, in time, is to achieve more multi-faceted leadership and sharpen our competitiveness in the sector. We also conducted a two-day strategy workshop at the end of 2017 for all managers to improve their understanding of our business, its goals and direction.

# COWORKER INTERVIEWS

1 Why do you work at Fingerprints?

## FREDRIK RAMBERG

Manager of ASIC System Integration & Verification, Gothenburg

1 Because it's unique in Sweden! Being at a workplace with high ambitions and driven professionals is an inspiration. I really like the working environment because there's always something stimulating happening, and I have the opportunity to influence things. Without a doubt, my colleagues are the most important thing for me at work. Participating in producing capacitive sensors for mobile phones and being part of developing new application segments is rewarding in many ways. For example, we were the first to succeed with integrating them into Android. That felt awesome!

2 It's great to help build a team with a specific responsibility. If you have good ideas, turning them into reality isn't so difficult. We work on everything from early-phase project ideas to integrating them with our customers. Watching something evolve from an idea to a finished product is exciting. Quite clearly, biometrics is gaining ground, and becoming more widely adopted. In mobile telephony, the market always wants something new—anything from performance to attractive functionality, which makes me motivated to develop new solutions.

3 We have a flat organizational structure with open communication, where everyone can participate and influence in some way. Generally, I describe our culture as status free. We operate close to our customers and some of my colleagues are stationed with them every day. The trust and relationship between us and the customer is everything—something I think would be hard to accumulate without such a strong and solution-oriented culture in-house.

2 What drives you at work?

## SOFIE WESTERDAHL

R&D Project Manager, Malmö

1 When I started at Fingerprints three years ago, it was a small enterprise that not many people had heard of. Being part of developing technology that's used by millions of people every day is really interesting. Biometrics are exciting because they are based on something that you always have with you, and the potential applications are infinite. I really enjoy the daily challenges, and the high tempo. I also have great freedom at work and the opportunity to get involved in different phases of projects means good variation.

2 I work on a lot of projects in parallel, and am driven by delivering what the customer wants on time, and with high quality. I think that my efforts in producing biometric solutions make consumers' everyday lives easier because they don't need to remember PINs and passwords, while they don't need to worry about other people accessing their data.

3 At Fingerprints, we have a working sentiment where we help each other to achieve our goals. It's also important to work smart, think innovatively and dare to succeed in a sector that's changing rapidly. Our customers perceive us as effective, which is largely possible thanks to our close collaborations with other teams at our offices worldwide. Understanding other cultures is key.

3 How would you describe the culture at Fingerprints?

## HAIYUAN BU

Senior Director, Head of Customer Engineering, Shanghai

1 I work at Fingerprints because it is the outstanding company in biometrics, and I get the opportunity to work on exciting technologies and deliver products and solutions that create value in people's everyday lives. It's interesting to see how biometrics is starting to become a natural part of people's lives and how our technology makes human-machine interaction more secure and accessible. There's so much more to be done in biometrics to change society. I want to be part of that.

2 My work as a manager is largely about helping and motivating my colleagues. I feel motivated myself, and think it's exciting when thanks to team effort and hard work, we succeed in launching products that are well-received on the market. Our products and solutions are used by a lot of people worldwide, and we make people's lives easier and more secure in many contexts, with mobile payments and door locks being good examples. In the future, I think we'll see a world where biometrics are everywhere.

3 Fingerprints is a company that's always thinking ahead. We always need more innovation and people with brave ideas that will keep us one step ahead of the competition. Winning assignments and resolving customers' challenges smartly and effectively are strong drivers for us. Obviously, our values feature in our daily work.



## FOX

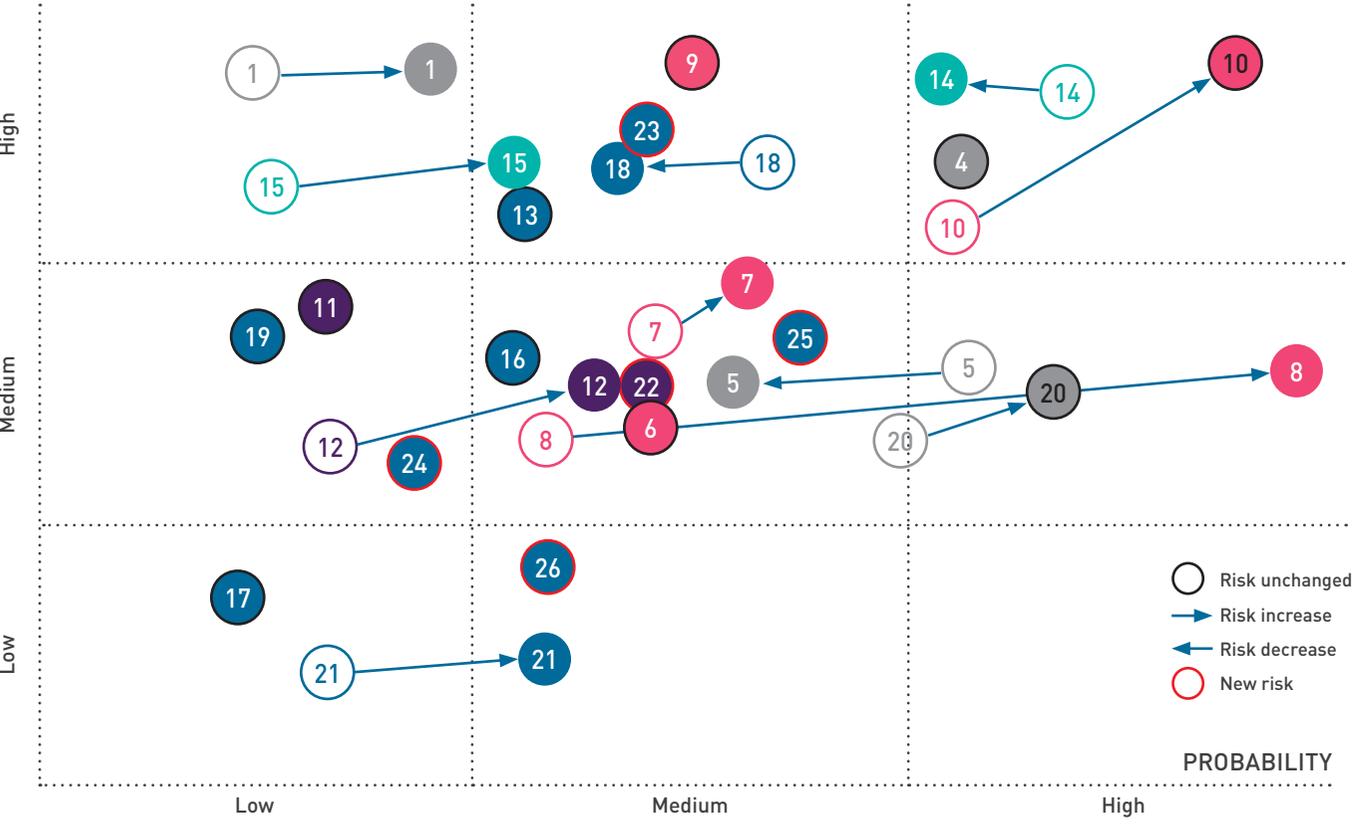
The implementation of FOX (Fingerprints operational excellence) is a major internal process conducted through the year. FOX is an ISO-certified quality assurance and environmental management system that supports every employee in their daily work. This system includes process definitions for developing and delivering products, but also, various policy documents. The system is located at the offices in Stockholm, Gothenburg Malmö, Linköping and Copenhagen. The Asian sales office is not covered by FOX, even if employees at these offices also apply its processes in their operations.

# Risks and risk management

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

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

**IMPACT**



- Operational risks
- Market risks
- Financial risks
- Legal risks
- Other risks

**Operational risks**

- 1 Delivery capacity of contracted suppliers (risks 2 and 3 combined in risk 23)
- 4 Reduced technological leadership
- 5 Leaks and infringements regarding business secrets
- 20 Internal scalability

**Market risks**

- 6 Geopolitical instability
- 7 Supplier costs
- 8 Economic fluctuations
- 9 Currency risk
- 10 Loss of customers and price pressure due to increased competition

**Financial risks**

- 11 Credit risk
- 12 Financing
- 22 Corporate governance structure

**Legal risks**

- 14 Competitors' IP
- 15 Value of proprietary IP

**Other sustainability risks and opportunities**

- 13 Product defects and product liability
- 16 Corruption
- 17 Conflict minerals
- 18 Limitations on planned business development
- 19 Biometrics and integrity
- 21 Discrimination and limited diversity
- 23 Skills management
- 24 Environmental Impact
- 25 Reduced risk of fraud
- 26 Civil rights

Number	Name of Risk	How Fingerprints is impacted	Risk Mitigating Activities/Risk Control	Probability score (1-6)	Impact score (1-6)	Total Risk Score
	Operational risks					
1	Delivery capacity of contracted suppliers	Financial damage as a result of delivery disruption	Maintaining a diversified supplier base of hardware and input materials.	2	6	12
4	Reduced technological need	Loss of competence	Continuous product development and understanding of customer demands, increase R&D collaboration with customers	5	5	25
5	Leaks and trespass in respects of corporate secrets	Economic consequences, and impact rumour mongering in connection with leaks of development information	Implement IT Policy through training and integration in management system Develop procedures for platforms, systems and cloud when managing high risk data	4	4	16
20	Internal agility	Challenges in adapting an agile organization and management systems fit for market fluctuations	Investment made in Management system, processes development is ongoing. Investment in HR system, implementation is ongoing.	5	3	15
	Market Risks					
6	Geopolitical instability	Loss of business opportunities for local/regional political reasons	Differentiate Fingerprints biometric solutions towards low cost products with low biometric integrity	3	3	9
7	Supplier costs	Reduced margins due to increase in supplier costs	Ensure market-aligned pricing by using several suppliers. Continuous reviews of suppliers' pricing and market analysis	4	4	16
8	Economic Fluctuations	Demand fluctuations impact the company's revenues	Reduce cyclicalities through diversifying to new markets and continuously analyse whole value chain to foresee demand fluctuations. Reduce cyclicalities through broad product portfolio and customer base. Systematized business intelligence.	6	4	24
9	Currency risk	Negative financial impacts from currency fluctuations	Fingerprints has elected not to hedge its net exposure in USD, since hedging may itself be viewed as speculation on the direction of the exchange rate	3	6	18
10	Loss of customer and price pressure, due to increased competition	Sales revenues and market shares decline due to price pressure and customer requirements for a number of suppliers	Move towards a full solution provider. Increased focus on customer satisfaction, service, quality and quick response time. Maintain direct customer contacts Cultivate new customers in new markets. Develop strategic partnerships.	6	6	36
	Finance Risk					
11	Credit risk	The counterparty does not fulfil his/her payment obligations	Compliance with credit policy and established process for credit assessment and setting limits. Use of credit insurance	2	4	8
12	Insufficient capacity to finance	Limited growth in operations, development and production. Loss of competence	Keeping positive cashflow from mobile by focusing on competitive pricing and diversification and investing in new markets. Proactively communicate with capital markets.	3	3	9
22	Governance Structure	Many smaller private owners can affect stability and financing	Actively working with attracting institutional and larger investors.	3	3	9
	Legal Risks					
14	Competitors IP	Patents held by others impede the applications of FPCs technology	Patent strategy and active patent monitoring. Close cooperation between patent manager and development department	5	6	30
15	Value of Property IP	Loss of competitiveness due to patent infringements	Maintain well-protected patents and work actively to leverage proprietary IP	3	5	15
	Other Sustainability Risks and Opportunities					
13	Products defects and product liability	Financial consequences and impact on customer satisfaction	Ensure the right product design and that all of Fingerprints' hardware products are tested prior to delivery. Measure and work actively on faults and product returns within the quality organization.	3	5	15
16	Corruption	Financial consequences and loss of reputation	Further implement Fingerprints' Code of Conduct in Management system. All coworkers shall complete Code of Conduct E-learning where anti-corruption is included. Assess anti-corruption policy and update where needed. Conduct more in-depth training activities for target audience. Take steps to develop internal audit practices.	3	4	12
17	Conflict Minerals	Impact of rumours and financial consequences should conflict minerals enter products.	Annual inspection of our suppliers. Assess suppliers through Responsible Minerals Initiative CMRT.	1	2	2

Number	Name of Risk	How Fingerprints is impacted	Risk Mitigating Activities/Risk Control	Probability score (1-6)	Impact score (1-6)	Total Risk Score
18	Limitations on planned business development	Entrance barriers, laws and regulations barriers for new segments	Structured stakeholder analysis to understand stakeholders requirements and expectations. Work with existing partners to reduce industry barriers for biometrics in general as well as for Fingerprints. Are actively seeking new partnerships to reduce entrance barriers	3	5	15
19	Biometrics and Integrity	Impact on demand if public confidence in biometric solutions diminishes	Application of TEE (Trusted Execution Environment) to ensure that data be accessed through operating systems and apps. Communicate transparently about the secure usage of our solutions and be transparent about risks and Fingerprints risk mitigating activities. Ongoing project to ensure GDPR compliance by May 2018.	2	4	8
21	Discrimination and limited diversity	Positive affect of diversity diminish, negative impact on attractiveness as employer	Gender diversity in total has significantly improved still uneven balance in seniority. Identify and support female and non Swedish talents with progress plans	3	2	6
23	Talent attraction and retention	Negative impact on competitiveness in terms of attracting talent and retaining talent	Actively work on hiring and transferring skills to new market segments. Implement new performance management process with personal objectives and defined career paths. Work actively on coworker motivation and leadership and formulate targets to measure progress.	3	4	12
24	Environmental Impact	Negative environmental impact from Fingerprints production, suppliers, own operations and products usage. Loss of customers, brand and markets	Work actively on environmental targets within CO <sub>2</sub> emissions and supplier environmental performance	2	3	6
25	Reduced risk of fraud	FPCs biometric solutions can reduce risk of fraud when used to facilitate financial payments	Actively working with developing procedures to measure fraud reduction from smart cards with biometric solutions	4	4	16
26	Access to citizen and residential rights	FPC Delta ID is Aadhaar certified and can contribute to access to citizen rights in that project. FPC biometric solutions provides a safer option for identification which can be used broadly for access to citizen or residential rights such as social security	Work on issuing Aadhaar-certified products to the market	3	2	6
	Deleted Risks / Or Merged Risks					0
2	Insufficient competence sourcing	Planned growth in new markets is delayed and competitiveness in existing markets is impacted (Combined in risk 23 jointly with risk 3)	Dedicated recruitment plan within growth areas Working with selected recruiters	4	4	16
3	Loss of key competence	Impact on competitiveness (Combined in risk 23 jointly with risk 3)		5	3	15

# Auditor's opinion regarding the statutory sustainability report

**TO THE GENERAL MEETING OF THE SHAREHOLDERS IN FINGERPRINT CARDS,  
CORPORATE IDENTITY NUMBER 556154-2381**

## **Engagement and responsibility**

It is the board of directors who is responsible for the sustainability report for the year 2017 on pages 26-41 and that it is prepared in accordance with the Annual Accounts Act.

## **The scope of the examination**

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

## **Opinion**

A statutory sustainability report has been prepared.

Stockholm 24 April 2018  
KPMG AB

Joakim Thilstedt  
Authorized Public Accountant

# The share

Fingerprints' class B shares have been quoted on Nasdaq Stockholm since 2000 and transferred from the Mid Cap to the Large Cap list at the beginning of 2016. Fingerprints was initially listed on the Stockholm Nya Marinade ("New Market") marketplace in 1998. The ISIN code is SE 0000422107 (IT, electronic equipment & instrument sector). The company trades under the ticker FING B. Fingerprint Cards is a CSD company, which means the company's share register is maintained by Euroclear Sweden AB.

As of 31 December 2017, the share capital of Fingerprint Cards AB was SEK 12,975,667, divided between 6,000,000 class A shares and 307,967,675 class B shares, each with a quotient value of SEK 0.04. Class A shares carry ten votes and class B shares carry one vote, and the total number of votes amounts to 367,967,675.

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

At year-end, the ten largest shareholders had total holdings corresponding to 29.3% of the vote. Foreign shareholders 38.8% of

the share capital. For more information on ownership see pages 43–44 of this Annual Report.

## SHARE PRICE TREND

The closing price of Fingerprints' class B share fell by 75% to SEK 15.8 (62.8) in 2017. The OMX Industrial Goods Index climbed by 18% in the same period. Fingerprints' class B share set a high of SEK 66.6 and a low of SEK 15.7. At year-end 2017, Fingerprints' market capitalization was approximately SEK 4,964 M (19,733).

## HIGH TURNOVER

2,856 (2,454) million class B shares were traded in the year. An average of 11.4 million (9.7) class B shares were traded per day.

## INCREASED SHAREHOLDER BASE

There were 70,057 (63,467) shareholders at year-end 2017, a 10% increase on the corresponding point of the previous year.

## INCENTIVE PROGRAM

The AGM approved the proposal to adopt a long-term incentive program ("LTIP 2017") for up to 25 individuals within the Finger-

prints group. Participants were offered the opportunity to receive class B shares within LTIP 2017, called "Performance Shares" free of charge, assuming the satisfaction of certain terms. See the invitation to the AGM for more information at [www.fingerprints.com](http://www.fingerprints.com)

## DIVIDEND POLICY

The Board of Directors' top priority is to ensure that Fingerprints maintains a financial position that is strong enough to support organizational growth and selective acquisitions. Fingerprints also wishes to maintain a strong Balance Sheet.

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

## DIVIDEND

The Board of Directors is proposing that no dividend is paid for the financial year 2017.

## SHARE REPURCHASES

The Board of Directors proposes that the Meeting authorizes the Board to decide to

repurchase a total of as many of the company's class B treasury shares so that at any time, the company's holdings do not exceed ten (10)% of all the shares of the company, on one or more occasions until the next AGM. Purchases should be on Nasdaq Stockholm only. The Board also proposes that the AGM authorizes the Board to decide on transfer of the company's class B treasury shares on one or more occasions in the period until the next AGM, waiving shareholders' preferential rights. Transfers of class B treasury shares should be on Nasdaq Stockholm. The purpose of these authorizations is to increase the Board's scope to act in its work on the company's capital structure, and to create flexibility in the company's potential to exploit attractive business opportunities. The Board's complete proposals for resolution will be presented in the invitation to the AGM.

## FORECAST

Fingerprints is not presenting a forecast for 2018.

## FINANCIAL ANALYSTS

In 2017, Fingerprints was monitored by the following financial analysts:

- Arctic Securities, Oscar Semb Fredricsson
- Carnegie Investment Bank, Håvard Nilsson
- Handelsbanken Markets, Daniel Djurberg
- Pareto Securities AS, Fredrik Steinslien and Espen Klette
- Redeye, Viktor Westman
- SEB, Victor Höglund and Johanna Ahlqvist
- UBS, Francois Bouvignies

## Shareholders, ten largest 31 December 2017

	Class A shares	Class B shares	Capital	Votes
Avanza Pension		17,318,324	5.5%	4.7%
Ålandsbanken Funds		5,831,000	1.9%	1.6%
Vanguard		5,819,798	1.9%	1.6%
Velociraptor LTD	6,000,000		1.9%	16.3%
Nordnet Pension Insurance		5,770,687	1.8%	1.6%
BlackRock		3,448,470	1.1%	0.9%
Danica Pension		3,099,474	1.0%	0.8%
Folksam		2,939,612	0.9%	0.8%
Swedbank Robur Funds		2,928,601	0.9%	0.8%
Swedbank Insurance		2,179,303	0.7%	0.6%
Other	0	258,632,406	82.4%	70.3%
<b>Total</b>	<b>6,000,000</b>	<b>307,967,675</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Modular Finance

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

Source: Modular Finance

Allocation of holdings	No. of shares	Capital	Votes	No. of known shareholders	Proportion of known shareholders
1–1 000	13,917,136	4.4%	3.8%	52,929	75.6%
1 001–5 000	28,620,989	9.1%	7.8%	11,708	16.7%
5 001–10 000	19,296,875	6.1%	5.2%	2,577	3.7%
10 001–20 000	20,800,907	6.6%	5.7%	1,434	2.0%
20 001–	173,319,149	55.2%	61.8%	1,409	2.0%
Anonymous ownership	58,012,619	18.6%	16.2%		
<b>Total</b>	<b>313,967,675</b>	<b>100.0%</b>	<b>100.0%</b>	<b>70,057</b>	<b>100.0%</b>

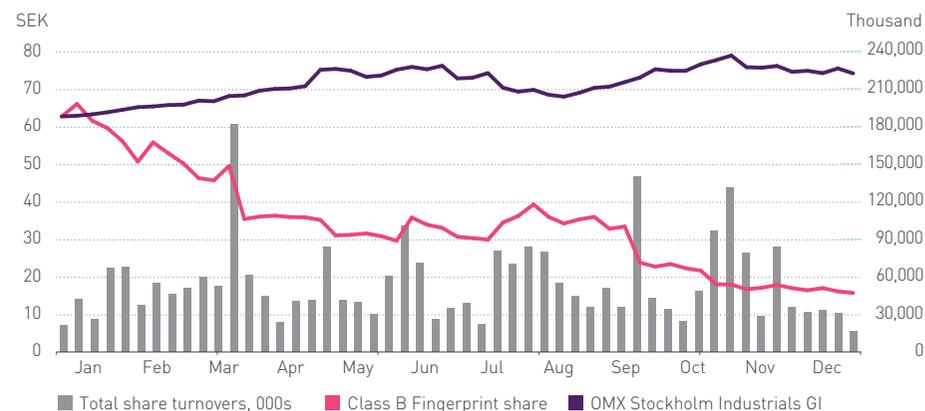
Shareholder type	No. of shares	Capital	Votes
Swedish private individuals	150,401,934	47.9%	40.9%
Other	48,947,402	15.5%	27.5%
Foreign institutional shareholders	29,060,056	9.2%	7.9%
Swedish institutional shareholders	27,545,664	8.8%	7.5%
Anonymous shareholders	58,012,619	18.6%	16.2%
<b>Total</b>	<b>313,967,675</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Modular Finance

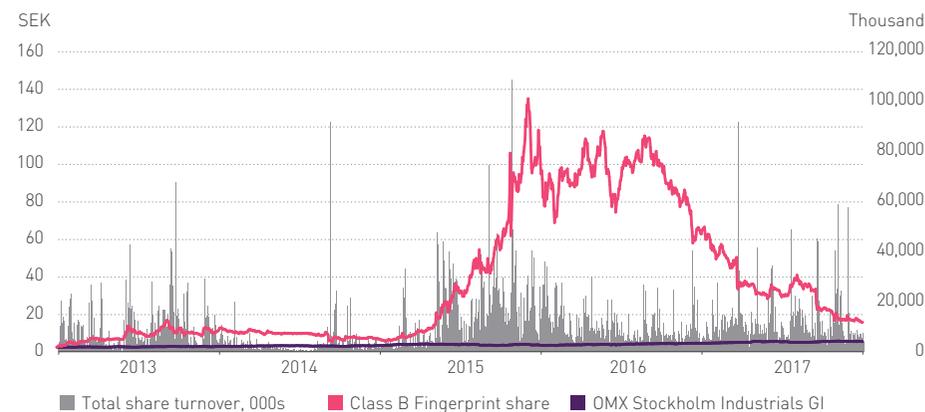
## Share capital to 2017

Year	Event	Quotient value, SEK	Change in number of shares	Total number of shares	Increase in share capital	Total share capital
1997	Split 500:1	0.2	249,500	250,000	0	50,000
1997	Bonus issue	0.2	250,000	500,000	50,000	100,000
1997	New issue	0.2	2,000,000	2,500,000	400,000	500,000
1997	New issue, exercise of warrants	0.2	370,000	2,870,000	74,000	574,000
1998	New issue	0.2	2,000,000	4,870,000	400,000	974,000
2000	New issue	0.2	540,000	5,410,000	108,000	1,082,000
2000	New issue	0.2	938,258	6,348,258	187,651	1,269,651
2005	New issue	0.2	3,000,000	9,348,258	600,000	1,869,651
2006	New issue	0.2	2,804,475	12,152,733	560,895	2,430,546
2009	New issue	0.2	7,682,060	19,834,793	1,536,412	3,966,958
2009	New issue	0.2	19,834,793	39,669,586	3,966,959	7,933,916
2011	New issue	0.2	3,940,000	43,609,586	788,000	8,721,917
2012	New issue	0.2	4,198,549	47,808,135	839,710	9,561,927
2013	New issue, exercise of warrants	0.2	95,485	47,903,620	19,097	9,581,024
2013	New issue	0.2	1,400,000	49,303,620	280,000	9,861,024
2013	New issue	0.2	1,600,000	50,903,620	320,000	10,180,724
2013	New issue, exercise of warrants	0.2	335,407	51,239,027	67,081	10,247,805
2013	New issue, exercise of warrants	0.2	263,500	51,502,527	52,700	10,300,505
2013	New issue, exercise of warrants	0.2	158,608	51,661,135	31,722	10,332,227
2013	New issue	0.2	2,500,000	54,161,135	500,000	10,832,227
2014	New issue	0.2	2,500,000	56,661,135	500,000	11,332,227
2014	New issue, exercise of warrants	0.2	1,760,000	58,421,135	352,000	11,684,227
2015	New issue, exercise of warrants	0.2	4,818,000	63,239,135	963,600	12,647,827
2016	New issue, exercise of warrants	0.2	1,300,000	64,539,135	260,000	12,907,827
2016	Pro forma reverse split 1.5*	0.04	0	322,695,675	0	12,907,827
2016	Repurchase of treasury shares	0.04	-10,424,000	312,271,675	0	12,907,827
2016	New issue, exercise of warrants	0.04	826,000	313,097,675	33,040	12,940,867
2016	New issue, exercise of warrants registered 3 Jan. 2017	0.04	870,000	313,967,675	34,800	12,975,667
2017	Cancelling of treasury shares	0.04	0	313,967,675	-416,960	12,558,707
2017	Bonus issue	0.04	0	313,967,675	416,960	12,975,667

## SHARE PRICE DEVELOPMENT 2017



## SHARE PRICE DEVELOPMENT 2013-2017



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# MESSAGE FROM THE CHAIRMAN

## Focusing on cost adaptation and creating more revenue streams



In last year's Annual Report, I discussed Fingerprints' very rapid transformation from a small development enterprise into a world leader on a global market. As one of the pioneers of capacitive fingerprint sensors, the company was in a good starting position once biometrics broke through on a broad front in the smartphone segment a few years ago. Very quickly, Fingerprints secured very strong market positioning among the major Chinese smartphone producers, reflected in unprecedented sales growth of over 2,700% between 2014 and 2016.

Expansion of this magnitude obviously attracts more players. Accordingly, the Board's focus since 2016 was on adapting the company's strategy, with the goal of diversifying our business, in terms of geography and products. However, the evolution towards a mature mass-market with very intense competitive pressure has occurred far faster than the Board and management anticipated at the beginning of the year. While Fingerprints remains a leading player, market value contracted due to falling prices and a migration towards simpler sensors. Consequently, sales and operating margin fell on 2016. Earnings performance was not satisfactory, and resolute measures have been taken to adapt the company's costs.

To improve future profitability, the Board's work in the year featured supporting management in adapting operations to the fundamental and rapid change in business conditions on the mobile side. Meanwhile, strategy issues have taken up more time. This is partly about realigning the organization to the circumstances in the smartphone business, and partly about intensifying work on expanding operations to cover more biometric technologies and new application segments in various sectors. Regular items on the Board's agenda in the year included actions to ensure operations are governed sustainably, responsibly and effectively, to realize its long-term strategy. This includes remuneration issues and following up on targets. Sustainability issues have been integrated more deeply into Fingerprints' operations, which has implications including producing a number of new sustainability goals linked to the UN's Global Sustainable Development Goals.

As technology and digitalization permeate ever more aspects of our everyday lives, protecting sensitive information becomes more important and more difficult. I'm convinced that biometric solutions will play a key role in information and cyber security, because this technology enables secure and reliable services to be delivered, while sim-

plifying people's everyday lives and enhancing customer experiences.

While it has been necessary to downscale our cost base to address the altered circumstances in the company's core business of smartphones, the board is continuing to work to give the organization the best possible potential to be able to compete successfully on emerging global markets for biometrics.

I am convinced that Fingerprints' experience and technology-driven innovation and cost-efficient mass production is positioning the company well for its future. I'm also pleased that the organization harbors great decisiveness to succeed by continuing to deliver innovative products and solutions. Ultimately, the company's level of innovation is what makes it stand out on the market. Its R&D organization is strong, with many of its staff holding Ph.D.s. The competence and experience the company possesses means the Board is confident about the future and the company's prospects of capitalizing on the significant opportunities it has.

I, and the rest of the Board, appreciate management's great commitment and efforts in the year. Being part of Fingerprints' progress is exciting and stimulating, but also challenging, and I'm really looking forward to the company's continued journey

towards higher profitability and a broader revenue base. The mission of contributing to the company's positive progress in close partnership with its management, is a challenge the Board is still taking on with hard work and great enthusiasm.

Jan Wäreby  
Chairman of the Board

# CORPORATE GOVERNANCE REPORT

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

The corporate governance of Fingerprint Cards is based on legislation and other regulation; the Swedish Companies Act, the Articles of Association, Nasdaq Stockholm's Rulebook for Issuers, the Swedish Code of Corporate Governance ([www.corporate-governanceboard.se](http://www.corporate-governanceboard.se), the "Code"), other applicable laws and ordinances, and internal regulations.

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

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

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

## SEGREGATION OF DUTIES

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

## SHAREHOLDERS

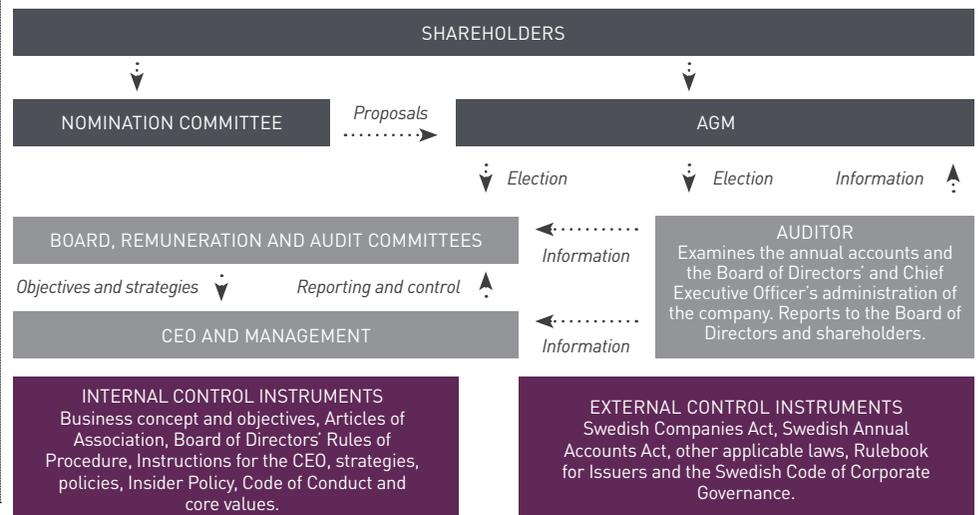
Fingerprint Cards is a central securities depository-registered company, which means that the company's share register is maintained by Euroclear Sweden AB.

At year-end 2017, the company had 70,057 known shareholders, an increase of 10% on the corresponding point a year previously. The registered share capital was SEK 12,975,667, divided between 6,000,000 class A shares and

307,967,675 class B shares. Class A shares each carry ten votes and class B shares each carry one vote. Class A and B shares carry the same participating interest in the company, and equal entitlements to dividends. At year-end, the ten largest shareholders had a total holding corresponding to 29.3% of the vote. For more information on ownership, see pages 43–44 of this Annual Report.

## ANNUAL GENERAL MEETING

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



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

The AGM is normally held in Gothenburg. Pursuant to the Articles of Association, the AGM may also be held in Stockholm, although only Extraordinary General Meetings (EGMs) have been held in Stockholm.

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

Invitations to an EGM, where an amendment to the Articles of Association is to be considered, should be issued at the earliest six, and at the latest four, weeks prior to the Meeting. Notifications to other EGMs should be issued at the latest six, and the latest three, weeks prior to the Meeting.

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

Proposals for matters to be considered at the AGM shall be submitted to the Board of

Directors in good time before the invitation is issued.

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

#### **AGM 2017**

The AGM for the financial year 2016 was held in Gothenburg on 20 April 2017. The invitation to the AGM was published on 21 March 2017. 418 shareholders representing 29.77% of the votes and 17.69% of the number of shares attended the Meeting.

#### **THE AGM REACHED RESOLUTIONS ON:**

- Adopting the presented accounts for the financial year 2016.
- Approving the appropriation of profits with earnings carried forward.
- Discharging the Board of Directors and Chief Executive Officer from liability for the financial year 2016.
- That the number of Directors should be nine.
- Election of Directors, Chairman of the Board and auditor.
- Approval of Directors' fees.
- Election of the Nomination Committee.
- Remuneration guidelines for senior executives and guidelines for appointing the Nomination Committee.
- Adoption of a long-term incentive program.
- Cancellation of treasury shares and bond issue.
- Authorization of the Board of Directors to repurchase shares.

Additionally, the AGM resolved to authorize the Board of Directors to take decisions on new share issues up to an aggregate maximum of

25 million shares with preferential rights for shareholders, in the period until the following AGM.

More information on the AGM 2017 is available at Fingerprint Cards' website: [www.fingerprints.com](http://www.fingerprints.com).

### AGM 2018

The AGM will be held at 3 p.m. on Tuesday, 29 May 2018 at Elite Park Avenue Hotel, Kungssportsavenyn 36-38, Gothenburg, Sweden. For more information on the AGM 2018, see page 101 and Fingerprints' website, [www.fingerprints.com](http://www.fingerprints.com), where the necessary documentation for the Meeting is available.

### NOMINATION COMMITTEE

The AGM 2017 resolved that the company should have a Nomination Committee consisting of four (4) members. In the year, the Chairman of the Board should convene the three (3) largest shareholders of the company in terms of votes to each appoint a representative, with the Chairman of the Board also being a member of the Nomination Committee. If one of the three largest shareholders declines its entitlement to appoint a representative of the Nomination Committee, the next shareholder in terms of size will be offered the opportunity to appoint a member of the Nomination Committee. If considered appropriate, the Nomination Committee can also decide to appoint a representative of a group of major

shareholders that can be co-opted to the Nomination Committee. The Chairman of the Board should convene the Nomination Committee's first meeting. That member that represents the largest shareholder in terms of votes should be appointed Chairman of the Nomination Committee, unless the members agree otherwise. The term of office for the appointed Nomination Committee extends until a new Nomination Committee has been appointed. The composition of the Nomination Committee should be published by no later than six months prior to the AGM.

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

If a member leaves the Nomination Committee before its work is complete, the Nomination Committee should request that the shareholder that has appointed a mem-

ber to appoint a new representative of the Nomination Committee within a reasonable time. If this shareholder does not appoint a new representative, the entitlement to appoint a new representative of the Nomination Committee defers to the next largest shareholder in terms of votes that is not already represented on the Nomination Committee. Any changes to the composition of the Nomination Committee should be published as soon as they have occurred.

The Nomination Committee should consult on proposals on the following issues to be presented to the AGM 2018 for resolution: a proposal for the Chairman of the Meeting, a proposal on the Board of Direc-

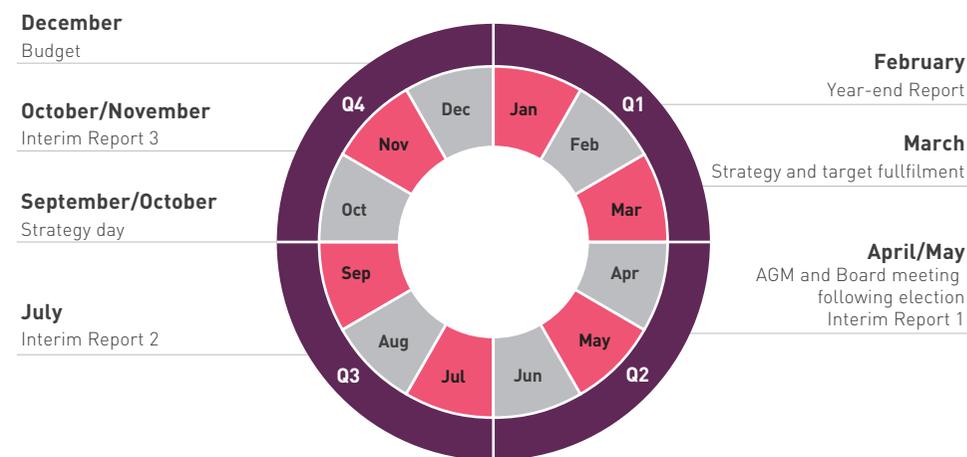
tors, a proposal on the Chairman of the Board, a proposal on the auditor, a proposal on Directors' fees, a proposal on audit fees, a proposal for guidelines for appointing the Nomination Committee.

Fingerprint Cards' Nomination Committee had the following members for the AGM 2018:

- Johan Carlström (personal holdings), Chairman
- Dimitrij Titov (Velociraptor Ltd.)
- Jan Wäreby (Chairman of the Board)

Clas Romander, representing Ola Rollén, served on the Nomination Committee but

### Board of Directors' work



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

put his seat at the Committee's disposal on 13 February 2018. Consequently, and due to the Nomination Committee consisting of a majority of Directors as of 13 February 2018, the company is departing from the Swedish Code of Corporate Governance. The Nomination Committee has approached the next-largest shareholder in terms of votes, offering it the opportunity to appoint a member, but it declined to participate. The Nomination Committee's work is continuing as planned.

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

### **WORK OF THE NOMINATION COMMITTEE FOR THE AGM 2018**

For the AGM 2018, the Nomination Committee held five meetings where minutes were taken, maintained regular intervening contact on various Nomination Committee matters, and held meetings with candidates for Directorships. A Board appraisal was conducted through the Directors responding to a number of questions on the work of the Board. These responses were then compiled and reviewed by the Chairman of the Board, and discussed within the Board of Directors. Subsequently, in order to make an accurate assessment on matters regarding the composition of the Board of Directors, the Nomination Committee conducted measures including reading and reviewing

the appraisal of the Board of Directors and the work of the Board of Directors, and the Chairman of the Board's report on the company's operations, objectives and strategies, jointly with the Chairman of the Board. The Nomination Committee also analyzed the competence and experience of the Directors, and their gender division, and compared them with identified needs. The Nomination Committee's opinion is that the Directors possess considerable breadth and extensive experience of activities including business operations, technology and the financial markets, telecom and IT, and of the semiconductor industry. At present, the Board of Directors consists of two women and six men. The Nomination Committee is endeavoring to achieve even gender balance on the Board of Directors. The Nomination Committee applies point 4.1 of the Code as its Diversity Policy, and continuously endeavors to satisfy the Code's standards for diversity, breadth and gender balance on the Board of Directors. The Nomination Committee also made several contacts with the Audit Committee regarding the Audit Committee's recommendations on the election of an auditor.

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

Pursuant to the Articles of Association, Fingerprint Cards' Board of Directors should consist of four to ten Directors with a maximum of five deputies elected by a shareholders' meeting for the period until the end

of the following AGM. The Board of Directors and the Chairman of the Board are appointed by the shareholders at each AGM for the period until the following AGM, and accordingly, their term of office is one year.

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

The AGM 2017 resolved to re-elect Jan Wäreby, Urban Fagerstedt, Michael Hallén, Åsa Hedin, Tomas Mikaelsson and Carl-Johan von Plomgren Directors, and to elect Alexander Kotsinas, Ann-Sofie Nordh and Dimitrij Titov. Jan Wäreby was re-elected as Chairman of the Board. Michael Hallén voluntarily left the Board in November 2017.

The Nomination Committee judges that eight Directors are independent of the company and management. Seven Directors are independent of major shareholders. Accordingly, the Board of Directors satisfies the requirements of independence as stipulated by the Code.

The Board of Directors is responsible for Fingerprint Cards' organization and administration, in the interests of the company and its shareholders. The Board should regularly evaluate Fingerprint Cards' financial situation and ensure that Fingerprint Cards is organized so that its accounting, management of funds and the company's other accounting circumstances are controlled satisfactorily. The Board appoints the Chief Executive Officer, decides on issues regarding strategic

direction of operations and the company's overall organization.

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

The Board also approves policies and instructions for operating activities. Operating activities are managed by the Chief Executive Officer. The Chief Executive Officer provides the Board with regular information on events that are significant to the company's progress, results of operations, financial position, liquidity or other information of such significance that the Board should be informed of. The Directors are presented separately on pages 56–57 of the Annual Report.

### **WORK OF THE BOARD OF DIRECTORS IN 2017**

Pursuant to the current Articles of Association, the Board of Directors should meet on at least four scheduled occasions and one meeting following election per year. Additional meetings can be held for special issues as required. In 2017, there were 24 Board meetings. The Board's work in the year featured supporting management in adapting operations to the fundamental and

rapid change in business conditions on the mobile side. Meanwhile, strategy issues have taken up more time.

Regular items on the agenda of Board meetings in the year are Group Management's reporting of business conditions, operations, organization, results of operations, financial position and liquidity. During the fall, and before Christmas, Board meetings consider the budgets and business plan for the following year.

Board meetings are held at quarter-ends to reach decisions on publications of interim, half-year and annual financial statements. Meetings to decide on invitations, annual accounts, corporate governance documentation and other matters for business are held prior to AGMs.

The senior executives of Fingerprint Cards have participated at Board meetings as required, and presented reports on special issues.

### **REMUNERATION COMMITTEE**

The Remuneration Committee evaluates and consults on matters regarding remuneration and employment terms, and considers proposals and guidelines for compensation to the Chief Executive Officer and senior executives for approval by the AGM. The Remuneration Committee should ensure that remuneration is commensurate with prevailing market conditions for corresponding executives in other companies, and accordingly, that the company's offering

to its employees is competitive. The Chief Executive Officer's compensation is approved by the Board of Directors.

Compensation to other senior executives is decided by the Chief Executive Officer after consulting with the Remuneration Committee. The Remuneration Committee members are Jan Wäreby (Chairman), Urban Fagerstedt and Åsa Hedin.

### **AUDIT COMMITTEE**

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

In 2017, the Audit Committee's members were the Directors Alexander Kotsinas (Chairman) Carl-Johan von Plomgren and Ann-Sofie Nordh. (Ann-Sofie Nordh replaced Michael Hallén after his departure as a Director in November 2017.)

### **AUDITOR**

The Articles of Association stipulate that Fingerprint Cards should have one or two auditors with or without deputies, or one or two registered public accounting firms. The AGM 2017 re-elected KPMG AB as auditor until the AGM 2018. KPMG AB has appointed Joakim Thilstedt as Auditor in Charge. The duty of the auditor is to review the company's annual accounts and accounting records, and the Board of Directors' and Chief Executive officer's administration on behalf of the shareholders. The auditor also conducts a summary review of one quarterly financial statement and issues opinions regarding the Board of Directors' reporting in tandem with events such as new share issues and decisions on warrant programs. Each year, the Board of Directors meets the company's auditor for a report on whether the company's organizational resources are structured so that book-keeping, the management of funds and other circumstances can be controlled satisfactorily. In the financial year 2017, the auditor reported to the Board of Directors on one occasion, and to the Audit Committee on four occasions. The auditor attended the AGM on 20 April.

### **INTERNAL CONTROLS AND RISK MANAGEMENT**

The Swedish Annual Accounts Act stipulates that the Board of Directors shall submit a review of the material elements of the

company's systems for internal control and risk management over financial reporting yearly.

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

The Board of Directors has adopted and approvals list, finance policy and other policy documents comprising instructions and procedures for operations that should be monitored regularly and reported. The approvals list includes instructions regarding company signatories as well as roles and authorizations regarding decision-making and the approval of agreements, investments, expenses and other expenditure. The Finance Policy sets mandates for investments, management of liquidity, currency hedging and credit issuance on sales. Sales are subject to credit insurance as far as possible, when this is viable and where credit insurance is granted, only if there are good grounds to expect the borrower to fulfil its commitments. Fingerprint Cards endeavors to maintain its historical minimum level of bad debt, and thus maintain good profitability and a healthy financial position.

During the year, the company evaluated the need for a special internal audit function, and the Board of Directors does not consider that such a function is required. The controller function and management's monthly follow-up are expected to meet the needs,

as the company's operations are essentially conducted within a single company. The Board of Directors reviews this issue on an annual basis.

### **CONTROL ENVIRONMENT**

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

### **RISK ASSESSMENT**

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

### **CONTROL ACTIVITIES**

Control activities are designed to manage the risks that the Board and company management consider material to internal controls over financial reporting.

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

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

development projects is through ongoing project monitoring with reporting of part-projects. Efforts made and expenditure incurred in related to plans and budgets, and expected remaining project expenditure until project completion are also reported.

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

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

### **REMUNERATION GUIDELINES FOR THE BOARD OF DIRECTORS**

The AGM 2017 decided on unchanged remuneration of the Board of Directors, with total fixed Directors' fees of SEK 4,050,000, of which SEK 850,000 to the Chairman of the Board and SEK 400,000 per Director to the other Directors. Fees for committee work of SEK 460,000 would be payable, to be allocated as follows: Audit Committee: SEK 150,000 to the Chairman and SEK 75,000 to the other member. Remuneration Committee: SEK 80,000 to the Chairman and SEK 40,000 to the other member. If the tax circumstances for invoicing are in place, and providing it is cost neutral to the company,

Directors' fees may be invoiced from independent consulting practices. If a Director invoices for a Directors' fee via such firm, the fee shall be increased by an amount that corresponds to legislated social security contributions and value-added tax.

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

### **REMUNERATION GUIDELINES FOR SENIOR EXECUTIVES**

The AGM 2017 approved the proposal that the Remuneration Committee internal to the Board of Directors should consult on guidelines regarding salary and other employment terms for the Chief Executive Officer and other senior executives, and submit proposals to the Board of Directors for decision on such matters. The Board of Directors takes decisions on salary and other benefits for the Chief Executive Officer. The Chief Executive Officer takes decisions on salary and other benefits to other senior executives pursuant to the Board of Directors' guidelines. Other senior executives mean individuals that are members of Group Management with the Chief Executive Officer. Fundamental compensation levels should be on market terms. Compensation should consist of fixed basic salary, variable salary computed in accordance with established objectives set in advance,

Name	Function	Elected	Left	Committee	Independent of		Attendance at meetings 2017	Directors' fee 2017/18 (SEK 000)	Committee fee 2017/18 (SEK 000)
					Company	Major shareholders			
Jan Wäreby	Chairman of the Board (from 4 May 2016) Director	3 Jun 2015	-	Remuneration Committee	Yes	Yes	24/24	850	80
Urban Fagerstedt	Director Chairman of the Board (until 4 May 2016)	4 Jun 2009	-	Remuneration Committee	Yes	Yes	23/24	400	40
Katarina Bonde	Director	3 Jun 2015	20 Apr 2017		Yes	Yes	7/9	-	-
Carl-Johan von Plomgren	Director	3 Jun 2015	-	Audit Committee	Yes	Yes	22/24	400	75
Lars Söderfjell	Director	3 Jun 2015	23 Jan 2017		Yes	No	2/3	-	-
Michael Hallén	Director	4 May 2016	8 Nov 2017	Audit Committee (replaced by Ann-Sofie Nordh)	Yes	Yes	18/20	206	39
Tomas Mikaelson	Director	4 May 2016	-		Yes	Yes	24/24	400	-
Peter Carlsson	Director	4 May 2016	20 Apr 2017		Yes	Yes	7/9	-	-
Åsa Hedin	Director	4 May 2016	-	Remuneration Committee	Yes	Yes	22/24	400	40
Alexander Kotsinas	Director	20 Apr 2017	-	Audit Committee	Yes	Yes	15/15	400	150
Ann-Sofie Nordh	Director	20 Apr 2017	-	Audit Committee (replaced Michael Hallén)	Yes	Yes	15/15	400	36
Dimitrij Titov	Director	20 Apr 2017	-		Yes	No	15/15	400	-

and other benefits, pensions and financial instruments in the form of performance-related shares.

The division between basic salary and variable compensation should be in proportion to the executive's duties and authorization. For the Chief Executive Officer and other senior executives, variable compensation is a maximum of 100% of basic annual salary, apart from sign-on bonus.

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

## ARTICLES OF ASSOCIATION

The Articles of Association stipulate that the company's operations, the number of Directors and auditors, procedure for convening shareholders' meetings, matters for consideration at the AGM and where meetings are held, as well as share classes, preferential rights and pre-emption rights regarding the company's class A shares.

The company's Articles of Association are available at Fingerprint Cards' website: [www.fingerprints.com](http://www.fingerprints.com)

## INFORMATION AND COMMUNICATION

Fingerprint Cards' policies and guidelines are especially important for accurate accounting, reporting and corporate communication. Information should increase knowledge of Fingerprint Cards, increase confidence in Fingerprint Cards, its management and employees, and promote business activities. A Corporate Communication Policy is in place for communication with internal and external parties, containing guidelines for the company's corporate communication. The purposes to ensure compliance with the liability of communication on an accurate and comprehensive footing.

## MONITORING

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

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

Board of directors  
Gothenburg, April 23, 2018

## AUDITOR'S STATEMENT ON THE CORPORATE GOVERNANCE REPORT

To the general meeting of the shareholders in Fingerprint Cards AB (publ.), corporate identity number 556154-2381

### Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the year 2017 on pages 48 - 55 and that it has been prepared in accordance with the Annual Accounts Act.

### The scope of the audit

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

### Opinion

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

Stockholm 24 april 2018

KPMG AB, Joakim Thilstedt,  
Authorized Public Accountant, KPMG AB

# BOARD OF DIRECTORS



## JAN WÄREBY

Chairman of the Board since 2016.  
Chairman of the Remuneration Committee.  
Board member since 2015.  
Born in 1956.

Other directorships: Chairman of the Board of RISE AB and Obelixus AB. Board member of Tobii AB, Gapwaves AB, Incell International AB and Agapi Boating AB.

Education: M.Sc. from Chalmers Institute of Technology.  
Professional background: SVP and Head of Sales Group Function at Ericsson 2015-2016. SVP and Head of Sales & Marketing Group Function at Ericsson 2011-2015. Formerly SVP and Head of Multimedia Business Unit, and Executive Vice President and Head of Sales & Marketing at Sony Ericsson Mobile Communications.

Holdings in Fingerprint Cards: 116,950\*

Independent of major shareholders, the company and executive management.

\* As of 31 December 2017.



## ÅSA HEDIN

Board member since 2016.  
Born in 1962.

Member of the Remuneration Committee

Other positions and directorships: Board member of Nolato AB, Tobii AB, Immunova AB, Cellavision AB and E. Öhman J:or Fonder AB. Industrial Advisor to the Department of Microtechnology and Nanoscience at Chalmers University of Technology.

Education: M.Sc. in biophysics from the University of Minnesota, B.Sc. in physics from Gustavus Adolphus College.

Professional background: longstanding experience of senior executive positions in the medical devices sector from global corporations including Elekta, Gambro and Siemens Healthcare, also possesses in-depth microtechnology expertise.

Holdings in Fingerprint Cards: 5,500\*

Independent of major shareholders, the company and management.



## URBAN FAGERSTEDT

Board member since 2009.  
Born in 1953.

Member of the Remuneration Committee

Other positions and directorships: Proprietor and Chairman of Fagerstedt Dynamics Radio AB, Fagerstedt Finance AB and Fagerstedt Dynamics UK Ltd. Director of Cuptronic AB and Crowdsoft AB.

Education: M.Sc. in electronic engineering, Faculty of Engineering, Lund University.

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

Holdings in Fingerprint Cards: 32,000\*

Independent of major shareholders, the company and executive management.



## ALEXANDER KOTSINAS

Board member since 2017.  
Born in 1967.

Chairman of the Audit Committee.

Other positions and directorships: Finance Director of Lindorff Sverige AB. Director of Intervacc AB (publ), Oasmia Pharmaceutical AB (publ) and Delta Projects AB. Partner of venture capital firm Nexttobe AB.

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

Professional background: Vice President and CFO of Q-Med AB, CFO of Life Europe AB, CFO of mobile operator Tre (Hi3G Access AB), Vice President of Investor AB (publ), various positions at Ericsson.

Holdings in Fingerprint Cards: 3,500\*  
Independent of major shareholders, the company and executive management.



**ANN-SOFIE NORDH**

Board member since 2017.  
Born in 1969.  
Member of the Audit Committee.

Other positions: Vice President of Investor Relations at Sandvik AB.

Education: Diploma in marketing, IHM Business School, Stockholm. Chief Accountant program, FEI, Stockholm.

Professional background: 20 years' experience in the finance sector, based in London and Stockholm, including 11 years as an equity analyst focused on Swedish manufacturing with firms including Alfred Berg Fondkommission AB 3(4) (publ) and Nordea markets. The past three years, active within Sandvik, including serving as Vice President of Sandvik Investor Relations.

Holdings in Fingerprint Cards: 740\*

Independent of major shareholders, the company and executive management.



**TOMAS MIKAELSSON**

Board member since 2016.  
Born in 1956.

Other directorships: Board member and CEO of ZetiQ AB and Board member of Sourcingprovider Sweden AB.

Education: IHM Business School, Stockholm.

Professional background: experience of marketing & sales. Extensive knowledge of the telecom and mobile communications industry, where he held senior executive positions with companies including Omnipoint (T-Mobile) and Affinity Internet, as well as broad experience of marketing & sales in Europe.

Holdings in Fingerprint Cards: 3,000\*

Independent of major shareholders, the company and management.



**CARL-JOHAN VON PLOMGREN**

Board member since 2015.  
Born in 1961.  
Member of the Audit Committee.

Other positions and directorships: Sales Director of Northern Europe & Chief Compliance Officer, Villeroy & Boch Gustavsberg, co-opted Board member of Villeroy & Boch Gustavsberg AB, Villeroy & Boch Gustavsberg AS (Norway), Villeroy & Boch Gustavsberg AS (Denmark) and Villeroy & Boch Gustavsberg OY.

Education: LL.B., Stockholm University.

Professional background: considerable professional experience from senior positions in the IT industry in 1987–2001 with companies including Dell, Compaq and WM-data, and subsequently, from 2001, with manufacturing and finance companies, such as General Electric, Havells Sylvania and Villeroy & Boch Gustavsberg. Member of various sector bodies such as Belysningsbranschen (the Swedish sector organization for lighting companies) in Sweden, and equivalents in Denmark, LWF, and Finland, FLIP, as well as Ecogaisma of Latvia.

Holdings in Fingerprint Cards: 88,825\*

Independent of major shareholders, the company and executive management.



**DIMITRIJ TITOV**

Board member since 2015.  
Born in 1962.

Other positions: Attorney and Partner, Advokatfirman Fylgia.

Education: LL.B., Stockholm University. 2 (4)

Other directorships: Chairman of the Italian Chamber of Commerce in Sweden, Italienska Handelskammarens Service AB, Din Studio Sverige AB and Phantome de Genolier AB. Professional background: 29 years' experience as a business lawyer. Attorney since 1993, and Partner of Advokatfirman Fylgia since 1995, specializing in M&As, company law and international industrial contracts. Former Chairman of the Nomination Committee of Fingerprint Cards AB (publ) and Mr. Green & Co AB (publ).

Holdings in Fingerprint Cards: 3,300\*

Independent of the company and management, but non-independent of major shareholders.

# GROUP MANAGEMENT



## CHRISTIAN FREDRIKSON

CEO since 2016.  
Born in: 1964

Education: M.Sc. in Engineering, Turku University.

Previous assignments: CEO of F-Secure, 2012–2016, Christian also had a long career with Nokia Networks and Nokia Siemens Networks (1994–2012), holding several senior positions including VP of Asia (2008–2010) and Global Sales VP of Mobile Infrastructure (2010–2012) for Nokia Siemens Networks.

Other assignments: Board member of Stena AB and Remedy Entertainment Ltd. Board member of the Åbo Akademi University Foundation.

Shareholding in Fingerprints: 32,750 class B shares. \*



## HASSAN TABRIZI \*\*

Interim CFO since 2017  
Born in 1965

Education: B.Sc. in business management, Ain Shams University, Cairo.

Professional background: Interim CFO of Transmode (publ), 2015–2016. Interim CFO of Birdstep Technology (publ), 2014–2015. Head of Enterprise Development at G&D, 3S division, 2011–2014. Prior to that, CFO of SmartTrust (private equity), 2007–2010.

Shareholding in Fingerprints: 0\*



## PONTUS JÄGEMALM

CTO, Senior VP Research & Development since 2009.  
Born in: 1971.

Education: M.Sc. and Ph.D. in engineering physics, Chalmers University of Technology, Gothenburg.

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

Shareholding in Fingerprints: 800,125 class B shares.\*



## TED HANSSON

Senior VP Mobile business line since 2017  
Born in: 1976.

Education: M.Sc. in electrical engineering, Blekinge Institute of Technology.

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

Shareholding in Fingerprints: 20,000 class B shares.\*



## NIKLAS STRID

Senior VP of PC & Embedded business line since 2017  
Born in: 1972.

Education: M.Sc. in electronic engineering, Faculty of Engineering, Lund University.

Previous assignments: Interim SVP of Smart Cards business line in 2017, VP of Customer Projects at Fingerprints, 2014–2016. Senior Project Manager and Program Manager of Ericsson BU Modems, ST-Ericsson.

Shareholding in Fingerprints: 5,000 class B shares.\*



**JONAS SPANNEL**

Senior VP Operations & Quality since 2013.  
Born in: 1963

Education: officer training at the former Officers' College, War College and the Swedish Armed Forces Staff. Business Administration at Örebro University.

Previous assignments: Director of Electronics Sourcing and VP of Strategic Sourcing at Sony Mobile.

Shareholding in Fingerprints: 50,000 class B shares



**JAN JOHANNESSON**

Senior VP Strategy & Corporate Development since 2013.  
Born in: 1969

Education: M.Sc. in electronic engineering, Faculty of Engineering, Lund University. Consumer Marketing Strategy, Kellogg School of Management at Northwestern University.

Previous assignments: VP, Head of Strategic Planning at ST-Ericsson, Director of Portfolio Management at Ericsson Mobile Platforms. Senior Advisor at Northstream.

Shareholding in Fingerprints: 26,250 class B shares\*



**PETER BERGSON**

General Counsel since 2017  
Born in 1965

Education: LL.M., University of Uppsala.

Previous assignments: General Counsel of Bisnode AB, 2012-2017, General Counsel of Orc Group AB (publ), 2007-2012, Legal Director of Sun Microsystems Inc., 1996-2007, Senior Associate of Schagers law firm, 1992-1996, Assistant Counsel EuroCredit AB, 1990-1992.

Shareholding in Fingerprints: 1,500.\*



**THOMAS REX**

Senior VP of Smart Cards business line since 2017. Prior to that, VP of Sales at Fingerprints, November 2011-October 2016.  
Born in 1963

Education: M.Sc. in electrical engineering, Faculty of Engineering, Lund University.

Previous assignments: VP of Sales in Asia, Ericsson Mobile Platforms. VP of Sales, Nanoradio.

Shareholding in Fingerprints: 1,000,000 class B shares\*  
These shares are held through endowment insurance.



**MATTIAS HAKERÖD**

Senior VP of Human Resources since 2017  
Born in 1974

Education: B.S., international working life, University of Gothenburg HR program, Mid-Sweden University.

Previous assignments: Global Vice President of HR Mölnlycke Commercial, 2017, Global HR Director of Mölnlycke Commercial, 2014-2017, HR Director of Mölnlycke Surgical Division, 2009-2014, Global Business Partner of AstraZeneca R&D, 2008, Regional HR Business Partner of AstraZeneca R&D, 2003-2008.

Shareholding in Fingerprints: 33,500 class B shares.\*

# STATUTORY ADMINISTRATION REPORT

The Board of Directors and the Chief Executive Officer (CEO) of Fingerprint Cards AB hereby present the Annual Accounts for the fiscal year 2017.

## FINGERPRINTS' OPERATIONS

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

## GROUP AND PARENT COMPANY

The annual accounts cover the financial year 1 January-31 December 2017.

Fingerprint Cards AB (publ) (corporate ID no. 556154-2381) is the Parent Company of a Group including ten subsidiaries. All

staff in Sweden are employees of the Parent Company. These companies' operations consist of marketing and customer support.

All external business operations were conducted through Parent Company Fingerprint Cards AB in 2017, where all critical decisions regarding transactions, finance, product portfolio, research & development, intellectual property and strategies are taken.

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

## SIGNIFICANT EVENTS IN THE YEAR

Revenues for 2017 were SEK 2,966 M (6,638), a decrease of 55% on 2016. This reflects a rapid change in market conditions for capacitive fingerprint sensors for smartphones, a market that represents the majority of Fingerprints' business, which has rapidly evolved into a mature mass market with high competitive pressure and falling prices. The average sales price of the company's products decreased by some 30% in 2017, partly because of general price pressure, but also as the result of a product mix transition towards smaller, and cheaper, sensors.

96 smartphone models integrating Fingerprints' fingerprint technology were launched in 2017, which included products from the world's largest and most recognized

brands in smartphones, PCs and embedded systems; PCs for Samsung and smartphones for Google being two examples.

Fingerprints continued to invest in developing new products, partnerships with appropriate players in prioritized business segments, and by enhancing its offering of biometrics and fingerprint technology to the market. Its product portfolio gained more breadth and depth in terms of application segments, technical performance and functionality; for example, the company took its next step towards high-volume production of Fingerprints' sensors for smart cards in the year by launching its new module design, T-Shape™.

Fingerprints completed the acquisition of Delta ID in the year. Operations have been integrated into the company's organizational resources, enabling Fingerprints to offer biometric solutions based on fingerprint sensors and iris recognition. In 2017, Fingerprints was also able to announce the company's first commercial multimodality launch, in the form of a smartphone that combines fingerprint sensors and iris scanning from Fingerprints.

## EARNINGS TREND

The Group's revenues for 2017 decreased by 55% to SEK 2,966 M (6,638). Net profit for 2017 was SEK 120 M (2,035). In the first half-year, revenues were negatively impacted by distributors and module suppliers destock-

ing previously accumulated inventories rather than placing new orders for sensors. A clear transition in the company's product mix towards smaller, cheaper sensors also negatively impacted revenues. Overall, average pricing of sensors for smartphones was down by some 30% in the year.

Gross profit for the year was SEK 989 M (3,165) and the gross margin contracted to 33% (48). The lower gross profit is a result of price reductions and altered product mix. Additionally, provisions to the insolvency reserve of SEK 122 M had a 4 percentage point negative impact on gross margin.

Operating profit for the year was SEK 155 M (2,578), and the operating margin contracted to 5% (39). In operating profit, currency effects are accounted under the other external income and expenses item. Organizational resources expanded in 2017, which resulted in increased operating expenses. At the beginning of 2018, Fingerprints initiated a cost-savings program, which will have outcomes including the number of positions in the company reducing by approximately 185. The company is reducing its external expenses, mainly consultants, although also expenses for its own employees. These overall measures are expected to achieve cost savings of some SEK 360 M in 2018. At present, restructuring expenses are estimated at some SEK 40 M, most of which will be accounted in the first half-year 2018.

Profit before tax for the year was SEK 142 M (2,614), while the income tax expense was SEK -22 M (-579).

Overall, the Group's full-year profits decreased to SEK 120 M (2,035).

The Group's earnings per share for 2017 were SEK 0.38 (6.40).

### FINANCIAL POSITION

Positive net profit increased shareholders' equity to SEK 2,331 M (2,226). The equity/asset ratio increased to 66% (64) as a result of shareholders' equity increasing more than total assets overall.

Non-current assets increased to SEK 1,235 M (101), mainly because of the acquisition of Delta ID in the year. The non-current asset share of total assets increased significantly.

Inventories decreased to SEK 646 M (673), and outstanding accounts receivable decreased to SEK 438 M (1,132).

Accounts payable at year-end amounted to SEK 268 M (822), and other current liabilities were SEK 541 M (319), of which the short-term portion of loans was SEK 243 M (-).

Cash and cash equivalents in cash and bank balances amounted to SEK 920 M (1,162) at year-end.

### INVESTMENTS, DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Total net investments in 2017 increased to SEK 1,071 M (78). Of this total, investments

in capitalized development and intangible assets were SEK 1,039 M (63), of which SEK 836 M were from the acquisition of Delta ID and in property, plant and equipment were SEK 32 M (22).

Total depreciation and amortization according to plan increased to SEK -80 M (-49) in 2017. Of this total, plan amortization of intangible assets was SEK -66 M (-41), and plan depreciation of tangible assets was SEK -14 M (-7).

Accordingly, the carrying amounts of intangible assets in 2017 increased to SEK 1,188 M (71), and property, plant and equipment to SEK 47 M (29).

### CASH FLOW TREND

Operating profit made a positive contribution to cash flow of SEK 142 M (2,614). Cash flow from changes in working capital components were affected by reduced capital tied-up in operating receivables of SEK 1,080 M (-913), and a decrease in inventories of SEK 27 M (-520). This positive impact on cash was partly offset by a SEK -663 M (433) reduction in operating liabilities. Cash flow contributed by operating activities decreased to SEK 377 M (1,130).

Cash flow from investing activities was SEK -1,071 M (-78). The acquisition of Delta ID in the year resulted in an outflow of cash and cash equivalents of SEK 836 M (-).

Accordingly, for the full-year 2017, the total net change in cash and cash equivalents was SEK -212 M (96).

### SHAREHOLDERS' EQUITY AND FINANCE TRENDS

870,000 class B shares with share capital of SEK 34,800 from the final exercise of the TO6 warrant program were undergoing registration on the reporting date 31 December 2016.

In accordance with a resolution of the AGM 2017, shares were cancelled, and a bonus issue was conducted, in May 2017. The company's registered share capital did not change, although the number of shares decreased.

The share capital decreased through the cancellation of a total of 10,424,000 class B shares that the company held in treasury. Share capital decreased through a SEK 0.4 M cancellation, from SEK 12.9 M to SEK 12.5 M. Share capital increased through a SEK 0.4 M bonus issue, without issuance of new shares.

After the cancellation of shares and bonus issues, the number of shares is 313,967,675, of which 6,000,000 class A shares and 307,967,675 class B shares. The total number of votes is 367,967,675. Share capital remains unchanged after the above actions, and amounts to SEK 12.9 M.

### FINANCE POLICY

Fingerprints' Finance Policy regulates and clarifies responsibilities, and states guidelines in specific segments within financing, credit insurance, investment and currency management with the aim of supporting operations, managing financial risks and controlling their impact on financial position, results of operations and cash flow.

The most important net currency flow is in USD, whereupon a significant portion of Fingerprints' finance activities were in formulating a strategy for selling USD and purchasing SEK. The increased net surplus from the sale, which is denominated in USD, and increased operating expenses that are predominantly in SEK, generates a continuous need to convert USD to SEK. Materials procurement, manufacture and sales are basically denominated in USD only. Almost all liquidity is deposited with banks in Sweden. Fluctuations in other exchange rates have an insignificant impact on earnings. Currency hedging with derivatives and hedging instruments is not permitted pursuant to the Finance Policy. See note 25 for more information on financial risks.

### ORGANIZATION AND HUMAN RESOURCES

In total, the number of coworkers, including employees and consultants, increased in

2017 to 558 people at year-end, from 438 at the beginning of the year.

The number of employees as of 31 December 2017 amounted to 415 (306), of which 311 (244) men and 104 (62) women. As of 31 December 2017, and including employees and consultants, Fingerprints' employed 558 (438) people.

Fingerprints initiated a cost savings program at the beginning of 2018. One result of this will be the number of positions reducing by approximately 185. The company is reducing its external expenses, mainly consultants, but also expenses for its own employees. The aggregate expenses are estimated to involve cost savings of some SEK 360 M in 2018. Restructuring expenses are currently estimated at some SEK 40 M, most of which will be accounted in the first half-year 2018.

## RESEARCH AND DEVELOPMENT ACTIVITIES

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

Over 53% (55) percent of the Group's organizational resources were focused on technical development work, and with engineers in the customer projects organization, these two components represented over 69% (71) of all coworkers.

Expenditure for technology development is partly recognized as a cost in the Consolidated Statement of Comprehensive Income (Parent Company Income Statement) under the development costs heading, and partly through capitalization in the Consolidated Statement of Financial Position (Parent Company Balance Sheet), and capitalized development expenditure, under intangible assets. Capitalization conducted after an assessment of factors such as each project's commercial, financial and technical potential, its future value for the Group, disposal over rights to the product/solution, the potential for completing development, and the presence of a market for the product. The rate of amortization is determined on the basis of the technical and commercial lifespan of the product or solution related to the extant market. Accordingly, the amortization term varies between products and projects.

Expenditure for technology development and patents increased to SEK 595 M (367) in the Group in 2017, of which SEK 204 M (63) was capitalized in the Consolidated Statement of Financial Position, and the remaining SEK 391 M (304) was expensed in the Consolidated Statement of Comprehensive Income.

## SUSTAINABILITY REPORT

In accordance with chapter 6 §11 of the Swedish Annual Accounts Act, Fingerprints

has decided to prepare a statutory Sustainability Report as a separate document from the annual accounts.

Fingerprints' Sustainability Report, which constitutes Fingerprints' statutory Sustainability Report, has been prepared pursuant to GRI standards, Core option, and satisfies the Swedish Annual Accounts Act's requirements of sustainability reporting. The Report is on pages 26–41. The scope of the Sustainability Report is stated in the GRI index on pages 97–100.

## OWNERSHIP

The number of shareholders increased to 70,057 at year-end 2017 from 63,467 at the beginning of the year. At year-end 2017, Velociraptor Ltd. held all 6,000,000 class A shares.

## INCENTIVE PROGRAMS

The AGM approved the proposal to adopt a long-term incentive program ("LTIP 2017") for up to 25 individuals within the Fingerprints group. Participants were offered the opportunity to receive class B shares within LTIP 2017, called "Performance Shares" free of charge, assuming the satisfaction of certain terms. See the invitation to the AGM for more information at [www.fingerprints.com](http://www.fingerprints.com)

## EXPECTATIONS OF FUTURE PROGRESS

Fingerprints is not issuing a forecast of 2018.

As previously communicated, the company anticipates that sales will continue to decline in the first quarter of 2018, and that in value

Shareholder	Shares and capital, %		Votes at year-end, %	
	2017	2016	2017	2016
Sunfloro AB	0	1.9	0	16.3
Velociraptor LTD	1.8	0	16.3	0

Share class	No. of shares		No. of votes	
	2017	2016	2017	2016
Class A	6,000,000	6,000,000	60,000,000	60,000,000
Class B	307,967,675	307,967,675	307,967,675	307,967,675
<b>Total</b>	<b>313,967,675</b>	<b>313,967,675</b>	<b>367,967,675</b>	<b>367,967,675</b>

Ownership of at least one-tenth of the votes for all shares as of 31 December 2017: Velociraptor Ltd. 16.3%.

terms, the market for fingerprint sensors for smartphones will contract in 2018.

The company is realigning its resources to ensure sufficient focus on new growth segments, and that its organization is adapted to successfully compete on an expanding global biometrics market. Simultaneous with us seeing significant potential for our sensors in new application segments, which will create future growth, it will take some time before we achieve significant business volumes outside our core business in smartphones.

### SEASONALITY

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

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

### REMUNERATION GUIDELINES FOR THE BOARD OF DIRECTORS

The AGM 2017 decided on unchanged remuneration of the Board of Directors, with total fixed Directors' fees of SEK 4,050,000, of which SEK 850,000 to the Chairman of the Board and SEK 400,000 per Director to the other Directors. Fees for committee work of SEK 460,000 would be payable, to be allocated as follows:

Audit Committee: SEK 150,000 to the Chairman and SEK 75,000 to the other member.

Remuneration Committee: SEK 80,000 to the Chairman and SEK 40,000 to the other member.

If the tax circumstances for invoicing are in place, and assuming that this is cost neutral to the company, Directors' fees may be invoiced from independent consulting practices. If a Director invoices for a Directors' fee in this way, the fee shall be increased by an amount that corresponds to legislated social security contributions and value-added tax.

### REMUNERATION GUIDELINES FOR SENIOR EXECUTIVES

The AGM 2017 approved the proposal that the Remuneration Committee internal to the Board of Directors should consult on guidelines regarding salary and other employment terms for the Chief Executive

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

The division between basic salary and variable compensation should be in proportion to the executive's duties and authorization. For the Chief Executive Officer and other senior executives, variable compensation is a maximum of 100% of basic annual salary, apart from sign-on bonus. Pension terms should be defined contribution pension solutions. The notice period from the company's side should not exceed six months. During the notice period of a maximum of six months, full salary and employment benefits are due. Upon termination by the company, severance

pay may be payable up to an amount corresponding to a maximum of 12 months' salary. Decisions on share and share price-related incentive programs are taken by the AGM. The Board shall be entitled to depart from these guidelines if there are special reasons for this in an individual case.

### FINANCIAL TARGETS

Considering the cost savings program the company has initiated and altered market conditions in capacitive sensors for smartphones, as previously reported, the company needs to review the long-term financial objectives communicated in the Year-end Report for 2016. The company intends to adapt its financial targets to the altered circumstances, and will provide revised objectives in the second quarter of 2018.

### EVENTS AFTER THE REPORTING DATE

On 25 January 2018, Fingerprints announced that the company anticipated that its earnings for the fourth quarter 2017 would be below market estimates. At this time, the company also reported that it had initiated a cost savings program. As part of this, the number of positions will be reduced by some 185.

On 20 March 2018, Fingerprints reported that Pernilla Lindén had been appointed as

CFO effective 7 June 2018. The company also announced that Hassan Tabrizi will leave his position as Interim CFO effective 6 June 2018, and that Jan Johannesson will leave the position of VP of Strategy & Corporate Development effective 30 June 2018.

## REPORT ON THE WORK OF THE BOARD IN THE YEAR

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

The Board met on 24 occasions in 2017. A more detailed statement on corporate governance in 2017 including regulations, shareholders' meetings, the Nomination Committee, the composition of the Board and its work, as well as governance processes and internal control are stated in the separate Corporate Governance Report.

## AGM 2018

The AGM will be held at 3 p.m. on Tuesday, 29 May 2018 in Gothenburg at the Elite Park Avenue Hotel, Kungssportsavenyn 36-38.

Proposed appropriation of the company's profit.

The following amounts are at the disposal of the Annual General Meeting (SEK):

Share premium reserve	79,059,431
Accumulated profit or loss	1,356,036,552
Net profit for the year	57,921,664
<b>Total</b>	<b>1,493,017,647</b>

The Board of Directors proposes that net profit for the year and unrestricted reserves, as well as the accumulated profit or loss, are appropriated as follows.

Carried forward: SEK 1,493,017,647.

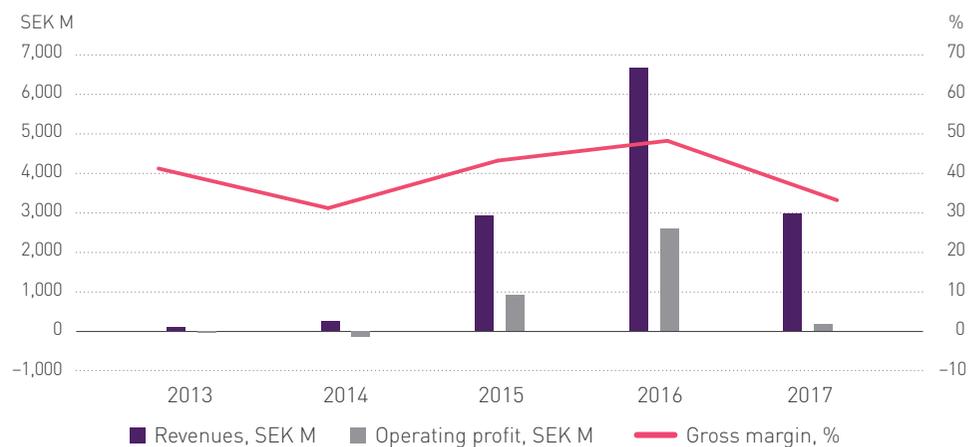
Regarding the company's results of operations and financial position otherwise, the reader is referred to the following financial statements with the associated notes.

# STATEMENT OF COMPREHENSIVE INCOME

## GROUP

SEK M	Note	2017	2016
Revenues	2, 3	2,966.0	6,638.3
Cost of goods sold	5, 10	-1,977.1	-3,473.0
<b>Gross profit</b>		<b>988.9</b>	<b>3,165.3</b>
Selling costs		-236.9	-176.6
Administrative expenses	9	-145.6	-117.2
Development costs	11	-391.3	-304.2
Other operating income	6	28.2	11.2
Other operating expenses	7	-88.7	-
<b>Operating profit</b>	3, 8, 10, 26, 27	<b>154.6</b>	<b>2,578.5</b>
Financial income	12	0.5	36.0
Financial expenses	12	-13.3	-1.0
<b>Profit before tax</b>		<b>141.8</b>	<b>2,613.5</b>
Tax	14	-21.5	-578.8
<b>Net profit for the year</b>		<b>120.3</b>	<b>2,034.7</b>
Earnings per share	15		
before dilution (SEK)		0.38	6.40
after dilution (SEK)		0.38	6.33
<b>Other comprehensive income</b>			
<b>Net profit for the year</b>		<b>120.3</b>	<b>2,034.7</b>
Translation differences for the year on translation of foreign operations		-15.2	0.3
<b>Other comprehensive income</b>		<b>-15.2</b>	<b>0.3</b>
<b>Comprehensive income for the year</b>		<b>105.1</b>	<b>2,035.0</b>
Attributable to equity holders of the parent			
Moderbolagets aktieägare		105.1	2,035.0
		<b>105.1</b>	<b>2,035.0</b>

## REVENUES, OPERATING PROFIT AND GROSS MARGIN

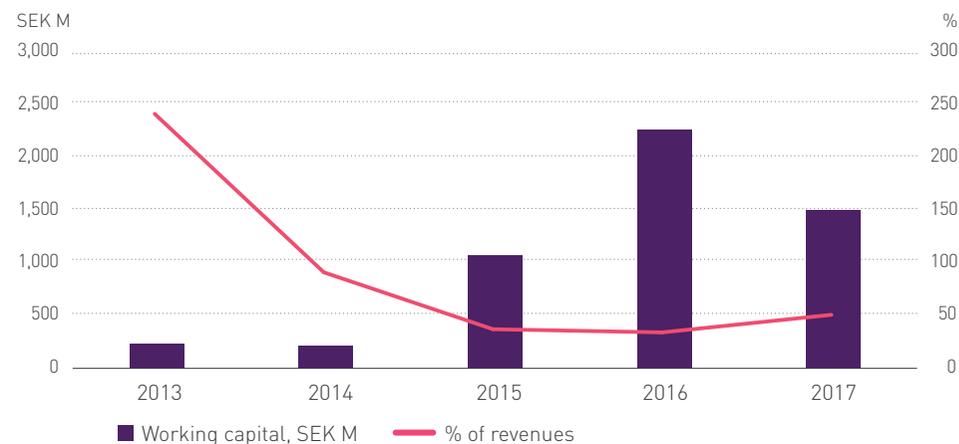


# STATEMENT OF FINANCIAL POSITION

## GROUP

SEK M	Note	31 Dec. 2017	31 Dec. 2016
<b>Assets</b>			
Intangible assets	16	1,188.3	71.4
Property, plant and equipment	17	46.6	29.2
<b>Total non-current assets</b>		<b>1,234.9</b>	<b>100.6</b>
<b>Current assets</b>			
Inventories	18	646.1	672.7
Accounts receivable	19	437.5	1,132.1
Other receivables		284.0	413.7
Prepaid expenses and accrued income	20	29.1	21.7
Cash and cash equivalents	19, 21	920.2	1,162.2
<b>Total current assets</b>		<b>2,316.9</b>	<b>3,402.4</b>
<b>Total assets</b>		<b>3,551.8</b>	<b>3,503.0</b>
<b>Shareholders' equity</b>			
Share capital	15	12.9	12.9
Other paid-up capital		854.4	854.8
Translation reserve		-14.9	0.3
Retained earnings including net profit for the year		1,478.4	1,358.1
<b>Total Shareholders' equity</b>		<b>2,330.8</b>	<b>2,226.1</b>
<b>Non-current liabilities</b>			
Deferred tax liability	14	189.8	136.3
Long-term loans	22	221.9	-
<b>Total non-current liabilities</b>		<b>411.7</b>	<b>136.3</b>
<b>Current liabilities</b>			
Short-term portion of long-term loans	22	243.4	-
Accounts payable	22	268.0	821.6
Current tax liability	14	1.5	54.1
Other current liabilities	23	106.5	6.7
Accrued expenses and deferred income	24	189.9	258.2
<b>Total current liabilities</b>		<b>809.3</b>	<b>1,140.6</b>
<b>Total shareholders' equity and liabilities</b>		<b>3,551.8</b>	<b>3,503.0</b>

## WORKING CAPITAL



# STATEMENT OF CHANGES IN EQUITY

## GROUP

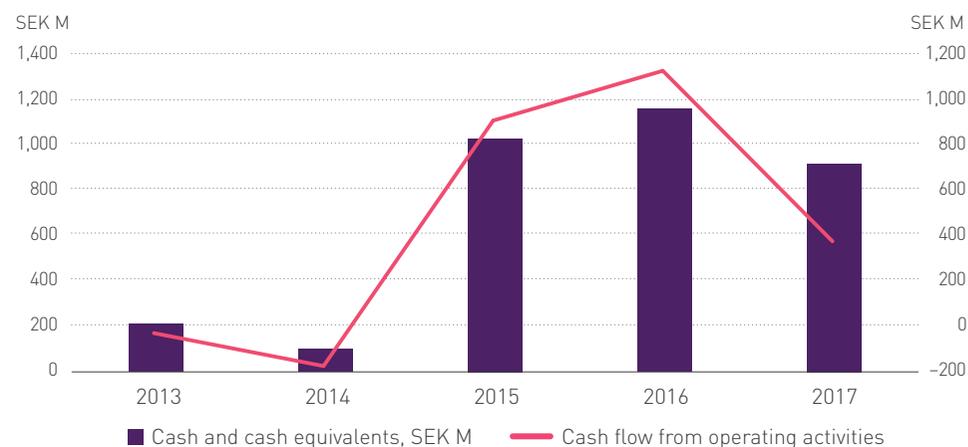
SEK M	Share capital	Other paid-up capital	Translation reserve	Retained earnings incl. profit for the year	Total shareholders' equity
Retained earnings incl. profit for the year					
Opening shareholders' equity, 1 Jan 2016	12.6	757.7	-0.1	376.6	1,146.8
Net profit for the year				2,034.7	2,034.7
Other comprehensive income for the year			0.4		0.4
Repurchase of treasury shares				-1,053.2	-1,053.2
Exercise of warrants	0.3	97.1			97.4
<b>Closing shareholders' equity, 31 Dec 2016</b>	<b>12.9</b>	<b>854.8</b>	<b>0.3</b>	<b>1,358.1</b>	<b>2,226.1</b>
Opening shareholders' equity, 1 Jan 2017	12.9	854.8	0.3	1,358.1	2,226.1
Net profit for the year				120.3	120.3
Other comprehensive income for the year			-15.2		-15.2
Cancellation of shares	-0.4				-0.4
Bonus issue	0.4	-0.4			-
<b>Closing shareholders' equity, 31 Dec 2017</b>	<b>12.9</b>	<b>854.4</b>	<b>-14.9</b>	<b>1,478.4</b>	<b>2,330.8</b>

# STATEMENT OF CASH FLOWS

## GROUP

SEK M	Note	2017	2016
<b>Operating activities</b>			
Profit before tax	29	141.8	2,613.5
Adjustment for non-cash items		136.1	14.6
Income tax paid		-345.4	-498.0
<b>Cash flow from operating activities before changes in working capital</b>		<b>-67.5</b>	<b>2,130.1</b>
<b>Cash flow from changes in working capital</b>			
Increase (-)/decrease (+) in inventories		26.7	-519.7
Increase (-)/decrease (+) in operating receivables		1,080.4	-913.0
Increase(+)/decrease(-) in operating liabilities		-662.7	432.9
<b>Cash flow from operating activities</b>	3	<b>376.9</b>	<b>1,130.3</b>
<b>Investing activities</b>			
Purchase and internal development of intangible assets	16	-203.5	-62.8
Acquisitions of subsidiaries	4	-835.8	-
Sales of property, plant and equipment	17	-	6.6
Purchases of property, plant and equipment	17	-31.7	-22.1
<b>Cash flow from investing activities</b>	3	<b>-1,071.0</b>	<b>-78.3</b>
<b>Financing activities</b>			
Borrowings	22	508.1	-
Repayment of loans	22	-26.0	-
Exercise of warrants		-0.4	97.5
Repurchase of treasury shares		-	-1,053.2
<b>Cash flow from financing activities</b>	3	<b>481.7</b>	<b>-955.7</b>
Cash flow for the year		-212.4	96.3
Cash and cash equivalents at beginning of year		1,162.2	1,031.3
Effect of translation difference on cash and cash equivalents		-29.6	34.6
<b>Cash and cash equivalents at end of year</b>	29	<b>920.2</b>	<b>1,162.2</b>

## CASH AND CASH EQUIVALENTS AND CASH FLOW



# INCOME STATEMENT

## PARENT COMPANY

SEK M	Note	2017	2016
Revenues	2, 3	2,955.5	6,638.3
Cost of goods sold	5, 10	-1,957.6	-3,473.0
<b>Gross profit</b>		<b>997.9</b>	<b>3,165.3</b>
Selling costs		-231.8	-176.6
Administrative expenses	9	-162.8	-129.0
Development costs	11	-382.3	-304.2
Other operating revenues	6	-	11.3
Other operating expenses	7	-70.7	-
<b>Operating profit</b>	3, 8, 10, 26, 27	<b>150.3</b>	<b>2,566.8</b>
<b>Profit from financial items</b>	12		
Other interest income, etc.		13.2	36.0
Interest expenses, etc.		-13.1	-0.8
<b>Profit after financial items</b>		<b>150.4</b>	<b>2,602.0</b>
Appropriations	13	-74.0	-650.0
<b>Profit before tax</b>		<b>76.4</b>	<b>1,952.0</b>
Income tax	14	-18.4	-433.7
<b>Net profit for the year</b>		<b>58.0</b>	<b>1,518.3</b>

# BALANCE SHEET

## PARENT COMPANY

SEK M	Note	31 Dec. 2017	31 Dec. 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	16	230.1	69.8
Property, plant and equipment	17	39.2	25.9
Shares and participations in subsidiaries	28	338.0	5.1
Non-current receivables from group companies	27	493.9	-
Other non-current receivables		0.1	0.1
Deferred tax asset	14	32.8	6.6
<b>Total non-current assets</b>		<b>1,134.1</b>	<b>107.5</b>
<b>Current assets</b>			
Inventories	18	646.1	672.7
Receivables from group companies	27	1.1	2.5
Accounts receivable	19	437.3	1,132.1
Tax receivables	14	246.8	-
Other receivables		33.0	412.8
Accrued expenses and deferred income	20	25.8	19.1
Cash and bank balances	19, 21	878.9	1,142.3
<b>Total current assets</b>		<b>2,269.0</b>	<b>3,381.5</b>
<b>Total assets</b>		<b>3,403.1</b>	<b>3,489.0</b>

SEK M	Note	31 Dec. 2017	31 Dec. 2016
<b>Shareholders' equity</b>			
<b>Restricted equity</b>			
Share capital	15	12.9	12.9
Statutory reserve		41.5	41.5
Fund for development expenditure		209.1	46.7
<b>Non-restricted equity</b>			
Share premium reserve		79.2	79.6
Accumulated profit or loss		1,355.9	-
Profit for the year		58.0	1,518.3
<b>Total shareholders' equity</b>		<b>1,756.6</b>	<b>1,699.0</b>
<b>Untaxed reserves</b>			
	<b>13</b>	<b>724.0</b>	<b>650.0</b>
<b>Non-current liabilities</b>			
Long-term loans	22	221.9	-
<b>Total non-current liabilities</b>		<b>221.9</b>	<b>-</b>
<b>Current liabilities</b>			
Short-term portion of long-term loans	22	243.4	-
Accounts payable	22	266.9	820.7
Liabilities to group companies	27	8.9	9.2
Current tax liabilities	14	-	53.9
Other current liabilities	23	5.6	4.4
Accrued expenses and deferred income	24	175.8	251.8
<b>Total current liabilities</b>		<b>700.6</b>	<b>1,140.0</b>
<b>Total shareholders' equity and liabilities</b>		<b>3,403.1</b>	<b>3,489.0</b>

# STATEMENT OF CHANGES IN EQUITY

## PARENT COMPANY

SEK M	Restricted equity			Non-restricted equity			Total share- holders' equity
	Share capital	Statutory reserve	Fund for development expenditure	Share premium reserve	Accumulated profit or loss	Net profit for the year	
<b>Opening shareholders' equity, 1 Jan. 2016</b>	<b>12.6</b>	<b>41.5</b>	<b>-</b>	<b>525.8</b>	<b>-236.9</b>	<b>793.5</b>	<b>1,136.5</b>
Net profit for the year						1,518.3	1,518.3
Fund for work performed by the company for its own use and capitalized			62.3		-62.3		-
Amortization of work performed by the company for its own use and capitalized for the year			-15.6		15.6		-
Repurchase of treasury shares				-543.3	-509.9		-1,053.2
Appropriation of profit					793.5	-793.5	-
Deposited premium for warrants **	0.3			97.1			97.4
<b>Closing shareholders' equity, 31 Dec. 2016</b>	<b>12.9</b>	<b>41.5</b>	<b>46.7</b>	<b>79.6</b>	<b>0.0</b>	<b>1,518.3</b>	<b>1,699.0</b>
<b>Opening shareholders' equity, 1 Jan. 2017</b>	<b>12.9</b>	<b>41.5</b>	<b>46.7</b>	<b>79.6</b>	<b>0.0</b>	<b>1,518.3</b>	<b>1,699.0</b>
Net profit for the year						58.0	58.0
Change in fund for work performed by the company for its own use and capitalized			192.9		-192.9		-
Amortization of work performed by the company for its own use and capitalized for the year			-30.5		30.5		-
Appropriation of profit					1,518.3	-1,518.3	-
Cancellation of shares	-0.4						-0.4
Bonus issue	0.4			-0.4			-
<b>Closing shareholders' equity, 31 Dec. 2017</b>	<b>12.9</b>	<b>41.5</b>	<b>209.1</b>	<b>79.2</b>	<b>1,355.9</b>	<b>58.0</b>	<b>1,756.6</b>

\* There was subscribed but unregistered share capital of SEK 34,000 (870,000 class B shares) as of 31 December 2016.

\*\* Transaction expenses for share issues amounted to SEK 0.4 M (1.4).

# CASH FLOW STATEMENT

## PARENT COMPANY

SEK M	Note	2017	2016
<b>Operating activities</b>	29		
Profit before tax		76.4	1,952.0
Adjustment for non-cash items		161.9	661.0
<b>Cash flow from operating activities before changes in working capital</b>		<b>238.3</b>	<b>2,613.0</b>
Income tax paid		-345.4	-495.3
<b>Cash flow from changes in working capital</b>			
Increase (-)/decrease (+) in inventories		26.6	-519.7
Increase (-)/decrease (+) in operating receivables		1,075.0	-909.0
Increase(+)/decrease(-) in operating liabilities		-628.9	435.0
<b>Cash flow from operating activities</b>		<b>365.6</b>	<b>1,124.0</b>
<b>Investing activities</b>			
Purchase and internal development of intangible assets	16	-203.5	-62.8
Purchases of property, plant and equipment	17	-25.0	-19.9
Acquisitions of subsidiaries		-332.9	-
Purchases of financial assets		-	-2.4
Sales of property, plant and equipment	17	-	6.6
<b>Cash flow from investing activities</b>		<b>-561.4</b>	<b>-78.5</b>
<b>Financing activities</b>			
Borrowings	22	508.1	-
Repayment of loans	22	-26.0	-
Loans to subsidiaries		-519.7	-
Exercise of warrants		-0.4	97.3
Repurchase of treasury shares		-	-1,053.2
<b>Cash flow from financing activities</b>		<b>-38</b>	<b>-955.9</b>
Cash flow for the year		-233.8	89.6
Cash and cash equivalents at beginning of year		1,142.3	1,018.0
Effect of translation difference on cash and cash equivalents		-29.6	34.7
<b>Cash and cash equivalents at end of year</b>	29	<b>878.9</b>	<b>1,142.3</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 CRITICAL ACCOUNTING POLICIES

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

### Basis of presentation

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

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

The annual accounts and consolidated accounts were approved for publication by the Board and the President on 23 April 2018. The Consolidated Statement of Comprehensive Income and Statement of Financial Position and the Parent Company Income Statement and Balance Sheet will be adopted by the Annual General Meeting (AGM) on 29 May 2018.

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

### Consolidation principles

#### Subsidiaries

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

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

#### Transactions eliminated on consolidation

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

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

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

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

#### Receivables and liabilities in foreign currency

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

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

ating liabilities are recognized in operating profit. For 2017, exchange rate differences on financial receivables and financial liabilities are recognized in net financial income/expense.

#### Critical estimates and judgements

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

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

- Deferred tax (note 14)
- Capitalization of development costs (note 16)
- Impairment testing of goodwill and other intangible assets (note 16)
- Inventory valuation (note 18)
- Bad debt reserve (note 19)

#### New accounting policies

##### New accounting policies for 2017

No new accounting policies applied from 1 January 2017 have a material effect on the financial statements.

##### New accounting policies, 2018 or later

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

##### IFRS 9 Financial Instruments

IFRS 9 has three components: classification and measurement, impairment and hedge accounting, and replaces IAS 39 Financial Instruments: recognition and measurement. This new accounting

## NOTE 1 CRITICAL ACCOUNTING POLICIES, CONT

standard has a limited impact on the accounting of financial instruments. No effect has been demonstrated on classification and measurement. Regarding impairment, the effect of the impairment model for expected bad debt is considered to be non-material. Because the effects are non-material, the transition does not affect the opening balance for 2018.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. In Fingerprints' case, the adoption of IFRS 15 has primarily affected disclosures to be made in financial statements.

At present (on the implementation of IFRS 15), Fingerprint Cards' fundamental business model consists of the sale of wafers to distributors for the manufacture of mobile telephones. This fundamental business generates basically 100% of the company's net sales. On this basis, the revenue-generating operation is straightforward; distributors order wafers, Fingerprint Cards receives the order and delivers the goods.

Sensors consist of hardware, with software included as an integrated component. There are very limited separate sales of software at present, which means there is no possibility of allocating recognized revenue. Recognized revenue is adjusted for discounting and marketing incentives, which in all likelihood, will be paid when the hardware is sold to the distributor, a restatement made on sale (this is also been conducted in accordance with an accounting model applied at present).

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

### IFRS 16 Leases

IFRS 16 will replace IAS 17 and associated interpretation statements. The standard requires, with some exceptions, that all leased assets are recognized in the Balance Sheet. Accordingly, all lease arrangements will be classified as finance leases pursuant to IAS 17. The standard is to be applied for Financial years beginning on 1 January 2019 or later. Prospective application is permitted providing that IFRS 15 is also applied. A project to identify the effects IFRS may have is ongoing.

### Parent Company accounting policies

The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. According to RFR 2, the Parent Company should apply all IFRSs and statements endorsed by the EU in its annual accounts as far as possible within the auspices of the Swedish Annual Accounts Act, the Swedish Pension Obligations Vesting Act and with respect to the relationship between accounting and taxation. The recommendation stipulates the exemptions from, and supplements to, IFRS that are to be applied.

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

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

### New accounting policies

Those amendments applying for the financial year beginning 1 January 2017 did not have any material effect on the financial statements.

### Subsidiaries

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

### Leased assets

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

### Intangible assets generated by the company

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

### Untaxed reserves

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

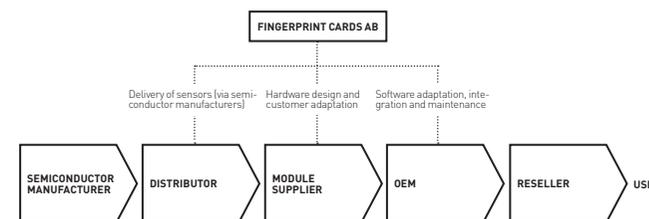
### Classification and presentation formats

Earnings for the Group are recognized in the Statement of Comprehensive Income, and for the Parent Company, in the Income Statement. In addition, the Parent Company uses the terms Balance Sheet and "Cash Flow Statement" for the statements the Group refers to as the Statement of Financial Position and Statement of Cash Flows respectively. The Parent Company Balance Sheet has been presented according to the format stipulated in the Swedish Annual Accounts Act, while the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement are based on IAS 1 Presentation of Financial Statements, and IAS 7 Statement of Cash Flows.

## NOTE 2 REVENUES

### Accounting policy

Revenue from the sale of goods is recognized in profit or loss for the year when the material risks and benefits associated with ownership of the good have been transferred to the purchaser. Revenues are not recognized if it is likely that the economic benefits will not flow to the Group. If there is significant uncertainty concerning payment, associated costs, risk of returns or if the seller retains a commitment to the ongoing management that is usually associated with ownership, revenue is not recognized. Revenue is recognized at fair value of what is received, or is expected to be received, after deducting for discounts.



Revenues SEK M	Group		Parent Company	
	2017	2016	2017	2016
Sale of goods	2,966.0	6,638.3	2,955.5	6,638.3

Fingerprints revenues arise when hardware—in the form of wafers (sensors in their original format) or packaged sensors (LGA) are delivered to a distributor or module supplier. Normally, software development is included in the agreement.

## NOTE 3 OPERATING SEGMENTS

### Accounting policy

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

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

Comprehensive income segments	Fingerprint sensors		Total	
	2017	2016	2017	2016
SEK M				
Revenues from external customers	2,966.0	6,638.3	2,966.0	6,638.3
Operating profit	154.6	2,578.5	154.6	2,578.5
Profit before tax	141.8	2,613.5	141.8	2,613.5

Assets/liabilities and cash flow by segment	Fingerprint sensors		Total	
	2017	2016	2017	2016
SEK M				
Assets	3,551.8	3,503.0	3,551.8	3,503.0
Liabilities	-1,031.2	-1,140.6	-1,031.2	-1,140.6
Cash flow from operating activities	376.9	1,130.3	376.9	1,130.3
Cash flow from investing activities	-1,071.0	-78.3	-1,071.0	-78.3
Cash flow financing activities	481.7	-955.7	481.7	-955.7

Geographical regions	Revenue from external customers		Non-current assets*	
	2017	2016	2017	2016
SEK M				
Sweden	1.5	0.6	270.3	97.3
Asia	2,942.0	6,627.3	3.6	0.5
EMEA	2.8	3.9	3.3	2.3
South and North America	19.7	6.5	957.7	0.4
<b>Total</b>	<b>2,966.0</b>	<b>6,638.3</b>	<b>1,234.9</b>	<b>100.5</b>

\*Non-current assets excluding financial instruments

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

## NOTE 4 BUSINESS COMBINATIONS

### Accounting policy

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

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

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

The goodwill item consists of Delta ID's ability to regenerate existing technology to remain competitive, and to apply the technology in other sectors to drive future growth. The goodwill item also consists of Delta ID's network for creating new customer relationships, and also of existing know-how.

Group	2017	2016
SEK M		
Intangible assets	245.0	-
<b>Total non-current assets</b>	<b>245.0</b>	<b>-</b>
Current assets	5.5	-
<b>Total current assets</b>	<b>5.5</b>	<b>-</b>
Deferred tax liability	-85.8	-
<b>Total deferred tax liability</b>	<b>-85.8</b>	<b>-</b>
<b>Total fair value acquired assets and liabilities taken over, net</b>	<b>164.7</b>	<b>-</b>
Consolidated goodwill	784.3	-
<b>Total purchase consideration</b>	<b>949.0</b>	<b>-</b>
Additional cash and cash equivalents in acquired group company	15.7	-
Adjusted for deductible purchase consideration*	-29.5	-
Adjustment, working capital	3.2	-
Remaining portion of purchase consideration payable as of 31 December 2017**	-102.6	-
<b>Cash flow from acquisitions of group companies/operations</b>	<b>835.8</b>	<b>-</b>

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

\*\* The liability restated at the closing day rate amounts to SEK 95 M.

## NOTE 5 COST OF GOODS SOLD

Constituent items in cost of goods sold	Group		Parent Company	
	2017	2016	2017	2016
SEK M				
Materials	-1,875.7	-3,414.8	-1,875.7	-3,414.8
Amortization of capitalized development	-39.9	-34.1	-39.9	-34.1
Amortization of other intangible assets	-19.5	-	-	-
Procurement and production overheads	-42.0	-24.1	-42.0	-24.1
<b>Cost of goods sold</b>	<b>-1,977.1</b>	<b>-3,473.0</b>	<b>-1,957.6</b>	<b>-3,473.0</b>

## NOTE 6 OTHER OPERATING INCOME

SEK M	Group		Parent Company	
	2017	2016	2017	2016
Exchange rate gains on operating receivables and liabilities	-	10.6	-	10.7
Gain on sale of property, plant and equipment	-	0.6	-	0.6
Restatement of additional purchase consideration	28.2	-	-	-
	<b>28.2</b>	<b>11.2</b>	<b>-</b>	<b>11.3</b>

## NOTE 7 OTHER OPERATING EXPENSES

SEK M	Group		Parent Company	
	2017	2016	2017	2016
Exchange rate losses on operating receivables and liabilities	-70.7	-	-70.7	-
Transaction expenses, acquisitions	-18.0	-	0.0	-
	<b>-88.7</b>	<b>-</b>	<b>-70.7</b>	<b>-</b>

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

### Accounting policy

#### Pension benefits to employees

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

#### Severance pay

An expense for severance pay when employees leave the company is recognized only if the company is demonstrably obligated, without a realistic possibility of withdrawing, by a formal detailed plan to terminate employment before the normal point in time.

### Short-term remuneration

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

### Remuneration guidelines for senior executives

The AGM 2017 approved the proposal that the Remuneration Committee internal to the Board of Directors should consult on guidelines regarding salary and other employment terms for the Chief Executive Officer and other senior executives, and submit proposals to the Board of Directors for decision on such matters. The Board of Directors takes decisions on salary and other benefits for the Chief Executive Officer. The Chief Executive Officer takes decisions on salary and other benefits to other senior executives pursuant to the Board of Directors' guidelines. Other senior executives mean individuals that are members of Group Management with the Chief Executive Officer. Fundamental compensation levels should be on market terms. Compensation should consist of fixed basic salary, variable salary computed in accordance with established objectives set in advance, and other benefits, pensions and financial instruments in the form of performance-related shares.

The division between basic salary and variable compensation should be in proportion to the executive's duties and authorization. For the Chief Executive Officer and other senior executives, variable compensation is a maximum of 100% of basic annual salary, apart from sign-on bonus.

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

Expenses for employee benefits	Group		Parent Company	
	2017	2016	2017	2016
Salaries and benefits, etc.	304.6	209.2	177.3	136.6
Pension costs, defined contribution plans	38.1	41.4	29.5	35.3
Other social security contributions	63.8	49.9	58.9	47.2
	<b>406.5</b>	<b>300.5</b>	<b>265.7</b>	<b>219.1</b>

Gender balance in management	Group		Parent Company	
	31 Dec. 2017 Share of women	31 Dec. 2016 Share of women	31 Dec. 2017 Share of women	31 Dec. 2016 Share of women
Board of Directors	25%	25%	25%	25%
Other senior executives	0%	0%	0%	0%

On termination by the company, severance pay may be due at an amount corresponding to a maximum of 12 months' salary. The notice period for the Chief Executive Officer is six months on termination by the employee or the company.

### Average number of employees

Group	Group						Parent Company					
	2017			2016			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Sweden	181	76	257	115	45	160	181	76	257	115	45	160
China	40	15	55	19	4	23	-	-	-	1	-	1
Denmark	37	4	41	27	4	31	-	-	-	-	-	-
Korea	9	-	9	9	-	9	-	-	-	-	-	-
Taiwan	11	1	12	7	1	8	-	-	-	5	1	6
US	13	1	14	6	-	6	-	-	-	-	-	-
<b>Total, group</b>	<b>291</b>	<b>97</b>	<b>388</b>	<b>183</b>	<b>54</b>	<b>237</b>	<b>181</b>	<b>76</b>	<b>257</b>	<b>121</b>	<b>46</b>	<b>167</b>

There were 415 (306) employees as of 31 December 2017, of which 311 (244) men and 104 (62) women.

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

SEK M	Group						Parent Company					
	2017			2016			2017			2016		
	Senior executives	Other employees	Summa	Senior executives	Other employees	Total	Senior executives	Other employees	Summa	Senior executives	Other employees	Total
Salary and other benefits*	26.8	277.8	304.6	32.9	176.3	209.2	24.9	152.4	177.3	32.9	103.7	136.6
Of which Chief Executive Officers	14.1	–	14.1	14.4	–	14.4	14.1	–	14.1	14.4	–	14.4
Of which Sweden	24.9	152.3	177.2	32.9	100.1	133.0	24.9	152.4	177.3	32.9	100.1	133.0
Of which foreign countries	1.9	125.5	127.4	–	76.3	76.3	–	–	–	–	3.6	3.6
<b>Total salary and benefits</b>	<b>26.8</b>	<b>277.8</b>	<b>304.6</b>	<b>32.9</b>	<b>176.3</b>	<b>209.2</b>	<b>24.9</b>	<b>152.4</b>	<b>177.3</b>	<b>32.9</b>	<b>103.7</b>	<b>136.6</b>
Of which bonus etc.	8.6	2.8	11.4	3.2	6.3	9.5	8.4	2.8	11.2	3.2	6.2	9.4
<b>Social security contributions total</b>	<b>13.2</b>	<b>88.7</b>	<b>101.9</b>	<b>16.4</b>	<b>74.8</b>	<b>91.3</b>	<b>12.5</b>	<b>75.9</b>	<b>88.4</b>	<b>16.4</b>	<b>66.2</b>	<b>82.6</b>
Of which pension costs												
Chief Executive Officers	1.8	–	1.8	1.6	–	1.6	1.8	–	1.8	1.6	–	1.6
Of which pensions costs, other	3.1	33.2	36.3	4.2	35.6	39.8	3.0	24.7	27.7	4.2	31.0	35.3

\* Includes SEK 0.7 M of severance pay paid to senior executives.

## Salaries and other benefits to senior executives

Group and Parent Company	2017				2016			
	Basic salary, Directors' fee	Bonus, variable compensation	Pension	Total	Basic salary, Directors' fee	Bonus, variable compensation	Pension	Total
<b>Chairman of the Board</b>								
Jan Wäreby, Director until May 2016	1.0	–	–	1.0	0.6	–	–	0.6
Urban Fagerstedt, Director from May 2017	0.5	–	–	0.5	0.4	–	–	0.4
<b>Directors</b>								
Alexander Kotsinas, until May 2016 and from April 2017	0.3	–	–	0.3	0.2	–	–	0.2
Carl Johan von Plomgren, from June 2015	0.5	–	–	0.5	0.4	–	–	0.4
Katarina Bonde, until April 2017	0.3	–	–	0.3	0.5	–	–	0.5
Lars Söderfjell, until April 2017	0.2	–	–	0.2	0.3	–	–	0.3
Michael Hallén, until November 2017	0.5	–	–	0.5	0.2	–	–	0.2
Peter Carlsson, until April 2017	0.2	–	–	0.2	0.2	–	–	0.2
Tomas Mikaelsson, from May 2016	0.4	–	–	0.4	0.2	–	–	0.2
Åsa Hedin, from May 2016	0.5	–	–	0.5	0.2	–	–	0.2
Ann-Sofie Nordh, from April 2017	0.3	–	–	0.3	–	–	–	–
Dimitrij Titov, from April 2017	0.2	–	–	0.2	–	–	–	–
<b>Chief Executive Officers:</b>								
Christian Fredrikson, from August 2016	6.6	7.5	1.8	15.9	5.1	–	0.8	5.9
Jörgen Lantto, until July 2016	–	–	–	–	8.0	1.3	0.9	10.2
other senior executives (8/8 people)	14.0	1.1	3.1	18.2	15.2	1.9	4.2	21.3
<b>Total from Parent Company</b>	<b>25.5</b>	<b>8.6</b>	<b>4.9</b>	<b>39.0</b>	<b>31.5</b>	<b>3.2</b>	<b>5.9</b>	<b>40.6</b>

\* One member of Management serves on a consulting basis and is not an employee.

The CEO's variable compensation for 2017 includes a sign-on bonus of SEK 6.0 M.

## NOTE 9 FEES AND REIMBURSEMENT OF AUDITORS

SEK M	Group		Parent Company	
	2017	2016	2017	2016
Audit fee, KPMG	-1.5	-1.4	-1.5	-1.3
Audit fee, other	-0.1	-	-	-
Other services, KPMG	-0.4	-0.2	-0.4	-0.2
<b>Total fees</b>	<b>-2.0</b>	<b>-1.6</b>	<b>-1.9</b>	<b>-1.5</b>

## NOTE 10 OPERATING EXPENSES BY COST CLASS

SEK M	Group		Parent Company	
	2017	2016	2017	2016
Cost of materials	-1,875.7	-3,414.7	-1,875.7	-3,414.7
Personnel costs	-406.5	-300.5	-265.7	-219.1
Depreciation, amortization and impairment	-79.4	-48.6	-57.0	-46.5
Other operating expenses	-449.8	-296.0	-606.8	-391.1
<b>Operating expenses</b>	<b>-2,811.4</b>	<b>-4,059.8</b>	<b>-2,805.2</b>	<b>-4,071.4</b>

## NOTE 11 DEVELOPMENT EXPENDITURE

The Group's expenses for technology development and patents increased to SEK 594.8 M (367.0), of which SEK 203.5 M (62.8) or 33% (17), has been capitalized in the Consolidated Statement of Financial Position and the remaining SEK 391.3 M (304.2) has been expensed. The corresponding expenses for technology development and patents for the Parent Company increased to SEK 585.8 M (367.0), of which SEK 203.5 M (62.8), or 33% (17), has been capitalized in the Parent Company Balance Sheet, and the remaining SEK 382.3 M (304.2) has been expensed in the Parent Company Income Statement.

## NOTE 12 NET FINANCIAL INCOME/EXPENSE

SEK M	Group		Parent Company	
	2017	2016	2017	2016
Exchange rate financial receivables and liabilities	-	34.6	-	34.6
Interest income attributable to group companies	-	-	12.7	-
Other interest income	0.5	1.4	0.5	1.4
<b>Financial income</b>	<b>0.5</b>	<b>36.0</b>	<b>13.2</b>	<b>36.0</b>
Exchange rate losses on financial receivables and liabilities	-2.2	-	-2.2	-
Other interest expenses	-9.5	-1.0	-9.5	-0.8
Other financial expenses	-1.6	-	-1.4	-
<b>Financial expenses</b>	<b>-13.3</b>	<b>-1.0</b>	<b>-13.1</b>	<b>-0.8</b>

## NOTE 13 APPROPRIATIONS

SEK M	Parent Company	
	2017	2016
<b>Appropriations</b>		
Change in depreciation and amortization above plan	-8.0	-
Change in tax allocation reserve	-66.0	-650.0
<b>Appropriations</b>	<b>-74.0</b>	<b>-650.0</b>
<b>Untaxed reserves</b>		
Accumulated depreciation and amortization above plan	8.0	-
Accumulated tax allocation reserves	716.0	650.0
<b>Untaxed reserves</b>	<b>724.0</b>	<b>650.0</b>

## NOTE 14 TAXES

### Accounting policy

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

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

### Estimates and judgements

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

SEK M	Group		Parent Company	
	2017	2016	2017	2016
<b>Current tax expense</b>				
Current tax expense	-49.4	-441.5	-44.6	-439.4
Deferred tax expense	27.9	-137.3	26.2	5.7
<b>Total reported tax expense</b>	<b>-21.5</b>	<b>-578.8</b>	<b>-18.4</b>	<b>-433.7</b>

## Reconciliation of effective tax

SEK M	Group				Parent Company			
	2017	%	2016	%	2017	%	2016	%
Profit before tax	141.8		2 613.5		76.4		1 952.0	
Theoretical tax at applicable tax rate for parent company	-31.2	-22.0	-575.0	-22.0	-16.8	-22.0	-429.4	-22.0
Non-deductible expenses	-9.9	7.0	-4.8	-0.2	-1.7	2.2	-4.8	-0.2
Non-taxable revenues	7.5	-5.3	0.6	-	0.1	-0.1	0.6	-
Differences in tax rates foreign subsidiaries	0.2	-0.1	0.4	0.1	-	-	-	-
Restatement of deferred tax	12.1	-8.6	-	-	-	-	-	-
Tax attributable to previous years	-0.3	0.2	-	-	-	-	-	-
Reported effective tax	-21.5	-15.2	-578.8	-22.1	-18.4	-24.1	-433.7	-22.2

The tax effect of items reported in shareholders' equity amounts to SEK 0.0 M (0.3) and consists of expenses for new share issues.

## Unreported deferred tax assets

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

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Deductible deficits	12.5	12.6	-	-

Deferred tax assets and tax liabilities are divided as follows:

Deferred tax assets SEK M	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax assets to be settled after more than 12 months	32.8	6.7	32.8	6.7
<b>Total deferred tax assets</b>	<b>32.8</b>	<b>6.7</b>	<b>32.8</b>	<b>6.7</b>

Deferred tax liabilities SEK M	Group		Parent Company	
	2017	2016	2017	2016
Deferred tax liabilities to be settled after more than 12 months	222.6	143.0	-	-
<b>Total deferred tax liabilities</b>	<b>222.6</b>	<b>143.0</b>	<b>-</b>	<b>-</b>

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

## Group and Parent Company

Deferred tax assets, SEK M	Current assets	Total
As of 1 January 2016	1.0	1.0
Reported in Income Statement	5.7	5.7
As of 31 December 2016	6.7	6.7
Reported in Income Statement	26.1	26.1
<b>As of 31 December 2017</b>	<b>32.8</b>	<b>32.8</b>

Deferred tax assets arise as an effect of a reserve for inventories

## Group

Deferred tax liabilities, SEK M	Other*	Total
As of 1 January 2016	-	-
Reported in Income Statement	143.0	143.0
As of 31 December 2016	143.0	143.0
Reported in Income Statement	-1.8	-1.8
Acquisition of Delta ID Inc.	81.4	81.4
<b>As of 31 December 2017</b>	<b>222.6</b>	<b>222.6</b>

\* Deferred tax liabilities in the Group are tax allocation reserve, excess depreciation and amortization and deferred tax on acquired assets.

## NOTE 15 SHAREHOLDERS' EQUITY AND NUMBER OF SHARES

### Accounting policy

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

When measuring earnings per share after dilution, earnings and the average number of shares outstanding are adjusted for potential dilution effects that arise during reporting periods from warrants issued to employees. The dilution of warrants outstanding only affects the number of shares in the measurement when the exercise price is less than the share price. Repurchased shares held in treasury are not considered outstanding.

The weighted average number of common shares is computed as a weighted average of the number of outstanding shares, considering changes that have occurred in this number due to new share issues. The dilution effect of warrants is computed by considering the average share price for the period, and thus includes the number of shares for those programs whose exercise price is less than the average share price.

SEK	Before dilution		After dilution	
	2017	2016	2017	2016
Earnings per share	0.38	6.40	0.38	6.33

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

SEK M	2017	2016
Net profit for the year attributable to equity holders of the parent	120.3	2,034.7

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

Number of shares	2017	2016
Class A shares at beginning of year	6,000,000	1,200,000
Share split (5:1)	–	4,800,000
<b>Total number of class A shares</b>	<b>6,000,000</b>	<b>6,000,000</b>
Class B shares at beginning of year	307,967,675	62,039,135
New issue of class B shares	–	1,300,000
Share split (5:1)	–	253,356,540
New issue of class B shares	–	1,696,000
<b>Total number of class B shares</b>	<b>307,967,675</b>	<b>318,391,675</b>
Number of repurchased shares	–	–10,424,000
<b>Total number of outstanding shares</b>	<b>313,967,675</b>	<b>313,967,675</b>
Weighted average number of ordinary shares in the year before dilution	313,967,675	317,726,761
Weighted average number of ordinary shares in the year after dilution	313,967,675	321,408,761
<b>Quotient value, SEK per share</b>	<b>0.04</b>	<b>0.20</b>

As of 31 December 2017, registered share capital amounted to 313,967,675 common shares (313,967,675). Holders of common shares are entitled to receive dividends that will be determined in the future, and the shareholding entitles the holder to vote at shareholders' meetings, with one vote per share.

The amounts applied in the calculation are stated below. Exercise of warrants is expected to generate expenses whose effect is not of material significance.

The AGM 2017 resolved on an incentive program for up to 25 individuals within the Fingerprints group. For more information, refer to the Statutory Administration Report.

## NOTE 16 INTANGIBLE ASSETS

### Accounting policy

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

### Research and development

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

development expenditure is recognized in profit or loss as an expense when it arises.

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

### Patents

Acquired patents are capitalized as intangible assets.

### Goodwill

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

### Amortization and impairment

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

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

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

Estimated useful lives are:

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

Useful lives are reviewed yearly.

## Estimates and judgements

### Capitalized development expenditure

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

### Impairment of goodwill and other intangible assets

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

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

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

A nine-year cash flow forecast has been applied, the term of the period justified by the expectation that it will take many years before operations enter a mature developmental phase. After the end of the forecast period, a growth rate of 1% has been adopted.

The discount rate has been estimated based on the operation's estimated weighted average cost of capital (WACC). The WACC before tax has been estimated at 18%.

If the discount rates were to increase by 1 percentage point, the recoverable amount would decrease by 7%. This would indicate impairment. If the adopted growth after the end of the forecast period were to reduce by 1 percentage point, the recoverable amount would reduce by 3%. This would not indicate impairment.

## NOTE 16 INTANGIBLE ASSETS, CONT.

<b>Impairment test, goodwill</b>	<b>2017</b>
Recoverable amount	930
Carrying amount of which goodwill SEK 745 M	894
Interest rate, % (WACC), before tax	18
Interest rate, % (WACC) after tax	14

SEK M	Group								Parent Company						
	Goodwill		Capitalized development expenditure		Patents & other acquired intangible assets		Intangible assets		Capitalized development expenditure		Patents & other acquired intangible assets		Intangible assets		
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	
<b>Accumulated cost</b>															
Opening balance	-	-	198.3	135.5	28.0	28.0	226.3	163.5	192.5	129.7	28.0	28.0	220.5	157.7	
Internally developed assets	-	-	194.9	62.8	-	-	194.9	62.8	194.8	62.8	-	-	194.8	62.8	
Assets	784.3	-	-	-	255.8	-	1,040.1	-	-	-	10.8	-	10.8	-	
Translation difference	-39.7	-	-	-	-12.8	-	-52.5	-	-	-	-	-	-	-	
Closing balance	744.6	-	393.2	198.3	271.0	28.0	1,408.8	226.3	387.3	192.5	38.8	28.0	426.1	220.5	
<b>Accumulated amortization</b>															
Opening balance	-	-	-120.9	-85.7	-15.0	-9.1	-135.9	-94.8	-116.6	-82.5	-15.1	-9.2	-131.7	-91.7	
Amortization for the year	-	-	-40.7	-35.2	-24.9	-5.9	-65.6	-41.1	-39.9	-34.1	-5.4	-5.9	-45.3	-40.0	
Closing balance	-	-	-161.6	-120.9	-39.9	-15.0	-201.5	-135.9	-156.5	-116.6	-20.5	-15.1	-177.0	-131.7	
<b>Accumulated impairment</b>															
Opening balance	-	-	-19.0	-19.0	-	-	-19.0	-19.0	-19.0	-19.0	-	-	-19.0	-19.0	
Closing balance	-	-	-19.0	-19.0	-	-	-19.0	-19.0	-19.0	-19.0	-	-	-19.0	-19.0	
<b>Carrying amount</b>															
At beginning of year	-	-	58.4	30.8	13.0	18.9	71.4	49.7	56.9	28.2	12.9	18.8	69.8	47.0	
<b>At end of year</b>	<b>744.6</b>	<b>-</b>	<b>212.6</b>	<b>58.4</b>	<b>231.1</b>	<b>13.0</b>	<b>1,188.3</b>	<b>71.4</b>	<b>211.8</b>	<b>56.9</b>	<b>18.3</b>	<b>12.9</b>	<b>230.1</b>	<b>69.8</b>	
<b>Amortization is included in the following lines in the Statement of Comprehensive Income</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	
Cost of goods sold	-	-	-39.9	-34.1	-19.5	0.0	-59.4	-34.1	-39.9	-34.1	-	-	-39.9	-34.1	
Development costs	-	-	-0.8	-1.1	-5.4	-5.9	-0.8	-7.0	-	-	-5.4	-5.9	-5.4	-5.9	

## NOTE 17 PROPERTY, PLANT AND EQUIPMENT

### Accounting policy

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

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

### Depreciation and impairment

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

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

### Estimated useful lives:

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

### Estimates and judgements

#### Impairment of property, plant and equipment

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

	Group		Parent Company	
	Machinery and equipment	Machinery and equipment	Machinery and equipment	Machinery and equipment
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
<b>Accumulated cost, SEK M</b>				
Opening balance	48.0	34.7	42.1	31.2
Purchases	0.5	–	–	–
Sales/retirements	–0.2	–8.8	–0.1	–9.0
Purchases	30.9	22.1	25	19.9
Closing balance	79.2	48.0	67.0	42.1
<b>Accumulated cost</b>				
Opening balance	–18.8	–14.1	–16.2	–12.6
Purchases	–0.3	–	–	–
Reversed depreciation on sale and retirement	0.2	2.7	0.1	2.8
Depreciation for the year	–13.7	–7.4	–11.7	–6.4
Closing balance	–32.6	–18.8	–27.8	–16.2
<b>Carrying amounts</b>				
At beginning of year	29.2	20.6	25.9	18.6
<b>At end of year</b>	<b>46.6</b>	<b>29.2</b>	<b>39.2</b>	<b>25.9</b>

	Group		Moderbolaget	
	2017	2016	2017	2016
<b>Depreciation is included in the following lines in the Statement of Comprehensive Income</b>				
Cost of goods sold	–1.3	–1.5	–1.3	–1.5
Administration expenses	–10.0	–0.8	–9.2	–0.6
Selling expenses	–0.2	–1.3	–0.1	–1.2
Development expenses	–2.2	–3.8	–1.1	–3.1
<b>Total</b>	<b>–13.7</b>	<b>–7.4</b>	<b>–11.7</b>	<b>–6.4</b>

## NOTE 18 INVENTORIES

### Accounting policy

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

### Estimates and judgements

Individual judgements regarding potential to sell products are necessary to determined net sales value. An impairment loss has been recorded due to surplus inventories, which have arisen due to a change in product mix during the year.

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Raw material inventory	460.1	560.8	460.1	560.8
Products in process	59.5	48.1	59.5	48.1
Finished goods	126.5	63.8	126.5	63.8
<b>Total</b>	<b>646.1</b>	<b>672.7</b>	<b>646.1</b>	<b>672.7</b>

Impairment of inventories amounts to SEK 173.7 M (51.8) as of 31 December 2017.

## NOTE 19 FINANCIAL ASSETS

### Accounting policy

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

Financial assets measured at fair value through profit or loss are divided into two sub- categories; financial assets held for trading and those classified as measured at fair value through profit or loss at acquisition. A financial asset is placed in this category if it has been purchased with the aim of sale in the short term, or classified as such by management. Financial instruments are initially recognized at cost corresponding to the instrument's fair value with a supplement for transaction expenses for all financial instruments apart from those in the category of financial assets recognized at fair value through profit or loss, which are recognized at fair value excluding transaction expenses. As of 31 December 2017, there were no financial assets measured at fair value.

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

The market valuation of financial instruments was conducted using the most reliable market prices available. This means that all instruments that are market listed are measured using current spot prices. Conversion to SEK is at the closing rate on the reporting date. Book value less impairment is an approximate fair value of accounts receivable.

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

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

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

### Estimates and judgements

Management evaluates the need for individual reserves for all receivables, with this judgement based on age analysis, impairment history and customer creditworthiness.

## NOTE 19 FINANCIAL ASSETS, CONT

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

SEK M	Group				Parent Company			
	31 Dec. 2017		31 Dec. 2016		31 Dec. 2017		31 Dec. 2016	
	Book value	Fair value						
<b>FINANCIAL ASSETS</b>								
<b>Current financial assets</b>								
Loan receivables and accounts receivable								
Accounts receivable	437.5	437.5	1,132.1	1,132.1	437.3	437.3	1,132.1	1,132.1
Cash and cash equivalents	920.2	920.2	1,162.2	1,162.2	878.9	878.9	1,142.3	1,142.3
<b>Financial assets, total</b>	<b>1,357.7</b>	<b>1,357.7</b>	<b>2,294.3</b>	<b>2,294.3</b>	<b>1,316.2</b>	<b>1,316.2</b>	<b>2,274.4</b>	<b>2,274.4</b>
<b>By category</b>								
Loan receivables and accounts receivable	1,357.7	1,357.7	2,294.3	2,294.3	1,316.2	1,316.2	2,274.4	2,274.4
<b>Financial assets, total</b>	<b>1,357.7</b>	<b>1,357.7</b>	<b>2,294.3</b>	<b>2,294.3</b>	<b>1,316.2</b>	<b>1,316.2</b>	<b>2,274.4</b>	<b>2,274.4</b>

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Total accounts receivable	441.5	1,134.1	438.8	1,134.1
Reserve for doubtful debt	-4.0	-2.0	-1.5	-2.0
Carrying amount	437.5	1,132.1	437.3	1,132.1

The expense for bad debt and doubtful debt for the Group amounted to SEK 2 M (0.7).

## NOTE 20 PREPAID EXPENSES AND ACCRUED INCOME

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Premises	7.5	3.8	6.1	3.6
Insurance expenses	5.4	4.6	5.1	4.6
License costs	8.4	5.0	8.3	5.0
Other operating expenses	7.8	8.3	6.3	5.9
	<b>29.1</b>	<b>21.7</b>	<b>25.8</b>	<b>19.1</b>

## NOTE 21 CASH AND CASH EQUIVALENTS

### Accounting policy

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

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Cash and bank balances	920.2	1,162.2	878.9	1,142.3
<b>Total recognized in the Statement of Financial Position/Balance Sheet</b>	<b>920.2</b>	<b>1,162.2</b>	<b>878.9</b>	<b>1,142.3</b>

## NOTE 22 FINANCIAL LIABILITIES

### Accounting policy

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

Financial liabilities measured at fair value through profit or loss are divided into two sub-categories: financial liabilities held for trading and those classified as measured at fair value through profit or loss on acquisition. Financial instruments are initially recognized at cost corresponding to the instrument's fair value with a supplement for transaction expenses for all financial instruments apart from those in the category of financial liabilities measured at fair value through profit or loss, which are recognized at fair value excluding transaction expenses. As of 31 december 2017, there were no liabilities measured at fair value. Loans and other financial liabilities, such as accounts payable, are measured at amortized cost.

The market valuation of financial instruments was conducted using the most reliable market prices available. This means that all instruments that are market listed are measured at market value using current spot prices. Conversion to SEK is at the closing rate on the reporting date. Carrying amount less impairment is an approximate fair value of accounts payable. Loans arranged are measured at amortized cost using the effective interest method. Borrowings are measured at amortized cost by applying the effective interest method. Covenants to lenders are reported quarterly, with the company measured in terms of interest coverage ratio, as well as net debt/equity ratio in relation to EBITDA.

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

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

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

SEK M	Group				Parent Company			
	31 Dec. 2017		31 Dec. 2016		31 Dec. 2017		31 Dec. 2016	
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value
<b>Non-current financial liabilities</b>								
Long-term loans, maturing 2019 (USD 27 M)	221.9	221.9	-	-	221.9	221.9	-	-
<b>Current financial liabilities</b>								
Short-term portion of long-term loans*	243.4	243.4	-	-	243.4	243.4	-	-
Remaining portion of purchase consideration for acquisition of subsidiary	95,0	95,0	-	-	-	-	-	-
Accounts payable	268.0	268.0	821.6	821.6	266.9	266.9	820.7	820.7
<b>Financial liabilities, total</b>	<b>828,3</b>	<b>828,3</b>	<b>821.6</b>	<b>821.6</b>	<b>732.2</b>	<b>732.2</b>	<b>820.7</b>	<b>820.7</b>
<b>By category</b>								
Financial liabilities at amortized cost	828,3	828,3	821.6	821.6	732.2	732.2	820.7	820.7
<b>Financial liabilities, total</b>	<b>828,3</b>	<b>828,3</b>	<b>821.6</b>	<b>821.6</b>	<b>732.2</b>	<b>732.2</b>	<b>820.7</b>	<b>820.7</b>

\* Includes transaction expenses of SEK 3.6 M.

### Liabilities attributable to financing activities

SEK M	Group				Parent Company			
	OB 2016	Cash flows	Changes in exchange rate differences not affecting cash flow	CB 2017	OB 2016	Cash flows	Changes in exchange rate differences not affecting cash flow	CB 2017
Long-term loans	-	229.7	-7.8	221.9	-	229.7	-7.8	221.9
Short-term portion of long-term loans	-	252.4	-9.0	243.4	-	252.4	-9.0	243.4
	-	<b>482.1</b>	<b>-16.8</b>	<b>465.3</b>	-	<b>482.1</b>	<b>-16.8</b>	<b>465.3</b>

## NOTE 23 OTHER CURRENT LIABILITIES

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Employee withholding tax	6.7	4.9	5.6	4.4
Remaining portion of purchase consideration for acquisition of subsidiary	95.0	–	–	–
Other	4.8	1.8	–	–
<b>Total</b>	<b>106.5</b>	<b>6.7</b>	<b>5.6</b>	<b>4.4</b>

## NOTE 24 ACCRUED EXPENSES AND DEFERRED INCOME

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Salaries	31.9	26.6	19.9	24.9
Social Security contributions	17.5	18.5	17.5	18.5
Material and production expenses	1.7	10.9	1.7	10.8
Directors' fees and company expenses	1.7	4.4	1.7	4.4
Commissions	123.0	185.1	123.0	185.1
Audit	1.1	0.8	1.1	0.8
Other overheads	13.0	11.9	10.9	7.3
<b>Total</b>	<b>189.9</b>	<b>258.2</b>	<b>175.8</b>	<b>251.8</b>

## NOTE 25 FINANCIAL RISKS AND RISK MANAGEMENT

### Group and Parent Company

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

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

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

### Financing risk

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

### Liquidity risk

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

The aim is that the Group should be able to meet its financial commitments and have the necessary contingency well in advance. It should be possible to offset upturns and downturns without incurring significant unforeseen costs. Available liquidity in the Group at year end amounted to SEK 920.2 M (1,162.2).

In accordance with the Finance Policy, there should always be sufficient cash and cash equivalents and confirmed credit lines to cover short-term liquidity requirements. The company's financial liabilities consist of supplier credits, totaling SEK 268.0 M (821.6) at year-end, with a short maturity of within one to two months. A loan of SEK 508.1 M (USD 60 M) was arranged in tandem with the acquisition of Delta, with a two-year amortization plan. The remaining portion of the purchase consideration for the acquisition of Delta ID Inc. amounts to SEK 95 M.

### Market risk

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

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

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

### Raw materials price risk

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

### Currency risk

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

According to the Finance Policy, exchange risks should not be hedged. USD-denominated net surpluses are exchanged to SEK on a continuous basis. Net profit for the year includes exchange rate differences of SEK -70.7 M (10.6) in operating profit and SEK -2.2 M (34.6) in net financial income/expense. Effective 2017, exchange rate differences in cash and cash equivalents are recognized as financial expenses, and year-2016 figures have been restated accordingly.

### Transaction exposure

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

SEK M	Net flows
2017	
USD exposure expressed in SEK and total	715.9
2016	
USD exposure expressed in SEK and total	532.4

Transaction exposure has not been hedged.

	Group						Parent Company					
	2017			2016			2017			2016		
	Number of customers	% of total number of customers	% of value	Number of customers	% of total number of customers	% of value	Number of customers	% of total number of customers	% of value	Number of customers	% of total number of customers	% of value
<b>Sales per year</b>												
< SEK 1 M	81	81	0.3	66	76	0.1	77	82	0.3	66	76	0.1
SEK 1-10 M	9	9	0.9	10	12	0.4	7	7	0.6	10	12	0.4
> SEK 10 M	10	10	98.8	10	12	99.5	10	11	99.1	10	12	99.5
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>86</b>	<b>100</b>	<b>100</b>	<b>94</b>	<b>100</b>	<b>100</b>	<b>86</b>	<b>100</b>	<b>100</b>

### Sensitivity analysis

A 10% appreciation of the Swedish krona against other currencies as of 31 December 2017, would imply shareholders' equity and net profit for the period changing by SEK 71 M (42). The sensitivity analysis is based on all other factors remaining unchanged.

### Age analysis, accounts receivable

SEK M	Group		Parent Company	
	2017 Carrying amount	2016 Carrying amount	2017 Carrying amount	2016 Carrying amount
Non-overdue accounts receivable	405.7	947.4	405.7	947.4
Overdue accounts receivable, 0-30 days	31.0	180.8	31.0	180.8
Overdue accounts receivable, 30-90 days	1.2	3.8	0.2	3.8
Overdue accounts receivable >90 days	3.6	2.1	1.9	2.1
Reserve for doubtful debt	-4.0	-2.0	-1.5	-2.0
<b>Total</b>	<b>437.5</b>	<b>1,132.1</b>	<b>437.3</b>	1,132.1

## NOTE 26 LEASES

### Accounting policy

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

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

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

The Group's material lease arrangements are operating leases.

### Operating leases

Lease arrangements where the company is the lessee, SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Irrevocable lease payments amount to:				
Within one year	33.4	17.9	25.4	14.4
Between one year and five years	55.6	15.6	43.5	10.9
<b>Total</b>	<b>89.0</b>	<b>33.5</b>	<b>68.9</b>	<b>25.3</b>

Operating leases consist of lease contracts the premises. The largest contracts terminate in 2018–2022, with extension options. These agreements are subject to ongoing indexation against the CPI or equivalent.

Lease payments made for operating leases in the year, SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Minimum lease payments	27.8	16.7	20.6	12.5
<b>Total lease expenses</b>	<b>27.8</b>	<b>16.7</b>	<b>20.6</b>	<b>12.5</b>

## NOTE 27 TRANSACTIONS WITH RELATED PARTIES

Purchases of goods and services, SEK M	Group		Parent Company	
	2017	2016	2017	2016
Purchases of group-wide services from subsidiaries	–	–	–202.1	–126.3
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–202.1</b>	<b>–126.3</b>

Receivables and liabilities at the end of the period, SEK M	Group		Moderbolaget	
	2017	2016	2017	2016
Receivables from subsidiaries	–	–	495.0	2.5
Liabilities to subsidiaries	–	–	–8.9	–9.2

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

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

## NOTE 28 SHARES AND PARTICIPATIONS IN SUBSIDIARIES

SEK M	Parent Company Shares in subsidiaries	
	31 Dec. 2017	31 Dec. 2016
<b>Accumulated cost</b>		
Opening balance	33.9	31.4
Other investments	332.9	2.5
Closing book value	366.8	33.9
<b>Accumulated impairment</b>		
Opening balance	–28.8	–28.8
Impairment for the year	–	–
Closing balance	–28.8	–28.8
<b>Carrying amounts</b>		
At beginning of year	5.1	2.6
At end of year	338.0	5.1

The increase in shares in subsidiaries in the year consists of the acquisition of a subsidiary in the US and an investment in the incorporation of a subsidiary in Japan.

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

The Parent Company's holdings in subsidiaries	Subsidiary reg. office, country	Shareholders' equity	Net profit	Participating interest, 2017	Participating interest, 2016
Anacatum Design AB	Sweden	5.4	0.1	100%	100%
Fingerprint Card Korea Co.,Ltd.	Korea	3.3	0.9	100%	100%
Fingerprint Cards ApS	Denmark	12.5	4.6	100%	100%
Fingerprint Cards (Shanghai) Co., Ltd	China	5.8	2.3	100%	100%
Fingerprint Cards Inc	US	4.2	1.1	100%	100%
Fingerprint Cards Taiwan Ltd	Taiwan	1.5	1.1	100%	100%
Fingerprint Security System Databärare AB	Sweden	2.2	-	100%	100%
India Aquisition Holding Inc	US	299.4	-	100%	0%
Delta ID Inc*	US	412.2	14.3	100%	0%
Fingerprint Cards Japan K.K.	Japan	1.1	-	100%	0%

\* Indirect holding through subsidiary

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

Subsidiary/corporate identity number	Participations, number	Proportion, %	31 Dec. 2017	31 Dec. 2016
Anacatum Design AB, 556779-5371	24,466,668	100	1.0	1.0
Fingerprint Card Korea Co.,Ltd.	20,000	100	0.7	0.7
Fingerprint Cards ApS	800	100	0.1	0.1
Fingerprint Cards (Shanghai) Co., Ltd	-	100	2.4	2.4
Fingerprint Cards Inc	100	100	0.1	0.1
Fingerprint Cards Taiwan Ltd	-	100	0.1	0.1
Fingerprint Security System Databärare AB, 556239-5938	1,000	100	0.7	0.7
India Aquisition Holding Inc	1,000	100	331.8	-
Fingerprint Cards Japan K.K.	100	100	1.1	-
<b>Carrying amount, 31 December</b>			<b>338.0</b>	<b>5.1</b>

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

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

## NOTE 29 STATEMENT OF CASH FLOWS

### Accounting policy

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

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
The following components are included in cash and cash equivalents:				
	920.2	1,162.2	878.9	1,142.3
Total in Statement of Financial Position	920.2	1,162.2	878.9	1,142.3
<b>Total in Statement of Cash Flows</b>	<b>920.2</b>	<b>1,162.2</b>	<b>878.9</b>	<b>1,142.3</b>

### Adjustments for non-cash items

SEK M	Group		Parent Company	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Interest not received	-	-	-5.7	-
Depreciation and amortization	79.4	48.6	57.0	46.5
Provision to tax allocation reserve	-	-	66.0	650.0
Depreciation and amortization above plan	-	-	8.0	-
Currency revaluation	56.7	-34.0	36.6	-35.5
<b>Total</b>	<b>136.1</b>	<b>14.6</b>	<b>161.9</b>	<b>661.0</b>

### NOTE 30 INFORMATION ON THE PARENT COMPANY

Fingerprint Cards AB (publ) (the Parent Company), corporate ID no. 556154-2381, is a limited liability company, with its registered office in Gothenburg, Västra Götaland, Sweden. The Parent Company's shares are listed on Nasdaq Stockholm. The address of the head office is Box 2412, SE-403 16 Gothenburg, Sweden and the visiting address is Kungssportsplatsen 2, Gothenburg, Sweden. The consolidated accounts for 2017 comprise the Parent Company and its subsidiaries, jointly designated "the Group".

### NOTE 31 POST BALANCE SHEET EVENTS

On 25 January 2018, Fingerprints announced that the company anticipated that its earnings for the fourth quarter 2017 would be below market estimates. At this time, the company also reported that it had initiated a cost savings program. As part of this, the number of positions will be reduced by some 185.

On 20 March 2018, Fingerprints reported that Pernilla Lindén had been appointed CFO, an appointment effective 7 June 2018. The company also announced that Hassan Tabrizi would leave the position of Interim CFO on 6 June 2018, and that Jan Johannesson would leave the position of VP of Strategy & Corporate Development on 30 June 2018.

### NOTE 32 ASSETS PLEDGED

Parent Company, SEK M	31 Dec. 2017	31 Dec. 2016
Assets pledged for operating credit: bank balances	15	15

### NOTE 33 PROPOSED APPROPRIATION OF PROFITS

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

The following funds are at the disposal of the AGM.

Share premium reserve	SEK 79,059,431
Accumulated profit or loss	SEK 1,356,036,552
Net profit for the year	SEK 57,921,664
<b>Total</b>	<b>SEK 1,493,017,647</b>

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

Carried forward	SEK 1,493,017,647
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# ASSURANCE BY THE BOARD

The Board of Directors and Chief Executive Officer hereby give their assurance that the annual accounts have been prepared in accordance with generally accepted accounting policies in Sweden and that the consolidated accounts have been prepared in accordance with the international accounting standards referred to in Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international account-

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

companies included in the Group. As stated above, the annual accounts and consolidated accounts were approved for issuance by the Board of Directors on 23 April 2018. The Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and the Parent Company Income Statement and Parent Company Balance Sheet will be subject to adoption by the Annual General Meeting on 29 May 2018.

Gothenburg, Sweden, 23 April 2018

Jan Wäreby  
Chairman of the board

Ann-Sofie Nordh  
Board member

Dimitrij Titov  
Board member

Urban Fagerstedt  
Board member

Alexander Kotsinas  
Board member

Åsa Hedin  
Board member

Tomas Mikaelsson  
Board member

Carl-Johan von Plomgren  
Board member

Christian Fredrikson  
Chief Executive Officer

Our Audit Report was presented on 24 April 2018  
KPMG AB

Joakim Thilstedt  
Authorized Public Accountant

# AUDIT REPORT

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

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Fingerprint Cards AB (publ.) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 60-91 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 2017 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no

prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

### Key Audit Matters

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

### Revenue recognition

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

### Description of key audit matter

The carrying value of goodwill and other intangible assets such as acquired technology, patents and customer relationships as well as capitalised development costs per 31 December 2017 amounts to SEK 1.2 billion at group level, which represents 33% of the group's total assets. A considerable share of the intangible assets is attributable to the acquisition of Delta ID Inc in 2017.

The carrying value of capitalised development costs on the parent company balance sheet is SEK 0.2 billion. The impact of this year's acquisition of Delta ID Inc is seen indirectly in the carrying value of the shares in subsidiaries, which is SEK 0.3 billion.

Goodwill should be subject to an annual impairment test. Other intangible assets should be tested whenever an indication of impairment is identified.

The valuation of intangible assets is complex and involves significant levels of judgments regarding future developments. The expected residual value of assets is determined with reference to forecasted discounted cash flows based on estimated discount rates, revenues and long-term growth rates, which are inherently subjective and may be influenced by management. Similar calculation is performed whenever there is an indication that the parent company's shares in a subsidiary may be impaired.

### Response in the audit

We have obtained the documentation regarding the Delta ID Inc acquisition and analysed the allocation of the purchase price into the identifiable assets and goodwill. We have also evaluated the judgments made regarding the contingent consideration in connection with the acquisition.

We have analysed the group's goodwill impairment test in order to determine whether it has been carried out in accordance with the prescribed IFRS methodology.

Furthermore, we have assessed management's cashflow forecasts and the appropriateness of the underlying assumptions, such as the long-term growth rate and discount rates. As part of this analysis, we have considered how the numbers would be impacted as the contingent consideration did not become payable.

We have also involved our internal valuation specialists to assist us in the impairment test analysis.

In our assessment of whether there are indications of asset impairment, we have also considered management's sensitivity analyses and the potential impact of reasonable changes in assumptions.

With regards to the valuation of other intangible assets and shares in subsidiaries, we have obtained and evaluated management's documentation and forecasts to ensure that there are no impairment indications. We have selected samples of capitalised costs for testing and vouched them to supporting documents.

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

### Inventory valuation

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

### Description of key audit matter

The carrying value of the group's and the parent company's inventory per 31 December 2017 amounts to SEK 0.6 billion, which represents approximately 18% of the group's total assets. The inventory balance consists of raw materials, work in progress and finished goods.

The market for these products is constantly evolving and highly competitive. New products are continuously being marketed. The assessment of whether the inventory may be sold for more than the

initial cost is complex and involves significant levels of judgment regarding whether the products may be sold as components in current or future constellations.

There is a risk that the evaluation of the need for inventory write-off may be over- or underestimated.

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

We have read and analysed management's assessment regarding the need to provide for inventory obsolescence. We have challenged management's assessment and their assumptions regarding future sales of the products currently in stock. Additionally, we have evaluated the accuracy of historical sales forecasts.

We have considered whether the process of identifying a need for an inventory obsolescence provision seems appropriate and we have tested the operating effectiveness of relevant controls.

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

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–59 and 95–101. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

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

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board

of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

pendence, and where applicable, related safeguards.

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Fingerprint Cards AB (publ.) for the year 2017 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 Managing Director be discharged from liability for the financial year.

### Basis for Opinions

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

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

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

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

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

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to 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 Managing Director in any material respect:

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where

deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Fingerprint Cards AB (publ.) by the general meeting of the shareholders on the 20 April 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2003.

Stockholm 24 April 2018

KPMG AB

Joakim Thilstedt  
Authorized Public Accountant

# TEN-YEAR SUMMARY

Income Statement	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues, SEK M	2,966.0	6,638.3	2,900.5	233.6	95.4	10.3	68.6	60.9	38.5	27.5
Gross profit, SEK M	988.9	3,165.3	1,255.3	71.6	39.2	-5.7	-37.0	20.4	6.0	-1.0
Gross margin, %	33	48	43	31	41	-55	-46	33	16	-17
Operating profit, SEK M	154.6	2,578.5	910.3	-145.2	-34.0	-38.7	2.7	1.6	-24.7	-24.1
Operating margin, %	5	39	31	-62	-36	-375	5	2.6	-64	-88
Profit for the year, SEK M	120.3	2,034.7	798.3	-144.0	-32.9	-38.1	3.4	2.0	-24.6	-23.3
Profit margin, %	4	31	28	-62	-35	-375	5	3.3	-64	-85
Depreciation and amortization, SEK M	-79.4	-48.6	-43.4	-32.1	-12.6	-10.8	-4.9	-6.4	-4.1	-3.5
Impairment, SEK M	-	-	-	-29.5	-	-	-	-	-5.9	-
EBITDA, SEK M	234.0	2,627.1	953.7	-83.6	-21.4	-27.9	8.2	8.3	-14.7	-20.8
<b>Financial position – Balance Sheet</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Intangible assets, SEK M	1,188.3	71.4	49.7	69.8	54.3	29.1	28.2	22.9	12.3	20.8
Property, plant and equipment, SEK M	46.6	29.2	20.6	18.8	5.4	4.8	4.2	3.7	0.3	0.3
Financial assets, SEK M	-	-	1.0	-	-	-	0.9	-	-	-
Inventories, SEK M	646.1	672.7	153.0	98.8	19.9	11.4	4.3	7.9	9.1	15.4
Accounts receivable, SEK M	437.5	1,132.1	617.9	115.8	31.1	6.2	53.0	17.2	9.7	8.4
Other receivables + prepaid expenses, SEK M	313.1	435.4	36.6	19.5	10.1	3.1	3.2	3.8	2.3	1.4
Cash and cash equivalents + investments in securities, etc., SEK M	920.2	1,162.2	1,031.3	101.9	211.7	60.6	23.0	30.8	50.1	22.7
Shareholders' equity, SEK M	2,330.8	2,226.1	1,146.8	301.1	289.7	101.9	106.3	78.0	74.3	58.1
Deferred tax, SEK M	189.8	136.3	-	-	-	-	1.2	-	-	-
Non-current liabilities, SEK M	221.9	-	-	0.2	0.4	0.7	-	-	-	-
Current liabilities, SEK M	809.3	1,140.6	763.2	123.3	42.3	12.7	9.3	8.3	9.5	10.9
Working capital, SEK M	1,507.6	2,261.8	1,075.6	212.7	230.5	68.6	74.2	51.4	61.7	37.0
Total assets, SEK M	3,551.8	3,503.0	1,910.1	424.6	332.5	115.3	116.8	86.3	83.8	69.0
Inventory turnover rate, days	120	43	29	132	94	181	74	103	154	211
Average credit period, days	95	47	46	113	99	1035	184	80	85	81
Return on capital employed, %	6	117	126	-48	-12	-44	3	2.6	-33	-40
Return on equity, %	5	121	110	-48	-12	-44	3	2.6	-132	-160
Return on total capital, %	4	75	78	-34	-10	-38	3	2.3	-117	-135
Equity/asset ratio, %	66	64	60	71	87	87	91	90	89	84

## DEFINITIONS

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

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

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

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

**Average number of shares at the end of the period** Number of shares less treasury shares at the end of the period.

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

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

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

<b>Cash flow</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Cash flow from operating activities, SEK M	376.9	1,130.3	910.4	-174.2	-28.8	14.5	-22.2	-0.6	-11.3	-17.1
Cash flow from investing activities, SEK M	-1,071.0	-78.3	-26.0	-90.6	-38.3	-11.4	-11.7	-20.4	-1.5	-7.8
Cash flow from financing activities, SEK M	481.7	-955.7	47.4	155.0	220.5	34.5	24.9	1.8	40.3	13.7
Cash flow for the year, SEK M	-212.4	96.3	931.8	-109.8	151.1	37.6	-7.8	-19.3	27.5	-11.2
<b>The share</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Earnings per share, SEK	0.38	6.40	2.53	-0.49	-0.12	-0.17	0.02	0.01	-0.22	-0.24
Earnings per share after full dilution, SEK	0.38	6.33	2.48	-0.49	-0.12	-0.17	0.02	0.01	-0.22	-0.24
Cash and cash equivalents + investment at year-end/ share, SEK	2.93	3.70	3.26	0.35	0.83	0.17	0.11	0.16	0.25	0.37
Equity per share, SEK	7.42	7.11	3.63	1.03	1.06	0.47	0.49	0.39	0.65	0.61
Equity per share, after full conversion, SEK	7.42	7.09	3.57	0.97	1.04	0.47	0.50	0.39	0.65	0.61
Cash flow from operating activities per average num- ber of shares, SEK	1.20	3.56	2.86	-0.61	-0.11	0.14	-0.10	0.00	-0.10	-0.18
Shares at end of period, 000	313,967	313,967	316,196	292,106	270,806	239,041	218,048	198,348	198,348	60,764
Average number of shares during the year, 000	313,967	317,726	315,349	287,574	254,470	228,841	216,943	210,719	89,283	101,419
Number of shares after dilution, average, 000	313,967	321,408	321,372	310,306	276,441	230,362	216,943	210,719	89,283	101,419
Dividend per share, SEK	-	-	-	-	-	-	-	-	-	-
Share price at end of period, SEK	15.81	62.85	118.20	7.00	10.90	2.50	1.90	1.80	0.70	0.50
Market capitalization at end of period, SEK M	4,964	19,733	37,374	2,033	2,938	559	406	355	131	56
Number of employees at end of period	415	306	150	104	48	19	19	19	13	13

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

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

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

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

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

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

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

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

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

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

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

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

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

**Profit for the period** Profit after financial income/expenses and tax

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

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

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

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

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

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

# GRI INDEX AND DETAILED SUSTAINABILITY INFORMATION

Fingerprints' sustainability reporting is our yearly reporting of how we work on ethics, the environment and social impact. The Report satisfies the standards on sustainability reporting stipulated by the Swedish Annual Accounts Act, and is found in its entirety on pages 26–41. The auditor's statement that a sustainability report has been prepared is found on page 42. The sustainability report pertains to the fiscal year 2017.

In order for information to be presented in a fair and reliable manner, reporting has been prepared pursuant to Global Reporting Initiative (GRI) standards, Core option. Sustainability reporting is also Fingerprints' communication on progress for the Global Compact. We are utilizing both regulatory structures in parallel, to integrate

universal sustainability principles into our business as far as possible.

We have also been applying the Nasdaq Nordic & Baltic Guide for ESG reporting, which is a complement to GRI Standards and the UN Global Compact, since 2017. This Guide is based on recommenda-

tions from the Sustainable Stock Exchanges (SSE) initiative, and is wholly voluntary. We want to participate in creating better and broader-based sustainability reporting for listed companies, and thus, more sustainable and transparent markets.

## GRI INDEX – GENERAL DISCLOSURE

Title	Page	Comment	Fulfilment	UN GC	NASDAQ
<b>ORGANIZATIONAL PROFILE</b>					
102-1 Name of the organization		Cover/Fingerprint Cards AB	Achieved		
102-2 Activities, brands, products, and services	16-19	Products and solutions/Fingerprints' range does not include any products prohibited on any market.	Achieved		
102-3 Location of headquarters		Rear cover	Achieved		
102-4 Location of operations		Fingerprints in brief	Achieved		
102-5 Ownership and legal form	42-44	Fingerprints in brief The share	Achieved		
102-6 Markets served	16-21	Products and solutions	Achieved		
102-7 Scale of the organization	58-62	Statutory Administration Report	Achieved		
102-8 Information on employees and other workers	35	Human resources/ • All data as of 31 Dec. 2017 • Employees; individuals with a direct employment contract • Coworkers; employees and consultants on assignment with at least of 50% of an FTE position • Fingerprints' operations are not affected by seasonality	Achieved		S5. Temporary Worker Ratio
102-9 Supply chain	22-25	Value chain	Achieved		
102-10 Significant changes to the organization and its supply chain	2-4 6-9 42-44 22-25	The year in brief/about changes to the organization Message from the CEO The share/about capital structure Value chain/about changes at the supplier level			
102-11 Precautionary Principle or approach	27-30	Sustainability • Fingerprints' Code of Conduct and Environmental Policy apply the Precautionary Principle. • Fingerprints' sustainability framework has specific environmental goals linked to the Precautionary Principle.	Achieved	Principle 7	
102-12 External initiatives	28-29	Sustainability section/Fingerprints is a member of the UN Global Compact.	Achieved		
102-13 Membership of associations	28-29	Sustainability section/Fingerprints is a member of the Responsible Business Alliance, Eurosmart and the UN Global Compact Network.	Achieved		

## GRI INDEX - GENERAL DISCLOSURE

Title	Page	Comment	Fulfilment	UN GC	NASDAQ
<b>STRATEGY</b>					
102-14 Statement from senior decision-maker	9 45	<b>Message from the CEO</b> <b>Message from the Chairman</b>	Achieved		
<b>ETHICS AND INTEGRITY</b>					
102-16 Values, principles, standards, and norms of behavior	29 34	<b>Sustainability section</b> /Sustainability Framework, Corporate Responsibility <b>Personnel section</b> /Fingerprints has four core values: Smart, Brave, United and Open.	Achieved	Principles 3, 6 & 10	G7. Anti-Bribery/ Anti-Corruption G6. Ethics—Code of Conduct G5. Supplier Code of Conduct
<b>GOVERNANCE</b>					
102-18 Governance structure	46-53 28	<b>Corporate Governance Report</b> • Governance of Fingerprints as a company <b>Sustainability section</b> Governance of sustainability is through the Sustainability Forum Corporate responsibility governs all Policies and the Code of Conduct	Achieved		G2. Board- Transparent Practices E9. Environmental Policy S8. Global Health Policy G5. Supplier Code of Conduct G6. Code of Conduct G7. Bribery Anticorruption Code
<b>STAKEHOLDER ENGAGEMENT</b>					
102-40 List of stakeholder groups	27	<b>Sustainability section</b>	Achieved		
102-41 Collective bargaining agreements		Fingerprints does not apply collective bargaining agreements but encourages its employees to join trade unions	Achieved		
102-42 Identifying and selecting stakeholders	27	<b>Sustainability section</b>	Achieved		
102-43 Approach to stakeholder engagement	27	<b>Sustainability section</b> • Fingerprints' management system is certified according to ISO 9001 and ISO 14001. • Our materiality analysis is included in our management system and is followed up annually	Achieved		
102-44 Key topics and concerns raised	27	<b>Sustainability section</b> • Stakeholder dialogue and risk analysis are the foundation for producing the materiality analysis	Achieved		
	39-41	<b>Risks and risk management</b> • Material issues that involve risks to operations are dealt with pursuant to Fingerprints' risk management procedures			

## GRI INDEX – SPECIFIC DISCLOSURES

Title	Page	Comment	Fulfilment	UN GC	NASDAQ
<b>REPORTING PRACTICE</b>					
102-45 Entities included in the consolidated financial statements	31	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Procedures for gathering sustainability information are in development. Accordingly, specific sustainability data is for the Scandinavian offices only. See the sustainability section for specific detail</li> </ul>	Achieved		
102-46 Defining report content and topic boundaries	31	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Due to the acquisition of Delta ID and expansive growth, the Asian and American offices have not been under Fingerprints' direct management.</li> <li>Procedures for gathering sustainability information are in development</li> <li>The year-2018 Report will include sustainability information from all Fingerprints' business lines</li> <li>Report contents and its boundaries are presented jointly with sustainability goals.</li> </ul>	Achieved		
102-47 List of material topics	27 39-41	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Materiality analysis</li> </ul> <b>Risks and risk management</b> <ul style="list-style-type: none"> <li>Other sustainability risks and opportunities</li> </ul>	Achieved		
102-48 Restatements of information	97	No restatements made since the previous year	Achieved		
102-49 Changes in reporting	97	No restatements made on the previous year affecting the company's sustainability reporting	Achieved		
102-50 Reporting period	97	1 January–31 December	Achieved		G9. Sustainability Report
102-51 Date of most recent report	97	30 March, 2017	Achieved		G9. Sustainability Report
102-52 Reporting cycle	97	Reporting is yearly.	Achieved		G9. Sustainability Report
102-53 Contact point for questions regarding the report	97	Stefan Pettersson, Head of Investor Relations. e-mail: investrel@fingerprints.com	Achieved		G9. Sustainability Report
102-54 Claims of reporting in accordance with the GRI Standards	97	GRI standards, Core level	Achieved		G9. Sustainability Report
102-55 GRI content index	98–100	See this index	Achieved		G9. Sustainability Report
102-56 External assurance		Fingerprints does not apply external examination of the sustainability information in its Annual Report. Certain information has been examined as part of certification according to ISO 14001, ISO 9001 and reporting to the CDP.	Achieved		G9. Sustainability Report G10 Other Framework Disclosures G11. External Validation & Assurance
<b>MANAGEMENT APPROACH</b>					
103-1 Explanation of the material topic and its Boundary	27 39-41	<b>Sustainability section</b> <ul style="list-style-type: none"> <li>Stakeholder analysis</li> <li>Materiality analysis</li> </ul> <b>Risks and risk management</b> <ul style="list-style-type: none"> <li>Other sustainability risks and opportunities, see in-depth review of each identified risk/opportunity</li> </ul>	Achieved		
103-2 The management approach and its components	26-32 39-41	Generally; Policies have been produced for material segments under Corporate Responsibility (including a speak-up policy for escalating sensitive issues) and specific targets related to each material segment are under sustainability targets <b>Sustainability section</b> <ul style="list-style-type: none"> <li>Stakeholder analysis</li> <li>Materiality analysis</li> <li>Corporate Responsibility</li> <li>Sustainability Framework</li> <li>Sustainability targets</li> </ul> <b>Risks and risk management</b> <ul style="list-style-type: none"> <li>Other sustainability risks and opportunities, see in-depth review of each identified risk/opportunity</li> </ul>	Achieved		
103-3 Evaluation of the management approach		This year is the first occasion Fingerprints has conducted a stakeholder analysis, materiality analysis and GRI reporting. Work will be evaluated for the first time next year.	Partial		

## GRI INDEX - GENERAL DISCLOSURE

Title	Page	Comment	Fulfilment	UN GC	NASDAQ
<b>ECONOMIC</b>					
<b>Anti-corruption</b>					
205-1 Operations assessed for risks related to corruption	39-42	<b>Risks and risk management</b> • A risk assessment for corruption is conducted at an overall level	Partial	Principle 10	
205-2 Communication and training about anti-corruption policies and procedures	30	<b>Sustainability section</b> • Sustainability targets/all employees undergo training in corporate responsibility, and specifically, on the Code of Conduct, in their induction training • 50% of employees have taken e-learning in the Code of Conduct, which contains an in-depth section on corruption	Achieved	Principle 10	
205-3 Confirmed incidents of corruption and actions taken		Fingerprints did not have any corruption incidents in 2017	Achieved	Principle 10	
<b>ENVIRONMENT</b>					
<b>Materials</b>					
Industry-specific targets for measuring spoilage levels in production	30	<b>Sustainability section</b> Measures spoilage of silicon wafers and employs a target of continuous improvement		Principles 7, 8	
<b>Emissions</b>					
305-2 Energy indirect (Scope 2) GHG emissions	30-31	<b>Sustainability section</b> The sustainability targets state a reduction of CO2 emissions pursuant to scope 2. The methodology is reviewed in the following notes.		Principles 7, 8	E1. Direct & indirect GHG emissions
<b>Supplier environmental assessments</b>					
308-1 New suppliers that were screened using environmental criteria	30	<b>Sustainability section</b> 1/3 of direct suppliers have undergone third-party audits pursuant to the Responsible Business Alliance industry standard (RBA formally EICC), which includes environmental issues.	Achieved	Principle 8	
308-2 Negative environmental impacts in the supply chain and actions taken	30	<b>Sustainability section</b> Targets set for developing a tool to enable comparisons between suppliers' environmental impacts.	Partial		
<b>SOCIAL IMPACT</b>					
<b>Occupational Health and Safety</b>					
403-1 Workers representation in formal joint management-worker health and safety committees	31	<b>Sustainability section</b> Health & safety councils and health & safety representatives were appointed at all Swedish offices in 2017.			
403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	31	<b>Sustainability section</b> • Under health & safety	Achieved		S7. Injury Rate
<b>Training and Education</b>					
404-3 Percentage of employees receiving regular performance and career development reviews	31	<b>Sustainability section</b> • New target; attract and retain talent	Partial	Principle 6	
<b>Diversity and Equal Opportunity</b>					
405-1 Diversity of governance bodies and employees	35 54-57	<b>Personnel</b> Fingerprints does not record the minority origin of its staff, and accordingly does not disclose this item, only gender, age group, region and religion. <b>Board of Directors/Group Management</b>	Partial	Principle 6	S12. Board – Diversity S4. Gender Diversity
<b>Human Rights Assessment</b>					
412-3 Operations that have been subject to human rights reviews or impact assessments		Fingerprints judges that the impact of human rights can primarily be on purchasing raw materials for plants if conflict minerals are utilized. Also through biometric integrity being protected in the usage of Fingerprints' products. Impact has not been analyzed by country.	Partial	Principles 1, 2, 4	

# SHAREHOLDER INFORMATION

## Fingerprints' investor website

Updated corporate, share and insider information, an archive of financial reports and press releases, and a subscription facility for financial reports and press releases is available at [www.fingerprints.com](http://www.fingerprints.com).

For environmental and cost reasons, Fingerprints has decided not to distribute physical Annual Reports to shareholders. Annual and Quarterly Reports, and Press releases, are available from the company's investor website.

## Reporting dates

- Q1 Interim Report 2018 January–March, 3 May 2018
- Q2 Half-year Interim Report 2018 April–June, 19 July 2018
- Q3 Interim Report 2018 July–September, 26 October 2018

## Annual General Meeting

The AGM will be held at 3 p.m. on Tuesday, 29 May 2018 at Elite Park Avenue Hotel, Kungsporsavenyn 36-38, Gothenburg, Sweden. Shareholders that wish to participate in the AGM should firstly be included in the share register maintained by Euroclear Sweden AB as of Wednesday 23 May 2018, and secondly notify the company of their participation by no later than 4 p.m. on 23 May 2016, either via the company's website [www.fingerprints.com/arsstamma](http://www.fingerprints.com/arsstamma), by telephone +46 (0)8 518 01553, or by mail to Fingerprint Cards AB c/o Computershare, Box 610, 182 16 Danderyd, Sweden.

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# GLOSSARY

## Algorithm

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

## Authentication

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

## Biometric system

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

## Chip

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

## Design win

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

## Identification

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

## The Internet of Things

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

## Matching

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

## Modality

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

## ODM

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

## OEM

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

## Smart card

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

## Smartphone/tablet

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

## Template

An arrangement of unique data that represents a specific fingerprint.

## Touch sensor

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

## Wafer

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

## Verification

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



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