



INVISIO COMMUNICATIONS

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Read about the market and market forces



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THE YEAR AT A GLANCE

- ▶ Total income amounted to SEK 32.8 m (28.6), and including the sale of the VoIP patent 2009 SEK 32.8 m (61.1).
- ▶ Gross profit amounted to SEK 17.8 m (10.2), and including the sale of the VoIP patent 2009 SEK 17.8 m (42.7).
- ▶ Gross margin was 54.4 percent (35.8) and including the sale of the VoIP patent 2009, 54.4 percent (69.9).
- ▶ Operating loss was SEK -37.9 m (-45.9) and including the sale of the VoIP patent 2009, SEK -37.9 m (-13.4).
- ▶ Loss after tax was SEK -39.8 m (-49.8) and including the sale of the VoIP patent 2009, SEK -39.8 m (-17.3).
- ▶ Loss per share was SEK -1.75 (-2.36) and including the sale of the VoIP patent 2009, SEK -1.75 (-0.82).
- ▶ At year-end, the order book totaled SEK 6.4 m (4.4).

Important events in 2010

- ▶ INVISIO received several orders from military customers during the first quarter, including the US Navy. These orders include INVISIO's new communication system with certified hearing protection comprised of the INVISIO X50 control unit and the INVISIO X5 headset.
- ▶ During the fourth quarter, INVISIO received an order from the US army through a partner and an order from a European military unit. Both orders were for INVISIO's X50 and X5 communications system. An order was also received during the quarter from a military unit in the Asia Pacific region for the INVISIO M3 headset, as well as an order from the Copenhagen Fire Department for the heatproof INVISIO M4 Fire headset with PTT (Push to Talk).
- ▶ During the fourth quarter Motorola Finiti was launched in the USA, the second Bluetooth headset for the consumer market with the patented INVISIO Bone Conduction technology, which permits clear and disruption-free communication in difficult and extreme environments.
- ▶ During the year, INVISIO has made bids through partners for communications equipment comprising a large number of units for military customers for two so-called Future Soldier Programs. A decision on these programs is expected during second quarter 2011 at the earliest.
- ▶ During the second quarter INVISIO launched two new products at the EUROSATORY defence and security fair in Paris. The new communications products were the individually customised headset with hearing protection, INVISIO X6, and the wireless PTT solution INVISIO M80.
- ▶ The name of the company is changed to INVISIO Communications AB.
- ▶ Two new directed share issues and a new issue with pre-emptive rights for the company's existing shareholders that were carried out during the year brought the company approximately SEK 41.6 million net, after issue costs. A new line of credit totaling SEK 14 m was secured.

Important events after the end of the year

- ▶ INVISIO has received yet another order from a Danish fire department. The order is for the heatproof INVISIO M3 Fire headset.
- ▶ INVISIO has received yet another order from the TETRA project in Portugal. The additional order is once again for the INVISIO M3 headset, which will be used in the so-called blue light network in Portugal's ongoing TETRA project.
- ▶ INVISIO has signed an agreement with Alecta Pensionsförsäkringar regarding a SEK 20 million loan. The loan is for 2 years and will be repaid to Alecta in February 2013.
- ▶ INVISIO has received an order from a European police special forces unit. The order is for the INVISIO M3h headset with PTT (Push to Talk).
- ▶ In 2008, INVISIO entered into an exclusive licence and collaboration agreement with Motorola in the Consumer Products business area. The agreement is conditional upon the fulfillment of certain goals including undertakings from Motorola prior to 31 March 2011. Since these goals and undertakings have not been fulfilled, the agreement has expired and renegotiations are taking place. INVISIO is positive about continued cooperation, but if the negotiations do not lead to the desired result for INVISIO, income from the Consumer Products business area may be somewhat lower in 2011 than in 2010. The negotiations are expected to be concluded during second quarter 2011.



INVISIO's product portfolio includes advanced headsets, control units, and accessories for use with two-way radio. The strengths include expertise in radio and user interfaces. Read more about this on pages 14-23.

INVISIO AT A GLANCE

INVISIO wants to make it possible for people to communicate in all environments, whether subject to loud noise, surrounded by extreme heat, or underwater. With our unique and world class expertise and technology, INVISIO offers professional users communications solutions such as advanced headsets, control units and associated equipment for use with two-way radio.

INVISIO specialises in voice communications in difficult conditions. The company develops, manufactures, markets and sells communication solutions such as advanced headset, control units and associated equipment for use with two-way radio, primarily for professional users who are often working in difficult environments. Customers are found, for example, in the military and military special forces, police and SWAT teams, emergency services, the security sector, and various industries throughout the world. Bluetooth headsets using INVISIO's patented technology are being developed together with Motorola. These are produced, marketed, and sold to consumers by Motorola.

INVISIO's patented technology and expertise in sound transmission and communication solutions enables disruption-free and clear voice communication even under extreme conditions, such as loud noise, heat, and underwater. Certain of the company's communications products also offer protection against hearing loss and tinnitus.

INVISIO Communications AB (publ.) is a Swedish limited liability company with its registered office in Stockholm, Sweden. The company is listed on First North Premier Segment, an alternative marketplace (rather than a regulated market) for trading in equities and other securities that is operated by NASDAQ OMX Stockholm.

Vision

To enable people to communicate comfortably in all sound environments.

Mission

To provide world leading communications solutions for sending and receiving high quality speech for communication in all sound environments.

Business concept

To develop, market, and sell solutions for audio communication under own brand and in collaboration with others.

Business objective

To be a market-leader in all customer segments in communication solutions featuring the best possible speech and sound quality and to thereby achieve good profitability.

CEO'S COMMENTS

2010 was a year in the right direction for INVISIO. Interest in INVISIO's products continues to grow. As we have expanded the product portfolio to include headsets, control units and accessories and now offer advanced communication solutions, opportunities for more and larger orders, as well as possibilities to take a larger part of the growing market for accessories for use with two-way radio, have opened. INVISIO's change of strategy from 2008 has been implemented with success and is increasingly fruitful.

Result wise, we have still not reached the goal of turning to profit and achieving a positive cash flow from operations, but we are on the right track. Sales have continued to increase during the year and with increased gross profit margin, and our costs, apart from non-recurring costs, have decreased. We can time after time confirm that the need and interest in our solutions is great and that the number of sales leads, with larger average values compared to previous years, continues to increase. The transition from selling to those that accept new technology early ("innovators") to those that come a bit later in the cycle ("early adopters") has however taken longer than we expected.

During the year we submitted offers for two large military programs, where decisions are expected at the earliest during the second quarter of 2011. When we analyze competitors with long business industry experience, we can point out that they have historically announced orders on military programs in numbers between 25 and several hundred million SEK, even though very few orders are made public. There is however no guarantee that INVISIO can receive such orders, but we now have a product portfolio and a reseller network that we have developed during the past 18 months, that enable us to make offers on large military and other programs that potentially consist of thousands of users.

In terms of sales of our professional products, 2010 was our best year ever and was 14.2 percent higher compared to 2009. If we disregard the currency effect, the increase was 27 percent.

Sales for the Consumer Products business area in 2010 increased by 15 percent compared with 2009 and consisted of royalty income and remuneration for development work from Motorola, unlike 2009 when sales also included income from selling off the remaining stocks of INVISIO's in house developed consumer headsets.

Continued growth for Professional Products business area

2010 ended positively with a good inflow of orders for professional products. The year was also positive in that

we saw a wider geographical spread of orders, as well as a spread of customer segments, from military customers in the USA, Europe and the Asia Pacific region as well as an order from a large fire service. The wider spread is a further sign that our changed strategy, under which from 2008 INVISIO focused on the world market for professional users with a requirement for durable and functional communication solutions for use in demanding environments is bearing fruit.

INVISIO's communications system with the control unit INVISIO X50 and the headset INVISIO X5 gained success, with orders from both a European military unit and the US army.

Another important order in the TETRA market came in the fourth quarter when the Copenhagen Fire Department placed an order for the heatproof M4 Fire headset with PTT. The products will be used in the TETRA digital communications network, where we see great potential for our digital compatible products. At the beginning of 2011 yet another such order came from another Danish fire service, which is again a positive sign of demand from the TETRA market, as well as for our durable and functional communication solutions for use in demanding environments.

Global trends continue to provide opportunities for the Professional business area

The market for professional products is continually expanding, mostly as a result of global trends such as a growing preference for in-ear headsets, new headset/hearing protection combinations, and a transition from analog to digital communication solutions, such as TETRA. Read more about these trends on pages 26 to 29 of the annual report.

As well as this, there are large military programs for communications solutions for the soldiers of the future. Being able to send and receive correct information in pressing situations is vital for military units. For this reason there are a number of projects in the US and the western world aimed at evaluating new equipment. These programs characteristically continue over several years and the potential volume can be high. Another characteristic of the Professional Products area is long procurement times in various military and other programs with an associated requirement for comprehensive customer testing, depending on political decisions and restrictions in public budgets that can delay projects. As we have advised before, sales in the Professional Products area can therefore vary between quarters because of the long lead times from first contact with a customer to enquiry, customer testing, bidding and potential final order.

Yet another Motorola headset with INVISIO technology

The income from the cooperation with Motorola did not reach the expected level during the year, but very positive for the business area is that during the fourth quarter Motorola launched Motorola Finiti, the second Bluetooth headset for the consumer market with licensed technology from INVISIO. The product was launched through two important sales channels in the USA and has so far received very positive reviews from the media, but it is too early to estimate the long-term sales potential.

The market for wireless consumer headsets has seen a downturn in 2009 and 2010 as a result of the world financial crisis. There is however reason to believe that the downturn was temporary after several years of growth and that long term growth will still be good. In 2008, INVISIO and Motorola signed an exclusive licensing and collaboration agreement. Since certain goals and undertakings in the agreement were not fulfilled, partly due to the world financial crisis, the agreement is now being renegotiated. INVISIO is still positive about the cooperation and the renegotiations are expected to be completed during second quarter 2011.

Strong owners create the conditions

One of INVISIO's strengths is its considerable institutional and long-term ownership structure. By means of a number of investor related activities, we have also increased institutional ownership during the year. In order to safeguard INVISIO's financial position and cope with the increase in capital tie up necessary for a focus on increased sales of professional products, a new share issue with pre-emptive rights for the company's existing shareholders was carried out in the fourth quarter. The issue was fully subscribed, which is a welcome confirmation of the owners' and investors' continued faith in us.

The plan to list the company on NASDAQ OMX Small Cap Stockholm remains, since there is reason to assume finance market conditions will prove sufficiently favorable during 2011.

I would like to conclude by thanking the employees for their fantastic efforts during the year. Their commitment gives the organisation the power it needs to achieve our objectives in 2011. I would also like to thank the board for a fruitful cooperation and our owners who continue to believe in our future.

Stockholm, April 2011

Lars Højgård Hansen
President and CEO

"In terms of sales of our professional products, 2010 was our best year ever"



ABOUT THE COMPANY

With world-class expertise and technology, INVISIO offers communications solutions for users in fields such as the military, fire and emergency services, industry, and law enforcement. The company has 27 employees of no less than ten different nationalities, and roughly half of them are engineers with specialist skills in fields such as acoustics, mechanics, and software development.

Business Description

INVISIO specialises in voice communications in difficult conditions. The company develops, manufactures, markets and sells communication solutions such as advanced headsets, control units and associated equipment for use with two-way radio, primarily for professional users who are often working in difficult environments. Customers are found, for example, in the military and military special forces, police and SWAT teams, emergency services, the security sector, and various industries throughout the world. Bluetooth headsets using INVISIO's patented technology are being developed together with Motorola. These are produced, marketed, and sold to consumers by Motorola.

INVISIO's patented technology and expertise in sound transmission enables disruption-free and clear voice communication even under extreme conditions, such as loud noise, heat, and underwater. Certain of the company's communications products also offer protection against hearing loss and tinnitus. Day-to-day operations are headquartered in Copenhagen.

INVISIO's two business areas:

PROFESSIONAL PRODUCTS

INVISIO's focus area. Communications solutions such as advanced headsets, control units, and accessories for use with two-way radio are developed and sold under the proprietary brand, INVISIO. The company also conducts development work on assignment for customers.

Employees

Roughly half of INVISIO's employees are engineers with specialist skills in fields such as acoustics, mechanics, and software development. They work to develop and adapt the company's different products and solutions. A full ten different nationalities are represented among the company's 27 employees. INVISIO attracts people who want to work in an international environment at the forefront of technological development.

Manufactured in Scandinavia

Product quality and delivery reliability are of decisive importance in the professional market. As such, all manufacturing of INVISIO's professional products takes place in Scandinavia, conducted by carefully selected companies, including Swedish firm PartnerTech in Vellinge.

The manufacture of consumer products with the patented INVISIO Bone Conduction technology is handled by Motorola in compliance with the applicable licensing and collaboration agreement.

Sales

Read more about INVISIO's sales and partner strategy on page 31.

CONSUMER PRODUCTS

Bluetooth headsets using INVISIO's patented technology are being developed together with Motorola. These products are manufactured, marketed, and sold to consumers under the Motorola brand.

INVISIO's HISTORY

It is no coincidence that INVISIO was established in Copenhagen of all places. Denmark has a long tradition in the field of acoustics. As early as the 1960s, the Danish state provided public funding for hearing aid treatment at hospitals. Denmark was the first country in the world to do this and still has a prominent global position when it comes to hearing aids. INVISIO is built on – and is now a part of – this heritage of knowledge.

INVISIO began with an acoustic innovation based on vibrations passing through the jawbone, which is

called Bone Conduction. INVISIO Bone Conduction is a patented technology for converting the vibrations produced in the jawbone when speaking into sound. The technology is based on the known fact that bones conduct sound.

INVISIO used the technology to manufacture a headset that picks up sound based on jawbone vibrations. This resulted in the creation of a headset that isolates speech from disruptive ambient sound. INVISIO's first customer was the Danish armed forces. Since the company's beginnings in 1999, the military and

so-called blue light operations have been INVISIO's primary target group.

INVISIO also wanted to utilize the great expertise held in sound transmission to broaden its product offering. In 2001, the company began to develop headsets for the consumer market based on Bluetooth, a technology for reliable wireless communication over short distances. A number of collaborative constellations for product development and products for the consumer market were tested, but in the end INVISIO decided to take care of its development activities

Technology and patents

Research and development is INVISIO's core activity and is conducted mainly internally within the company. The focus is on developing communication solutions such as advanced headsets, control units and associated equipment for use with two-way radio. Quality is a lodestar in INVISIO's product development, with demanding requirements for systematic procedures. As a consequence, the organization has a well developed process for product development with special documentation and quality management systems.

The patent strategy is to actively develop and submit patents in the fields of communication and audiology. INVISIO's internal resources and expertise in research and technical development are used partly for internal development projects under our own brand INVISIO®, and partly as collaborative development efforts with external partners like Motorola. As well as the two patent families below, INVISIO also has a patent application in the USA, *INVISIO Custom Protect Hearing Protection*.

A product portfolio based partly on INVISIO's two patent families:



INVISIO Bone Conduction

Instead of traditional sound wave technology, a small ear microphone that picks up vibrations in the user's jawbone is used. The vibrations are converted into sound, delivering crystal clear communication even under extreme noise or when the user whispers.

Patents have been granted in the US, Europe, and Singapore. In Europe, the patent was granted in 1993 and expires in 2013. In the US, the patent was granted in 1997 and expires in 2014, while in Singapore the patent was granted in 2001 and expires in 2013.

Soft Spring™ earpiece

This ergonomically designed and motion tolerant fastening device consists of a soft rubber spring that fastens the headset in the ear and ensures that it sits firmly and comfortably even during rapid movement. The risk of discomfort is very small, even when worn for longer periods.

Patents were granted in Europe and the US in 2006 and expire in 2021.

on its own. The products received much praise, but also entailed major costs for INVISIO, which was forced to compete in the tough consumer market.

The many awards received by INVISIO's Bluetooth headset led to INVISIO's technical solution catching the eye of Motorola in the US. In 2008, INVISIO signed an exclusive licensing and collaboration agreement with Motorola, which gives Motorola access to INVISIO's patented technology for its products for the consumer market against payment of a royalty.

The agreement with Motorola meant that INVISIO could focus its resources solely on developing products for professional users and the collaboration with Motorola, which resulted in reduced and stable operating costs. With the launch of Motorola's unique Endeavor HX-1 consumer headset with INVISIO's patented technology in 2009 and the second headset Finiti in 2010, income from the agreement has begun to flow in.

A new series of absolutely cutting edge communications products for professional users was completed and launched

in 2009, with increasing sales success. The work of increasing the number of retailers of professional products, a vital factor for sales, is being successfully pursued in all parts of the world.

Today, INVISIO is a small but well established player in the field of communication solutions for professional users. With a strategy focused on the professional market, reduced operating costs, and consumer products licensed to Motorola, INVISIO has found a business model that will result in profitability.

MILESTONES



At the end of second quarter 2009, Motorola launches the Bluetooth headset Endeavor HX-1, the world's first wireless headset with the patented INVISIO Bone Conduction technology, on the international consumer market.

In 2008, INVISIO changes strategy and through an exclusive licensing and collaboration agreement with Motorola for wireless Bluetooth headsets with INVISIO's patented technology for the consumer market, INVISIO now focuses on the world market for professional users' need for durable and functional communication solutions for use in demanding environments and on the collaboration with Motorola.

In October 2010, Motorola launches the second Bluetooth headset for the consumer market with INVISIO's patented technology, Motorola Finiti.



In the second half of 2009, the new series of professional products is launched - INVISIO X50, a new digital communication system with certified hearing protection. The system is supplied with the new two-channel headset INVISIO X5 or INVISIO X6 (see right, below).

1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010

Nextlink.to A/S
founded 1999



In 2000, the company made its first headset to use the patented INVISIO Bone Conduction technology; a headset aimed at the professional market.

In 2001, under the Bluespoon brand, the company launches its first wireless headsets for the consumer market.



In June 2010, INVISIO Headsets AB changes its name to INVISIO Communications AB. The change is part of the company's deliberate development from a headset company into a communications company.

INVISIO® COMMUNICATIONS

In July 2009, INVISIO Headsets AB is listed on First North Premier Segment, Stockholm.

In 2008, Nextlink AB changes its name to INVISIO Headsets AB.

In 2004, Nextlink AB is listed on NGM Nordic OTC. In May 2006, the share is moved to Nya Marknaden (New Market), which in turn became a part of First North in June 2006.

In January 2008, INVISIO launches the world's smallest Bluetooth headset, INVISIO G5.



In June 2010, INVISIO launches two new products at the defence and security fair EUROSATORY 2010; the individually customised two-channel headset INVISIO X6 with Bone Conduction and hearing protection and the PTT solution INVISIO M80, for use with the INVISIO X50 control unit.



Case study:

DALLAS SWAT TEAM AND INVISIO'S X50 COMMUNICATIONS SOLUTION WITH X5 HEADSET

SWAT, or Special Weapons and Tactics, works in extreme environments and carries out high-risk assignments such as with hostage situations, terrorist activity and special operations. Dallas SWAT team works under just such extreme conditions and therefore needs an extreme communications solution - namely INVISIO's communications system with the X50 control unit and X5 headset.



For teams like SWAT, the opportunity of communicating with several people at the same time, with crystal clear sound even in extreme noise or in situations where they have to whisper, can be vital for the success of an assignment. Because of the extreme conditions in which they work, the SWAT team depends on teamwork and fast coordination. This sets strict requirements for a reliable communications system that permits clear and undisturbed communication regardless of the noise in the vicinity, as well as whispered communication.

INVISIO's sound quality is "quite simply the best"

When Dallas SWAT team bought a new communications solution in December 2010, they chose INVISIO's X50 control unit and X5 headset. The team's sergeant, who must communicate with his men, his lieutenant and the command centre during assignments, is very pleased with the sound quality after trying INVISIO's solution:

"Our previous system was quite simply unreliable, and none of the suppliers we chose between came close to INVISIO's sound quality. It was quite simply the best. Nothing else comes close," says the SWAT team's sergeant.

A great advantage of INVISIO's communications system is its unique ability to eliminate disturbing noises around the user. The INVISIO X50 intelligent control unit, combined with the INVISIO X5 headset, is the world's first communications system with certified hearing protection and the patented INVISIO Bone Conduction technology, which gives clear and disturbance-free communication even in demanding and extreme conditions. The system also protects against sound shocks - very loud and damaging sound - that can cause tinnitus and hearing loss. The X50 control unit and X5 headset "give better sound transmission in situations where quiet is needed, is comfortable to use with a gas mask, protects hearing and improves the pick up of sound in the area," says another member of Dallas SWAT team.

INVISIO's X50 communications system has a technology called *situational awareness*. Separate external microphones allow the user to hear and even amplify sounds in the vicinity, and also to hear which direction the sound is coming from. This gives the user a clear picture of his surroundings, which another team member says is "fantastic, unbelievable; this is very good for a team that has to storm a building during an assignment".

Improves the operational experience

INVISIO's system has been developed to work in the most demanding situations and is compatible with all non-civilian radio systems currently on the market. The products are made with great consideration for the extreme conditions in which they are used, which is reflected in everything from the hard-wearing materials and user-friendliness to functions that enable you to rely on the equipment.

"It's really great not to have to wear uncomfortable products under your helmet when you are on an assignment. INVISIO's X50 and X5 headset have improved the operational experience and opened up a whole new world to listen to. The products are so good that I can hear fine even when we have to turn the volume down," concludes a member of Dallas SWAT team.



Read more about INVISIO X50 and X5 on page 20.

EXTREME SITUATIONS CALL FOR EXTREM SOLUTIONS

In jobs where people work in teams and sometimes in difficult or dangerous conditions, communication is vital. External factors can make it very difficult to hear communications and even harder to be heard. Such as when firefighters are in a burning building, police attempt to manage a crowd, or military forces are under attack. Even within logistics and factory environments, complex processes require good communication between team members.

In certain professions, extreme situations and environments are the norm rather than the exception. The ability to be heard and to receive instructions, despite not being able to hear one's own voice, can mean the difference between life and death.

This is where INVISIO's communications solutions come in. With innovative and patented technology and

expertise in sound transmission, INVISIO develops communication solutions that enable military personnel, firefighters, police, coastguard personnel and border patrols, security staff, workers in heavy industry, divers, and many other professionals to communicate under extreme conditions. INVISIO ensures that communication is not disrupted by external factors.

THE MILITARY

In the military's regular units and special forces, extreme noise from helicopters, heavy vehicles, explosions, and gunfire are a part of everyday life. For these groups, communication can mean the difference between mission success and failure, between life and death. In order for the units to conduct their missions effectively, strict demands are placed on advanced communication equipment that can also be integrated with new and existing communication systems. Military special forces may also need to communicate in whispers. Protecting hearing is also important for the military, both in the short term to prevent acute hearing loss and deafness due to explosions and gunfire, and in the long term to reduce problems with disorders such as tinnitus, which is a common occupational hazard among soldiers (read more on page 29).

Many countries' military organizations are also constantly reviewing their equipment in so-called modernization programs, where old equipment is replaced. There are currently more than 49 such programs going on in 38 countries, most of them in the US and Europe, but also in Asia, South America and Africa (read more on page 27).



FIREFIIGHTERS

For firefighters who save lives and coordinate actions, clear communication is a must. When the flames are roaring and consuming all the oxygen in the air, sound waves have trouble traveling, and when building structures collapse and rumble, it is difficult to hear anything in regular headphones or to make oneself understood via a microphone. Holding a communication radio while also operating machines or fire hoses is also out of the question. A firefighter responding to an incident needs to communicate with colleagues at the scene without interruption while also needing a secure channel to the external radio network to communicate with command. Moreover, the materials used in the communication equipment must be able to withstand extreme heat (read more on pages 16-17).



POLICE AND SWAT TEAMS

Police and SWAT team operations can be chaotic and demand completely reliable communication for coordinating actions, spreading information, and making rapid decisions. Plain clothes police need to avoid drawing attention and as such need to conceal their communication equipment. The ability to communicate by whisper is also important for them, which is difficult with regular microphones (read more on page 11).

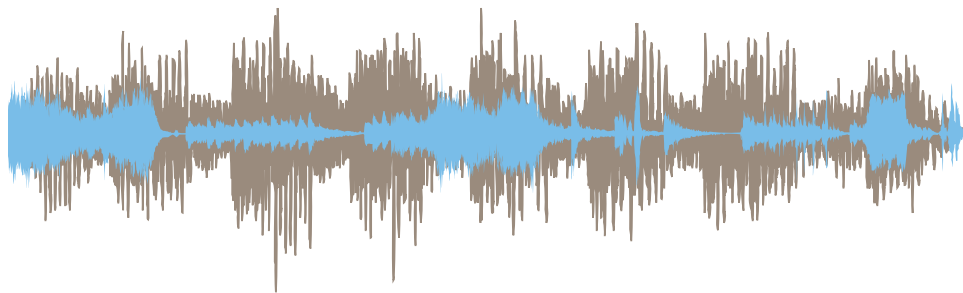


HEAVY INDUSTRY

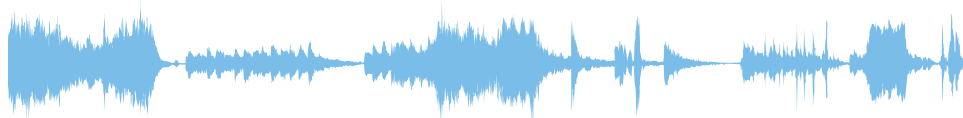
In heavy industry, such as mining, paper manufacturing, the oil industry and other power generation, work environments are often loud and noisy. Communication is very important, as these environments are often hazardous and the equipment is both complex and costly. In industry, too, it is important to protect personnel's hearing while still enabling them to communicate.



TRADITIONAL AIRBORNE TECHNOLOGY



INVISIO BONE CONDUCTION



The illustration shows sound waves from a traditional microphone and from INVISIO's jawbone microphone. The blue curve is the pure voice pattern while the gray curve shows the background noise. Here we can clearly see how the sound from a traditional headset mediates a mix of the speaker's voice and the disruptive background noise, while the sound from INVISIO's headset only mediates the pure speech, with no disruption from the surroundings.

FROM AUDIOLOGY TO COMMUNICATION

Vibrations in the jawbone are converted into sound using the unique INVISIO Bone Conduction technology. INVISIO combines this technology with advanced signal processing and a specially developed speaker inside the ear. A prerequisite for being able to produce such world-class communication solutions is a deep understanding of how sound, different materials, and human hearing work.

In order to develop a communications solution that fulfills the demands of professional users for clear communication, good ergonomics, reliability, and durability, the supplier must combine expertise in a number of different disciplines. It demands good knowledge of acoustics, radio technology, electronics, materials, and ergonomics.

A deep understanding of how the products are used in the field is a prerequisite for deciding which requirements must be fulfilled to aid the user's success.

When we talk to each other, the sound of our voices moves through the air in the form of sound waves. Since most things around us generate or reflect sound waves, our voices must compete with many other sounds if we are to be heard. Together, the brain and the ear make an exceptionally good team at gathering, sorting, and processing the information around us. For example, by calculating the time difference between the arrival of the sound in our left and right ears respectively, the brain can work out where the sound originates. Parallel to this, the brain compares the sound with previously registered sounds to immediately discern whether it demands our attention or can be dismissed as irrelevant background noise.

A microphone gathers all sounds, without discerning, and mediates them through a speaker. When the ear receives this information, all the sounds come from the same direction, making it difficult for the brain to interpret the information. With a headset, the microphone mediates not only the wearer's voice, but also ambient sounds and other people's voices. This sometimes chaotic stream of sound can, of course, be processed electronically to dampen or filter out irrelevant sound, but if the interference is too great, such as on a construction site, on a production floor, or at an incident, signal processing is insufficient.

Vibrations into sound

INVISIO has instead chosen to base its headsets on a technology called INVISIO Bone Conduction, where the regular microphone is replaced with a patented technology that senses vibrations in the jawbone. The vibrations are created by the wearer's voice when he or she speaks. The vibrations are then captured from the jawbone by a specially developed transducer, as it is called. The signals then undergo advanced signal processing to convert them into clear speech.

The placement of the Bone Conduction microphone inside the ear together with its design block ambient sounds, which means only the wearer's voice is mediated to the communication radio.

INVISIO is unique in that it combines this technology with advanced signal processing and hearing protection in communication solutions based on headsets in the ear. The result is a number of product families with different characteristics for different types of users who have one thing in common – the need to communicate in extreme environments.

Part of the body

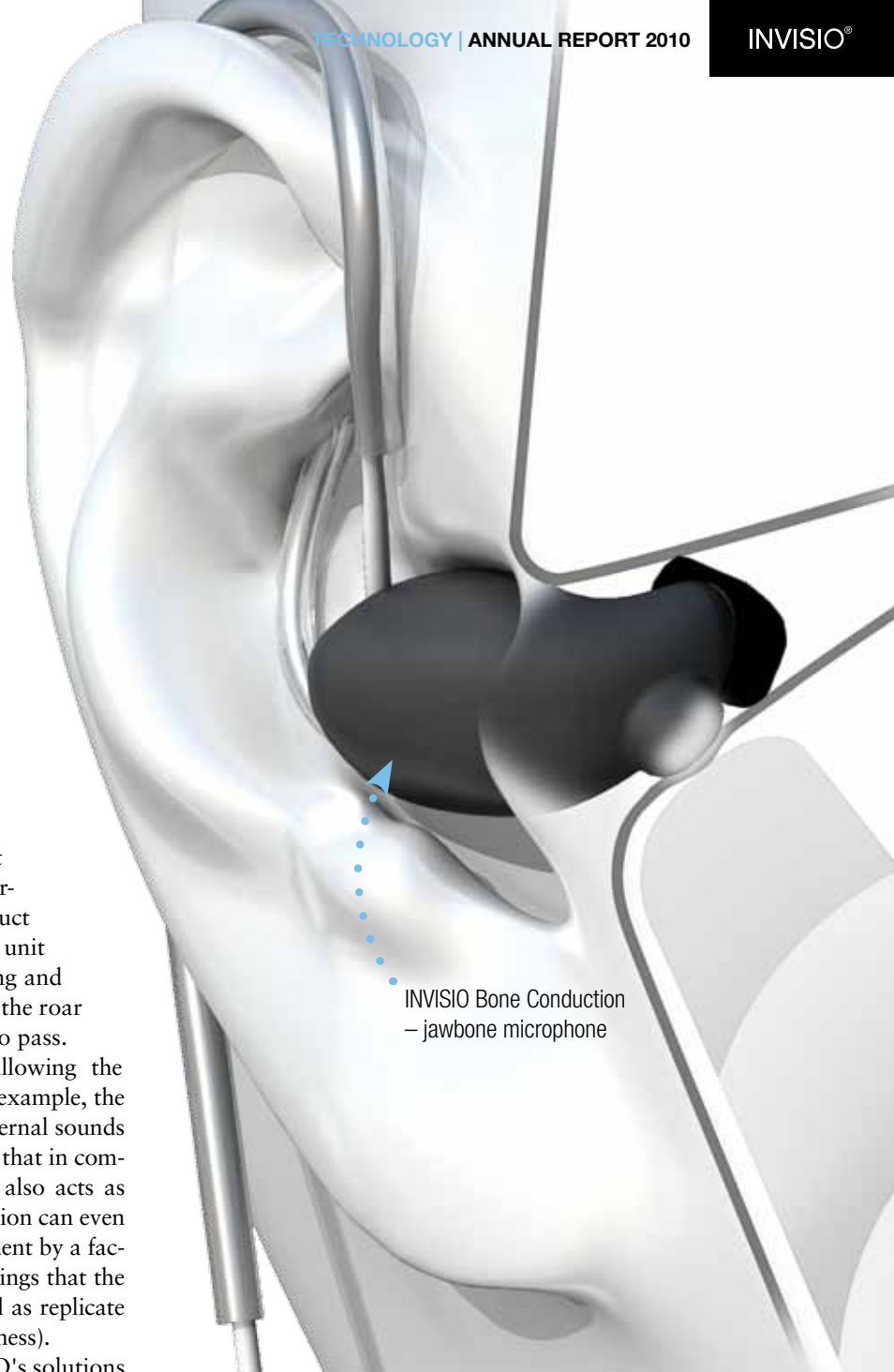
In order for a headset to be used continuously for many hours, it must have an ergonomic design, not sit too far inside the ear, and be made of a material that does not irritate the ear. Moreover, it must allow external sounds to pass so that the user can conduct a regular conversation without removing the unit from his or her ear. Parallel to this, damaging and loud sounds, such as weapons being fired or the roar of an airplane engine, must not be allowed to pass.

INVISIO has solved this problem by allowing the advanced electronic signal processing in, for example, the X50 control unit, to lessen the volume of external sounds to avoid dangerously loud levels. This means that in combination with the headset, the control unit also acts as intelligent hearing protection. The same solution can even be used to amplify sounds from the environment by a factor of up to five, enabling the user to hear things that the human ear normally cannot perceive, as well as replicate the direction of the source (situational awareness).

Another example of innovation in INVISIO's solutions is Soft Spring™, a patented solution that uses a spring to hold the headset in place. Soft Spring makes it comfortable to wear, while the spring is also strong enough to hold the headset in place while the user runs through a forest or crawls around a smoke-filled house.

INVISIO has even developed special technology for specialist applications, such as a cable that withstands up to 300 degrees centigrade, which can be necessary in a burning building. Watertight designs, which can be used during diving, have also been developed.

INVISIO is a leading expert in interfaces as well as system solutions, radio technology, and digital communication, which is important in efforts to produce comprehensive solutions in which communications radio, control unit, headset and software design must work together to create the best solution.



INVISIO Bone Conduction
– jawbone microphone

All of INVISIO's headsets are placed in one ear or both ears and feature the patented INVISIO Bone Conduction technology. In order for a headset to be used continuously for many hours, it must have an ergonomic design, not sit too far inside the ear, and be made of a material that does not cause irritation. Moreover, it must allow external sounds to pass so that the user can conduct a regular conversation without removing the unit from his or her ear. Parallel to this, damaging and very loud sounds, such as weapons being fired or the roar of an airplane engine, must not be allowed to pass.

"INVISIO's solution meets our requirements for very good sound quality and heat resistance in extreme temperatures up to 300 degrees."



Case study:

COPENHAGEN FIRE DEPARTMENT – INVISIO M4 FIRE

For Copenhagen Fire Department, clear communication is vital to their job of saving lives. In 2010, when they were buying a new communications solution for use in the new digital TETRA network, they were looking for a communications solution that gave clear communication for their firefighters even in noisy environments. After comprehensive testing, they decided on INVISIO's heatproof M4 Fire headset.

In certain professions, extreme situations and environments are part of everyday life and being able to communicate without disturbance can be a question of life or death. When firefighters are called out, they need to be able to communicate without disturbance through radio communication with each other and with their controllers, which is very difficult when flames are roaring and building structures are collapsing or rumbling. Flames also consume the oxygen in the air, which makes it more difficult for sound waves to travel. Holding a communication radio while handling a fire hose or performing a rescue is absolutely impossible. The materials of the communication equipment used must also be able to tolerate extreme heat, as well as aggressive chemicals that can occur in a fire.

The Copenhagen Fire Department's previous solution did not fulfil their requirement for clear communication in noisy areas, and after comprehensive testing as part of the procurement process they therefore chose INVISIO's heatproof M4 Fire headset with the patented INVISIO Bone Conduction technology.

"We were looking for a solution of good quality that could be used in very noisy and hot surroundings,

that is light and easy to use and can be customised for each firefighter and that can allow hearing with both ears even if the headset is only used in one ear. All these criteria are fulfilled by INVISIO's M4 Fire headset with Body Push-To-Talk," says Jan Ruben, operations manager of the Copenhagen Fire Department.

INVISIO's M4 Fire headset is individually customised for each user by moulding it specifically for the user's ear. The patented INVISIO Bone Conduction technology permits clear and undisturbed communication, even in demanding and extreme environments like fires. The headset is also heat resistant and can also tolerate a number of aggressive chemical substances that are commonly produced in fires.

"INVISIO's solution meets our requirements for very good sound quality and heat resistance in extreme temperatures up to 300 degrees. INVISIO's headsets represent great mechanical improvements and the M4 Fire is also optimised for use of the TETRA digital communications network," says Jan Ruben, operations manager of the Copenhagen Fire Department.



Read more
about INVISIO
M4 Fire on
page 21.

INVISIO'S UNIQUE TECHNOLOGY

To remain competitive in the market for professional headsets and communication solutions, a company needs a very broad knowledge base, spanning everything from knowledge of materials to the ways in which major suppliers build their equipment. The work to develop INVISIO's communications solutions has required extensive knowledge and the development of new materials and technology in several fields, such as acoustics, miniaturization, and production. Most of this development work has taken place at INVISIO's laboratory in Copenhagen.



VIBRATIONS IN THE JAWBONE ARE REGISTERED

INVISIO uses a patented technology, INVISIO Bone Conduction, to register the voice in the speaker's outer ear. The technology has been developed by engineers with experience in areas that include the development of hearing aids. It is based on unique knowledge of how the voice creates vibrations in the jawbone and of how advanced technology can be used to convert these vibrations into electric signals.

Since INVISIO's headsets are based on the detection of vibrations, another central aspect is a thorough understanding of how the sound produced by the vocal cords travels through the jawbone and how it is affected on its way to the outer ear. As a result, in order to achieve high sound quality INVISIO has invested extensive resources in attaining a deep understanding of the physics behind acoustics in small cavities and channels, as well as of how materials, components, and sound interact.

With their lack of a traditional microphone, INVISIO's headsets have the unique ability to eliminate disruptive sounds around the user. The method INVISIO has developed means that the vibrations are registered by a sort of rubber bubble, which is in contact with the jawbone. When the user speaks, the jawbone vibrates and the microphone under the bubble converts the vibrations into electronic signals.



COMFORT AND FUNCTION SET DESIGN REQUIREMENTS

When a user has to work a long shift with a headset in his or her ear, it is important that the product is comfortable. As such, INVISIO holds broad and extensive expertise in ergonomics and, among other things, has developed the patented Soft Spring™ fastening device, which fastens the headset in the ear in a unique manner and ensures that it sits firmly and comfortably even during rapid movement.

In order to minimize the size of the products, INVISIO has developed specialized custom design methods and custom components. This requires knowledge about, and a focus on, miniaturization throughout the entire process, from the initial specification to the end product.

Achieving high product quality demands expansive expertise on the specific properties of different materials in terms of, for example, impact resistance, wear resistance, and ergonomics. It also entails an understanding of how different materials interact and how different environmental factors impact the equipment.



THE PRODUCTION PROCESS IS CHALLENGING

INVISIO's production differs considerably from regular electronics production. INVISIO uses specialist tools to a greater extent and assembly sometimes demands the use of a microscope, which has required the development of in-house expertise in electronics production.

The occasionally microscopically small components place unusually stringent demands on the tools used for production. Tolerances must be kept within very tight margins, which means production tools can only be manufactured using special methods employed by only a small number of suppliers in the world, with whom INVISIO has built up good relations.

INVISIO's products are designed for the most demanding environments. It is not unusual for it to be a matter of life and death when the user must feel able to fully rely on his or her communication equipment. In order to ensure the highest possible quality, INVISIO employs quality assured manufacturing and has developed an extensive testing program and knowledge of how these environments can be simulated in order to test the products.

The designers use advanced and specially customized CAD programs to produce and assure the quality of the designs, reducing the time from idea to finished product.

THE SOUND IS REPLICATED AND THE EAR IS PROTECTED



Capturing and mediating the user's speech is one part of the puzzle. The other part is to clearly and comfortably reproduce what the person at the other end is saying. For this part, INVISIO has developed a design based around a speaker that reproduces sound with hi-fi quality. This provides the best prospects for the message to always reach the recipient, even if conditions at the other end are not the best.

Even if the sound is reproduced clearly and accurately, we cannot be sure the user hears what is said. People perceive sound in different ways under different circumstances. Noise is one factor, while stress is another, and one that affects our ability to comprehend. This field is known as psychoacoustics. Understanding and allowing for these factors can be decisive to usability in tough situations;

situations where the user is exposed to extreme stress.

Many of INVISIO's solutions are used in environments where ambient sounds can include dangerously loud sounds, such as loud noise, explosions, or weapons being fired. Since hearing loss and tinnitus are a major problem for people working, for example, in the military, it is also important that a headset can suppress loud noises that could damage the user's hearing. With the aid of advanced signal processing, dense materials, and ergonomic designs, INVISIO's solutions can protect the user from such dangerous sounds. The headset acts like an advanced earplug, constantly adjusting the volume to a level that does not damage the ear.

INVISIO also has products that can amplify the ambient sound by a factor of up to five, enabling the user to hear things that the human ear normally cannot perceive, as well as replicate the direction of the source, so-called *situational awareness*. But even if the sound increases, no dangerous sound can get through. The headset handles this by automatically reducing the volume very rapidly.



VIBRATIONS ARE CONVERTED INTO SOUND

In order to convert these electronic signals into clear speech, INVISIO has developed algorithms for processing the signals so as to achieve optimal sound quality and software to implement the technology in its products.

In order to run this type of advanced program with the best results, the smallest format, and the lowest energy consumption, INVISIO has defined the hardware in the form of the very small circuits and other components that are used to run the integrated software. The quality of the programming is decisive in attaining the highest possible sound quality while minimizing size and energy consumption.

WORLD CLASS QUALITY AND CERTIFICATION

Companies and government agencies demand products that fulfill accepted norms and standards. Certifications provide quality assurance in terms of expertise and credibility. As a consequence, INVISIO has focused on certi-

fying its products according to both current and possible future expectations.

INVISIO's production partner, the Swedish firm PartnerTech, is also ISO 9001-certified.

INVISIO fulfils the following directives and certifications:

DIRECTIVE/CERTIFICATION	EXPLANATION
ATEX ¹	Protection against sparks in electronics
EU standards EMC	Electromagnetic compatibility
EU standards hearing protection	European standard for design and function of hearing protection
ANSI standards hearing protection	American standard for hearing protection
RoHS (directive 2002/95/EG)	Limitation of heavy metals and flame protection media
REACH	Safe use of chemicals
WEEE	Waste handling
CE	Fulfilment of CE requirements for product safety

Atex – safe in explosive environments

INVISIO has a product (M3 Ex) that is in the process of ATEX certification, which means that it is tested to ensure it cannot create an explosion.. The abbreviation ATEX comes from Atmosphères Explosibles and is an EU standard for avoiding explosions in sensitive environments. ATEX embraces everything from how premises with a risk of explosion should be designed to exactly how products must look so as not to create an explosion or fire. ATEX certification guarantees that the M3 Ex headset from INVISIO has no contacts or components that could create a spark that might ignite a gas-filled room, for example.

¹ Certification in process

PRODUCTS

INVISIO offers communications solutions for use with two-way radio, such as control units and headsets for different types of extreme situation. The headsets and control units are supplied either with a standardized ergonomic design or specially-made for each individual user. The products deliver high quality sound and sit safely and comfortably in the ear, even with rapid movements.

INVISIO develops communication products for different application areas. On the one hand in-ear headsets, on the other control units and PTT (Push-to-Talk). All of INVISIO's headsets feature INVISIO Bone Conduction, a patented technology wherein a jawbone microphone sensitive to vibrations captures the voice without disruptive background noise. Certain models use advanced digital signal processing to further enhance the clarity of the sound. The sound is reproduced by miniaturized speakers that deliver high quality sound. INVISIO X5 and X6 models use a specially designed

speaker with hi-fi specifications, which means even better sound quality.

The headset is supplied either with a standardized ergonomic design using INVISIO's Soft Spring system, which comfortably and effectively keeps the headset in place in the ear, or individually customized for the individual user. During 2010, most M3 and M4 models were modified to provide better protection against electromagnetic interference. All models in the two series are suitable for use with TETRA radio.



INVISIO® X50

Intelligent control unit

- Digital intelligent control unit and PTT for use with the INVISIO X5 or X6 headset
- Has two channels and can communicate with two different radio transmitters simultaneously
- Support for electronically-controlled hear-thru, which replicates and if necessary amplifies sounds from the surrounding environment to give the user a clear idea of the surroundings
- Volume adjustment for ambient sound and incoming radio
- Volume limiter to quickly stop harmful noise and prevent damage to hearing
- Automatic sensing of headset and radio type
- Software updates via included programming cable
- Can be used underwater to depths of up to two meters (IP68)



INVISIO® X5

Digital headset with hearing protection, intended for military and police

- Used in both ears
- Certified hearing protection complying with industry standards SNR 32 and NRR 29 with up to 38 dB protection on average
- Has two channels and can communicate with two different radio transmitters simultaneously via the INVISIO X50 control unit
- Electronically-controlled hear-thru via the INVISIO X50 control unit, which replicates – and if necessary amplifies – sounds from the surrounding environment to give the wearer a clear idea of the surroundings
- Can be used underwater to depths of up to two meters (IP68)
- Soft Spring™ for comfortable and secure in-ear use
- Kevlar-reinforced cable with Teflon insulation and a pull strength of over 20 kg
- INVISIO Cable Retainer™ ensures that the cable remains behind the ear



INVISIO® X6

Individually customized headset with hearing protection

- Individually customized headset for use in extreme environments
- A compact size makes this headset discreet, light, and comfortable to use
- Certified hearing protection complying with industry standards SNR 29 and NRR 25 (patent application INVISIO Custom Protect Hearing Protection)
- Used in both ears
- Has two channels and can communicate with two radio transmitters simultaneously via the INVISIO X50 control unit
- Kevlar-reinforced cable with Teflon insulation and a pull strength of over 20 kg
- INVISIO Cable Retainer™ ensures that the cable remains behind the ear



INVISIO® M4

Individually customized headset for use, for example, in security details

- Individually customized headset for use in extreme environments
- A compact size makes this headset discreet, light, and comfortable to use
- Kevlar-reinforced cable with Teflon insulation and a pull strength of over 20 kg
- INVISIO Cable Retainer™ ensures that the cable remains behind the ear
- Protected against electromagnetic interference (EMI/EMC)
- Also available in versions for use underwater (M4s) and with hearing protection (M4h)



INVISIO® M4 Fire

Individually customized headset for use in extreme heat, intended for firefighters

- Withstands use in temperatures of 235 °C with heat flashes of 300 °C
- Resistant to many aggressive chemical substances commonly encountered in fires
- Heat-resistant, silicone-reinforced fiberglass cable
- Individually customized headset for use in extreme environments
- A compact size makes this headset discreet, light, and comfortable to use



INVISIO® M3

Standard headset for all types of user

- Precision-made headset with ABS polymer sealed housing for use in extreme environments
- Soft Spring™ for comfortable and secure in-ear use
- Ultra light and compact, weighing less than five grams and measuring 1.3 × 2.4 cm
- Kevlar-reinforced cable with Teflon insulation and a pull strength of over 20 kg
- INVISIO Cable Retainer™ ensures that the cable remains behind the ear
- Protected against electromagnetic interference (EMI/EMC)



INVISIO® M3s

Standard headset for use even underwater, intended for divers

- Can be used underwater to depths of up to 20 meters (IP68)
- Precision-made headset with ABS polymer sealed housing for use in extreme environments
- Soft Spring™ for comfortable and secure in-ear use
- Ultra light and compact, weighing less than five grams and measuring 1.3 × 2.4 cm
- Kevlar-reinforced cable with Teflon insulation and a pull strength of over 20 kg
- INVISIO Cable Retainer™ ensures that the cable remains behind the ear
- Protected against electromagnetic interference (EMI/EMC)



INVISIO® M3h

Standard headset with hearing protection, intended for military, police and industry

- One-sided headset with certified hearing protection
- Soft Spring™ for comfortable and secure in-ear use
- Ultra light and compact, weighing less than five grams and measuring 1.3 × 2.4 cm
- Kevlar-reinforced cable with Teflon insulation and a pull strength of over 20 kg
- Protected against electromagnetic interference (EMI/EMC)



INVISIO® M3 Fire

Standard headset for use in extreme heat, intended for firefighters

- Withstands use in temperatures of 235 °C with heat flashes of 300 °C
- Resistant to many aggressive chemical substances commonly encountered in fires
- Heat-resistant, silicone-reinforced fiberglass cable
- Soft Spring™ for comfortable and secure in-ear use
- Ultra light and compact, weighing less than five grams and measuring 1.3 × 2.4 cm



INVISIO® M3 Ex

Standard headset for use in explosive environments, intended for firefighters and industrial workers

- In the process of ATEX and IECEx certification for use in explosive environments
- Kevlar-reinforced cable with Teflon insulation and a pull strength of over 20 kg
- Soft Spring™ for comfortable and secure in-ear use
- INVISIO Cable Retainer™ ensures that the cable remains behind the ear
- Ultra light and compact, weighing less than five grams and measuring 1.3 × 2.4 cm



INVISIO® M80

Wireless push-to-talk for use on land and underwater

- For remote control of the INVISIO X50 control unit.
- Small, light and rugged design
- Can be used underwater to depths of up to two meters
- Nato-fastening (Picatinny rail)



INVISIO® M15

Body-worn push-to-talk

- Large button for ease of use, even with gloves on
- Rotating belt clip for ease of fastening to clothing or equipment
- Pressure-sensitive quiet button
- Protective ring to avoid unintentional use
- Weighs less than 100 grams and measures Ø52 x 28 mm



INVISIO® M20

Push-to-talk for use on land and underwater

- Can be used underwater to depths of up to 20 meters
- Tough, military class construction
- Quiet, easily pressed button for simple activation even with gloves on
- Stainless steel belt clip
- Weighs less than 175 grams and measures 49 x 28 x 75 mm



INVISIO® M30

Push-to-talk for placing on finger

- Small, light and rugged design
- Pressure-sensitive quiet button
- Reliable and comfortable with velcro fastening to wear on a finger or fix to equipment
- Infused polymer shell for extra strength and sealing
- Weighs less than six grams and measures 22 x 13 x 28 mm

INVISIO'S TECHNOLOGY IN CONSUMER PRODUCTS

A key part of INVISIO's strategy change in 2008 was the exclusive licence and collaboration agreement with Motorola for Bluetooth headsets with INVISIO's patented technology for the consumer market. Collaboration with Motorola allows INVISIO to concentrate its resources on communications solutions for professional users, while at the same time consumers all over the world can benefit from INVISIO's unique technology.

INVISIO and Motorola's collaboration agreement

In 2008, INVISIO signed an exclusive licensing and collaboration agreement with Motorola, one of the world's leading suppliers of Bluetooth headsets for the consumer market. The agreement gives Motorola the opportunity, in return for a licensing fee, to use INVISIO's patented technologies, such as INVISIO Bone Conduction, in its products for the consumer market, so as to permit disturbance-free communication in extreme conditions.

Through this agreement, INVISIO can focus on the collaboration with Motorola and on communication solutions for professional users, and over and above the licence income from Motorola, gain increased awareness of the INVISIO brand. Through this collaboration, INVISIO's technology can reach many more consumers, since Motorola's sales and distribution capacity has

global market penetration that INVISIO could not attain with its own resources.

Unique and acknowledged products for the consumer market

In 2009, Motorola launched the Endeavor HX-1 Bluetooth headset, the world's first wireless consumer headset featuring the patented INVISIO Bone Conduction technology, as the first product under the agreement. Endeavor HX-1 received much acclaim in published tests. Many of the positive reviews emphasize the ability to communicate undisturbed in noisy environments.

In 2010 Motorola launched the second Bluetooth headset with INVISIO's patented technology, Motorola Finiti. Like its predecessor, the headset has received very good reviews in the daily press and in eminent American technical publications and blogs.

Motorola Endeavor HX-1



Motorola Finiti



"A clear improvement over its predecessors"

CNET

"A fantastic example of a high-technology Bluetooth product"

Cell Phone Trek

"One of the best headsets I have used"

Gizmodivision

THE CONSUMER PRODUCT MARKET

Many people prefer to use a headset for their mobile phones, partly so as not to have to hold the phone to their ear, partly to allow them to talk while using their hands for something else, like driving a car for example, which is forbidden in all European countries outside Sweden. But there are also many who, for various reasons, have not started to use a headset yet, and there is great potential for the market.

The market for Bluetooth headsets, that is, headsets that use wireless Bluetooth technology for communication between a headset and a cellphone or a computer, is becoming much more mature and many more are now realising the advantages of a headset. Mostly because it is much more convenient to have your hands free when speaking on the phone, both privately and when at work. Demands on user-friendliness and functionality have also increased somewhat, as has the desire for products with more of a designer look. There is now much focus on improved sound quality.

7 BILLION SEK
is INVISIO's estimate of the total value of the market for Bluetooth headsets

Today, many consumers choose a headset that can reduce background noise, something that has been a problem with several earlier alternatives that pick up more background noise than speech. Not needing to remove oneself from a noisy situation or being able to talk without problems near machinery or in bad weather is becoming more and more important to many people. While most suppliers of headsets for the consumer market chose to implement electronic noise reduction, Motorola chose INVISIO's technology in which background noise is not picked up at all.

Continued growth in 2011 after a downturn in 2009 and 2010
The consumer market for Bluetooth headsets grew dramatically between 2002 and 2008. In 2009 and 2010,

the global market saw a downturn as a result of the financial crisis, with the greatest effect in Russia. INVISIO estimates the global market for Bluetooth headsets to be worth more than seven billion Swedish kronor per year. Long-term growth potential is considered largest in Russia and Eastern Europe, although the US market is also expected to continue growing. Altogether the market for Bluetooth headsets is expected to increase by 12 percent in 2011.

Large volumes and higher production efficiency are examples of reasons behind the price pressure that characterizes a growing market of this kind. The falling prices themselves form a driving force, as they pave the way for more potential consumers and larger customer segments.

Three types of supplier
Today, there are three primary categories of manufacturer in the Bluetooth headset market. The first category, which is also the biggest, consists of the big mobile telephone manufacturers that develop and market their own Bluetooth headsets, such as Nokia, Samsung, Motorola, Apple and Sony Ericsson. The second category are companies that specialise in the manufacture of different types of headset, such as Plantronics, GN Netcom (Jabra) and Sennheiser. The third category encompasses mainly smaller, Asian manufacturers that sell their products only regionally in Asia and via OEM agreements.

Trends and market forces

In addition to the general increase in the use of Bluetooth headsets, there are a number of other global trends that further increase demand.

The number of cellphones sold the world over – an important driving force for sales of wireless Bluetooth headsets. More than a billion units a year are sold and the number of cellphones sold is expected to increase by about 17 percent by 2014. The number of sold headsets per sold cellphone is estimated to be 6 percent on a global level. In the US, with the most mature market, the corresponding figure is assessed to be 11 percent.

Sales of more advanced cellphones, like smartphones. Smartphones cost more to buy than normal cellphones, which means that consumers are willing to spend more on accessories for them. The user interface of these is also designed to integrate with the telephone while you speak. Headsets are also very useable when looking at videos or having a video conversation - which is expected to become increasingly popular.

Legislation on the prohibition of cellphone use while driving – many countries of the world have implemented or plan to implement legislation that prohibits the use of cellphones while driving. Headsets resolve this problem. In Europe, Sweden is the only country that has not yet introduced such legislation.

Concerns about radiation from cellphones – despite research reports, many cellphone users are still concerned as to whether the radiation from cellphones can have negative effects. A Bluetooth headset emits 98 percent less radiation than a cellphone.

Internet telephony (VoIP) – the ability to speak on the phone over the Internet also paves the way for increased use of Bluetooth headsets. The number of computers with Bluetooth capabilities is continually increasing. With such a computer and a headset, a user can easily and flexibly speak on the phone directly via the computer without the need for either a cellphone or a fixed line.

MARKET PROFESSIONAL PRODUCTS

The need to communicate unimpeded even under noisy and extreme conditions has always been there, especially in some professions. For these people, it is also important to be able to move unimpeded and to have one's hands free while communicating, and for some it is also necessary to be discreet and blend in with a crowd. Undisturbed and audible communication increases the chance of success and reduces the risk of injury and accident. Communication solutions that can also prevent hearing loss are very welcome.

P Twenty years ago, several of the areas where INVISIO's products are currently used lacked any form of viable technology. This means that the technical development itself contributes to market growth.

Since the introduction of technically sophisticated headsets and control units offering two-way communication and hearing protection, these products have been in demand among professional users with stringent requirements for reliability, durability, and sound quality. These professions – which include military units and special forces, police and SWAT teams, emergency services such as firefighters and paramedics, and heavy industry – have gained considerably from such innovative solutions. The new products enable disruption-free communication almost regardless of the situation or sound environment the user faces. Moreover, hearing loss and tinnitus can be avoided, which reduces human suffering and saves money in the form of compensation and treatment for work-related injuries.

Mature market with potential

INVISIO estimates the current value of the entire market for communication accessories for two-way radio at more than four billion Swedish kronor. The US is the largest single market with about 45 percent of global sales, followed by Europe with 30 percent, the Asia Pacific region with 20 percent, South America with 3 percent and Africa with 2 percent.

The global market for professional users of radio equipment is relatively mature. However, there is considerable

potential for growth with the technology transition from analog to digital and with more and more professions realizing the advantages of advanced headsets.

An estimated 85 percent of those currently using two-way radio have no headset, offering great growth potential for the entire market.

Trends and market forces

In addition to the general increase in the use of in-ear headsets, there are a number of other global trends that contribute to the growing demand. **Shrinking product lifecycles for professional products** – development in two-way radio communication solutions and their application among professional users has so far been slower than development in consumer products. However, the product lifecycle for professional products has now dropped to about five to seven years, and will most likely drop even more over the coming years. This development makes it easier to adapt communication solutions to specific customer needs. It also increases the probability of reaching larger customers that are looking for new, improved solutions to handle their special needs.

Read more about the market forces below on the following pages.

4 billion SEK

is INVISIO's estimate of the total value of the market for communication accessories for two-way radio

Military modernization program



page 27

The TETRA rollout (TETRAPOL or APC025)



page 28

Hearing loss and how headsets can protect



page 29



THE MILITARY – FREQUENT BUYERS OF INVISIO'S PRODUCTS

The military all over the world have long been repeat customers for INVISIO. Beyond the fact that functional and durable communications solutions are of the utmost importance for their work, the military of many countries are now engaged in so-called modernization programs, in which old equipment is replaced. During 2010, INVISIO launched INVISIO X6 – the world's first individually customized headset with Bone Conduction and hearing protection– and also achieved sales success among the military with INVISIO's communication solution, the X50 control unit and X5 headset.

In the military's regular units and special forces, extreme noise from helicopters, heavy vehicles, explosions, and gunfire are a part of everyday life. For these groups, communication can mean the difference between mission success and failure, between life and death. In order for the units to conduct their missions effectively, strict demands are placed on advanced communication equipment that can also be integrated with new and existing communication systems. For special forces, the ability to communicate in whispers is important, since they can find themselves in extremely difficult situations that require this.

The ability to protect personnel's hearing is also important for the military, both in the short term to prevent acute hearing loss and deafness due to explosions and gunfire, and in the long term to reduce problems with disorders such as tinnitus, which is a common occupational hazard among soldiers. There are also financial considerations for the employer in order to avoid work-related injuries that demand compensation (see page 29).

Military budgets are often very large, especially in the US,

and when communications equipment is being procured, the amounts often run into many millions. Other suppliers of communications equipment with extensive experience of the industry have historically announced orders for military programs ranging from about 25 up to several hundred million kronor, even though few orders are made public.

Military modernization programs a further driving force

Most of the world's military organizations continually review their equipment through modernization programs. There are more than 49 such current or imminent programs in 38 countries, most of them in the US and Europe, but also in Asia, South America and Africa. Not all these programs include communications equipment, but those that do demand modern technology with high performance that is also user friendly and can be integrated with new and existing systems.

INVISIO and the military

INVISIO has supplied communications products to the military all over the world for many years. INVISIO's technology solves military personnels' problem, which is to be able to communicate in the extreme noise that can be found in their environments while at the same time protecting hearing.

In 2010, INVISIO launched the wireless PTT solution M80 and X6 – the world's first individually customized headset with Bone Conduction and hearing protection. INVISIO's communication solution with the X50 control unit and X5 headset achieved sales success, with several important orders. INVISIO also received orders from a number of geographical regions, for example from military units in Europe and also the Asia Pacific region.

INVISIO has also bid on two large military programs, decisions on which are expected during second quarter 2011 at the earliest. With its present product portfolio and sales network, INVISIO can now bid for large military and other programs that potentially involve thousands of users.

TETRA – A MARKET WITH POTENTIAL FOR INVISIO

TETRA is a digital radio technology that was introduced in the 1990s. TETRA permits communication in many different ways, which means that more organizations such as rescue services and police forces all over the world are replacing their old analog systems with digital. During 2010, INVISIO modified the M3 and M4 series for TETRA and completed some strategically important transactions in this area.

TETRA makes it easier to coordinate rescue missions since one and the same communication system is used by all the organizations involved, and increasingly also by the rescue services of different countries. Since communication is digital, the quality is better, sources of interference are fewer and the system is also suitable for data communication.

The transition from analog systems to TETRA means that all communications equipment, from hand-held radios to exchanges and base stations, must be replaced. This means very good business opportunities for suppliers of the various components in these communications solutions. Once the TETRA system is in place, the next step for the end user is to start to review peripheral TETRA equipment such as audio accessories, like headsets.

At the end of 2009, there were TETRA projects in 114 countries, and in 2010 even more large organizations and authorities continued to implement TETRA-based communications solutions. Over the next few years, TETRA will be implemented in more countries and by more organizations.

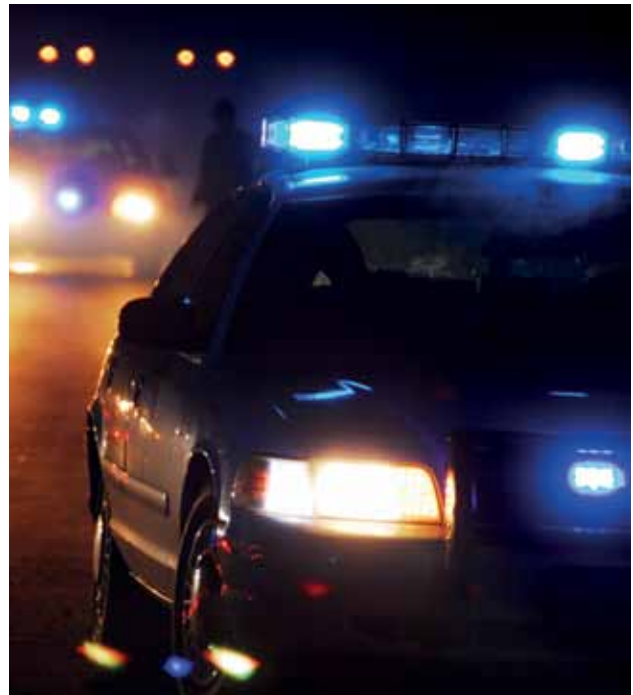
Technology

TETRA stands for Terrestrial Trunked Radio and is a standard defined by ETSI. Technically, it is based on the TDMA radio technology. With a group of radios, a TETRA radio acts as a mobile telephone that can call up any individual radio in the network, and can also call several other radios in a defined group or make a general call to all other radios. But it can also function as a traditional communication radio.

Since traffic between radios in a network can go from radio to radio, tolerance to overloading is increased. Normally communication between individual hand held radios, or body-worn radios with headsets, is handled by more powerful radios fitted in vehicles. But this system can also use the hand-held radios as base stations, which makes coverage practically unlimited.

Another important advantage of TETRA is that the system has been designed to enable the transmission of computer data. That makes it possible to quickly send out maps, drawings and other information that may be needed during a rescue operation.

And finally, all radio traffic is encrypted, which makes it very difficult to listen in to.



INVISIO and TETRA

INVISIO's digitally compatible products are highly suitable for use in the digital TETRA system. Not least considering the importance of clear and completely secure communication that the TETRA system users need to coordinate action - and save lives. The environments in which they work can also be extreme and noisy, as with firefighters and police.

During the year, INVISIO has made certain technical adjustments to the M3 and M4 series to make them suitable for TETRA systems. During 2010, INVISIO also concluded two contracts for TETRA systems, one of them being for the Copenhagen Fire Department, which changed systems. The other order supplemented a previous order that INVISIO had completed with blue light organizations in Portugal. With INVISIO's close collaboration with leading players; these can now complement their bids with a first class communications system from INVISIO that guarantees that users can always make themselves heard, and hear, even under the most extreme and noisy conditions.

HEARING LOSS AND TINNITUS – A PROBLEM INVISIO CAN HELP TO COUNTER

Hearing loss and tinnitus as a result of continuous noise and high impulse sounds are injuries that are very difficult to live with and are a growing problem all over the world. Apart from the human suffering it causes, it costs governments and insurance companies a great deal of money. There is a growing demand for protection from this while facilitating communication in noisy environments, which opens up business opportunities, because some of INVISIO's headsets function as intelligent hearing protection. During 2010, INVISIO launched X6 – the world's first individually customized headset with Bone Conduction and certified hearing protection, for which a hearing protection patent has been applied.



People are affected by sound in a number of different ways. In addition to causing hearing loss and tinnitus, continuous noise and high impulse sounds can also affect performance at work, raise blood pressure, cause serious loss of concentration and disturb sleep. There are two primary causes of hearing loss and tinnitus: very loud sudden noise (so-called impulse sounds, which reaches the inner ear and causes damage) and exposure to loud noise for an extended period. People who work in the police or military, for example, are particularly exposed to these injuries. To protect against this, in the military for example, where very loud noises like explosions and gunfire are common, good hearing protection is important. At the same time, users must be able to communicate.

Potential in communications solutions with hearing protection

Hearing loss and tinnitus are a large and growing problem all over the world. Aside from the human suffering it causes, there is also the cost of compensation and treatment for work-related hearing loss, which falls to taxpayers and employers. Each year, the federal government of the United States for example spends more than seven billion Swedish kronor on compensation and treatment for military veterans with impaired hearing and tinnitus contracted during military service. Between the years 2001 and 2006, almost 12 million Swedish kronor was paid by Sweden in compensation to conscripts who suffered hearing loss during military service.

Demand for communications solutions that protect hearing is seen not only among military customers, but also among blue light customers throughout the world, as well as from many different types of companies. In Sweden, where noise induced hearing loss is the fourth most common work related injury, more than 5,000 cases in the timber, wood pulp, paper, steel and metal industries, as well as in the defence forces, police and fire and rescue services were reported to the Swedish Work Environment Authority between 2005 and 2008. In July 2010 the EU Noise at Work Directive also set a requirement for companies and organizations to protect their employees from noise over 85dB.

INVISIO and hearing protection

A number of INVISIO's headsets protect the hearing from loud noise, while at the same time permitting disturbance-free and clear communication. The headset acts like an advanced set of earplugs, whereby the external microphones that mediate the sound around the user are automatically switched off before potentially harmful sounds can reach the inner ear. This function is appreciated by INVISIO's customers in the military and police especially and is a contributory factor to sales of the INVISIO X50 communication system with the X5 headset. During 2010, INVISIO also launched the X6 headset - the world's first individually customized headset with Bone Conduction and certified hearing protection. INVISIO also has a current patent application in the US, for INVISIO Custom Protect Hearing Protection, which is the technology in the X6 headset for protecting against hearing loss.



INVISIO's X5 headset, which sits in the ear, is discreet and comfortable. It can easily be used under a helmet, for example. The headset combines a speaker and a jawbone microphone (INVISIO Bone Conduction) in the same unit, does not pick up disruptive background noise, provides very good hearing protection, and can also amplify and reproduce background sound if required.



A large headset can cause strain on the neck and be uncomfortable to use for a longer period, as it presses against the head and becomes very warm. Hearing protection is not as effective as when it sits in the ear. The external microphone also picks up noise and disturbance, which makes communication more difficult.

INVISIO'S COMPETITORS

Communications solutions using INVISIO's partially unique technology mean that in practice no competitor offers identical equipment. On the other hand, several major, well established suppliers offer similar functionality by using other technical solutions.

At present, the market is dominated by traditional headsets of the circumaural type (see picture, above right), which are based on noise-reducing cups worn over the ears. According to INVISIO's assessment, this type of headset has about 90 percent of the market. The basic function of these products is to use different sound-proofing materials to prevent noise from reaching the ears. By combining them with integrated speakers and special microphones placed near the mouth, they attempt to make communication possible even under difficult conditions.

There are several problems with this type of solution. They can be bulky and awkward, and the weight can strain the neck and shoulders. Another problem is pressure on the head, which can feel uncomfortable, especially with extended use. The biggest problem is that no matter how good the sound-proofing material is, noise can still get through and disrupt the sound from the speakers. The external microphone also captures sounds around the user, which can drown out his or her voice. Attempts are made to get around these problems using smart signal processing and amplification, but in extremely noisy environments the results are seldom satisfactory.

There are a number of well established product suppliers in this category, and the largest include Peltor (part of 3M), MSA Sordin, Selex Communications, and Racal Acoustics.

Noise and unwanted sounds

The alternative to ear cups is to place the speaker in the ear. This technique is used, for example, in earphones for MP3 players, Bluetooth headsets, and hearing aids for the

hard of hearing. A very small speaker is placed directly in the outer ear or ear canal and thereby avoids competing with sounds from the surrounding environment. In, for instance, Bluetooth headsets for the consumer market, the speaker in the ear is combined with an external microphone that picks up the voice from the side of the mouth. But the microphone also picks up noise and unwanted sounds, which makes it difficult for the other party to hear what the user is saying.

Several players in the Bluetooth headset market use digital noise reduction, which attempts to clean away the disturbances that the external microphone takes in. With INVISIO Bone Conduction, there are no disturbances to clean away, because only the voice is captured from the vibrations of the jawbone, while ambient noise is blocked out by the headset in the ear.

Products worn in the ear

Other than INVISIO, suppliers of professional headsets worn in the ear include Norwegian firm Nacre (part of Sperian Protection), US firm Silyn, and Swiss firm Phonak. These suppliers' products are similar in function to INVISIO's, but use a different voice-capture technology. INVISIO's products sit comfortably in the ear, not too far in, are very user-friendly, and are also very good at blocking disruptive background noise.

Many suppliers of professional headsets for in-ear use are relatively small companies. Increasingly, procurement processes in, for example, the military, specify that in-ear type headsets shall be available. Ergonomics, functionality, and performance are equally or more important for this type of solution compared to the ear cup type.

SALES AND PARTNER STRATEGY

Professional Products

The professional products are marketed and sold under the proprietary INVISIO brand and through OEM collaborations. Sales are mainly through resellers, but there is also a certain amount of direct selling. Historically, direct sales have accounted for a large part of INVISIO's total sales. INVISIO's sales strategy is intended to increase the number of resellers, not least because many existing and potential end customers prefer to buy a complete system of equipment, including radio, from one supplier.

INVISIO's sales strategy also aims at achieving a wider geographical spread of sales and sales to more customer segments. Previously, sales were concentrated on a limited number of markets and customer segments, but in 2010 the development of an extended range and breadth continued. With the new extended product portfolio and reseller network in all customer segments, INVISIO is reaching more potential end customers.

Something that characterises the Professional Products area is that sales can vary between quarters because of the long lead times from first contact with a customer to enquiry, customer testing, bidding and final order. Therefore, there can be variations in quarterly sales in the years to come.

Sales through resellers

Sales mainly occur through a large number of specialist resellers. A number of new resellers were added in 2009 and 2010 in Europe, North America and parts of Asia. About 90 percent of sales go through resellers. The ten largest resellers account for about 80 percent of sales in this business area. It is also primarily through resellers that INVISIO participates in bidding for the co-called military modernization programs.

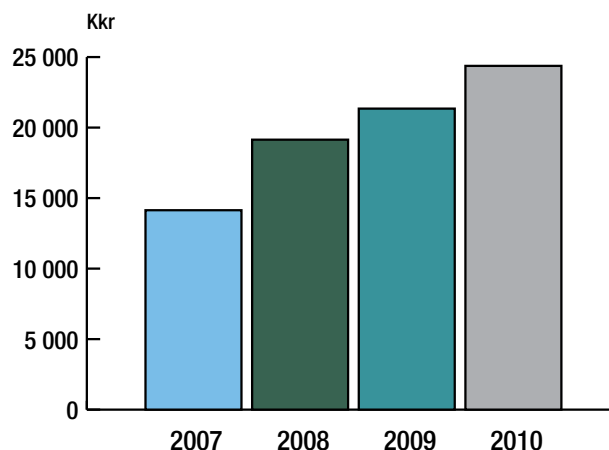
In the initial phase of cooperation, the relationship between INVISIO and the reseller is based on INVISIO's general sales conditions and the company's current price list. INVISIO normally expects to formalize the relation-

ship with the reseller through a retailer agreement so as to gain time to extend the relationship and the size of orders. In some cases, INVISIO's sales are to master distributor that sell in turn to resellers in their markets. An important example is Television Equipment Associates Inc, which acts as INVISIO's master distributor in the American market.

Direct sales

Direct sales, which make up about ten percent of sales, are made through INVISIO's own sales people. The percentage of direct sales can vary greatly, both up and down, from year to year depending on individual orders.

INVISIO's sales of professional products



Consumer Products

Through the exclusive licensing and collaboration agreement with Motorola on the consumer market, INVISIO's technology reaches many more consumers than would otherwise be possible. With its sales and distribution capacity, Motorola has a global market penetration that

INVISIO could not attain with its own resources. Users of Bluetooth headsets in the US also prefer to buy headsets that are made by cellphone manufacturers. Motorola is the brand that most prefer when buying Bluetooth headsets.

SHARE DATA AND OWNERSHIP STRUCTURE

Share capital

The share capital of INVISIO Communications AB (publ.) ("INVISIO Communications" or "the Company") totaled SEK 23,501,320 as per December 31, 2010, divided into 23,501,320 shares (registered number), each with a quotient value of SEK 1.00. Each share carries equal entitlement to the Company's assets and profits and entitles the same voting rights. At general meetings, each individual entitled to vote may vote for the full number of shares held by the individual without any limitation on voting rights. As per 31 December 2010, INVISIO Communications had 205 (203) shareholders.

GROWTH IN SHARE CAPITAL¹

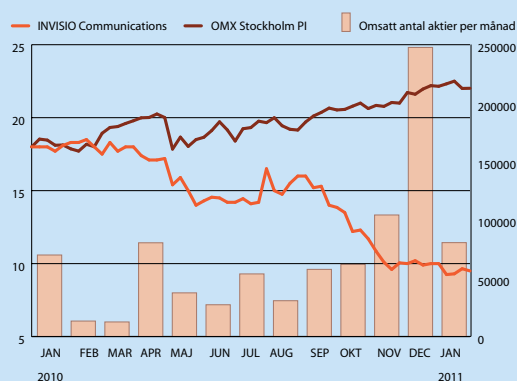
Year	Transaction	Increase in the number of shares	Total number of shares	Increase in share capital, SEK	Total share capital, SEK	Quotient value, SEK
2003-11-11	Company formation	1,000	1,000	100,000	100,000	100
2004-03-24	Split (100:1)	99,000	100,000	0	100,000	1
2004-03-24	Directed new share issue	400,000	500,000	400,000	500,000	1
2004-06-30	Non-cash issue	8,663,915	9,163,915	8,663,915	9,163,915	1
2004-07-30	Directed new share issue	1,500,000	10,663,915	1,500,000	10,663,915	1
2005-12-22	Share issue with pre-emption rights	2,132,783	12,796,698	2,132,783	12,796,698	1
2006-09-24	Option redemption	79,755	12,876,453	79,755	12,876,453	1
2006-10-12	Directed new share issue	1,270,000	14,146,453	1,270,000	14,146,453	1
2006-10-30	Option redemption	464,000	14,610,453	464,000	14,610,453	1
2006-10-30	Option redemption	53,000	14,663,453	53,000	14,663,453	1
2007-05-04	Share issue with pre-emption rights	1,947,078	16,610,531	1,947,078	16,610,531	1
2007-05-21	Share issue with pre-emption rights	147,701	16,758,232	147,701	16,758,232	1
2007-07-04	Option redemption	39,550	16,797,782	39,550	16,797,782	1
2007-09-24	Option redemption	22,600	16,820,382	22,600	16,820,382	1
2007-11-13	Share issue with pre-emption rights	2,803,397	19,623,779	2,803,397	19,623,779	1
2008-01-15	Option redemption	75,900	19,699,679	75,900	19,699,679	1
2008-02-06	Option redemption	126,005	19,825,684	126,005	19,825,684	1
2008-06-30	Option redemption	240,400	20,066,084	240,400	20,066,084	1
2008-08-15	Option redemption	90,000	20,156,084	90,000	20,156,084	1
2008-09-30	Option redemption	50,000	20,206,084	50,000	20,206,084	1
2008-09-30	Option redemption	230,000	20,436,084	230,000	20,436,084	1
2008-12-02	Option redemption	25,000	20,461,084	25,000	20,461,084	1
2008-12-02	Option redemption	185,000	20,646,084	185,000	20,646,084	1
2009-01-07	Option redemption	138,000	20,784,084	138,000	20,784,084	1
2009-02-11	Option redemption	150,000	20,934,084	150,000	20,934,084	1
2009-05-13	Option redemption	83,106	21,017,190	83,106	21,017,190	1
2009-09-25	Directed new share issue	547,936	21,565,126	547,936	21,565,126	1
2010-01-11	Directed new share issue	500,000	22,065,126	500,000	22,065,126	1
2010-03-18	Directed new share issue	383,562	22,448,688	383,562	22,448,688	1
2010-08-02	Directed new share issue	1,052,632	23,501,320	1,052,632	23,501,320	1

¹Registration of 2,350,132 shares via a share issue with pre-emption rights occurred after year end, on 13 January 2011, and has therefore not been included in the summary

Price trend

The chart at right shows the price trend for INVISIO Communications shares (IVSO). The closing price on 30 December 2010 was SEK 10.00, entailing a total market capitalization of approximately SEK 235 m. During the period January 4, 2010 - December 30, 2010, a total of 794,600 shares were traded at a value of SEK 10.4 m.

PRICE TREND FOR INVISIO COMMUNICATIONS 2010



Trading in INVISIO Communications shares

INVISIO Communications shares are traded on First North Premier Segment Stockholm, which is operated by NASDAQ OMX Stockholm. INVISIO Communications is traded under the ticker name IVSO and has the ISIN code SE0001200015. Trading is conducted electronically, and continuously, and information on prices, volumes, and bid-offer spread are published in real time in the same manner as for shares listed on a regulated market. NASDAQ OMX Stockholm is not responsible for monitoring the companies listed on First North; instead, this is managed by certified advisers. The certified adviser for INVISIO Communications is Mangold Fondkommission, a member of and contracted partner with NASDAQ OMX Stockholm. The certified adviser monitors the Company's compliance with the requirements for First North and the applicable requirements on information.

The Company complies with the First North Rule Book and other applicable stock exchange regulations, as well as the Swedish Companies Act. All shares carry equal entitlement to dividends and shares in the Company's profit, as well as a share in its assets in case of liquidation.

Market maker

INVISIO Communications has appointed Erik Penser Bankaktiebolag and Remium Relations AB as market maker for the Company's shares. The aim is to promote good liquidity in the shares and to reduce the difference between the buying and selling price in day-to-day trading.

Dividend policy

According to the dividend policy adopted by the Board of INVISIO Communications, future dividends shall be determined with consideration for the Company's long-term growth and earnings development, as well as its capital requirements, with due consideration for financial targets. The goal for the dividend is to stay within an interval of 25 to 50 percent of profit after tax. The Company does not expect to issue any dividends over the next few years. All internally generated capital will be utilized in the expansion of INVISIO Communications' operations. At present, INVISIO Communications has no possibility to issue any dividend to the shareholders.

OWNERS OF INVISIO COMMUNICATIONS, AS PER 31 DECEMBER 2010

Owner	No. shares	% votes and capital
Intersettle AG, Zürich, on behalf of clients	7,508,080	31.9%
Alecta Pensionsförsäkringar	4,150,000	17.6%
Lage Jonason, with family and companies	3,687,773	15.7%
Swedbank Robur Exportfond	1,784,999	7.6%
Karin Jonason	1,097,718	4.7%
Yggdrasil AB	1,052,632	4.5%
Terra Gold KB	400,000	1.7%
Handelsbanken svenska småbolagsfond	400,000	1.7%
JP Morgan Bank	375,000	1.6%
Handelsbanken Life & Pension Ltd	300,000	1.3%
Others	2,745,118	11.7%
<i>Total</i>	<i>23,501,320</i>	<i>100.0%</i>

SUMMARY OF OUTSTANDING STOCK OPTIONS

Option program	Number of options	Subscription price, SEK	Possible increase in share capital, SEK	Subscription period	Dilutive effect, %	Accumulated dilutive effect, %
2007/2011 no. 4	1,017,225	25.96	1,118,948	20071201 - 20111201	4.15%	4.15%
2008/2013 no. 6	2,000,000	25.00	2,000,000	20080430 - 20130430	7.18%	6.90%
<i>Total</i>	<i>3,017,225</i>		<i>3,118,948</i>		<i>11.33%</i>	

Stock options

INVISIO Communications currently has two outstanding stock option programs:

Stock options 2007/2011 no. 4

A total of 1,017,225 stock options, which gives the shareholder the right to subscribe for 1,118,948 shares in INVISIO Communications at an issue price of SEK 25.96 per share during the period December 1, 2007 through December 1, 2011. Upon full conversion, the share capital can be increased by a maximum of SEK 1,118,948. All options are held by Lage Jonason via companies.

Stock options 2008/2013 no. 6

A total of 2,000,000 stock options, which gives the shareholder the right to subscribe for 2,000,000 shares in INVISIO Communications at an issue price of SEK 25 per share during the period April 30, 2008 through April 30, 2013. Upon full conversion, the share capital can be increased by a maximum of SEK 2,000,000. The stock options have been granted free of charge to Motorola. The opportunity to convert the stock options is specifically dependent on Motorola not having terminated the agreement with the Company.

CORPORATE GOVERNANCE REPORT

General

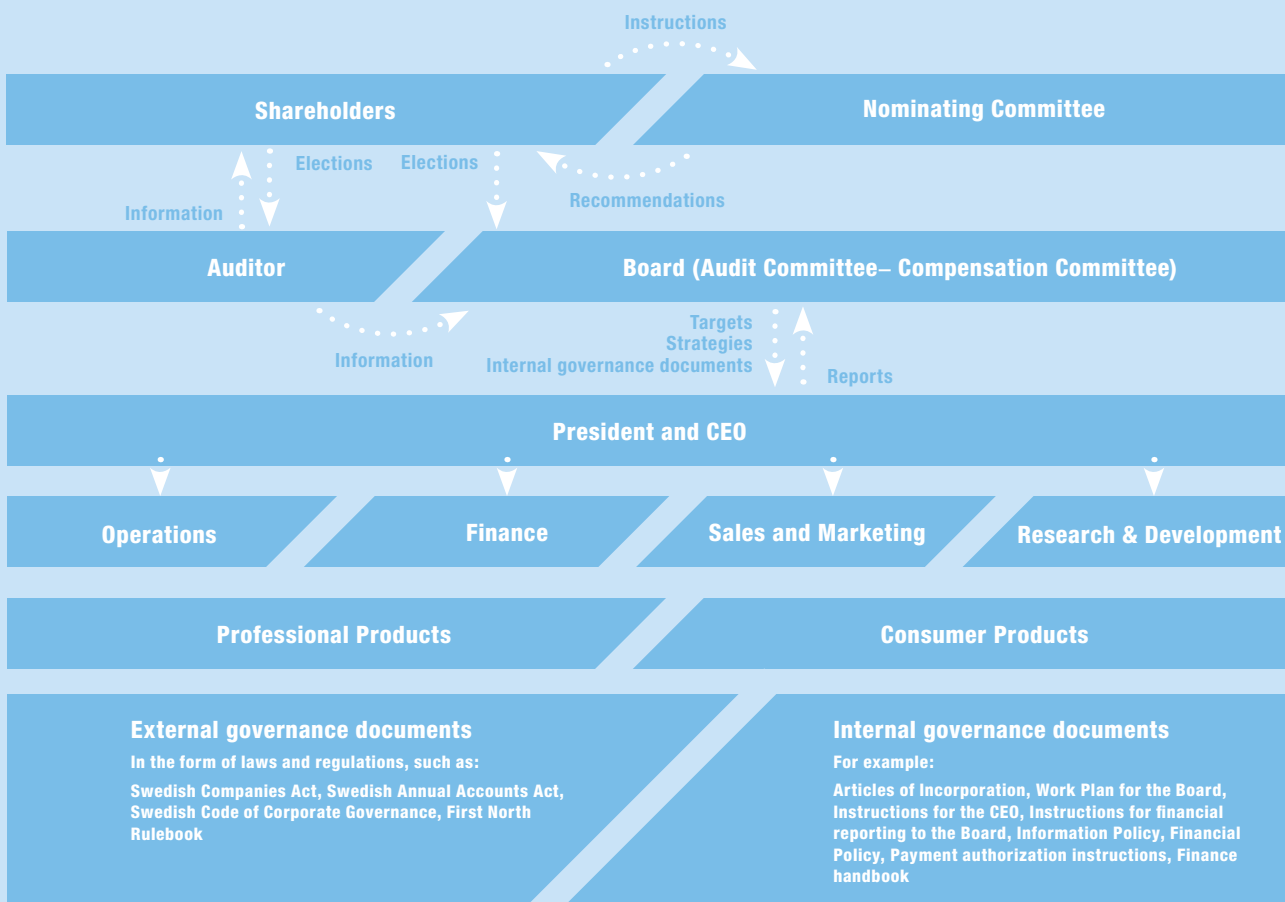
INVISIO Communications AB (publ.) (“INVISIO Communications” or the “Company”) is a Swedish limited liability company with its registered office in Stockholm, Sweden. The company is listed on First North Premier Segment Stockholm, an alternative marketplace (rather than a regulated market) for trading in equities and other securities that is operated by NASDAQ OMX Stockholm. The Swedish Code of Corporate Governance applies to Swedish limited liability companies whose shares are available for trading in a regulated market in Sweden, currently NASDAQ OMX Stockholm and NGM Equity. The rules of the Swedish Annual Accounts Act on corporate governance reporting also apply to companies whose shares are available for trading in a regulated market. Thus, INVISIO Communications is not formally bound to the Swedish Code of Corporate Governance or the rules of the Swedish Annual Accounts Act on corporate governance reporting. However, the basis of the corporate governance used by INVISIO Communications is the same as for companies listed on a regulated market and emanates from the Swedish Companies Act, Swedish Annual Accounts Act, the Swedish Code of Corporate Governance and other applica-

ble Swedish and foreign laws and rules. No departures from the Swedish Code of Corporate Governance have been noted. The document “Overview of INVISIO Communications’ application of the Swedish Code of Corporate Governance” (original title: “Översikt av INVISIO Communications tillämpning av Svensk kod för bolagsstyrning”) can be found on INVISIO Communications’ website www.invisiocommunications.com. This corporate governance report, which has been prepared in accordance with Swedish Annual Accounts Act and the Swedish Code of Corporate Governance, has been audited by the Company’s auditor.

Overview of corporate governance at INVISIO Communications

Governance and control of INVISIO Communications are divided among shareholders attending general meetings, the Board of Directors, and the CEO. An overview of the organization, governance, and control (including external and internal governance documents) of INVISIO Communications and the INVISIO Communications Group is provided below.

Overview of corporate governance at INVISIO Communications



Shareholders

SHAREHOLDERS' VOTING RIGHTS

INVISIO Communications has been listed on First North, Stockholm since mid-2006, and more specifically under the First North Premier Segment, Stockholm since July 9, 2009. The Company's share capital, at 31 December 2010, amounted to SEK 23.5 m (21.6), divided into 23,501,320 shares (21,565,126) (registered number), each with a quotient value of SEK 1.00.

All shares have equal voting rights and there is no limit to the number of votes our shareholders may use at a general meeting. The Company's market capitalization, based on the closing price at 30 December 2010, was approximately SEK 235 m (388).

NUMBER OF SHAREHOLDERS

At year-end 2010, INVISIO Communications had 205 shareholders (203). Major shareholders are Interstetle AG, Zurich, on behalf of clients, with an ownership stake of 31.9 percent, Alecta Pensionsförsäkringar, with an ownership stake of 17.6 percent, and Lage Jonason (with family and companies), with an ownership stake of 15.7 percent. The ten largest shareholders account for an ownership stake of 88.3 percent.

GENERAL MEETINGS OF SHAREHOLDERS

The shareholders' right to decide on INVISIO Communications' business activities is exercised at general meetings of shareholders. Shareholders who are registered in the shareholder register as per the record date and who have provided sufficient advance notice of their participation have the right to participate at general meetings and to vote on the basis of all their shares. Shareholders who are represented by proxy must issue a dated power of attorney for said proxy.

The Annual General Meeting (AGM) of INVISIO Communications shall be held within six months after the end of the financial year and is usually held in April, in Stockholm. At the AGM, resolutions are adopted concerning – among other things – adoption of the Company's income statement and balance sheet, the consolidated income statement and consolidated balance sheet, disposition of the Company's profit or loss, discharging the board members and CEO from liability to the Company, election of directors, the Chair of the Board, and auditors, the setting of directors' and auditors' fees, and other items of business that are incumbent upon the AGM pursuant to the Swedish Companies Act, the Articles of Association and the Swedish Code of Corporate Governance. Extraordinary general meetings are held when the Board finds reason for such pursuant to the Swedish Companies Act.

2010 ANNUAL GENERAL MEETING

The 2010 Annual General Meeting was held in Stockholm on April 27. A total of 6 shareholders or their proxies were present, representing 40.25 percent of the number of shares and votes. The minutes from the AGM can be found on INVISIO Communications' website www.invisiocommunications.com. A number of the resolutions that were passed follow below.

Chair of the board Heléne Vibbleus Bergquist was elected to chair the AGM.

The AGM resolved to adopt the Company's income statement and balance sheet for 2009, to adopt the consolidated income statement and consolidated balance sheet for 2009, to distribute the Company's deficit in accordance with the recommendation of the Board and the CEO in the 2009 Board of Directors' report (that is, to carry it forward), and to discharge the board members and the CEO from liability for the 2009 financial year.

The AGM also resolved to authorize the Board, on one or more occasions before the next AGM, with or without deviation from the shareholders' pre-emption rights, to make decisions on the issue of new shares, stock options, and/or convertibles. The reason for deviating from the shareholders' pre-emption rights is to spread ownership in the Company through a listing of the Company's stock on NASDAQ OMX Stockholm or, should such a need

arise, to strengthen the Company's financial position. Decisions supported by said authorization shall comprise a maximum of 2,200,000 shares in new share issues, in the exercising of stock options, and/or the conversion of convertibles, corresponding to approximately 9.8 percent of the number of shares and votes outstanding at that time. Cash issues or set-off issues conducted with deviation from the shareholders' pre-emption rights may only be carried out at a price equal to the market value of the share, stock option, or convertible and on the basis of any altered terms the Board may deem necessary in order to complete the issue. In the case of issues invoking shareholders' pre-emption rights, the Board decides on the price. The authorization encompasses the right to decide on cash issues and set-off issues and otherwise in compliance with the conditions stipulated in Chapter 2, Section 5, Paragraph 2, Items 2, 3, and 5 of the Swedish Companies Act.

Heléne Vibbleus Bergquist, Anders Persson, Magnus Ruding and Mats Warstedt were re-elected as directors while Lars Röckert was elected as a new director. Heléne Vibbleus Bergquist was re-elected to serve as Chair of the Board. The AGM resolved that directors' fees shall be payable in the amount of SEK 250,000 to the Chair of the Board and SEK 100,000 to each of the other directors. The AGM also resolved that an additional fee of not more than SEK 500,000 shall be payable under special circumstances to a director who, pursuant to a Board decision, shall work with financial matters, matters regarding preparation for and listing on NASDAQ OMX Small Cap, contract negotiations, and other strategic matters. It shall be possible to share this additional fee between several directors and, in such cases, in relation to the time invested in the areas of responsibility. The AGM also resolved that fees shall be payable to the auditor in accordance with an approved invoice and decided on guidelines for compensation of the CEO and other senior executives.

Further, the AGM adopted a set of instructions for the Nominating Committee.

2011 ANNUAL GENERAL MEETING

The 2011 Annual General Meeting will be held at 9 a.m. on April 28, 2011, at the premises of Erik Penser Bankaktiebolag, Biblioteksgatan 9, Stockholm. Notice of the AGM can be found on INVISIO Communications' website www.invisiocommunications.com.

Nominating Committee

A nominating committee shall be appointed and shall work during the time until a new nominating committee has been appointed on the drafting and presentation of recommendations to the shareholders at the AGM regarding the number of directors, election of directors, the Chair of the Board and, where applicable, the auditor, as well as on the fees to be paid to the Board of Directors and auditor and other matters that may be incumbent upon a nominating committee pursuant to the Swedish Code of Corporate Governance.

The Nominating Committee shall consist of four members, who shall be appointed as follows:

Before the end of the third quarter, the Chair of the Board shall contact the three largest shareholders of the Company, who then each appoint one member – who should not be a director on the Board – to serve on the Nominating Committee. One of these shall be appointed to serve as committee chair. If any of the three largest shareholders refrain from appointing a nominating committee member, the Chair of the Board shall urge another major owner to appoint a member. Shareholders who have appointed a member have the right at any time to replace their designated member with another representative. In addition, the Chair of the Board shall be a member of the Nominating Committee, but shall not be appointed as committee chair. As part of the Nominating Committee's work, the Chair of the Board shall report to the committee on the circumstances surrounding the Board's work, and the need for special expertise, etc., that may be important to the work of appointing a board.

Individual shareholders of the Company shall be able to submit nominations for board members to the committee for further evaluation within the framework of the committee's work.

Information on the Nominating Committee's composition shall be made public no later than six months before the Annual General Meeting and in the Company's interim report for the first nine months of the year. The Nominating Committee shall have the right to charge the Company the costs for engaging recruitment consultants, if such consultants are deemed necessary to obtain a suitable selection of candidates for the Board. The Nominating Committee shall report its work at the Annual General Meeting.

The Nominating Committee prior to the 2011 AGM comprised Lage Jonason, who also acted as Committee Chair and represented himself and his family and companies, Ramsay Brufer, representing Alecta Pensionsförsäkringar, Greger Franzon, representing Swedbank Robur fonder, and Chair of the Board Heléne Vibbleus Bergquist.

The Nominating Committee has advised the Board that it will present its proposals for shareholders at the 2011 AGM regarding number of board members, election of board members etc in good time before the AGM.

Board

RESPONSIBILITIES, DUTIES AND DELEGATION OF DUTIES

As prescribed by the Swedish Companies Act, INVISIO Communications' board is responsible for the Company's organization and the administration of the Company's affairs. The Board shall continuously assess the economic situation of both the Company and the Group. The Board shall also ensure that the Company's organization is designed in such a manner that the bookkeeping, asset management, and the Company's economic situation in general are controlled in a reassuring manner.

Each year, in connection with the board meeting following the election of the Board, and in conjunction with other board meetings if necessary, the Board of INVISIO Communications adopts a work plan (the Work Plan for the Board of Directors of INVISIO Communications). According to this work plan, the Board's duties include setting targets and strategies, adopting internal governance documents, approving important agreements, approving investments according to certain criteria, approving capital expenditures (including acquisitions of operations, shares in companies, real property, and intangible rights), approving sales of operations, shares in companies, real property, and intangible rights, approving loans raised according to pre-determined criteria, approving important surety and guarantee obligations, evaluating the CEO and other members of management and ensuring succession planning, overseeing the CEO's work through continuous monitoring of operations, and evaluating the work of the Board.

In addition to the Board's duties as outlined above, the Board's Work Plan also clarifies the Board's and its committees' internal divisions of responsibility, including the Chair's role, board meeting structure, the minimum number of board meetings, procedures for issuing summonses to board meetings, the Board's meeting plan, items of business to be discussed at board meetings, quorums of the Board, procedures for recording the minutes of board meetings, and procedures for providing material for decision-making to the Board.

The Chair of the Board shall lead the Board's work and conduct oversight to ensure that the Board fulfills its duties pursuant to the Swedish Companies Act and other obligations, as well as ensure that the Board's work is conducted effectively. In particular, the Chair shall organize and lead the Board's work on creating the best possible conditions for the Board's work, ensure that new board members are provided necessary orientation training and other training that the Chair and such member both consider suitable, ensure that the Board continuously updates and deepens its knowledge about the Company, assume responsibility for contacts with the owners on owner matters and convey views from the

owners to the Board, ensure that the Board receives satisfactory information and material for decision-making and its work, set a proposed agenda for board meetings in consultation with the CEO, check whether Board decisions are implemented, and ensure that the Board's work is evaluated each year in a systematic and structured process designed to develop the Board's work methods and effectiveness.

The Board has established two working committees, the Audit Committee and the Compensation Committee.

AUDIT COMMITTEE

The Board is responsible for ensuring that the Company has good internal control and formalized routines that ensure compliance with established principles for financial reporting and internal control and that the Company's financial reporting is prepared in compliance with law, applicable accounting standards, and other requirements placed on the Company.

The Audit Committee's duties and responsibilities include:

- Monitoring the Company's financial reporting;
- Regarding the financial reporting, monitoring the effectiveness of the Company's internal control and risk management;
- Staying informed about the audits of the annual accounts and the consolidated accounts;
- Examining and monitoring the external auditor's impartiality and independence and therewith paying particular attention to whether the external auditor provides the Company with services other than auditing; and
- Assisting with the preparation of proposals for the AGM on decisions regarding the choice of auditor.

Monitoring of the Company's financial reporting is normally conducted in such a way that the Audit Committee reviews all critical accounting issues and the financial reports issued by the Company. The Audit Committee is tasked with, among other things, considering matters such as internal control, regulatory compliance, significant uncertainties in reported values, uncorrected errors, post-balance sheet events, changes in estimations and assumptions, any confirmed improprieties, and other circumstances that may affect the quality of the financial reporting.

The Audit Committee consists of all of the board members and is chaired by the Chair of the Board. Minutes from Audit Committee meetings are included in the minutes from board meetings.

At board meetings, the Audit Committee discussed the interim report for January–March 2010, the half-year report for January–June 2010, the interim report for January–September 2010, the year-end report for January–December 2010 and the 2010 Annual Report. At board meetings, the Audit Committee met with the Company's auditor to receive information on the audit plan and the result of the auditor's audit and to examine the auditor's written plans and reports.

COMPENSATION COMMITTEE

The Compensation Committee's duties and responsibilities include preparing matters for board decisions on issues related to compensation principles, compensation and other terms of employment for company management, and following and evaluating programs (both current and those completed during the year) for variable compensation for company management, as well as following and evaluating the application of the guidelines for compensation of senior executives (which in accordance with the law shall be determined by the AGM) and of compensation structures and compensation levels at the Company.

The Compensation Committee consists of all board members and is chaired by the Chair of the Board. Minutes from Compensation Committee meetings are included in the minutes from board meetings.

At board meetings, the Compensation Committee discussed matters that are incumbent upon the Compensation Committee.

COMPOSITION OF THE BOARD

2010	Born	Position	Elected	Independent	Audit Committee	Compensation Committee
Heléne Vibbleus Bergquist	1958	Chair	2008	yes	Chair	Chair
Anders Persson	1957	Member	2009	yes	Member	Member
Magnus Ruding	1956	Member	2008	yes	Member	Member
Lars Röckert	1950	Member ¹	2010	yes	Member	Member
Mats Warstedt	1962	Member	2008	yes	Member	Member

¹Member as of 2010 AGM

2009	Born	Position	Elected	Independent	Audit Committee	Compensation Committee
Heléne Vibbleus Bergquist	1958	Chair	2008	yes	Chair	Chair
Christian Paulsson	1975	Member ²	2005	no ³	Member	Member
Anders Persson	1957	Member ¹	2009	yes	Member	Member
Magnus Ruding	1956	Member	2008	yes	Member	Member
Fredrik Sandelin	1962	Member ²	2006	yes	Member	Member
Mats Warstedt	1962	Member	2008	yes	Member	Member
Jan Werne	1952	Member ²	2004	yes	Member	Member

¹Member as of 2009 AGM

²Member until 2009 AGM

³Non-independent in relation to Lage Jonason, a major shareholder of the Company

COMPOSITION OF THE BOARD AND ITS COMMITTEES AND DIRECTORS' INDEPENDENCE

According to the Articles of Incorporation, the Board of INVISIO Communications shall consist of a minimum of three and maximum of eight directors. The Board currently consists of five directors, who were elected for terms extending until the 2011 Annual General Meeting. These directors are Heléne Vibbleus Bergquist, Anders Persson, Magnus Ruding, Lars Röckert and Mats Warstedt. The composition of the Board's Audit Committee and Compensation Committee is shown in the table "Composition of the Board 2010" above. The same table also shows the Board's assessments of directors' independence in relation to the Company and company management and the Company's largest shareholders. The table also shows that INVISIO Communications complies with the requirement of the Swedish Code of Corporate Governance from July 1, 2008 that a majority of directors shall be independent in relation to the Company and company management and that at least two of these shall also be independent in relation to the Company's major shareholders. The Board's assessments of directors' independence is the same even in relation to the

requirements in the Swedish Code of Corporate Governance from February 1, 2010 that are applied only to directors elected after July 1, 2010.

THE WORK OF THE BOARD

According to the Articles of Incorporation, INVISIO Communications' board shall meet at least eight times each year, excluding the board meeting following the election of the Board. In 2010, the Board held 21 meetings. The attendance of board members at board meetings is shown in the table "Directors' attendance 2010" below.

The main issues covered at board meetings in 2010 were:

- Year-end report 2009
- Annual report 2009
- Internal governance documents
- Evaluating the CEO and other members of management and ensuring succession planning
- Compensation of CEO and other senior executives
- Evaluating the work of the Board

BOARD MEMBERS' ATTENDANCE

2010	Position	Board meetings
Heléne Vibbleus Bergquist	Chair	20 of 20
Anders Persson	Member	20 of 20
Magnus Ruding	Member	20 of 20
Lars Röckert	Member ¹	14 of 14
Mats Warstedt	Member	20 of 20

¹Member as of 2010 AGM

2009	Position	Board meetings
Heléne Vibbleus Bergquist	Chair	19 of 19
Christian Paulsson	Member ²	6 of 6
Anders Persson	Member ¹	12 of 13
Magnus Ruding	Member	19 of 19
Fredrik Sandelin	Member ²	5 of 6
Mats Warstedt	Member	18 of 19
Jan Werne	Member ²	5 of 6

¹Member as of 2009 AGM

²Member until 2009 AGM

- Sales processes and sales activities
- Production matters
- The collaboration with Motorola
- Follow up on goals and strategies
- Financial accounting and reporting
- Internal prognoses regarding sales, profits and liquidity
- Liquidity and financing matters, including raising external loans and new share issues
- plan listing the Company's stock on NASDAQ OMX Small Cap Stockholm,
- Interim report January–March 2010
- Goals and strategies
- The auditor's audit plan
- Half-year report January–June 2010
- Interim report January–September 2010
- Prospectus for new share issue
- Budget 2011
- The CEO's report and business follow-up
- The outcome of the auditor's assignment

The secretary at the Board's meetings was most often an external attorney.

EVALUATING THE WORK OF THE BOARD

According to the Board's Work Plan, the Chair of the Board is responsible for ensuring that the Board's work is evaluated each year in a systematic and structured process designed to develop the Board's work forms and effectiveness. In 2010 the evaluation has been made by each board member completing a written questionnaire, which are then compiled by the chair to form the basis for subsequent reporting to and discussion in the whole board.

Auditor

INVISIO Communications' auditor audits the annual accounts, the consolidated accounts, and the bookkeeping, as well as the administration of the Board and the CEO. In addition, for a company whose shares are available for trading in a regulated market, the auditor also audits the corporate governance report. The auditor works according to an audit plan and reports any observations to the Audit Committee at board meetings. The auditor participates at the Annual General Meeting in order to present the audit report, which describes the audit work and the auditor's conclusions.

At the Board's request, the auditor also conducted a review of the interim reports for January–March 2010 and January–September 2010.

At the 2008 AGM, the certified public accounting firm PricewaterhouseCoopers AB was elected to serve as auditor for the time extending through the end of the Annual General Meeting held in the fourth financial year following the financial year in which the auditor was elected. The auditor-in-charge is Michael Bengtsson, Certified Public Accountant.

CEO, management, departments, and employees

According to the Swedish Companies Act, the CEO shall be responsible for the day-to-day administration in accordance with the Board's guidelines and instructions. Each year, in connection with the board meeting following the election of the Board, the Board of INVISIO Communications adopts a set of instructions for the CEO. According to these instructions, the CEO shall, in consultation with the Chair of the Board, ensure that matters are properly prepared for ahead of board meetings and that satisfactory written documentation for decision-making, characterized by objectively presented facts, thoroughness, and relevance, is provided to the Board. At board meetings, the CEO shall make presentations and suggest recommendations on matters prepared by management. The CEO's report on the business situation, future outlook, and financial reporting is a standing agenda item at regular board meetings.

INVISIO Communications' operations are organized in two business areas, Professional Products and Consumer Products, and in four departments, Operations, Finance, Sales & Marketing and Research & Development. INVISIO Communications' headquarters are in Copenhagen, Denmark, which is where management and administration, business operations, some manufacturing, sales and marketing and research and development are conducted. Most manufacturing is outsourced to subcontractors. The CEO heads operations and makes decisions in consultation with the other members of management, who consist of the managers of the four business areas. The Company had 27 (29) employees as per 31 December 2010 and 14 (14) of those employed worked in Research & Development.

BOARD OF DIRECTORS

■ HELÉNE VIBBLEUS BERGQUIST (BORN 1958)

Member of the board and chair since April 2008

M.Sc. Econ. from Linköping University, management consultant. Vibbleus Bergquist is a member of the boards of Renewable Energy Corporation ASA, Trelleborg AB (publ.), TradeDoubler AB (publ.), Tyréns AB, Nordic Growth Market NGM AB, Sida and Pertendo AB, in which she also has a considerable shareholding. Former Senior Vice President, Group Controller, AB Electrolux, Certified Public Accountant, partner and director on the board of PricewaterhouseCooper in Sweden.

Vibbleus Bergquist owns 47,547 shares in INVISIO Communications.

■ LARS RÖCKERT (BORN 1950)

Member of the board since April 2010

Röckert trained as an officer at Karlberg Military College 1973-74 and the Military College Higher Course 1982-1984, which corresponds to a higher academic exam. Röckert has been a board member of BHIC Bofors Asia Sdn Bhd since 2004. Röckert is also employed as marketing manager of BAE Systems AB. Former board member and chair of H-B Utveckling AB and marketing and sales manager of BAE Systems Bofors AB.

Röckert owns 2,502 shares in INVISIO Communications.

■ MATS WARSTEDT (BORN 1962)

Member of the board since December 2008

M.Sc. Eng in aviation technology from Stockholm's Royal Institute of Technology (KTH) and M.Sc. Econ from Stockholm School of Economics. Warstedt is CEO of Innovativ Vision AB – WoodEye, and is also active in his own consultancy firm. Former marketing director of SAAB AB (publ.) and CEO of Saab Barracuda AB, as well as chair of Saab International USA LLC, Barracuda Camouflage (Pvt.) Ltd and Saab Barracuda LLC and Barracuda Camouflage Corp.

Warstedt owns 3,272 shares in INVISIO Communications.

■ ANDERS PERSSON (BORN 1957)

Member of the board since April 2009

M.Sc. Eng in Engineering Physics from Chalmers University of Technology, Gothenburg. Persson is chair of Net Insight Consulting AB and deputy board member of Ten Tech AB, and works as deputy CEO and development manager of Net Insight AB. Persson has many years of experience from the Ericsson Group, where he was most recently General Manager for Network Design and Performance Improvement. He has also held a number of other executive positions at Ericsson.

Persson owns 2,502 shares in INVISIO Communications.

■ MAGNUS RUDING (BORN 1956)

Member of the board since December 2008

M.Sc. Eng. in mechanical technology and doctorate in production technology from Stockholm's Royal Institute of Technology (KTH). Ruding is a major in the Defence Forces reserve and is Head of Method and Design Support and R&D, Swedish Defense Materiel Administration. He is also a Fellow of the Royal Swedish Academy of War Sciences. Ruding has previously been active in Swedish manufacturing industry in Fläkt AB, as a management consultant and as deputy CEO of Svensk-Norsk Industrifond. Ruding is a major shareholder and board member of Serment AB.

Ruding owns 500 shares in INVISIO Communications.



From left: Lars Röckert, Mats Warstedt, Heléne Vibbleus Bergquist, Anders Persson, Magnus Ruding

SENIOR EXECUTIVES

Below we present the senior executives of INVISIO Communications, with their backgrounds, positions, and years of service.

■ LARS HØJGÅRD HANSEN (BORN 1963)

CEO since July 2007, prior to which he was acting CEO for the period February–June 2007

Lars Højgård Hansen has a Graduate Diploma (HD) from Copenhagen Business School and an Executive MBA from Lund University, School of Economics. Højgård Hansen has been employed at INVISIO Communications since 2006. Prior to joining INVISIO Communications, Højgård Hansen has a long record of experience from executive positions in the telecom industry, including Vice President Marketing for GN Netcom A/S and Sales and Marketing Director for mobile phone accessories in Europe, the Middle East, and Africa for Ericsson Mobile Communications AB and SonyEricsson Mobile Communications AB.

Højgård Hansen has no significant assignments outside the Company and no shareholdings or partnerships in companies with which the Company has significant business dealings.

Højgård Hansen owns 128,332 shares in INVISIO Communications and also participates in the company's synthetic option program.

■ BENGT NILSSON (BORN 1951)

CFO since 2007

Nilsson has an economics degree from Stockholm University. Nilsson has been with INVISIO Communications since 2007, prior to which he has a long record of experience from executive positions, including Finance Director and Administrative Director for Shurgard Scandinavia, Finance Manager of WASA Försäkring and CFO of Vattenfall Division Sales, Sweden. He has also worked as an independent consultant with assignments for companies such as Diligentia AB, where he was CFO/controller, and Carnegie Holding AB.

Nilsson owns 500 shares in INVISIO Communications and also participates in the company's synthetic option program.

■ JAN LARSEN (BORN 1962)

Vice President Research & Development since May 2007 and also Head of Operations since March 2010

Larsen has a degree in Electrical Engineering (B.Sc. EE) from the Technical University of Denmark and a Graduate Diploma (HD-O) from Copenhagen Business School. Larsen has been with INVISIO Communications since 2007, prior to which he has a long record of experience from executive positions in product development for various types of hearing and acoustics applications, including Vice President R&D for GN Netcom A/S and UnoMedical A/S and various positions at Oticon A/S.

Larsen owns 500 shares in INVISIO Communications and also participates in the company's synthetic option program.

■ CARSTEN AAGESEN (BORN 1968)

Vice President Sales since May 2008 and Vice President Sales and Marketing since January 2011

He has an M.Sc. Econ., with a major in Marketing and Strategic Management from Copenhagen Business School. Aagesen has been with INVISIO Communications since May 2007, prior to which he had many years executive experience in international sales and marketing, including Sales & Marketing Manager and Marketing Manager, Nordic Region and Benelux for Apple Inc, Director Global Marketing for GN Great Nordic A/S/ GN Netcom A/S and Director Sales & Product Sourcing for F Group A/S.

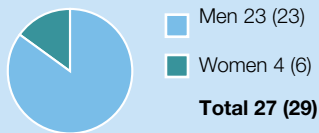
Aagesen owns 500 shares in INVISIO Communications and also participates in the company's synthetic option program.



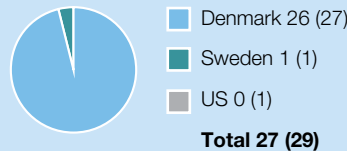
From left: Lars Højgård Hansen, Jan Larsen, Carsten Aagesen, Bengt Nilsson

EMPLOYEES AND ORGANIZATION

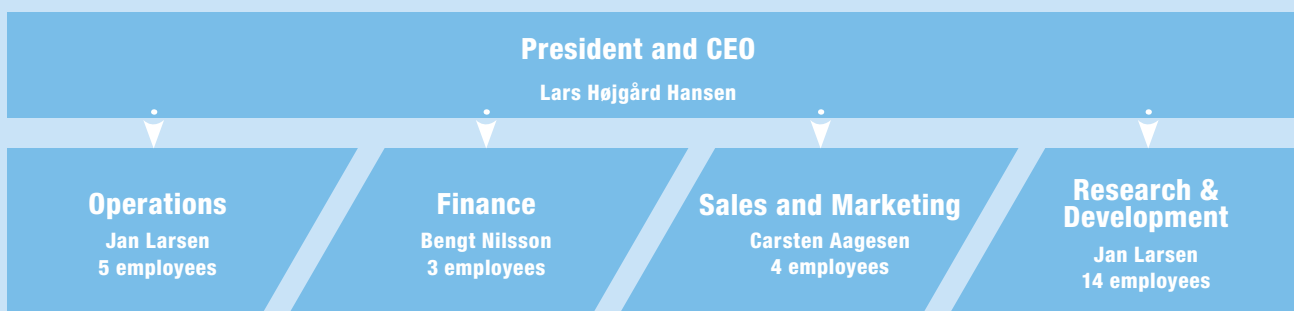
GENDER DISTRIBUTION AS PER 31 DECEMBER 2010



GEOGRAPHIC DISTRIBUTION AS PER 31 DECEMBER 2010



ORGANIZATIONAL STRUCTURE



Compensation of the Board, auditor, CEO, and other senior executives

DIRECTORS' FEES

Directors' fees are determined by the shareholders at general meetings. The 2010 AGM resolved that directors' fees shall be payable in the amount of SEK 250,000 to the Chair of the Board and SEK 100,000 to each of the other directors. The AGM also resolved that an additional fee of not more than SEK 500,000 shall be payable under special circumstances to a director who, pursuant to a Board decision, shall work with financial matters, matters regarding preparation for and listing on NASDAQ OMX Small Cap, contract negotiations, and other strategic matters. The Board decided in favor of an additional fee of SEK 150,000 for the Chair of the Board for work at the beginning of 2010 in accordance with the decision of the 2009 AGM on additional fees. The Board has also decided on an additional fee for the Chair and one other member of the Board for subsequent work of SEK 256,000 in accordance with the decision of the 2010 AGM on additional fees. No additional fees are payable to members of the Audit Committee or the Compensation Committee.

Directors' fees are described in more detail in Note 11 of the 2010 Annual Report.

AUDITOR'S COMPENSATION

The auditor's fees are decided on by the shareholders at the annual general meeting. The 2010 Annual General Meeting resolved that fees shall be payable to the auditor in accordance with an approved invoice. Auditor's fees are shown in the table below. Other services pertain primarily to consulting on accounting matters and other services, such as prospectus auditing and costs relating to the planned listing of the Company's shares on NASDAQ OMX Small Cap.

SEK 000s	2010	2009
PwC		
Auditing assignments	675	662
Auditing activities in addition to auditing assignments	362	-
Tax consultancy	144	-
Other services	743	117
<i>Total</i>	<i>1,924</i>	<i>779</i>
MCG LLP		
Auditing assignments	65	115
Auditing activities in addition to auditing assignments	-	-
Tax consultancy	-	-
Other services	64	61
<i>Total</i>	<i>129</i>	<i>176</i>
GROUP TOTAL	2,053	955

Auditor's fees are described in more detail in Note 7 of the 2010 Annual Report.

COMPENSATION TO CEO AND OTHER SENIOR EXECUTIVES

The Company shall offer market terms for the countries in which they work to the CEO and other senior executives and thereby enable the Company to recruit, develop, and retain senior executives. The Company gathers and evaluates information on current compensation levels for executives in relevant industries and countries. The individual remuneration shall be based on the executive's experience, expertise, responsibilities and performance. A combined gross level of compensation shall be set for each executive, and within this framework the concerned employee can influence the allocation among fixed salary, pension, and other benefits. Any pension benefits shall be decided by charges. Any other benefits shall have a limited value in relation to the total fixed gross salary. In addition, a variable salary based on clear and quantifiable targets set by the Board can be offered. Variable salary shall not exceed 50 percent of the fixed salary.

Neither the Parent Company nor the subsidiaries have any defined benefit pension plans for their employees. Under his employment contract, the CEO has a defined contribution pension entitlement in which the premium is calculated at 30 percent of approximately 70 percent of his fixed salary. Certain other senior executives also have a defined contribution pension entitlement in which the premium is calculated at 10–25 percent of fixed salary.

Compensation of the CEO and other senior executives is shown in the following table.

2010 SEK 000s	Salary	Pension	Other remuneration	Total
Management				
Lars H. Hansen, CEO	2,234	123	74	2,431
Other executives	4,145	410	-	4,555
<i>Total</i>	6,379	533	74	6,986

2009 SEK 000s	Salary	Pension	Other remuneration	Total
Management				
Lars H. Hansen, CEO	2,096	462	73	2,631
Other executives	5,166	488	-	5,654
<i>Total</i>	7,262	950	73	8,285

Compensation of the CEO and other senior executives is described in more detail in Notes 10 and 11 of the 2010 Annual Report.

Long-term incentive program

In 2007, the Board established a synthetic option program for all Group employees. During the term of the program, participants will be granted employment-related options and performance-related options.

The options are granted free of charge and encompass a total of 700,000 options, of which 350,000 are employment-related options and 350,000 are performance-related options. Exercise of employment-related options requires, in principle, that the employment relationship exists at the time of exercise. In addition, exercise of performance-related options requires the achievement of certain financial targets set by the Board.

The option program has a duration of approximately four years from the time of allocation and expires on June 30, 2011. The growth in value of granted options is maximized at three times the share price at the time of the launch which amounted to SEK 19 as at July 9, 2007.

In 2010, SEK 1,035 thousand (2,391) was reserved for the program, of which SEK 1,035 thousand was for performance-related options granted for 2009 (423 for those granted for 2008), corresponding to 87 percent (41) of maximum outcome. Nothing has been reserved in respect of employment-related options, since the

opportunity of receiving employment-related options expired at the end of 2009.

Nothing has been reserved in respect of performance-related options for 2010, since performance targets were not met.

In 2010 dissolution of SEK 2,329 thousand occurred of the reserve for the Company's synthetic option program as a result of the Company's share price having fallen. The final closing price as per 30 December 2010 was SEK 10.00 (18.00).

Notice period

According to his employment contract, the CEO has a 12-month notice period in the event the Company serves notice. In the event the CEO leaves of his own accord, the notice period is eight months.

According to their respective employment contracts, other senior executives have a six-month notice period in the event the Company serves notice. In the event the other senior executives leave on their own accord, the notice period is three months.

Board's report on internal control and risk management pertaining to financial reporting

The Board's responsibility for internal control and risk management is regulated in the Swedish Companies Act and, for Swedish limited liability companies whose shares are available for trading on a regulated market in Sweden (currently NASDAQ OMX Stockholm and NGM Equity), also in the Swedish Code of Corporate Governance. In addition to the rules in the Swedish Code of Corporate Governance regarding information about corporate governance, the rules of the Swedish Annual Accounts Act on corporate governance reporting also apply to companies whose shares are available for trading in a regulated market. Thus, INVISIO Communications is not formally bound to the Swedish Code of Corporate Governance or the rules of the Swedish Annual Accounts Act on corporate governance reporting, since the Company's shares are not available for trading on a regulated market, although the Code serves as an important reference for corporate governance within the Company. According to the Swedish Annual Accounts Act, the corporate governance report shall include information about the most important features of the Company's systems for internal control and risk management with respect to financial reporting.

Internal control and risk management with respect to financial reporting are part of INVISIO Communications' overall internal control and risk management and comprise a central component of the Company's corporate governance. INVISIO Communications defines internal control and risk management as a process that is influenced by the Board, the Audit Committee, the CEO, other Company management, and other employees and that is designed so as to provide reasonable assurance that INVISIO Communications' goals are achieved with respect to suitable and effective operations, reliable reporting, and compliance with applicable laws and statutes. This process is based on a control environment that fosters discipline and structure for the other four components of the process – risk assessment, control structures, information and communication, and follow-up. The process is based on the framework for internal control issued by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO), www.coso.org.

Board's report on internal control and risk management pertaining to financial reporting can be found below and gives information about the most important features of the Company's systems for internal control and risk management with respect to financial reporting. This report has been audited by the Company's auditor.

Internal control and risk management with respect to financial reporting are aimed at providing reasonable assurance regarding the reliability of the external financial reporting in the form of interim reports, annual reports, and year-end reports and ensuring that the external financial reporting is prepared in accordance with law, applicable accounting standards, and other requirements on listed companies.

CONTROL ENVIRONMENT

The control environment encompasses the values and the ethics that the Board, the Audit Committee, the CEO, and other members of management communicate and adhere to, as well as the organizational structure, leadership, decision-making channels, authority, responsibilities, and competence held by the employees. An overview of the Company's organization, governance, and control – including external and internal governance documents that are important aspects of INVISIO Communications' control environment – is provided on page 34 in the Corporate Governance Report. INVISIO Communications is characterized by a comparatively lean and decentralized organization with clear responsibility for the respective business area managers who, together with the CEO, comprise company management.

The Board has overarching responsibility for internal control and risk management with respect to financial reporting. The Board has adopted a Work Plan for the Board of INVISIO Communications that forms an internal governance document. This document stipulates the Board's responsibility and regulates the internal division of duties among the Board, its committees, and its members.

The Board has appointed an Audit Committee, comprised of all board members, tasked with and responsible for monitoring the Company's financial reporting and, in this context, also monitoring the effectiveness of the Company's internal control and risk management. The Audit Committee shall also stay informed about the audits of the annual accounts and the consolidated accounts, examine and monitor the external auditor's impartiality and independence and therewith pay particular attention to whether the external auditor provides the Company with services other than auditing, and assist with the preparation of proposals for the AGM on decisions regarding the choice of auditor.

The Board has also established internal governance documents in the shape of a set of instructions for the CEO of INVISIO Communications, as well as instructions for financial reporting to the Board of INVISIO Communications.

As regards financial reporting, responsibility for maintaining an effective control environment and for the ongoing work on internal control and risk management is delegated to the CEO. The Company's CFO works under the direction of the CEO on continuously developing and improving the internal control and risk management with respect to financial reporting – on the one hand proactively with a focus on the internal control environment, on the other hand by quality assuring the external financial reporting. In 2010, INVISIO Communications continued the review of internal governance documents begun in 2008 and 2009 in order to ensure that they meet the Company's current needs and are in compliance with laws, applicable accounting standards, and other requirements on listed companies. As a result of this review, several internal governance documents have been updated. In addition to this, the focus in 2010, as in 2009, was on effective financial governance and control in the form of follow-ups of targets and plans and clear divisions of responsibility for income and expenses.

RISK ASSESSMENT

As regards financial reporting, INVISIO Communications' risk assessment is designed to identify and evaluate the most significant risks affecting internal control with respect to financial reporting. Risk assessment provides a foundation for decisions on how risks are to be managed using various control structures, with the aim of ensuring that the basic requirements of financial reporting are fulfilled. The risk assessment that has been performed shows that the most significant risks for errors in the financial reporting pertain primarily to the fair valuation of intangible assets in the form of capitalized development costs, inventories, and trade accounts receivable. As per 31 December 2010, the assessment is that the carrying amount of these items corresponds to their fair value.

The Company's risk management is described further in the Board of Directors' Report and in Note 2 of the 2010 Annual Report.

CONTROL STRUCTURES

The most significant risks identified with respect to the financial reporting are managed using various control structures to ensure that the basic requirements of the external financial reporting are fulfilled. These control structures include both overarching and more detailed controls designed to prevent, discover, and correct errors and deviations, and which can be both formal and informal in nature. Areas covered by the controls include authorized approval of business transactions, the reliability of business systems, compliance with laws, applicable accounting standards, and other requirements placed on listed companies, and areas that contain significant elements of estimation.

INFORMATION AND COMMUNICATION

As regards financial reporting, information and communication about internal governance documents are available to the Company's employees in INVISIO Communications' document management system, High Stage. High Stage is a web-based tool for managing business documents in a central database and features automatic version management as well as control of authorization, reviews, and approval. Information and communication on internal governance documents are also provided in connection with staff meetings.

As regards financial reporting, the CEO and the Company's CFO report the results of their work on internal control and risk management at Audit Committee meetings.

External financial reporting is conducted in accordance with laws, applicable accounting standards, and other requirements on listed companies, as well as in accordance with relevant internal governance documents, such as the Finance Handbook, instructions for financial reporting to the board, and the Information Policy.

FOLLOW-UP

Follow-ups to ensure the effectiveness of internal control and risk management with respect to financial reporting are conducted by the Board, the Audit Committee, the CEO, and other management. This includes follow-ups of the CEO's weekly business reports to the Board, of monthly financial reports against budgets and targets, of any reports from the CEO and the Company's CFO concerning identified shortcomings in internal control with respect to the financial reporting, and of reports from the Company's auditor.

INVISIO Communications does not have a dedicated internal audit function. The Board has evaluated the need for such a function and has concluded that the organization's size and the scope of operations do not warrant such a function.

BOARD OF DIRECTORS' REPORT

The Board of Directors and President of INVISIO Communications AB (publ.) ("INVISIO Communications" or "the Company"), registered company number 556651-0987, herewith submit their annual report and consolidated accounts for the 2010 financial year, the Company's twelfth year of trading¹. The Company is a Swedish limited liability company with its registered office in Stockholm, Sweden. Unless indicated otherwise, all amounts in the Board of Directors' Report are specified in millions of Swedish kronor (SEK). Figures in parentheses pertain to the preceding year.

Operations

INVISIO Communications specialises in voice communications in difficult conditions and pursues its operations in two business areas, Professional Products and Consumer Products.

In the Professional Products business area, the company develops, manufactures, markets and sells communication solutions such as advanced headset, control units and associated equipment for use with two-way radio, primarily for professional users who are often working in difficult environments. Customers are found, for example, in the military and military special forces, police and SWAT teams, emergency services, the security sector, and various industries throughout the world. The products are sold via resellers and directly to end customers, under both the proprietary INVISIO brand and through OEM collaborations. The company also conducts development work on assignment for customers. All manufacturing of professional products takes place in Scandinavia, conducted by carefully selected companies, including Swedish firm PartnerTech, Danish firm Davinci and to some extent in-house.

In the Consumer Products business area, together with Motorola INVISIO Communications develops Bluetooth headsets for the consumer market using INVISIO Communications' patented technology. The collaboration with Motorola is based on an exclusive licensing and collaboration agreement between INVISIO Communications and Motorola that was signed in 2008. The agreement gives Motorola exclusive access to INVISIO Communications' patented technology and the right to manufacture, market, and sell co-developed headsets for the consumer market. The agreement, which runs for six years, includes the right to compensation for certain minimum quantities and for development work conducted by INVISIO Communications. It is also conditional upon the fulfillment of certain goals and undertakings by Motorola prior to March 31, 2011. INVISIO Communications own sales of consumer products ceased at the end of 2009.

Research and development is INVISIO Communications's core activity and is conducted mainly internally within the company. The product portfolio is based partly on INVISIO Communications' two patent families: INVISIO Bone Conduction, a small ear microphone that picks up vibrations in the user's jawbone and converts these into sound, and the Soft Spring™ earpiece, an ergonomically designed and motion tolerant fastening device consisting of a soft rubber spring that fastens the headset in the ear, and partly on the Company's expertise in sound transmission. The patent families and expertise in sound transmission enable disruption-free and clear voice communication even under extreme conditions, such as loud noise, heat, and underwater.

Sales and earnings

Total income for 2010 amounted to SEK 32.8 m (61.1), of which SEK 32.5 m is attributable to the sale of the VoIP (Voice over Internet Protocol) patent in March 2009. Adjusted for the VoIP patent sale in 2009, total income amounted to SEK 32.8 m (28.6), an improvement of 14.5 percent compared with 2009. The increased total income, adjusted for the VoIP patent sale in 2009, relates mainly to efforts to increase sales of professional products and to increased income from the collaboration with Motorola.

Gross profit amounted to SEK 17.8 m (42.7), and excluding the sale of the VoIP patent 2009 SEK 17.8 m (10.2). Gross margin

was 54.4 percent (69.9) and excluding the sale of the VoIP patent in 2009, 54.4 percent (35.8). The much improved gross margin compared with 2009 relates mainly to the changed business model for the Consumer Products area, by which the Company ceased sales of its own products in this business area in 2009.

Operating expenses were SEK 55.7 m (56.2). Operating expenses include depreciation of SEK 12.2 m (9.5) and non-recurring costs of SEK 5.6 m (0.0). The higher depreciation is due to a change in depreciation principles by which certain types of product development projects in the Professional Products business area are now depreciated over a shorter period. Non-recurring costs are mainly related to the planned listing of the Company's shares on NASDAQ OMX Small Cap Stockholm at SEK 2.7 m, costs in connection with and organizational change that was carried out during the first half of 2010 at SEK 1.0 and further reserves regarding a dispute from 2005 with former employees where judgement was given to the company's disadvantage on 20 April 2010 at SEK 1.9 m.

In 2010, SEK 1,035 thousand (2,391) was reserved for the synthetic option program, of which SEK 1,035 thousand was for performance-related options granted for 2009 (423 for those granted for 2008), corresponding to 87 percent (41) of maximum outcome. Nothing has been reserved in respect of employment-related options, since the opportunity of receiving employment-related options expired at the end of 2009.

Nothing has been reserved in respect of performance-related options for 2010, since performance targets were not met.

In 2010 dissolution of SEK 2,329 thousand occurred of the reserve for the Company's synthetic option program as a result of the Company's share price having fallen. The final closing price as per 30 December 2010 was SEK 10.00 (18.00).

The consolidated comprehensive income statement includes expenses of SEK 1.4 m relating to the subsidiary INVISIO Inc. in the US. The company was wound up in December 2010.

Operating loss was SEK -37.9 m (-13.4) and excluding the sale of the VoIP patent 2009, SEK -37.9 m (-45.9). Net financial items totaled SEK -1.9 m (-3.9). Loss after tax was SEK -39.8 m (-17.3) and excluding the sale of the VoIP patent 2009, SEK -39.8 m (-49.8).

Loss per share was SEK -1.75 (-0.82) and excluding the sale of the VoIP patent 2009, SEK -1.75 (-2.36).

Over the last five years, the Group has developed as shown below:

SEK 000s	2010	2009	2008	2007	2006
Total income	32,787	61,106	40,686	22,786	57,517
Profit/Loss before tax	-39,814	-17,295	-44,880	-68,072	-46,143
Shareholders' equity	5,630	7,030	4,068	20,031	16,688
Total assets	47,282	50,229	47,429	59,044	55,703

PROFESSIONAL PRODUCTS BUSINESS AREA

Sales in 2010 totaled SEK 24.4 m (21.3), an improvement of 14.2 percent compared with 2009. With exchange rate fluctuations cleaned out, the improvement was 27 per cent. This substantial increase is mainly the result of marketing and sales efforts, an increasing num-

¹The business was established in 1999 as the Danish company Nextlink.to A/S. On November 11, 2003, the Group was founded under the name Nextlink AB (publ.), which was changed to INVISIO Headsets AB (publ.) in 2008 and to INVISIO Communications AB (publ.) in 2010.

ber of resellers in important countries and the introduction of the new series of professional products during the second half of 2009. The product portfolio for professional users now includes headsets, control units and associated equipment for use with two-way radio.

Gross margin was less than in 2009 at 38.8 percent (39.6). It is characteristic of this business area that gross margin for professional products may vary between quarters and years depending on the share of direct sales to end customers (which have higher margins) compared to the share of sales via retailers. In 2010 the gross margin has been affected by a high proportion of sales through resellers and also by exchange rate fluctuations against the Swedish kronor.

At year-end, the order book totaled SEK 6.4 m (4.4).

CONSUMER PRODUCTS BUSINESS AREA

Sales for the Consumer Products business area in 2010 totaled SEK 8.4 m (7.3), an improvement of 15 percent compared with 2009. Sales consisted of royalty income and remuneration for development work from Motorola, unlike 2009 when sales also included income from selling off the remaining stocks of INVISIO Communication's in house developed consumer headsets.

Gross margin was 99.6 percent (24.7). The new business model, which meant that this business area stopped selling in-house products in 2009, has led to the considerable improvement in gross margin compared with 2009.

PARENT COMPANY

The parent company INVISIO Communications AB is a holding company with no other operations. All operations are pursued via the wholly-owned subsidiary INVISIO Communications A/S in Denmark.

Operating income in 2010 totaled SEK 0.4 m (0.3). The operating loss was SEK -9.4 m (-5.7). The change is mainly due to non-recurring costs relating to the planned listing of the Company's shares on NASDAQ OMX Small Cap Stockholm. The loss for the year was SEK -41.7 m (-33.5), of which shareholders' contributions to subsidiary INVISIO Communications A/S amounted to SEK -30 m (-30).

Cash and cash equivalents held by the parent company at year-end amounted to SEK 11.8 m (3.5) and equity was SEK 88.9 m (88.8), giving an equity ratio of 78.9 percent (88.5). The parent company had 1 employee (1).

Research and development

Research and development is INVISIO Communications's core activity and is conducted mainly internally within the company. The focus is on developing communication solutions such as advanced headsets, control units and associated equipment for use with two-way radio. INVISIO Communications' internal resources and expertise in research and technical development are used partly for internal development projects under own brand INVISIO®, and partly as collaborative development efforts with external partners like Motorola.

Work is conducted continuously on documentation and quality management systems, high-quality manufacturing, and certifications.

PATENTS

INVISIO Communications owns two patent families of central importance to operations. These are INVISIO Bone Conduction, a small ear microphone that picks up vibrations in the user's jawbone and converts these into sound, and the Soft Spring™ earpiece, an ergonomically designed and motion tolerant fastening device consisting of a soft rubber spring that fastens the headset in the ear.

The patent strategy is to actively develop and submit patents in the fields of communication and audiology. For example, the Company recently submitted a new patent application in the US for INVISIO Custom Protect Hearing Protection, which is a technology for protecting against hearing loss.

See intellectual property rights on page 47 for more information.

Organization and employees

INVISIO Communications' headquarters are in Copenhagen, Denmark, which is where management and administration, business operations, some manufacturing, marketing and sales, and research and development are conducted. Most manufacturing is outsourced to subcontractors.

Management was reorganized on March 1, 2010 when Jan Larsen, Head of Research & Development, added Head of Operations to his responsibilities. Jennie Amareus, former Head of Operations, left the Company in conjunction with the reorganization.

After the reorganization, senior management consists of 4 (5) persons. See page 40 for further information.

The number of employees as per 31 December 2010 was 27 (29), 1 (1) in Sweden and 26 (28) in Denmark.

Ownership structure

At year-end 2010, INVISIO Communications had 205 shareholders (203). Major shareholders are Intersettle AG, Zurich, on behalf of clients, with 31.9 percent of the stock and the votes, Alecta Pensionsförsäkringar, with 17.6 percent of the stock and the votes, and Lage Jonason (with family and companies), with 15.7 percent of the stock and the votes.

INVISIO Communications is listed on First North Stockholm, an alternative marketplace (rather than a regulated market) for trading in equities and other securities that is operated by NASDAQ OMX Stockholm. Since July 9, 2009, the Company is listed under the First North Premier segment.

Environment

The Company does not conduct any operations that require permits or notification pursuant to the Swedish Environmental Code.

Investment, cash flow and liquidity, finance, equity and dividends

CAPITAL EXPENDITURE

The Group's net capital expenditure for 2010 totaled SEK -7.0 m (-8.5), of which SEK -6.5 m (-8.3) comprised capitalized development costs and SEK -0.5 m (-0.2) comprised net investments in property, plant, and equipment. Capitalized development costs pertained primarily to development of future professional products.

CASH FLOW AND LIQUIDITY

Cash flow from operating activities in 2010 was SEK -37.2 m (-10.7). Cash flow from investing activities totaled SEK -7.0 m (-8.5) and cash flow from financing activities totaled SEK 52.1 m (23.3), of which new share issues comprised SEK 41.6 m (24.0) and net amortization of liabilities to credit institutions comprised SEK 10.6 m (-0.7). Cash flow for the year was thus SEK 7.9 m (4.1). Cash and cash equivalents held by the Group amounted to SEK 12.8 m (5.1) at year-end.

Management and the Board work actively and continuously with the Company's governance and control, including financial performance, liquidity, and financial position. The Board regularly checks to ensure that the necessary conditions for continued operations exist. During the year, the parent company increased its shareholders' equity via new share issues aimed at securing INVISIO Communications' financial position and to cope with the increase in capital tie up necessary for a focus on increased sales of professional products. It cannot be ruled out that the Company may need further capital contributions until operations reach breakeven with positive profits and cash flow. The previous assessment made by company management and the Board stands, namely that necessary liquidity and financing will be generated and added to operations through operating income, borrowing, the possible exercise of stock options, and authorization from the 2010 AGM to implement share issues. See page 48 Events after the end of the financial year.

FINANCING

On January 11, 2010, all 500,000 shares were registered in respect of the direct new share issue in December 2009. INVISIO Communications' Board resolved on February 26, 2010 to issue a further 383,562 new shares corresponding to approximately 1.7 per cent of the total number of shares in the Company after the new issue, which provided the Company with SEK 7 million net. The subscription price was SEK 18.25 per share and reflected the closing price prior to the Board's decision. The issue was directed at a smaller group of external investors. On 22.07.10, the Board of INVISIO Communications decided that a directed new share issue comprising a further 1,052,632 shares and corresponding to approximately 4.5 percent of the total number of shares in the Company after the issue be implemented, which provided the Company with SEK 14.1 m net after issue costs. The subscription price was SEK 14.25 per share and reflected the closing price prior to the Board's decision. The issue was directed at Erik Penser Bankaktiebolag. Following the decision of the board on 1 November 2010 and the general meeting's approval on 19 November 2010, a new issue was made with pre-emptive rights for the company's existing shareholders of 2,350,132 shares, corresponding to about 9.1 percent of the total number of shares in the Company after the new issue. The issue was fully subscribed and provided the Company with SEK 20.5 m net after issue costs. The subscription price was SEK 10. The three issues during the year correspond to 14.6 per cent of the total number of shares in the Company after the new issues. A new line of credit totaling SEK 14 m was secured in March 2010.

SHAREHOLDERS' EQUITY

Group equity at year end amounted to SEK 5.6 m (7.0), which gave an equity ratio of 11.9 percent (14.0). The registered share capital increased by SEK 1,936,194 in 2010. Consequently, total registered share capital amounts to SEK 23,501,320. At year-end, there were 2,350,132 unregistered shares, which were registered on 13 January 11.

DIVIDEND

The Board of Directors proposes that no dividend be paid for the 2010 financial year.

Accounting principles

The Group applies International Financial Reporting Standards (IFRS) as adopted by the EU, the Swedish Annual Accounts Act, and the Swedish Financial Accounting Standards Council's Recommendation RFR 1 (Supplementary Accounting Rules for Groups) and RFR 2 (Accounting for Legal Entities). The application of IFRS is a result of the EU statute that applies to all listed companies within the EU.

Risks and risk management

All business is associated with risks. Risks that are managed well can give rise to opportunities and value creation, while risks that are not managed well can give rise to damages and losses. INVISIO Communications operates in a global market with the development, manufacture, marketing, and sale of communications equipment for professional users and develops, together with Motorola, Bluetooth headsets with INVISIO Communications patented technology, which means the Company is exposed to a range of external and internal risks in its operating activities. Risk management is, therefore, an important part of the governance and control of the Company.

INVISIO Communications' risk management covers strategic risks, operational risks, legal and regulatory compliance risks, and risks for errors in the Company's reporting, including its financial reporting. Risks can generally be divided into market-related, operational, and financial risks. The Company works continually at different levels to identify all significant risks to which it is exposed and to determine how each risk shall be managed.

- Market-related risks are managed mostly at board and management level.
- In the first instance, operational risks are managed at management and department level, but can also be managed at board level if they are of strategic importance. Department-specific risks in Operations and Finance are managed within those departments. Legal risks are mainly managed at management level in consultation with external legal counsel and advisors, but also at board level if required. Risks affecting financial reporting are mostly managed at management level by the Company's CEO and CFO, but also by the Board's Audit Committee.
- Financial risks are managed primarily at board and management level.

The risks described below are in no particular order of importance and the descriptions are not necessarily complete.

MARKET-RELATED RISKS

Legislation and political decisions

INVISIO Communications' products are sold in a large number of markets. Changes to legislation and regulations, such as customs regulations, export regulations, and other laws and rules in countries in which the Company operates and where the Company's products are sold can affect operations. A large number of INVISIO Communications' professional customers, such as military and law enforcement organizations, are also often influenced by political decisions. Through its many business partners, the Company monitors developments in laws and regulations, as well as political developments, in the countries in which INVISIO Communications is active.

Global economic conditions

INVISIO Communications sales are dependent on global economic cycles. An extended downturn with reduced consumption and reduced investments could lead to a considerable reduction in demand for the Company's products. This can lead to orders not being made or being withdrawn or postponed. A weakened economy and downturn thus have a negative effect on INVISIO Communications' activities. Buyers of the Company's professional products, such as the military, police and fire services, are often financed from tax, which means that reduced tax revenues caused by an economic downturn can have a negative effect on sales of professional products.

Competition

The market for communications equipment is characterised by hard competition. If INVISIO Communications cannot adapt its activities and its products to technical developments in the market, there is a risk of the Company losing competitiveness, which would have a negative effect on the Company's development opportunities. The market for communications equipment is expected to show long-term growth. The market for traditional headsets is mature and is mostly served by larger companies. The market for in-ear headsets is relatively new and is characterized by both smaller and larger companies.

INVISIO Communications' professional products have been developed in-house and sold to various professional customers for more than ten years. In the Company's view, with its leading products, technology and expertise, it is well positioned to take a larger share of the growing global market. Business intelligence is gathered on a continuous basis within the Company, as well as together with resellers and customers in the main markets.

Technical risks

Communication equipment is also expected to undergo technology shifts in the future and is exposed to changeable market trends. Technical development can lead to technical problems that mean it takes longer than planned for new products to reach the market and that costs to the Company can be considerably higher than estimated, as a result of both increased costs dur-

ing the development phase and delayed market introduction. If the Company is unsuccessful in developing and launching products based on its research and development work, there is also a risk that the value of the Company's assets may need to be written down. INVISIO Communications' patented technologies and innovative products are considered to be well-positioned ahead of technology shifts and future market trends. The Company closely monitors a number of important technology areas. These activities are led by the Company's head of research and development in collaboration with external parties.

Market acceptance of newly developed products

INVISIO Communications is constantly developing and launching new products onto the market. There is always a risk that new products are not received positively by the market, or that products launched by competitors may have a better impact. Development of consumer products is done with Motorola based on an exclusive licensing and collaboration agreement signed in 2008. This runs until 2014 and is conditional on the fulfilment of certain targets and undertakings by Motorola by 31 March 2011. This means that the Company is affected by Motorola's ability to develop, market and sell new products.

Dependency on suppliers

In order for INVISIO Communications to be able to deliver its products, the Company is dependent on components, products and services supplied by third parties fulfilling agreed requirements as regards, for example, quantity, quality, and delivery. Faulty or defective deliveries from suppliers may mean delays to INVISIO Communications' production, which in the short term can lead to reduced or lost sales. INVISIO Communications has two professional production partners through its collaboration with PartnerTech of Sweden and Davinci of Denmark.

OPERATIONAL RISKS

Ability to manage growth

INVISIO Communications' business may grow through rising demand for the Company's products, which can put high demands on management and the operational and financial infrastructure. INVISIO Communications is currently a small organization. To be able to safeguard production, component supplies and deliveries to customers with increased demand, it is important for the Company to always have effective planning and management processes. To be able to cope with growth, INVISIO Communications also depends on being able to upgrade production capacity. If the Company is not successful in adapting its organization, processes and capacity to increased demand, this may have negative effects on sales, profits and financial position. INVISIO Communications collaborates very closely with its main suppliers, which are very experienced in handling large production volumes.

Customers and partnerships

INVISIO Communications depends on collaboration agreements with external parties for development, production, marketing and sales. In the Consumer Product business area, INVISIO Communications is dependent on Motorola, with which the Company has an exclusive licensing and collaboration agreement for development, production, marketing and sales. The agreement with Motorola was signed in April 2008 and runs until April 2014 and is conditional on the fulfilment of certain targets and undertakings by Motorola by 31 March 2011. In the Professional products business area, most sales are through retailers, which are individually and collectively important for the Company's future development. Most production is done through PartnerTech of Sweden and Davinci of Denmark. There is no guarantee that the companies with whom INVISIO Communications has signed or will sign agreements will be able to fulfil their obligations under the agreements. There is no guarantee that existing collaboration agreements will not be terminated or made invalid or that changes can be made in current agreements. There is no guarantee that the

agreement with Motorola will continue or be extended, or on what terms any extension will be based. Management works continuously to increase the number of customer relationships and partnerships to ensure that no single customer or party becomes critical to the Company's success.

Product liability

Any faults in INVISIO Communications' products could result in liability and demands for damages directed at the Company. INVISIO Communications may thereby be liable for damage or injury caused by these products. This is normally covered by insurance, but it cannot be excluded that such liability may have a negative effect on the Company's profits and position. INVISIO Communications has product liability for the Company's professional products. For consumer products, it is the partner Motorola that has product liability. INVISIO Communications has a well refined product development process with dedicated documentation systems and strict demands on systematic procedures. The Company's products are certified externally as a quality assurance measure to ensure that applicable norms and standards are met.

Intellectual property

INVISIO Communications' intellectual property rights are mainly protected through patents, agreements and legislation for protection of commercial secrets. INVISIO Communications owns two patent families of central importance to operations. These are INVISIO Bone Conduction, a small ear microphone that picks up vibrations in the user's jawbone and converts these into sound, and the Soft Spring™ earpiece, an ergonomically designed and motion tolerant fastening device consisting of a soft rubber spring that fastens the headset in the ear, and partly on the Company's expertise in sound transmission. The Company has also applied for a patent in the US for INVISIO Custom Protect Hearing Protection, which is a technology for protecting against hearing loss, but the patent has not yet been granted. The INVISIO Bone Conduction patent has been granted in the US, Europe, and Singapore. In Europe, the patent was granted in 1993 and expires in 2013. In the US, the patent was granted in 1997 and expires in 2014, while in Singapore the patent was granted in 2001 and expires in 2013. The Soft Spring™ earpiece patent was granted in Europe and the US in 2006 and expires in 2021.

Infringement of the Company's intellectual property rights could reduce competitiveness or damage the Company's activities in some other way. It may be necessary for the Company to take legal action to protect its intellectual property rights. Such legal proceedings could be extensive and costly and there is no guarantee that the Company would win.

INVISIO Communications' exposure to risks affecting intellectual property in areas such as patents, IT, and human capital is handled by management in collaboration with external legal counsel and advisors.

Dependence on key persons and employees

INVISIO Communications future development is dependent on the knowledge, experience, and creativity of existing employees and the Company's ability to continue to recruit and retain key employees. Persons with high level of expertise are in great demand and it can be very costly for INVISIO Communications to recruit and retain such persons. If the Company is not successful in recruiting and keeping qualified personnel it could be very difficult to fulfil INVISIO Communications' business strategy. Even if management considers that the Company will be able to attract and keep qualified personnel, there is no guarantee that this can be done on satisfactory terms. Being an attractive employer is therefore very important for INVISIO Communications.

Risks affecting financial reporting

The most significant risks for errors in the financial reporting pertain primarily to the fair valuation of intangible assets in the form of capitalized development costs, inventories, and trade accounts receiv-

able. If the reported value of these assets is found to differ from fair value, for example in connection with a so-called impairment test of balanced development costs, these may lead to a need for write-down that could have negative effects on the Company's profits and financial position. As per 31 December 2010, the assessment is that the reported value of these items corresponds to their fair value.

FINANCIAL RISKS

Through its operations, INVISIO Communications is exposed to various financial risks, such as interest rate risk, currency risk, price risk, credit risk, and financing and liquidity risk. The Company's finance policy, which is established by the Board of Directors each year, provides guidelines for managing financial risks in the Company. INVISIO Communications' financial risks consist primarily of currency risk, interest rate risk and financing and liquidity risk, which are described below.

Interest rate risk

As per 31 December 2010, INVISIO Communications had interest bearing financial liabilities of SEK 21.6 m, made up of liabilities to financial institutions in the form of bank loans and liabilities relating to invoice factoring at variable rates. This means there is a risk of the Company's profits and financial position being negatively affected by rising interest rates. Based on the level of financial interest-bearing liabilities as per 31 December 2010, a one percentage point rise in market rates of interest would affect by SEK 216 thousand.

Interest rate risk is described in more detail in Note 2 of the 2010 Annual Report.

Currency risk

Currency risks are found in the form of transaction and translation risks. Transaction risk arises from buying and selling goods and services in currencies other than the respective company's local currency. Translation risks arise when translating the foreign subsidiaries' income statements and balance sheets into Swedish krona.

INVISIO Communications operates in a global market with large parts of sales and purchases made in currencies other than Swedish kronor (SEK). The majority of sales are in USD and EUR. The group's purchases for the Professional Products business area are partly in SEK and partly in DKK.

Costs mainly arise in DKK, but also in SEK. Changes in the value of SEK in relation to USD, DKK and EUR can thus have both positive and negative effects on the Company's profits and financial position. At present, net exposure in each currency is limited and the Group does not hedge its currency exposure.

Currency risk is described in more detail in Note 2 of the 2010 Annual Report.

Financing risk and liquidity risk

Financing risk is the risk that the refinancing of loans falling due is hindered or made more costly, resulting in the Group having difficulty in making payments. Liquidity risk is the risk of not being able to make payments when they fall due.

As per 31 December 2010, INVISIO Communications had liabilities to credit institutions of SEK 21.6 m, SEK 12.7 m of which falls due for repayment within 3 months and SEK 2.1 between 3 and 12 months.

Management and the Board work actively and continuously with the Company's governance and control, including financial performance, liquidity, and financial position. The Board regularly checks to ensure that the necessary conditions for continued operations exist. INVISIO Communications has never thus far reported positive profits. It cannot be ruled out that the Company may need further capital contributions until operations reach breakeven with positive profits and cash flow and that there is no guarantee that such capital contributions can be obtained at all or on favorable terms. The previous assessment made by company management and the Board stands, namely that necessary liquidity and financing will

be generated and added to operations through operating income, borrowing, the possible exercise of stock options, and authorization from the 2010 AGM to implement share issues.

Financing and liquidity risk is described in more detail in Note 2 of the 2010 Annual Report and in the section on "Cash flow and liquidity" on page 45 of the 2010 Annual Report.

DISPUTES

A judgement was made by the Danish Supreme Court on 20 April 2010 regarding the dispute from 2005 between former employees and INVISIO Communications that meant that INVISIO Communications lost the dispute. Total costs amount to SEK 5.1 m, SEK 1.9 m of which has been shown in the 2010 accounts.

A judgement was given during the year in the dispute between INVISIO Communications and a former supplier, who demanded for DKK 1.7 m for unplaced orders. INVISIO Communications won the dispute. No costs have been paid in connection with the case.

Apart from the above, INVISIO Communications is not aware of any material dispute.

Events after the end of the financial year

SALES

INVISIO Communications has received yet another order from a Danish fire department. The order is for the heatproof INVISIO M3 Fire headset and the products will be delivered during the first quarter of 2011. The value of the order has not been made public.

INVISIO Communications has received yet another order from the TETRA project in Portugal. The additional order is once again for the INVISIO M3 headset, which will be used in the so-called blue light network in Portugal's ongoing TETRA project, and the products will be delivered during the second quarter of 2011. The value of the order has not been made public but is under SEK 1 m.

INVISIO Communications has received an order from a European police special forces unit. The order is for the INVISIO M3h headset with PTT (Push to Talk).

AGREEMENT

In 2008, INVISIO Communications entered into an exclusive licence and collaboration agreement with Motorola in the Consumer Products business area. The agreement is conditional upon the fulfillment of certain goals including undertakings from Motorola prior to 31 March 2011. Since these goals and undertakings have not been fulfilled, the agreement has expired and renegotiations are taking place. INVISIO Communications is positive about continued cooperation, but if the negotiations do not lead to the desired result for INVISIO Communications, income from the Consumer Products business area may be somewhat lower in 2011 than in 2010. The negotiations are expected to be concluded during second quarter 2011.

FINANCING

INVISIO Communications has signed an agreement with Alecta Pensionsförsäkringar regarding a SEK 20 million loan. The loan is for 2 years and will be repaid to Alecta in February 2013. Alecta is however permitted to require early repayment of the loan if INVISIO Communications should carry out a share issue with pre-emption rights. The loan is at 10 percent interest in the first year and 15 percent interest in the second. The loan is partly to replace an earlier loan of SEK 12 m from Danske Bank that is due for repayment on 28 February 2011. Alecta controls more than 10 percent of the shares and votes in INVISIO Communications, for which reason the loan is to be considered as a transaction with a related party.

Outlook for the first quarter of 2011

PROFESSIONAL PRODUCTS BUSINESS AREA

As a result of INVISIO's conscious development towards becoming a communication company, where the Company now offers advanced communication solutions and has a product portfolio that includes headsets, control units and accessories, opportunities for orders that partly are a larger part of the value-chain and partly in new customer segments have been opened. The number of sales leads, queries and full-scale customer trials has continued to increase during the year. This, as well as continuous efforts to increase the number of retailers and strategic cooperations, and the fact that the products deliver what they promise during trials, means that INVISIO expects a considerable long-term increase of sales in the business area. Short-term the next few quarters, sales can be affected in some markets by restrictions in public budgets as a result of the financial crisis. In addition, sales in the business area can as previously communicated vary from quarter to quarter due to long lead times from first contact with customer, to inquiry, to customer testing, to quotation and to firm order.

CONSUMER PRODUCTS BUSINESS AREA

The cooperation with Motorola continues to work well even though sales have not yet reached the target level. The first product under the exclusive license and cooperation agreement, Motorola Endeavor HX-1, received excellent reviews and during the fourth quarter of 2010 Motorola announced the new wireless headset Motorola Finiti in the US. The need for consumers and professions using mobile phones during work to be able to communicate in noisy and demanding environments is constant, and our confidence in the new Motorola Finiti is strong. The exclusive licensing and collaboration agreement between INVISIO Communications and Motorola is conditional upon the fulfillment of certain goals including undertakings from Motorola prior to 31 March 2011. Since these goals and undertakings have not been fulfilled, the agreement has expired and renegotiations are taking place. INVISIO Communications is positive towards the cooperation with Motorola and coming royalty income from this, but if negotiations do not lead to the desired result for INVISIO Communications, income from the Consumer Products business area may be somewhat lower in 2011 than in 2010.

Proposed disposition of earnings

Parent Company (SEK)

At the disposal of the Annual General Meeting:	
Share premium reserve	71,470,433
Profit/Loss brought forward	189,557
Loss for the year	-41,690,542
	29,969,448

TO BE DISPOSED OF AS FOLLOWS:

The Board of Directors and CEO propose that the accumulated losses of SEK 41,500,985, of which SEK 41,690,542 comprise losses for the year, be settled against the share premium reserve, which will thereafter total SEK 29,969,448, which is to be carried forward.

The compilation of the annual report means that a group contribution of SEK 20,857 has been paid to Nextlink Patent AB.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

January–December (SEK 000s)	Note	2010	2009
	1,2		
Sales	3,4	32,787	28,633
Other income	3,4	-	32,473
<i>Total income</i>		32,787	61,106
Cost of goods sold	26	-14,955	-18,388
<i>Gross profit</i>		17,832	42,718
OPERATING EXPENSES			
Sales and marketing expenses	10,11,26	-19,482	-24,636
Administration expenses	7,8,9,10,11,26	-16,518	-13,952
Research and development costs	10,11,26	-19,698	-17,568
<i>Operating profit/loss</i>		-37,866	-13,438
FINANCIAL ITEMS			
Financial income		58	198
Financial expenses		-2,006	-4,055
<i>Net financial items</i>		-1,948	-3,857
<i>Profit/Loss before tax</i>		-39,814	-17,295
Tax	12	-	-
<i>Loss for the year</i>		-39,814	-17,295
<i>Loss attributable to equity holders of the parent</i>		-39,814	-17,295
OTHER COMPREHENSIVE INCOME			
Translation differences during the period from translation of foreign businesses		-3,187	-541
<i>Comprehensive income</i>		-43,001	-17,836
<i>Comprehensive income attributable to equity holders of the parent</i>		-43,001	-17,836
Earnings per share (SEK)	24	-1,75	-0,82
Earnings per share after dilution (SEK)	24	-1,75	-0,82
Number of shares outstanding (thousands)	24	23,501	21,565
Average number of shares outstanding (thousands)	24	22,723	21,064
Number of shares outstanding after dilution (thousands)	24	23,501	21,565

CONSOLIDATED BALANCE SHEET

December 31 (SEK 000s)	Note	2010	2009
ASSETS	1,2		
Non-current assets			
Intangible assets	13	16,948	24,521
Property, plant, and equipment	14	834	1,611
Financial assets	15	643	769
<i>Total non-current assets</i>		18,425	26,901
Current assets			
Inventories	16	2,780	2,716
Accounts receivable – trade	25	10,169	13,404
Other receivables		2,274	998
Prepaid expenses and accrued income	17	882	1,151
Cash and bank balances		12,752	5,059
<i>Total current assets</i>		28,857	23,328
TOTAL ASSETS		47,282	50,229
SHAREHOLDERS' EQUITY AND LIABILITIES	1,2		
Shareholders' equity	21		
Share capital		23,501	21,565
Other capital contributions		216,676	177,011
Reserves		-682	2,505
Loss brought forward inc. loss for the year		-233,865	-194,051
Shareholders' equity attributable to equity holders of the parent		5,630	7,030
<i>Total shareholders' equity</i>		5,630	7,030
Current liabilities	18,27		
Liabilities to credit institutions		21,570	16,815
Accounts payable – trade ¹		9,301	11,761
Other liabilities	23	3,246	8,943
Accrued expenses and prepaid income	20	7,535	5,680
<i>Total current liabilities</i>		41,652	43,199
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		47,282	50,229
Pledged assets	22	10,169	13,404
Contingent liabilities	22	None	None

¹All accounts payable fall due within 3 months

CONSOLIDATED CASH FLOW STATEMENT

January–December (SEK 000s)	Note	2010	2009
Operating activities			
Profit/Loss before tax	1,2	-39,814	-17,295
Adjustments for non-cash items	5	9,519	9,034
Taxes		-	-
<i>Cash flow from operating activities before changes in working capital</i>		-30,295	-8,261
Changes in inventories		-450	3,455
Changes in operating receivables		-4,532	-6,614
Changes in operating liabilities		-1,945	726
<i>Cash flow from changes in working capital</i>		-6,927	-2,433
<i>Cash flow from operating activities</i>		-37,222	-10,694
Investing activities			
Capitalization of internal development costs		-6,472	-8,286
Purchases of property, plant, and equipment		-674	-372
Sales of property, plant, and equipment		109	183
<i>Cash flow from investing activities</i>		-7,037	-8,475
Financing activities			
New share issues		41,601	24,044
Loans raised		19,000	12,007
Amortization of loans		-8,450	-12,750
Acquisition of financial assets		-19	-10
Sale of financial assets		-	-
<i>Cash flow from financing activities</i>		52,132	23,291
CASH FLOW FOR THE YEAR		7,873	4,122
Cash and bank balances at start of year		5,059	864
Translation differences in cash and bank balances		-180	73
<i>Cash and bank balances at end of year</i>		<i>12,752</i>	<i>5,059</i>
Supplementary disclosures to the cash flow statement			
Interest received during the year		58	198
Interest paid during the year		-2,006	-4,055

CONSOLIDATED CHANGES IN SHAREHOLDERS' EQUITY

31 December (SEK 000s) notes 1,2, 21	Attributable to equity holders of the parent				
	Share capital ^{1,2}	Other capital contributions	Reserves ³	Loss brought forward inc. loss for the year	Total shareholders' equity
Opening balance as per 1 January 2009	20,646	157,132	3,046	-176,756	4,068
PROFIT/LOSS FOR THE YEAR				-17,295	-17,295
OTHER COMPREHENSIVE INCOME					
Exchange rate differences			-541		-541
<i>Total other comprehensive income</i>	0	0	-541	-17,295	-17,836
Transactions with shareholders					
Option redemption 2006/2010	138	-138	-	-	0
Option redemption 2006/2010	150	-150	-	-	0
Option redemption 2006/2010	83	1,715	-	-	1,798
Directed new share issue	548	9,452	-	-	10,000
Directed new share issue in progress ¹	-	9,000	-	-	9,000
<i>Total transactions with shareholders</i>	919	19,879	0	0	20,798
Opening balance as per 1 January 2010	21,565	177,011	2,505	-194,051	7,030
LOSS FOR THE YEAR				-39,814	-39,814
OTHER COMPREHENSIVE INCOME					
Liquidation INVISIO Inc. USA via reclassification of accumulated translation differences			-909		-909
Exchange rate differences			-2,278		-2,278
<i>Total other comprehensive income</i>	0	0	-3,187	-39,814	-43,001
Transactions with shareholders					
Ongoing new issue 2009-12-31	500	-500	-	-	0
Directed new share issue	383	6,617	-	-	7,000
Directed new share issue	1,053	13,947	-	-	15,000
Costs of new directed share issue	-	-900	-	-	-900
New share issue in progress ²	-	23,501	-	-	23,501
Costs of new share issue	-	-3,000	-	-	-3,000
<i>Total transactions with shareholders</i>	1,936	39,665	0	0	41,601
<i>Closing balance as per 31 December 2010</i>	23,501	216,676	-682	-233,865	5,630

¹Unregistered share capital comprising 500,000 shares as per December 31, 2009

²Unregistered share capital comprising 2,350,132 shares as per December 31, 2010

³Reserves refers entirely to translation differences

PARENT COMPANY INCOME STATEMENT

January–December (SEK 000s)	Note	2010	2009
	1,2		
Operating income	6	383	345
<i>Gross profit</i>		383	345
Administration expenses	6,7,9,10,11	-9,804	-6,005
<i>Operating profit/loss</i>	26	-9,421	-5,660
Profit/Loss from financial items			
Loss from participations in Group companies	19	-30,052	-30,000
Interest income and similar profit/loss items		349	2
Interest expense and similar profit/loss items		-2,635	-3,611
<i>Net financial items</i>		-32,338	-33,609
<i>Loss before tax</i>		-41,759	-39,269
Income tax	12	68	5,761
<i>Loss for the year¹</i>		-41,691	-33,508

¹Comprehensive income corresponds to loss for the year

PARENT COMPANY BALANCE SHEET

December 31 (SEK 000s)	Note	2010	2009
ASSETS	1,2		
Non-current assets			
Financial assets/shares in subsidiaries	19	81,819	81,871
<i>Total non-current assets</i>		81,819	81,871
Current assets			
Receivables from Group companies		16,804	14,697
Other receivables		2,172	116
Prepaid expenses and accrued income	17	106	183
<i>Total current receivables</i>		19,082	14,996
Cash and bank balances		11,798	3,533
<i>Total current assets</i>		30,880	18,529
TOTAL ASSETS		112,699	100,400
SHAREHOLDERS' EQUITY AND LIABILITIES	1,2		
Shareholders' equity	21		
<i>Restricted shareholders' equity</i>			
Share capital		23,501	21,565
Statutory reserve		35,452	35,452
<i>Total restricted shareholders' equity</i>		58,953	57,017
<i>Unrestricted shareholders' equity</i>			
Share premium reserve		71,470	49,169
Profit/Loss brought forward		189	16,144
Loss for the year		-41,691	-33,508
<i>Total unrestricted shareholders' equity</i>		29,968	31,805
<i>Total shareholders' equity</i>		88,921	88,822
Current liabilities			
Liabilities to credit institutions	18, 27	18,300	7,750
Accounts payable – trade ¹		2,736	2,232
Liabilities to Group companies		103	198
Other liabilities		189	40
Accrued expenses and prepaid income	20	2,450	1,358
<i>Total current liabilities</i>		23,778	11,578
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		112,699	100,400
Pledged assets	22	2,517	-
Contingent liabilities	22	None	None

¹All accounts payable fall due within 3 months

PARENT COMPANY CASH FLOW STATEMENT

January–December (SEK 000s)	Note	2010	2009
Operating activities			
Operating loss before financial items	1,2	-9,421	-5,660
Adjustments for non-cash items	5	-	-
Interest received		349	2
Interest paid		-2,378	-3,611
<i>Cash flow from operating activities before changes in working capital</i>		-11,450	-9,269
Changes in operating receivables		-4,086	5,034
Changes in operating liabilities		1,650	-1,789
<i>Cash flow from changes in working capital</i>		-2,436	3,245
<i>Cash flow from operating activities</i>		-13,886	-6,024
Investing activities			
Acquisition of subsidiary/shareholder contribution	19	-30,000	-30,000
Sale of financial assets		-	-
<i>Cash flow from investing activities</i>		-30,000	-30,000
Financing activities			
New share issues		41,601	24,044
Group contribution received		-	23,111
Loans raised		19,000	5,000
Amortization of loans		-8,450	-12,752
<i>Cash flow from financing activities</i>		52,151	39,403
CASH FLOW FOR THE YEAR		8,265	3,379
Cash and bank balances at start of year		3,533	154
Cash and bank balances at end of year		11,798	3,533
Supplementary disclosures to the cash flow statement			
Interest received during the year		349	2
Interest paid during the year		-2,378	-3,611

PARENT COMPANY CHANGES IN SHAREHOLDERS' EQUITY

December 31 (SEK 000s) notes 1, 2, 21	Restricted shareholders' equity		Unrestricted shareholders' equity		
	Share capital	Statutory reserve	Share premium reserve	Loss brought forward and loss for the year	Total shareholders' equity
Opening balance as per 1 January 2009	20,646	35,452	93,376	-64,086	85,388
Previous year's disposition of earnings	-	-	-64,086	64,086	0
Option redemption 2006/2010	138	-	-138	-	0
Option redemption 2006/2010	150	-	-150	-	0
Option redemption 2006/2010	83	-	1,715	-	1,798
Directed new share issue	548	-	9,452	-	10,000
Group contribution to subsidiaries	-	-	-	-1,205	-1,205
Tax – group contribution	-	-	-	316	316
Group contribution from subsidiaries	-	-	-	23,111	23,111
Tax – group contribution	-	-	-	-6,078	-6,078
Directed new share issue in progress ¹	-	-	9,000	-	9,000
Loss for the year	-	-	-	-33,508	-33,508
<i>Closing balance as per 31 December 2009</i>	<i>21,565</i>	<i>35,452</i>	<i>49,169</i>	<i>-17,364</i>	<i>88,822</i>
Opening balance as per 1 January 2010	21,565	35,452	49,169	-17,364	88,822
Previous year's disposition of earnings	-	-	-17,364	17,364	0
Ongoing new issue 2009-12-31	500	-	-500	-	0
Directed new share issue	383	-	6,617	-	7,000
Directed new share issue	1,053	-	13,947	-	15,000
Costs of new directed share issue	-	-	-900	-	-900
Group contribution to subsidiaries	-	-	-	-27	-27
Tax – group contribution	-	-	-	7	7
Group contribution from subsidiaries	-	-	-	284	284
Tax – group contribution	-	-	-	-75	-75
New share issue in progress ²	-	-	23,501	-	23,501
Costs of new share issue	-	-	-3,000	-	-3,000
Loss for the year ³	-	-	-	-41,691	-41,691
<i>Closing balance as per 31 December 2010</i>	<i>23,501</i>	<i>35,452</i>	<i>71,470</i>	<i>-41,502</i>	<i>88,921</i>

¹Unregistered share capital comprising 500,000 shares as per December 31, 2009

²Unregistered share capital comprising 2,350,132 shares as per December 31, 2010

³Comprehensive income corresponds to loss for the year

NOTES

Note 1 General Information, accounting and valuation principles

General information

The INVISIO Communications group consists of the parent company INVISIO Communications AB (publ.) (“INVISIO Communications” or “the Company”) and the wholly-owned subsidiaries INVISIO Communications A/S, Nextlink IPR AB and Nextlink Patent AB.

The Parent Company is a Swedish limited liability company and its registered office is in Stockholm, Sweden.

INVISIO Communications specialises in voice communications in difficult conditions and pursues its operations in two business areas, Professional Products and Consumer Products. In the Professional Products business area, the company develops, manufactures, markets and sells communication solutions such as advanced headset, control units and associated equipment for use with two-way radio, primarily for professional users who are often working in difficult environments. Customers are found, for example, in the military and military special forces, police and SWAT teams, emergency services, the security sector, and various industries throughout the world.

In the Consumer Products business area, together with Motorola INVISIO Communications develops Bluetooth headsets for the consumer market using INVISIO Communications’ patented technology. The collaboration with Motorola is based on an exclusive licensing and collaboration agreement between INVISIO Communications and Motorola that was signed in 2008. The agreement gives Motorola exclusive access to INVISIO Communications’ patented technology and the right to manufacture, market, and sell co-developed headsets for the consumer market. The agreement, which runs for six years, includes the right to compensation for certain minimum quantities and for development work conducted by INVISIO Communications. The agreement is conditional upon the fulfillment of certain goals including undertakings from Motorola prior to 31 March 2011.

INVISIO Communications AB (publ.) is listed on First North Premier Segment Stockholm, an alternative marketplace (rather than a regulated market) for trading in equities and other securities that is operated by NASDAQ OMX Stockholm.

These consolidated accounts were approved by the Board of Directors on 04.04.11.

INVISIO Communications AB
Box 49149
100 29 Stockholm
Sweden

Conformity with standards and regulations

The consolidated financial accounts have been prepared in accordance with the Swedish Annual Accounts Act and the International Financial Reporting Standards (IFRS) as adopted by the EU.

In addition, the consolidated financial statements have been prepared in accordance with Swedish law through application of RFR 1 – Supplementary Accounting Principles for Groups.

The Parent Company’s annual report has been prepared in accordance with Swedish law and with application of the Swedish Annual Accounts Act and RFR 2 – Accounting for Legal Entities.

New and amended standards applied by the Group.

The Group has applied the following new IFRS standards as of January 1, 2010:

IAS 27 (amended), “Consolidated and Separate Financial Statements” (applicable from July 1, 2009). The revised stand-

ard requires that the effects of all transactions with shareholders without a controlling influence is reported as equity if they do not involve any change in controlling influence and these transactions no longer give rise to goodwill or gains and losses. The standard also states that when a parent company loses its controlling influence, any remaining shares must be valued at their fair value and the earnings or losses must be reported in the income statement. The Group will apply IAS 27 (amended) in advance for transactions with shareholders without a controlling influence with effect from January 1, 2010.

IAS 38 (amended), “Intangible Assets”. The amendment is part of IASB’s annual improvement project which was published in April 2009, and the Group will apply IAS 38 (amended) from the same time as IFRS 3 (revised) is applied. The amendment clarifies the fair value at valuation of an intangible asset acquired in a business acquisition. According to the amendment, intangible assets are grouped and treated as one asset, if the assets have similar utilization periods. The amendment will not have any significant effect on the Group’s financial statements.

IFRS 5 (amended), “Non-current Assets Held for Sale and Discontinued Operations”. The amendment is part of IASB’s annual improvement project which was published in April 2009. The amendment clarifies that IFRS 5 specifies the disclosure requirement for intangible assets (or disposal groups) which are classified as non-current assets held for sale and discontinued operations. It also explains that the general requirement in IAS 1 still applies, in particular point 15 (to give a true and fair picture) and point 125 (sources of uncertainty in estimations). The Group will apply IFRIC 5 (amended) from January 1, 2010. The amendment is not expected to have any significant effect on the Group’s financial statements.

IAS 1 (amended), “Presentation of Financial Statements”. The amendment is part of IASB’s annual improvement project which was published in April 2009. The amendment clarifies that the potential regulation of a liability by share issue is not relevant to this classification as either current or long-term liabilities. By amending the definition of short-term liability, this permits a liability to be classified as long-term (under the condition that the Company has the unconditional right to postpone regulation by transferring liquid funds or other assets for at least 12 months after the end of the financial year) despite the fact that the counterparty can, at any time, demand regulation of shares. The Group will apply IAS 1 (amended) from January 1, 2010. It is not expected to have any significant effect on the Group’s financial statements.

IFRS 2 (amended), “Group cash-settled and share-based payment transactions”. The amendment implies that IFRIC 8 “Scope of IFRS 2” and IFRIC 11 “IFRS 2 - Group and Treasury Share Transactions” are incorporated into the standard. The previous guidance in IFRIC 11 is, however, supplemented in terms of classification of inter-company transactions, which is not dealt with in the interpretation. The new guidance is not expected to have any significant effect on the Group’s financial statements.

IFRS 3 (revised), “Business acquisitions”. The amended standards continue to prescribe that the acquisition method is applied to business combinations, however with some significant changes. For example, all payments toward the purchase of a business at its fair value on acquisition day shall be reported, whilst subsequent conditioned payments are classified as liabilities that will then be revalued through the income statement. Possession without a controlling influence in the acquired business can be valued either at its fair value or at the proportional share of the acquired businesses’ net assets, held by the shareholder without a controlling interest. All transaction costs attributable to acquisitions are to be expensed. The Group will apply IFRS 3 (revised) in advance for all business acquisitions from January 1, 2010.

Standards, amendments and interpretations of existing standards where the amendment has not yet come into force and has not been applied in advance by the Group:

IFRS 9, “Financial instruments” published in November 2009 and last updated October 2010. This standard will replace IAS 39, “Financial instruments: valuation and classification”. The project is divided into several parts and is expected to be completed during 2011. The standard is not applied until the financial year beginning 1 January 2013 but is available for early application. The standard has not yet been adopted by the EU however. The group has not yet evaluated the full effect of IFRS 9 on financial reporting.

IAS 24 (revised), “Related party disclosures”, Published November 2009. This replaces IAS 24, “Related party disclosures”, published in 2003. IAS 24 (revised) shall be applied to financial years that begin on 1 January 2011 or later. Early application of the whole or parts of the standard is permitted. The standard clarifies the definition of related parties. The group will apply the revised standard from 1 January 2011. It is not expected to have any effect on financial reporting since the amendments are not judged to affect the company as it is at present.

A number of other amendments to standards and new opinions have been published. These are not considered to have any effect on the company’s financial reporting at present however.

Basis for consolidation

The consolidated financial statements include the Parent Company INVISIO Communications AB (publ.) and its subsidiaries. The financial statements for INVISIO Communications and subsidiaries included in the consolidated financial statements refer to the same period and are prepared according to the accounting principles applicable in the Group.

All inter-company balances, income, expenses, earnings or losses that occur in transactions between companies covered in the consolidated financial statements are entirely eliminated. A subsidiary is included in the consolidated financial statements through the purchase method from the acquisition date, which is the date upon which the Parent Company gains a controlling influence, and is included in the consolidated financial statements up until the date upon which the controlling influence ceases.

The purchase method is used for reporting the group’s business acquisitions. Transferred compensation for the acquisition of a subsidiary is at fair value of the assets transferred, liabilities and the shares issued by the group. The purchase settlement also includes the fair value of all assets or liabilities that result from an agreement on conditional purchase sum. Acquisition related costs are expensed as they arise. Identifiable acquired assets and transferred liabilities in a business acquisition are initially valued at fair value on the date of acquisition. For each acquisition, the group decides whether all shareholdings without a controlling influence in the business acquired are reported at fair value or as the shareholding’s proportion of the acquired business’s net assets.

The difference by which the transferred compensation, any holdings without controlling influence and the fair value of on the date of acquisition of previously acquired shareholding exceeds the fair value of the Group’s share of identifiable acquired net assets is reported as goodwill. If there is a shortfall in the value of the acquired company’s assets, this is reported directly in the income statement.

Foreign subsidiaries

Items included in the financial statements for the various entities in the Group have been valued in the currency used in the economic environment in which the respective companies mainly operate (functional currency). The consolidated financial statements use the Parent Company’s functional currency as the presentation currency, which is the Swedish krona. The earnings and financial position of all Group companies with other functional currencies than the presentation currency have been translated as follows: assets

and liabilities for each of the balance sheets have been translated using the exchange rate on the balance sheet date, and income and expenses for each of the income statements have been translated using the average exchange rate. All exchange rate differences that arise are reported as a separate part of equity.

Exchange rate differences between Group companies have not affected earnings, but have been reported as equity.

The following exchange rates have been used in translating the accounts of the Danish subsidiary: for the income statement, an exchange rate of DKK/SEK 1.2813 (1.426), and for the balance sheet, an exchange rate of DKK/SEK 1.2075 (1.39). The following exchange rates have been used in translating the accounts of the US subsidiary: for the income statement, an exchange rate of USD/SEK 7.205 (7.65), and for the balance sheet, an exchange rate of USD/SEK 6.803 (7.21).

Classifications

Fixed assets, long-term liabilities and provisions consist in all essentials only of amounts that are expected to be recovered or paid later than twelve months from the balance sheet date. Current assets, current liabilities and provisions consist in all essentials only of amounts that are expected to be recovered or paid within twelve months from the balance sheet date. If any deviation is made from this principle, this is indicated in a note to each balance sheet item.

Income

The Group’s sales consist of product sales and royalty compensation from Motorola. Sales of products are reported upon delivery to the customer, in accordance with the terms and conditions of sale. This means that income is reported when the significant risks and benefits associated with the product have been transferred to the buyer and the seller ceases to have control over the product. Sales are reported as net after VAT and discounts. Inter-company sales are eliminated in the consolidated financial statements.

The return of goods is initially observed in revised income and actual returns are returned to stock.

Interest income is recognized as income when the effective rate method is applied.

Taxes

For items reported in the income statement, the associated tax is also reported in the income statement. For items reported directly against equity, the tax is also reported directly against equity. Deferred tax is calculated in accordance with the balance sheet method for all significant temporary differences. A temporary difference exists when the reported value of an asset or a liability differs from the tax value. Such a difference may arise, for instance, in connection with a revaluation or write-down of an asset, or when the accounting policies applied differ between an individual Group company’s accounts and the consolidated financial statements, see Note 12.

Write-downs

The reported values for the Group’s assets - with the exception of financial assets reported at fair value with changes in value in the income statement in accordance with IAS 39 - are tested whenever there is the need to assess whether there is indication of a write-down requirement. If there is no such indication, the recoverable amount of the asset is calculated. A write-down is reported when the reported amount of an asset exceeds the recoverable amount. A write-down is shown in the income statement.

Calculation of recoverable amount

The recoverable amount of assets in the category of loans receivable and accounts receivable, which are reported at the accrued acquisition value, is calculated as the present value of future cash flow discounted with the effective annual rate applicable when the asset was reported for the first time. Assets with a short duration are not discounted.

The recoverable amount on other assets is the highest of the fair value less selling expenses and value in use. When calculating the

value in use, future cash flow is discounted using a discount factor that takes into account risk-free rates and the risk connected with the specific asset. For an asset that does not generate cash flow and that is significantly independent of other assets, a common recoverable amount is calculated for the cash-generated unit to which the asset belongs.

Estimations and assumptions

Company management makes estimations and assumptions about the future, which affect the reported values. The consequence is that the reported amount in these cases seldom represents the actual value. The estimates and assumptions that involve a significant risk of considerable alteration in reported value in future financial years are attributable to capitalized development expenses.

As soon as an indication exists, the capitalized development expenditure is offset for write-down in accordance with the described accounting principle. Intangible assets under development are annually offset for write-down, even when there is no indication of a write-down requirement. The recoverable amount has been determined through calculation of the value in use. For these calculations, certain estimations must be made, as shown in Note 13.

Reversal of write-downs

Write-downs are reversed if a subsequent increase in the recoverable amount can be objectively related to an event that has occurred after the write-down was made, and that a change has been made in the assumptions on which the calculation of the recoverable amount was based.

A write-down is reversed only to the extent that the asset's reported value after write-down does not exceed the reported value the asset would have had if no write-down had been made, taking into account the depreciation that would then have been made.

Financial Instruments

Financial instruments are valued and reported in the Group in accordance with the rules stipulated in IAS 39, Financial Instruments: Recognition and Measurement. Financial instruments are initially reported at acquisition value corresponding to the instrument's fair value plus transaction costs for receivables and liabilities valued at the accrued acquisition value.

A financial asset or liability is shown in the balance sheet when the Company becomes party to the instrument's contractual terms and conditions. Accounts receivable are shown in the balance sheet when an invoice has been sent. The liability is entered when the counterparty has delivered and has a contractual liability to pay, even if an invoice has not yet been received. Accounts payable are shown when an invoice has been received. A financial asset is removed from the balance sheet when the rights pursuant to the agreement are realized, cease, or when the Company loses control over them. The same applies for components of financial assets. A financial liability is removed from the balance sheet when the liability under the agreement has been fulfilled or otherwise extinguished. The same applies for components of financial assets. Acquisition and divestment of financial assets are reported on the trade date, which is the day on which the Company commits itself to buying or selling the asset.

On each balance sheet date, the Group assesses whether objective evidence exists for the write-down of a financial asset or group of financial assets, such as whether it is unlikely that a debtor can fulfill its obligations. Write-down testing of accounts receivable is described below.

INVISIO Communications' financial assets and liabilities are classified in the following categories: Accounts receivable and Loans receivable valued at the accrued acquisition value.

Loans receivable and accounts receivable are financial assets that are not derivatives. They have fixed or fixable payments and are not listed on any active market. They are included in current assets with the exception of items with due dates in excess of 12 months after the balance sheet date, which are classified as fixed assets.

Accounts receivable are reported in the amount at which they

are expected to be received after deduction for bad debts, assessed individually. The anticipated duration of the accounts receivable is short, which is why the value is reported at a nominal amount without discounting. A provision for a drop in the value of accounts receivable is made when there is objective evidence that the Group will not be able to receive all the amounts due in accordance with the original terms and conditions of the receivables.

Significant financial problems for the debtor, the probability that the debtor will go bankrupt or undergo financial reconstruction, and failure or delays in payment are regarded as indicators that a need for write-down exists. The size of the provision consists of the difference between the asset's reported value and the present value of estimated future cash flows. A write-down of accounts receivable is reported in the income statement under operating profit/loss, and a write-down of a loan receivable is reported under the heading financial expenses.

Financial liabilities are valued at the accrued acquisition value. Loans and other financial liabilities, such as accounts payable, are included in this category.

Financial liabilities are initially stated at fair value, net after transaction costs. Financial liabilities are thereafter reported at the accrued acquisition value and any difference between the amount received (net after transaction costs) and the repayment amount is reported in the income statement divided up over the term of the loan using the effective annual rate method.

Long-term liabilities have an expected duration that exceeds one year, while current liabilities have a duration of maximum one year. Accounts payable and other operating liabilities with a short anticipated duration are therefore reported normally as current liabilities.

Research and development costs

Development costs for new products, production systems and software are reported as intangible assets if the following occurs with great probability;

- (a) it is technically possible to complete the intangible asset so that it can be used,
- (b) management intends to complete the intangible asset and use or sell it,
- (c) there are conditions for using or selling the intangible asset,
- (d) it can be shown how the intangible asset will generate probable future economic benefit,
- (e) adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset, and
- (f) the expenditure relating to the intangible asset during its development can be calculated in a reliable manner. The cost for such an asset shall be amortized over its estimated useful life.

Development costs that do not fulfill these conditions are reported as costs when they occur.

Development costs that have previously been reported as an expense are not reported as an asset in a subsequent period.

Capitalized expenses for development costs are judged to have a limited useful life and are reported at acquisition value less depreciation.

Property, plant, and equipment

Property, plant and equipment are reported at acquisition value less planned depreciation based on an estimation of the useful life of the assets.

Any earnings or losses arising upon the divestment of the asset are reported in the income statement.

The residual value and useful life of the asset is determined at every year-end closing and is adjusted as necessary.

Depreciation/amortization

Depreciation/amortization according to plan has been carried out as per the following useful life timeframes: Intangible assets, of which Professional Products 1.5-7 years, Consumer Products 3

years, Equipment, tools, fixtures and fittings, 3-5 years.

Inventories

The inventories have been valued using the first in, first out principle, at the lowest of the acquisition value and the net sales value as at the balance sheet date.

Receivables

Receivables are reported in the value at which they are expected to be received.

Cash and cash equivalents

Cash and cash equivalents only include bank balances.

Segment reporting

An operating segment is reported in such a way that agrees with the internal reporting presented to the chief operating decision-maker. The chief operating decision-maker is the function responsible for division of resources and assessing the operating segment earnings. Within the Group, this function has been identified as management, which makes strategic decisions.

Receivables and liabilities in foreign currency

In the individual companies, receivables, liabilities and provisions in foreign currency have been translated at the year-end rate of exchange.

Borrowing costs

The Group capitalizes borrowing costs that are directly attributable to the purchase, construction or production of an asset that takes a substantial amount of time to complete for use or sale, as part of the cost of the asset, in cases where the first opportunity for activation is January 1, 2009 or later. The Group has immediately expensed all borrowing costs by January 2009.

Remuneration to employees

There are employees in INVISIO Communications AB (publ.) and INVISIO Communications A/S. Nextlink Patent AB and Nextlink IPR AB have no employees. Employees are remunerated in the local currency of the respective Group company. Neither the Parent Company nor the subsidiaries have any defined benefit pension plan. According to his employment contract, the CEO is entitled to a defined contribution pension. Other senior executives are also entitled to a defined contribution pension.

For these defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are reported as personnel costs when they fall due for payment. Prepaid expenses are reported as an asset, to the extent that cash repayment or reduction of future payments can be in the Group's favor.

Leasing

Fixed assets that are held through leasing are classified in accordance with the economic significance of the lease contract. Leased assets held via financial leases are reported as fixed assets, and future leasing fees are reported as interest-bearing liabilities. For leased assets classified as operating leases, the leasing cost is reported as an operating expense in the income statement.

Cash flow statement

The cash flow statement has been prepared in accordance with IAS 7, whereby the indirect method has been used. This means that the cash flow has been adjusted for transactions that have not entailed any payments in or out during the period. Cash and cash equivalents include cash and bank balances.

Note 2 Financial risk management and capital risk

Financial risk factors

In the course of its operations, the Group is exposed to various financial risks, such as interest rate risk, currency risk, price risk, credit risk, plus financing and liquidity risk. INVISIO Communications' financial policy, which is annually established by the Board, sets out the guidelines for managing financial risks within the Group.

The financial policy includes investments as well as borrowing. The aim is to minimize unfavorable effects on the Group's earnings, equity and cash flow caused by changes in interest and currency rates. INVISIO Communications must also be able to meet its payment obligations, which is why credit, interest and liquidity risks must be minimized. INVISIO Communications must not create added value through financial risk-taking. Taking into account the financial policy's limitations, the aim is to achieve the highest return on the invested funds.

Interest rate risk

Interest rate risk is the risk of the value of financial instruments varying due to changes in market interest rates.

The Group's interest-bearing financial assets consist primarily of deposits made, plus cash and bank balances. The Parent Company's interest-bearing financial assets consists of cash and bank balances.

Based on the level of financial interest-bearing assets as per 31 December 2010, a one percentage point change in market rates of interest would affect the Group's earnings by SEK 128 thousand (51). The corresponding figure for the Parent Company is SEK 118 thousand (35).

The Group's interest-bearing financial liabilities pertain primarily to liabilities to credit institutions and invoice factoring.

The Group uses invoice factoring for the Group's customer invoices. The limit and borrowing rate for INVISIO Communications for each customer invoice is set by individual assessment, where the borrowing rate normally amounts to a maximum of 80-100 percent of the customer invoice amount.

The Parent Company's financial liabilities pertain primarily to liabilities to credit institutions.

All interest-bearing financial liabilities have a variable interest rate. Based on the level of financial interest-bearing liabilities as per 31 December 2010, a one percentage point change in market rates of interest would affect the Group's earnings by SEK 216 thousand (168). The corresponding figure for the Parent Company is SEK 183 thousand (78).

Currency risk

Currency risks are found in the form of transaction and translation risks. Transaction risk arises from buying and selling goods and services in currencies other than the respective company's local currency. Translation risks arise when translating the foreign subsidiaries' income statements and balance sheets into Swedish krona.

INVISIO Communications operates in a global market with large parts of sales and purchases made in currencies other than Swedish kronor (SEK). The majority of sales are in USD and EUR.

The group's purchases for the Professional Products business area are partly in SEK and partly in DKK. Costs mainly arise in DKK, but also in SEK. At present, net exposure in each currency is limited and the Group does not hedge its currency exposure.

The Group's balance sheet shows exposure to currency risks in respect of accounts receivable and accounts payable. If all currencies had been 5 percent higher/lower, the Group's earnings would have been affected by approximately SEK +/- 180 thousand (257) as a result of its exposures as at 31 December 2010. The corresponding figure for the Parent Company is approximately SEK +/- 0 thousand (0).

Price risk

The Group is not exposed to any price risk pertaining to shares classified as financial instruments stated at fair value through profit or loss or financial assets available for sale.

Credit risk

Credit risk is the risk of a party to a transaction with a financial instrument failing to fulfill its obligations.

The credit risks pertaining to financial assets was SEK 0 thousand (0) at 31 December 2010 after allowing for pledged reserves. There is no material concentration of credit risks, either geographically or in a particular customer segment.

The share of receivables overdue by more than 120 days amounted to 5.0 percent (8.3) of the total accounts receivable as at 31 December 2010, see Note 25.

There are no other financial assets overdue for payment.

Financing risk and Liquidity risk

Financing risk is the risk that the refinancing of loans falling due is hindered or made more costly, resulting in the Group having difficulty in making payments. Liquidity risk is the risk of not being able to make payments when they fall due.

As at 31 December 2010, liquid funds amounted to SEK 12,752 thousand (5,059), liabilities to credit institutions to SEK 21,570 thousand (16,815) and equity to SEK 5,630 thousand (7,030), with an equity ratio of 11.9 percent (14.0). During 2010

equity has been increased by new share issues of SEK 41.6 m, while liabilities to credit institutions increased by SEK 4.8 m.

Management and the Board work actively and continuously with the Company's governance and control, including financial performance, liquidity, and financial position. The Board regularly checks to ensure that the necessary conditions for continued operations exist. INVISIO Communications has never thus far reported positive profits.

It cannot be ruled out that the Company may need further capital contributions until operations reach breakeven with positive profits and cash flow and that there is no guarantee that such capital contributions can be obtained at all or on favorable terms. The previous assessment made by company management and the Board stands, namely that necessary liquidity and financing will be generated and added to operations through operating income, borrowing, the possible exercise of stock options, and authorization from the 2010 AGM to implement share issues.

Fair values

The reported value corresponds to the fair value for all of the Group's and Parent Company's financial assets and liabilities.

The financial assets in the Group and Parent Company all belong to the categories of accounts receivable and loans receivable, while the financial liabilities of the Group and Parent Company belong to the category of financial liabilities valued at the accrued acquisition value.

December 31 (SEK 000s)	Group		Parent Company	
	2010	2009	2010	2009
Financial assets				
Loans receivable and accounts receivable				
Financial fixed assets – Other long-term liabilities	643	769	-	-
Receivables from Group companies	-	-	16,804	14,697
Accounts receivable – trade	10,169	13,404	-	-
Other receivables	2,274	998	2,172	116
Cash and bank balances	12,752	5,059	11,798	3,533
<i>Total financial assets valued at the accrued acquisition value</i>	<i>25,838</i>	<i>20,230</i>	<i>30,774</i>	<i>18,346</i>
Financial liabilities				
Financial liabilities valued at the accrued acquisition value				
Liabilities to credit institutions	21,570	16,815	18,300	7,750
Accounts payable – trade	9,301	11,761	2,736	2,232
Liabilities to Group companies	-	-	103	198
Other liabilities	3,246	8,943	189	40
<i>Total financial liabilities valued at the accrued acquisition value</i>	<i>34,117</i>	<i>37,519</i>	<i>21,328</i>	<i>10,220</i>

Earnings and losses for financial assets and liabilities

The total exchange rate difference for the Group amounts to SEK 501 thousand (1,416) and for the Parent Company, to SEK 10 thousand (450), and is reported in the income statement.

Management of capital risk

The Group's goal regarding its capital structure is to safeguard the Group's ability to continue its operations in order to be able to gen-

erate a return to the shareholders and benefit other stakeholders, and to ensure that the capital structure is optimal in relation to the cost of capital. Dividends to shareholders, redemption of shares, issues of new shares or sales of assets are examples of measures that the Group may use in order to adjust the capital structure.

In INVISIO Communications, capital is defined as total equity as reported in the balance sheet, see page 51.

Note 3 Income statement per segment for the Group

The Professional Products segment includes the products sold by the Company to the professional market. The Consumer Products segment includes both the products that the Company has sold to consumers and royalties from Motorola. All investments excluding the specification in Note 13 – Intangible Assets refer to the Professional Products segment. Sale of the Company's VoIP patent was not associated to any segment, and was therefore reported under the Other segment.

Income statement, segmental breakdown 2010

SEK 000s	Profes- sional Products	Consumer Products	Other	Total
Sales	24,375	8,412	-	32,787
Other income	-	-	-	-
<i>Total income</i>	<i>24,375</i>	<i>8,412</i>	<i>-</i>	<i>32,787</i>
Cost of goods sold	-14,918	-37	-	-14,955
<i>Gross profit</i>	<i>9,457</i>	<i>8,375</i>	<i>-</i>	<i>17,832</i>
Selling and marketing expenses	-17,489	-482	-1,511	-19,482
Administration expenses	-8,744	-163	-7,611	-16,518
Research and development costs	-14,163	-5,096	-439	-19,698
<i>Operating profit/loss</i>	<i>-30,939</i>	<i>2,634</i>	<i>-9,561</i>	<i>-37,866</i>
Net financial items	-1,482	-	-466	-1,948
<i>Profit/Loss before tax</i>	<i>-32,421</i>	<i>2,634</i>	<i>-10,027</i>	<i>-39,814</i>
Tax	-	-	-	-
<i>Loss for the year</i>	<i>-32,421</i>	<i>2,634</i>	<i>-10,027</i>	<i>-39,814</i>

Income statement, segmental breakdown 2009

SEK 000s	Profes- sional Products	Consumer Products	Other	Total
Sales	21,345	7,288	-	28,633
Other income	-	-	32,473	32,473
<i>Total income</i>	<i>21,345</i>	<i>7,288</i>	<i>32,473</i>	<i>61,106</i>
Cost of goods sold	-12,902	-5,486	-	-18,388
<i>Gross profit</i>	<i>8,443</i>	<i>1,802</i>	<i>32,473</i>	<i>42,718</i>
Selling and marketing expenses	-23,121	-860	-655	-24,636
Administration expenses	-9,250	69	-4,771	-13,952
Research and development costs	-12,397	-4,976	-195	-17,568
<i>Operating profit/loss</i>	<i>-36,325</i>	<i>-3,965</i>	<i>26,852</i>	<i>-13,438</i>
Net financial items	-2,548	-1	-1,308	-3,857
<i>Profit/Loss before tax</i>	<i>-38,873</i>	<i>-3,966</i>	<i>25,544</i>	<i>-17,295</i>
Tax	-	-	-	0
<i>Loss for the year</i>	<i>-38,873</i>	<i>-3,966</i>	<i>25,544</i>	<i>-17,295</i>

Note 4 Reporting per geographical area**Total income divided per geographical area**

Group	2010	2009
Sweden	912	2,732
Europe	7,938	6,801
North America	22,213	50,385
Rest of the world	1,724	1,188
<i>Total</i>	<i>32,787</i>	<i>61,106</i>

Note 5 Items not included in the cash flow

Group	2010	2009
Depreciation/amortization	12,224	9,480
Translation differences	-2,705	-446
<i>Total</i>	<i>9,519</i>	<i>9,034</i>

Parent Company	2010	2009
Depreciation/amortization	-	-
<i>Total</i>	<i>-</i>	<i>-</i>

Note 6 Inter-company transactions

Of the Parent Company's invoicing, SEK 383 thousand (345) refers to subsidiaries. Invoicing from subsidiaries to Parent Company, SEK 313 thousand (624).

Note 7 Auditor's compensation

	Group		Parent Company	
	2010	2009	2010	2009
PwC				
Auditing assignments ¹	675	662	400	400
Auditing activities in addition to auditing assignments	362	-	190	-
Tax consultancy	144	-	78	-
Other services ²	743	117	710	117
<i>Total</i>	<i>1,924</i>	<i>779</i>	<i>1,379</i>	<i>517</i>
MCG LLP				
Auditing assignments	65	115	-	-
Auditing activities in addition to auditing assignments	-	-	-	-
Tax consultancy	-	-	-	-
Other services	64	61	-	-
<i>Total</i>	<i>129</i>	<i>176</i>	<i>0</i>	<i>0</i>
GROUP TOTAL	2,053	955	1,379	517

¹Auditing assignments refers to fees for the legally required audit, i.e. such work as is necessary to carry out the audit, as well as so-called auditing consultancy, which is given in connection with auditing assignments.

²Other services pertain primarily to consulting on accounting matters and other services, such as prospectus auditing and costs relating to the planned listing of the Company's shares on NASDAQ OMX Small Cap.

Note 8 Other one-off operating expenses

Group	2010	2009
Costs relating to the planned listing of the Company's shares on NASDAQ OMX Small Cap	2,662	-
Costs relating to dispute with former employees	1,903	-
Costs in connection with reorganisation	1,003	-
<i>Total</i>	<i>5,568</i>	<i>-</i>

Note 9 Rental and leasing agreements

The Group's total rental and leasing fees for the year amounted to SEK 1,893 thousand (2,445). Agreed future rental and leasing fees amount to SEK 2,017 thousand (2,323) and will occur during the next three years, divided as follows, 2011: SEK 1,920 thousand (8), 2012: SEK 49 thousand (0), 2013: SEK 49 thousand (-).

The Parent Company's leasing agreement for the year amounted to SEK 59 thousand (88). The agreement is valid up to and including 31 December 2011, at an annual cost of SEK 59 thousand.

All the Group's and Parent Company's rental and leasing agreements are in operation.

Note 10 Personnel

	2010		2009	
	Number of employees	Of which men	Number of employees	Of which men
Average number of employees				
Parent Company	1	1	1	1
Denmark	28	23	26	21
USA	-	-	2	1
<i>Total</i>	<i>29</i>	<i>24</i>	<i>29</i>	<i>23</i>

	2010		2009	
	Board	Senior executives	Board	Senior executives
Share of women in executive positions, percent				
Parent Company	20	-	25	-
Group	20	-	25	20
<i>Total</i>	<i>20</i>	<i>-</i>	<i>25</i>	<i>20</i>

	2010	2009
Salaries and other remuneration¹		
Parent Company	1,615	1,314
Subsidiaries	22,040	23,381
Capitalized loans for research and development	-5,067	-6,357
<i>Group total</i>	<i>18,588</i>	<i>18,338</i>

	2010	2009
Social costs excl. pension costs		
Parent Company	523	437
Subsidiaries	530	480
<i>Group total</i>	<i>1,053</i>	<i>917</i>

	2010	2009
Pension costs		
Parent Company	-	-
Subsidiaries	1,864	1,124
<i>Group total</i>	<i>1,864</i>	<i>1,124</i>
<i>Total personnel costs</i>	<i>21,505</i>	<i>20,379</i>

¹The personnel costs for 2010 include remuneration for employees made redundant during the period, which is reported under administration expenses. See note 8.

Absence due to sickness

INVISIO Communications AB has fewer than 10 employees, so no statistics on absence due to sickness are reported.

Pensions

Neither the Parent Company nor the subsidiaries have any defined benefit pension plans for their employees. Under his employment contract, the CEO has a defined contribution pension entitlement in which the premium is calculated at 30 percent of approximately 70 percent of his fixed salary. Certain other senior executives also have a defined contribution pension entitlement in which the premium is calculated at 10-25 percent of fixed salary.

Option program

In 2007, the Board established a synthetic option program for all Group employees. During the term of the program, participants will be granted employment-related options and performance-related options.

The options are granted free of charge and encompass a total of 700,000 options, of which 350,000 are employment-related options and 350,000 are performance-related options. Exercise of employment-related options requires, in principle, that the employment relationship exists at the time of exercise. In addition, exercise of performance-related options requires the achievement of certain financial targets set by the Board.

The option program has a duration of approximately four years from the time of allocation and expires on June 30, 2011. The growth in value of granted options is maximized at three times the

share price at the time of the launch which amounted to SEK 19 as at July 9, 2007.

In 2010, SEK 1,035 thousand (2,391) was reserved for the program, of which SEK 1,035 thousand was for performance-related options granted for 2009 (423 for those granted for 2008), corresponding to 87 percent (41) of maximum outcome. Nothing has been reserved in respect of employment-related options, since the opportunity of receiving employment-related options expired at the end of 2009.

Nothing has been reserved in respect of performance-related options for 2010, since performance targets were not met.

In 2010 dissolution of SEK 2,329 thousand occurred of the reserve for the Company's synthetic option program as a result of the Company's share price having fallen. The final closing price as per 30 December 2010 was SEK 10.00 (18.00).

Note 11 Remuneration to senior executives

Group	2010				2009			
	Salary	Pension	Other remuneration	Total	Salary	Pension	Other remuneration	Total
Board¹								
Heléne Vibbleus Bergquist, Chairman of the Board	400	-	-	400	399	-	-	399
Anders Persson	100	-	-	100	100	-	-	100
Magnus Ruding	100	-	-	100	140	-	-	140
Mats Warstedt	100	-	-	100	140	-	-	140
Lars Röckert	100	-	-	100	-	-	-	-
Christian Paulsson	-	-	-	-	25	-	-	25
Fredrik Sandelin	-	-	-	-	25	-	-	25
Jan Werne	-	-	-	-	25	-	-	25
Total	800	-	-	800	854	-	-	854
Management								
Lars H. Hansen, CEO ²	2,234	123	74	2,431	2,096	462	73	2,631
Other executive management ³	4,145	410	-	4,555	5,166	488	-	5,654
Total	6,379	533	74	6,986	7,262	950	73	8,285

Board remuneration is for the whole of 2010 and additional remuneration

¹The 2010 AGM resolved that directors' fees shall be payable in the amount of SEK 250,000 to the Chair of the Board and SEK 100,000 to each of the other directors. The AGM also resolved that an additional fee of not more than SEK 500,000 shall be payable under special circumstances to a director who, pursuant to a Board decision, shall work with financial matters, matters regarding preparation for and listing on NASDAQ OMX Small Cap, contract negotiations, and other strategic matters. For 2010, SEK 150 thousand (86) has been entered as additional remuneration to the Chair of the Board for work at the beginning of 2010 in accordance with the decision of the 2009 AGM on additional remuneration. The Board has also decided on an additional fee for the Chair and one other member of the Board for subsequent work of SEK 256,000 in accordance with the decision of the 2010 AGM on additional fees. This amount has been entered in 2011. In addition to this, the Board has received compensation for outlays.

²Variable salary can amount to a maximum of 50 percent of the basic salary. No variable salary was paid for 2010 or 2009.

³Variable salary can amount to a maximum of 0-35 percent of the basic salary. Variable salary 2010 and 2009 amounted to SEK 38 thousand (128).

Notice period

According to his employment contract, the CEO has a 12-month notice period in the event the Company serves notice. Notice period in the event the CEO leaves of his own accord is eight months.

According to their respective employment contracts, other senior executives have a six-month notice period in the event the Company serves notice.

In the event the other senior executives leave on their own accord, the notice period is three months.

Note 12 Taxes

Group	2010	2009
Income tax		
Current tax	0	0
Deferred tax	-	-
<i>Total</i>	<i>0</i>	<i>0</i>
Reconciliation of effective tax, Group		
Profit/Loss before tax	-39,814	-17,295
Tax according to applicable tax rate 26.3%	10,471	4,549
Non-reported increase in deferred income taxes recoverable	-10,471	-4,549
<i>Reported effective tax</i>	<i>-</i>	<i>-</i>

Note 13 Intangible assets

Group, December 31	2010		2009	
	Professional Products	Consumer Products	Professional Products	Consumer Products
<i>Opening acquisition value</i>	19,463	24,739	10,930	26,960
Internally-developed assets	6,472	-	8,286	-
Exchange rate differences for the year	-2,953	-3,272	247	-2,221
<i>Closing accumulated acquisition value</i>	<i>22,982</i>	<i>21,467</i>	<i>19,463</i>	<i>24,739</i>
<i>Opening depreciation</i>	<i>-2,478</i>	<i>-17,204</i>	<i>-</i>	<i>-12,515</i>
Depreciation for the year	-6,125	-4,935	-2,478	-5,496
Exchange rate differences for the year	734	2,507	-	807
<i>Closing accumulated depreciation</i>	<i>-7,869</i>	<i>-19,632</i>	<i>-2,478</i>	<i>-17,204</i>
<i>Closing reported value</i>	<i>15,113</i>	<i>1,835</i>	<i>16,986</i>	<i>7,535</i>

Research and development expenses amounted to SEK 15,110 thousand (17,880), corresponding to 46 percent (29) of total income. Of these expenses, SEK 6,472 thousand (8,286) has been capitalized, the remainder is shown in the earnings for the period.

Research and development expenses consist of the R&D expenses less the reported fees for the year, with the addition of the year's depreciation on intangible assets.

The developed assets for the year primarily refer to the new product portfolio for professional products launched during the second half of 2009. No salary expenses were capitalized due to the short timeframe of the project.

Group

All companies in the Group have accumulated loss carryforwards. These do not have a time restriction and can therefore be used to reduce taxes on future profits. As it is uncertain whether there will be opportunity – and within what time frame – to utilize these deficits, they have not been capitalized as deferred income taxes recoverable. New assessments of whether deferred income taxes recoverable for loss carryforwards shall be reported are carried out regularly. Accumulated loss carryforwards in the Group amounted to SEK 235m (245) as at 31 December 2010.

Parent Company

The tax effect of group contributions to subsidiaries is reported for the parent company under changes to equity. For further information, refer to the parent company's changes to equity.

Disclosure on testing the write-down requirement:

The recoverable amount of capitalized development expenses is determined based on estimated economic life and volume. This calculation is based on expected future cash flows based on financial forecasts approved by the management, and which cover the product lifecycles.

Company management has determined budgeted gross margins based on its expectations of market development. The weighted average growth rate applied corresponds to the forecasts shown in industry reports. Any differences arising between expected volume and actual volume are subject to write-down.

During testing for write-down requirements, the Company has applied a discounting rate of 18 percent.

Note 14 Property, plant, and equipment

Group, December 31	2010	2009
<i>Opening acquisition value</i>	8,729	9,527
Purchases	674	372
Sales and disposals for the year	-200	-527
Exchange rate differences for the year	-1,094	-643
<i>Closing accumulated acquisition value</i>	8,109	8,729
<i>Opening depreciation</i>	-7,118	-6,289
Depreciation for the year	-1,164	-1,506
Sales and disposals for the year	91	344
Exchange rate differences for the year	916	333
<i>Closing accumulated depreciation</i>	-7,275	-7,118
<i>Closing reported value</i>	834	1,611

Note 15 Financial assets

Group, December 31	2010	2009
<i>Opening acquisition value</i>	769	759
Change for the year	19	-
Exchange rate differences for the year	-145	10
<i>Closing reported value</i>	643	769

Note 16 Inventories

Group, December 31	2010	2009
Finished products	2,780	951
Products in progress	0	1,765
Goods in transit	0	0
<i>Total</i>	2,780	2,716

The inventories are valued at acquisition value.

Note 17 Prepaid expenses and accrued income

Group, December 31	2010	2009
Personnel-related expenses	-	-
Other	882	1151
<i>Total</i>	882	1151
Parent Company, December 31		
Personnel-related expenses	-	-
Other	106	183
<i>Total</i>	106	183

Note 18 Liabilities to credit institutions

Group, December 31	2010	2009
Bank loans	18,300	7,750
Liabilities in respect of invoice factoring	3,270	9,065
<i>Total</i>	21,570	16,815

Liabilities to credit institutions due within 3 months total SEK 12,700 thousand; liabilities due within 3-9 months total SEK 1,400 thousand. Interest at 5.4 percent on loans of SEK 12 m is paid at due date. Interest at 7.0 percent on loans of SEK 6.3 m is paid at due date. All accounts receivable have been pledged as security for invoice factoring. See note 22.

Parent Company, December 31	2010	2009
Bank loans	18,300	7,750
Liabilities in respect of invoice factoring	-	-
<i>Total</i>	18,300	7,750

Liabilities to credit institutions due within 3 months total SEK 12,700 thousand; liabilities due within 3-9 months total SEK 1,400 thousand. Interest at 5.4 percent on loans of SEK 12 m is paid at due date. Interest at 7.0 percent on loans of SEK 6.3 m is paid at due date.

Note 19 Shares and participations in subsidiaries

Parent Company, December 31	2010	2009
Opening reported value	81,871	81,871
Shareholders' contributions	30,000	30,000
Write-down of shares	-30,052	-30,000
Closing reported value	81,819	81,871

Shares held by the Parent company, 2010

Company	Corporate Identity	Registered office	Number of participations	Capital share (%)	Book value
INVISIO Communications A/S	20 75 82 36	Hvidovre, Danmark	672,590	100	78,895
Nextlink IPR AB	556691-0385	Stockholm	1,000	100	2,517
Nextlink Patent AB	556680-1774	Stockholm	1,000	100	407

Shares held by the Parent company, 2009

Company	Corporate Identity	Registered office	Number of participations	Capital share (%)	Book value
INVISIO Communications A/S	20 75 82 36	Hvidovre, Danmark	672,590	100	78,895
Nextlink IPR AB	556691-0385	Stockholm	1,000	100	2,517
Nextlink Patent AB	556680-1774	Stockholm	1,000	100	407
INVISIO Inc. USA	16-1761709	Delaware, USA	10,000	100	52

Note 20 Accrued expenses and prepaid income

Group, December 31	2010	2009
Personnel-related expenses	2,942	3,851
Other	4,593	1,829
Total	7,535	5,680

Parent Company, December 31	2010	2009
Personnel-related expenses	118	418
Other	2,332	940
Total	2,450	1,358

Note 21 Shareholders' equity

See the report Changes in Shareholders' Equity, pages 53 and 57.

Parent Company

As at 31 December 2010 share capital amounted to SEK 23,501 thousand (21,565), allocated over 23,501,320 (21,565,126) shares with a quotient value of SEK 1. Through the new share issue at the end of 2010, which was registered with the Swedish Companies Registration Office on 13 January 2011, share capital was increased by SEK 2,350 thousand (500) to SEK 25,851 thousand (22,065) and the number of shares by 2,350,132 (500,000) to 25,851,452 (22,065,126). The number of outstanding stock options amounts to 3,017,225 (3,017,225), which entitle the holder to subscribe for 3,118,948 (3,118,948) shares, distributed over two (two) programs:

STOCK OPTIONS

INVISIO Communications AB currently has two outstanding stock option programs:

- **Stock options 2007/2011 no. 4**

A total of 1,017,225 stock options, which gives the shareholder the right to subscribe for 1,118,948 shares in INVISIO Communications AB at an issue price of SEK 25.96 per share during the period December 1, 2007 through December 1, 2011. Upon full conversion, the share capital can be increased by a maximum of SEK 1,118,948. All options are held by Lage Jonason via companies.

- **Stock options 2008/2013 no. 6**

A total of 2,000,000 stock options, which gives the shareholder the right to subscribe for 2,000,000 shares in INVISIO Communications AB at an issue price of SEK 25 per share during the period April 30, 2008 through April 30, 2013. Upon full conversion, the share capital can be increased by a maximum of SEK 2,000,000. The stock options have been granted free of charge to Motorola. The opportunity to convert the stock options is specifically dependent on Motorola not having terminated the agreement with the Company.

Note 22 Pledged assets and contingent liabilities

Pledged assets

	Group		Parent Company	
	2010	2009	2010	2009
For liabilities to credit institutions, December 31				
Shares in subsidiaries	-	-	2,517	-
Pledged accounts receivable	10,169	13,404	-	-
<i>Total</i>	<i>10,169</i>	<i>13,404</i>	<i>2,517</i>	<i>0</i>
Contingent liabilities	None	None	None	None

Note 23 Disputes in the Group

A judgement was made by the Danish Supreme Court on 20 April 2010 regarding the dispute from 2005 between former employees and INVISIO Communications A/S and INVISIO Communications AB that meant that INVISIO Communications lost the dispute. INVISIO Communications is required to pay SEK 5.1 m, made up of reserves from 2008 of SEK 3.2 m and SEK 1.9 m shown in the 2010 accounts. See note 8.

A judgement was given during the year in the dispute between INVISIO Communications and a former supplier, who demanded for DKK 1.7 m for unplaced orders. INVISIO Communications won the dispute. No costs have been paid in connection with the case.

Note 24 Earnings per share in the Group

	2010	2009
Earnings per share before dilution		
Loss for the year	-39,814	-17,295
Average number of shares outstanding (thousands)	22,723	21,064
<i>Earnings per share before dilution</i>	<i>-1.75</i>	<i>-0.82</i>

Earnings per share before dilution are based on earnings attributable to equity holders of the parent and a weighted average of the number of shares outstanding.

Earnings per share before dilution are based on earnings attributable to equity holders of the parent and a weighted average of the number of shares outstanding, plus a weighted number of shares which would be added if all potential shares giving rise to dilution are converted to shares.

Only the option programs whose issue price is less than the average share price for the period can lead to a dilutive effect. The average price for 2010 was SEK 14.61. Neither of the two outstanding option programs meet the conditions. In addition, the dilution effect is not observed, as the Company shows a loss. Earnings per share before dilution therefore agree with the result per share after dilution.

As shown in Note 21, INVISIO Communications has two outstanding option programs, providing the right to subscribe for a total of 3,118,948 shares. Upon full conversion, the number of shares will amount to 26,620,268.

Calculation of dilution

Number of shares after dilution for 2010	23,501
Average exchange rate 2010	14.61

Option program 2007/2011

Number of options	1,017,225
No. shares	1,118,948
Subscription price	25.96
Redemption upon full utilization	29,047,890

Option program 2008/2013

Number of options	2,000,000
No. shares	2,000,000
Subscription price	25.00
Redemption upon full utilization	50,000,000

Note 25 Accounts receivable – trade

As at 31 December 2010, accounts receivable of SEK 802 thousand (2,774) were due within the Group. The write-down requirement has been assessed to be SEK 353 thousand (631). Other accounts receivable are for customers who have not previously exhibited problems with making payments. An age analysis of the Company's accounts receivable is shown below. The Parent Company has no accounts receivable.

December 31	Group	
	2010	2009
Past due but not written-down accounts receivable		
Not past due	9,367	10,629
Past due 1-30 days	215	1,644
Past due 31-60 days	0	11
Past due 61-90 days	35	-
Past due 91-120 days	42	-
Past due 121 days or more	510	1,119
<i>Total</i>	<i>10,169</i>	<i>13,404</i>
Provision for bad accounts receivable		
Provision at start of year	631	1,462
Confirmed losses	-967	-
Recovery of bad accounts receivable	-	-754
Exchange rate differences	-29	-77
Recovery of expected losses	718	-
<i>Provision at year-end</i>	<i>353</i>	<i>631</i>

December 31	2010	2009
Reserve for bad accounts receivable according to		
Not past due	-	-
Past due 1-30 days	-	-
Past due 31-60 days	-	-
Past due 61-90 days	-	-
Past due 91-120 days	-	-
Past due 121 days or more	353	631
<i>Total</i>	<i>353</i>	<i>631</i>

Note 26 Costs divided by type

Group	2010	2009
Costs divided by type		
Changes in stocks of finished products and products in progress	-14,955	-18,388
Costs for employee remuneration (Notes 10 & 11)	-15,347	-18,523
Research and Development costs (Note 3)	-19,698	-17,568
Depreciation and write-downs (Notes 13 & 14)	-12,224	-9,480
Other costs	-8,429	-10,585
<i>Total cost of goods sold, sales and marketing, administration, research and development</i>	<i>-70,653</i>	<i>-74,544</i>
Parent Company		
Costs divided by type	2010	2009
Costs for employee remuneration (Notes 10 & 11)	-2,138	-1,751
Depreciation and write-downs (Notes 13 & 14)	-	-
Other costs	-7,666	-4,254
<i>Total administrative expenses</i>	<i>-9,804</i>	<i>-6,005</i>

Note 27 Related party disclosures

Lage Jonason (with family and companies) is the Company's largest single shareholder. INVISIO Communications and Lage Jonason AB have exchanged invoices for SEK 900 thousand (0).

Lage Jonason has personally acted as guarantor for some of the Company's liabilities to credit institutions, in the amount of SEK 12.0 m (7.8), in addition to providing security for supplier obligations. The Company has not compensated Lage Jonason for the obligations incurred in acting as guarantor.

Other related parties consist of the Board of Directors and management. No other transactions took place with these individuals other than those reported in Note 11, Remuneration of senior executives.

Note 28 Events after the end of the financial year

Sales

INVISIO Communications has received yet another order from a Danish fire department. The order is for the heatproof INVISIO M3 Fire headset and the products will be delivered during the first quarter of 2011. The value of the order has not been made public.

INVISIO Communications has received yet another order from the TETRA project in Portugal. The additional order is once again for the INVISIO M3 headset, which will be used in the so-called blue light network in Portugal's ongoing TETRA project, and the products will be delivered during the second quarter of 2011. The value of the order has not been made public but is under SEK 1 m.

INVISIO Communications has received an order from a European police special forces unit. The order is for the INVISIO M3h headset with PTT (Push to Talk).

Agreement

In 2008, INVISIO Communications entered into an exclusive licence and partnership agreement with Motorola in the Consumer Products business area. The agreement is conditional upon the fulfillment of certain goals including undertakings from Motorola prior to 31 March 2011. Since these goals and undertakings have not been fulfilled, the agreement has expired and renegotiations are taking place. INVISIO Communications is positive about continued cooperation, but if the negotiations do not lead to the desired result for INVISIO Communications, income from the Consumer Products business area may be somewhat lower in 2011 than in 2010. The negotiations are expected to be concluded during second quarter 2011.

Financing

INVISIO Communications has signed an agreement with Alecta Pensionsförsäkringar regarding a SEK 20 million loan. The loan is for 2 years and will be repaid to Alecta in February 2013. Alecta is however permitted to require early repayment of the loan if INVISIO Communications should carry out a share issue with pre-emption rights. The loan is at 10 percent interest in the first year and 15 percent interest in the second. The loan is partly to replace an earlier loan of SEK 12 m from Danske Bank that is due for repayment on 28 February 2011. Alecta controls more than 10 percent of the shares and votes in INVISIO Communications, for which reason the loan is to be considered as a transaction with a related party.

The consolidated income statement and balance sheet will be presented at the Annual General Meeting on April 28, 2011 for adoption.

The Board of Directors and the CEO certify that the consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRS as adopted by the EU and give a true and fair view of the Group's financial position and results of operations. The Annual Report has been prepared in accordance with generally accepted accounting principles and gives a true and fair representation of the Parent Company's financial position and results of operations.

The Board of Directors' Report for the Group and the Parent Company give a true and fair overview of the development of the Group's and the Parent Company's operations, financial position and results of operations, and describe material risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm 4 April 2011

Mats Warstedt
Member of the Board

Heléne Vibbleus Bergquist
Chair

Magnus Ruding
Member of the Board

Anders Persson
Member of the Board

Lars Röckert
Member of the Board

Lars Højgård Hansen
President and CEO

Stockholm 5 April 2011

Michael Bengtsson
Authorized Public Accountant
PricewaterhouseCoopers AB

AUDIT REPORT

To the Annual General Meeting of INVISIO
Communications AB
Org.no 556651-0987

We have audited the annual accounts, with the exception of the corporate governance report on pages 34-43, the consolidated accounts, the accounting records and the administration of the Board of Directors and the CEO of INVISIO Communications AB (publ.) for 2010. The Company's annual report is included on pages 44-71 in the printed version of this document. The Board of Directors and the CEO are responsible for these accounts and the administration of the Company as well as for the application of the Swedish Annual Accounts Act when preparing the annual accounts and application of International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. The standards stipulate that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the CEO and significant estimates made by the Board of Directors and the CEO when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any Board member or the CEO. We also examined whether any Board member or the CEO has, in any other

way, acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Swedish Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. Our opinion does not include the corporate governance report on pages 34-43. The Board of Director's report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit for the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Report on the corporate governance report

The Board of Directors and the CEO are responsible for the corporate governance report on pages 34-43 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

As a basis for our opinion that a corporate governance report has been prepared and is consistent with the other parts of the annual accounts and the consolidated accounts, we have read the corporate governance report and judged its legally required content based on our knowledge of the company.

A corporate governance report has been prepared and its legally required information is consistent with the other parts of the annual accounts and the consolidated accounts.

Stockholm 5 April 2011

PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant
Chief auditor

FIVE-YEAR OVERVIEW

INCOME STATEMENTS January – December (SEK 000s)	2010	2009	2008	2007	2006
Total income	32,787	61,106	40,686	22,786	57,517
Cost of goods sold	-14,955	-18,388	-27,845	-14,720	-34,293
Gross profit	17,832	42,718	12,841	8,066	23,224
Operating expenses	-43,474	-46,676	-49,019	-71,679	-64,996
Depreciation and write-downs	-12,224	-9,480	-7,036	-3,192	-1,957
Operating profit/loss	-37,866	-13,438	-43,214	-66,805	-43,729
Net financial items	-1,948	-3,857	-1,666	-1,267	-2,414
Profit/Loss before tax	-39,814	-17,295	-44,880	-68,072	-46,143

INCOME STATEMENTS December 31 (SEK, thousands)	2010	2009	2008	2007	2006
ASSETS					
Non-current assets					
Intangible assets	16,948	24,521	25,375	19,316	12,248
Property, plant, and equipment	834	1,611	3,238	5,984	3,654
Financial assets	643	769	759	3,983	889
<i>Total non-current assets</i>	18,425	26,901	29,372	29,283	16,791
Current assets					
Inventories	2,780	2,716	6,421	4,415	13,709
Accounts receivable – trade	10,169	13,404	5,713	6,797	8,271
Other receivables/prepaid expenses and accrued income	3,156	2,149	5,059	6,916	3,761
Cash and bank balances	12,752	5,059	864	11,633	13,171
<i>Total current assets</i>	28,857	23,328	18,057	29,761	38,912
TOTAL ASSETS	47,282	50,229	47,429	59,044	55,703
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	5,630	7,030	4,068	20,031	16,688
Current liabilities					
Liabilities to credit institutions	21,570	16,815	17,856	13,195	17,734
Accounts payable – trade	9,301	11,761	14,231	13,352	13,641
Other liabilities/accrued expenses and prepaid income	10,781	14,623	11,274	12,466	7,640
<i>Total current liabilities</i>	41,652	43,199	43,361	39,013	39,015
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	47,282	50,229	47,429	59,044	55,703

CASH FLOW STATEMENT January –December (SEK 000s)	2010	2009	2008	2007	2006
Profit/Loss before tax	-39,814	-17,295	-44,880	-68,072	-46,143
Adjustments for non-cash items	9,519	9,034	6,015	4,813	2,131
Taxes	-	-	-	-1,262	-
<i>Cash flow from operating activities before changes in working capital</i>	-30,295	-8,261	-38,865	-64,521	-44,012
Cash flow from changes in working capital	-6,927	-2,433	732	11,308	9,219
<i>Cash flow from operating activities</i>	-37,222	-10,694	-38,133	-53,213	-34,793
<i>Cash flow from investing activities</i>	-7,037	-8,475	-6,476	-15,990	-14,023
<i>Cash flow from financing activities</i>	52,132	23,291	33,685	67,528	42,568
CASH FLOW FOR THE YEAR	7,873	4,122	-10,924	-1,675	-6,248

KEY FIGURES	2010	2009	2008	2007	2006
MARGINS					
Gross margin	54.4%	69.9%	31.6%	35.4%	40.4%
Operating margin	-115.5%	-22.0%	-106.2%	-293.2%	-76.0%
Profit margin	-121.4%	-28.3%	-110.3%	-298.7%	-80.2%
CAPITAL STRUCTURE					
Equity ratio	11.9%	14.0%	8.6%	33.9%	30.0%
OTHER					
Number of employees	27	29	30	40	39
DATA PER SHARE					
Number of shares at end of period	23,501,320	21,565,126	20,646,084	19,623,779	14,663,453
Earnings per share, SEK	-1.75	-0.82	-2.24	-4.22	-3.47
Shareholders' equity per share, SEK	0.24	0.33	0.19	1.02	1.14
Share price at year end, SEK	10.00	18.00	17.70	19.00	21.40