CLAVISTER®

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Annual Report & Group Report for Clavister Holding AB

Fiscal Year . 2017

Org.nr. 556917-6612

Content.

Unless otherwise specified, all amounts are reported in thousands of kronor. Data in brackets refers to the previous year.

The Swedish version shall prevail in any case of any discrepancy between the Swedish and English version.

CEO comments.

I am proud to announce that Clavister's revenues in 2017 amounted to more than 100 MSEK, an all-time high top line, corresponding to a 28% year-on-year growth.

Not only is 100 million a symbolic level, it also shows Clavister's ability to replicate and grow the business. Despite major organizational changes during 2017 and the extensive work related to the long-term funding, the Clavister team still managed to execute according to the established strategy and the business plan, which we now can see the positive results of.

The collaboration with our telecom partners continues to develop according to plan. At the beginning of the year we had no customers within this segment on this new virtualized solution. During the year we managed to grow this business to eleven telecom operators, together with our partnering service provider, Nokia. Not only have the mobile operators placed their initial orders with us, but they have come back with orders for expanded capacity and added features. We have a strong offering for the telecom market and expect to see continued growth in line with the disruptive technology shift that has now started.

In parallel with this, we continue to scale our sales force and market presence in order to realize our continued growth. Examples include the Nordics, where we have tripled the size of our sales team since mid-2017 and will continue growing the team in 2018, with the clear aim of gaining a bigger market share in the Nordic region. We follow a similar road-map for our other core market regions – Germany and Japan. We continue to build on our competence, one example being the recruitment of a senior strategy officer to the executive management team with important experience from global technology leaders.

During the fourth quarter we also achieved our target to fund our long-term business plan for growth, thanks to the agreement with EIB, the European Investment Bank, in which we have received debt financing up to 20 MEUR. This is in addition to the financing already granted by Tagehus in Q3.

Despite our sales growth and improved gross margins, what gives me greatest pride is our customers and their satisfaction with our services and support to help them deliver business continuity. During the fourth quarter we carried out our annual customer satisfaction survey and 94% of our customers answered that they would recommend Clavister to their business peers!

Therefore, I am excited to conclude that Clavister now has all the pieces in place for creating an exciting 2018. I hope you will accompany us, as a customer, employee or shareholder on our continued journey into the future, in which we will relentlessly continue to further innovate, replicate and scale our business.

President and CEO
John Vestberg

Market.

The cybersecurity market continues to grow substantially as cybercrime evolves and awareness of this grave threat to business continuity reaches the board rooms. The global cybersecurity market is forecasted to exceed 100 BUSD in 2018, with a steady annual growth during the coming years, see Image 1.

Image 1. Global cybersecurity market 2017 – 2021 MUSD. Source: Cybersecurity Ventures

Target Market Segments

Based on the innovative and highly scalable cybersecurity technology platform which Clavister has been developing and investing into over the past years, the company is today addressing mainly two market segments, the Enterprise market and the Communication Service Provider market.

These two market segments represent a total addressable market for Clavister amounting to more than 20 BUSD already by the year 2018 and growing to over 30 BUSD by 2022.

In addition, Clavister's technology platform is proven to be commercially viable, albeit with early customer engagements, in vertical markets including Defense, connected Vehicles, datacenters and the rapidly growing Internet of Things (IoT) market. These opportunities represent substantial additional growth potential for Clavister to exploit alongside its traditional Enterprise and Communication Service Providers markets.

Enterprise Market

The product group Next-Generation Firewalls, being Clavister's largest product area, is estimated to be worth 14 BUSD by the year 2021. The product groups Identity Access Management and Endpoint Security represent addressable markets for Clavister worth 5 billion USD and 4,5 BUSD, respectively.

All-in-all, this presents a total addressable market for Clavister at about 20 BUSD for the current year, see Image 2.

Clavister has a distribution and partner network with global reach. However, we have a stronger focus on a few selected geographical markets (Clavister's tier-1 markets): the Nordic Countries, DACH (Germany, Austria and Switzerland) and Japan. The total addressable market for those aggregated geographies amounts to circa 2.8 BUSD by 2021.

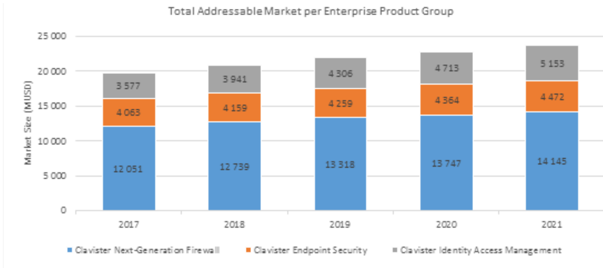


Image 2. Total adressable market for Clavister's product portfolio in the enterprise-segmenten 2017 - 2021 (MUSD).

Source: Gartner; "Forecast: Information Security, Worldwide, 2015-2021, 3Q17 Update"

The Communication Service Provider Market

The Fourth Industrial Revolution

Digital transformation is emerging as a key driver of a dramatic change in the way we live, work and interact. This sweeping change has been named the "Fourth Industrial Revolution". The telecom industry is playing a critical role in this revolution by providing the fundamental building blocks and technologies required. Cloud services, virtualization, mobile connectivity, autonomous vehicles, IoT (internet of things), social media, data analytics and artificial intelligence are just some examples of technologies that, combined, drive this transformation.

As a consequence, the growth of information is astonishing; according to Cisco's Visual Networking Index, mobile data traffic has grown with a factor of 400 million in the past 15 years. Forecasted by IDC, more than 44 zettabytes of data (equivalent to 44 trillion gigabytes) will flow annually through global networks by 2020.

Kathrin Buvac, Chief Strategy Officer at Nokia, say that "Internet of things and industrial digitization have the potential to have as big impact on people as the incarnation of the internet itself had, possibly even bigger than that."

Security is Key

Within the context of this massive digital transformation, it is easy to understand that the financial and integrity implications are profound, if security and data privacy cannot be ensured.

Rajeev Suri, CEO of Nokia, in his keynote speech at the 2017 edition of the Mobile World Congress in Barcelona went as far as stating that network security is the second most important issue for the telecom industry (after carrier mergers and acquisitions).

The telecom market is clearly at an inflexion point, where the combination of disruptive technology such as virtualization,

Market.

projected massive data upgrowth and a high awareness of the need for security, opens a disruptive window of opportunity for companies like Clavister. With a unique business model and already contracted partnerships with some of the world's most renowned telecom suppliers, we believe that Clavister has a strong possibility to capitalize on this opportunity.

Business Model

The business model Clavister applies for this particular segment is based on an indirect sales model, in which a system integrator assumes the full responsibility towards the end customer, i.e. the mobile operator. Clavister has currently contracted a number of systems integrators, where Nokia, Ericsson and Mirait are some of the more renowned. Additionally, other global system integrators, originally from the Enterprise space, are starting to gain traction in the telecom segment as well, thereby expanding on Clavister's potential prospect base.

Nokia, one of the market leaders regarding LTE/4G infrastructure, has chosen to license and sell Clavister software under its own brand, "Nokia NetGuard Virtual Firewall". The solution has, by leveraging on Nokia's extensive sales organization, the potential to reach all mobile operators on a global scale.

Mirait, being another example, is a significant supplier to some of the largest companies in Japan, including the regional, major mobile operators.

A typical delivery from Clavister to the system vendors consists of security software, related software for administration, required licenses and technical support and upgrades. The software is primarily licensed per peak traffic throughput, which means that Clavister's revenue potential increases as the volume of data increases in the operators' networks. Mobile operators are typically ordering small-capacity licenses initially, and placing subsequent purchase orders as capacity requirements increase. Initial feedback from several operator customers is that they anticipate a capacity increase of 80 - 100% year over year for the first five years of deployment.

Additional technical features are licensed separately and provide an upsell opportunity for Clavister. Those feature licenses follow the same peak traffic throughput model, which means that the upsell revenue scales with throughput as well.

Technical support and upgrades are provided at an annual support charge, which is a percentage of the aggregated license revenue.

Mobile operator rollout - example scenario

The rollout of a virtualized security solution can differ significantly between different mobile operators. In general, however, most operators choose to initiate their rollout with a smaller installation, followed by a period of evaluation and technical validation of the solution.

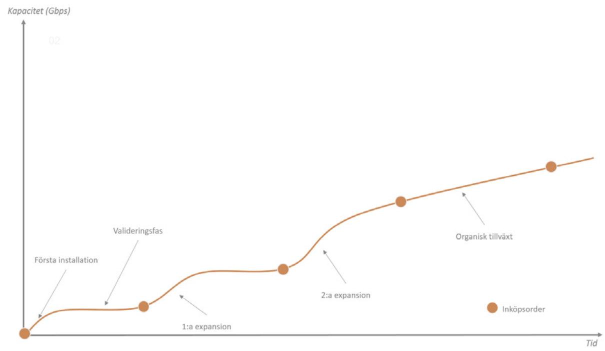


Image 3 shows an example scenario where the mobile operator has chosen to expand its solution in three stages and then expand in line with the underlying growth of mobile data traffic.

Clavister's Solutions

Network security is required for different use cases and in multiple locations within a mobile operator's network. Clavister currently provides solutions for four different use cases, based on Clavister's security software, see Figure 4.

- *Core Security (Gi/SGi Firewall)* – providing perimeter security between the mobile core network and the public internet. The vast majority of all data traffic sent to and from mobile phones or other mobile devices are transferred through Core Security nodes.
- *Backhaul Security (LTE Security Gateway)* – providing transport security for backhaul (the communication between radio base stations and the mobile core network). Backhaul security is required in order to protect the mobile core network against cyberattacks and provides eavesdropping and data integrity protection for the subscribers. Mobile operators who have fully deployed backhaul security let all their mobile data traffic pass through backhaul security nodes.
- *Domain Security (Virtual Firewall)* – providing general-purpose separation of domains (firewalling) within a telecom network. Traffic volumes depend on the specific use cases.
- *Roaming Security (GRX Firewall)* – providing security for roaming traffic (data traffic flowing between two mobile operator networks).

Market.

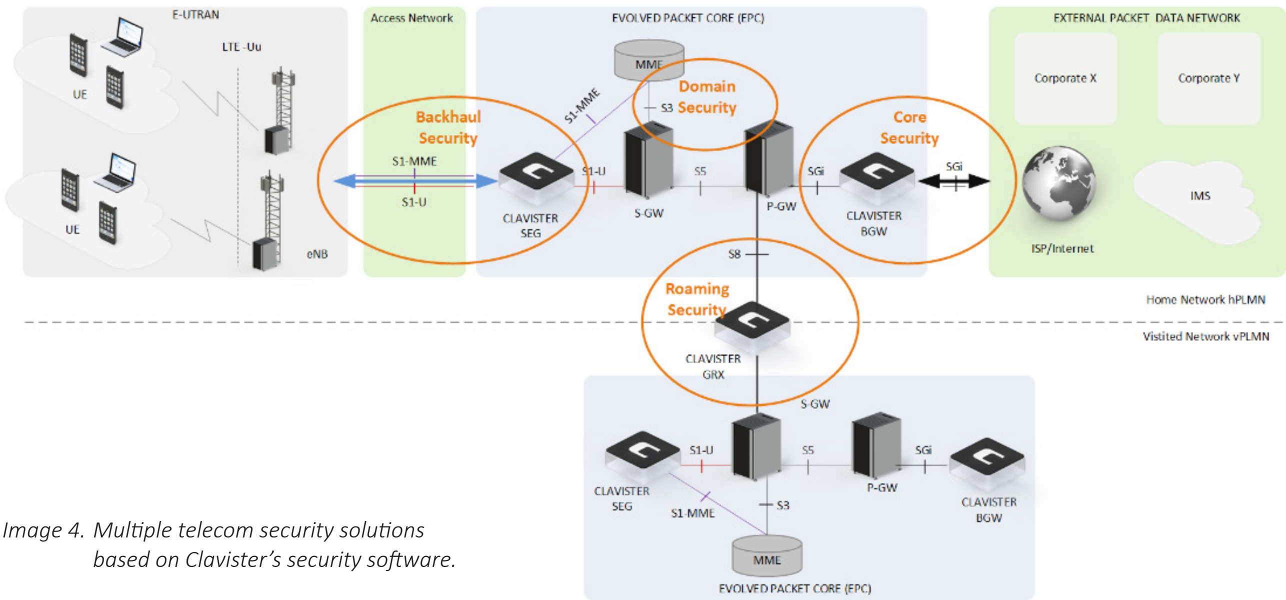


Image 4. Multiple telecom security solutions based on Clavister's security software.

Total Addressable Market

The three main parameters governing the size of the addressable market for Clavister within the communication service provider segment are the growth of mobile data traffic, the rate of which virtualized telecom networks are being deployed and the price per peak throughput being accepted by the mobile operators.

According to Ericsson ***Mobility Report 2017***, mobile data is forecasted to exceed 20 Petabytes per month by 2018, growing to 109 Exabytes (109 billion Gigabytes) per month by 2023. See Image 5.

Mobile data usage is, on average, uniform over the days in the month, and part of the daily traffic is concentrated to the Busy Hour (the theoretical hour in which most of the data is being used). Following assumptions set out by CelPlan, one third of the daily mobile traffic is consumed during the Busy Hour. The network capacity required to cope with the data traffic in the Busy Hour is known as Peak Throughput. When dimensioning the network nodes in a mobile network, the Peak Throughput is hence the key governing parameter.

For 2018, the Peak Throughput on a global basis, based on above assumptions, would amount to 515 Tbps (Terabit per Second), growing to 1 855 Tbps by the year 2022.

Due to the emerging nature of virtualized telecom networks, the rate of which they are being deployed is still a parameter which is somewhat uncertain. However, SNS Research estimates that, by 2020, nearly 80% of all new EPC (mobile core) investments will be virtualized. Indications from early Clavister customers point towards the same rate.

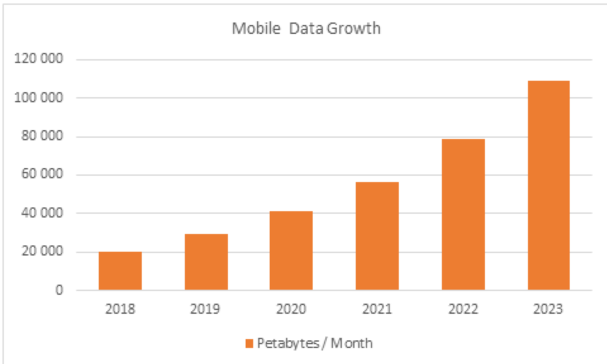


Image 5. Mobile data growth during 2018-2023 (Petabytes / Month).

Source: Ericsson Mobility Report 2017.

Again, as this market is emerging, pricing levels are yet to be normalized. Also, price levels from Clavister differ between different solutions, as they include different feature-sets.

The table below illustrates a scenario for the total addressable market for Clavister's Core Security solution. The scenario indicates that the addressable market, before discounts to partners, is worth approximately 100 MEUR in 2018, growing to 2.6 BEUR by 2022.

Market.

Table 1: **Total Addressable Market - Virtualized Core Security**	**2018**	**2019**	**2020**	**2021**	**2022**
Monthly Mobile Data (PB / Month) [1]	19 857	28 679	39 615	53 096	71 566
Peak Throughput (Tbps) [2]	515	744	1 027	1 377	1 855
Virtualization Adoption [3]	5%	25%	50%	80%	95%
Virtualized Mobile Core Throughput (Tbps)	26	186	514	1 101	1 763
Incremental Virtualized Mobile Core Throughput (Tbps)	26	160	328	588	661
Average Gross Price, Virtualized Core Security, per Gbps (EUR) [4]	4 000	4 000	4 000	4 000	4 000
Total Addressable Market - Virtualized Core Security (Based on Gross Prices) (MEUR)	**103**	**641**	**1 311**	**2 351**	**2 646**

Sources: [1] Ericsson Mobility Report 2017, [2] CelPlan, [3] SNS Research, [4] Clavister

Pricing for the Backhaul Security solution is somewhat higher, due to more advanced features included. Following the same assumptions on virtualized adoption rate, the table below illustrates a total addressable market for the Backhaul Security solution, growing from 111 MEUR in 2018 to 2.8 BEUR by 2022, before discounts to partners.

Table 2: **Total Addressable Market - Virtualized Backhaul Security**	**2018**	**2019**	**2020**	**2021**	**2022**
Monthly Mobile Data (PB / Month) [1]	19 857	28 679	39 615	53 096	71 566
Peak Throughput (Tbps) [2]	515	744	1 027	1 377	1 855
Virtualization Adoption [3]	5%	25%	50%	80%	95%
Virtualized Mobile Core Throughput (Tbps)	26	186	514	1 101	1 763
Incremental Virtualized Mobile Core Throughput (Tbps)	26	160	328	588	661
Average Gross Price, Virtualized Backhaul Security, per Gbps (EUR) [4]	4 300	4 300	4 300	4 300	4 300
Total Addressable Market - Virtualized Backhaul Security (Based on Gross Prices) (MEUR)	**111**	**689**	**1 409**	**2 527**	**2 844**

Sources: [1] Ericsson Mobility Report 2017, [2] CelPlan, [3] SNS Research, [4] Clavister

The two other solutions currently provided by Clavister, Domain Security and Roaming Security, do not have the same direct correlation to total mobile data. For simplicity, the addressable market for those solutions are estimated to 20% and 10% of Core Security, respectively.

Because of the progressive nature of the telecom market, it is important to understand the aggregated market size over some years. Image 6 provides a high-level understanding of the total addressable market for Clavister's current four security solutions, aggregated over a period of five years.

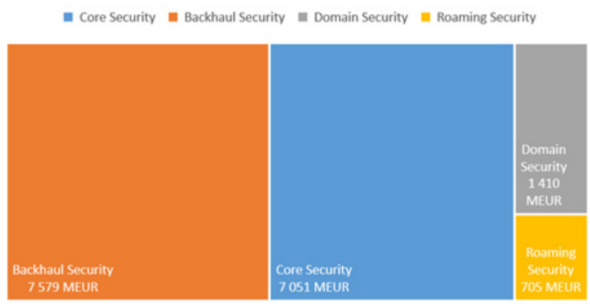


Image 6. Total Addressable Market for Clavister's telecom security solutions. Five-year aggregate.

Source: Ericsson Mobility Report 2017, CelPlan, SNS Research and Clavister.

Management Report.

The Board of Directors and Chief Executive Officer of Clavister Holding AB (556917-6612) hereby issue the annual report and consolidated accounts for the fiscal year 2017. The company is based in Örnsköldsvik.

Information about the Business

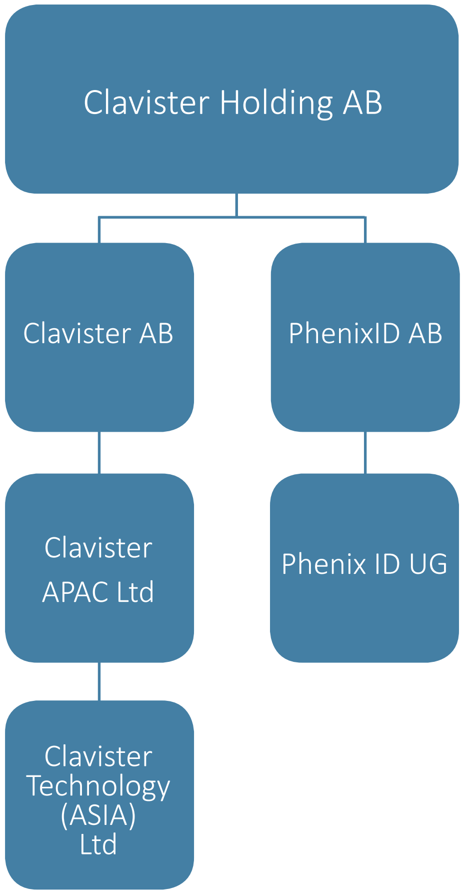
Within the Clavister Group, development, product development and sales of cyber security solutions take place both in the form of hardware products as well as virtual solutions. The products and solutions are characterized by innovation, high quality and performance. In addition to this, specialized technical services are offered. Sales are mainly performed under the Clavister brand respectively PhenixID brand but also via OEM, i.e. meaning that the software is added to the customer's own product concept.

The Clavister Group was formed in 2013 by a share issue where Clavister AB's shareholders became owners of the parent company Clavister Holding AB. It was a step in transforming Clavister to be listed on Nasdaq First North, which took place in May 2014. The parent company, Clavister Holding AB, carries out a limited portion of operations such as management of the company's share and investor-oriented business. Clavister AB is the original company and started its operations in Örnsköldsvik in 1997. Around the turn of the millennium, the foundation for what is operationally considered to be Clavister of today was laid.

The Group consists of six legal entities, where Clavister Holding AB owns the subsidiary Clavister AB to 100%. The majority of the business within the group consists of the subsidiary Clavister AB. At the headquarters in Örnsköldsvik, we conduct product and software development, maintenance, product management, marketing, consulting services and customer training, supply chain, logistics and warehousing, customer support, finance and general administration.

Since the autumn of 2015, the company has also established an office in Umeå. Software development, maintenance and customer support are ongoing there. The establishment in Umeå is crucial for both attracting new and succeeding in retaining existing employees. Sales offices are located in Örnsköldsvik and Stockholm. Clavister AB, in turn, owns 100% of Clavister APAC Ltd. in Hong Kong, Clavister Technology (ASIA) Ltd, owned 100% by Clavister APAC Ltd. In the subsidiary Clavister Technology (ASIA) Ltd. Sales under the Amaranten and Clavister brand are also offered, as well as technical and customer support, logistics and warehousing, invoicing, finance and administration.

PhenixID AB is wholly owned by Clavister Holding AB and was acquired in 2016. PhenixID is a major player in cybersecurity solutions and an important complement to Clavister's offer in the IAM (Identity & Access Management) and 2FA (Two Factor Authentication) areas. In addition to knowledge and expertise in the areas of IAM and 2FA, the PhenixID Group supports with good customer references and a stable customer base. PhenixID's operations are based in Stockholm and consist of sales and development. PhenixID AB, in turn, owns the German subsidiary PhenixID UG to 100%, where just sales are conducted.



The Clavister Group with parent company Clavister Holding AB and its subsidiaries.

Significant Events during the Year

Contracts and Business

In March 2017, Clavister received its first order from Nokia Networks, which was an initial delivery for the protection of a so-called "Tier-One Operator Network" in West Europe. Nokia has an outspoken focus on network security and Clavister's virtual security solution is an integrated part of Nokia's NetGuard offer. During the year, this business grew to include a total of eleven operators (with thirteen separate orders in total), now using Clavister's virtualized software adapted for Communication Service Providers. This type of business usually starts on a small scale, but grows over time, as data volume increases and additional features are being added.

In September 27, 2017, a finance agreement was signed with Tagehus Holding AB, which, on market terms, lends 50 MSEK to Clavister Holding AB during 3 years.

In 18 December 2017, a financing agreement was signed with the EIB, the European Investment Bank, with a total loan facility of 20 MEUR over 5 years.

Management Report.

Other Events

The present CEO John Vestberg was appointed by the Board of Directors in June 2017, to succeed Johan Öhman, who in turn succeeded Jim Carlsson as CEO.

At the Extraordinary General Meeting held on January 17, 2017 a decision was taken to issue a maximum of 100,000 warrants. The right to subscribe to these warrants was extended to ten employees in PhenixID. The warrants were issued free of charge and entitled to subscribtion to new shares at a strike price of 79 SEK. It was also decided to issue a maximum of 120,000 warrants. The right to subscribe to these warrants was extended to Clavister AB free of charge, in order to transfer to employees of Clavister AB and PhenixID AB at a purchase price per warrant based on the warrants' market value and allow subscription in new shares at a strike price of 72 SEK.

By April 27, 2017, the AGM appointed Victor Kovacs, Annika Andersson and Sigrun Hjelmquist as new members of the Board of Directors. Current Board members Peter Dahlander, Ilkka Hiidenheimo, Göran Carstedt and Jan Ramkvist were reelected and Björn Norrbom was elected Chairman of the Board.

At the AGM a decision was taken to issue a maximum of 300,000 warrants. The right to subscribe for them were free of charge to the subsidiary Clavister AB, for subsequent transfer to senior executives in Clavister AB and the subsidiary PhenixID AB at a price per option based on the option's market value. Subscription of new shares under this option program was set at a strike price of 30 SEK.

In august 2017 the Board chose Viktor Kovacs as Chairman of the Board until the next Annual General Meeting. Mr Björn Norrbom, elected Chairman of the Board at the Annual General Meeting, had—for personal reasons—chosen to request a termination from its role as Board member and Chairman of the Board of Clavister.

The Extraordinary General Meeting resolved, in accordance with the Board's proposal, to authorize the Board of Directors to, at one or more occasions until the next Annual General Meeting, without regard to shareholders' pre-emption rights, issue warrants in three different series.

- Series 1 – no more than 3,062,608 warrants No. 1 2017/2020
- Series 2 – no more than 1,250,000 warrants No. 2 2017/2020
- Series 3 – no more than 1,800,000 warrants No. 3 2017/2037

In connection with the EFM, Bo Askvik was eleted the Board of Directors while Ilkka Hiidenheimo left the Board.

Events after the Balance Sheet Date

In February 5, 2018, the company received the first tranche of the loan agreement signed on 18 December 2017 with the European Investment Bank (EIB). The liquidity received amounted to 10 MEUR, out of the total loan facility of 20 MEUR. The remaining two tranches can, depending on the covenants terms and objectives, be received later with a maximum of 5 MEUR for each tranche.

Management Report.

The loan will support the company's growth plans, continued investment in innovation and product development, and drive to the company's investment in sales and increased market presence.

Future Development

Cyber threats of various kinds are no longer just an IT problem but also a business problem. Awareness of our vulnerability is increasing and in the media we can read about how different cyberattacks hit individuals, companies and the society as a whole.

As a result of the universal impact of both fixed and wireless communication technology, the demands for security, both for authorities and organizations, banks and businesses, are increasing since the consequences of interruptions such as lock downs, viruses, interception or overload attacks (DDoS) are so large.

A greater proportion of business opportunities are OEM agreements where technology is licensed to so-called Service Providers or the telecom segment. They add network security as an important component to their own offer. Examples of this are the Clavister signed agreements with Nokia Networks and Artesyn. The increase of network traffic also increases the investment needs and operating costs for service providers, which in turn will continually impose higher demands for higher availability, security and the development of cost-effective solutions. For service providers and telecom for Clavister's offer is therefore particularly well-suited as well as financially competitive.

An individual places ever-heightened demands on integrity and security in parallel with the demands of the use of mobile devices and smart goods (IoT), which in fact further exposes the individual user. The introduction of the General Data Protection Regulation (GDPR) in May 2018 puts the a finger on integrity and increases the requirements for managing personal data by companies, States, Governments and organizations, something which is expected to further increase the demand for Clavister's security solutions.

All of the above thrives growth within our market, and in combination with Clavister's business model, product portfolio, market positioning and technological height, the conditions are good for a strong future growth - despite fierce competition in both the Enterprise and Service Providers segment.

Risks and Uncertainties

Risks are a natural hazard of the business being conducted. Clavister is continuously working on identifying, assessing, evaluating and preventing risks to which the business may be exposed. Risks influence and may negatively affect Clavister's sales, earnings and financial position. The following is a description of the risks that the Board and senior executives consider to be of importance to the business.

Operational and strategic risk

Clavister currently has its largest turnover from medium-sized companies and a few larger, well-established customers. Dependence on larger accounts affects not only the Group's sales but also significantly affects strategic decisions and product development plans. Clavister competes against major multinational actors, which poses a risk that customers prefer a well-known and dominant supplier before a smaller one. The Group develops software where there is a risk that development time for programming and testing will be underestimated, which can lead to delayed projects and customers choosing a competitor instead. Developed software may also contain errors (bugs) that have not occurred during the testing phase and which may interfere with the customer's business or cause disturbances and delays that may lead to the termination of the contractual relationship. Unreasonable demands for action may be required, which can both be difficult to resolve and complete in a timely manner. Customer support with opening hours 24/7 has limited resources if reported cases would increase significantly in both quantity and complexity. This could in turn imply that customers do not renew current support agreements.

If the Group's hardware suppliers do not deliver agreed-upon volume on time, it leads to delays affecting delivery to customers, which can lead to lower sales, earnings and negative impact to the financial position. In the case of hardware suppliers, Clavister is a small customer whose developed product plans and improvement projects can be down prioritized and adversely affect product quality and delivery times. The Group's product liability can also be adversely affected by insufficient quality, which in turn can lead to extensive internal management but also increased demands on customer guarantees.

The business can also be negatively affected if anybody from the board, management or other key person leaves the group. There is high competition for staff in programming, testing and development, which means that Clavister may find it difficult to recruit competent personnel. The cost of personnel also increases when demand is high. Board, management or staff can also make mistakes or deal with something incorrectly, which may adversely affect the financial position.

The Group's intangible assets are not patent-protected. There is a risk that Clavister uses technology that infringes on other proprietary intellectual property, threats or claims for damages as a possible consequence. The Group may also be wrongly alleged to have infringed other people's patents and therefore be brought into costly patent litigations. Any patent laws can in turn create uncertainty and harm the competitiveness.

The customer's willingness to buy is not only influenced by the general economic situation and the IT budget but also on the market situation. In a deteriorating economic situation, investments in network security can be, even though the subject is a priority. With regards to agreements between the Group and various parties acting on an international or national market, there is always a risk that the agreements are not coplete, despite legal expertise and internal resources.

Management Report.

Financial risk

Most of the sales are made in SEK, USD and EUR and are regulated in agreements with the customer. EUR dominates, followed by SEK. Product payments are regulated in USD. Currency fluctuations in both supplier payments and customer payments can create exchange rate losses and affect the financial position. Currency risk also exist in interest-bearing loans taken in foreign currency. The EIB loan is in EUR. Negative currency exposure may also arise as a result of the China subsidiary, which invoices and conducts accounting in CNY. Since trading and purchasing of products in Clavister China is largely local and in CNY the impact on the exchange rate is limited, but resides in the Group. Changed political decisions or tax situations are additional risks in China that should not be neglected.

Currency hedging takes place by means of the settlement of cash and cash equivalents. In terms of the overall spread between different currencies, sales in SEK account for about 40% of the Group's sales, followed by EUR, USD and CNY. Operating expenses are dominated by SEK by 75% and the remaining portion is divided between USD, EUR and CNY.

Interest rate risks are linked to the Group's financing by means of the convertible loan (due 2022) and factoring where interest rates are controlled by the market for each currency area. Opportunities for refinancing depend on future results and other factors. The time between delivery of products until the customer pays, involves risks. Customers can postpone the payment or go bankrupt. Since 2014, the Group has applied factoring with respect to customer billing. Approved customers (customer invoices) are credit insured and the customer invoices are sold to the factoring company. Through the factoring agreement, the Group has a credit insurance which renders the company without harm up to 90% if customers go into bankruptcy. The Group may also be adversely affected by suppliers that demand advance payment, but do not fulfil their obligations regarding delivery times, or that the delivery of the products do not happen at all.

Quality Work

Clavister applies work practices based on the concept of increased quality through a sustainable working method and continuous improvement in operations in order to better meet customer needs. The quality of our products and services is a crucial success factor in meeting increased global competition.

Deviations from the agreed process are documented, timed, corrected and followed up. Quality audits are conducted internally and by external operator DNV GL (The Norwegian Veritas), who annually reviews the certification according to the ISO 9001 quality management system. Improvement of the management system was implemented in autumn 2016 to comply with ISO 9001: 2015 requirements.

Vision, Goal Management and Results

The Vision is a fully-communicating World based on trust and security where Clavister is the customer's obvious choice for cybersecurity, for the protection of his business critical business, information and reputation. Clavister's goal is satisfied custom-

Management Report.

ers, employees and shareholders. The strategies for achieving this are to:

- always have the customer in focus
- show high growth rates
- correctly prioritizing our resources
- working with continuous improvements

Based on established strategies and the Board's approval of the budget, the year's goals are being set. The company's overall goals are communicated and monitored on a regular basis. Overall goals are broken down at departmental, team and individual levels to ensure that the company delivers according to plan. The goals are documented at the time of completion, how the results are to be measured, and plans for achieving the goals. At the individual level, the goals can be a mix of both hard and soft goals, such as social ability.

Environmental and Sustainability Effort
Clavister works with environmental and sustainability issues based on business ethical, social, environmental and economic considerations.

Attractive and Sustainable Workplace
The company must provide both an attractive workplace and a healthy, open and safe working environment (physical and psychological) for all employees. The working environment must be distinguished by a reasonable balance between the requirements and challenges posed. Clavister should encourage employees to maintain or develop good health and counteract trends that can lead to a work environment where stress-related illnesses or long-term sicknesses can develop. The company will ensure that no employees are being discriminated. Clavister has employees from 25 different nationalities, creating great opportunities and competitive advantages.

Business Ethics: Aspects and Long-term Customer Relations
Legal requirements and business ethics guidelines include counteracting bribery and corruption, applying the code of conduct and handling of sensitive corporate information. Recognition and compliance with the Code of Conduct, Information Policy (and MAR *) takes place through annual reminder and confirmation from all employees. The business conduct guidelines are also updated in connection with recruitment and upon the introduction of new employees.

Customer satisfaction surveys are conducted quarterly and for customer support, the results are well above set goals.

* EU Market Use Regulation 596/2014 / EU aims at ensuring the integrity of financial markets and enhancing investor protection and trust in markets

Reduction of the company's direct and indirect environmental impact
A large portion of the company's products is constituted by software and licenses. With regard to hardware production, Clavister works to avoid substances that can be harmful to the environment. Since the end of 2015 most of the company's hardware products are produced in Taiwan and shipped by boat instead of by air, which reduces carbon dioxide emissions as well as the company's shipping costs. By 2017, Clavister appointed another manufacturer to produce hardware for a selection of the company's products. The new supplier is located in Örnsköldsvik, which will lead to shorter transports. Clavister strives to avoid unnecessary travel, promotes the use of telephone and video meetings and minimizes the company's energy use. Recycling takes place, including batteries and electronics.

Co-workers

The number of employees as per 2017-12-31 were 155 (160), a decrease of 3 % driven by fewer employees in China. In addition to permanent staff, Clavister also engages external consultants in customer projects and sales corresponding to 11 (9) full-time equivalent. Clavister thus employed a total of 166 (169) persons as of 31 December 2017, employees and consultants.

Clavister's success is determined by motivated, committed and result oriented employees. Talents and skills are therefore crucial for Clavister's success and the company wants to create the conditions for the employee to achieve his ambitions and full potential but also to maintain a good health, all in line with the company's business needs. Within Clavister, everyone is co-responsible for their own development. All employees must have an individual development plan where the plans are a combination of concrete business needs and the individual's own ambitions.

Board of Directors' Working Methods

The Board of Clavister Holding AB consists of seven members. Within the board meetings of Clavister Holding AB, all companies within the Group are dealt with. The operations are mainly carried out in Clavister AB. The Board has overall responsibility for the company's organization and management. The Board has drawn up rules of procedure that regulate the division of work and responsibilities between the Board, the Chairman and the Managing Director CEO.

The duties of the Board include evaluation and determination of strategies, business plans, budget and financing, major business changes, as well as appointing and dismissal of the CEO. The Board also submits the quarterly reports, year-end report and annual report.

The Chairman of the Board is responsible for continuously following-up on the company activities and ensuring that all Board members are provided with the necessary information in order to assess and evaluate the company. The Chairman shall chair the Board meetings and ensure that Board matters are dealt with through the Companies Act, the Articles of Association and instructions issued by the Board.

The Board annually sets the instructions for the CEO with guidelines for management and internal control for the company. The instruction includes also the CEO's powers and information obligations towards the Board.

During 2017, the Board held 23 meetings.

Management Report.

Revenue

The Group conducts sales using a channel strategy, i.e. via distributors and resellers as well as through own sales organization. Sales focus is on the segments of Enterprise and Communication Service Providers, where Clavister's products and technology are considered very well-suited not least because of the extension of mobile phone networks 4G / LTE and 5G.

The largest markets in the Enterprise segment, in addition to the Nordic countries, are Europe (Germany, Italy and France) and Asia, via Clavister Technology (ASIA) Ltd for the Chinese market and through Clavister AB for the rest of Asia. The acquisition of PhenixID has strengthened the Enterprise segment. In 2015 and 2016, Clavister moved its position in Asia and successfully established itself in Japan, through signing a Distributor Agreement with Canon IT Solutions 2015. Acrucial milestone in the world's second largest IT security market.

The Nordic region increased by 58% to 39.0 MSEK (24.6), IAM sales via PhenixID rose by 14.5 MSEK. For 2016, IAM's sales only refer to 4 months compared with 12 months in 2017. Excluding the Nordic countries, EMEA increased by 15% to 20.7 MSEK (18.0) for the full year, of which Germany increased by 7%. Sales to global key customers have increased by 43% in 2017. After analyzing the development within EMEA, the company has taken measures such as recruitment of sellers to the Nordic region and EMEA. The establishment of a sales organization is expected to increase accessibility to customers and retailers, to create better opportunities for the company to handle business opportunities.

In Asia totally the sales for 2017 amounted to 19.2 MSEK (21.4), a decrease by 10 %. Japan increased and traded 7.7 MSEK (7.0) for the full year. China decreased sales by 31% to 9.0 MSEK (13.1) and sales to Malaysia amounted to 2.5 MSEK (1.3). By 2017, Asia accounted for 19% of the Group's total sales.

Funding

Clavister has, through a financing agreement with Tagehus in Septemer 2017, received a loan for three years, amounting to MSEK 50. Further funding was received on the 18th of December through a five-year loan agreement with the EIB, the European Investment Bank, amounting up to EUR 20 million, which can be received during 2018-2019. See further information under the heading "Significant events during the year", as well as Note 30.

Areas of concern

The Board and the CEO continuously assess the Group's liquidity and financial resources in the short and long term. The Group is expected not to have any further capital needs. The Board's assessment, based on current cash, signed agreements, prospects and earnings, is that Clavister Holding AB has the necessary liquidity and cash flow for continued operations in 2018.

Financial Standing

Cash and cash equivalents at the end of the period amounted to MSEK 26.5 (75.3). Shareholders' equity amounted to 209.7 MSEK (208.4) per 2017-12-31.

The Group's total assets increased by 9% compared to the previous year and amounted to 302.1 MSEK. Fixed assets increased by 58,8 MSEK compared with the previous year to 233.6 MSEK, of which capitalized development expenses increased by 3.4 MSEK and deferred tax assets by 16.0 MSEK.

Current assets decreased by MSEK 33.9 to MSEK 68.6 (102.4) of which cash and cash equivalents at the end of the period amounted to MSEK 26.5 (75.3).

The Group's shareholders' equity at the end of the year was SEK 209.7 million (208.4). Profit for the period decreased, however, by -66.5 MSEK (-55.1). Equity increased as a result of targeted cash issues of MSEK 10.0. An additional 0.9 MSEK has attributable to payment for subscription options. Equity also increased by 40.3 MSEK and 14.2 MSEK in respect of the value of the free warrants that the company's two financiers subscribed to during the fiscal year.

Regarding the shares in Clavister Holding AB as the subsidiary PhenixID AB owns, see Own shares below.

Own Shares

In connection with the acquisition of PhenixID, capital insurance with 330,000 shares in Clavister Holding AB was acquired at a value of 7.9 MSEK per 2017-12-31. The shares in Clavister Holding AB owned by the subsidiary PhenixID AB in the Group have been eliminated to SEK 0 in accordance with IAS 32 p 33 regarding rules for ownership of own shares. The quota value is 0.10 SEK per share.

If a limited liability company has become a parent company and its subsidiaries hold shares in the Parent Company, the shares shall be sold as soon as it can be done without a loss, but no later than three years after the Group relationship arose.

Investments, depreciation and development costs

By 2017, the Group continued to invest heavily in product development and activates suspended time. Total expenses for the year and own internal development were balanced by 23.6 MSEK (20.4). Closing value in the balance sheet for development work amounts to 52.3 MSEK (48.9) for 2017.

Amortization of intangible assets in respect of assets amounted to 20.2 MSEK (11.1) for the year. Depreciation has increased significantly in 2017, due to the depreciation of the activations relating to the cOS Stream platform, commencing when the first income was received for the product. Investments in property, plant and equipment amounted to 1 546 TSEK (43) for the year.

Management Report.

Share Ownership

The number of shareholders amounts to 6,025 and the number of registered shares per 2017-12-31 was 23,562,050, according to the Swedish Companies Registration Office. There is only one class of shares. Each share corresponds to one vote at the Annual General Meeting.

Largest Shareholders	Number of Shares	% shares
Försäkringsaktiebolaget, Avanza Pension	3 008 176	13%
Danica Pension	1 412 953	6%
Ålandsbanken ABP, Bank of Åland Ltd	1 292 217	5%
Fondita Nordic Micro Cap SR	1 010 000	4%
Nordnet Pensionsförsäkring AB	948 097	4%
RGG Adm-Gruppen AB	880 000	4%
JP Morgan Securities LLC	742 066	3%
Norrlandsfonden	666 666	3%
Fondita 2000+	543 000	2%
AMF Aktiefond Småbolag	531 060	2%
Other Shareholders	12 527 815	53%
Registered shares according to the Swedish Companies Registration Office 2017-12-31	23 562 050	100%

Shareholding for Board and senior executives

Board	Number of Shares
Viktor Kovács	0
Peter Dahlander*	579 894
Jan Ramkvist	42 000
Annika Andersson	0
Göran Carstedt	29 478
Sigrun Hjelmquist	0
Bo Askvik	2 000
	653 372

Senior Executives	Number of Shares
John Vestberg	437 520
Andreas Åsander	7 000
Erik Engström	13 600
Sam Coleman	0
Cathrine Kristoffersson	17 658
Håkan Wallberg	500
Przemek Sienkiewicz	0
Peter Laurén*	677 890
Wang Kee	0
	1 154 168

*Indirect ownership through own company, or capital insurance.

Management Report.

Multi year review

Consolidated	**2017**	**2016**	**2015**	**2014**	**2013**
Total income	100 206	78 116	64 191	62 263	52 842
Net sales increase (%)	28%	22%	3%	18%	-27%
Gross profit	77 512	53 466	44 773	50 003	33 793
Gross margin (%)	77%	68%	70%	80%	64%
Net profit (loss) before tax	-83 642	-71 712	-55 655	-46 041	-51 642
Balance sheet total	302 110	277 169	144 693	100 980	120 316
Equity ratio	69%	75%	63%	67%	59%
Number of employees	155	160	124	113	105
Parent company					
Total income	6 000	4 200	3 400	1 440	0
Balance sheet total	622 973	517 102	320 764	251 427	219 521
Equity ratio	91%	97%	97%	99%	97%
Number of employees	2	1	1	0,5	0

The comparative figures for 2013-2014 have not been restated to IFRS. If these years should be recalculated according to IFRS the results and key ratios had primarily improved as a consequence of non-performing goodwill amortization. For 2013 and 2014, BFNAR 2012: 1 (K3), is used regarding intangible assets, the Swedish Financial Accounting Standards Council's (Redovisningsrådet) recommendation RR 15 Intangible assets and RR 17 Impairments were applied. The consolidated accounts were prepared in accordance with the acquisition method and the Swedish Financial Accounting Standards Council's recommendation 1:00.

Proposal for profit distribution

At the disposal of the Annual General Meeting in the Parent Company, the following funds (SEK) were available:

Share premium reserve	510 412 970
Balanced result	57 138 512
Profit for the year	-4 704 982
	562 846 500
Disposed so that:	
Dividens (0 SEK per share)	0
New account transferred	562 846 500
	562 846 500

Consolidated Income Statement

TSEK	Note	2017	2016
Net Sales	4	99 584	77 813
Other operating income		622	304
Total revenues		**100 206**	**78 116**
Cost of goods sold		-22 694	-24 651
Gross Profit		**77 512**	**53 466**
Capitalized developed expenses	14	23 603	20 407
Employee benefit expenses	6,7	-109 894	-89 751
Other external expenses	5,8	-44 617	-41 583
Other operating expenses		-277	-312
Depreciation & amortization	9	-22 137	-12 127
Impairment loss	10	-1 100	-2 607
Operating profit (loss)		**-76 910**	**-72 508**
Financial Income	11	356	6 222
Financial Costs	11	-7 088	-5 426
Net profit (loss) for the year		**-83 642**	**-71 712**
Tax on Profit for the Year	12	17 250	16 516
Net profit (loss) for the year		**-66 392**	**-55 197**
Profit for the Year attributable to:			
Parent Company Owner		-66 392	-55 197
Holdings without controlling influence		0	0
Earnings per Share	13		
Earnings per share before dilution		-2,87	-2,67
Earnings per share after dilution		-2,16	-2,48

Consolidated statement of comprehensive income

TSEK	Note	2017	2016
Profit for the year		-66 392	-55 197
Other comprehensive income			
Transactions that can be reclassified on the income statement later			
Recalculation difference		-135	108
Other comprehensive income for the year, net after tax		**-135**	**108**
Total comprehensive income for the year		**-66 527**	**-55 089**
Total comprehensive income attributable to:			
Parent company owners		-66 527	-55 089
Holdings without controlling influence		0	0

Consolidated Balance Sheet .

TSEK	Note	2017-12-31	2016-12-31
ASSETS			
Fixed assets			
Goodwill	14	52 569	53 669
Program rights	14	63	133
Capitalized expenditure for development	14	52 346	48 941
Other intangible assets	14	3 667	4 667
Tangible fixed assets	15	1 634	964
Other long-term receivables	16	41 409	472
Deferred tax asset	12	81 871	65 906
Total assets		**233 559**	**174 752**
Current assets			
Inventory		8 056	6 577
Trade receivables	16	15 622	13 668
Other receivables	16	2 682	3 831
Prepayments and accrued income	16,17	15 698	3 032
Cash and bank balances	16,18	26 492	75 311
Total current assets		**68 551**	**102 418**
TOTAL ASSETS		**302 110**	**277 169**

Consolidated Balance Sheet .

TSEK	Note	2017-12-31	2016-12-31
EQUITY AND LIABILITIES			
Equity	20		
Share capital		2 356	2 275
Other contributed capital		554 561	486 765
Reserves		93	228
Retained earnings including profit for the year		-347 282	-280 890
Shareholders equity attributable to the parent company's shareholders		209 728	208 378
Total Equity		**209 728**	**208 378**
Liabilities			
Long-term liabilities			
Liabilities to credit institutions	21	47 647	0
Convertible debentures	16	7 512	9 428
Interest-bearing liabilities	16	857	0
Other debts	16	0	7 842
Deferred tax liabilities	12	1 791	2 997
Total long-term liabilities		**57 807**	**20 267**
Current liabilities			
Interest-bearing liabilities	16	429	11 313
Advance payments from customers	16	217	1 483
Accounts payables	16	6 740	10 220
Current tax liabilities	12	2 043	2 879
Other liabilities	16	5 782	5 922
Accrued expenses and deferred income	16,22	19 366	16 706
Total short-term liabilities		**34 575**	**48 523**
Total liabilities		**92 382**	**68 791**
TOTAL EQUITY AND LIABILITIES		**302 110**	**277 169**

Consolidated changes in equity for the group .

TSEK	Share capital	Other contributed capital	Reserves	Accum. Profit (loss) incl. Profit (loss) for the year	Shareholders equity attributable to the parent company's shareholders	Total equity
Opening equity 2016-01-01	1 854	314 648	120	-225 693	90 929	90 929
Net profit (loss) for the year	0	0	0	-55 197	-55 197	-55 197
Other comprehensive income of the year	0	0	108	0	108	108
Total income for the year	**0**	**0**	**108**	**-55 197**	**-55 089**	**-55 089**
Holding of own shares Clavister Holding AB	0	-16 500	0	0	-16 500	-16 500
Share issue in progress	0	4 448	0	0	4 448	4 448
Payment of warrants	0	1 942	0	0	1 942	1 942
New Share issue	421	189 747	0	0	190 168	190 168
Issue expenses	0	-7 520	0	0	-7 520	-7 520
Total transactions with owners	**421**	**172 117**	**0**	**0**	**172 538**	**172 538**
Closing equity 2016-12-31	**2 275**	**486 765**	**228**	**-280 890**	**208 378**	**208 378**
Opening equity 2017-01-01	2 275	486 765	228	-280 890	208 378	208 378
Net profit (loss) for the year	0	0	0	-66 392	-66 392	-66 392
Other comprehensive income of the year	0	0	-135	0	-135	-135
Total income for the year	**0**	**0**	**-135**	**-66 392**	**-66 527**	**-66 527**
New share issue in progress	0	-4 478	0	0	-4 478	-4 478
Equity ratio convertible	0	2 870	0	0	2 870	2 870
Payment of warrants	0	940	0	0	940	940
Share-based compensation	0	54 413	0	0	54 413	54 413
New Share issue	81	14 397	0	0	14 478	14 478
Issue expenses	0	-346	0	0	-346	-346
Total transactions with owners	**81**	**67 796**	**0**	**0**	**67 877**	**67 877**
Closing equity 2017-12-31	**2 356**	**554 561**	**93**	**-347 282**	**209 728**	**209 728**

Consolidated statement on cash flows for the group .

TSEK	Note	2017	2016
Cash flow from current operations	23		
Profit before tax		-83 642	-71 712
Adjustment for items not included in the cash flow	23	24 190	9 480
Paid taxes		-757	3 167
Cash flow from operating activities before changes in working capital		**-60 209**	**-59 065**
Cash flow from changes in working capital			
Changes in inventories		-1 479	-984
Changes in operating receivables		-13 472	9 081
Changes in operating liabilities		-2 228	-1 428
Cash flow from current operations		**-77 388**	**-52 397**
Investment business			
Acquisition of subsidiaries, net liquidity impact		0	10 579
Acquisition of property, plant and equipment		-1 546	-43
Acquisition of capitalized development work		-23 603	-20 407
Acquisition of financial fixed assets		-40 939	0
Sale of financial fixed assets		0	28
Cash flow from investing activities		**-66 088**	**-9 842**
Financing			
Borrowings		47 647	7 578
Amortization of loans		-20 739	-5 616
Amortization of financial leasing debt		54 413	0
New share issue		13 809	99 557
Issue expenses		-346	-7 520
Cash flow from financing activities		**94 784**	**94 000**
Cash flow for the year		**-48 692**	**31 761**
Cash and cash equivalents at the beginning of the year		75 311	43 527
Exchange rate difference in cash and equivalents		-127	22
Cash and cash equivalents at the end of the year	18	**26 492**	**75 311**

Consolidated Notes .

Note 1 Significant accounting principles

Annual Report and Consolidated Financial Statements comprise Swedish parent company Clavister Holding AB with organization number 556917-6612 and its subsidiaries. Clavister Group's ("Clavister") main business is development, production and sales of Network security solutions in the area of cyber security. Clavister's solutions are based on developed, innovative software with powerful performance. Customers are found World-wide in both public and private sector.

The parent company is a holding company registered in Sweden and based in Örnsköldsvik. The address of the headquarters is Sjögatan 6 J, 891 60 Örnskoldsvik.

On April 3, 2017, the Board approved this annual report and consolidated financial statements which will be submitted for adoption at the Annual General Meeting April 24, 2018.

Applied regulations

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accoutning Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU). The Group also applies the Annual Accounts Act (1995: 1554) and the recommendation of the Council for Financial Reporting RFR 1 "Supplementary Accounting Rules for Groups".

The following accounting principles, unless otherwise stated, have been applied consistently to all periods presented in the Consolidated financial statements. The Group's accounting principles have been applied consistently within the Group companies.

Currency

Functional currency is which the currency in the primary economic environments the companies conduct. Parent company's functional currency are Swedish kronor, which also constitute the reporting currency for the parent company and the group. The financial statements are presented in Swedish kronor. All amounts are presented, unless otherwise stated, in thousands of kronor (TSEK).

Classification

Fixed assets and long-term liabilities consist essentially of amounts expected to be recovered or paid after more than twelve months from the balance sheet date. Current assets and current liabilities consist essentially of amounts expected to be paid within twelve months from the balance sheet date.

Consolidated accounts

Subsidiaries

Subsidiaries are companies under Clavister Holding AB's controlling influence. Decisive influence means directly or indirectly, the right to decide a company's financial and operational strategies with the aim to obtain financial benefits.

Subsidiaries are reported according to the acquisition method. This method means that the acquisition of a subsidiary is considered a transaction lasting the group indirectly acquires the subsidiary's assets and takes over its liabilities. The acquisition analysis determines the fair value on the acquisition date of acquired identifiable assets and liabilities assumed and any non-controlling interest. Transaction costs, excluding transaction costs attributable to equity instruments or debt instruments that arise are reported directly in the profit for the year. In the case of business combinations where transferred compensation exceeds the fair value of acquired assets and assumed liabilities reported separately, the difference is reported as goodwill. When the difference is negative, called acquisition at a low price, this is recorded directly as profit for the year.

When acquisitions occur in stages, goodwill is determined on the day when controlling influence occurs. Previous holdings are valued to actual value and the change in value are reported in profit for the year. Value and change in value are reported in the profit for the year. Acquisitions from non-controlling interests are reported as a transaction within equity, i.e. between the parent company's owner (in retained earnings) and non-controlling interest. Therefore, goodwill does not arise in these transactions. The change in non-controlling interest is based on its proportion share of net assets. Subsidiaries' financial statements are included in the consolidated accounts as of the acquisition date until the date on which the controlling influence ceases.

Intra-group receivables and liabilities, income or expenses and unrealized gains or losses arising from the Group related transactions between companies as well as related gains are fully eliminated.

Consolidated Notes .

Segment reporting
A business segment is a part of the Group which can generate revenues and incur costs and for which there is independent financial information available. Clavisters develops products for the Enterprise business segment for medium and large customers as well as for service providers based on Core and Stream platforms. Based on the segments, a resource allocation of the Group's development work is made. Product platforms have unique advantages where Stream has better adapted functionality and performance for communication Sevice provider, while Core generally suits the Enterprise segment better. The Enterprise segment accounts for the majority of the sales. Through close business cooperation, the company has been able to adapt the telecom solutions, which, together with increased data traffic in the telecom networks, is expected to generate dividends in increased growth for the Group.

Foreign currency translation
Transactions in foreigh currency
Transactions in foreign currency are translated to the functional currency at the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currency are converted to the functional currency at the exchange rate prevailing on the balance sheet date. Exchange rate differences arising from the translation are reported in the profit for the year. Exchange gains and losses on operating receivables and operating liabilities are recognized as operating profit, while exchange gains and losses on financial receivables and liabilities are reported as financial items.

Translation of foreign operations
Assets and liabilities in foreign operations, including goodwill and other consolidated surplus and undervalues, are translated from the functional currency of the foreign operation to the Group's reporting currency, Swedish kronor, at the exchange rate prevailing on the balance sheet date. Income and expenses in a foreign operation are converted into Swedish kronor at an average exchange rate that approximates the exchange rates prevailing at each transaction date. Translation differences arising from foreign currency translation of foreign operations are reported in other comprehensive income and accumulated in a separate component of equity, referred to as translation reserve. Upon disposal of a foreign operation, the accumulated translation differences attributable to the business are realized, reclassifying them from other comprehensive income to the profit for the year.

Revenue
The Group reports an income when its amount can be measured reliably and it is likely that future economic benefits will come to the company, provided that specific criteria have been met for each of the Group's operations. Revenue includes the fair value of what has been or will be obtained for goods and services sold in the Group's ongoing operations. Revenues are reported excluding VAT, returns and discounts and after elimination of intra-group sales. Intra-company sales are extremely limited, but certain product sales occur on an irregular basis from Clavister AB to Clavister Technology (ASIA) Ltd in China.

License- and support revenues
The Group's license revenues are reported in full on delivery. Clavister has no future commitments except telephone support during the contractual period provisions for support costs have been calculated and provided.

HW-revenue
Hardware income consists of revenue from the sale of hardware and revenue is recognized in full when the significant benefits and risks associated with ownership of the goods have been transferred from the company to the buyer.

Services rendered
Revenues from time and material assignments are recognized as the work is performed. If it is deemed that payment will not be received for amounts already recognized as revenue, the amount is then recored as an expense.

Financial income
Financial income consists of interest income and any capital gains on financial assets. Interest income is reported in accordance with the "effective interest rate method". The effective interest rate is the interest rate that discount the estimated future payments and payments over a financial instrument's expected maturity to the net asset value of the financial asset or liability.

Exchange rate gains and exchange rate losses are reported as net amounts.

Remuneration to employees
Short term remuneration
Employee benefits relate to all types of remuneration that the Group provides to its employees. The Group's remuneration includes salary, vacation pay, perantal payment and bonus. Accounting takes place in line with the vesting.

Consolidated Notes .

Pension
Clavister's pension commitments only include defined contribution plans. A defined contribution plan is a pension plan according to which the group pays fixed fees to a separate legal entity. The Group has no legal or informal obligations to pay additional fees if this legal entity does not have sufficient assets to pay all employee benefits related to the employment of employees during current or previous periods. The Group stands no additional risk. The Group's obligations regarding contributions to defined contribution plans are reported as an expense in the profit and loss statement for the year as they are earned by the employees performing services for the Group over time.

Restructing costs
A restructing cost in connection with staff redundancies is reported only if the company is demonstrably committed, without realistic possibility of withdrawal, of a formal detailed plan to terminate an employment before the normal date. When compensation is offered as an offer to encourage voluntary retirement, a cost is reported only if it is likely that the offer will be accepted and the number of employees who will accept the offer reliably can be estimated.

Leasing
Financial leasing
The Group leases certain tangible assets and equipment. Leasing of fixed assets where the Group essentially holds the financial risks and benefits associated with ownership are classified as financial leases.

Assets hired under financial leases are reported as non-current assets in the balance sheet and initially valued at the lowest of the real value of the leasing asset and the present value of the minimum lease payments at the conclusion of the agreement. The obligation to pay future leasing fees is reported as long-term and current liabilities. Non-current assets held under finance leases are written off during the shorter period of the useful life of the asset and the lease term, while leasing payments are reported as interest and amortization of liabilities.

Operational leasing
Leases where a significant part of the risks and benefits of ownership are retained by the lessor is classified as operational leasing. Payments made during the lease term (after deduction of any incentives from the lessor) are expensed on a straight-line basis over the contractual lease period.

Financial costs
Financial expenses consist mainly of interest, as well as accrued capitalized costs, which provide loan financing via external financial institution. Interest expense on loans is reported using the "effective interest rate method".

Taxes
Income taxes consist of current tax and deferred tax. Income taxes are recognized in the profit and loss statement for the year, except when the underlying transaction is reported in other income or in equity, then the associated tax effect is reported in other income or in equity, as well.

Current tax is tax payable or received in respect of the current year, applying the tax rates that are decided as per balance sheet date. Current tax also includes adjustment of current tax attributable to previous periods.

Deferred tax is calculated, according to the balance sheet method, regarding all temporary differences between the taxable value of assets and liabilities and its reported values. Temporary differences are not taken into account in consolidated goodwill. Furthermore, temporary differences are not attributable to participations in subsidiaries that are not expected to be reversed in the foreseeable future. The valuation of deferred tax is based on how underlying assets or liabilities are expected to be realized or regulated. Deferred tax is calculated using the tax rates and tax rules that were decided or announced as per the balance sheet date and are expected to apply when the deferred tax asset concerned is realized or the deferred tax liability is adjusted.

Deferred tax assets relating to deductible temporary differences and losses carried forward are reported only to the extent that they are likely to be utilized. The value of deferred tax assets is reduced when it is no longer deemed likely that they can be utilized.

Earnings per share
Earnings per share before dilution are calculated by dividing net earnings attributable to the parent company's shareholders by the weighted average number of outstanding shares during the year.

Earnings per share after dilution are calculated as net earnings attributable to the parent company's shareholders, adjusted where appropriate, divided by the weighted average number of ordinary shares and potential common shares that may give rise to dilution effect. Dilution effect of potential common shares is reported only if a conversion to ordinary shares would result in a reduction in earnings per share after dilution.

Consolidated Notes .

Intangible assets

Goodwill

Goodwill is valued at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested for impairment at least annually.

Capitalized expenses for development work

Costs during the development phase of products are capitalized as intangible assets when, in the opinion of the management, they are likely to result in future economic benefits for the Group, the activation criteria are met and the costs during the development phase can be measured reliably. Internally developed assets are recognized at cost, less accumulated amortization and any accumulated impairment losses. All other costs that do not meet the activation criteria will be charged to the profit and loss statement as they occur.

Program rights

Standard software programs are expensed. Expenses for software developed or extensively adapted for the Group are capitalized as intangible assets, if they have likely economic benefits that after one year exceed the cost.

Customer relations

Customer relationships acquired by the Group refer to customer-related assets and contractual and / or technology-related assets such as trademarks and customer relationships and are reported at cost, less accumulated amortization and any accumulated impairment losses.

Depreciation principles

Depreciation is recognized on a straight-line basis over the estimated useful lives of intangible assets, unless such useful lives are indeterminate. Goodwill is tested for impairment annually, and as soon as there are indications that the underlying asset has decreased in value. Intangible assets with determinable useful lives are being depreciated from the time they are available for use.

The estimated useful lives are:

- Balanced expenses for development work	3-5 years
- Program rights	3 years
- Customer relationships	5 years

The useful lives are reassessed at least annually.

Tangible fixed assets

Property, plant and equipment are reported in the Group as cost less accumulated amortization and any impairment losses (write-downs). The acquisition value includes the purchase price plus expenses directly attributable to the asset such as transportation losts.

The remaining amount of an asset is written down/written off when no future financial benefits are expected from use or disposal / disposal of the asset. Gains or losses arising from the scrapping or disposal of an asset consist of the difference between the selling price and the asset's remaining recognizable amount less direct selling expenses. Profit or loss is reported as other operating income / expense.

Additional expenses

Additional expenses are added to acquisition value only if it is likely that the future financial benefits associated with the asset will be included in the Group and the acquisition value can be calculated reliably. All other additional expenses are reported as expenses in the period in which they occur. Repairs are expensed as they occur.

Depreciation principles

Depreciation takes place on a straight-line basis over the estimated useful life of the asset. The estimated useful lives are:

- Equipment	3 years
- Computers	3 years

Used depreciation methods, residual values and useful lives are reconsidered at the end of each year

Impairment of non-financial assets
Assets that have an indefinite useful life, such as goodwill, are not depreciated but are instead tested annually for any impairment loss. Assets written off are assessed for impairment whenever events or changes in conditions indicate that the current amount is not recoverable.

An impairment loss is made by the amount at which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less selling costs and its value in use. When assessing impairment requirements, assets are grouped at the lowest levels where there are separate identifiable cash flows (cash-generating units). When a write-down requirement has been identified for a cash-generating unit (group of units), the write-down amount is primarily allocated to goodwill. Thereafter, a proportionate write-down of other assets included in the unit (group of units) is made.

Previously reported write-downs are reversed only if the recoverable amount is estimated to exceed the current amount. However, reversal does not occur with an amount greater than the reported value of what would have been if a write-down had not been reported in previous periods. However, impairment of goodwill is never reversed.

Financial instruments
A financial instrument is reported in the balance sheet when the Group becomes a party to the instrument's contractual terms. Accounts receivables are reported when the invoice has been sent. Debt is reported when the counterparty has performed and the contractual obligation is payable, even if the invoice has not yet been received. Accounts payables are reported when the invoice has been received.

A financial asset is depreciated when the rights in the agreement are realized, due or the Group loses control of them. The same applies to part of a financial asset. A financial liability is removed from the balance sheet when the obligation in the agreement is fulfilled or otherwise terminated. The same applies to part of a financial debt.

A financial asset and a financial liability are offset and reported with a net amount in the balance sheet only when there is a legal right to settle the amounts and that there is an intention to settle the items with a net amount or to simultaneously realize the asset and settle the liability.

Acquisitions and disposals of financial assets are reported on the business day. The business day is the day the company commits to acquire or to sell the asset.

Classification and valuation
Financial instruments are initially recognized at acquisition value corresponding to the fair value of the instrument plus transaction costs for all financial instruments, except for those belonging to the financial asset / liability category, which are reported at fair value through profit or loss, which are reported at fair value excluding transaction costs. A financial instrument is classified at initial recognition, inter alia, on the purpose for which the instrument was acquired. The classification determines how the financial instrument is valued after the first reporting date. The Group holds financial instruments in the following categories:

- Loans and receivables
- Other financial liabilities

Loans and account receivables
Loans and account receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted on an active market. These assets are valued at accrued acquisition value. Accrued acquisition value is determined based on the effective interest calculated on acquisition date. Accounts receivable are reported as the amount that is expected to occur, i.e. after deduction of any doubtful claims.

Other financial liabilities
Loans and other financial liabilities are included in this category. Liabilities are valued at accrued acquisition value.

Impairment of financial assets
The Group assesses at the end of each reporting period if there is objective proof that there is a need for impairment for a financial asset or group of financial assets. A financial asset or group of financial assets has a write-down requirement and is written down only if there is objective proof of a write-down requirement due to one or more events occurring after the asset was first recognized (a "loss event") and that this event (or events) have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

The criteria used by the Group to determine whether there is objective evidence of impairment needs are significant financial difficulties for the issuer or debtor, a breach of contract, such as non-payment or late payment of interest or capital amount, or the likelihood of the borrower going into bankruptcy or other financial reconstruction.

For the category loan receivables and accounts receivable, the write-down is calculated as the difference between the asset's current amount and the present value of estimated future cash flows (excluding future loan losses that have not occurred), discounted to the original effective interest rate of the financial asset. The reported value of the asset is then written down and the amount is reported in the Group's profit and loss statement.

If the impairment loss decreases in a subsequent period and the decrease can be objectively attributable to an event that occurred after the impairment loss was recognized, the reversal of the previously reported impairment loss is reported in the consolidated income.

Inventories
Inventories are valued at the lower of cost and net realizable value. Acquisition value is calculated according to the so-called first-in first-out principle and includes expenses incurred in the acquisition of inventories and transporting them to their current location and condition. For manufactured goods, the acquisition value includes a reasonable proportion of indirect costs based at a normal capacity. Net realizable value is defined as selling price reduced for cost of completion and sales costs.

Liquidity
Liquid funds consist of cash and immediately available balances with banks and similar institutions and short-term financial investments with a maturity of less than three months, which are exposed to only an insignificant risk of value fluctuations.

Cash Flow
Cash and cash equivalents consist of cash and as well as short-term other financial investments with three months or less maturity and exposed to an insignificant risk of value fluctuations. Cash flow from operating activities is calculated using the indirect method.

Contingencies
A contingent liability is recognized when there is a possible commitment arising from events occurring and whose occurrence is confirmed only by one or more uncertain future events or when there is an obligation already not reported as a liability or provision, due to the fact that an outflow of resources is unlikely.

Note 2 New or amended IFRS, not yet applied

A number of new or amended IFRS rules will come into effect in the coming financial year and have not been applied in advance for the preparation of these financial reports. Below are described IFRSs that are expected to have an impact or may have an impact on the Group's financial statements. In addition to the IFRS described below, other news that IASB has approved as of 31 December 2017 is expected to have no impact on the Group's financial reports.

IFRS 9 Financial Instruments
IFRS 9 comprises accounting for financial assets and liabilities and replaces IAS 39 Financial Instruments: Accounting and Valuation. The standard enters into force on January 1, 2018. Like IAS 39, financial assets are classified in various categories, some of which are valued at accrued acquisition value and other at fair value. However, IFRS 9 introduces other categories than those contained in IAS 39. IFRS 9 also introduces a new model for impairment of financial assets. The purpose of the new model is that credit losses should be reported earlier. For financial liabilities, IFRS 9 complies broadly with IAS 39. However, for liabilities reported at fair value, the part of the fair value change attributable to own credit risk is reported in other comprehensive income instead of in the result, unless this results in inconsistency in the accounting. IFRS 9 also introduces partially amended criteria for hedge accounting. The changes may lead to more financial hedging strategies meeting the requirements for hedge accounting under IFRS 9 than in IAS 39.

The Group's assessment is that the new standard for the classification of available-for-sale financial assets will not affect the accounting for the Group. Assets appear to comply with the conditions for valuation at fair value through other comprehensive income based on the company's business model. The Group's financial debt statement will also not change as the new requirements only affect the presentation of financial liabilities recognized at fair value through profit or loss and the Group has no liabilities of that kind.

The new hedge accounting rules in IFRS 9 are more consistent with the company's risk management in practice. In general, it will be easier to apply hedge accounting as the standard introduces a more principle-based approach to hedge accounting. The new standard also introduces increased disclosure requirements and changes in the presentation. The new model for calculating credit loss provisions is based on expected loan losses, which may lead to earlier recognition of credit losses.

IFRS 15 Recognized revenues from customer agreement
IFRS 15 replaces all previously published standards and interpretations that deal with revenues. The standard introduces a combined model for revenue recognition according to which an income is reported when a product or service is transferred to a customer. This can happen over time or at a time. The income consists of the amount that the company expects to receive as compensation for goods or services transferred.

Consolidated Notes .

IFRS 15 will enter into force on January 1, 2018. The standard will apply retroactively. There are two permitted approaches, full retroactive application in accordance with IAS 8 with simplification rules or limited retroactive application.

At the transition to IFRS 15, the Group estimates that a change will arise regarding the fulfillment of the commitment in the sales process. Therefore, a review and assessment of the contracts and identification is required when different commitments occur, after which the income can then be reported. Compared to the current principles, the Group's revenue and expenditure account is primarily expected to change with respect to the agreements regarding support and service that extend over time. The change is expected to affect the IT industry more than other industries.

In connection with the Group's reviews of revenue, a breakdown has been made between different types of agreements / revenues. Support revenue will be accrued over the contractual period. There are also support revenue that includes costs for 3rd party products, the part relating to 3rd party products will be recognized directly, the remaining portion of the revenue will be accrued over the contractual period. The effect of this will be that the reporting of these revenues will be distributed over several months and moved forward in time.

The Group converted to IFRS in the third quarter report for 2016. During 2017 and early 2018, the Group has evaluated and evaluated the effects of the standard. The Group will apply IFRS 15 with limited retroactive application, the first time it will be reported will be in the first quarterly report for 2018.

IFRS 16 Leases

IFRS 16 replaces IAS 17 from January 1, 2019. According to the new standard, the lessee must as a starting point report the leased asset in the balance sheet. Depreciation of the asset is reported in the income statement. The leasing fee is to be divided into interest payments and amortization.

The Group has begun its work and will complete it in 2018 to evaluate the effects the new standard will have on the Group's earnings and financial position.

Note 3 Essential estimates and assessments

The preparation of the financial statements in accordance with IFRS requires that management make assessments and estimates as well as make assumptions that affect the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. The actual outcome may deviate from these estimates.

Estimates and assumptions are evaluated on an ongoing basis. Changes in estimates are recognized in the period when the change is made if the change has only affected this period or during the period the change is made and future periods of change affect both the current period and future periods.

The following assumptions about the future and other significant sources of uncertainty in estimates at the balance sheet date could pose a significant risk of a significant adjustment of the reported values of assets and liabilities in the next financial year:

Valuation of capitalized development costs

The Board of Directors and Management have assumed that capitalized development costs have future economic benefits. An impairment test has been made confirming that the estimated recoverable amount exceeds the carrying amount.

Impairment test of goodwill

In case of impairment testing of goodwill, a number of significant assumptions and assessments must be taken into account in order to calculate the cash-generating unit's value in use. These assumptions and assessments relate to expected future discounted cash flows. Forecasts for future cash flows are based on the best estimates of future revenues and operating expenses, based on historical development, general market conditions, development and forecasts for the industry and other available information. The assumptions are being developed by the management and reviewed by the Board. The impairment test for the year resulted in impairment of goodwill of 1,1 MSEK for the subsidiary Clavister APAC Ltd. For more information on the impairment test of goodwill, see Note 14 Intangible assets.

Shares in group companies

The Board of Directors and Management have assumed that book shares in Group companies have financial benefits. An impairment test has been made confirming that the estimated recoverable amount exceeds the carrying amount.

Deferred tax asset / tax liability for loss carryforwards
The Board of Directors and Management have assumed that deferred tax assets be utilized against taxable income over the next 5 years. Forecasts of the Group's earnings development have been prepared for this period. The losses carried forward have mainly occured in the subsidiary Clavister AB. At December 31, 2017, these losses amounted to 375 (300) MSEK to a carrying amount of 81.9 MSEK (65.9). The tax effect has been calculated according to the current Swedish tax rate.

Valuation of the cost of warrants to lender
The Board of Directors and Executive Management have estimated that the cost of the non-remunerated warrants to TageHus and the EIB amounts to a total of 54.4 MSEK. The cost shall be expensed as an interest expense over the term of the loan. A valuation of the warrants has been made by third parties.

The cost of the warrants for the loan to TageHus amounts to 40.3 MSEK and to the EIB amounts to 14.1 MSEK. Following assumptions have been weighed in:

Since the subscription price is basically zero, no liquidity discount has been calculated, volatility accrued to 45%, risk-free interest rate to 1.4%, resulting in a valuation approximately equal to the share price at the date of the contract.

The agreement with EIB include a 6% anti-dilution clause, which will allow for any future new warrant programs or new issues- in addition to what has already been taken into account and allocated- the equivalent of 6% of each such new option program in the form of additional free-of-charge options will be offered to the EIB.

Note 4 Operating segments

A business segment is part of a business enterprise from which they can earn revenues and incur costs and whose results are regularly reviewed by the company's decision makers as a basis for decision-making, allocation of resources to the segment, and assessment of its results and for which there is independent financial information.

The group is organized in the business units Enterprise and Service Providers (Telekom), based on Clavister's proprietary platforms cOS Core and cOS Stream. According to IFRS 8, an operating segment is expected to have similar economic characteristics and similar to each other in terms of the products or the nature of the services. IFRS 8 is the regulatory framework that has been applied in the segment report. When allocating operating assets and operating liabilities, the capitalized development costs have been used as a reference. By 2017, the balanced development costs are divided by 60% (62) for Enterprise and 40% (38) for the Service Providers segment.

Segment Enterprise
The Enterprise and cOS Core platform includes products that are well-proven for next generation firewalls. The customer solutions are suitable for both government (municipality education), county council, government state) retail, but also for the manufacturing, transport and infrastructure sectors. Other suitable sectors for Core are within the Bank and financial sectors. Examples of products based on the Core platform are Clavister's E10, E80, W50 and also the virtual product cOS Core.

Communication Service Providers (Telecom) segment
The cOS Stream platform, is the next generation high performance operating system for network security. The segment is characterized by virtual solutions with higher capacity targeted at operators, where telecom, service and network operators are particularly suitable customers. In the technology shift, operators now undergo SDN / NFV (Network Functions Virtualization) / (Software Developed Network) in order to optimize efficiency and increase revenues, a strategy is needed to maintain the level of security in the network, and fit the company's virtualized cOS Stream products.

Any group-wide items are reported separately in the segment report, and mainly concern Group Management and other joint functions as well as other items that are not suitable for reporting within the Enterprise or Communication Service Provider segments. Sales in the Enterprise segment represent 93% of the Group's sales and for Service Provider 7%. The majority of investments have been made in intangible and financial assets. Income from Swedish customers accounts for 39% of the Group's total revenue for 2017.

Consolidated Notes

Group 2017

Revenues	**Enterprise**	**Communication Service Providers (Telecom)**	**Corporate**	**Eliminations**	**Total Group**
External revenue	92 697	6 887	0	0	99 584
Internal revenue	0	0	7 629	-7 629	0
Other income	622	0	0	0	622
Total revenues	**93 319**	**6 887**	**7 629**	**-7 629**	**100 206**
Operating profit (loss)	-46 146	-30 764	0	0	-76 910
Financial items	-4 039	-2 693	0	0	-6 732
Tax on profit of the year	10 350	6 900	0	0	17 250
Net profit (loss)	**-39 835**	**-26 557**	**0**	**0**	**-66 392**
Other information					
Operational assets*	167 236	134 874	0	0	302 110
Operational liabilities**	20 488	13 658	0	0	34 146
Investments	8 143	15 460	0	0	23 603
Depreciations and amortizations	13 439	9 798	0	0	23 237
Goodwill	52 569	0	0	0	52 569

Group 2016

Revenues	**Enterprise**	**Communication Service Providers (Telecom)**	**Corporate**	**Eliminations**	**Total Group**
External revenue	75 714	2 099	0	0	77 813
Internal revenue	0	0	5 387	-5 387	0
Other income	304	0	0	0	304
Total revenues	**76 018**	**2 099**	**5 387**	**-5 387**	**78 117**
Operating profit (loss)	-36 201	-36 308	0	0	-72 509
Financial items	494	302	0	0	796
Tax on profit of the year	10 240	6 276	0	0	16 516
Net profit (loss)	**-25 467**	**-29 730**	**0**	**0**	**-55 197**
Other information					
Operational assets*	121 324	155 845	0	0	277 169
Operational liabilities**	23 070	14 140	0	0	37 210
Investments	21 446	10 061	0	0	31 507
Depreciations and amortizations	14 734	0	0	0	14 734
Goodwill	53 669	0	0	0	53 669

* Operational assets are assets which do not generate any interest income
** Operating liabilities are non-interest-bearing liabilitites.

Consolidated Notes .

The Group's different income categories consist of products and services. In 2017, the proportion of products represented 31% (46%) of sales and services amounts to 69% (54%). The distribution is approximately the same between the different segments.

The Group has revenues from a major customer, total revenues from this customer group amount to TSEK 8,368 (8,723), ie 8% and 11% of total sales. These revenues derive in its entirety to the Enterprise segment.

Geographical distribution of net sales	2017	2016
Sweden	38 999	24 597
Rest of Europe	34 997	24 481
Asia	19 200	21 442
Rest of world	7 010	7 596
	100 206	**78 116**

Note 5 Audit fees

Ernst & Young	2017	2016
Audit fee	917	725
Auditary operation beyond the auditary assignment	13	142
Tax advice	17	45
Other Services	49	47
Sum	**996**	**959**

SKY CPA & Co, Hong Kong	2017	2016
Audit assigments	14	15
Sum	**14**	**15**

Shaanxi Pumeihengzhen Accountants Firm Ltd, Kina	2017	2016
Audit assigments	5	5
Sum	**5**	**5**

Note 6 Employees and personnel expenses

	2017		2016	
Average number of employee	**Average no employee**	**o/w men in %**	**Average no employee**	**o/w men in %**
Subsidiary Sweden	130	92%	129	92%
Subsidiary China	23	83%	29	76%
Subsidiary Germany	1	0%	1	0%
Summary subsidiaries	154	89%	159	89%
Parent company	1	100%	1	100%
Total Group	155	90%	160	89%

	2017		2016	
Gender distribution, within the Board of Directors among Senior Executives	**Closing balance**	**o/w men in %**	**Closing balance**	**o/w men in %**
Board members	7	71%	6	100%
CEO and senior executives	7	86%	10	90%
Total Group	**14**	**94%**	**16**	**94%**

Personnel costs	2017	2016
Parent company		
Board and senior executives		
Salaries and other remunuerations	2 343	824
Social changes	813	289
Pension fees	354	120
Sum	3 510	1 233
Other employees		
Salaries and other remunuerations	0	0
Social changes	0	0
Pension fees (defined)	0	0
Sum	0	0
Subsidiaries		
Board and senior executives		
Salaries and other remunuerations	9 418	10 012
Social changes	2 889	3 806
Pension (defined)	1 046	1 621
Sum	13 353	15 439
Other employees		
Salaries and other remunuerations	65 510	51 326
Social changes	20 100	15 222
Pension fees	5 246	3 721
Sum	90 856	70 269
Other personnel costs	2 175	2 810
Total Personnel costs	109 894	89 751

Consolidated Notes

2017	Basesalary, board fees	Variable pay	Pension fees	Other renumeration	Sum
Chairman of the Board					
Victor Kovács	234	n/a	0	0	234
Björn Norrbom, (prev.)	216	n/a	0	0	216
Board members					
Peter Dahlander	892	n/a	177	0	1 069
Annica Andersson	147	n/a	0	0	147
Sigrun Hjelmquist	145	n/a	0	0	145
Jan Ramkvist	177	n/a	0	0	177
Ilka Hiidenheimo, (prev.)	177	n/a	0	0	177
Niclas Eriksson, (prev.)	55	n/a	0	0	55
Göran Carstedt	173	n/a	0	0	173
Bo Askvik	17	n/a	0	0	17
CEO					
Jim Carlsson, (prev.)	232	0	82	0	314
Johan Öhman, (prev.)	878	0	139	0	1 017
John Vestberg	1 050	0	245	0	1 295
Other Senior executives (11)	8 708	1 760	1 074	0	11 542
o/w fr subsidiaries	*7 980*	*1 760*	*1 074*	*0*	*11 542*
Total	**12 868**	**1 760**	**1 717**	**0**	**16 345**

2016	Basesalary, board fees	Variable pay	Pension fees	Other renumeration	Sum
Chairman of the Board					
Björn Norrbom	214	n/a	0	0	214
Board members					
Peter Dahlander	811	n/a	120	0	930
Peter Johansson, (prev.)	305	n/a	0	0	305
Jan Ramkvist	126	n/a	0	0	126
Ilka Hiidenheimo	186	n/a	0	0	186
Niclas Eriksson	110	n/a	0	0	110
Göran Carstedt	97	n/a	0	0	97
CEO					
Jim Carlsson, (prev.)	1 380	88	237	0	1 705
Johan Öhman	0	0	0	0	0
Other Senior executives (11)	8 090	467	1 417	0	9 975
o/w fr subsidiaries	*8 090*	*467*	*1 417*	*0*	9 975
Total	**11 319**	**555**	**1 774**	**0**	**13 649**

Variable compensation refers to compensation calculated on set targets depending on sales requirements.

Remunerations and terms for senior executives
Remuneration for the CEO and other senior executives consists of basic salary, variable remuneration and pension fees. Other senior executives refer to those persons who, together with the CEO, constitute the Group Management. The CEO has a contractual notice period of six months, while other senior executives have notice periods based on the terms in the Swedish emplyment act.

Severance pay
Remuneration to the CEO consists of basic salary and pension. For the CEO, occupational pension has been paid, equivalent to 6.5% of pensionable salary, up to 7.5 price base amounts and 28.5% between 7.5-20 price base amounts, there above 13.5%.

Note 7 Share-based compensation

In 2015, one incentive (warrant) program were issued to the Board and key persons, the subscription price at the time of issue was SEK 30, they expired on 2017-12-31.

In 2016, an incentive (warrant) program to employees was issued, subscription price at redemption is SEK 72 which expires 2019-06-30. A further warrant program was issued in 2016, which is linked to the loan financing made in October 2016, the subscription price is SEK 0,10, which expires 2026.

Of the warrants that expired on 2016-12-31, 148 260 were utilized for subscription of shares in Clavister Holding. These subscribed shares are paid in full and issued 2017-02-15, decisions regarding authorization have been taken at the Extraordinary General Meeting 2017-01-17.

In 2017, three additional incentive (warrant) programs were issued to employees and key persons, with the subscriptions prices 72 SEK, 79 SEK and 30 SEK respectively. These expires in 2020.

In 2017, warrants have been granted to two lenders, these warrants are free of charge, subscription price is 0.10 respectively 20 SEK, due in 2037 and 2020, respectively.

If the outstanding warrants are exercised, the Group will issue 7 078 288 shares, corresponding to approximately 30% of the total registered shares 23 562 050.

Number of outstanding warrants	2017-12-31	2016-12-31
Warrants 2017-12-31	0	175 000
Warrants 2026	19 801	19 801
Warrants 2019-06-30	530 800	530 800
Warrants 2020-02-28	70 000	0
Warrants 2020-02-28	75 000	0
Warrants 2020 (Serie 1)	3 062 608	0
Warrants 2020 (Serie 2)	1 250 000	0
Warrants 2037 (Serie 3)	1 770 079	0
Warrants 2020-06-30	300 000	0
Sum	7 078 288	725 601

Number of outstanding warrants	2017-12-31	2016-12-31
Björn Norrbom, former Chairman of the Board	0	100 000
Peter Dahlander, Board member	25 000	25 000
Ilka Hiidenheimo, former Board member	0	50 000
Senior executives, excl. CEO (5, 10)	170 000	265 000
Harbert, lender	19 801	19 801
EIB, lender	1 770 079	0
TageHus, lender	4 312 608	0
Other	780 800	265 800
Sum	7 078 288	725 601

	2017		2016	
	No of warrants	Weighted average selling prices	No of warrants	Weighted average selling prices
At the beginning of the period	725 601	60	348 250	30
Assigned	445 000	45	550 601	69
Assigned non-payment warrants	6 082 687	14	0	0
Redeemed	0	0	-169 260	0
Expired	-175 000	30	-3 990	30
Outstanding at the end of the period	7 078 288	20	725 601	60
Redeemable at end of period	0	0	0	0

During 2017, no warrants have been redeemed. The range for the exercise price for outstanding share options at the end of the period varies between to 0,10 SEK up to 79 SEK (0,10 – 79).

The Black-Scholes valuation model has been used to determine the weighted average fair value of options granted during the period. The fair value of assigned options has been fixed at SEK 2.27 (2.95) per option. Key inputs in the model were a share price of 30 SEK (44.10) on the grant date, the above exercise price, 36% volatility (28%), the expected maturity of the options for 3 years (3) and annual risk-free interest rate of 1% (3). When calculating the volatility of 36%, the company has assumed the assumptions made at previous valuation, took into account the stabilization of the price movement that occurred in 2016, which gives a relatively high volatility.

Payment of the options has been made in accordance with the calculated price of Black & Scholes why it has not affected the accounting with any cost.

The non-payment warrants granted to lenders, an external valuation has been made and a cost is booked against receivables and equity. The amount will be accrued over the term of the loan, the total cost amounts to 54.4 MSEK, see also Note 3.

Note 8 Leasing

Operational leasing

The operational lease includes leases for real estate, test equipment and cars for which a significant part of the risks and benefits of ownership are retained by the lessor. The lease costs for operating leases for the year amounted to 6.669 TSEK (4.789). Future payment commitments as at 31 December break down according to the below:

Future leasing-fees	2017-12-31	2016-12-31
Within 1 year	6 404	4 917
Between 1-5 years	20 391	17 796
More than 5 years	0	2 802
Sum	**26 796**	**25 515**

Financial leasing

Equipment that the Group leases through financial leasing consists of furniture, alarm epuipment and computers etc.

Equipment	2017-12-31	2016-12-31
Purchase value	4 171	2 624
Accumulated depreciation	-2 667	-1 837
Sum	**1 504**	**787**

	2017-12-31		2016-12-31	
Future leasing-fees	Nominal	Present Value	Nominal	Present Value
Within 1 year	0	0	0	0
Between 1-5 years	0	0	0	0
More than 5 years	0	0	0	0
Sum	**0**	**0**	**0**	**0**

Liabilities relating to finance leases are included in interest-bearing liabilities in the consolidated balance sheet.

Note 9 Depreciations

	2017	2016
Capitalized development	20 197	11 112
Program rights	70	71
Equipment	870	611
Other intangible assets	1 000	333
Sum	**22 137**	**12 127**

Note 10 Impairment loss

	2017	2016
Goodwill	1 100	2 607
Sum	**1 100**	**2607**

This year's impairment is attributable to subsidiary Clavister APAC Ltd and is further described in Note 3.

Note 11 Financial income and expenses

Financial income	2017	2016
Net profit (loss) from share in associated companies	0	522
Gain upon disposal of associated companies	0	5 498
Interest income	356	202
Sum	**356**	**6 222**

Financial expenses	2017	2016
Interest expenses	5 552	3 480
Other financial expenses	1 549	1 168
Net exchange rate fluctuations	-13	779
Sum	**7 088**	**5 426**

Other financial expenses consists of costs relating to loan financing, consisting of attorney's fees, PIK-interest and other borrowing costs.

Consolidated Notes .

Note 12 Corporate taxes

Income statement

Current tax expense	2017	2016
Tax expenses for the year	103	-471
	103	-471

Deferred tax		
Deferred tax relating to temporary differences	-1 093	283
Deferred tax on loss carryforwards	-16 261	-16 328
	-17 354	-16 045
Tax recorded in income statement	**-17 250**	**-16 516**

Reconciliation of effective tax rate	2017	2016
Net profit before tax	**-83 642**	**-71 712**
Tax according to the applicable tax rate for the parent company (22%)	-18 401	-15 777
Tax effect of:		
Non-taxable income	-1 905	-1 454
Non-deductible expenses	2 533	716
Tax on previous years' earnings not previously reported	13	0
Unutilized loss carryforwards for which deferred tax assets have not been recorded	4	-2
Temporary differences	506	0
Previous non recorded carryforwards utilized to reduce current tax expenses	0	0
Accounting leasing in Group	0	0
Tax recorded	**-17 250**	**-16 516**
Effective tax rate (%)	20,6%	23,0%

The table below specifies the temporary differences of the tax impact:

Deferred tax asset	2017	2016
Deferred tax asset on lost carry forward	82 502	66 032
Convertible debenture	-631	-126
Deferred tax on untaxed reserves	0	-717
Intangible non-current assets	-1 791	-2 279
Carrying amount*	**80 080**	**62 910**

Specification of changes in deferred tax asset:

	2017	2015
Opening carrying amount	62 910	49 436
Change of temporary differences	212	-575
Effect of acquisitions	488	-2 279
Additional tax receivables relating to loss carryforwards	16 470	16 328
Closing carrying amount deferred tax asset*	**80 080**	**62 910**

*Deferred tax assets above refer to the net of recorded deferred tax assets and deferred tax liabilities in the balance sheet.

Note 13 Earnings per share

Earnings per share before dilution are calculated by dividing the result attributable to the parent company's shareholders with a weighted average number of outstanding ordinary shares during the period.

Earnings per share before dilution	**2017**	**2016**
Net profit (loss) for the year attributable to the parent company's shareholders	-66 392	-55 197
Average number of ordinary outstanding shares	23 154 587	20 642 542
Earnings per share before dilution	**-2,87**	**-2,67**

For the calculation of earnings per share after dilution, the weighted average number of outstanding common shares is adjusted for the dilution effect of all potential common shares. The parent company has two categories of potential common shares with dilution effect: convertible debentures and share options. The convertible debentures are assumed to have been converted into ordinary shares and net gains are adjusted to eliminate interest expenses less tax effect. For stock options, a calculation is made of the number of shares that could have been purchased at fair value (calculated as the average market price of the parent company's shares) for an amount equal to the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued on the assumption that the stock options are exercised.

Earnings per share after dilution	**2017**	**2016**
Net profit (loss) attributable to the parent company's shareholders	-66 392	-55 197
Interest expense for convertible debentures (after tax)	743	506
Net profit (loss)	**-65 649**	**-54 691**
Average number of ordinary shares outstanding (thousands)	23 154 587	20 642 542
Adjustments:		
Assumed conversion of convertible debentures (thousands)	204 834	666 667
Warrants (thousands)	7 078 288	705 800
Average number of ordinary shares outstanding after dilution effects (thousands)	30 437 709	22 015 009
Net profit (loss) per share after dilution	**-2,16**	**-2,48**
Effect of the limitation rule ("begränsningsregeln")	**-2,67**	**-2,45**

Note 14 Intangible assets

Cost of acquisition	Goodwill	Capitalized development expenditures	Program rights	Other intagible assets	Total
As of 1 January 2016	**6 685**	**136 371**	**1 240**	**0**	**144 296**
Addition – internally generated	0	20 407	0	0	20 407
Acquisition of subsidiary	51 875	6 100	0	5 000	62 975
As of 31 of December 2016	**58 560**	**162 878**	**1 240**	**5 000**	**227 678**
Addition – internally generated	0	23 603	0	0	23 603
Acquisition of subsidiary	0	0	0	0	0
As of 31 of December 2017	**58 560**	**186 481**	**1 240**	**5 000**	**251 281**
Depreciation, amortization and impairment					
As of 1 January 2016	**-2 284**	**-102 825**	**-1 036**	**0**	**-106 145**
Depreciations	0	-11 112	-71	-333	-11 516
Impairment	-2 607	0	0	0	-2 607
As of 31 of December 2016	**-4 891**	**-113 937**	**-1 107**	**-333**	**-120 268**
Depreciations	0	-20 197	-70	-1 000	-21 267
Impairment	-1 100	0	0	0	-1 100
As of 31 of December 2017	**-5 991**	**-134 134**	**-1 177**	**-1 333**	**-142 635**
Carry amount					
As of December 2017	**52 569**	**52 347**	**63**	**3 667**	**108 646**
As of December 2016	**53 669**	**48 941**	**133**	**4 667**	**107 410**

Impairment test

The Group's goodwill has a reported value of TSEK 52,569 (53,669) and has arisen from two different acquisitions. Goodwill is tested for impairment at the lowest levels where there are separate identifiable cash flows (cash-generating units), which for the Group comprised a review of Clavister Tehnology (ASIA) Ltd and PhenixID AB.

The impairment test consists of assessing whether the unit's recoverable amount is higher than its carrying amount. The recoverable amount has been calculated on the basis of the unit's value in use, which represents the present value of the entity's expected future cash flows, regardless of any future business expansion and restructuring. The calculation of value in use is based on:

1) Estimated WACC (weighted average cost of capital) before tax has been 16.2% (14.7) for the review of Clavister Technology (ASIA) Ltd and for PhenixID AB testing 13.3% (13.2).

2) A forecast of cash flows for the next 5 years (2018 to 2022) has been calculated for Clavister Technology (ASIA) Ltd and PhenixID AB. The forecast is based on previous experiences and own assessments. The most important variable is revenue growth (Clavister Technology (ASIA) Ltd about 10% per annum and PhenixID AB about 10% per annum), which is based on the management's assessment as below."

3) An extrapolation of cash flows after 2020 with a growth of 2 percent for both Clavister Technology (ASIA) Ltd and PhenixID AB sk. Terminal value.

The discounted cash flow model includes forecasting future cash flows from the business including estimates of revenue volumes and production costs. The important assumptions that generate expected cash flows over the next five years are made by market assessments for the growth of the market for cyber security, the Group's delivery capability, ie successfully meeting customer demand with the product portfolio and planned product and development work within the business areas the group chose to market within. The values have been assessed on these variables in essence. The calculations show aimpairment loss with Clavister Technology (ASIA) Ltd of 1,1 MSEK, whereby adjustment of the goodwill value was made with this amount. No impairment loss has been identified linked to PhenixID AB. Not raising the discount rate by 1% would also lead to any impairment need, other parameters equal.

Note 15 Tangible assets

Equipment	**2017-12-31**	**2016-12-31**
Opening balance	**5 482**	**5 903**
Purchase for the year	1 546	43
Sales / Withdrawals	-114	-487
Translation difference	-34	23
Closing cumulative balance	**6 880**	**5 482**
Opening depreciations	**-4 518**	**-4 338**
Sales / Withdrawals	114	467
Reclassifications	0	-17
Depreciations of the year	-869	-611
Translation difference	27	-18
Closing cumulative depreciations	**-5 246**	**-4 518**
Carrying amount	**1 634**	**964**

Note 16 Financial instruments

Valuation of financial assets and liabilities as of 31 December 2017

Financial assets	Loans and accounts receivables	Other financial debt	Total carrying amount	Fair value
Other long-term receivables	41 409	0	41 409	41 409
Accounts receivables	15 622	0	15 622	15 622
Other short-term receivables	2 682	0	2 682	2 682
Accrued income and prepaid expenses	15 698	0	15 698	15 698
Cash equivalents	26 492	0	26 492	26 492
	101 904	**0**	**101 904**	**101 904**
Financial debts				
Convertible debentures	0	7 512	7 512	7 512
Liabilities to credt institutions	0	47 647	47 647	47 647
Interest-bearing liabilities	0	1 286	1 286	1 286
Accounts payable	0	6 740	6 740	6 740
Other short-term liabilities	0	5 999	5 999	5 999
Acccrued expenses	0	19 366	19 366	19 366
	0	**88 549**	**88 549**	**88 549**

Valuation of financial assets and liabilities as of 31 December 2016

Financial assets	Loans and accounts receivables	Other financial debt	Total carrying amount	Fair value
Other long-term receivables	472	0	472	472
Accounts receivables	13 668	0	13 668	13 668
Other short-term receivables	3 831	0	3 831	3 831
Accrued income and prepaid expenses	3 032	0	3 032	3 032
Cash equivalents	75 311	0	75 311	75 311
	96 313	**0**	**96 313**	**96 313**
Financial debts				
Convertible debentures	0	9 428	9 428	9 428
Other long-term liabilities	0	7 842	7 842	7 842
Interest-bearing liabilities	0	11 313	11 313	11 313
Accounts payable	0	10 220	10 220	10 220
Other short-term liabilities	0	7 405	7 405	7 405
Acccrued expenses	0	16 706	16 706	16 706

Note 17 Prepaid expenses and accrued income

	2017-12-31	2016-12-31
Prepaid rent for premises	1 530	1 278
Prepaid lease fees	52	59
Prepaid insurance fees	170	144
Prepaid expenses relating to financing	1 542	0
Estimated cost of warrents to lenders	12 224	0
Prepaid expenses testing	0	522
Prepaid expenses licens-fee IP-infusion	0	822
Other items	179	206
Carrying amount	**15 698**	**3 032**

Note 18 Cash

	2017-12-31	2016-12-31
Cash and cash equivalents	26 492	75 311
Carrying amount	**26 492**	**75 311**

Note 19 Group company

Parent company, Clavister Holding AB, holdings in direct and indirect subsidiaries included in the consolidated accounts are shown in the table below.

Company	Operation	Share 2017	Share 2016
Clavister Holding AB	Parent company, Investment company	Parent	Parent
Clavister AB	Sales and development	100%	100%
Clavister APAC Ltd	Holdingbolag	100%	100%
Clavister Technology (ASIA) Ltd	Sales	100%	100%
PhenixID AB	Sales	100%	100%
PhenixID UG	Sales	100%	100%

Clavister Holding AB acquired PhenixID AB during 2016, which in turn owns the subsidiary PhenixID UG.

There are limits for the Group's ability to access the capitalized development costs that the subsidiary Clavister AB has invested in a funded development fund, amounting to TSEK 32,208 as at 31/12 2017.

The fund will be dissolved at the same rate as the company makes depreciation, impairment or disposal of the asset. For the capitalized development costs, depreciation is commenced during the current year. Development costs are depreciated during a three-year-period.

Consolidated Notes .

Note 20 Equity

Share capital

As of 31 December 2017, the registered share capital comprised of 23 562 050 shares (22 747 124) with a quota value of 0.10 SEK (0.10). Holders of shares are entitled to dividends determined by the annual general meeting with one vote per share. All shares have the same right to Clavister's remaining net assets. All shares are fully paid and no shares are reserved for transfer.

In connection with the acquisition of PhenixID, a capital insurance of 330,000 shares in Clavister Holding AB was acquired at a value of SEK 7.9 million per 2017-12-31. This value has not been recognized as an asset but is recognized as a deduction item in equity in the Group.

Other contributed capital

Other contributed capital consists of capital contributed by Clavister's owner.

Reserves

The reserve consists entirely of exchange rate differences when translating foreign operations.

Note 21 Long-term liabilities

None of the Group's long-term liabilities mature later than five years after the balance sheet date.

In September 2017, the Parent Company has received a loan of 3 years with a maturity of 50 MSEK. The loan has a fixed interest rate. The agreement on this loan also includes issue of warrants to the lender, the warrants are issued free of charge at a subscription price of 20 kr. The number of warrants amounts to 4.312.608, and each warrant entitles the holder to subscribe for one share in the company.

In December 2017, the subsidiary Clavister AB, has signed a loan with the EIB for a total of EUR 20 million. See further information in Note about Events after the end of the financial year. This loan runs for 5 years with fixed interest. This loan is also linked to remunera-tion-free warrants, the subscription price for those are SEK 0.10. The number of warrants are 1,770,079 and each warrant entitles the holder to subscribe for one share in the company.

Note 22 Accrued expenses and prepaid income

	2017-12-31	2016-12-31
Accrued salaries and vacationpay	7 572	5 275
Accrued social fees	4 764	3 078
Accrued interests	678	142
Accrued maintenance costs	1 620	1 665
Accrued provisions	724	588
Accrued royalty costs	1 653	669
Accrued consultancy fees	289	365
Accrued PIK (Payment in Kind) fee to lender	0	1 587
Accrual prepaid income	0	1 027
Accrued board fee	637	738
Accrued cost Remium	0	66
Accrued audit fee	480	409
Accrued marketing costs	408	246
Other items	541	852
Carrying forward	**19 366**	**16 706**

Note 23 Cash flow analysis

Adjustments for non-cash items	2017	2016
Depreciations	22 137	12 127
Capital gain	0	-5 983
Impairment loss	1 100	2 607
Unrealized differences in exchange rate	0	80
Estimated interest on convertible debentures	953	649
Carrying forward	**24 190**	**9 480**

Note 24 Pledged assets

	2017-12-31	2016-12-31
Mortgage	50 000	25 038
Pledged accounts receivable and other receivables	0	1 414
Cash and cash equivalent	11 457	62 910
Sum	**61 457**	**89 363**

Note 25 Contingent liabilities

	2017-12-31	2016-12-31
Contingent liabilities	0	0
Sum	**0**	**0**

Note 27 Acquisitions

Acquisitions 2017

No acquisitions in 2017.

Acquisitions 2016

On March 8, 2016, Clavister acquired 28.6% of PhenixID. Two months later, May 10, an additional 1.5% and 25 August were acquired, the remaining part of 69.9% was aquired. Clavister now owns 100% of the shares of PhenixID. PhenixID is a leader in advanced cyber security solutions that will provide key expertise in the area of Identity & Access Management (IAM) and customer references to Clavister's combined market offering.

The purchase price consisted of 5.0 MSEK in cash compensation and by issuing 1,540 516 own shares (Clavister Holding AB) to a value at 80.5 MSEK. As PhenixID switches from being an associated company to becoming a group company with the last acquisition, the first two acquisitions are valued at the last acquisition, which results in a reported consolidated profit of 6.0 MSEK and partly leads to the purchase price / acquisition price was increased by 6.0 MSEK, which means that the acquisition was thus 91.5 MSEK. In connection with the acquisition, goodwill amounted to 51.9 MSEK, which consists of the difference between the transferred compensation and the fair value of the acquired net assets. The resulting goodwill consists partly of synergy effects, earnings improvement potential and market positioning, as well as intangible assets such as capitalized development costs and customer and order stock. Goodwill is not expected to be tax deductible.

In connection with the acquisition, a cash balance of SEK 15.6 million was added, as well as a capital insurance of 330,000 shares in Clavister Holding AB with a value as per 2016-12-31 amounting to approximately 15.2 MSEK. The acquisition has thus had a positive impact on the Group's cash flow. The market value of the capital insurance at 2017-12-31 is 7.9 MSEK.

Acquired net assets at date of purchase:

	Actual value determined at purchase
Intangible assets	11 100
Tangible assets	50
Capital insurance	16 500
Accounts receivable and other receivables	7 139
Cash and cash equivalent	15 579
Deferred tax liability	-2 442
Accounts payable and other operating debt	-8 281
Identified net assets	**39 645**
Goodwill	51 875
Total purchase price	**91 520**
The acquisitions impact on group cash flow:	
Purchase in cash	5 000
Departs:	
Cash (acquired)	-15 579
Net cash inflow	**-10 579**

During the approximately 4 months to 31 December 2016, the subsidiary contributed SEK 10.6 million to the Group's revenues and 38 TSEK to the Group's earnings after financial items. If the acquisition had occurred on January 1, 2016, management estimates that the Group's revenue would have been MSEK 28.9 and the profit after financial items would have been 8.5 MSEK.

Note 28 Transactions with related parties

Subsidiary	Sales of goods / services	Purchase of goods / services	Other	Receivable on closing day	Debt on closing day
2017	7 629	7 629	0	19 845	0
2016	3 850	3 850	0	8 254	0
	11 479	**11 479**	**0**	**28 099**	**0**

The Group has few transactions between each other, no transactions with the Board members except for the Board's Board fees. For information on remuneration to senior executives, see Note 6 Employees and staff costs.

Board member Jan Ramkvist has, through company, invoiced the Group 1.349 TSEK during the year for legal fees. Chairman of the Board Viktor Kovacs has, through company, invoiced the Group 740 TSEK for consultancy services relating to the development of the company's processes and structures, primarily in sales. These fees are deemed to be on market terms.

For information on remuneration to senior executives see note 6 Employees and staff expenses.

Note 29 Financial risks

The Group is exposed through its operations for various types of financial risks; credit risk, market risks (currency risk, interest rate risk and other price risks) and liquidity risk. The Group's overall risk management focuses on unpredictability in the financial markets and strives to minimize potential adverse effects on the Group's financial results.

Credit risk

Credit risk is the risk that the Group's counterparty in a financial instrument can not fulfill its obligation, thereby causing the Group a financial loss. The Group has a limited concentration of credit risks.

Credit risk in accounts receivables

Most of the turnover is carried out in the subsidiary Clavister AB where there are guidelines to ensure that sales of products and services are made to customers with approved credit background. The credit rating is valued by an external actor based on estimated sales or credit limits and is within the framework of a signed framework agreement. If the customer is approved by the factoring company, the invoice is purchased and the liquid equivalent to 90% of the invoice value is paid to Clavister AB in the currency in which the invoice is invoiced. Credit limit can be withdrawn by the supplier if the customer invoice has expired longer than 30 days. A credit insurance is linked to the customer invoice through the company's factoring agreement. The factoring agreement makes the Group harmless to 90% in case of bankruptcy (non-payment). When the customer pays the factoring company, the remaining 10% will be paid. The customer's payment terms vary between prepayment, 30 and 60 days depending on the credit background. For the subsidiary PhenixID, where about 90% of sales are made to Nordic customers and to the remaining part of Northern Europe, credit risk is considered very low as customers are stable and recurring and the relationship has been going on for a long time. Total credit losses accounted to 14 TSEK in 2017.

The age analysis for unrecognized receivables on the balance sheet date is given below.

	2017-12-31	2016-12-31
Not overdue account receivables	14 232	12 375
Overdue accounts receivable 1-30 days	885	280
Overdue accounts receivable 31-90 days	219	727
Overdue accounts receivable >90 days	286	286
Carrying forward	**15 622**	**13 668**

Provision has been made during the year for bad debts. These provisions have been made after individual testing of doubtful accounts receivable.

Reservation of accounts receivable	2017-12-31	2016-12-31
Opening carrying amount	289	196
Reversal of previously made reservations	0	0
Adjustment due to currency change	7	16
This year's reservations	40	77
Closing carrying amount	**336**	**289**

The credit quality of non-matured or impaired receivables is considered to be good.

Credit risk due to prepayment to suppliers

The subsidiary Clavister AB prepays suppliers for the purchase of hardware, sk. appliances. Suppliers are Asian (Taiwan) and Sweden. Payments are made in USD and SEK. Advance payment can be made in cases where the supplier relationship is relatively new and for major orders. PhenixID does not make any prepayments as sales consist solely of software.

Market risks

Market risk is the risk of the actual value of or future cash flows from a financial instrument will vary due to changes in market prices. Market risks are classified by IFRS into three types; currency risk, interest rate risk and other price risks. The market risks that affect the Group are mainly due to currency risks.

Currency risk

Currency risk is the risk that fair value or future cash flows from a financial instrument vary due to changes in foreign exchange rates. The main exposure is attributable to the Group's sales and product purchases and royalties in foreign currencies. This exposure is called transaction exposure. Currency risks are also included in the translation of foreign operations' assets and liabilities to the parent company's functional currency SEK, so-called translation exposure. Translation exposure occurs through the company's subsidiary Clavister APAC, Clavister Technology (ASIA) and PhenixID UG when conversion of assets and liabilities is from USD, CNY (Chinese yuan) and EUR to SEK.

Transaction Exposure

For the Swedish companies in the Group, there is a risk that payment for made sales will take place in foreign currency such as USD and EUR. Personnel costs are mainly in Swedish currency. However, the Group's financial transaction exposure is limited by the sale in the SEK, USD and EUR currencies, regulated in agreements with customers. For imports of products, they are mainly in USD which can be netted against the company's cash flow / customer payments in USD. The Group's overall objective of financial risks is to minimize them by utilizing revenue and payout flows, and to hedge the same on larger regular and predictable flows.

For Clavister Technology (ASIA) Ltd, the absolute part of both sales and purchases of products in China is in CNY, whereby transaction exposure can be considered to be limited. Currency risk related to changes in expected and contracted payment flows is expected to affect the Group.

	2017		2016	
Foreign exchange exposure (%)	**Operational income**	**Operational costs**	**Operational income**	**Operational costs**
SEK	40%	75%	30%	70%
EUR	36%	10%	35%	10%
USD	15%	10%	19%	12%
CNY	9%	5%	16%	8%

EUR	**Exchange in EUR**	**Impact on net profit (loss) before tax**
2017 (vs 2016)	2,4%	473
2016 (vs 2015)	5,3%	599

USD	**Exchange in USD**	**Impact on net profit (loss) before tax**
2017 (vs 2016)	-9,9%	384
2016 (vs 2015)	9,4%	-294

CNY	**Exchange in CNY**	**Impact on net profit (loss) before tax**
2017 (vs 2016)	-4,2%	4
2016 (vs 2015)	2,5%	0

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows from a financial instrument vary due to changes in market interest rates. An important factor affecting interest rate risk is the fixed interest rate period. The Group is not exposed to interest rate risk relating to the Group's loans totaling TSEK 47,647 since the interest rate is fixed until the maturity date of the loan 2020-09-27. The first convertible debenture loan of 10 MSEK expired in 2017, during the year a further convertible debenture loan was made, with the same conditions as before. The assessment is that there is only a limited interest rate risk and, in 2017, it did not result in any interest payments since the interest rate linked to STIBOR 90 currently is negative.

Given interest-bearing liabilities at the balance sheet date, an interest rate increase of 2 percentage points on the balance sheet date will have an effect on net interest income for the full year before tax of 200 TSEK.

The table below specifies the terms and repayment dates for each interest-bearing debt:

	Currency	Due	Interest	Carrying amount 2017-12-31	Carrying amount 2016-12-31
Convertible debentures	SEK	2017-09-30	Variable	0	9 428
Convertible debentures	SEK	2022-03-31	Variable	7 512	0
Debt to credit institutions	SEK	2017-04-30	Variable	0	100
Debt to external lender	SEK	2020-09-27	Fixed	47 647	0
Debt to external lender	EUR	2018-05-31	Fixed	0	10 829
Debt to external lender	EUR	2019-09-30	Fixed	0	8 227
Total				**55 159**	**28 584**

Price risk

The company's purchase of products constitutes a minor part of the actual product cost. The development cost of the software consisting of personnel costs (which is also activated in accordance with IAS38) is absolutely dominant. Price lists against customers are updated where the customer is notified three months in advance. As a result, both increased prices and currency fluctuations may affect product purchasing costs and royalties. The cost of royalty is paid in Euros

Liquidity risk

Liquidity risk is the risk of the Group having difficulties fulfilling its obligations related to financial liabilities. The company's previous loans in EUR linked to external financiers have been fully regulated in 2017. For the new convertible loan taken in 2017, the conversion rate under contract is set at SEK 48.82 per share to compare to Clavister Holding AB's closing price per 2017-12-31 at 23.90 SEK, the convertible loan will not expire until 2022. The loan of 47.6 MSEK will expire in 2020, however, there is an agreement on the cancellation of amortization and interest against the issue of shares, so it will not affect the liquidity.

The Group's contractual and undiscounted interest payments and repayments of financial liabilities are shown in the table below. Amounts in foreign currency have been translated to SEK at the closing date. Financial instruments with variable interest rates have been calculated using the interest rate on the balance sheet date. Liabilities have been included in the period when repayment may be required at the earliest.

		2017-12-31		
Term analysis	**<1 year**	**1-5 years**	**>5 years**	**Total**
Interest-bearing liabilities	0	55 159	0	55 159
Liabilities to leasing companies	429	857	0	1 286
Accounts payable	6 740	0	0	6 740
Other short-term liabilities	27 407	0	0	27 407
	34 576	**56 016**	**0**	**90 592**

		2016-12-31		
Term analysis	**<1 year**	**1-5 years**	**>5 years**	**Total**
Interest-bearing liabilities	20 441	8 143	0	28 584
Liabilities to leasing companies	0	0	0	0
Accounts payable	10 220	0	0	10 220
Other short-term liabilities	26 990	0	0	26 990
	57 651	**8 143**	**0**	**65 794**

Refinancing risk

Refinancing risk refers to the risk that funds are not available and that funding can only be obtained partially or not at all, or at an increased cost. In the event that the Group could not obtain, or alternatively only receive funding at unreasonable terms, it could have a material adverse effect on the company's operations, results and financial position. The Group's refinancing risk may include borrowing, convertible loans or by issuing new shares decided by the Annual General Meeting.

In order to limit refinancing risk, the Group has several funding sources, as well as trying to spread the maturities on the loans. One of the loans subscribed by the Group, where repayment will be made through a new issue of shares through the Fund's subscription of options in connection with the payment of the loan, therefore, liquidity will not be affected in this case.

The Group is continuously working to ensure the ability to raise new loans as needed, as well as renegotiate existing loans and agreements.

Liquidity is hedged partly through the acquisition of interest-bearing liabilities and partly through warrants and new issues of shares. During the year, no change has been made in the Group's capital management. External capital requirements are set against the Group regarding the level of debt and possibly new borrowing.

Note 30 Events after balance closing

After the end of the fiscal year, February 5, 2018, the company has received the first tranche of the loan agreement signed in December 2017 with the European Investment Bank (EIB). Liquidity received amounts to 10 MEUR of the total loan amount of 20 MEUR. The remaining two tranches can be lifted on later occasions by 5 MEUR each, depending on the terms and covenants to be met by the company. The loan will be used to support the company's growth plans, continued investments in innovation and product development, and to drive the company's investment in sales and increased market presence.

Parent company income statement

TSEK	Note	2017	2016
Net Sales	3	6 000	4 200
Other operating income	4,5	-4 871	-2 362
Employee benefit expenses	6	-3 537	-1 239
Operating profit (loss)		**-2 407**	**599**
Other interest income and similar items	7	346	32
Interest expenses and similar income items	7	-3 022	-649
Profit before appropriations and taxes		**-5 083**	**-18**
Group contributions		0	-650
Tax on profit for the year	8	378	143
Net profit (loss) for the year		**-4 705**	**-525**

Parent Company's statement of comprehensive income

TSEK	Note	2017	2016
Net profit (loss) for the year		-4 705	-525
Other total result		0	0
Total comprehensive income for the year		**-4 705**	**-525**

Parent company balance sheet

TSEK	Note	2017-12-31	2016-12-31
ASSETS			
Fixed assets			
Financial assets			
Shares in Group companies	9	578 217	447 955
Receivables from Group companies	10	19 845	8 254
Other long-term receivables	11	8 255	0
Deferred tax asset	8	268	0
Total assets		**606 585**	**456 210**
Current assets			
Receivables			
Other receivables		38	392
Prepayments and accrued income	12	4 879	0
Cash and cash equivalent		11 471	60 500
Total current assets		**16 388**	**60 892**
TOTAL ASSETS		**622 973**	**517 102**

TSEK	Note	2017-12-31	2016-12-31
EQUITY AND LIABILITIES			
Equity	13		
Restricted equity			
Share capital		2 356	2 275
		2 356	2 275
Unrestricted equity			
Share premium reserve		510 413	499 900
Profit/Loss brought forward		57 139	381
Net profit (loss) for the year		-4 705	-525
		562 847	499 756
Total equity		**565 203**	**502 031**
Liabilities			
Long-term liabilities			
Liabilities to credit institutions		47 647	0
Convertible debentures	14,8	7 512	9 428
Deferred tax liability	8	0	126
Current liabilities			
Accounts payables		730	4 522
Current tax debt	8	2	13
Other debts		115	56
Accrued expenses and prepaid income	15	1 765	926
Total liabilities		**57 770**	**15 071**
TOTAL EQUITY AND LIABILITIES		**622 973**	**517 102**

Parent Company’s changes in equity .

TSEK	Restricted Equity Share Capital	Unrestricted equity Share Premium Reserve	Accum. Profit(loss)	Net profit (loss) for the year	**Total equity**
Opening equity 2016-01-01	**1 854**	**308 773**	**-185**	**566**	**311 008**
Adjustment of result last year	**0**	**0**	566	-566	0
Net profit (loss) for the year	0	0	0	-525	-525
Other comprehensive income for the year	0	0	0	0	0
Total income for the year	**0**	**0**	**0**	**-525**	**-525**
Share issue in progress	0	4 448	0	0	4 448
Payment for warrants	0	1 562	0	0	1 562
New share issue	421	192 637	0	0	193 057
Issue expenses	0	-7 520	0	0	-7 520
Total transactions with owners	**421**	**191 127**	**0**	**0**	**191 548**
Closing equity 2016-12-31	**2 275**	**499 900**	**381**	**-525**	**502 031**
Opening equity 2017-01-01	2 275	499 900	381	-525	502 031
Adjustment of result last year	0	0	-525	525	0
Net profit (loss) for the year	0	0	0	-4 705	-4 705
Other comprehensive income for the year	0	0	0	0	0
Total income for the year	**0**	**0**	**0**	**-4 705**	**-4 705**
Share issue in progress	0	-4 478	0	0	-4 478
Equity ratio convertible	0	0	2870	0	2 870
Payment for warrants	0	940	0	0	940
Share-based compensation	0	0	54413	0	54 413
New share issue	81	14 397	0	0	14 478
Issue expenses	0	-346	0	0	-346
Total transactions with owners	**81**	**10 513**	**57 283**	**0**	**67 877**
Closing equity 2017-12-31	**2 356**	**510 413**	**57 139**	**-4 705**	**565 203**

Parent Company's statement on cash flows

TSEK	Note	2017	2016
Cash flow from operating activities			
Profit (loss) before tax		-5 083	-18
Cash flow from operating activities before changes in working capital		**-5 083**	**-18**
Cash flow from changes in working capital			
Changes in operating receivables		-4 526	-391
Changes in operating liabilities		-2 921	4 810
Cash flow from current operations		**-12 530**	**4 401**
Investing activities			
Aquisition in shares subsidiary	9	-130 262	-203 010
Investments in other financial fixed assets		-8 255	0
Cash flow from investing activities		**-138 517**	**-203 010**
Financing activities			
Increase loans		47 647	0
Increase convertible debenture		-1 916	648
Issue expenses		-346	-7 520
Contribution due share-based compensation		54 413	0
New Share issues		13 810	199 068
Reduction of claims on subsidiaries		0	46 047
Increase of claims on subsidiaries		-11 589	0
Received group contributions		0	-650
Cash flow from financing activities		**102 019**	**237 594**
Cash flow for the year		**-49 028**	**38 985**
Cash and cash equivalents at the beginning of the year		60 500	21 515
Cash and cash equivalents at the end of the year		**11 471**	**60 500**

Parent Company's Notes .

Note 1 Parent Company Accounting Principles

The parent company has prepared its annual report in accordance with the Annual Accounts Act (1995: 1554) and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for Legal Entity".

The differences between the Group and the Parent Company's accounting principles are shown below. The following accounting policies for the Parent Company have been applied consistently to all periods presented in the parent company's financial statements, unless otherwise stated.

Subsidiary
Shares in subsidiaries are reported in the Parent Company according to the cost method.

Financial Instruments
Due to the relationship between accounting and taxation, the rules on financial instruments are not applied on the parent company, in accordance with IAS 39, but the parent company in accordance with the ÅRL acquisition, applies the cost method. In the parent company, financial assets are valued at cost less any write-downs and financial current assets according to the minimum value principle.

Group contributions and shareholder contributions
Group contributions are entered on the income statement as an appropriation. Shareholders' contributions are paid directly to shareholders' equity at the recipient and are capitalized in shares and participations of the donor, insofar as impairment is not required.

Note 2 Significant estimates and assessments

At the time of preparation of the financial statements, the Parent Company has made assumptions of a material nature regarding all subsidiaries' future earnings and ability to generate returns. Since the parent company solely holds shares in subsidiaries, they are also affected by significant estimates and assessments made in the group companies. For information about the Group's significant estimates and assessments, see the Group's note 3.

Note 3 Net Sales Distribution

The parent company's net sales consist entirely of invoicing between parent company and Clavister AB regarding management fee, all sales have taken place within Sweden.

Note 4 Other External Expenses

Other external expenses mainly consist of expenses for Board fees of SEK 1.219 TSEK (722), legal costs with 1.413 TSEK (502), consultancy costs associated with financing and cost to Certified Advisor with TSEK 197 (264).

Note 5 Audit fees

Fees to the auditor of the Parent Company are reported in full at the subsidiary Clavister AB, 86 TSEK (0) and are specified in the Note for the Group.

Note 6 Employees and Staff Costs

For salaries and remuneration of employees and senior executives, as well as information on the number of employees, see note 6 for the Group.

Note 7 Financial Income and Expenses

Interest income and similar income items	**2017**	**2016**
Result from not redeemed warrants	346	0
Interest income	0	32
Sum	**346**	**32**

Interest expenses and similar income transactions	**2017**	**2016**
Other financial expenses	-214	0
Interest expenses	-2 807	-649
Sum	**-3 022**	**-649**

Note 8 Taxes

Income Statement

Current tax	**2017**	**2016**
Tax expense for the year	-15	0
Change in deferred tax assets relating to loss carryforwards	0	0
	-15	0

Deferred tax		
Deferred tax relating to temporary differences	-506	143
Deferred tax on loss carryforwards	899	0
	393	143
Reported tax in the income statement	**378**	**143**

Deferred tax reported in other comprehensive income during the year

	0	0
Recorded tax in other comprehensive income	**0**	**0**

Reconciliation of effective tax rate	**2017**	**2016**
Profit before tax	**-5 083**	**-668**
Tax according to the applicable tax rate for the parent company (22%)	1 118	147
Tax impact of:		
Non-taxable income	0	7
Non-deductible costs	-219	-9
Tax on previous years' earnings not previously reported	-15	-9
Temporal differences	-506	-9
Unutilized loss carryforwards for which deferred tax assets have not been reported	0	-2
Non previously audited tax loss carryforwards used to reduce current tax expense	0	0
Recorded tax	**378**	**124**
Effective tax rate (%)	-21,4%	-21,4%

The following table specifies the tax effect of the temporary differences:

Deferred tax liability	**2017**	**2016**
Convertible debentures	-631	-126
Other	899	0
Recorded values	**268**	**-126**

Specification of change in deferred tax liability:

	2017	**2016**
Opening carrying amount	-126	-268
Change of temporary differences	126	143
Additional tax receivables relating to loss carryforwards	268	0
Closing carrying amount Deferred tax liability	**268**	**-126**

Parent Company's Notes

Note 9 Shares in Group companies

	2017-12-31	2016-12-31
Opening cost	447 955	244 945
Acquisitions for the year	40 262	88 010
Shareholders' contribution for the year	90 000	115 000
Closing accumulated cost	**578 217**	**447 955**
Closing carrying amount	**578 217**	**447 955**

Impairment testing has been carried out in Clavister AB. See also Note. 14 (KC)

Company and Org. No.	Location	Share of Capital	Equity 2017-12-31	Profit 2017	Book value 2017-12-31	Book value 2016-12-31
Clavister AB (556546-1877)	Örnsköldsvik	100%	151 584	-57 108	492 717	362 455
PhenixID AB (556987-6310)	Stockholm	100%	20 561	-8 691	85 500	85 500

Note 10 Receivables from Group companies

	Counterpart	2017-12-31	2016-12-31
Opening cost	Clavister AB	8 254	54 302
Additional receivables	Clavister AB	11 590	0
Current receivables	Clavister AB	0	-46 048
Closing accumulated cost		**19 845**	**8 254**
Closing recorded values		**19 845**	**8 254**

Note 11 Long-term receivables

	2017-12-31	2016-12-31
Accrued expense for options to lender	8 255	0
Closing carrying amount	**8 255**	**0**

Note 12 Prepaid expenses and accrued income

	2017-12-31	2016-12-31
Redeye	60	0
Insurance premium	99	
Accrued expense for options to lender	4 720	0
Closing carrying amount	**4 879**	**0**

Note 13 Equity

As of 31 December 2017, the share capital consists of 23 562 050 (22 747 124) pcs. Shares with a quota value of 0.10 SEK (0.10 SEK). See also information in the consolidated note 20 Eget kapital.

Shareholders have given unconditional shareholder contributions amounting to SEK 285 000 000 (195 000 000 kr).

Note 14 Long-term liabilities

None of the parent company’s long-term liabilities mature later than five years after the balance sheet date.

Note 15 Accrued expenses and prepaid income

	2017-12-31	2016-12-31
Accrued salaries and holiday allowances	56	76
Accrued social security contributions	40	46
Accrued interests	678	0
Accrued board fees	637	738
Accrued fee Remium	0	66
Accrued legal costs	354	0
Closing carrying amount	**1 765**	**926**

Note 16 Pledged assets

	2017-12-31	2016-12-31
Pledged shares in Group companies	85 500	362 455
Mortgaged debt on Group companies	19 845	8 254
Liquidity	11 457	60 480
Company Mortgages	50 000	0
Total	**166 802**	**431 189**

Note 17 Contingent liabilities

	2017-12-31	2016-12-31
The sponsorship in favor of Group companies	0	21 959
Sum	**0**	**21 959**

Note 18 Transactions with related parties

Transactions with subsidiaries	**Counterpart**	**2017**	**2016**
Sales of services	Clavister AB	6 000	4 200
Purchase of goods / services		0	0
Submitted group contributions	Clavister AB	0	-650
Change settlement account	Clavister AB	11 590	-46 047
Receivables on balance sheet date	Clavister AB	19 845	8 254

For information on remuneration to senior executives see Group Note 6 Employees and personnel expenses.

Note 19 Proposal for profit distribution

(SEK)	**2017-12-31**	**2016-12-31**
The following profit is available to the AGM:		
Share premium reserve	510 412 970	499 715 011
Accumulated profit or loss	57 138 512	566 057
Net profit (loss) for the year	-4 704 982	-524 894
	562 846 500	**499 756 174**
Disposed so that:		
To shareholders are distributed	0	0
New account transferred	562 846 500	499 756 174
	562 846 500	**499 756 174**

Board signatures

Örnsköldsvik on 3th April, 2018

The consolidated accounts and the annual report have been approved for issue by the Board of Directors on April 3rd, 2018. The Board of Directors and CEO hereby certify that the consolidated financial statements and the annual accounts have been prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU, respective generally accepted accounting principles, and give a true and fair view of the consolidated and parent company's statement and results and that the management report for the Group and the Parent Company gives a true and fair view of the development of the Group's and the Parent Company's operations, balance and results, and describes significant risks and uncertainties faced by the Parent Company and the companies included in the Group.

Viktor Kovacs
Chairman of the Board of Directors

Peter Dahlander
Member of the Board of Directors

Annika Andersson
Member of the Board of Directors

Jan Ramkvist
Member of the Board of Directors

Sigrun Hjelmquist
Member of the Board of Directors

Göran Carstedt
Member of the Board of Directors

Bo Askvik
Member of the Board of Directors

John Vestberg
Chief Executive Officer

Our audit report has been submitted 2018-04-03
Ernst & Young AB

Rikard Grundin
Authorized public accountant

CONNECT. PROTECT

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