

INVISIO®



Annual Report 2019

Contents

- 2 INVISIO at a glance
- 3 Important events 2019
- 4 CEO's comments
- 6 Critical communications and protected hearing in tough environments
- 8 Solutions based on expertise in several areas
- 10 Business model and strengths
- 12 Market and drivers
- 17 Talking about market development
- 18 Strategies and financial targets
- 20 A selection of communication and hearing protection solutions
- 22 INVISIO augments and protects natural human hearing
- 23 The Danish Sound
- 24 Why invest in INVISIO?
- 26 The INVISIO share
- 27 Interview with analyst Viktor Westman
- 28 Sustainability report
- 32 History
- 33 Corporate governance report
- 38 Board, management and auditor
- 42 Auditor's statement on the Corporate governance report and the Sustainability report
- 44 Administration report
- 48 Financial reports
- 56 Notes
- 71 Auditor's report
- 74 Definitions of financial key figures
- 75 Reconciliation of alternative performance measures and Financial calendar
- 76 Five-year review



Protection and overview at work...

INVISIO makes critical situations safer by enabling communication while protecting hearing.



...means a
better life
at home.

INVISIO's system leads to retained hearing and higher quality of life for personnel working in exposed environments.



A profitable growth company in a niche market

INVISIO develops and markets advanced communication systems that help professionals in noisy and mission critical environments to work more safely and effectively while protecting their hearing.

Customer benefit

INVISIO's offer consists of personal equipment and an Intercom system for use in vehicles and other means of transport. The personal equipment reduces noise and enables disruption-free communication in noisy and mission-critical environments.

The new Intercom system makes it possible for users of the personal equipment to maintain communication within the group and with others while on the move.

Market and drivers

The company's market is driven by defense and law enforcement around the world modernizing communication equipment for their personnel, not least with a view to reducing individual and societal costs of hearing loss.

Defense customers in the USA and Europe account for the largest part of INVISIO's revenue. The company is endeavoring to make inroads into markets in Asia, for example, where interest in the company's products is growing.

Strategy

INVISIO is a growth and innovation company focusing on product development and sales. In the next few years the company intends to strengthen its leading global position by launching new products and continuing expansion to new geographic markets.

INVISIO has its headquarters in Copenhagen and sales offices in the USA, France and Italy.

The INVISIO share has been listed in the Mid Cap segment of Nasdaq Stockholm since 2016.



Important events 2019

Strengthened position in defense

In 2019 the company completed several strategically important business transactions in the defense and military market that further strengthened INVISIO's market position.

- The five-year framework agreement with a customer in the American Department of Defense worth SEK 290 million is the largest in the company's history.
- INVISIO received the single largest order of the year for SEK 111 million from the US Special Operations Command, USSOCOM for the CASL program.
- The US Marine Corps chose INVISIO for the task of supplying marines with personal communication equipment.

■ The US Air Force elite unit, the Guardian Angels, chose INVISIO as a supplier.

■ INVISIO was awarded GSA status by the U.S. General Services Administration, the federal procurement organization, which benefits INVISIO in procurements.

■ Orders totaling SEK 55 million from the Belgian army mean that INVISIO gained one more defense force as a customer.

Breakthrough in law enforcement

In 2019 the company received three strategically important orders and a framework agreement from different police organizations.

■ Together with a partner, INVISIO won a contract for communication equipment with hearing protection for

a regional police force in Germany. The contract is a breakthrough in the German market for police authorities.

■ INVISIO signed two framework agreements with the Swedish police for communication equipment with hearing protection.

■ Towards the end of the year INVISIO had a breakthrough on the Japanese market with the first orders for personal equipment from the Japanese police.

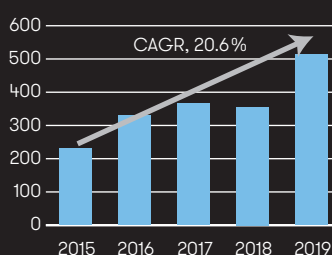
Intercom system

Sales efforts for the Intercom system have intensified and the solution has generated great interest at several trade exhibitions in the past year. Minor initial orders are expected in the second half of 2020.

2019 in figures

KEY FIGURES	2019	2018	%
Revenue, SEK million	513.8	354.5	45
Operating profit/loss, SEK million	132.6	63.5	109
Net profit/loss for the year, SEK million	101.6	48.2	111
Cash flow from operating activities, SEK million	158.4	-3.0	-
MARGINS			
Gross margin, %	61.0	56.4	-
Operating margin, %	25.8	17.9	-
Profit margin, %	19.8	13.6	-
CAPITAL STRUCTURE			
Equity ratio, %	76	82	-
DATA PER SHARE			
Earnings, SEK	2.30	1.09	111
Shareholders' equity after dilution, SEK	8.11	6.62	23
Share price at close of period, SEK	101.80	56.90	79

Revenue, SEK million



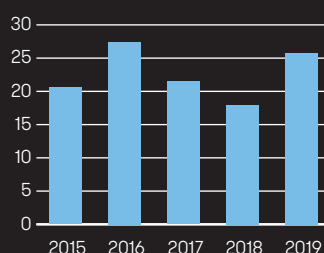
SEK m

513.8

in sales

Revenue was SEK 513.8 million (354.5). This is an increase of 45 percent compared to the previous year.

Operating margin, %



25.8

percent

operating margin

The operating margin was 25.8 percent (17.9)

Product development and marketing are yielding results

In 2019 we saw the result of recent years' investments in R&D and the sales organization. INVISIO won several significant procurements and signed important framework agreements with existing and new customers. Continued penetration of existing markets, breakthrough orders in the law enforcement and security market, expansion to new geographies and the launch of our Intercom system mean sound conditions for the company's growth in a longer time perspective.

2019 was exceptionally strong

Sales during the year were SEK 513 million, which is an increase of 45 percent since the previous year, which was, however, weak. For INVISIO 2019 was a year that also distinguished itself in terms of profit. The operating margin amounted to 26 percent.

Our development should as always be evaluated in a long-term perspective, which means that the significance of one single year must not be exaggerated.

Increased penetration

We have strengthened our position in the military and defense market, where we are the global leader. The contracts and orders we received from the USA in 2019 contributed to this considerably. INVISIO now delivers equipment to all branches of the American defense forces: the army, the navy and the air force. Our investment in our own sales organization in the USA made a strong contribution to last year's successes, as INVISIO won several important procurements on the US market. Our starting position for future business is good.

Please read the interviews on page 17.

In the European market, which is INVISIO's second largest, we gained another defense force as a customer when the Belgian army chose INVISIO in the autumn.

Breakthrough in law enforcement and security market

Law enforcement and security is a new user group. Law enforcement in exposed work environments have the same need for disruption-free communication, situational awareness and

hearing protection as military personnel. Our equipment satisfies these needs well. Apart from the framework agreements with the Swedish police and the order from Japan in 2019, we also received an order from a police authority in Germany.

Launch of the Intercom system

After the customary product development phase in close collaboration with customers, we intensified marketing of the Intercom system. The solution has met with great interest at trade fairs and in customer contacts. The Intercom system has good long-term prospects of being a significant contribution to the company's continued growth journey and profitability.

Widened markets enhance growth conditions

The development described above has made us update our assessments of the potential size of the markets we address.

Market for personal equipment

Our previous assessment of the target market for personal equipment for military and defense forces remains at SEK 5 billion annually. We can now add to this SEK 1.5 billion that corresponds to estimated demand for personal equipment from customers in law enforcement. This means that the annual value of the target markets for INVISIO's personal equipment intended for military and law enforcement is estimated by us to be a total of SEK 6.5 billion.

As an indication of the potential for the personal system it is worth

mentioning that to date we have delivered about 200,000 personal systems to users in the military and defense market. This is equivalent to about 10 percent of potential users. The potential for continued penetration is therefore great.

Market for the Intercom system

More than half, or SEK 7 billion of our annual target market of approximately SEK 13 billion, refers to the Intercom system. This constitutes an offer that supplements and broadens the personal equipment while the solution forms the basis of a new product family. For INVISIO the Intercom system is a new revenue source with good growth prospects. A detailed account of our market assessments can be found on pages 12-16 of the annual report.

We are the market leader

Our strong market position creates a positive spiral that poses a challenge to our competitors. With multi-year contracts we have time to further deepen relations with our customers and that way gain insights that we translate into product development. This in turn leads to an extended technical advantage, stronger market position, new business, and so forth.

A good example is the framework agreement with the American Department of Defense that we renewed in 2019. The agreement is for SEK 290 million and is the largest in INVISIO's history. We are expecting substantial orders and even closer exchange of experience and knowledge with the customer in the next few years.



Committed staff

With the past years' establishment of the sales organization in the USA and Europe and representation in Asia we have come even closer to our customers.

The increase in the number of employees by 20 percent in 2019 referred to new resources in R&D and marketing and sales, most of which

were for the organizations abroad. INVISIO's organization has a very international profile, which to a great extent reflects our customer base.

Continuity and growth

In light of the company's sound growth in 2019, with new agreements and completed initiatives to develop our offer and market presence,

INVISIO is now facing a promising future. As we are also seeing growing defense budgets and increased investment in law enforcement and civil security, we have reason to take a positive view of INVISIO's long-term growth journey. What will remain unchanged is a core of committed and skillful employees and a strong focus on our customer partnerships.

In conclusion, I want to express warm thanks to my colleagues for their efforts in 2019.

Copenhagen in March 2020

Lars Højgård Hansen
President and CEO of INVISIO

”Our strong market position creates a positive spiral...”

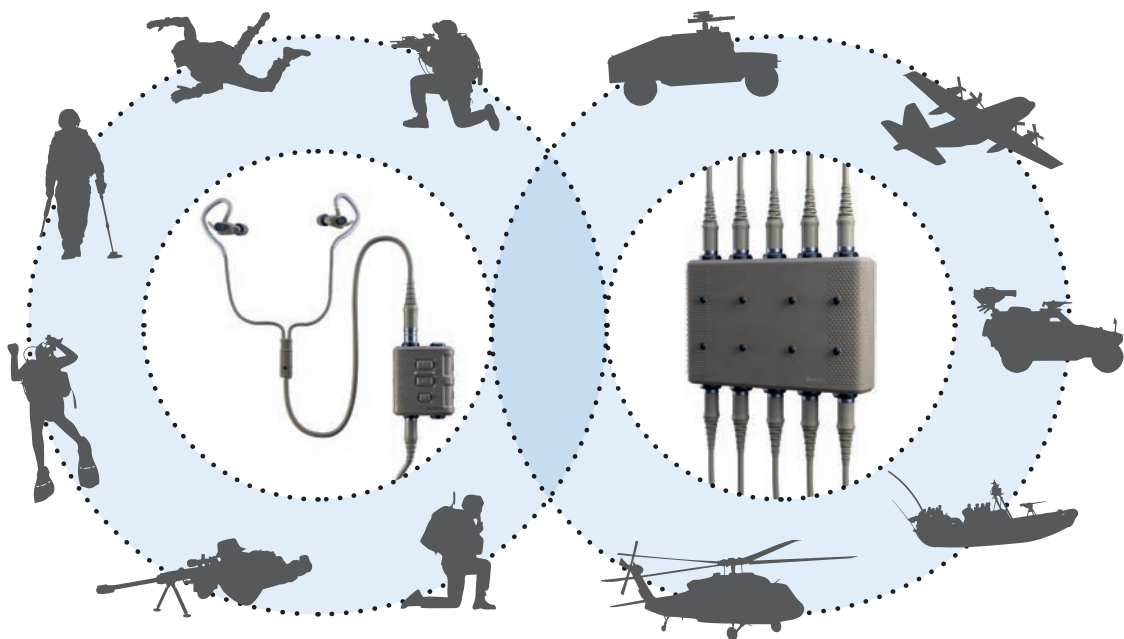


Critical communications and protected hearing in tough environments

Being able to hear and communicate during missions is of crucial importance to professionals performing society's most important functions. INVISIO offers systems that meet the communication needs of professional users during critical operations, while protecting the user's hearing.

INVISIO facilitates and makes communication more effective for users within the military and defense as well as law enforcement and security markets. With INVISIO's systems, users remain connected with information and speech without having to change equipment, for example, when moving in or between different vehicles and light transport, such as boats and helicopters. The personal communication system protects the user's hearing against noise and high, sharp sounds without compromising situational awareness.

INVISIO's offer consists of two systems that can be combined: a personal communication system, consisting of a headset, a control unit as well as smart connection cables, and also a portable Intercom system for vehicles. The systems are used together with one or more radio units and can meet a variety of communication needs in terms of users' safety and operational capacity.



INVISIO's personal communication system

- Includes INVISIO's Bone Conduction microphone that allows crystal-clear communication in noisy environments.
- Gives both passive protection (against continual noise) and active protection (against sounds from explosions, for example).
- Allows full situational awareness in all environments through microphones on the outside of the equipment that pick up and transmit surrounding sounds.
- Raises situational awareness through amplified surrounding sound.
- Interface to a range of other equipment such as radio, intercom, cellphone, mine detector, computer etc.
- Is fully compatible with INVISIO's Intercom system.

INVISIO's Intercom system

- Permits users in vehicles, boats and helicopters to use the personal system to communicate within the group despite challenging radio conditions.
- Allows users access to the vehicle's various radio and communication systems, based on the individual user's permissions.
- Enables safer transition from one mode of transport to another since the users can retain their radio connections while using hearing protection.
- Is fully compatible with INVISIO IntelliCable® – smart cables with technology that offers seamless integration with all types of newer as well as legacy communication systems.



Solutions based on expertise in several areas

Developing communication solutions that meet the demands of professional users requires expertise in several different disciplines. INVISIO's solutions are based on in-depth skills in acoustics and human hearing as well as broad engineering know-how in electronics, mechanics, software and system integration.

In-ear headset

Passive protection

The headset's passive protection, in the form of replaceable ear-plugs, reduces all ambient sounds and is mainly intended to protect against hearing loss that may arise as an effect of high noise levels over a long period.

Situational awareness

Humans can perceive where sound is coming from because the sound hits the ears at different times and is reflected by the outer ear.

Therefore, to help the user to hear ambient sounds correctly, INVISIO's headset has external microphones at both ears, placed at the start of the auditory canal. In that way the sound is gathered at the same place it would have reached an unprotected ear. INVISIO's system allows the wearer to determine where the sound comes from and understand what is happening in the environment.

Disruption-free speech

Human speech creates sound waves through the air, but also through the jawbone. INVISIO's Bone Conduction technology conducts the vibrations from the jawbone with a specially developed in-ear microphone. The signals then travel through a digital filter in the control unit to be converted into clear speech. The construction of the Bone Conduction microphone and its location inside the ear blocks surrounding sounds and only transmits the wearer's voice to the receiver.

Control unit

Active protection

The electronic protection in the control unit reduces both noise over a longer period - for example from aircraft - or noise from a mortar burst, for example. Harmless noise reaches the ear unchanged, almost as if the user were not wearing an in-ear headset.

Increased Situational awareness

The control unit also makes it possible to amplify sound in the environment, to be able to hear things that a human ear does not normally perceive. The headset amplifies sound up to 80 dB(A) in a natural way and reduces harmful acoustic pressure so that it does not exceed 85 dB(A).

Intercom system

The intercom unit is intended for use in vehicles, boats and helicopters. The system enables communication within the group, as well as access to the vehicle's radio system and communication with the driver of the vehicle in a far simpler way than has previously been possible.

With the help of the Intercom system, users of INVISIO's personal equipment can connect to the vehicle's communication network. In that way, the Intercom system extends the area of use of the personal equipment.

Portable or mounted

The Intercom system can be carried in a backpack and used when a group of users are transported in a road vehicle, helicopter or boat. The portable Intercom system offers internal communication and connectivity in a vehicle environment that often lacks that functionality.

The Intercom system can also be mounted permanently in vehicles where cables are drawn to each seat, and offer the same functionality as the portable solution - access to the vehicle's various radio sets, communication with both the driver and other personnel in the vehicle.

The Intercom system has nine port connections to which an optional number of radio sets and users can be connected. Together the personal equipment and Intercom system form a complete solution for communication in all operative environments, with retained situational awareness and hearing protection for the individual users.

Intelligent cables

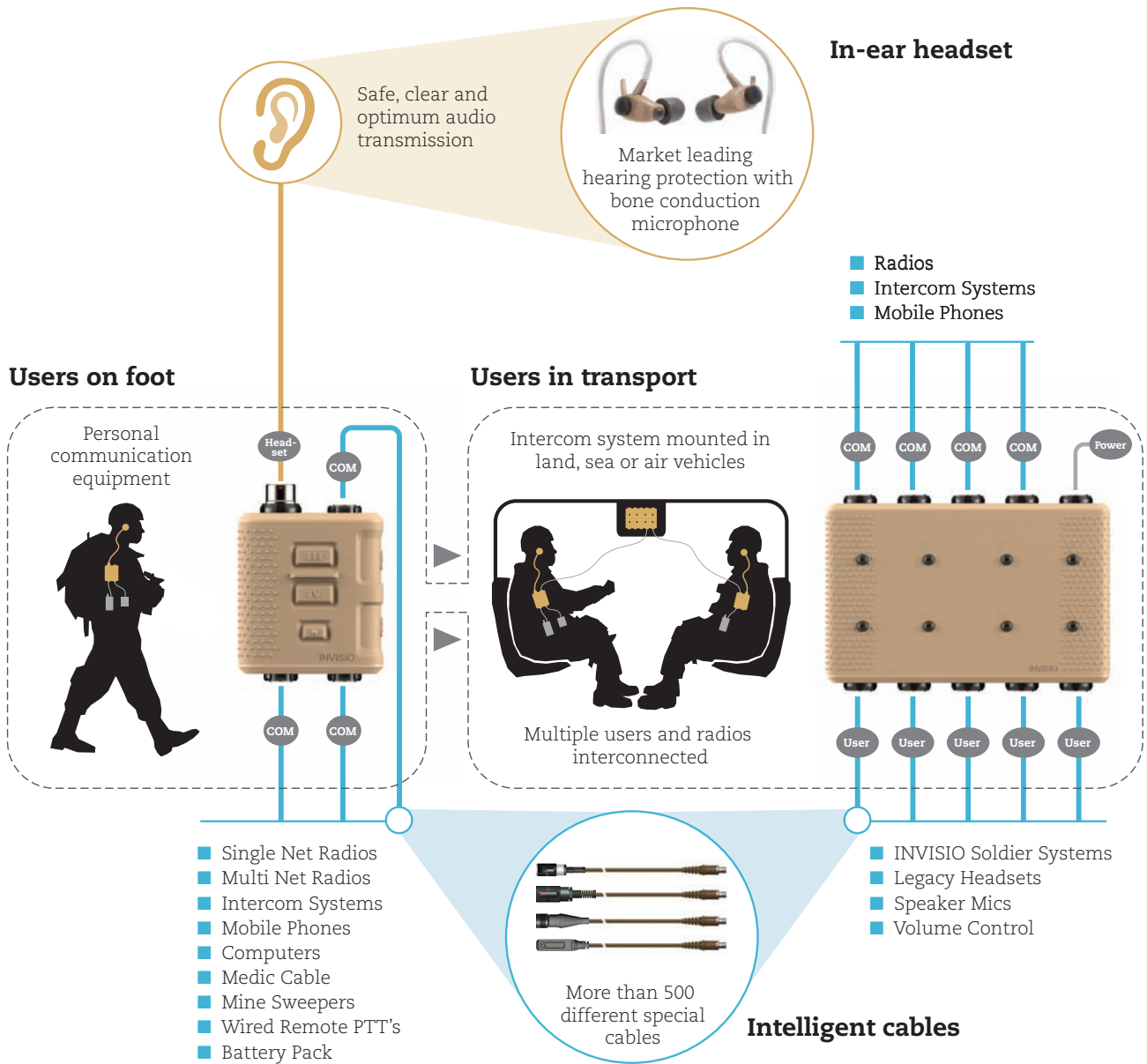
Plug-and-play-integration between control unit, headset, Intercom unit and cables is the key to the versatility and user-friendliness of the INVISIO system. When new equipment is connected to the control unit identification is automatic via information in the cable, which is helpful as no reprogramming of equipment is necessary.

The INVISIO IntelliCable® technology also identifies externally connected units such as radios, intercom systems, mobile phones, computers and wireless PTT. The connection is fast and smooth as necessary sound and system parameters are set automatically.

Decibel, dB. Unit of measurement of acoustic pressure.

A-weighted decibel, dB(A). A measurement of perceived sound level. Used for industrial and ambient noise at moderate levels.

This is how the two systems work



Personal system

INVISIO's personal communication system includes headset, cables and a control unit. The system is compatible with most radio and headset models and has ports for connecting to radio networks and external units, such as intercom systems, computers, cellphones, medical equipment and mine detectors. Connection of users and units is via special cables ("plug-and-play"), without prior installation or programming. The equipment protects the user's hearing against noise and high, sharp sounds without compromising situational awareness.

Intercom system

Users traveling in vehicles, boats or helicopters can connect their personal equipment to INVISIO's Intercom system. This is a separate unit that is either carried by the individual soldier or is mounted in the means of transport. The Intercom system in turn is connected to the vehicle's communication system. By connecting to the Intercom system users can establish radio contact and communicate with the driver and internally within the group.

The full picture

Using INVISIO's communication system it is possible to move by land, sea and air while retaining contact with other units and headquarters. The result is considerably improved operational capacity and a higher level of safety.



Business model and strengths

The core of INVISIO's business model is to develop, on the basis of understanding the customer, innovative solutions creating value for users and society.

An innovation company with a strong culture

INVISIO is a highly innovative company that develops groundbreaking solutions in close collaboration with its customers. Shared values and consensus around goals and strategy is one of the keys to success. A large number of employees have been involved right from the outset and are now important bearers of the INVISIO culture.

Focus on the core and partnerships in the value chain

INVISIO safeguards its competitiveness by focusing on R&D as well as marketing and sales.

Selected European producers are responsible for manufacture of the products on a contract basis. Contracting out manufacturing gives INVISIO scalability and the ability to manage variations in order volumes.

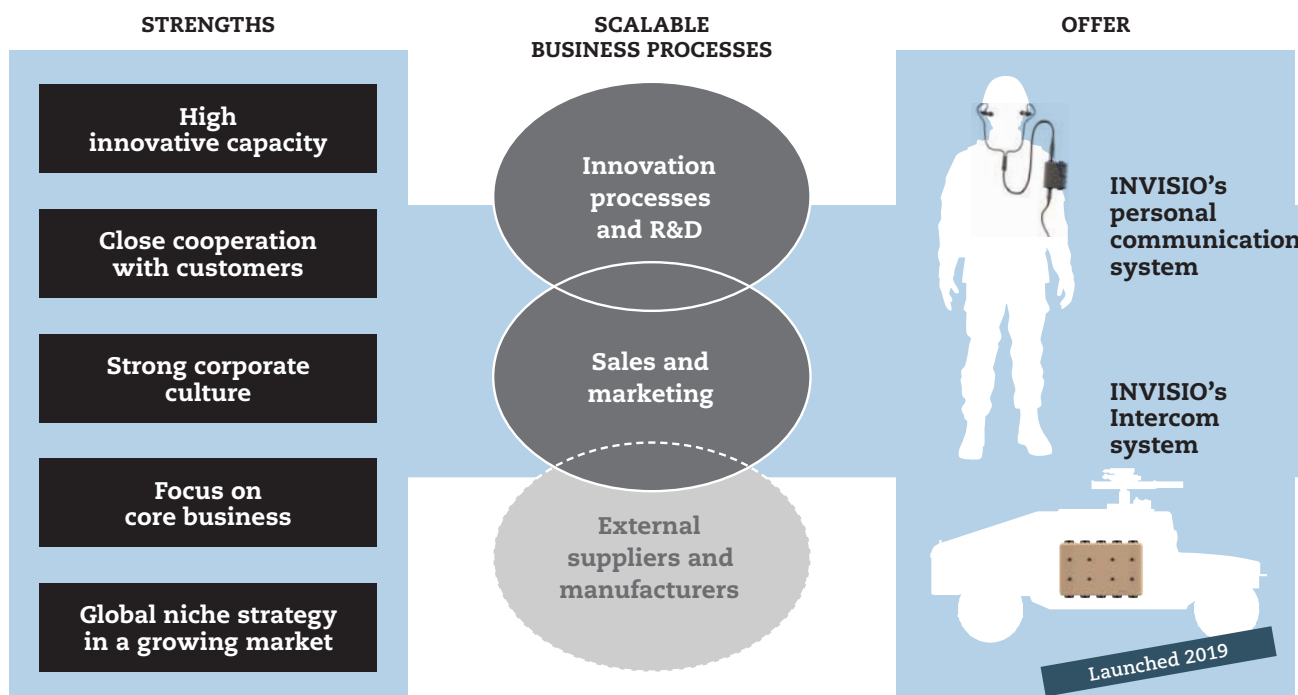
Two offers

INVISIO offers personal communication equipment and an Intercom system.

The personal system enables communication in noisy environments while protecting hearing.

The Intercom system makes it possible for users of the personal equipment to connect to internal and external communication systems, for example in vehicles, helicopters and boats.

INVISIO's business model





Portfolio with long contracts

INVISIO's procurements won refer to framework agreements or programs of a long duration, often up to five years and in some cases seven years. Further collaboration takes place in this context. Competitors who want to assert themselves must devote great resources to overcome these barriers.

Two customer groups

INVISIO's customers are primarily within the military and defense as well as law enforcement and security markets. Special forces and SWAT teams are a gateway to larger volumes in the regular army and the law enforcement forces. Currently more than 90 percent of revenues are from military and defense customers. In 2019, however, INVISIO received breakthrough orders from the German and Japanese police, as well as a framework agreement with the Swedish police.

Mainly creating value

INVISIO creates a unique value for individuals and society by enabling communication in critical situations, which makes the user's work environment safer and improves efficiency.

INVISIO's hearing protection prevents permanent hearing loss and related problems, which spares the individual great suffering and society high rehabilitation costs.

PORTFOLIO WITH FRAMEWORK AGREEMENTS AND PROGRAMS

Framework agreements/programs

202X —————> 202X

Framework agreements/programs

202X —————> 202X

Framework agreements/programs

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Framework agreements/programs

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Framework agreements/programs

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CUSTOMER GROUPS

Military and defense

Special forces

Regular army

Law enforcement and security

SWAT teams and riot police

National police

Market breakthrough 2019

CREATING VALUE

Individuals

- Safer work environment
- Prevention of permanent hearing loss and related problems

Society

- Higher efficiency
- Lower costs for rehabilitation and compensation for hearing loss



A niche market with attractive potential and low penetration

INVISIO addresses a global niche market where customers are found in defense and military forces as well as in the law enforcement and security sectors. They want to achieve operative advantages through improved communication while protecting the hearing of their personnel.

Market

INVISIO operates in the market for communication and hearing protection systems for demanding occupational groups. The company mainly targets customers in the USA and Western Europe as well as selected countries in Asia, while also addressing customers in South America and the Middle East, where the market maturity is lower than in the main markets.

Leading position

The company's offer has had great success among defense customers that account for the predominant part of the company's revenues.

However, in 2019 INVISIO made a breakthrough for the personal system even in the law enforcement and security market. Law enforcement needs for effective communication

and hearing protection are similar to those of the defense forces. INVISIO's offer is in many respects similar for each of these categories.

Size of the market

INVISIO estimates that the annual value of the potential market in the USA, Europe and selected countries in Asia amounts to about SEK 13.5 billion, broken down into the sub-markets military and defense forces and law enforcement and security and the two offers: the personal equipment and the Intercom system.

Barriers to entry

INVISIO's markets are characterized by having several entry barriers, which is advantageous for those already established, since it makes it difficult for new actors to enter.

Framework agreements and programs

The main entry barriers are multi-year "procurement programs" and long framework agreements between supplier and customer. A program or framework agreement is usually preceded by a long sales process. It usually takes many years from the first customer contact to the final order via inquiry, customer tests and public procurement tenders. Competitors wanting to enter the market must make major investments in time and resources and have great persistence and patience. These circumstances have led to the market structure being characterized by a few actors with long-standing customer relations.

In-depth customer relations

INVISIO now has long and in-depth business relations with a considerable number of customers primarily in the

military and defense market. INVISIO has involved a number of customers in the company's product development, which, apart from creating a deeper customer relationship, provides INVISIO with invaluable knowledge of the customers' needs and the environment for the company's products.

Difficult to beat standard of technology

For several years INVISIO has invested major resources in developing technically advanced systems for use in extremely demanding environments.

Investments in R&D for 2015-2019 amounted to an average of 13 percent per year of the company's total revenue.

Today there is a handful of competitors that supply communications and hearing protection solutions for personnel on foot or between different means of transport.

INVISIO's personal equipment has for several years been used in the field where it has proved its high functionality and reliability, which is of great importance in procurements.

Global market leader

The market's entry barriers mean that INVISIO has a strong market position in the short and medium-term perspective. The company endeavors to retain its market leadership through continued close cooperation with customers, especially on product development. INVISIO considers that the company has an advantage in relation to its competitors as regards innovative capacity, well-established relations with its customers and an understanding of their needs.

Since 2012 INVISIO has won a large number of procurements in the USA and Western Europe, which means that competitors that want to enter the market must be prepared to make considerable investments in time and resources to achieve success.

Drivers

Demand for INVISIO's products is driven by operational, technical, health-related and economic factors. In addition INVISIO itself drives the market by developing communication solutions that set new standards.

Structural growth in demand

Countries throughout the world modernize their defense forces and security forces. The growing significance of communication for military and law enforcement operations entails demands for better access to new or modified radio equipment for a growing number of users. The number of potential users is continually growing as more soldiers and police officers are provided with radio solutions. This increased use of radio equipment creates structural growth in demand for the company's systems.

The effects of hearing loss

A growing awareness of the effect of hearing loss on individuals and society is a further factor in increasing demand for INVISIO's equipment. Hearing impairment and tinnitus are the most common injuries among veterans of the American defense forces.

According to data from the US Department of Veterans' Affairs the number of cases of hearing loss qualifying for compensation increased by 43 percent from 2014 to 3.4 million cases at the close of 2018.¹⁾ The American defense forces' direct costs for care and support amount to billions of dollars annually.

In addition, there is the loss of income for the individuals affected, loss of tax revenue for the national economy and the difficult-to-measure but significant suffering of those affected. INVISIO's personal communication equipment is specially designed to protect the user's hearing, which becomes increasingly important as ever more powerful weapon systems are developed.

INVISIO drives the market

While the percentage of radio users and the need for effective hearing protection is growing, INVISIO is driving market growth by developing communication solutions that are gradually raising the industry's requirements regarding performance, functionality and user experience.

¹⁾ The 2018 Annual Benefits Report. US Department of Veterans' Affairs.



Market for the personal system

Military and defense market

Industry statistics show that there are about 50 million soldiers in the world, of which 20 million are deemed to be active.⁹⁾ The largest numbers of soldiers are in countries in Asia, but their defense forces do not yet invest in advanced communication and hearing protection systems.

INVISIO's primary target group

consists of technologically mature countries in Europe and North America with higher awareness of hearing protection issues, whose soldiers have access to advanced radio communication during operations. About two million potential users are serving in these countries' defense forces.

The value of the global defense market for INVISIO's personal system

is estimated to be about SEK 20 billion. As a rule, customers carry out procurements at four-year intervals, which means that the average annual target market is about SEK 5 billion.

There are currently about 200,000 INVISIO users and thus the market penetration is 10 percent. Consequently, there is great potential for continued growth in the target market.



Law enforcement and security market

There is a total of 2.7 million police officers in INVISIO's markets. The company estimates that 30 percent of them are relevant to the company's offer, which means that the target group has between 700,000 and 900,000 potential users.

The law enforcement and security

market tends to be more fragmented and decentralized than the defense market, which means that INVISIO must address a larger number of customers in its sales work. An average order is therefore generally smaller than in the more centralized defense market.

Initially INVISIO will focus on law enforcement markets in the USA and Europe and selected countries in Asia. The value of the law enforcement and security market for INVISIO's personal system in these markets is estimated to be about SEK 9 billion. The company estimates that its customers carry out procurements at intervals of five to seven years, which means that the annual addressable market for INVISIO's system is worth about SEK 1.5 billion.

Competition

Personal communication systems with hearing protection traditionally consist of noise-reducing muffs over the ears and an external microphone placed in front of the mouth.

The market for this type of product is large, mature and dominated by a small number of major actors.

Small, advanced communication headsets with in-ear microphones are becoming increasingly common in extreme and mission-critical environments. With its innovative solutions INVISIO has a competitive advantage. Apart from INVISIO there is a handful of other suppliers on the market, such as manufacturers of helmets offering an integrated communication solution and hearing protection in the form of muffs.

INVISIO's system with patented cable technology offers unique system integration. The offer is further enhanced by the Intercom solution for internal communication in vehicles, boats and helicopters.

1) Market data on pages 12-16 are based on INVISIO's internal assessments of industry statistics.



Special forces take precedence

INVISIO has two customer groups:

- Military and defense
- Law enforcement and security

In each group there are special forces and ordinary personnel.

Procurement volumes

INVISIO's sales strategy in the military and defense market as well as the law enforcement and security market is to address special forces first. Their equipment requirements are very high and often they do not need to implement a major procurement process to make purchases. Special forces are then the most important reference when broader personnel categories are addressed, where there is potential for volume orders.

Own offices and partners

Market penetration takes place from the headquarters in Copenhagen and INVISIO's own sales offices in the USA, France and Italy, as well as via a global network of partners and resellers in the countries where the company has no sales staff of its own. Major business transactions are normally via public procurements.



Market for the Intercom system

With the Intercom system INVISIO is broadening its offer with a unique communication solution to use together with the personal equipment in vehicles, boats and helicopters for military or law enforcement purposes.

The Intercom system addresses communication problems that arise during transport, where the group members want to be able to communicate within the group itself as well as with the driver of the means of transport and stationary radio systems. The system links together the communication simply and cost-effectively. The Intercom system can be carried by an individual user as a portable solution or be mounted in a vehicle or other means of transport.

The portable system

In a first phase INVISIO intends to focus on the portable offer and direct it towards current users of the personal system. The company estimates

that the addressable market amounts to 25,000-40,000 systems.

The company estimates that its customers will carry out procurements at intervals of five to seven years, which means that the annual addressable market for INVISIO's portable Intercom system is worth about SEK 500 million.

The mounted system

In a second phase INVISIO intends to address the customers' existing vehicle fleet as well as manufacturers and vehicle equippers. The company estimates that there are about 650,000 vehicles relevant to INVISIO's offer. The estimated life of the system is about ten years, which gives an annual addressable market of about SEK 6.5 billion.

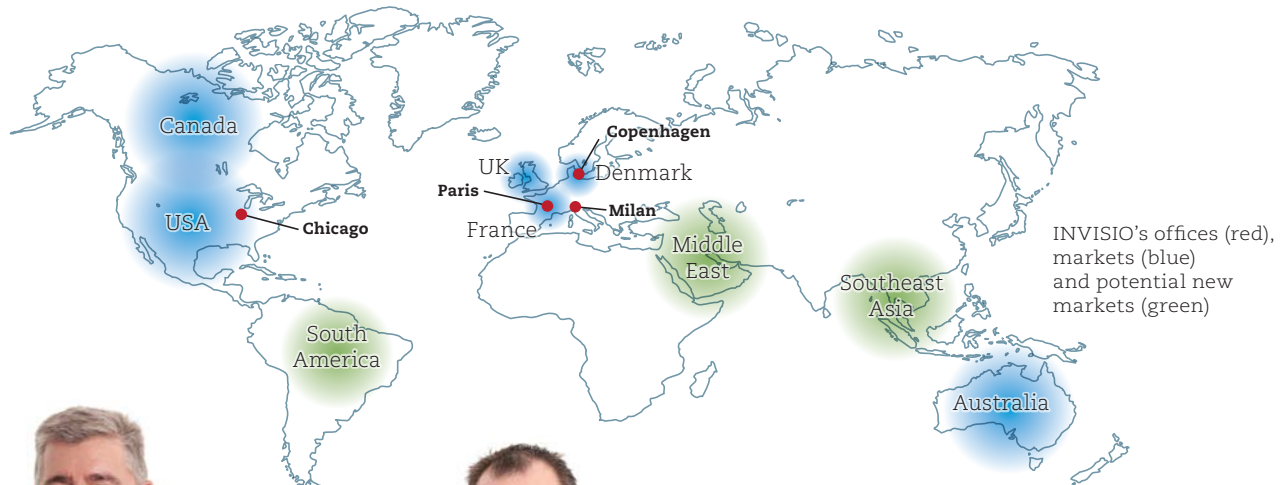
Competition

In the opinion of the company the competition for the Intercom system is limited in an initial phase of market penetration, as focus lies on offering the portable system to existing customers and there is no similar offer at present. Sales may initially be somewhat faster than at the market introduction of the personal system, since INVISIO now has a broad customer base, a good reputation on the market and the system was developed in close cooperation with a number of key customers. All volume sales, however, take place in the context of time-consuming public procurements.

At a later stage, when INVISIO addresses vehicle manufacturers and companies that equip military vehicles, competition is expected to increase, because similar solutions exist today. However, they are less flexible and more expensive than INVISIO's system.

Talking about market development

In 2019 INVISIO was successful with expansion in existing and new geographical markets.



Ray Clarke
SVP Sales
North America

The year we won several major procurement contracts in the American market

INVISIO had several major successes in the American market in 2019. The company received orders and signed agreements with customers in all branches of defense: army, air force and the navy. It is worth noting that the US Air Force elite unit, the Guardian Angels, chose INVISIO as a supplier.

"In 2019 we were rewarded for the efforts of our team in the USA in recent years. We won several major procurement contracts in the American market. We are now the clear market leader and in a better position than ever to take on future procurements. We are proud and convinced that we are now entering an interesting period. There is still much left to do in this market, and we have just started. We benefit from growing defense budgets and increased investments in civil security. We have every reason to regard our continued growth journey in the USA positively."

Ray Clarke is head of INVISIO's sales office in North America with a staff of 16.



Marcus Jaeger,
Program
Manager

We have had a breakthrough in law enforcement

During 2019 INVISIO had several successes in Europe in the law enforcement and security market, including an agreement with the Swedish police.

"The breakthrough with the police in 2019 is one of the most important milestones in our history. For several years we have had a number of the police special forces in Europe and the USA as customers. In 2019 it is the first time we have been entrusted with equipping an entire police force. The agreement with the Swedish national police force is therefore very important for our future development. It sends a clear signal to law enforcement in other countries that they can improve efficiency and safety for all their personnel in a fairly simple way. The fact that Swedish police are at the forefront in many areas and that police chiefs in other countries follow their progress strengthens our potential as we now intensify marketing to the law enforcement and security market."

Marcus Jaeger is Program Manager for military and law enforcement procurements in Europe.



Carsten Brandt,
Regional Sales
Manager SEA

Now Japan is in focus

A cornerstone of INVISIO's growth strategy is becoming established in new countries. In 2019 the company received its first order from Japan.

"Towards the end of the year we had our first success in the Japanese market through an order from their police force. Japan is a completely new geographical market for us and our assessment is that it has great growth potential. We are very pleased to have this new customer, as the Japanese market requires both persistence and patience. The fact that their police force is well reputed will help us in marketing and addressing new customers in Japan and countries close to it. It is also exciting to again be involved in the security at the Olympic Games, one of the largest sports events in the world."

Carsten Brandt is responsible for sales in Southeast Asia including Japan. Carsten is stationed in Bangkok.

Strategy for 20 percent growth with an operating margin that should not fall below 15 percent

INVISIO's overall objective is to create value for shareholders by generating sustainable growth with sound profitability. The financial targets are to increase sales by an average of 20 percent per year and that the operating margin should not fall below 15 percent. Achieving this requires continued innovative product development, market penetration and expansion, as well as cost focus within the company in manufacturing among partners. The overall strategy is manifested in five areas.

Increase market share in existing markets

Apart from winning new procurement contracts, the company endeavors to increase its sales in the context of agreements already signed. The company is to win new customers and further develop business with existing customers in its markets in North America and Europe.

INVISIO has achieved penetration of about 10 percent for the personal system in the military market in Europe and the USA.

Broaden the product portfolio through innovative development

INVISIO intends to continually broaden its portfolio of user-friendly, flexible and cost-effective products. This broadening will be through innovative and customer-oriented product development.

In 2019, by launching the new Intercom system, INVISIO increased the annual total target market by about SEK 7 billion.

Address new user groups

INVISIO aims to reach volume markets by increasing the number of user groups with a similar need to communicate in noisy and challenging environments while at the same time protecting hearing.

In 2019 INVISIO achieved a breakthrough in the law enforcement and security market through framework agreements and orders from the Japanese, German and Swedish police.

Expand to new geographies

The markets in Asia, the Middle East and South America will play a growing role for INVISIO.

In 2019 the company received a breakthrough order from a national police authority in the Japanese market after long-term and patient work.

Sustainable and cost-effective operations

Continued sustainable and profitable growth will be maintained among other things by focusing on costs internally in the company and for manufacture of the company's products. INVISIO and its manufacturing partners collaborate closely to safeguard volume gains and production costs.

Close collaboration with production partners and an increasing level of direct sales, as well as slightly greater production volumes have strengthened the company's gross margin in 2019.

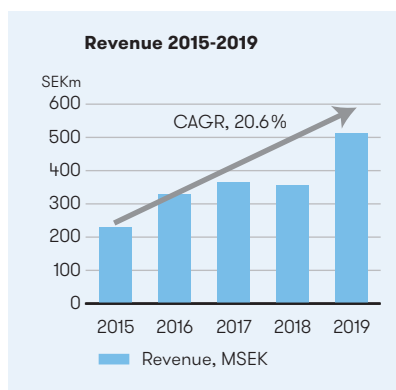


Growth and profitability exceed targets

INVISIO's customers are authorities or the equivalent that are responsible for purchasing equipment for defense forces, security forces and law enforcement.

Suppliers are appointed within the framework of time-consuming procurement processes at irregular intervals. There is no guarantee of follow-up orders. Both order intake and sales are therefore characterized by fluctuation.

INVISIO intends to continue investing in product development and market penetration to maximize its long-term growth potential. In this context the operating margin target must be regarded as a minimum level that must be maintained.



The target is to increase average sales by at least 20 percent per year

In the past five-year period the annual sales growth (CAGR) was 20.6 percent. In 2019 sales growth was 45 percent.



The target is that the operating margin should not fall below 15 percent.

The operating margin was 25.8 percent for 2019. In 2017 and 2018 INVISIO made major investments in product development and strengthening the sales organization.

A selection of communication and hearing protection systems

The product portfolio includes the control units INVISIO V20, INVISIO V50 and INVISIO V60, with one, two or three port connections. The products interact and can be connected to headsets and various radio and communication devices without changing settings.



Radio 1

INVISIO V10

For users with one radio unit. Powered via the connected unit.



Radio 1

INVISIO V20

For users with one radio unit. Powered via the connected unit.



Radio 1 Radio 2

INVISIO V50

For users with two radio or communication units. Powered via battery or the connected units.



Radio 1 Radio 2 Radio 3

INVISIO V60

For users with several radio or communication units. Powered via the connected units.



INVISIO X5

In-ear headset with passive and active hearing protection, situational awareness and bone conduction microphone.



INVISIO T5

Ear-muffs and microphone powered and controlled by a control unit from INVISIO.



Third party products

As a complement to its own product portfolio INVISIO also supplies equipment from strategic partners, such as various ear muff models adapted for use with INVISIO's control units.

INVISIO’s Intercom system

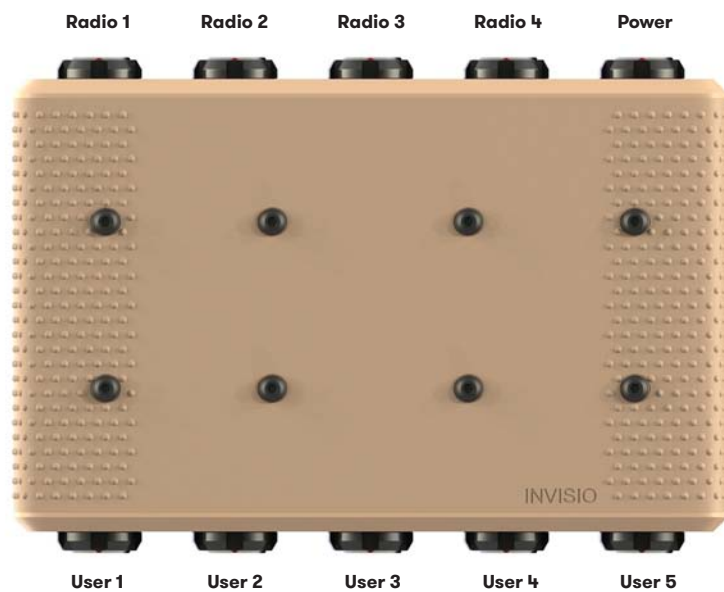
By extending personal equipment with INVISIO’s Intercom system it is possible to quickly and simply integrate with all communication platforms for vehicles, boats and helicopters. The system is small and plug-and-play, allowing troops to move freely in different environments while still retaining access to their communication. It can be packed easily in a backpack and its light weight (500 grams) makes it light to carry during operations.

The system links together troops on foot or mounted and functions as a communication hub entirely independent of the surrounding conditions. With this system the transition between land, sea and air is friction-free, at the same time allowing the user to retain full situational awareness.

The unit’s user ports give all users access to internal vehicle communication and radio communication. The unit can be connected in series, enabling the number of users to be increased.

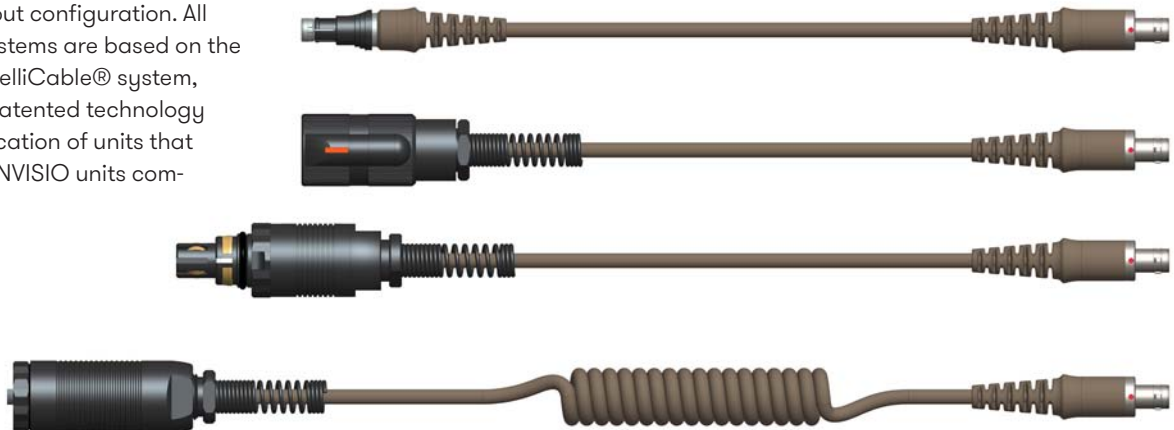
The power port can be connected to the vehicle’s power source or to an external battery.

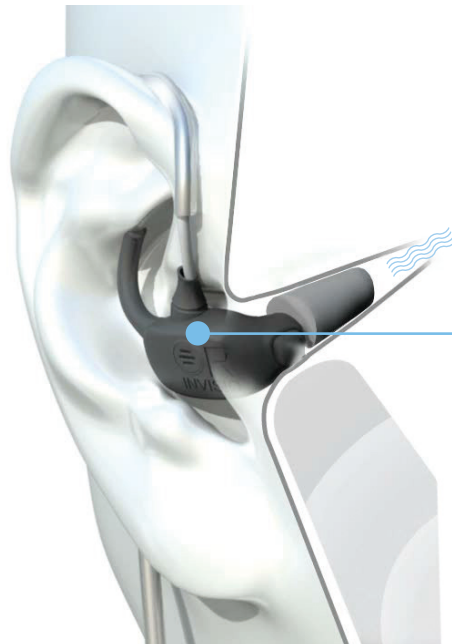
INVISIO’s intelligent cables ensure plug-and-play capacity for all external units and radio models.



INVISIO IntelliCable®

Plug-and-play-integration between control units, the Intercom unit, headsets, and cables is the key to the versatility of the INVISIO system, since it enables connection of new INVISIO equipment without configuration. All INVISIO systems are based on the INVISIO IntelliCable® system, a unique patented technology for identification of units that makes all INVISIO units compatible.





Localizing sound may be crucial

INVISIO's headset has external microphones at both ears so that the user does not miss information that could be of vital importance.

The sound is gathered in the auditory canal and gives the user a three-dimensional effect to locate the source of the sound. In acute situations, situational awareness and the ability to determine what is happening around you is of great importance.

INVISIO augments and protects natural human hearing

INVISIO's solutions build on deep understanding of sound and human hearing. Humans are able to determine the direction of a sound in part because it does not hit both ears at the same time and because it is reflected by the outer ear. To retain natural hearing, INVISIO's headset is optimally positioned and is designed to give high sound quality.

Localizing sound is a complicated human process that depends on a series of external and internal factors. Sound has physical characteristics that combined with how we are made help us to determine direction and distance.

INVISIO's solutions build on insights about this interaction and take into account the following factors, among others, in the design phase.

Time and level differences

To determine the position of the sound source, the sense of hearing mainly analyzes differences between the two ears' sound images in terms of phase (time difference) and level (level difference).

For low frequencies with long sound waves a time lapse called Interaural Time Difference (ITD) can be used. For frequencies below 1,500 Hz the sound waves are so long that they reach the right and left ears slightly out of phase. When the wave reaches a peak at one

ear, it will already be heading back down when it reaches the other.

At higher frequencies, where the wavelength is only a few centimeters, the ear perceives that the sound is louder in the ear that is closest to the sound source. The difference in sound level between the ears is called Interaural Level Difference (ILD).

The shape of the ear

The shape of the outer ear is also important to allow humans to tell where a sound is coming from. In that the ear is irregularly shaped, sound is refracted differently depending on where it is coming from. The spectrum changes depending on direction, which is detected by the human ear.

Reflecting sound

Further acoustic factors that help humans to determine direction and distance include the fact that in reality sound is a combination of the original sound and reflections from nearby

surfaces and objects, such as walls, ceilings, floors and other reflecting surfaces. A person's shoulders and upper body also influence how sound waves reach the ear. Depending on whether a sound source is close or far away, the sound will be reflected differently on its way to the ear.

Prevents hearing loss

INVISIO's personal communication equipment supports the user's hearing by retaining situational awareness and protecting against harmful noise through active, electronic protection and passive protection. Impaired hearing reduces the capacity to sort sounds. Voices mix with the background noise and speech may be difficult to hear. The deterioration is often gradual without being noticed until sound is perceived to be distorted or muffled. But the deterioration may also come suddenly, for example after an explosion, with immediate hearing loss as a consequence.



INVISIO's R&D draws on The Danish Sound

INVISIO's recruitment of R&D employees has been facilitated by the proximity to the leading international industry cluster "The Danish Sound" with its long tradition of acoustics, hearing and mobile communication in production of high-quality and innovative loudspeakers, hearing aids, test equipment and other communication equipment.

For more than 50 years the Copenhagen region has been home to several world-leading companies

in sound technology, whose success was made possible through internationally recognized and close collaboration with Danish universities and institutes of technology in three related areas:

- Psychoacoustics – how sound is perceived by humans
 - Acoustics – the science of sound properties and behavior
 - Signal processing – how to manipulate sound electronically
- INVISIO's R&D, which is characterized

by close collaboration between employees and insights about users and their needs, has been able to successfully recruit engineers with training and experience in these disciplines. The strong corporate culture and values within the company will continue to characterize INVISIO's R&D when the number of employees grows and there is space for the company to run more projects without compromising quality or planned time frames.

Why invest in INVISIO?

INVISIO is a leading actor in its niche of the global market for communication equipment. The company has several years of profitable growth behind it. The next phase of the company's development is driven by a broadened customer offer, new user groups and penetration of new geographical markets.

The investment case aims to show the most significant value drivers for the INVISIO share.

In recent years the company has made considerable investments in both the customer offer and its sales organization. The investments have resulted in a new offer – the Intercom system – and sales offices in the USA, France and Italy.

In 2019 INVISIO's market position was further strengthened through successes in the USA and the procurement contracts won for police

forces in Europe and Japan.

The sales target for INVISIO is average annual growth of 20 percent. The target for the operating margin is that it should not fall below 15 percent.

Unevenly distributed order inflow

INVISIO's market is characterized by large procurements at irregular intervals. Both order intake and sales can fluctuate substantially between quarters and the company's development should therefore be evaluated in a

longer time perspective than individual quarters.

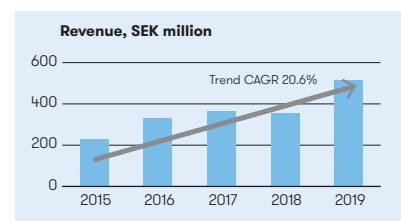
Get a second opinion

Three analysts monitor the company: Yiwei Zhou at SEB, Viktor Westman at Redeye and Jesper Birch-Jensen at ABG Sundal Collier. The last two conduct commissioned analyses. Contact information for the analysts can be found at invisio.com in the investor section.

Financial development and investments in R&D

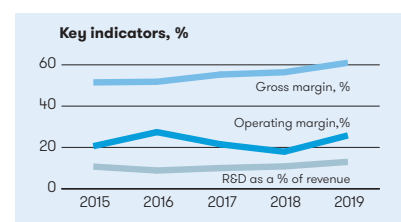
Good long-term organic growth

- INVISIO's average annual growth – which was entirely organic – during the period 2015-2019 was 20.6 percent.
- Sales growth in 2019 was 45 percent.
- The market for INVISIO's system is not cyclically dependent and is growing structurally.



Sound profitability enables offensive R&D

- The gross margin for the period 2015-2019 was on average 56 percent. For 2019 the gross margin was 61 percent.
- The average operating margin for 2015-2019 was 23 percent. For 2019 the operating margin was 26 percent.
- Investment in R&D for 2015-2019 amounted on average to 13 percent per year of the company's total revenue, allowing offensive product development in close collaboration with key customers.



High scalability and strong financial position

- All production is outsourced, enabling high scalability, flexibility and full focus on R&D and sales.
- Cash flow from operating activities before changes in working capital amounted to SEK 140 million in 2019.
- The Group is free of debt, with an equity/assets ratio of 76 percent on December 31, 2019.

Market characteristics and market position

Growing niche market with high entry barriers

- The market is growing structurally as communication becomes increasingly important for law enforcement and military personnel. An increasing number of radio users benefits INVISIO.
- According to the US Department of Veterans' Affairs, at the close of 2018 tinnitus and hearing loss together accounted for about 13 percent of the total number of claims for which American veterans receive compensation. Hearing related claims are the second largest claim category.
- Entering the market and winning a public procurement takes several years. High entry barriers have meant that the market has few suppliers.

Market leading position and a portfolio of framework agreements and programs

- The company has an extensive portfolio of framework agreements and programs that run for 3-7 years with customers such as the US Department of Defense, several NATO armies and the Swedish police. The framework agreements and programs give rise to recurrent sales.
- The advantages for customers of the company's offer is that it prevents hearing loss and makes it possible for users to work more safely and effectively in extreme conditions. This increases the chances of a higher post-service quality of life for users and reduces costs to society for rehabilitation.

Growth strategy and corporate culture

Broadened customer offer, new user categories and geographical markets

- The new Intercom system is a unique solution developed together with customers and originating from their needs. The market for the system is estimated to be worth approximately SEK 7 billion annually. The Intercom system is an entirely new source of revenue for INVISIO.
- Law enforcement is a new user group. The annual market for the personal system intended for law enforcement is approximately SEK 1.5 billion and has considerable potential. INVISIO won a major 2-year contract with the option of a 2-year extension with the Swedish Police Authority in 2019.
- INVISIO addresses new geographical markets in South America, the Middle East and Asia, with the aim of receiving more orders in 2020.

Strong corporate culture

- INVISIO's corporate culture is strong. Clear targets and incentive programs that include all employees help to motivate and strengthen employees.
- The company's staff turnover is low and was 3 percent in 2019.
- The company has an experienced leadership with many years of cooperation behind it. The President/CEO, the SVP Global Sales & Marketing and the SVP R&D have each worked for INVISIO for more than 12 years.

The INVISIO share

Share capital

At the close of 2019, share capital in INVISIO Communications AB (publ) ("INVISIO") was SEK 44,098,494 divided between 44,098,494 shares with a quotient value of SEK 1.00. Each share confers one vote and each person entitled to vote may vote at the general meeting of shareholders for the full number of shares owned and represented. All shares confer the same right to participate in the company's assets and profit.

Share capital development for the year

No change in the share capital has taken place during the year. Full development of share capital is presented on INVISIO's website, www.invisio.com/IR

Trading in the share

The INVISIO share has been listed on Nasdaq Stockholm since May 29, 2015 and since 2016 has been included in the Mid Cap segment. The highest price paid in 2019 was SEK 103.40 and the lowest was SEK 53.50. The closing price on December 30, 2019, was SEK 101.80, giving a total market value of SEK 4,454 million. In 2019 a total of 22.8 million shares were traded for a total value of SEK 1,771 million, based on an annual average share price.

Shareholders

The number of registered shareholders at the close of the year was 3,050 (3,278) according to data from Euroclear. The ten largest shareholders accounted for 65.4 percent of the company's shares on the balance sheet date. Swedish ownership accounted for 53.8 percent of the votes and capital.

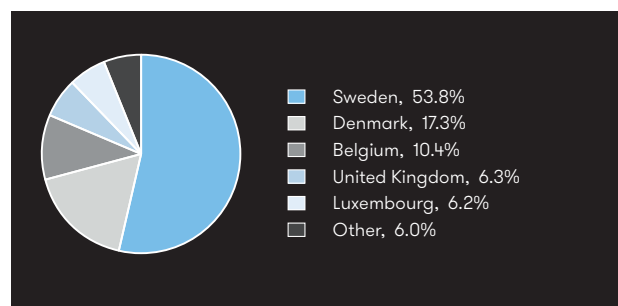
Dividend and policy

The Board of Directors of INVISIO proposes to the 2020 Annual General Meeting that a dividend of SEK 0.85 per share be distributed for 2019 (0,70). According to the dividend policy adopted by the Board, the dividend size must take into account INVISIO's long-term growth and earnings trend as well as capital needs, taking financial targets into consideration. The dividend target is that it should constitute 25 to 50 percent of profit after tax.

Employee Stock Option Program

At the 2018 and 2019 Annual General Meetings it was resolved to offer the staff an incentive program based on stock options, the Employee Stock Option Program 2018/2021 and the Employee Stock Option Program 2019/2022. The programs are for all employees of the Group. To ensure availability of shares in INVISIO for transfer within the programs, stock options were issued for the wholly-owned Danish company INVISIO Communications A/S. The stock options entitled the holder to subscribe for a total of no more than 1,100,000 new shares in INVISIO. As shown in Note 7, 1,039,000 stock options were allocated.

Ownership by country in %



Share price and trading 2015-2019



Ticker symbol: IVSO
Sector: Technology
Share's ISIN code: SE0001200015

INVISIO's 10 largest shareholders per December 30, 2019

Owner	Number of shares	Percentage of votes and capital, %
Novo Holdings	4,644,470	10.5
BNY Mellon SA/NV	4,477,694	10.2
Swedbank Robur Fonder	3,880,063	8.8
Lage Jonason, w/ family and companies	2,860,600	6.5
Handelsbanken fonder	2,850,000	6.5
SEB Investment Management	2,600,302	5.9
Fourth National Pension Fund	2,465,049	5.6
Aidani AB	2,075,889	4.7
JP Morgan Bank Luxembourg S.A.	1,907,629	4.3
State Street Bank and Trust Co, W9	1,071,173	2.4
Others	15,265,625	34.6
Total	44,098,494	100.0

Source: Euroclear Sweden, INVISIO December 30, 2019



Redeye's equity analyst Viktor Westman on INVISIO

Redeye with equity analyst Viktor Westman have been analyzing INVISIO since 2014. Redeye's analyses are in the public domain and can be found at redeye.se.

What factors are most important to keep a check on as regards INVISIO?

Redeye focuses most on order intake and the news flow concerning new, major contracts between quarters. Assessment of individual quarters is basically just about guessing how much of the order book is delivered, which means that quarterly reports as a rule are secondary. However, we always follow the gross margin closely, since it is important to understand the leverage on growing sales.

How do you arrive at a value for INVISIO?

We make a long-term, fundamental analysis in which we discount future cash flows. We look forward several years and first make an assessment of how the company's sales can develop with the help of the growth factors and the entry barriers we have identified. We then try to make an assessment of the scalability of the organization (how the cost structure develops) and how well the company can maintain prices and gross margin. Please note that we do not just make a valuation. We also focus a great deal of the analysis on what could go wrong, and what the company may be worth in such a reasonably pessimistic scenario (bear case).

Does anything stand out when you study INVISIO?

We have a universe of about 130 monitored companies, where we carry out a thorough rating of the quality of all these companies, in terms of management, ownership structure, business and finances. The rating model consists of a checklist with about 100 questions, and we use the final result to assess the risk of an investment, in which high quality means lower risk, and vice versa. We note that INVISIO has consistently had one of the highest scores of all our 130 companies.

How do you regard growth potential?

Our investment case builds on three pillars in completely new growth markets: 1) The Intercom solution for vehicles, 2) the law enforcement market, and 3) new geographies outside NATO (Asia, Middle East & South America). We expect average sales growth of 21 percent per year to 2025, driven by these three factors.

Does the INVISIO share have an Achilles heel?

We have for a long time been looking for a higher level of ownership among insiders, particularly the Board of Directors. If a board accepts the idea of "skin in the game", in our experience



Viktor Westman

this generally drives towards decisions with a higher shareholder value. We do not see any current threat in this respect, but for the long-term

competitiveness of the company we believe it would be a good thing if insiders were sitting more in the same boat as the shareholders. INVISIO has incentive programs that may alleviate this problem. However, the best signal in our view would be if insiders themselves bought shares on the market.

How should you regard the P/E key ratio for a growth company?

We think you should be very careful and selective in using the P/E ratio for a growth company like INVISIO. A P/E multiple can fall unbelievably fast with a couple of years growth. The gist of it is, as Warren Buffett often says, that time is the friend of the wonderful company, the enemy of the mediocre.

Sustainability report

INVISIO develops and sells communication systems that provide reliable communication, protect against hearing loss and help users to work safely and effectively in extreme environments. In this way the operations contribute to better health and safety as well as to a more sustainable society. Apart from reducing the suffering of individuals this also reduces society's costs related to medical care and compensation for hearing loss.

Framework for sustainability

INVISIO has established four policies to steer INVISIO's approach and actions in the area of sustainability.

Quality policy

The quality policy reflects INVISIO's view of quality and aims to ensure that the company's products meet customer needs and comply with regulatory requirements. The products are of crucial importance to the users and consequently INVISIO aims for the highest quality. Quality awareness is a central element of INVISIO's corporate culture and makes its mark on the company's sustainability work throughout the value chain.

Code of conduct

INVISIO's code of conduct sets a high ethical standard and establishes common rules for how

INVISIO's employees are to act towards each other and when representing the company. The guidelines also aim to guarantee a safe work environment and equal and fair treatment of all employees. Underlying the code of conduct are the ten principles of the UN Global Compact. The guidelines are supplemented by INVISIO's anti-corruption policy and code of conduct for suppliers, corporate governance rules and a number of internal policies.

Code of conduct for suppliers

INVISIO requires suppliers to comply with national laws and regulations concerning human rights, labor law, the environment and anti-corruption. The company's code of conduct for suppliers establishes principles for ethical and responsible conduct in accordance with internationally recognized regulations.

Anti-corruption policy

INVISIO considers that all forms of corrupt procedures, such as bribes, improper pressure, fraud, money laundering or cartel formation are harmful. To ensure that employees and INVISIO's existing and potential partners and customers comply with laws as well as good practice in the area, the company has established an anti-corruption policy.

Other policy documents

Apart from the above-mentioned policy documents INVISIO has produced further documents to support the company's operations, such as policies to ensure that financial reporting to the capital market is correct and that the company is governed in accordance with applicable laws and ordinances.

Overview of the value chain

	Product development	Suppliers	Partners	Management and headquarters
Risks	<p>Deficient design relating to safety, reliability and user-friendliness.</p> <p>Non-compliance with requirements.</p> <p>Use of harmful materials.</p>	<p>Inferior products.</p> <p>Insufficient compliance with INVISIO's requirements concerning human rights, working conditions, environment and anti-corruption.</p>	<p>Bribery.</p> <p>Insufficient compliance with INVISIO's requirements concerning anti-corruption.</p>	<p>Risks related to the employer-employee relationship and the relationship between employees.</p>
Policies and measures	<p>General policies (Code of conduct, Code of conduct for suppliers, Quality policy, Anti-corruption policy etc).</p> <p>Standardized product development and design processes.</p> <p>Extensive tests.</p> <p>Choice of material compliant with directives and standards.</p>	<p>Selection of suppliers that meet INVISIO's requirements</p> <p>Carry out regular inspections.</p>	<p>Selection of partners and resellers that meet INVISIO's requirements.</p>	<p>Employees are responsible for reading, signing and complying with the code of conduct.</p>
Our goals	<p>Successful continued implementation and maintenance of INVISIO's code of conduct and anti-corruption policy for the company's main suppliers and partners.</p> <p>Be an attractive employer with satisfied employees and a good work environment.</p>			



Operations and business model

INVISIO's sustainability work should be seen in the light of the company's operations and business model. The company develops and sells communication and hearing protection equipment for professional users. Included in the value chain, apart from our own operations, are component suppliers, contract manufacturers, resellers and other partners.

INVISIO's quality management system

INVISIO's quality management system is certified under the international standard ISO 9001 and contains policies, processes, work procedures, controls and rules for quality work.

The quality management system includes all activities that INVISIO is directly or indirectly involved in, from identifying customer needs, tenders and contracts, to product development, purchasing, suppliers, sales, customer support and other processes.

The CEO and management group are responsible for the quality man-

agement system and the quality manager is responsible for monitoring, audit, reporting and further development. The system's appropriateness, efficiency and plans for strategic improvements are regularly reported to the Board.

Product development

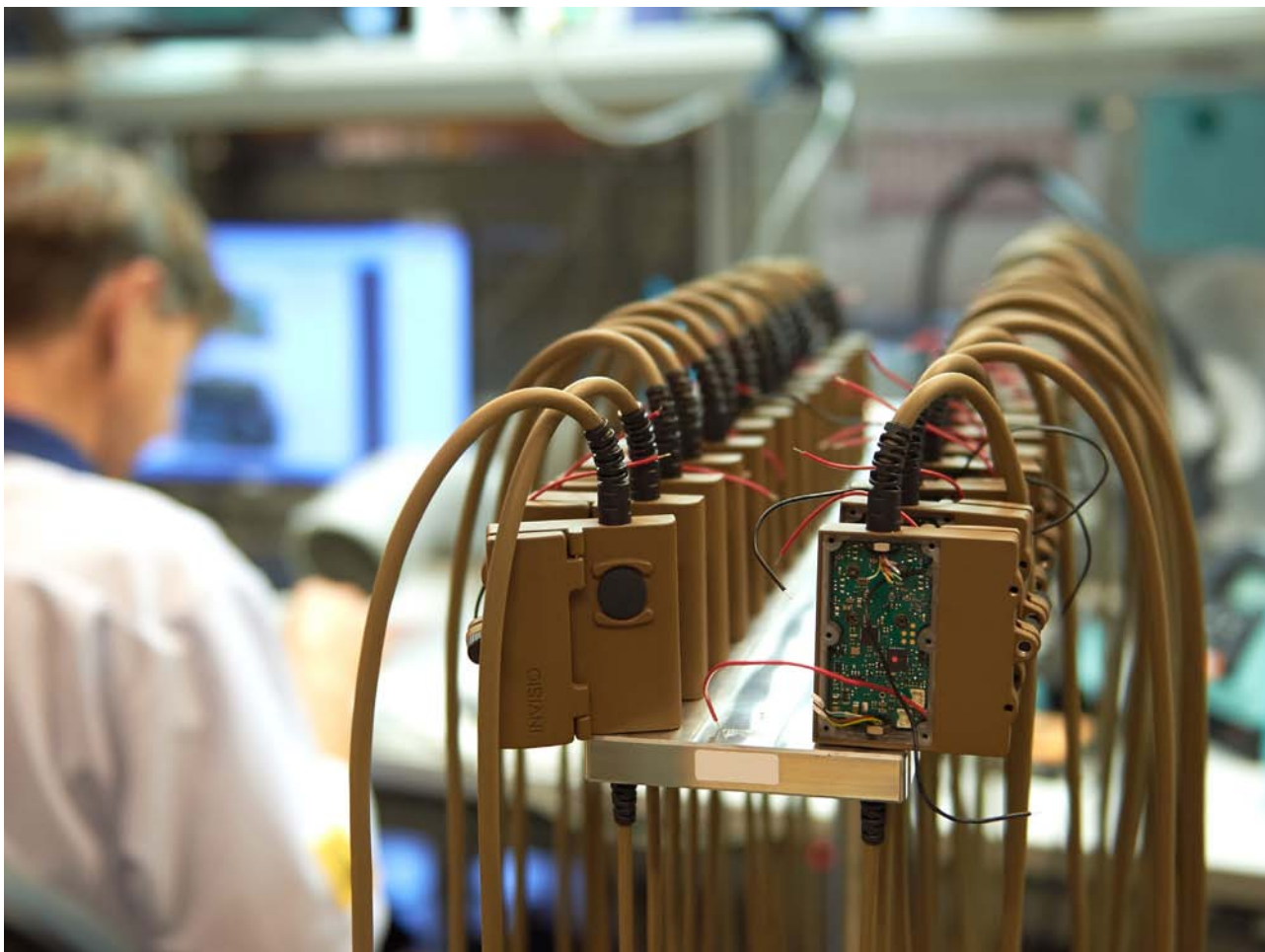
Product development is a key process at INVISIO. The company combines know-how in various technologies in user-friendly solutions that are compatible with different types of communication equipment. The solutions are based on technically advanced sound and signal processing, among other things. The products' environmental aspects are taken into consideration early in the development process, in connection with the design and specification phase.

INVISIO's products are used in critical and sometimes vital situations. The products' functionality and performance are therefore of crucial importance to the user. The solutions must meet high functional requirements and tolerate the extreme conditions under which they are used,

such as intense heat, cold, damp and water.

INVISIO guarantees that internal and external testing is carried out to verify that the products are safe, of high quality and meet the requirements of customers, authorities and certifying bodies. Of special importance for users of INVISIO's products is that the company's hearing protection is checked against relevant European and American standards. Among other things a check is made on whether the products meet international standards for electromagnetic radiation (including the EMC Regulation) as well as various national and military standards. In addition, checks are made on compliance with regulations on the use of chemicals and hazardous substances (REACH and RoHS) and European regulations for electronic waste (the WEEE Directive).

Field tests are carried out in the company's customer feedback process. Evaluation of the results is part of the work of constant improvement, both of product design and processes, including the test procedure itself.



Suppliers

INVISIO's products are manufactured by contract manufacturers. Together, four of them account for about 80 percent of INVISIO's purchases.

INVISIO checks that the largest suppliers comply with relevant rules through a process for evaluation of supplier quality (SQMP, Supplier Quality Management). A working group with representatives from the company's Supply Chain, Manufacturing Quality Assurance and R&D, functions is responsible for assessing, approving and monitoring the suppliers. The group holds regular meetings to evaluate existing and potential suppliers.

INVISIO enters into special agreements on collaboration with contract manufacturers regarding Manufacturing, Supply Chain and QA systems. They also sign INVISIO's code of conduct for suppliers and the anti-corruption policy.

Contract manufacturers and important suppliers are regularly and systematically monitored by INVISIO to ensure that they comply with INVISIO's Quality System and the other requirements INVISIO imposes, for example as regards the CSR aspects mentioned above. Written reports are drawn up and any non-compliance with agreements are discussed with the manufacturer, and where necessary a period of grace is granted to take corrective measures.

Partners and resellers

INVISIO's sales are made using its own staff based in Copenhagen, France, the USA and Italy as well as through partners. The partner may be a specialized reseller, integrator or radio manufacturer. INVISIO requires that good business practices are maintained throughout the value chain. As of 2017 partners are requested to confirm compliance with the principles of INVISIO's anti-corruption policy.

Performance indicators

No violations or incidents concerning corruption or human rights in its own operations or at important suppliers or partners have come to INVISIO's knowledge in 2019. As regards staff conditions, please see information on sickness absence and staff turnover in the section "We grow with our employees" on page 31.

Environment

The company employs about 100 people, about 80 of whom at the headquarters in Copenhagen. Manufacturing of the company's products takes place at a small number of well-reputed contract manufacturers in Europe and largely refers to assembly of components. The manufacturing is not energy-intensive and does not entail significant emissions to water and air. In summary, INVISIO assesses that environmental impact associated with the company's operations is not material.

We grow with our employees

INVISIO has about 100 employees from more than 10 countries based in Europe and the USA. Outstanding expertise and top-level skills are the hallmark of INVISIO employees.

More than a third of the staff work with R&D. The engineers specialize in fields such as acoustics, electronics, mechanics, and software. In addition INVISIO's employees have skills for example in sales and marketing, quality assurance and purchasing.

INVISIO is a company that offers challenging and stimulating work assignments in an international environment. The company aims for diversity in terms of the employees' backgrounds, experience and education. INVISIO offers health insurance and health promotion benefits to promote its employees' health. All employees are included in the company's incentive programs.

INVISIO's headquarters are located in Copenhagen. INVISIO also has staff in the USA, France and Italy.

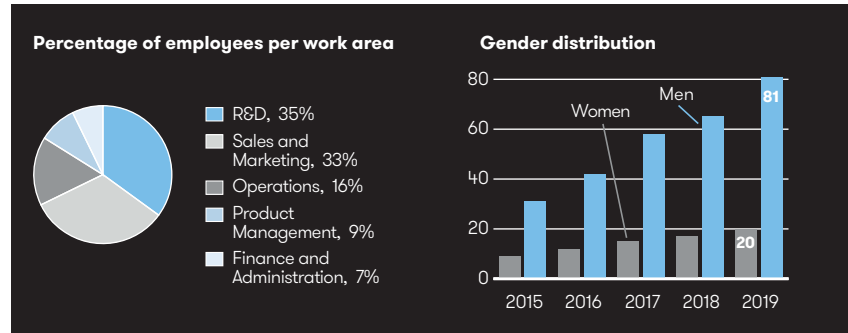
A healthy workplace

The work environment is marked by respect and trust for every individual employee. Insulting behavior and any forms of discrimination are unacceptable and employees are expected to treat each other as they wish to be treated themselves. Questions concerning work environment, health and safety are regulated in the company's staff manual.

In the day-to-day office work the organization takes measures to improve the environment. Staff are encouraged to be economical with energy and other resources.

At year-end the number of employees, restated as full-time equivalents, was 101 (82), of which 81 men (58) and 20 women (17). Staff turnover in 2019 was 3 percent (9). Short-term sickness absence in relation to the total number of hours worked was 1.5 percent (1.4).

All employees in the INVISIO Group have a personal responsibility to read, sign and comply with the code of conduct. To ensure that this is done for each new employee, a procedure



for follow-up is integrated into the company's quality management system. Approval is registered in the document management system.

Social commitment

INVISIO has supported the Danish network initiative Velkommen Hjem since 2017. The aim is to make veterans' transition from military to civilian working life as smooth as possible. A person with experience of military service can contribute skills and knowledge of teamwork and leadership. Utilizing these assets in the civilian labor market not only benefits the individual but also employers and the entire national economy.

At Velkommen Hjem the soldier passes through an HR process and prepares to seek work. Mentors from the private business sector open up their networks and help to match experience and skills with suitable

job opportunities. Read more: <http://velkommenhjem.net/>

The company assesses that INVISIO's impact for example on local communities where the company is established or on social life in other respects is not material.

Leadership training

INVISIO is a distinctive knowledge-based company. It is therefore of the greatest importance that employees continually enhance their skills. This applies not only to technical development but also to how INVISIO designs and runs its internal processes as well as leadership in the company.

One of many continuing professional training activities is the GROW leadership training, which is run externally and in which many employees have participated over the years. The most recent group to complete the training is pictured below.



History

INVISIO's roots are in "The Danish Sound", an international industry cluster with a long tradition of outstanding achievements in acoustics, hearing and mobile communication, based on research collaboration between business and universities. The operations started in 1999 and until 2008 INVISIO marketed its products to both the consumer market and professional users, but then streamlined the business to focus on communication solutions for professional users.¹⁾

2019

The five-year framework agreement with a customer in the American Department of Defense worth SEK 290 million is the largest in the company's history. The orders totaling SEK 55 million from the Belgian army mean that INVISIO gained one more defense force as a customer. The US Marines and the US Air Force elite unit, the Guardian Angels, chose INVISIO as a supplier in the second half of the year. Orders from the German and Japanese police, together with a framework agreement and first order from the Swedish police means a breakthrough in the law enforcement and security market. INVISIO's new offer, the Intercom system, met great interest in connection with the market launch.

2018

Continued focus on building a larger company with a broader product portfolio, more markets and stronger customer relations. The collaboration with the Danish Ministry of Defence was extended through a 5-year agreement. Launch of control unit INVISIO V10 for special units.

2017

Own sales team in place in the USA, France and Italy. Launch of the control unit INVISIO V50 and presentation of a new product category for communication in vehicles.

2016

Strengthened market position through follow-up orders from modernization programs in the USA, UK and Australia, as well as defense customers in France and other NATO countries. Sales exceed SEK 300 million. R&D in focus with investments for the future. Launch of control unit INVISIO V20.

2015

Broader customer base through contracts with three new army modernization programs in the UK, Canada and Australia, as well as important orders from the Swedish army. Increased resources for R&D.

2014

Several large follow-up orders from the American TCAPS and several volume orders from special forces in other NATO countries. Sales more than doubled and profit for the first time. Launch of the second product generation headset, INVISIO X5.

2013

Breakthrough order worth SEK 40 million from the US Army through the TCAPS modernization program. Continued orders from special forces in NATO. Full year sales more than doubled to SEK 85 million.

2012

Increased technical advances through launch of INVISIO V60, the industry's most advanced control unit. Subsequent reference order from an army customer in NATO.

2011

Launch of hearing protection and communication system INVISIO S10 for a directly connected radio unit. Important reference order in the domestic market from the Danish army.

2010

A number of reference orders from American and European defense customers. Through partners the company starts to participate in procurements for modernization programs. Launch of customized personal headset, INVISIO X6.

2009

Launch of the first hearing protection and communication system, the INVISIO X50 control unit with the INVISIO X5 headset. First volume order from special forces in individual NATO countries.

2008

INVISIO leaves the consumer market to focus on communication solutions for professional users.

¹⁾ The business was started in 1999 in the Danish company Nextlink.to A/S. On November 11, 2003 Nextlink AB (publ) was formed, to which the shareholders in Nextlink.to A/S transferred all their shares in 2004. Nextlink.to A/S thereby became a wholly-owned subsidiary of Nextlink AB (publ). This company changed its business name in 2008 to Invisio Headsets AB (publ) and in 2010 to Invisio Communications AB (publ). On June 7, 2004 the parent company's shares were listed on the OTC list of what was then Nordic Growth Markets. On May 29, 2006 trading in the company's shares moved first to First North and then, on July 9, 2009, to First North Premier. On May 29, 2015 the company's share was listed on Nasdaq Small Cap, and trading moved on January 2, 2016 to Nasdaq Mid Cap.

Corporate governance report

INVISIO Communications AB (publ.) ("INVISIO") is a Swedish limited liability company with its registered office in Stockholm. Apart from the parent company, the Group consists of the wholly-owned subsidiaries INVISIO Communications A/S (Denmark), INVISIO Communications SAS (France), INVISIO Communications Inc (USA), INVISIO Communications Srl (Italy), Nextlink IPR AB and Nextlink Patent AB. The Group's headquarters are in Copenhagen. INVISIO has applied the Swedish Code of Corporate Governance ("the Code") since the shares started to be traded in May 2015 and reports no deviations from the Code for 2019.

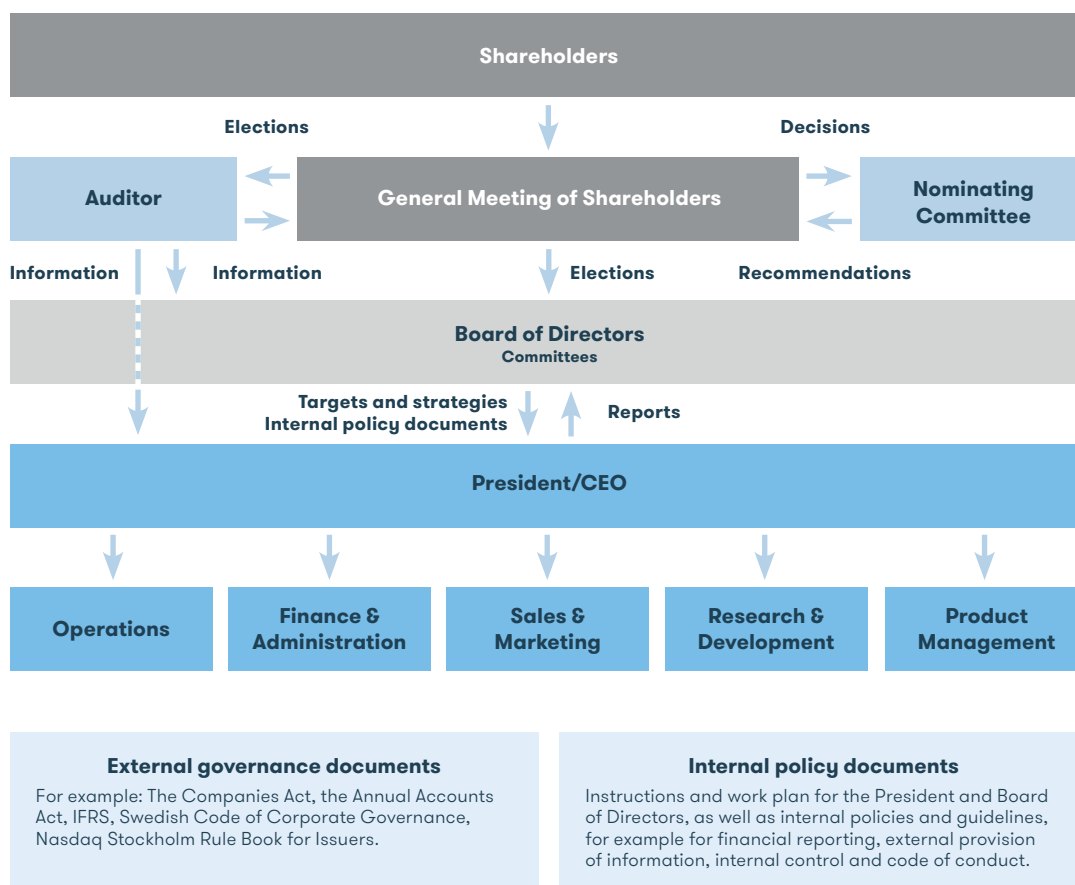
Principles for corporate governance

Governance of the Company and Group is based among other things on the Articles of Association, the Swedish Companies Act, the Nasdaq Stockholm Rule Book for Issuers and the Swedish Code of Corporate Governance, ("the Code"), as well as internal regulations and policies.

This corporate governance report is prepared as a separate document from the formal annual report.

The responsibility for governance and control of the INVISIO Group is divided between the shareholders at the general meeting of shareholders, the Board of Directors and the President/CEO. An overview of the Group's organization, governance and control, including external and internal policy documents, is shown in the illustration below.

Overview of corporate governance at INVISIO



Shareholders

Voting rights

The INVISIO share has been listed on Nasdaq Stockholm since May 2015. The Company's share capital at December 31, 2019 amounted to SEK 44.1 million (44.1), divided into 44,098,494 shares (44,098,494), each with a quotient value of 1.00. All shares have equal voting rights and there is no limit to the number of votes each shareholder may use at a general meeting.

Ownership structure

As at December 30, 2019, INVISIO had 3,050 shareholders (3,278). Major shareholders, representing at least 10 percent of the votes, are NOVO Holdings A/S, with 10.5 percent of the capital and votes.

General Meeting of Shareholders

The right of shareholders to decide on the affairs of INVISIO is exercised at the general meeting of shareholders, which is the company's highest decision-making body. The Annual General Meeting must be held within six months of the close of the financial year and is usually held in April, or May in Stockholm. At the Annual General Meeting, resolutions are adopted concerning adoption of the company's income statement and balance sheet, disposition of the company's profit or loss, discharge of the board members and CEO from liability to the Company, election of members of the Board, the Chair of the Board, and auditor, the setting of board and auditors' fees, and other items of business that are incumbent upon the AGM pursuant to the Swedish Companies Act, the Articles of Association or the Swedish Code of Corporate Governance. An extraordinary general meeting of shareholders will be held where the Board finds reason to do so in accordance with the Swedish Companies Act. The Articles of Association do not contain any special provisions concerning amendment of the Articles by the general meeting of shareholders.

Annual General Meeting 2019

The 2019 Annual General Meeting was held in Stockholm on May 2. A total of 27 shareholders or their proxies were present, representing 39 percent of the number of shares and votes. A number of the resolutions that were passed are set out below.

- The general meeting adopted the income statement and balance sheet in the annual report and resolved in accordance with the Board's proposed appropriation of earnings and granted discharge from liability to the members of the Board and the President/CEO.
- The general meeting re-elected members of the Board Annika Andersson, Charlotta Falvin, Lage Jonason, Ulrika Hagdahl and Martin Krupicka, in accordance with the Nominating Committee's proposal. Charlott Samuelsson was elected as a new member of the Board. Annika Andersson was elected as Chair of the Board of Directors.
- The general meeting voted in accordance with the Nominating Committee's proposed board fee. For more information, please refer to Remuneration of the Board and Committees presented below.
- The general meeting resolved in accordance with the Board's proposal on guidelines for remuneration to the President/CEO and other senior executives as presented on page 36.
- The general meeting resolved to adopt an employee stock option program, to issue stock options and transfer stock options. For more information, please see Note 7.

The minutes of the Annual General Meeting can be found on the INVISIO website www.invisio.com/IR.

Annual General Meeting 2020

The 2020 Annual General Meeting will be held on May 5, 2020, at 13.00. The notice to attend can be found at www.invisio.com/IR.

Nominating Committee

The main function of the Nominating Committee is to present proposals to the Annual General Meeting for the composition of the Board, which are then approved by the Annual General Meeting. The work of the Nominating Committee starts by studying the evaluation of the work of the Board that the Board has commissioned. The Nominating Committee then nominates Board Members and Chair for the coming mandate period. Furthermore, the Nominating Committee presents proposals for the election of auditor and remuneration to the Board and auditors.

Composition of the Nominating Committee

In accordance with a resolution of the 2017 Annual General Meeting, INVISIO's Nominating Committee must be composed of the Chair of the Board and a representative of each of the three largest shareholders in terms of voting rights. The members of the Nominating Committee and the shareholders appointing them are presented in the table below. In 2019 the Nominating Committee held four meetings as well as maintaining contacts between meetings.

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 to serve on the Nominating Committee. If any of the major shareholders refrain from appointing a member, the Chair of the Board is to invite the shareholder next in size to appoint a member. The analysis of ownership shall be based on Euroclear's list of registered shareholders and on any other circumstances that are known to the Board Chair. In the event that a member voluntarily resigns from the Nominating Committee, the shareholder that appointed the outgoing member shall appoint a successor, provided the ownership structure has not materially changed. If the ownership structure in the company is materially changed the Nominating Committee can decide to change its composition so that the Committee reflects the ownership of the company appropriately. Even if changes are made in the ownership structure of the company, no changes need to be made to the composition of the Nominating Committee where the changes are minor or where a change occurs less than three months before the Annual General Meeting unless it is justified as a result of special circumstances. The member representing the largest shareholder by voting power shall be appointed as chair of the Nominating Committee unless otherwise agreed by the members. However, neither the Chair of the Board nor another Board member shall chair the Nominating Committee.

The Nominating Committee is encouraged to contact both large shareholders that have not appointed a member to the Nominating Committee and representatives of small shareholders, to ascertain their assessments of the matters that concern the Nominating Committee.

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 significant to the composition of the Board.

Nominating Committee for the Annual General Meeting in 2020

Member	Representing	Voting share ¹
Simon Vesterby Kold	Novo Holdings	10.5%
Claus Berner Møller	ATP	9.0%
Lennart Francke	Swedbank Robur Fonder	8.8%
Annika Andersson	Member by virtue of being Chair of the Board	Not applicable

¹ Source: Euroclear Sweden, INVISIO December 30, 2019

Remuneration of the Nominating Committee

No remuneration is payable to the members of the Nominating Committee.

Board of Directors

The Board of Directors is responsible for INVISIO’s organization and management of the company’s affairs.

Composition of the Board of Directors

In accordance with the Articles of Association, INVISIO’s Board of Directors shall consist of a minimum of three and a maximum of eight members. The Annual General Meeting in 2019 re-elected Annika Andersson, Charlotta Falvin, Lage Jonason, Ulrika Hagdahl and Martin Krupicka. Charlott Samuelsson was elected as a new member of the Board. Further, Annika Andersson was elected as Chair.

The members of the Board represent a group with technical, commercial and economic knowledge, with experience of business development, growth, internationalization and is well suited and focused on conducting business in all respects in a sustainable way. For further information on the Board members, please refer to pages 38-39.

The Articles of Association do not include any particular provisions on appointment or dismissal of members of the Board.

Independence of the Board

The composition of the Board meets the requirements of the Code of Corporate Governance concerning independent members. The independence assessments for each member are presented on pages 38-39.

The Board’s Work Plan

Every year the Board adopts a work plan for its work. This is done at the time of the inaugural board meeting and the work plan is thereafter updated as necessary. The work plan describes the responsibilities and duties of the Board and its Committees, their internal division of duties and working methods, as well as distribution between the Board and the President/CEO. The current work plan was adopted on May 2, 2019.

The work of the Board

Under the adopted work plan, the Board must meet at least six times in addition to the inaugural board meeting.

In 2019 the Board held eleven meetings, including the inaugural meeting. Standing items at the meetings are the business situation,

financial situation and performance monitoring. Important matters during the year included business objectives, strategic focus, R&D initiatives and organization. The attendance of the members at the meetings is shown in the table below.

INVISIO’s CEO and CFO regularly participate in Board meetings. Other senior executives participate in the Board meetings if necessary as presenters. The company’s CFO normally acts as secretary at the Board meetings.

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. For 2019 evaluation took place partly through a questionnaire that was then compiled and commented on by an independent party, and partly through separate interviews with each member of the Board conducted by the Nominating Committee. These interviews were conducted by Simon Vesterby Kold, representing Novo Holdings A/S, and Claus Berner Møller, representing ATP and Lennart Francke, representing Swedbank Robur Fonder.

Committees

Audit Committee

The entire Board carries out the tasks of the Audit Committee. Thus the composition of the Committee consists of all members

Board members’ attendance at Board meetings

Annika Andersson, chair	11 of 11
Charlotta Falvin	11 of 11
Lage Jonason	11 of 11
Martin Krupicka	11 of 11
Ulrika Hagdahl	11 of 11
Charlott Samuelsson ¹	6 of 7
Lars Röckert ²	4 of 4

¹Charlott Samuelsson was elected in May 2019.

²Lars Röckert resigned in May 2019.

Work of the Board of Directors in 2019

December

- Budget 2020
- Focus: R&D and product development

October

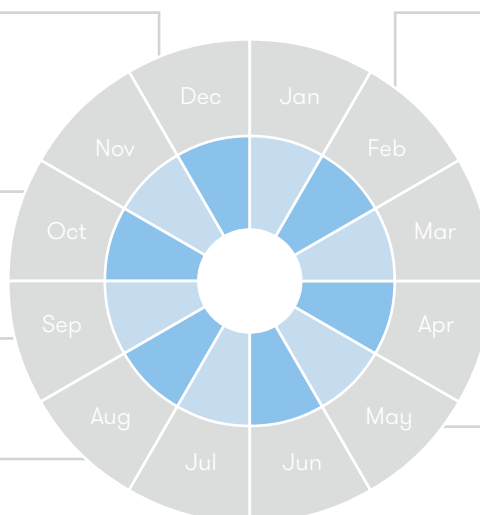
- Interim report
- Audit Committee reporting
- Focus: IT security

September

- Follow up of strategy meeting
- Focus: Marketing & Sales

August

- Half-year report
- Policies and instructions



February

- Auditors’ review report
- Year-end report

March

- Adoption of the annual report

May

- Interim report
- Policies and instructions
- Strategy meeting
- Focus: Quality assurance

of the Board and it is chaired by Ulrika Hagdahl. The duties and responsibility of the Audit Committee include:

- monitoring the company's financial reporting and submitting recommendations and proposals to ensure reliability of reporting;
 - with regard to 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, as well as the conclusions of the Supervisory Board of Public Accountants quality control,
 - being able to report how the audit contributed to the reliability of financial reporting,
 - examining and monitoring the external auditor's impartiality and independence, 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 resolution of the general meeting of shareholders on the election of auditor.
- For a new election of auditor the Committee's recommendation must include at least two alternatives for the audit engagement and the Committee must give reasons for the alternative preferred by the Committee. In its recommendation the Committee must base its reasoning on the results of the compulsory selection procedure arranged by the company under the responsibility of the Committee.

Remuneration Committee

In connection with the inaugural Board meeting after the Annual General Meeting in 2019 the Board appointed a Remuneration Committee consisting of Charlotta Falvin (chair) and Annika Andersson.

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

In 2019 the Remuneration Committee met four times and in addition maintained contact between meetings. All members participated in these meetings.

Remuneration of the Board and Committees

Board fees are determined by the shareholders at general meetings. The 2019 Annual General Meeting resolved that board fees totaling SEK 450,000 shall be paid to the Chair of the Board and SEK 180,000 to each of the other Board members. In addition a fee of SEK 60,000 is payable to the chairs of the Remuneration Committee and the Audit Committee, as well as SEK 40,000 to a maximum of two committee members. Remuneration of the Board is described in more detail in Note 8.

Auditor

INVISIO's auditor audits the annual report, consolidated accounts and bookkeeping, as well as the administration by the Board and President/CEO. The auditor works according to an audit plan and reports any findings to the Audit Committee at audit meetings and Board meetings. The auditor participates at the Annual General Meeting in order to present the auditor's report, which describes the audit work and the auditor's conclusions. Apart from this, the auditor also normally participates in three Audit Committee meetings and one Board meeting during the autumn and one in the spring. On behalf of the Board the auditor has also reviewed the interim report for January-September 2019.

The Company's firm of auditors, PricewaterhouseCoopers AB, was re-elected at the 2019 Annual General Meeting for the period until 2020. The auditor in charge is authorized public accountant Mats Åkerlund.

Remuneration to the auditor

The Annual General Meeting in 2019 resolved that the fee to the auditor shall be payable in accordance with an approved invoice. Remuneration of the auditors is described in more detail in Note 6.

President/CEO and management

The President/CEO is responsible for the day-to-day administration of INVISIO in accordance with the Board's guidelines and instructions. The current instruction to the President/CEO was adopted by the Board on May 2, 2019. The President/CEO prepares information and decision-making documentation for the Board meetings.

The President/CEO is assisted by a group management team consisting of the heads of the company's functions: Finance & Administration, Marketing & Sales, Research & Development, Product Management and Operations. All members of the management are based at INVISIO's headquarters in Copenhagen, apart from the SVP sales North America who works in the USA. The management group holds weekly meetings at which operational issues are discussed. A more detailed presentation of the President/CEO and the management group is given on pages 40-41.

Remuneration to the President/CEO & other senior executives

The 2019 Annual General Meeting resolved in accordance with the Board's proposal to adopt the following guidelines for remuneration to the President/CEO and other senior executives, valid until the 2020 Annual General Meeting.

The company is to endeavor to offer total remuneration that enables the Group to attract and retain senior executives. Remuneration to senior executives, both in the short and long term, must be based on the individual's performance and responsibility, as well as the earnings of INVISIO and its subsidiaries and it must link the interests and rewards of the senior executives with those of the shareholders.

Remuneration to senior executives may consist of fixed salary, short-term variable cash remuneration, the opportunity to participate in long-term share or share-price related incentive programs, as well as pension and other benefits. The senior executives' fixed salaries are revised annually and must be competitive and based on the individual's skills, responsibilities and performance. The variable cash remuneration is to be based on how well the targets set for the respective areas of responsibility and for INVISIO and its subsidiaries have been met. The outcome is to be linked to measurable targets (qualitative, quantitative, general and individual). The targets within the senior executives' respective areas of responsibility aim to promote the development of INVISIO Communications, both in the short and long term. The variable remuneration shall not exceed 50 percent of the fixed salary and shall not be used as a basis for calculation of pension or vacation pay, to the extent permitted by applicable law. Any pension benefits shall be through a defined contribution plan.

Remuneration of the President/CEO and other senior executives is described in more detail in Notes 7 and 8.

A new proposal for guidelines will be presented at the 2020 Annual General Meeting.

Long-term incentive programs

The 2018 and 2019 Annual General Meetings resolved in accordance with a proposal by the Board of Directors, to establish an employee stock option program 2018/2022 and an employee stock option program 2019/2022. The programs are described further in Note 7.

Period of notice

According to his employment contract, the President/CEO has a 12-month period of notice in the event of termination by the Company. The period of notice in the event of termination by the President/CEO is eight months.

In their employment contracts, other senior executives have a six-month notice period in the event of termination by the company. The notice period in the event of termination by other senior executives is three months.

Internal control and risk management referring to financial reporting

Internal control and risk management referring to financial reporting is a central component of INVISIO's corporate governance. The process aims to provide reasonable assurance concerning the reliability of interim reports, year-end reports and annual reports and to ensure that these reports are prepared in accordance with applicable laws, accounting standards and other rules.

INVISIO's risk management and internal control are based on the Internal Control - Integrated Framework issued in 2013 by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO). According to COSO, internal control is a process with the following components: control environment, risk assessment, control activities, information and communication and monitoring.

Control environment

The control environment forms the basis of internal control and risk assessment within INVISIO and consists of the values and the culture communicated and acted on by the Board and management, as well as the organization structure, leadership, authority, decision-making channels and employees' expertise. This includes several internal policy documents, which have been adopted by the Board. An overview of the company's organization, governance and control, including external and internal policy instruments can be found on page 33.

The Board of Directors has the overall responsibility for internal control and reporting and has acted in its entirety as an Audit Committee with the task of and responsibility for monitoring INVISIO's financial reporting and monitoring the effectiveness of this process. See page 35 under the heading "Audit Committee" for more information.

Risk assessment

The Board has delegated the operative responsibility for risk assessment and internal control to the management group. INVISIO's management group conducts annual systematic risk assessments. This means that the company management assesses the risks that are removed or added, as well as selecting prioritized processes. Process descriptions are prepared as decision-making data for the Board. They include information on the purpose, risks, controls and effectiveness of the process.

The company's risk management is described further in the Administration Report and in Note 2.

Control activities

In accordance with the internal control policy, the CFO is responsible for coordination, management and follow-up of internal control, including financial reporting. The CFO, together with the

accounting department and others, is to ensure that process descriptions and internal frameworks are prepared and be responsible for reporting on the work concerning internal control and risk management in INVISIO to the Board and the Audit Committee.

To ensure good internal control concerning financial reporting, the company has established control activities for each main process, aimed at preventing, discovering and correcting errors and non-compliance. Among the areas of control are approval of business transactions, reliability of business systems, compliance with laws and other requirements placed on listed companies, segregation of duties, application of accounting standards and other areas that include material elements of assessment.

Information and communication

The Board of Directors has drawn up an information policy for external provision of information that is to ensure that the market receives relevant, reliable, correct and current information on the development and financial position of the company. The Board has also drawn up an insider policy aimed at safeguarding the integrity of information provided.

The company's internal policy instruments in the form of policies, guidelines and manuals for internal and external communication are regularly updated and communicated internally via relevant channels, such as internal meetings, email and the company's document management system.

Monitoring

The CFO has the operative responsibility for monitoring risk management and internal control with respect to financial reporting. This includes monitoring monthly financial reports against targets and plans, monitoring the President/CEO's business reports to the Board and monitoring reports from the company's auditor. In addition the main processes and associated control activities are regularly evaluated to ensure adequacy and effectiveness. The results are reported to the Board and the Audit Committee.

INVISIO has not set up a dedicated internal audit function. The Board of Directors has evaluated the need for this function and concluded that the size of the organization and scope of its activities do not justify such a function.

Events and activities in 2019

During the year INVISIO continued its work of continual improvement of internal control and governance as the business grows and demands increase, for example by means of greater integration and automation of flows in the business system. During the year work intensified to increase IT security.

Board of Directors



Annika Andersson

Chair of the Board since 2019.
Member since 2014.
Born: 1958.

Annika Andersson is a professional board director and advisor on corporate governance. She has long experience of the financial industry from organizations such as the Fourth Swedish National Pension Fund as portfolio manager and responsible for shareholder issues, information, and sustainability.

Other engagements

Board Chair of Karolinska Institutet Innovations AB and Sequitor Engineering AB, member of the boards of Karolinska Institutet Holding AB and Jetty AB.

Education

M.Sc. in Business Administration and Economics, Stockholm School of Economics.

Holding¹

20,000 shares

Independence

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

Member of the Audit Committee
Member of the Remuneration Committee



Charlotta Falvin

Member since 2014.
Born: 1966.

After an operational career in IT and the telecoms industry, Charlotta Falvin now devotes herself to board positions. She has many years' experience of international business development and leadership, for example as Vice President at Axis and CEO of Decuma and The Astonishing Tribe (TAT).

Other engagements

Board Chair of Lund Technical University, Skåne Startups and Regional Board of Handelsbanken South. Board member of Bure Equity AB, Net Insight AB, Boule Diagnostics AB, Tobii AB, Minc AB and Sydsvenska Handelskammaren.

Education

MBA, Lund University.

Holding¹

0 shares

Independence

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

Member of the Audit Committee
Chair of the Remuneration Committee



Lage Jonason

Member since 2012.
Born: 1951.

Lage Jonason has more than 30 years' experience of the financial sector. He runs his own business as an active investor and as Senior Advisor to Erik Penser Bankaktiebolag. His previous experience also covers own advisory services in corporate finance, CEO of JP Nordiska AB (now Ålandsbanken Sweden) and before that various management positions in Förvaltnings AB Ratos and Investment AB Skrinet, among others.

Other engagements

Member of the board and CEO of Lage Jonason AB. Board chair of Urb-it AB. Member of the board of INSPI AB, AB Paternum, AB G C Lapidem, AB I.V. Numen Adest, OQM Fund Management and Culot AB. Chair of the Board of Stockholm International School Foundation and member of the board of the Sweden-America Foundation.

Education

Master of Laws and M.Sc. in Business Administration, Lund University.

Holding¹

2,860,600 shares (with family and companies).

Independence

Dependent in relation to major shareholders and independent in relation to the company and the company management.

Member of the Audit Committee

¹ Source: Euroclear Sweden, INVISIO December 30, 2019



Ulrika Hagdahl

Member since 2018.
Born: 1962.

Ulrika Hagdahl previously built up and successfully ran Orc Software, where she was CEO from 1990 to 2000.

Other engagements

Board member of Beijer Electronics Group AB and AB Idre Golf Ski & Spa.

Education

M. Sc. in Engineering, Royal Institute of Technology, Stockholm.

Holding¹

0 shares

Independence

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

Chair of the Audit Committee



Martin Krupicka

Member since 2018.
Born: 1973.

Since 2009 Martin has been CEO of the Brokk Group, which is part of Lifco AB. Martin has previously worked on company strategy and mobile services at Microsoft in the USA and as a management consultant at Connecta and Accenture.

Other engagements

CEO of the Brokk Group. Member of the boards of Ahlberg Cameras AB, Aquajet Systems AB, and Darda GmbH.

Education

M.Sc. in Engineering, Linköping Institute of Technology, MBA from Harvard Business School.

Holding¹

0 shares

Independence

Independent in relation to the company, its management and major shareholders

Member of the Audit Committee



Charlott Samuelsson

Member since 2019.
Born: 1963.

Charlott is Sr Vice President and head of the business area Pattern Generators at Mycronic AB, a company where she has held various leading positions since 2000.

Other engagements

-

Education

M. Sc. in Engineering, Chalmers University of Technology, Gothenburg.

Holding¹

0 shares

Independence

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

Member of the Audit Committee

Auditor

PricewaterhouseCoopers AB

Mats Åkerlund
Authorized Public Accountant
INVISIO's auditor since 2017.

¹ Source: Euroclear Sweden, INVISIO December 30, 2019

Management group



Lars Højgård Hansen

President and Chief Executive Officer since 2007.
Employed: 2006. Born: 1963.

Lars Højgård Hansen has long experience of international sales and marketing, mainly in the telecoms industry and has held several leading marketing positions in the Sony Ericsson Group, including head of Sales & Marketing at the business unit Accessories EMEA, and GN Netcom A/S.

Education

Graduate Diploma (HD), Copenhagen Business School and Executive MBA, Lund University, School of Economics and Management.

Holding

600,055 shares¹ and 70,000 options.



Thomas Larsson

CFO.
Employed: 2012. Born: 1964.

Thomas Larsson has long experience of various financial and accounting roles both in listed companies and private companies at different phases of development, including Pharmacia and Doro Nordic. Thomas' most recent role was as CFO of Systemtextgruppen.

Education

M.Sc. in Economics and Business Administration, Växjö University.

Holding

240,560 shares¹ and 34,000 options.



Sigge Frolov

SVP Product Management and Product Marketing.
Employed: 2018. Born: 1963.

Sigge Frolov has wide experience from different industries of commercializing high-tech products. He has previously held managerial positions in product management and marketing, most recently as VP Product Planning and Marketing at GN Resound A/S and before that in telecoms (Sony Ericsson), as well as the defense industry (SAAB/Kockums).

Education

M.Sc. in Engineering physics, Lund Technical University and Department of Business Administration, Lund University.

Holding

2,000 shares¹ and 34,000 options.



Joakim Birgersson

SVP Operations.
Employed 2018. Born: 1964.

Joakim Birgersson has many years' experience of the safety and hearing protection industry and has held leading positions in both small and large manufacturing companies, such as Sordin and Peltor. His most recent position was as Corporate Vice President and General Manager Europe at MSA Safety.

Education

Mechanical engineer. University studies. Diploma in Marketing.

Holding

17,000 options.

¹ Source: Euroclear Sweden, INVISIO December 30, 2019



Carsten Aagesen

SVP Global Sales & Marketing.
Employed 2007. Born: 1968.

Carsten Aagesen has long experience of international sales and marketing from leading positions including at GN Netcom A/S and Apple. Previous experience includes marketing director at GN Netcom's mobile division and marketing manager at Apple Nordic & Benelux.

Education

Cand. merc. (MSc in Economics and Business Administration) Marketing and Strategic Management, Copenhagen Business School.

Holding

36,813 shares¹ and 34,000 options.



Jan Larsen

SVP R&D.
Employed 2007. Born: 1962.

Jan Larsen has many years' experience of product development of various types of hearing and acoustics applications and has held a number of leading positions in R&D at GN Store Nord, Netcom A/S, UnoMedical A/S and Oticon A/S.

Education

Electrical engineer with bachelor degree, Technical University of Denmark, Copenhagen and Graduate Diploma (HD-O), Copenhagen Business School.

Holding

95,666 shares¹ and 34,000 options.



Ray Clarke

SVP Sales North America
Employed: 2017 Born: 1961.

Ray Clarke has many years' experience in the defense and security sector, where he has held various leading positions. Ray has led global sales, marketing and business development teams in technology-intensive companies such as Draeger, Mine Safety Appliances and Revision Military.

Education

Bachelor of Science, West Virginia University.

Holding

20,000 options.

¹ Source: Euroclear Sweden, INVISIO December 30, 2019

Auditor's statement on the Corporate governance report

To the Annual General Meeting of the shareholders of INVISIO Communications AB (publ), corporate identity number 556651-0987

Assignment and division of responsibilities

The Board of Directors is responsible for the corporate governance report for 2019 on pages 33–41 and for its preparation in accordance with the Annual Accounts Act.

Focus and scope of review

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

Opinion

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, second paragraph, points 2-6 of the Annual Accounts Act and Chapter 7, Section 31, second paragraph of the same Act are consistent with the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Malmö, March 26, 2020

PricewaterhouseCoopers AB

Mats Åkerlund
Authorized Public Accountant
Auditor in charge

Åsa Markefors
Authorized Public Accountant

Auditor's statement on the Sustainability report

To the Annual General Meeting of the shareholders of INVISIO Communications AB (publ), corporate identity number 556651-0987

Assignment and division of responsibilities

The Board of Directors is responsible for the sustainability report for 2019 on pages 28–31 and for its preparation in accordance with the Annual Accounts Act.

Focus and scope of review

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

Opinion

A sustainability report has been prepared.

Malmö, March 26, 2020

PricewaterhouseCoopers AB

Mats Åkerlund
Authorized Public Accountant
Auditor in charge

Åsa Markefors
Authorized Public Accountant

Contents

- 44 Administration report
- 48 Consolidated income statement and statement of comprehensive income
- 49 Consolidated statement of financial position
- 50 Consolidated statement of changes in equity
- 51 Consolidated cash flow statement
- 52 Parent Company income statement
- 53 Parent Company balance sheet
- 54 Parent Company changes in equity
- 55 Parent Company cash flow statement
- 56 Notes
- 71 Auditor's report
- 74 Financial key figures
- 75 Reconciliation of alternative performance measures and Financial calendar
- 76 Five-year review



Administration report

The Board of Directors and President of INVISIO Communications AB (publ.) ("INVISIO"), corporate identity number 556651-0987, hereby submit the annual report and consolidated accounts for the 2019 financial year. Unless otherwise indicated, all amounts are stated in millions of Swedish kronor (SEK). Figures in parentheses refer to the previous year.

Operations

INVISIO develops and sells advanced communication systems with hearing protection that enable professionals in noisy and mission-critical environments to communicate and work effectively. By combining different technologies and skills in acoustics, electronics, mechanics and software, the company creates innovative and customized solutions that replace traditional methods.

INVISIO's customers are in defense, law enforcement and security. Sales are via the headquarters in Copenhagen and sales offices in the USA, France and Italy and via a global network of partners and resellers. Business is normally conducted via procurements.

Sales and profit

Sales for 2019 were SEK 513.8 million (354.5), an increase of 45 percent in comparison with the previous year. Sales on international markets are mainly in USD, EUR and GBP. In comparable currencies sales increased by 36 percent.

The order book totaled SEK 145.0 million (56.1) at the close of the year. Gross profit was SEK 313.3 million (199.7) and the gross margin as 61.0 percent (56.4).

Operating expenses were SEK 180.7 million (136.3). The increase refers to the larger organization and increased activities in accordance with INVISIO's growth strategy.

Development costs of SEK 39.6 million (23.4) were capitalized during the year. Depreciation of capitalized development costs of SEK 4.0 million (2.5) were included in operating expenses.

Operating profit was SEK 132.6 million (63.5) and the operating margin was 25.8 percent (17.9).

Net financial income was SEK 1.5 million (0.7).

The pre-tax profit was SEK 134.1 million (64.2) and net profit for the year was SEK 101.6 million (48.2). Earnings per share were SEK 2.30 (1.09).

Uneven order flow and sales over the year

INVISIO's market is characterized by large procurements, often with long lead times due to extensive processes with customer tests, both in laboratories and among users. This means that the order intake and sales for individual quarters may vary and have an effect on the full year figures.

Cash flow and investments

The Group's cash flow for 2019 was SEK 83.4 million (-54.6), of which cash flow from operating activities was SEK 158.4 million (-3.0). Cash flow from investing activities amounted to SEK -40.8 million (-25.1). Cash flow from financing activities was SEK -34.2 million (-26.5), of which SEK -30.9 million (-26.5) was dividend paid.

During the period the Group's investments amounted to SEK 40.8 million (25.1), of which SEK 39.6 million (23.4) was capitalized development costs and SEK 0.6 million (1.6) was net investment in property, plant and equipment.

At year-end, inventories were SEK 95.6 million (101.3).

Cash and cash equivalents and financial position

The Group's cash and cash equivalents at the year end amounted to SEK 145.1 million (62.2). INVISIO has sound financial strength and the Group had no loans at year-end.

Group equity at year-end amounted to SEK 366.0 million (292.0), which gave an equity/assets ratio of 76 percent (82).

Significant events during the year

An important part of INVISIO's growth strategy is to increase penetration of existing markets, both through our own sales offices

in selected markets and also through well-established partners. INVISIO's own sales teams in the USA, France and Italy are developing well and continuing their establishment in their respective markets, with a number of orders from both existing and new customers during the year.

In 2019 the company had a number of successes regarding new or renewed contracts and orders from existing and new customers.

The five-year framework agreement with a customer in the American Department of Defense worth SEK 290 million is the largest in the company's history.

The orders totaling SEK 55 million from the Belgian army mean that INVISIO gained one more defense force as a customer. The orders will probably be followed by more.

One more significant customer within the American Department of Defense chose INVISIO as its supplier in the fourth quarter.

The customer is the U.S. Airforce elite unit, the Guardian Angels. The order value amounted to SEK 28 million.

A framework agreement and first order from the Swedish police means a breakthrough in the law enforcement and security market. The orders from the Japanese police are also important, in that they are INVISIO's first orders in Japan and because one more police force has chosen INVISIO.

Apart from this, in 2019 INVISIO received several first-time orders, which should lead to further orders in 2020 and beyond. The first order from the American Marine Corps is significant, since the intention is to supply between 7,000 and 65,000 soldiers with modern hearing protection.

INVISIO received the year's largest individual order – amounting to SEK 111 million – from USSOCOM (U.S. Special Operations Command) as part of the CASL program. At the start of the year INVISIO experienced another success in the USA when the company was awarded GSA status by the General Services Administration.

Addition to the product portfolio

INVISIO continued to focus on extending its product portfolio and has intensified the marketing of the Intercom system.

More employees

To maintain a high rate of innovation and utilize market opportunities, both the development organization and the marketing and sales department were augmented with a number of new employees. The management group was augmented with the head of the company's American subsidiary.

Organization and employees

The Group consists of the parent company INVISIO Communications AB and the wholly-owned subsidiaries INVISIO Communications A/S (Denmark), INVISIO Communications SAS (France), INVISIO Communications Inc. (USA), INVISIO Communications Srl (Italy), Nextlink IPR AB and Nextlink Patent AB. INVISIO Communications AB is a holding company with no operations. The main operations are in the subsidiary INVISIO Communications A/S in Copenhagen, where the headquarters are also located. The function of the subsidiaries is mainly direct sales and market support to partners and resellers.

The number of employees in the Group, restated as full time positions, was 101 (82) at the close of the year. Of the employees, 81 were men (65) and 20 women (17). One employee (1) was employed in the parent company. More information can be found in the section on sustainability on page 31.

Research and development

Product development and technical innovation are important parts of INVISIO's growth strategy. Development is internal and based on knowledge of acoustics, electronics, mechanics and software as well as experience from Denmark's hearing industry. The Copenhagen region is now considered to be one of the world's leading clusters in acoustics and hearing. Strong customer relations and understanding of user needs are success factors when developing the portfolio.

INVISIO is constantly evaluating new inventions and technical solutions which may be suitable for patenting, and it takes the potential commercial value into account in each and every case. This is done as an integrated part of the product development process. The company balances its costs, efforts and opportunities with a focus on patents of high quality.

Product development for the new product category for in-vehicle communication is in close cooperation with selected customers, which has led to increased functionality in the finished solution.

In addition, a number of parallel development projects were run, aimed at strengthening the offer to customers in defense and security.

Production

INVISIO's products are mainly manufactured by contract manufacturers in Europe. Prototypes and product adaptations in smaller volumes are manufactured to some extent by INVISIO in Copenhagen.

The share and shareholders

Information about the INVISIO share and shareholders can be found on page 26.

Financial Instruments

INVISIO's use of financial instruments is described in Note 1 and Note 2.

Environment

The company does not conduct any operations that require permits or notification under the Swedish Environmental Code.

Parent company

Net sales in 2019 amounted to SEK 0.1 million (0.1). The operating result was SEK -7.7 million (-7.6). The net profit for the year was SEK -6.8 million (-6.1).

At year-end the parent company's cash and bank balances amounted to SEK 34.1 million (25.6). Equity amounted to SEK 114.6 million (150.8), which meant an equity/assets ratio of 96 percent (97).

Corporate Governance Report

The corporate governance report is prepared as a separate document from the formal annual report. The Corporate governance report is on pages 33-41.

Sustainability Report

In accordance with chapter 6, §11 of the Swedish Annual Accounts Act, INVISIO has chosen to prepare the Sustainability report as a report separate from the statutory Annual report. Please refer to pages 28-31 for the Sustainability report.

Risks and risk management

INVISIO is a leading supplier of technically advanced communication equipment to professional users in a global and competitive market. Technological advantage, close customer relations and long-term framework agreements are factors that reduce the company's risk level.

Structured process for risk management

Risk management is an important part of governance and control of INVISIO and affects the company's possibilities of achieving its objectives. INVISIO carries out an annual structured analysis of the company's overall risk exposure. Risks can generally be divided into market-related, operational, and financial risks. Market-related risks and financial risks are managed mostly at board and management level. In the first instance, operational risks are managed at management group and business area management level but can also be managed at board level if they are of strategic importance. The most significant risks (without ranking) and how they are handled are presented below. Detailed information about INVISIO's financial risks can be found in Note 2.

Market risk

Legislation and political decisions

INVISIO products are sold in a large number of markets. Changes to legislation and regulations in countries where the company operates or where the company's products are sold may adversely affect operations. Purchases from military and law enforcement organizations are influenced by political decisions and are dependent on tax revenues and appropriations. Developments in these respects may indirectly affect INVISIO.

Treatment: The company carefully follows developments in the markets and countries where INVISIO operates. For example, collaboration with business partners contributes to a better understanding of developments in the respective markets. Establishments in countries such as Italy, France and the USA mean better opportunities to monitor and assess local events and developments that are of importance to INVISIO's customers and hence to the company.

Demand for INVISIO's products is subject to fluctuations and volatility

INVISIO's operations are subject to fluctuations and volatility between quarters, which may impact the full year as the influx of orders is affected by long decision processes. Sales are largely via public procurement processes, normally with long lead times. Even if INVISIO is awarded a procurement contract, the first order may take a long time and the order inflow may vary over time. This entails a risk of uneven order intake and variations in sales in both the long-term and short-term perspective.

Treatment: The company endeavors to obtain more customers and to broaden its product portfolio, which leads to diversification of purchasing patterns and lower risk of uneven order and income flows.

Competition

The market for communications equipment to defense customers is characterized by competition and innovation. If INVISIO cannot adapt its activities and its products to developments in the market, there is a risk of the company losing competitiveness, which would change the company's expansion potential.

Treatment: INVISIO assesses that it has a technological advantage over its competitors. Since INVISIO's formation, the company has developed knowledge and experience in a number of technologies that are difficult for competitors to copy. INVISIO is receptive to its customers' wishes and needs. The close relationship to its customers constitutes an important competitive advantage. The company monitors its competitors closely.

Operational risks

Ability to manage growth

INVISIO meets increased demand for its products, which may place demands on management and the operational and financial infrastructure. Effective planning and management processes are of great importance in guaranteeing manufacture, component supply and delivery. If the company is not successful in adapting its organization, processes and capacity to increased demand, this may have negative effects on the company's sales, profits and financial position.

Treatment: The company has adapted its capacity to increased demand on an ongoing basis through investment, employment and increasing capacity at existing or new suppliers. The company has a strong financial position and well-developed systems aimed at maintaining good internal control at a high level of growth.

Operational risks cont.

Dependence on key personnel

INVISIO has a distinctly high-tech profile and is therefore dependent on being able to recruit and retain employees with a high level of knowledge, experience and creativity.

Treatment: The growth strategy includes having highly motivated key personnel. To attract and retain key people INVISIO continually develops working methods and management focused on a strong team feeling, knowledge-promoting methods and a favorable work environment. There is heavy emphasis on participation and shared core values for all employees.

Market acceptance of newly developed products

INVISIO intends to constantly develop and launch new products onto the market. There is always a risk that new products will not be received positively by the market, or that competing products launched by other actors may have more impact.

Treatment: The business areas Marketing, Product Management, R&D and Operations work together on planning new products and, in line with the business strategy, build on identified customer needs and requirements. The company follows developments in the market through close relationships with its customers and in addition gathers strategic intelligence aimed at early discovery of trends and events that may be relevant.

Customer dependency

A limited number of customers account for a large proportion of INVISIO's net sales. Two customers accounted for more than 10 percent of total net sales in 2019. Net sales to these two customers constitute 34 percent and 22 percent of the total. The loss of one or more these customers could in the short term have a significantly negative impact on INVISIO's business, financial position and performance.

Treatment: The company's growth strategy builds on increasing market share and expanding to new geographical markets and product areas. New subsidiaries in INVISIO's important markets are also expected to contribute to more customers for INVISIO and thus reduced customer concentration.

Niche product portfolio

INVISIO operates in a global niche in the market for communication equipment. Unfavorable development for this market segment could have negative consequences for INVISIO.

Treatment: The company has a product strategy aimed at launching new products in associated areas, which means a broadening of the product portfolio.

Dependency on suppliers

INVISIO's products are mainly manufactured by contract manufacturers in Europe. The company is dependent on their compliance with agreed requirements as regards, for example, quantity, quality, and delivery. Incorrect delivery or non-delivery from suppliers can lead to delayed supplies to customers and consequent loss of sales.

Treatment: INVISIO has broadened the base of contract manufacturers as volumes have grown. As part of its quality management system, the company has procedures for the selection and ongoing evaluation of existing suppliers, aimed at minimizing quality shortcomings.

Financial risk

Currency risk

Sales in international markets are mainly in USD, EUR and GBP, which means that INVISIO's sales and performance are impacted by changes in these currencies.

Treatment: The company has no major orders to balance any exchange rate fluctuations in the short term.

Guidelines for remuneration of senior executives

The last adopted guidelines for remuneration of senior executives are described in Note 8 and will remain in force until the Annual General Meeting to be held on May 5, 2020. The following guidelines on remuneration of senior executives will be proposed to the Annual General Meeting in 2020:

The Board's proposed resolution concerning guidelines for remuneration of senior executives

The Board proposes the following guidelines for remuneration of senior executives in the INVISIO Communications Group and members of the Board of the parent company, to the extent they receive remuneration outside their board assignment, to apply until further notice, though no longer than until the 2024 Annual General Meeting. The guidelines apply to contracts entered into after the resolution of the 2020 Annual General Meeting and in the event of amendments being made to existing contracts after that date. The guidelines do not include remuneration resolved by the general meeting.

The guidelines' promotion of the company's business strategy, long-term interests and sustainability

INVISIO Communications' strategy for profitable growth is in brief to increase market share in existing markets, broaden the product portfolio through innovative development, expand to new geographies and conduct the business cost-effectively. INVISIO Communications' financial targets are to increase the company's sales by an average of 20 percent per year and to have an operating margin that should not fall below 15 percent.

Successful implementation of the company's business strategy and safeguarding the company's long-term interests, including its sustainability, assume the ability of INVISIO Communications to recruit and retain qualified employees. Consequently, INVISIO Communications must endeavor to offer total remuneration that enables the Group to attract and retain senior executives. Remuneration to senior executives in INVISIO Communications, both in the short and long term, must be based on the individual's performance and responsibility, as well as the earnings of INVISIO Communications and its subsidiaries and it must link the interests and rewards of the senior executives with those of the shareholders.

Variable cash remuneration covered by these guidelines must aim to promote the company's business strategy and long-term interests, including its sustainability.

Forms of remuneration etc.

Remuneration of senior executives may consist of fixed salary, short-term variable cash remuneration, the opportunity to participate in long-term share or share-price related incentive programs, as well as pension and other benefits.

Fixed salary

The senior executives' fixed salaries are revised annually and must be competitive and based on the individual's skills, responsibilities and performance.

Variable remuneration

The variable cash remuneration of senior executives is to be based on how well the targets set for their respective areas of responsibility

and for INVISIO Communications and its subsidiaries have been met. The outcome is to be linked to measurable targets (qualitative, quantitative, general and individual). The measurement period for variable remuneration is based as a principal rule on performance over a period of about twelve months. The targets within the senior executives' respective areas of responsibility aim to promote the development of INVISIO Communications, both in the short and long term.

When the measurement period for meeting the criteria for payment of variable cash remuneration has been completed, an assessment/decision is to be made on the extent to which the criteria have been met. The Remuneration Committee is responsible for the assessment as far as variable cash remuneration to senior executives is concerned. The Board may disregard the criteria and adjust variable cash remuneration up- or downwards to reflect actual performance. Further payments of cash remuneration may be made under extraordinary circumstances, provided that such extraordinary arrangements are made on an individual basis only, as reward for extraordinary efforts beyond ordinary work assignments. The variable remuneration shall not exceed 60 percent of the fixed salary and shall not be used as a basis for calculation of pension or vacation pay, to the extent permitted by applicable law.

Share or share price related incentive programs

The Annual General Meeting may decide, independently of these guidelines, on share and share price-related incentive programs for senior executives, i.e. the company's management.

The 2018 and 2019 Annual General Meetings resolved to introduce employee stock option programs. The programs were resolved by the general meeting and are thus not subject to these guidelines. For the same reason the employee stock option program proposed by the Board at the 2020 Annual General Meeting is not either subject to these guidelines. The proposed program corresponds in all material respects to existing employee stock option programs. The purpose of the employee stock option programs is to link part of the employees' remuneration to INVISIO Communication's long-term performance and in that way link employee interests with shareholder interests.

Pensions and other benefits

In order to correspond to and thus be limited to the common pension plan according to the ITP-plan. As regards employment conditions where other than Swedish rules apply, appropriate adaptations may have to be made to comply with such rules or established local practice. Such adaptations shall nevertheless be made so as to fulfill the overarching requirements of these guidelines as far as possible. Senior executives' non-monetary benefits are to facilitate the work performance of senior executives and be proportionate to what may be regarded as reasonable in relation to market practice where the respective senior executive operates.

Termination of employment

The CEO has a twelve-month notice period of notice in the event of termination by the company, and eight months in the event of termination by the CEO. Other senior executives have a six-month notice period in the event of termination by the company, and three months in the event of termination by the senior executive.

Salary and conditions of employment for employees

When preparing the Board's proposals for these remuneration guidelines, the salary and conditions of employment of the company's employees have been taken into account in that data concerning employees' total remuneration, the components of the remuneration as well as the increase in remuneration and rate of growth of remuneration over time have made up part of the Remuneration Committee's and Board's decision support when evaluating the reasonability of the guidelines and the constraints that follow from them.

Evaluation of the guidelines and the auditor's statement regarding compliance

In accordance with the Swedish Code of Corporate Governance, the Board monitors and evaluates the application of the guidelines for remuneration of senior executives, as adopted by the Annual General Meeting. In accordance with Chapter 8, Section 54 of the Swedish Companies Act, the company's auditor has

expressed an opinion on compliance with the guidelines for remuneration of senior executives for 2019. The Board's evaluation and the auditor's review have resulted in the conclusion that in 2019 INVISIO Communications has complied with the guidelines adopted by the Annual General Meeting.

Significant post year-end events

In the present situation it is not possible to assess the consequences of the Corona virus. However, the company's sales are made through large defense procurements and the contracts run for several years, which should mitigate the negative effect.

Outlook for 2020

INVISIO intends to continue its focus on selling to modernization programs in defense and security. At the same time the company will continue to invest in research and development. The initiative is part of increasing the company's product portfolio with new, related products that are estimated to have great potential. Through profitable growth INVISIO is endeavoring to achieve the company's financial targets of average growth of more than 20 percent and an annual operating margin of at least 15 percent.

INVISIO is following closely the development of the Corona virus and recommendations from the authorities. At the time of writing it is difficult to assess the effect the Corona virus may have on the company's operations as a whole. INVISIO notes, however, that the company's sales are made through public procurements and the contracts with customers run for several years. Minimizing travel and physical external contacts for a limited time is not expected to have a major negative effect on operations. As regards other operations, such as production and deliveries, it cannot be ruled out that they may be affected.

Proposed appropriation of earnings

The Board of Directors proposes to the 2020 Annual General Meeting that a dividend of SEK 0.85 per share (0.70) be distributed for 2019. The Board's proposed dividend corresponds to 37 percent (64) of the Group's profit after tax. According to INVISIO's dividend policy the target is that dividend is to constitute 25 to 50 percent of profit after tax. It is proposed that the remaining amount be carried forward.

Parent company (SEK)

At the disposal of the Annual General Meeting:

Retained earnings	55,764,761
Profit/loss for the year	-6,823,183
	48,941,578

The Board of Directors and President/CEO propose that the earnings above be appropriated as follows:

Dividend to shareholders, SEK 0.85 per share	37,483,720
To be carried forward	11,457,858
	48,941,578

Board of Directors' statement concerning proposed appropriation of earnings

In the opinion of the Board of Directors the proposed dividend does not impede the company from fulfilling its obligations in the short and long term. When assessing the size of the proposed dividend the Board took into consideration the requirements which are imposed by the nature, scope and risks associated with the operations and the company's and Group's need to strengthen the balance sheet and their liquidity and financial position in general. The proposed dividend means that the parent company's and the Group's equity/assets ratio will be 93.7 percent and 74.3 percent respectively. Liquidity in the company continues to be good. The proposed dividend can therefore be justified under the provisions of the prudence concept specified in the Swedish Companies Act, Chapter 17, Section 3, paragraphs 2-3.

Consolidated income statement and statement of comprehensive income

January-December (SEK million)	Note	2019	2018
Revenue	1,2 3	513.8	354.5
Cost of goods sold	4, 13	-200.5	-154.7
Gross profit		313.3	199.7
Operating expenses			
Selling and marketing costs	4,6,7,8	-95.2	-64.5
Administration expenses	4,6,7,8	-37.4	-33.3
Research and development costs	4,6,7,8	-48.1	-38.4
Operating profit		132.6	63.5
Financial items			
Financial income		2.1	0.8
Financial expenses		-0.5	-0.1
Net financial items		1.5	0.7
Profit/loss before tax		134.1	64.2
Income tax	9	-32.5	-16.0
Profit/loss for the year		101.6	48.2
(Attributable to equity holders of the parent)			
OTHER COMPREHENSIVE INCOME			
<i>Items that may subsequently be reclassified to profit or loss.</i>			
Translation differences from foreign operations for the period		1.8	9.9
Total comprehensive income for the year		103.4	58.1
(Attributable to equity holders of the parent)			
Earnings per share, SEK	20	2.30	1.09
Earnings per share after dilution, SEK	20	2.30	1.09
Gross margin, %		61.0	56.4
Operating margin, %		25.8	17.9
Profit margin, %		19.8	13.6
Depreciation incl. in operating expenses	10,11,12	-10.0	-4.3

Consolidated statement of financial position

December 31 (SEK million)	Note	2019	2018
	1,2		
ASSETS			
Non-current assets			
Capitalized development costs	10	85.6	49.7
Equipment	11	3.1	4.4
Rights of use, leases	12	25.3	
Deferred tax assets	9	1.8	15.6
Long-term deposits for rent		2.3	1.7
Total non-current assets		118.0	71.4
Current assets			
Inventories	13	95.6	101.3
Trade receivables	14	111.0	104.6
Derivative instruments	15		0.1
Other receivables	16	5.4	9.8
Prepaid expenses and accrued income	17	4.5	6.3
Cash and cash equivalents		145.1	62.2
Total current assets		361.7	284.3
TOTAL ASSETS		479.7	355.7
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	18	44.1	44.1
Other contributed capital		272.3	272.3
Translation difference		22.2	20.4
Retained earnings including profit/loss for the year		27.5	-44.8
Total shareholders' equity		366.0	292.0
Long-term liabilities			
Lease liabilities	12	22.0	
Deferred tax liabilities	9	6.5	
Total long-term liabilities		28.5	0.0
Current liabilities			
Trade payables ¹		29.8	39.6
Lease liabilities	12	3.9	
Current tax liabilities	9	9.2	0.4
Other liabilities		0.5	0.2
Accrued expenses and deferred income	19	36.7	18.1
Warranty provision		5.1	5.3
Total current liabilities		85.2	63.7
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		479.7	355.7

¹ All trade payables mature within 3 months.

Consolidated statement of changes in equity

December 31 (SEK million)	Note	Share capital	Other contributed capital	Translation differences	Retained earnings including profit/loss for the year	Total shareholders' equity ¹
	1,2,18					
OPENING BALANCE AT JANUARY 1, 2018		44.1	272.3	10.5	-67.0	259.9
Profit/loss for the year					48.2	48.2
Translation differences from foreign operations for the period				9.9		9.9
Total comprehensive income		0.0	0.0	9.9	48.2	58.1
Transactions with shareholders						
Employee Stock Option Program	7				0.5	0.5
Dividend					-26.5	-26.5
Total transactions with shareholders		0.0	0.0	0.0	-26.0	-26.0
CLOSING BALANCE AT DECEMBER 31, 2018		44.1	272.3	20.4	-44.8	292.0
Profit/loss for the year					101.6	101.6
Translation differences from foreign operations for the period				1.8		1.8
Total comprehensive income		0.0	0.0	1.8	101.6	103.4
Transactions with shareholders						
Employee Stock Option Program	7				1.5	1.5
Dividend					-30.9	-30.9
Total transactions with shareholders		0.0	0.0	0.0	-29.4	-29.4
CLOSING BALANCE AT DECEMBER 31, 2019		44.1	272.3	22.2	27.5	366.0

¹Equity is entirely attributable to the parent company's shareholders.

Consolidated cash flow statement

January-December (SEK million)	Note	2019	2018
	1,2		
Operating activities			
Profit/loss before tax		134.1	64.2
Adjustments for non-cash items	21	8.7	2.0
Income tax paid		-2.8	-4.8
Cash flow from operating activities before changes in working capital		140.0	61.4
Change in inventories		7.5	-63.3
Change in trade receivables		-4.0	23.6
Change in other operating receivables		6.3	-3.8
Change in trade payables		-10.6	-12.0
Change in other operating liabilities		19.1	-8.8
Cash flow from changes in working capital		18.4	-64.3
Cash flow from operating activities		158.4	-3.0
Investing activities			
Capitalization of development costs	10	-39.6	-23.4
Purchases of property, plant and equipment	11,12	-0.6	-1.6
Acquisition of financial assets		-0.5	-0.1
Cash flow from investing activities		-40.8	-25.1
Financing activities			
Change in lease liabilities	12	-3.4	
Dividend paid		-30.9	-26.5
Cash flow from financing activities		-34.2	-26.5
CASH FLOW FOR THE YEAR		83.4	-54.6
Cash and cash equivalents at start of year		62.2	113.2
Translation differences in cash and cash equivalents		-0.5	3.6
Cash and cash equivalents at year-end		145.1	62.2
Supplementary disclosures to the cash flow statement			
Interest received from operating activities during the year		0.0	0.2
Interest paid from operating activities during the year		-0.5	-0.1

Parent Company income statement

January-December (SEK million)	Note	2019	2018
	1,2		
Revenue	5	0.1	0.1
Administration expenses	4,5,6,7,8	-7.7	-7.6
Operating profit		-7.7	-7.6
Financial items			
Financial income		1.2	1.5
Financial expenses		-0.4	-0.0
Net financial items		0.8	1.4
Profit/loss before tax		-6.8	-6.1
Income tax	9		
Profit/loss for the year¹		-6.8	-6.1

¹Comprehensive income corresponds to profit/loss for the year.

Parent Company balance sheet

December 31 (SEK million)	Note	2019	2018
	1,2		
ASSETS			
Non-current assets			
Participations in Group companies	22	85.4	83.9
Total non-current assets		85.4	83.9
Current assets			
Receivables from Group companies	22		45.0
Other receivables		0.3	0.3
Prepaid expenses and accrued income		0.1	0.3
Cash and bank balances		34.1	25.6
Total current assets		34.4	71.3
TOTAL ASSETS		119.8	155.2
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
<i>Restricted equity</i>			
Share capital	18	44.1	44.1
Statutory reserve		21.6	21.6
<i>Total restricted shareholders' equity</i>		<i>65.7</i>	<i>65.7</i>
<i>Non-restricted equity</i>			
Retained earnings		55.8	91.2
Profit/loss for the year		-6.8	-6.1
<i>Total unrestricted shareholders' equity</i>		<i>48.9</i>	<i>85.1</i>
Total shareholders' equity		114.6	150.8
Current liabilities			
Trade payables ¹		0.3	0.3
Liabilities to Group companies	22	3.4	2.8
Other liabilities		0.1	0.2
Accrued expenses and deferred income	19	1.5	1.2
Total current liabilities		5.2	4.4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		119.8	155.2

¹ All trade payables mature within 3 months.

Parent Company changes in equity

December 31 (SEK million)	Note	Restricted equity		Non-restricted equity		Total share-holders' equity
		Share capital	Statutory reserve	Share premium reserve	Retained earnings including profit/loss earnings	
OPENING BALANCE AT JANUARY 1, 2018	1,2,18	44.1	21.6	2.8	114.5	182.9
Previous year's appropriation of earnings				-2.8	2.8	
Profit/loss for the year ¹					-6.1	-6.1
Employee Stock Option Program	7				0.5	0.5
Dividend					-26.5	-26.5
CLOSING BALANCE AT DECEMBER 31, 2018		44.1	21.6	0.0	85.1	150.8
Profit/loss for the year ¹					-6.8	-6.8
Employee Stock Option Program	7				1.5	1.5
Dividend					-30.9	-30.9
CLOSING BALANCE AT DECEMBER 31, 2019		44.1	21.6	0.0	48.9	114.6

¹Comprehensive income corresponds to profit/loss for the year.

Parent Company cash flow statement

January-December (SEK million)	Note	2019	2018
	1,2		
Operating activities			
Profit/loss before tax		-6.8	-6.1
Adjustments for non-cash items			
Cash flow from operating activities before changes in working capital		-6.8	-6.1
Changes in operating receivables		45.3	-50.7
Changes in operating liabilities		0.8	-0.2
Cash flow from changes in working capital		46.1	-50.9
Cash flow from operating activities		39.3	-57.0
Financing activities			
Dividends from subsidiaries			80.7
Dividend paid		-30.9	-26.5
Cash flow from financing activities		-30.9	54.3
CASH FLOW FOR THE YEAR		8.4	-2.7
Cash and cash equivalents at start of year		25.6	28.3
Cash and cash equivalents at year-end		34.1	25.6
Interest received during the year		0.0	0.2
Interest paid during the year		-0.1	-0.0

Notes

Note 1 General information, accounting policies and valuation principles

General information

The INVISIO Communications Group ("INVISIO") consists of the parent company INVISIO Communications AB (publ) and the wholly-owned subsidiaries INVISIO Communications A/S (Denmark), INVISIO Communications Inc. (USA), INVISIO Communications SAS (France), INVISIO Communications Srl (Italy), Nextlink IPR AB and Nextlink Patent AB.

Basis of preparation

The consolidated accounts are prepared in accordance with the Swedish Annual Accounts Act and International Financial Reporting Standards (IFRS) and interpretation statements from the International Financial Reporting Standards Interpretations Committee (IFRIC) as adopted by the EU.

Further, the consolidated accounts are prepared in accordance with Swedish law through application of the Swedish Financial Reporting Board recommendation RFR 1, Supplementary accounting rules for groups.

The parent company's annual accounts are prepared in accordance with Swedish law, applying the Swedish Annual Accounts Act and the Swedish Financial Reporting Board recommendation RFR 2 Accounting for legal entities.

New and amended standards adopted by the group

The Group's financial statements have been impacted by the introduction of the new standard IFRS 16 Leases. In other respects, none of the standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2019 are material to the Group's financial statements.

IFRS 16 Leases

In January 2016 the IASB published a new leasing standard that replaces IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities referring to all lease agreements, with some exceptions, be recognized in the balance sheet. This accounting is based on the view that the lessee has the right to use an asset for a specific period of time and at the same time an obligation to pay for this right. The accounting for the lessor is unchanged in all material respects. The standard was adopted by the EU in October 2017 and is applicable to financial years starting on or after January 1, 2019. INVISIO has elected to apply the simplified method (the modified retrospective approach) which means that comparatives have not been restated.

Implementation has impacted INVISIO's balance sheet total with an increase of SEK 29.2 million, mainly as a consequence of the Group's office lease contract. As per 31 Dec 2018, contracted future rents and leases were 28.9 MSEK. Equity is not affected due to the transition approach adopted. Accounting estimates when determining the lease liability are presented on pages 57, 59 and 60.

SEK MILLION	IAS 17, 1/1/2019	Restatement to IFRS 16	IFRS 16, 1/1/2019
Assets			
Rights of use, leases		29.2	29.2
Total effect	0.0	29.2	29.2
Shareholders' equity and liabilities			
Lease liabilities		29.2	29.2
Total effect	0.0	29.2	29.2

When establishing the lease liability in the opening balance as at January 1, 2019 INVISIO used a weighted average marginal borrowing rate of 1.54 percent. The Group has decided to apply three

exemptions under IFRS 16 and has therefore excluded leases where the underlying asset is of low value (USD 5,000 or less), excluded leases where the lease term is 12 months or less and applied the same discount rate on similar leases.

Implementation of the standard means that lease payments are instead recognized as depreciation and interest expense, which mainly improves EBITDA. The net profit/loss is also impacted for individual periods, as the interest component is higher at the beginning of the lease term. However, depreciation is linear and at the end of the lease term profit will be unaffected in comparison with the previously applied standard. The effect of IFRS during the period on the Group's profit and cash flow is presented in Note 12.

New standards, amendments and interpretations of existing standards not applied in advance by the Group

None of the new standards and amendments of interpretations and existing standards which are effective for the financial year beginning after January 1, 2019 have had any significant impact on the Group's financial statements.

Consolidated Accounts

The consolidated accounts include the parent company INVISIO Communications AB (publ.) and its subsidiaries. Subsidiaries are companies over which the Group has a controlling interest. The financial statements for INVISIO and its subsidiaries included in the consolidated accounts refer to the same period and are prepared in accordance with the accounting policies applicable to the Group.

The consolidated accounts have been prepared in accordance with the historical cost method except as regards available for sale financial assets and financial assets and liabilities (including derivative instruments). All inter-company business transactions, revenue, expenses, earnings or losses arising in transactions between companies covered by the consolidated accounts are eliminated in their entirety. A subsidiary is included in the consolidated accounts through the purchase method from the acquisition date, which is the date on which the parent company gains a controlling interest and is included in the consolidated accounts up until the date on which the controlling interest ceases.

The acquisition method of accounting is used to account for the Group's business combinations. The transferred compensation for the acquisition of a subsidiary consists of the fair value of transferred assets, liabilities and shares issued by the Group. The purchase price also includes the fair value of all assets or liabilities that are a consequence of an agreement on contingent purchase price. Acquisition related expenses are recognized as expenses when they arise. Identifiable acquired assets and transferred liabilities in a business combination are initially valued at fair value on the acquisition date. For every acquisition, the Group decides whether all holdings without a controlling influence in the acquired company are reported at fair value or at the proportional percentage of the net assets of the acquired company. 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 the amount is less than the fair value of the acquired subsidiary's assets, in the case of a "bargain purchase", the difference is reported directly in other comprehensive income.

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 accounts use the parent

Note 1 cont. General information, accounting policies and valuation principles

company's functional currency as presentation currency, which is Swedish kronor.

The results and financial position of all group companies with a functional currency other than the presentation currency are restated as follows: assets and liabilities for each of the balance sheets are restated at the closing day rate, income and expenses for each of the income statements are restated at the average exchange rate. All foreign exchange differences arising are recognized in other comprehensive income. When translating subsidiaries the following exchange rates were used:

Currency	Income statement	Balance sheet
DKK	1.4183 (1.3762)	1.3968 (1.3760)
USD	9.4604 (8.6921)	9.3171 (8.9710)
EUR	10.5892 (10.2567)	10.4336 (10.2753)

Estimates and assumptions

Estimates and assumptions are continually evaluated and rest on historical experience and other factors, including expectations of future events regarded as reasonable under the circumstances.

The Group makes estimates and assumptions about the future, which do not always correspond to the actual outcome. The estimates and assumptions that involve a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Impairment testing for capitalized development costs

Expenses arising in development projects are recognized as intangible assets when it is probable that the project will be successful in terms of its commercial and technical potential and that the costs can be reliably measured. This is ensured in that all capitalized development projects are run in accordance with the company's well-documented development process. As soon as there is any indication, capitalized development costs are impairment tested in accordance with the accounting policy described. The recoverable amount has been determined through calculation of the value in use. Certain estimates must be made for these calculations, which are shown in Note 10. At December 31, 2019 total intangible assets amounted to SEK 85.6 million (49.7). Please see Note 10 for a sensitivity analysis.

Deferred tax referring to tax loss carry-forwards

Deferred tax assets are recognized for tax loss carry-forwards insofar as it is likely that they can be utilized via future taxable profits. An individual assessment is made of each subsidiary with reference to historical performance and possibilities of utilizing the loss carry-forwards, which are based on multi-year forecasts. Note 9 includes a description of tax loss carry-forwards. At December 31, 2019 deferred tax assets referring to tax loss carry-forwards were SEK 11.9 million (25.4). If the forecast performance were to be 5 percent lower/higher per year, all other variables being constant, the deferred tax asset as at December 31, 2019 would have been SEK 0.0 million (0.0) lower/higher.

Warranty provision

A provision is made when the Group has a legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources is required to settle the obligation and the amount can be reliably measured. Reported provisions refer to any future commitments for warranties for products sold. The amount is calculated on a continuous basis during the year, based on previous outcomes and current sales, plus a supplement for other known circumstances. At December 31, 2019, warranty provision was SEK 5.1 million (5.3). If the historical outcome had been 5 percent lower/higher than the actual outcome, all other variables being constant, the warranty provision at December 31, 2019, would have been SEK 0.3 million (0.3) lower/higher.

Leases (from January 1, 2019)

When the lease term is established, the management takes into account all available information which gives an economic incentive to exercise an extension option, or not to exercise an option to terminate a lease. The option to extend a lease is only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated). The leases that are mainly affected by this assessment refer to premises in Copenhagen where INVISIO can either extend the lease one month at a time (after the original lease term has expired at the end of 2026) or decide to terminate the lease prematurely (though including a break-up fee). The assessment as at December 31, 2019 is that the Group will not exercise the option to terminate the lease prematurely. Nor has INVISIO considered that it is reasonably certain that they will exercise the extension option.

Revenue

The Group applies IFRS 15 Revenue from contracts with customers.

The Group develops and sells advanced communication systems with hearing protection. The Group's revenue mainly consists of two revenue flows (1) Sales through purchase orders (2) sales through programs. Sales through purchase orders mean that the Group's customers submit separate purchase orders and in connection with this approve the Group's standardized sales agreements. Sales through programs means that there is usually a larger framework agreement with customers, for example as part of a modernization program concerning soldiers' personal equipment.

Regarding sales through purchase orders, the Group uses standardized terms of sale and delivery in connection with all sales. Each order is a specific performance obligation, since the goods are regarded as distinct. The transaction price is set for each sales order and only includes fixed consideration; there is no variable consideration. The revenue is recognized when the performance obligation is satisfied, which means that the revenue is recognized at a given point in time. For sales through purchase orders control passes when INVISIO makes the goods available to the customer (Ex Works).

Sales through programs have several similarities with sales through purchase orders. The difference is that there is some form of underlying framework agreement or distribution agreement. When a framework agreement is signed neither the seller nor the buyer is obliged to deliver/buy a certain quantity; enforceable rights and obligations arise only when a purchase order is made. The transaction price is set for each sales order and only includes fixed consideration; there is no variable consideration. The revenue is recognized when the performance obligation is satisfied, which means that the revenue is recognized at a given point in time. For sales through programs control passes at different times depending on what has been agreed with the specific customer. Usually control passes when INVISIO makes the goods available to the customer (Ex Works) or when INVISIO has delivered the goods to a determined place (DAP). Sales through programs may include training in connection with the purchase. The revenue for training is recognized on performance of the service and is usually before the first delivery of goods.

No revenue stream includes any financing component as the credit period is short, often about 30 days.

The Group's obligation to repair or replace defective products in accordance with normal guarantee rules is recognized as a provision.

Segment reporting

The business consists of only one segment. Operating segments are reported in line with the internal reports submitted to the chief operating decision maker. The chief operating decision maker is the function responsible for allocating resources and assessing the operating segment's performance. In the Group this function has been identified as the management group.

Note 1 cont. General information, accounting policies and valuation principles**Remuneration to employees****Variable remuneration**

The Group recognizes a liability and a cost for variable remuneration based on achievement of targets in terms of sales and performance.

Pension obligation

The Group has only defined contribution pension plans, which are expensed on a current basis. The company has no obligations after the pension premium is paid.

Share-based benefits

The Group has two ongoing share-based remuneration plans where settlement is in shares. The fair value of the requisite service that entitles employees to allocation of options is expensed. The total amount to be expensed during the vesting period is based on fair value of the allocated options, excluding any impact of non-market related vesting conditions. Non-market related vesting conditions are taken into account when assuming how many options are expected to be redeemable. Every balance sheet day the company revises its estimates of how many options are expected to be redeemable. Any impact of the revision on the original estimates is recognized in the income statement over the rest of the vesting period and corresponding adjustments are made to equity. For more information on the employee stock option program, see Note 7.

Current and deferred tax

Tax expense for the period consist of current and deferred tax. Current tax is calculated on the basis of the tax rules applicable or adopted at the balance sheet date in the countries in which the company's subsidiaries operate and create taxable income.

Deferred tax is recognized using the balance sheet method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred tax is calculated on the basis of the tax rates and rules applicable or adopted at the balance sheet date and expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only in so far as it is probable that future taxable profit will be available, against which the temporary differences can be offset.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities and when deferred tax assets and tax liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Financial Instruments

The Group applies IFRS 9 Financial instruments. The Group's financial assets and liabilities consist of the items; trade receivables, other receivables, deposits for rent, cash and cash equivalents, derivatives, trade payables, lease liabilities and other liabilities.

Initial recognition

Financial assets and liabilities are recognized when the Group becomes party to the instrument's contractual terms and conditions. Purchases and sales of financial assets and liabilities are recognized on the trade date – the date on which the Group commits to purchase or sell the asset.

Financial instruments are initially recognized at fair value plus, for an asset or financial liability not recognized at fair value via the income statement, transaction costs directly attributable to acquisition or issue of a financial asset for liability, for example fees and commission.

Financial assets – Classification and measurement of debt instruments

A company is to classify a financial asset in three different ways depending on the company's business model for managing financial assets and the qualities of the contractual cash flows from the asset. The three categories are fair value through profit or loss, amortized cost and fair value through other comprehensive income. The Group only holds debt instruments that are classified and measured through amortized cost.

Financial assets are measured at amortized cost

The classification of investments in debt instruments depends on the Group's business model for managing financial assets and the contractual terms for the assets' cash flows. The Group reclassifies debt instruments only in cases where the Group's business model for the instruments is changed.

The Group's financial assets held to collect contractual cash flows and where these cash flows only consist of principal and interest, are recognized at amortized cost. Interest income from these financial assets is recognized as financial income applying the effective interest method. Impairment losses are recognized on a separate line in the income statement.

The Group's financial assets measured at amortized cost consist of the items trade receivables, other receivables, deposits for rent and cash and cash equivalents.

Financial assets and liabilities – Classification and measurement of derivative instruments

Derivatives are recognized and measured in the balance sheet at fair value, both initially and on subsequent remeasurement at the close of each reporting period. All changes in fair value of derivative instruments are recognized directly in the income statement among financial items.

Derecognition of financial assets

Purchases and sales of financial assets are recognized on the trade date. Financial assets are derecognized when the rights to receive cash flows from the instruments have expired or have been transferred and the Group has transferred substantially all risks and benefits of ownership.

Gains and losses arising on derecognition from the balance sheet are recognized directly in profit or loss in financial items.

Financial liabilities – Classification and measurement

The Group's financial liabilities are measured after initial recognition at amortized cost, applying the effective interest method and financial liabilities measured at fair value through profit or loss.

The Group's financial liabilities measured at amortized cost consist of the items trade payables, other liabilities and accrued expenses.

Derecognition of financial liabilities

Financial liabilities are removed from the balance sheet when the obligations have been discharged, annulled or otherwise extinguished. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the payment made, including transferred assets that are not cash or assumed debts, are recognized in other comprehensive income.

When the terms and conditions for a financial liability are renegotiated, and not derecognized from the balance sheet, a gain or loss is recognized in other comprehensive income. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

Note 1 cont. General information, accounting policies and valuation principles**Offset of financial instruments**

Financial assets and liabilities are offset and recognized net in the balance sheet only when there is a legally enforceable right to set off the recognized amounts and an intention to settle them net or simultaneously realize the asset and settle the liability. The legal right may not be contingent on a future event and it must be legally enforceable on the company and the counterparty, both in the normal course of business or in the event of default, insolvency or bankruptcy.

Impairment losses on financial assets**Assets carried at amortized cost**

The Group assesses future expected credit losses linked to assets recognized at amortized cost. The Group reports a credit reserve for these expected credit losses on each reporting date.

The Group applies the simplified approach for expected credit loss; in other words the reserve will correspond to the expected loss over the entire life of the trade receivables.

The credit reserve is based on the expected credit loss and consists of a general reserve and an individual assessment. For the general reserve a percentage rate is calculated based on historical credit losses and forward-looking assumptions. For the individual assessment the customer's current situation and other relevant circumstances, such as credit risk characteristics, days past due and historical situation is taken into account. Expected credit losses are recognized in the Group's other comprehensive income in the item 'Other external costs'.

Intangible assets

The Group conducts product-specific development activities. Expenses arising in development projects are recognized as intangible assets when it is probable that the project will be successful in terms of its commercial and technical potential and when the expenses can be reliably measured. Expenses directly associated with development of products intended for sale are accounted for as intangible assets.

Development expenditure includes salary and other expenses for employees arising through the development of products, as well as directly attributable external expenses such as molds, testing and type approval. Other development expenditure is expensed as it arises. Development expenditure already expensed is not recognized as an asset in subsequent periods.

Capitalized development expenditure has a limited useful life and is amortized on a straight line basis from the time commercial production of the product is started. Amortization is over the expected useful life; 3-7 years.

Tangible assets

Property, plant and equipment are reported at cost of acquisition less planned depreciation based on an estimation of the useful life of the assets. Any gains/losses on divestment are recognized through the income statement. The residual value and useful life of the asset is determined at every year-end closing and is adjusted as necessary. Property, plant and equipment have a limited useful life and are amortized on a straight-line basis over the expected economic life, 3-5 years.

Impairment losses on non-financial assets

The carrying amounts of the Group's assets, with the exception of financial assets at fair value with changes in value in the income statement, are tested whenever there is the need to assess whether there is indication of impairment loss. If such indication exists, the recoverable amount of the asset is calculated. An impairment loss is recognized when the carrying amount of an asset exceeds the recoverable amount. An impairment loss is charged to the income statement. See below for more details on calculation of the recoverable amount of an asset.

Reversal of impairment losses

Impairment losses are reversed if a subsequent increase in the recoverable amount can be objectively related to an event that has occurred after the impairment loss was recognized, and that a change has been made in the assumptions on which the calculation of the recoverable amount was based.

An impairment loss is reversed only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount the asset would have had if no impairment loss had been recognized, taking into account the depreciation that would then have been made.

Provisions

A provision is recognized when an obligation exists as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Inventories

Inventories are stated at the lower of cost and net realizable value on the balance sheet date. Cost is determined using the "first-in, first-out" principle. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision for obsolescence is based on the articles' age and recoverable amount.

Cash and cash equivalents

Cash and cash equivalents include cash and immediately available bank balances.

Receivables and liabilities in foreign currency

In the individual companies, receivables, liabilities and provisions in foreign currency have been translated at the closing rate of exchange. Foreign exchange effects are recorded in the income statement as financial income/expense.

Cash flow statement

The cash flow statement has been prepared in accordance with the indirect method. This means that the cash flow has been adjusted for transactions that have not entailed any payments in or out during the period.

Calculation of recoverable amount

The recoverable amount of assets in the categories of loan receivables and trade receivables carried at amortized cost is calculated as the present value of future cash flows discounted using the effective interest rate applicable on initial recognition of the asset. Assets with a short duration are not discounted. The recoverable amount on other assets is the higher of fair value less selling expenses and value in use. When calculating value in use, future cash flows are 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 flows that are largely independent of other assets, a common recoverable amount is calculated for the cash-generating unit to which the asset belongs.

Leases (up to and including December 31, 2018)

Non-current assets that are held through leasing are classified in accordance with the economic significance of the lease contract. Leased assets held via finance leases are recognized as non-current assets and future lease payments as interest-bearing liabilities. For leased assets classified as operating leases, the leasing cost is reported as an operating expense in the income statement.

Note 1 cont. General information, accounting policies and valuation principles**Leases (from January 1, 2019)**

The Group applies IFRS 16 Leases from January 1, 2019 using a simplified transition method. For more information on transition effects, please see page 56 and Note 12.

INVISIO's leases where the company is the lessee are mainly for rented premises and vehicles. Leases are normally signed for fixed periods of 2-10 years for rented premises and three years for vehicles. Extension and premature termination options may exist, as described below. Terms and conditions are negotiated separately for each contract and include a large number of different contract terms.

Lease contracts are recognized as rights of use and a corresponding liability, on the date the leased asset is available for use by INVISIO. The right of use and lease liability will be recorded on separate lines on the balance sheet as Right of use, lease contract and Lease liability. Each lease payment is allocated between amortization of the debt and interest expense. The interest expense is allocated over the lease term so that each accounting period is charged with an amount equivalent to a fixed interest rate on the reported debt in the respective period. The right of use is depreciated on a straight line basis over the shorter of the useful life of the asset and the term of the lease.

Assets and liabilities arising from leases are initially recognized at present value. Lease liabilities include the present value of the following lease payments:

- fixed charges (including in-substance fixed payments),
- variable lease payments based on an index or a rate, are initially measured using the index or the rate at the commencement date,
- guaranteed residual value the lessee expected to have to pay to the lessor,
- the exercise price of a purchase option, if it is reasonably certain that the lessee will exercise the option and
- penalty payments for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments are discounted using the implicit interest rate if that can be determined, otherwise the incremental borrowing rate.

The assets with right of use are measured at cost of acquisition and include the following:

- the amount of the original lease liability,
- lease payments made on or before the commencement date, less any benefits received in connection with signing the lease agreement,
- initial direct costs and
- costs of restoring the asset to the condition required by the terms and conditions of the lease.

INVISIO has decided to apply an exemption in IFRS 16 that means that payments for short-term and low-value leases are expensed on a straight-line basis in the income statement. Short-term leases are leases with a term of 12 months or less. Low-value leases mainly include low-value IT equipment. The Group recognizes each leasing component separate from non-leasing components.

Options to extend and terminate leases are included in a number of the Group's lease agreements for rented premises. These conditions are used to maximize flexibility in the management of the agreements. The majority of the options to extend and terminate lease agreements can only be exercised by the Group and not by the lessors. Assessments concerning exercise of options to extend or terminate lease agreements are reviewed if any significant event or change in circumstances arises that impacts these assessments and the change is within the control of the lessee.

Related party transactions

Regarding salaries and other remuneration to the Board and President/CEO, costs, obligations and benefits, as well as agreements on severance payment, please see Note 8.

Inter-company transactions are presented in Note 5.

Other disclosures on related party transactions are presented in Note 23.

Parent Company's accounting policies

The parent company prepares its financial statements in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board recommendation RFR 2 Accounting for legal entities. The same accounting policies apply as for the Group.

Note 2 Financial risk management and capital risk**Financial risk factors**

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

The financial policy includes both investments and borrowing. The focus is to reduce unfavorable effects on the Group's earnings, equity and cash flow caused by changes in interest and currency rates. INVISIO must also be able to meet its payment obligations, which is why credit, interest and liquidity risks must be minimized. The Group must not create added value through financial risk. Taking into account the constraints of the financial policy, the aim is to achieve the highest return possible 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 of bank balances. The Group has no interest-bearing financial liabilities and thus is not exposed to any material interest rate risk.

Currency risk

Currency risk is defined as the risk of a reduction in earnings and/or a reduction in cash flow due to changes in currency exchange rates.

Changes in foreign exchange rates impact the Group's earnings and equity in different ways:

- Earnings are impacted when sales and purchases are in different currencies (transaction exposure)
- Earnings are impacted when assets and liabilities are in different currencies (translation exposure)
- Equity is impacted when foreign subsidiaries' net assets are converted into Swedish kronor (translation exposure in the balance sheet).

Transaction exposure

INVISIO has a strong international profile, with most of its sales being made in EUR, GBP and USD. The majority of the Group's operations is conducted in its Danish company which has DKK as its functional currency. The Group is thereby exposed to transaction risks in its purchases/sales and its financial transactions in foreign currencies. Sales in these currencies amounted to 35.1 MUSD (16.3) 12.7 MEUR (11.1) and 1.6 MGBP (7.5). Components are primarily

Note 2 cont. Financial risk management and capital risk

purchased in SEK and DKK. Currency risks are managed in accordance with the financial policy established by the Board, which in brief means that large sales orders received and confirmed are to be hedged. During 2019, INVISIO did not receive orders of such character that they required currency hedging. For more information on derivative instruments, please see Note 15.

If the average exchange rate for the Danish krona had strengthened/weakened by 5 percent against EUR, all other variables remaining constant, revenues and earnings after tax for 2019 would have been SEK 6.7 million (5.7) and SEK 3.2 million (2.8) lower/higher. If the average exchange rate for the Danish krona had strengthened/weakened by 5 percent against USD, all other variables remaining constant, revenues and earnings after tax for 2019 would have been SEK 13.7 million (7.0) and SEK 6.7 million (3.1) lower/higher. If the average exchange rate for the Danish krona had strengthened/weakened by 5 percent against GBP, all other variables remaining constant, revenues and earnings after tax for 2019 would have been SEK 0.9 million (4.3) and SEK 0.4 million (1.8) lower/higher.

Translation exposure

The Group has cash and cash equivalents, trade receivables and trade payables in foreign currencies, above all in USD, EUR and GBP. At December 31, 2019 the net exposure in USD against SEK was SEK 109.2 million (53.3), in EUR against SEK, SEK 62.6 million (28.8) and in GBP against SEK, SEK 4.3 million (38.1) for these items. If the exchange rate for USD had been 5 percent higher/lower compared with that on December 31, 2019, the Group's earnings after tax would have been positively/negatively affected by SEK 4.3 million (2.1). If the exchange rate for EUR had been 5 percent higher/lower compared with that on December 31, 2019, the Group's earnings after tax would have been positively/negatively affected by SEK 2.5 million (1.1). If the exchange rate for GBP had been 5 percent higher/lower compared with that on December 31, 2019, the Group's earnings after tax would have been positively/negatively affected by SEK 0.2 million (1.5). As part of hedging transaction exposure, related trade receivables are also hedged. In other respects INVISIO does not work actively with translation exposure.

Translation exposure in the balance sheet

The Group's net assets are largely in Danish kroner. If the exchange rate for DKK had been 5 percent higher/lower compared with that

on December 31, 2019, the Group's equity would have been positively/negatively affected by SEK 12.8 million (8.6).

Credit risk

Credit risk is the risk of a party to a transaction with a financial instrument failing to fulfill its obligations. INVISIO's customers have a good debt-servicing ability, as they mainly consist of government agencies in charge of procurement for security forces and defense forces. In order to limit the risks of any credit losses, the Group's credit policy includes guidelines and provisions for credit checking new customers, payment terms and procedures and processes for managing unpaid receivables. For an age analysis of trade receivables, please see Note 14.

The Group works with reputable Swedish or Danish banks that are subject to supervision by Finansinspektionen (Swedish Financial Supervisory Authority) or the equivalent foreign authority and that have high creditworthiness. During the year INVISIO has had deposits mainly with SEB, SBAB and JP Morgan Chase Bank.

Financing 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 meeting its payment commitments. Liquidity risk is the risk of not being able to make payments when they fall due. Treatment of liquidity risk is based on prudence, which entails retaining sufficient liquidity, access to financing and sufficient agreed lines of credit. At December 31, 2019 cash and cash equivalents amounted to SEK 145.1 million (62.2). The company had no borrowings as at December 31, 2019. All trade payables mature within three months. Please see Note 12 for a duration analysis of leasing liabilities.

Management of capital

The Group's goal for its capital structure (shareholders' equity and liabilities) is to safeguard the Group's ability to continue its operations, so that it can generate a return for its shareholders and benefit other stakeholders and to ensure optimal capital structure 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.

Financial instruments. December 31

Financial assets	2019	2018
Measured at amortized cost:		
- Trade receivables	111.0	104.6
- Deposits for rent	2.3	1.7
- Other receivables	5.4	4.5
- Cash and cash equivalents	145.1	62.2
Derivative instruments		0.1
Total financial assets	263.8	173.1
Financial liabilities	2019	2018
Measured at amortized cost:		
- Trade and other payables	65.7	57.1
Lease liabilities	25.9	
Total financial liabilities	91.6	57.1

For the Group's financial instruments the carrying amount corresponds to the fair value since the interest is in parity with current market rates or the items are current.

Notes

Note 3 Revenue

Revenue by geographical area	2019	2018
Sweden	32.3	6.7
Europe	108.9	174.5
North America	357.9	164.5
Rest of the world	14.6	8.8
Total	513.8	354.5

Two customers account for more than 10 percent of total net sales for the year. Net sales to these two customers constitute 34 percent and 22 percent of the total. In the previous year four customers accounted for more than 10 percent of the total sales for the year. Net sales to these four customers constituted 24 percent, 15 percent, 12 percent and 11 percent of the total. The largest customers may vary from year to year.

The majority of the Group's assets, intangible assets and property, plant and equipment, are in Denmark.

Note 4 Costs by nature of expense

Group	2019	2018
Cost of goods sold	200.5	154.7
Costs of employee benefits (Note 7)	110.1	79.2
Depreciation and impairment losses (Notes 10, 11 & 12)	10.0	4.3
Other costs	60.6	52.8
Total	381.2	291.0

Parent Company	2019	2018
Costs of employee benefits (Note 7)	2.6	2.6
Other costs	5.1	5.0
Total	7.7	7.6

Note 5 Inter-company transactions

Of the parent company's invoicing, SEK 0.1 million (0.1) refers to subsidiaries. The invoicing consists of services provided to subsidiaries. Invoicing from subsidiaries to the parent company amounted to SEK 0.3 million (0.3).

Note 6 Remuneration to the auditor

	Group		Parent Company	
	2019	2018	2019	2018
PwC				
Auditing assignments ¹	0.6	0.5	0.2	0.2
Audit business in addition to audit engagement	0.1	0.1	0.1	0.0
Other services ²	0.1	0.1	0.1	0.0
Total	0.8	0.7	0.4	0.2

¹Audit engagement refers to fees for the statutory audit, i.e. such work as is necessary to submit an auditor's report, as well as so-called auditing consultancy, which is given in connection with the audit engagement.

²Other services refer primarily to consulting on accounting and tax matters.

Note 7 Personnel

	2019		2018	
	Number	Of which men	Number	Of which men
Average number of employees				
Parent company	1	100%	1	100%
Subsidiaries	91	80%	79	80%
Total	92	80%	80	80%

	2019		2018	
	Number	Of which men	Number	Of which men
Gender breakdown, senior executives				
Board of Directors	6	33%	6	50%
President and other senior executives	7	100%	6	100%

	2019	2018
Salaries and other remuneration		
Parent company	2.3	1.8
Subsidiaries	116.3	84.3
Capitalized salaries for research and development	-12.3	-10.8
Group total	106.3	75.4
Social security costs excluding pension costs		
Parent company	0.1	0.4
Subsidiaries	2.2	1.9
Group total	2.3	2.2
Pension costs		
Parent company	0.2	0.4
Subsidiaries	1.3	1.2
Group total	1.5	1.6
Total personnel costs	110.1	79.2

Pensions

Neither the parent company nor the subsidiaries have any defined benefit pension plans for their employees.

Note 7 cont. Personnel**Employee Stock Option Program**

The 2018 and 2019 Annual General Meetings of Shareholders resolved in accordance with the Board's proposal, to establish an employee stock option program comprising a decision to issue stock options, plus approval of the transfer of stock options, Employee Stock Option Programs 2018/2021 and 2019/2022. A total of 1,039,000 employee stock options have been allocated, of which 35,000 from the 2018/2021 Employee Stock Option Program and 35,000 from the 2019/2022 Employee Stock Option Program to the CEO and 68,000 and 97,000 respectively to other senior executives. Employee stock options are not transferable.

The purpose of the employee stock option programs is to link part of the employees' remuneration to INVISIO's long-term performance and in that way link employee interests with shareholder interests. The programs target all employees of the company and its subsidiaries, divided into three different categories. Provided that the participants were employed by the Group on the allotment date, the employee was offered employee stock options without charge which may entitle them to acquire shares in the company.

To enable all employee stock options to entitle the participant to acquire INVISIO shares it is a requirement, apart from the participant

being employed within the INVISIO Group throughout the vesting period, that the increase of the share price for INVISIO exceeds SIXPRX by 20 percentage points. If the INVISIO share price increase exceeds SIXPRX by 10 percentage points half of the participant's stock options will entitle the participant to acquire shares in INVISIO. If the INVISIO share price increase exceeds SIXPRX by more than 10 but less than 20 percentage points, the stock options will entitle the holder to acquire shares in INVISIO on a linear basis between 50 to 100 percent. If the INVISIO share price increase does not exceed SIXPRX by 10 percentage points, all stock options will lapse.

The market value was calculated on the basis of the Black & Scholes valuation model with the following inputs:

	2018/2021	2019/2022
Share price, SEK	61.10	69.60
Expected dividend per share, SEK	0.60	0.70
Volatility, %	30	35
Risk-free interest rate, %	-0.43	-0.45
Expected number of earned options, %	43	41
Value per employee stock option, SEK	4.87	5.90

Employee stock option program	Allotment date	Vesting period	Maximum allotment	Actual allotment	Exercise date	Expensed during the year (SEK million) ¹
2018/2021	May 1, 2018	May 1, 2018 - April 30, 2021	500,000	456,000	May 15, 2021 - June 30, 2021	0.7 (0.5)
2019/2022	May 7, 2019	May 7, 2019 - May 9, 2022	600,000	583,000	May 15, 2022 - June 30, 2022	0.8 (-)
Total			1 100 000	1 039 000		1,5 (0,5)

¹ Social security contributions were 0.0 (0.0).

Note 8 Remuneration to the Board of Directors and senior executives

	2019				2018			
	Fee/Salary	Pension	Other remuneration	Total	Fee/Salary	Pension	Other remuneration	Total
Board of Directors¹								
Annika Andersson, Chair of the Board ²	0.4			0.4	0.2			0.2
Lage Jonason	0.2			0.2	0.2			0.2
Charlotta Falvin ³	0.2			0.2	0.2			0.2
Ulrika Hagdahl ⁴	0.2			0.2	0.1			0.1
Martin Krupicka	0.2			0.2	0.1			0.1
Charlott Samuelsson ⁵	0.1			0.1				
Lars Röckert ⁶	0.1			0.1	0.5			0.5
Anders Persson ⁷					0.0			0.1
Mats Warstedt ⁸					0.0			0.0
Total	1.4	0.0	0.0	1.4	1.4	0.0	0.0	1.4
Management group								
Lars H. Hansen, President/CEO ⁹	4.3	0.2	0.0	4.6	2.9	0.5	0.1	3.5
Other executives ¹⁰	14.1	0.2	0.2	14.5	7.7	0.2	0.2	8.2
Total	18.4	0.4	0.3	19.2	10.6	0.7	0.3	11.6

¹The 2019 Annual General Meeting resolved that board fees totaling SEK 450,000 shall be paid to the Chair of the Board and SEK 180,000 to each of the other Board members. In addition a fee of SEK 60,000 shall be payable to the chair of the Remuneration Committee and SEK 40,000 each to other members of the Remuneration Committee and the Audit Committee.

² Annika Andersson was elected as Chair of the Board at the 2019 Annual General Meeting. Includes fee for work as a member of the Remuneration Committee.

³ Includes fee for work as Chair of the Remuneration Committee.

⁴ Includes fee for work as Chair of the Audit Committee.

⁵ Charlott Samuelsson was elected to the Board at the 2019 Annual General Meeting.

⁶ Lars Röckert resigned at the 2019 Annual General Meeting.

⁷ Anders Persson resigned at the 2018 Annual General Meeting.

⁸ Mats Warstedt resigned at the 2018 Annual General Meeting.

⁹ Variable salary may be a maximum of 50 percent of the fixed salary. Variable salary of SEK 1.5 million (0.1) was paid in 2019.

¹⁰ Variable salary may be a maximum of 30 percent of the fixed salary. Variable salary of SEK 3.3 million (0.2) was paid in 2019. During the year there were five other members of the management group until September 30 and six members from October 1.

Note 8 cont. Remuneration to the Board of Directors and senior executives**Guidelines for remuneration to senior executives**

The last adopted guidelines for remuneration to senior executives are described below and will remain in force until the Annual General Meeting to be held on May 5, 2020.

General

INVISIO Communications is to endeavor to offer total remuneration that enables the Group to attract and retain senior executives. Remuneration to senior executives in INVISIO Communications, both in the short and long term, must be based on the individual's performance and responsibility, as well as the earnings of INVISIO Communications and its subsidiaries and it must link the interests and rewards of the senior executives with those of the shareholders.

Remuneration to senior executives may consist of fixed salary, short-term variable cash remuneration, the opportunity to participate in long-term share or share-price related incentive programs, as well as pension and other benefits.

Fixed salary

The senior executives' fixed salaries are revised annually and must be competitive and based on the individual's skills, responsibilities and performance.

Variable salary

The variable cash remuneration to senior executives is to be based on how well the targets set for their respective areas of responsibility and for INVISIO Communications and its subsidiaries have been met. The outcome is to be linked to measurable targets (qualitative, quantitative, general and individual). The targets within the senior executives' respective areas of responsibility aim to promote the development of INVISIO Communications, both in the short and long term. The variable remuneration shall not exceed 50 percent of the fixed salary and shall not be used as a basis for calculation of pension or vacation pay, to the extent permitted by applicable law.

Employee Stock Option Program

For more information on the employee stock option program, see Note 7.

Pension

Any pension benefits shall be through a defined contribution plan.

Period of notice

The CEO has a twelve-month notice period of notice in the event of termination by the company, and eight months in the event of termination by the CEO. Other senior executives have a six-month notice period in the event of termination by the company, and three months in the event of termination by the senior executive.

Remuneration to members of the Board

Elected board members shall in specific cases be able to receive a fee for services within their respective area of expertise which does not constitute board work. A market based fee, which shall be approved by the Board, will be payable for these services.

Deviations from the guidelines

The board may, if it determines that there are special grounds in an individual case, deviate from the guidelines. In the case of such deviation, the Board shall report the grounds for the deviation at the Annual General Meeting immediately following.

Evaluation of the guidelines and the auditor's statement regarding compliance

In accordance with the Swedish Code of Corporate Governance, the Board monitors and evaluates the application of the guidelines for remuneration to senior executives, as adopted by the Annual General Meeting. In accordance with Chapter 8, Section 54 of the Swedish Companies Act, the company's auditor has expressed an opinion on compliance with the guidelines for remuneration to senior executives for 2019. The Board's evaluation and the auditor's review have resulted in the conclusion that in 2019 INVISIO Communications has complied with the guidelines adopted by the Annual General Meeting.

Employee Stock Option Program

In 2019 the President/CEO was allotted 35,000 options (35,000) and other senior executives 97,000 (68,000). For more information on the employee stock option program, see Note 7.

Note 9 Income tax

	Group		Parent Company	
	2019	2018	2019	2018
Tax on profit for the year				
Current tax on profit for the year	-11.7	-4.6		
Deferred tax	-20.8	-11.3		
Total current tax	-32.5	-16.0	0.0	0.0
Differences between reported tax expense and tax expense based on current tax rate				
Profit/loss before tax	134.1	64.2	-6.8	-6.1
Tax 21.4% for 2019, 22% for 2018	-28.7	-14.1		
Tax effect of;				
- Foreign tax rates	-1.1	-0.2		
- Expenses not deductible for tax purposes	-0.8	-0.1		
- Tax losses for which no deferred tax asset is recognized	-1.9	-1.5		
Tax on profit for the year according to income statement	-32.5	-16.0	0.0	0.0
Deferred tax assets				
Deferred tax asset attributable to tax losses in Denmark		25.4		
Deferred tax liability attributable to capitalized development costs in Denmark		-10.9		
Deferred tax asset attributable to other temporary differences	1.8	1.2		
Closing balance	1.8	15.6	0.0	0.0

Note 9 cont. Income tax

	Group		Parent Company	
	2019	2018	2019	2018
Deferred tax liabilities				
Deferred tax asset attributable to tax losses in Denmark	11.9			
Deferred tax liability attributable to capitalized development costs in Denmark	-18.8			
Deferred tax asset attributable to other temporary differences in Denmark	0.4			
Closing balance	-6.5	0.0	0.0	0.0

Deferred tax assets are recognized for tax loss carry-forwards insofar as it is likely that they can be utilized via future taxable profits. An individual assessment is made of each subsidiary with reference to historical performance and possibilities of utilizing the loss carry-forwards. Tax loss carry-forwards exist mainly in the Danish subsidiary. Danish legislation limits the annual utilization of loss carry-forwards in terms of amount, which means that the Danish subsidiary will pay SEK 7.9 million (3.2) in tax for 2019.

All tax loss carry-forwards, in total SEK 169.5 million (223.6), of which SEK 54.3 million (115.2) were capitalized at December 31, 2019, have an unlimited life.

Unutilized tax loss carry-forwards in the parent company cannot be used at present, as the parent company is a holding company with no other business activities.

	Group		Parent Company	
	2019	2018	2019	2018
Unutilized loss carry forwards				
Unutilized loss carry-forwards for which no deferred tax asset has been recognized	115.2	108.4	112.5	105.7
Potential tax asset	23.7	23.2	23.2	22.6

Note 10 Capitalized development costs

Group, December 31	2019	2018
Opening acquisition value	101.2	74.8
Internally developed assets	39.6	23.4
Foreign exchange differences for the year	0.9	3.0
Closing accumulated acquisition value	141.7	101.2
Opening depreciation	-51.5	-47.1
Depreciation for the year	-4.0	-2.5
Foreign exchange differences for the year	-0.7	-1.9
Closing accumulated depreciation	-56.2	-51.5
Closing carrying amount	85.6	49.7

Impairment testing

Intangible assets refer to internal development of products specifically for sale. A recoverable amount is estimated when there is an indication that the asset has decreased in value. During the year no events have taken place that indicate an impairment in value. Intangible assets under development are annually tested for impairment. The recoverable amount for the Group's cash

generating units (CGU) is determined on the basis of value in use calculations. Calculation is per project. These calculations are based on expected future cash flows based on financial forecasts and strategies approved by the management, and which cover a five-year period. The assumptions reflect the financial targets set up by the Board, market reports concerning future growth and technological trends. From time to time the company uses a five-year period to reflect the long-term nature of customers' purchasing decisions. Cash flows beyond the five-year period are extrapolated using an estimated rate of growth. The final growth rate used is 2 percent (2). The discount rate after tax used is 10 percent (10). This is to reflect the specific risks applicable to the segment the company operates within.

A change in discount rate of 3 percentage points (3) does not trigger any impairment loss. A change in estimated EBITDA-margin of 2 percentage points (2) does not trigger any impairment loss. A change in estimated gross margin of 3 percentage points (3) does not trigger an impairment loss. Based on the above, it is not deemed necessary to recognize any impairment losses.

Expenditure recognized in the income statement for research and development, excluding depreciation, amounted to SEK 43.7 million (35.5) for the year.

Note 11 Equipment

Group, December 31	2019	2018	Group, December 31	2019	2018
Opening acquisition value	18.2	16.2	Opening depreciation	-13.8	-11.7
Purchases	0.4	1.6	Depreciation for the year	-1.8	-1.8
Sales and disposals for the year		-0.2	Sales and disposals for the year		0.1
Foreign exchange differences for the year	0.3	0.6	Foreign exchange differences for the year	-0.2	-0.5
Closing accumulated acquisition value	18.8	18.2	Closing accumulated depreciation	-15.8	-13.8
			Closing carrying amount	3.1	4.4

Notes

Note 12 Leases

Group, December 31	2019
Opening acquisition value	29.2
Additional rights of use	0.3
Closing accumulated acquisition value	29.5
Opening depreciation	0.0
Depreciation for the year	-4.2
Closing accumulated depreciation	-4.2
Closing carrying amount	25.3

INVISIO has decided to apply a simplified approach (modified retrospective approach) which means the comparative figures are not restated. See Note 1 for effects on the opening balance due to implementation of the standard.

The majority of the Group's leases consist of tenancy agreements, whereby INVISIO does not consider it material to present depreciation and carrying amounts for underlying asset types.

The Group has decided to exclude short-term leases and low-value leases. These have been expensed directly during the year and had an impact on earnings of SEK 0.4 million and SEK 0.1 million.

Maturity analysis of lease liabilities, Dec. 31	2019
Year 1	4.7
Year 2	4.3
Year 3	4.1
Year 4	3.9
Year 5	3.8
After 5 years	8.3
Total lease liabilities	29.1

Total cash flow for leases during the year amounted to SEK 5.2 million.

All of the Group's leases in 2018 were operating leases and the lease payments amounted to SEK 4.8 million. Future contractual rental and lease payments amounted to SEK 28.9 million. The maturity structure in 2018 was allocated over 3 years, 2019; SEK 4.6 million, 2020; SEK 3.9 million, 2021; SEK 3.5 million.

The parent company's lease agreement for the year amounted to SEK 0.1 million (0.1). The current lease ran until October 31, 2019, at an annual cost of SEK 0.1 million (0.1).

Group, December 31	2019
Opening balance	29.2
Additional leasing liability	0.3
Amortization	-3.6
Closing leasing liability	25.9

Effects on profit for the year	2019 excl. IFRS 16	Restatement to IFRS 16	2019
Gross profit	313.3		313.3
Operating expenses, excluding depreciation	-175.3	4.6	-170.7
Depreciation/amortization	-5.8	-4.2	-10.0
Operating profit	132.2	0.4	132.6
Net financial items	2.5	-1.0 ¹	1.5
Profit/loss before tax	134.7	-0.6	134.1

¹ Of which 0.5 in respect of interest cost for leasing liabilities.

Effects on cash flow for the year	2019 excl. IFRS 16	Restatement to IFRS 16	2019
Operating activities			
Profit/loss before tax	134.7	-0.6	134.1
Adjustments for non-cash items:			
- Depreciation/amortization	5.8	4.2	10.0
- Other items	-4.1		-4.1
Cash flow from changes in working capital	18.4		18.4
Cash flow from operating activities	154.7	3.6	158.4
Investing activities			
Purchases of property, plant, and equipment	-0.4	-0.3	-0.6
Other items in investing activities	-40.1		-40.1
Cash flow from investing activities	-40.5	-0.3	-40.8
Financing activities			
Change in lease liabilities		-3.4	-3.4
Other items in investing activities	-30.9		-30.9
Cash flow from financing activities	-30.9	-3.4	-34.2
CASH FLOW FOR THE PERIOD	83.4		83.4

Note 12 cont. Leases

Effects on selected key figures	2019 excl. IFRS 16	Restatement to IFRS 16	2019
EBITDA	138.0	4.6	142.6
Operating profit	132.2	0.4	132.6
Operating margin, %	25.7	0.1	25.8
Profit/loss for the period	102.2	-0.6	101.6
Earnings per share for the period, SEK	2.32	-0.02	2.30

Note 13 Inventories

Group, December 31	2019	2018
Finished products	83.6	92.0
Goods in progress	12.0	9.3
Total	95.6	101.3

During the year product costs of SEK 203.3 million (148.8) were recognized as cost of goods sold. The year's impairment of inventories amounts to SEK 1.0 (0.0) and is recognized in cost of goods sold. No impairment of inventories to net realizable value took place during the year, nor during the previous year.

Note 14 Trade receivables

Group, Age analysis of trade receivables, Dec 31	2019	2018
Not past due	74.9	55.9
Past due 0-30 days	35.3	25.3
Past due 31-60 days	0.5	0.4
Past due >60 days	1.5	23.0
<i>Total past due</i>	<i>37.2</i>	<i>48.7</i>
Total receivables	112.2	104.6
Anticipated bad debt losses	-1.2	
Trade receivables in the accounts	111.0	104.6

Doubtful trade receivables	2019	2018
Opening balance		-0.5
Anticipated bad debt losses	-1.2	0.5
Closing balance	-1.2	0.0

INVISIO's customers have a good debt-servicing ability, as they mainly consist of agencies in charge of procurement for law enforcement, security forces and defense forces. A general credit loss reserve is based on historical credit losses and forward-looking assumptions. As INVISIO has no historical bad debt losses, and INVISIO's future customer base also consists of similar customers, the assessment has been made that the credit risk is very low and that the general credit loss reserve is not material at December 31, 2019. An individual assessment of the customers has been carried out, in which the customers' current situation and other relevant circumstances are taken into consideration. The individual assessment gave rise to a provision of SEK 1.2 million (0.0).

Note 15 Derivative instruments

Group, Fair value, Dec 31	2019	2018
GBP		0.1
Total	0.0	0.1

Book value corresponds to fair value. All derivatives refer to forward exchange contracts with purchases of SEK and mature within 12 months. Due to short maturities the currency flows have not been discounted.

Note 16 Other receivables

Group, December 31	2019	2018
VAT	4.6	5.4
Receivables from supplier	0.7	4.3
Other	0.1	0.1
Total	5.4	9.8

Note 17 Prepaid expenses and accrued income

Group, December 31	2019	2018
Advances to suppliers	2.5	3.5
Insurance	1.0	1.4
Exhibition expenses	0.7	0.6
IT expenses	0.2	0.4
Other prepaid expenses	0.1	0.4
Total	4.5	6.3

Note 18 Share capital

At December 31, 2019 share capital amounted to SEK 44.1 million (44.1), allocated among 44,098,494 shares (44,098,494) with a quotient value of SEK 1.00.

The number of outstanding stock options amounts to 1,039,000 (456,000), which entitle the holder to subscribe for 1,039,000 (456,000) shares, distributed over two (one) programs.

For more information on the stock options, see The INVISIO Share on page 26 and Note 7.

Notes

Note 19 Accrued expenses and deferred income

Group, December 31	2019	2018
Holiday pay liability	12.7	10.3
Salary and other remuneration	17.5	3.5
Social security contributions	0.8	0.7
Development costs		0.6
Prepaid income	3.6	0.6
Audit fees	0.6	0.5
Rental of premises	0.2	0.2
Board fee	0.1	0.0
Other accrued expenses	1.3	1.8
Total	36.7	18.1

Parent company, December 31	2019	2018
Social security contributions	0.3	0.2
Audit fees	0.2	0.1
Board fee	0.1	0.0
Salary and other remuneration	0.3	0.0
Other accrued expenses	0.6	0.8
Total	1.5	1.2

Note 20 Earnings per share

Group, Earnings per share before dilution	2019	2018
Profit after tax	101.6	48.2
Average number of shares outstanding, thousands	44,098	44,098
Earnings per share before dilution	2.30	1.09

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

Group, Earnings per share after dilution	2019	2018
Profit after tax	101.6	48.2
Average number of outstanding shares after dilution, thousands	44,189	44,098
Earnings per share after dilution	2.30	1.09

Earnings per share after dilution are based on earnings after tax 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 (measured at fair value under IFRS 2) is less than the average share price for the period can lead to a dilutive effect. The average price for 2019 was SEK 74.40 (65.24).

Note 21 Non-cash items

Group	2019	2018
Depreciation/amortization	10.0	4.3
Change in warranty provision	-0.3	-0.5
Employee Stock Option Program	1.5	0.5
Retirement of equipment		0.1
Foreign exchange differences	-2.5	-2.4
Total	8.7	2.0

Note 22 Participations in Group companies

Company	Corporate identity number	Registered office	Number of participations	Share of equity (%)	Book value
INVISIO Communications A/S	20 75 82 36	Hvidovre, Denmark	672,590	100	82.4
INVISIO Communications Inc.	38-4018124	Delaware, USA	100	100	0.2
INVISIO Communications SAS	820 683 654	Paris, France	100	100	0.1
INVISIO Communications Srl	MI - 2128807	Milan, Italy	10,000	100	0.1
Nextlink IPR AB	556691-0385	in Stockholm	1,000	100	2.5
Nextlink Patent AB	556680-1774	in Stockholm	1,000	100	0.1

Parent company, December 31	2019	2018
Opening reported value	83.9	83.4
Employee Stock Option Program	1.5	0.5
Closing carrying amount	85.4	83.9

Note 23 Related party disclosures

Inter-company transactions are with the parent company's wholly-owned subsidiaries, which is presented in Notes 5 and 22.

Remuneration to the Board of Directors and senior executives is presented in Note 8.

No transactions take place with any of the company's shareholders.

Note 24 Events after the end of the financial year

In the present situation it is not possible to assess the consequences of the Corona virus. However, the company's sales are made through large defense procurements and the contracts run for several years, which should mitigate the negative effect.

The consolidated income statement and balance sheet will be presented to the Annual General Meeting on May 5, 2020 for approval.

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 administration report for the Group and Parent Company provides a fair review of the development of the Group's and the Parent Company's business, financial position and performance and describes significant risks and uncertainties faced by the Parent Company and the companies that are part of the Group.

Stockholm, March 26, 2020

Annika Andersson
Chair of the Board

Charlott Samuelsson
Board member

Charlotta Falvin
Board member

Lage Jonason
Board member

Martin Krupicka
Board member

Ulrika Hagdahl
Board member

Lars Højgård Hansen
President/CEO

Our audit report was submitted on March 26, 2020

PricewaterhouseCoopers AB

Mats Åkerlund
Authorized Public Accountant
Auditor in charge

Åsa Markefors
Authorized Public Accountant



Auditor's report

To the Annual General Meeting of the shareholders of INVISIO Communications AB (publ), corporate identity number 556651-0987

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of INVISIO Communications AB (publ) for the year 2019. The company's annual accounts and consolidated accounts are included on pages 44-69 of this document.

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

We therefore recommend that the general meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the contents of the additional report submitted to the parent company's and the Group's Board in accordance with Article 11 of the Audit Regulation (537/2014).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and we have fulfilled our other ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to Article 5 of the Audit Regulation (537/2014), have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Our audit approach

Audit focus and scope

We designed our audit by determining materiality and assessing the risk of material misstatement in the financial statements. In particular, we considered areas where the President and Board of Directors made subjective assessments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of systematic bias that represented a risk of material misstatement due to fraud.

We tailored our audit to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope and focus of our audit was influenced by our application of materiality. An audit is designed to achieve reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the focus and scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts for the current period. These matters

were addressed in the context of the audit of, and in forming our opinion on, the annual accounts and consolidated accounts as a whole, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
Capitalized development costs	
<p>The Group recognizes SEK 85.6 million related to capitalized development costs, classified as non-current assets in the balance sheet.</p> <p>Expenses in development projects are recognized as assets when it is probable that the project will be successful in terms of its commercial and technical potential and when the costs can be reliably measured.</p> <p>Under IFRS annual impairment testing is to take place where depreciation has not yet started. This impairment test is based on estimates and assumptions that are complex and contain a high degree of significant assumptions by the company management. Notes 1 and 10 present how the company management has made its estimates.</p>	<p>Our audit approach includes an examination of the calculation model used and challenging the material assumptions used by the company management in impairment testing, mainly concerning estimated future cash flows based on financial forecasts and strategies approved by the company management. The assumptions reflect the financial targets set up by the Board, market reports concerning future growth and technological trends.</p> <p>We have also assessed the reasonableness of the budget presented by the company management and approved by the Board by evaluating historical outcomes against budgets adopted.</p> <p>We have tested the effects of changes in material assumptions such as operating profit and discount rate on safety margins and on the basis of these tests assessed the risk of impairment loss.</p> <p>We also evaluated the company management's assessment of how the Group's calculation models are affected by changes in assumptions and compared this with the information presented in the annual report related to impairment testing.</p> <p>We share the assessment of the company management concerning recognition of capitalized development costs.</p>

Revenue	
<p>The Group's sales for the year amount to SEK 514 million and consist entirely of sales of goods.</p> <p>Sales are primarily via a global network of partners and resellers but the company also sells via its own companies in Denmark, the USA, France and Italy. The volume of transactions entail an increased risk relating to completeness and accuracy of revenue recognition. There is also a risk of incorrect recording of revenue and of non-recording of revenue relating to the financial year.</p>	<p>Our audit approach included substantive testing of sales using data analysis and sample testing of customer contracts to identify any possibilities for customers to return goods.</p> <p>At the year-end closing we made a detailed examination of accruals of sales and cost of goods sold to ensure correct reporting of sales and cost of goods sold for the financial year.</p> <p>The examination was conducted with satisfactory results.</p>

Information in the annual report additional to the annual accounts and consolidated accounts

This document contains information additional to the annual accounts and consolidated accounts, which can be found on pages 1-43. The Board of Directors and the President are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the President/CEO

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

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

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts can be found on the website of the Swedish Inspectorate of Auditors: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

Report on other legal and regulatory requirements**Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President of INVISIO Communications AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

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

Basis for opinion

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

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

Responsibilities of the Board of Directors and the President/CEO

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

The Board of Directors is responsible for the company's organization and management of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs in other respects are controlled in a satisfactory manner. The President shall conduct the day-to-day management in accordance with the Board of Directors' guidelines and instructions and take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a satisfactory manner.

Auditor's responsibility

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

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

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

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

A further description of our responsibility for the audit of the administration can be found on the website of the Swedish Inspectorate of Auditors: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

PricewaterhouseCoopers AB, Box 4009, 203 11 Malmö, was appointed as auditor of INVISIO Communications AB (publ) by the general meeting held on May 2, 2019 and has been the company's auditor since April 11, 2008.

Malmö, March 26, 2020
PricewaterhouseCoopers AB

Mats Åkerlund
Authorized Public Accountant
Auditor in charge

Åsa Markefors
Authorized Public Accountant

Financial key figures, alternative performance measures and other definitions

INVISIO's financial statements include both financial key figures that are specified in current financial reporting rules, alternative key figures (performance measures) in accordance with ESMA's definition and other key figures related to the business. The alternative performance measures are regarded as relevant for an investor who wants to understand the company's results and financial position better. Definitions and reconciliation of the alternative performance measures that are not directly reconcilable with the financial statements can be found in this page spread. Reconciliation is against the closest comparable IFRS financial measure.

Gross margin

Gross profit as a percentage of total income.

Operating margin

Operating profit as a percentage of total revenue.

Profit margin

Profit for the year as a percentage of total revenue.

EBITDA

Operating profit before depreciation and impairment losses.

EBIT (Operating profit)

Operating profit after depreciation and impairment losses. INVISIO defines EBIT in the same way as the key figure operating profit.

Operating expenses

Selling and marketing costs, Administrative expenses and Development costs.

Net financial items

Financial income less Financial expenses.

Equity/assets ratio

Equity divided by total assets (balance sheet total).

Number of employees at close of period

The number of employees on the date of the last salary payment for the period.

Investments in R&D

Expenditure for research and development less amortization of intangible assets and capitalized development costs.

Number of shares

Number of outstanding shares at the close of the period.

Number of shares after dilution

Number of outstanding shares at the close of the period plus the number of shares that would be added if all potential dilutive shares were converted to shares. Only the option programs whose issue price is less than the average market price of the shares during the period can lead to a dilutive effect.

Average number of outstanding shares

Weighted average of the number of outstanding shares during the period.

Average number of outstanding shares after dilution

Weighted average of the number of outstanding shares during the period plus a weighted number of shares that would be added if all dilutive potential shares were converted to shares. Only the option programs whose issue price is less than the average market price of the shares during the period can lead to a dilutive effect.

Earnings per share

Profit for the year divided by the average number of outstanding shares.

Earnings per share after dilution

Profit for the year in relation to the number of shares outstanding after dilution.

Equity per share

Equity divided by the number of outstanding shares adjusted for non-registered issues.

Shareholders' equity per share after dilution

Shareholders' equity divided by the number of outstanding shares after dilution.

Reconciliation of alternative performance measures

January-December (SEK million)		2019	2018
Gross profit	A	313.3	199.7
Operating expenses	B	180.7	136.3
EBIT (Operating profit)	A-B	132.6	63.5
EBIT (Operating profit)	A	132.6	63.5
Depreciation/amortization and impairment of intangible assets and property, plant and equipment	B	10.0	4.3
EBITDA	A+B	142.6	67.7
Research and development costs	A	48.1	38.4
Amortization of intangible assets	B	4.0	2.5
Capitalized development costs	C	39.6	23.4
Investments in R&D	A-B+C	83.7	59.3
December 31		2019	2018
Equity, SEK million	A	366.0	292.0
Number of shares, thousands	B	44,098	44,098
Equity per share, SEK	A/B	8.30	6.62
Equity, SEK million	A	366.0	292.0
Number of shares after dilution, thousands	B	45,137	44,098
Shareholders' equity per share after dilution, SEK	A/B	8.11	6.62

Financial calendar

Interim report January-March	May 5, 2020
Annual General Meeting 2020	May 5, 2020, at 13.00
Interim report January-June 2020	August 14, 2020
Interim report January-September 2020	October 29, 2020
Year-end report 2020	February 15, 2021

The Annual General Meeting will be held in IVA's premises at Grev Turegatan 16 in Stockholm.
The notice to attend can be found at www.invisio.com/IR.

Five-year review

Income statements, January-December (SEK million)	2019	2018	2017	2016	2015
Total revenue	513.8	354.5	365.7	330.0	229.8
Cost of goods sold	-200.5	-154.7	-163.4	-159.0	-111.5
Gross profit	313.3	199.7	202.3	171.0	118.3
Operating expenses	-170.7	-132.0	-119.4	-73.2	-65.4
Depreciation/amortization and impairment losses	-10.0	-4.3	-4.4	-7.5	-5.6
Operating profit	132.6	63.5	78.5	90.4	47.3
Net financial items	1.5	0.7	-5.1	-0.1	-0.5
Profit/loss before tax	134.1	64.2	73.5	90.3	46.9
Income tax	-32.5	-16.0	-11.2	1.5	10.2
Profit/loss for the year	101.6	48.2	62.3	91.8	57.1

Balance sheets, December 31 (SEK million)	2019	2018	2017	2016	2015
ASSETS					
Non-current assets					
Intangible assets	85.6	49.7	27.7	17.5	16.9
Tangible assets	3.1	4.4	4.5	3.3	0.6
Rights of use, leases	25.3				
Financial assets	4.1	17.3	27.4	35.7	30.1
Total non-current assets	118.0	71.4	59.6	56.5	47.6
Current assets					
Inventories	95.6	101.3	36.3	25.9	19.9
Trade receivables	111.0	104.6	121.1	39.4	35.9
Other current receivables	10.0	16.2	12.1	5.9	8.3
Cash and cash equivalents	145.1	62.2	113.2	133.2	29.4
Total current assets	361.7	284.3	282.6	204.4	93.4
TOTAL ASSETS	479.7	355.7	342.2	260.9	141.0
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	366.0	292.0	259.9	209.5	105.6
Long-term liabilities					
Lease liabilities	22.0				
Deferred tax liabilities	6.5				
Total long-term liabilities	28.5	0.0	0.0	0.0	0.0
Current liabilities					
Trade payables	29.8	39.6	49.7	26.0	15.8
Lease liabilities	3.9				
Other current liabilities	51.5	24.1	32.7	25.4	19.6
Total current liabilities	85.2	63.7	82.3	51.4	35.4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	479.7	355.7	342.2	260.9	141.0

Cash flow statement, January-December (SEK million)	2019	2018	2017	2016	2015
Profit/loss before tax	134.1	64.2	73.5	90.3	46.9
Adjustments for non-cash items	8.7	2.0	7.3	13.2	4.6
Income tax paid	-2.8	-4.8	-2.7	-5.1	-2.7
Cash flow from operating activities before changes in working capital	140.0	61.4	78.1	98.4	48.8
Cash flow from changes in working capital	18.4	-64.3	-67.2	7.5	-18.9
Cash flow from operating activities	158.4	-3.0	10.9	105.8	29.9
Cash flow from investing activities	-40.8	-25.1	-15.0	-10.5	-4.7
Cash flow from financing activities	-34.2	-26.5	-18.3	6.2	-23.1
CASH FLOW FOR THE YEAR	83.4	-54.6	-22.4	101.5	2.1
Key figures	2019	2018	2017	2016	2015
Margins					
Gross margin, %	61.0	56.4	55.3	51.8	51.5
Operating margin, %	25.8	17.9	21.5	27.4	20.6
Profit margin, %	19.8	13.6	17.0	27.8	24.8
Capital structure					
Equity ratio, %	76.3	82.1	75.9	80.3	74.9
Other					
Number of employees at close of year	101	82	73	52	40
The INVISIO share					
Number of shares at close of period, thousands	44,098	44,098	44,098	43,449	42,240
Earnings per share, SEK	2.30	1.09	1.42	2.14	1.35
Earnings per share after dilution, SEK	2.30	1.09	1.41	2.08	1.30
Equity per share, SEK	8.30	6.62	5.89	4.82	2.50
Shareholders' equity per share after dilution, SEK	8.11	6.62	5.89	4.75	2.39
Share price at close of period, SEK	101.80	56.90	79.25	63.75	75.75

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Pages 38-41; Håkan Lindgren and Lars Strandberg. Other; INVISIO.

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