

A man with a beard and dark hair, wearing a blue denim jacket over a white t-shirt and dark jeans, stands against a teal background. He is looking slightly to his right. Overlaid on the image are various digital graphics: a grid of squares on the left, a lightbulb icon in the center, a globe icon on the right, and a stylized eye icon at the bottom center. The Tobii logo is in the top right corner.

tobii

Annual Report

2018

World leader in eye tracking – a technology that changes lives, provides unique insights and enables truly natural user interfaces to devices.

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We lead with our hearts and our technology

We improve lives and entire industries through humanized technology.

Using our global leadership in eye tracking as a baseline, Tobii designs tomorrow's technology to the benefit of our customers and the market at large.

We are one thousand people with a passion to bridge the gap between advanced technology and human behavior. In doing so, we contribute to a more sustainable and inclusive society. We are Tobii.

Eye tracking

Eye tracking is a sensor technology that makes it possible for a computer or other device to know where a person is looking. An eye tracker can detect the presence, attention and focus of the user. It allows for unique insights into human behavior and facilitates natural user interfaces in a broad range of devices. The ability to control a computer using the eyes is also vital for people who are unable to speak or use their hands.

Tobii's three business units address the potential of eye tracking in various applications. Tobii Dynavox focuses on assistive technology for communication, Tobii Pro focuses on eye-tracking solutions to study behavior and Tobii Tech on integration of eye tracking in consumer electronics and other volume applications.

How an eye tracker works

- 1 **An eye tracker** consists of cameras, projectors and algorithms.
- 2 **The illuminators** project a pattern of near infrared light on the eyes.
- 3 **The cameras** take high-resolution images of the user's eyes and the pattern.
- 4 **Machine learning**, image processing and mathematical algorithms determine the eyes' position and gaze point.



Number 1 in eye tracking

Tobii is the world leader in terms of overall market share, technology and patent portfolio.



Headquarters in Sweden
with 15 offices in the US,
Europe and Asia



Listed on Nasdaq
Stockholm since 2015



Founded in 2001



1,014 employees

A technology for the future

Eye tracking offers strong and unique values across a broad range of applications. Today eye tracking is an established method in an array of academic research areas. It is used by enterprises to gain insights into consumer behavior, in advertisement measurements, user experience testing and simulations and training. It is used by tens of thousands of people with disabilities to communicate and use computers.

The technology has also taken the first steps into consumer electronics, such as in gaming computers and virtual reality headsets. Penetration is still low, also in established areas in which Tobii is the market leader. Tobii plays a driving role in market development and our aim is to retain and strengthen our position in future markets for eye tracking with much larger potential.

2018 in review

tobii dynamox



- Acquired the UK-based company Smartbox Assistive Technology to strengthen the Company's geographic presence and to broaden the offering of communication solutions. CMA, the competition regulatory authority in the UK, has decided to review the acquisition. Therefore, integration has not yet begun.
- Launched several new touch screen products, including SpeechCase for iPad and Indi 7.
- Launched communication software Snap + Core First in 10 new languages.
- Increased sales significantly through the updated portfolio of touch screen products and large-scale training initiatives.

tobii pro



- Acquired the reseller Acuity ETS and the consultant business Acuity Intelligence.
- Launched Tobii Pro VR Analytics software for eye-tracking research in 3D VR environments.
- Expanded its VR offering with Tobii Pro Lab VR 360 analytics software.
- Launched Tobii Pro Sprint, a web-based eye-tracking solution for user testing.
- Launched Tobii Pro Nano, a portable eye tracker for studies outside the lab.
- Sharply increased sales through a stronger offering, higher market maturity and increased market share.

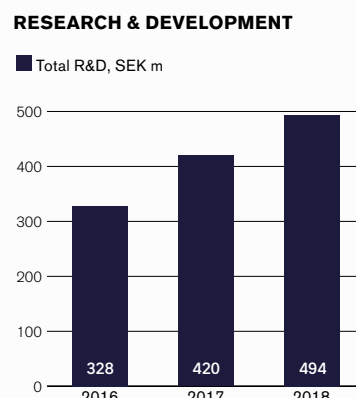
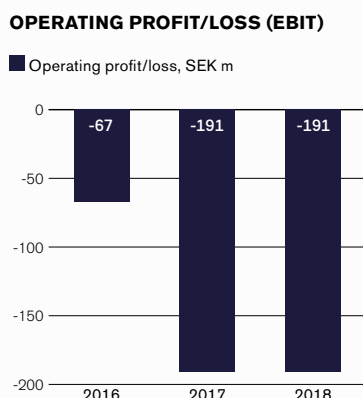
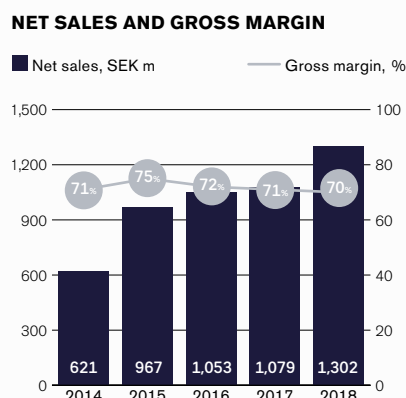
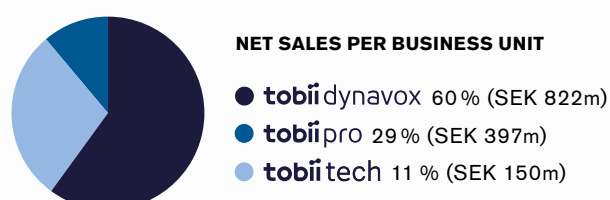
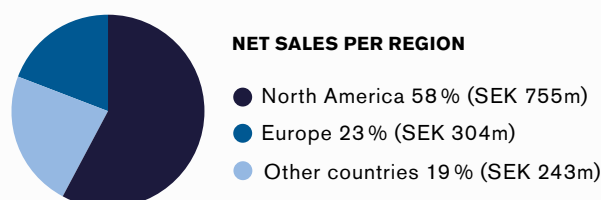
tobii tech



- Launched the Tobii IS5 eye-tracking platform for integration in computers and monitors.
- Dell launched a new version of its premium gaming computer, Alienware 17, with integrated eye tracking.
- USB.org decided on a USB HID standard for eye tracking that was co-developed by Tobii and Microsoft. This standard facilitates a broader use of eye tracking as a control interface in consumer electronics.
- Qualcomm launched a reference design for mobile VR headsets prepared for Tobii eye tracking.



- Signed a contract with HTC, one of the leading manufacturers of VR headsets, regarding development and delivery of eye-tracking technology that will be integrated into the upcoming product Vive Pro Eye.
- StarVR launched the VR headset StarVR with integrated eye tracking from Tobii.



The Group's net sales adjusted for currency effects rose by 18% in 2018 compared with 2017. In addition to organic growth, a number of acquisitions contributed to the increase.

Tobii Dynamox and Tobii Pro contributed positive earnings of SEK 69 million and SEK 45 million respectively. Investments in Tobii Tech reduced the Group's operating profit by SEK 305 million.

The Group's R&D expenditures totaled SEK 494 million, an increase of 18%.

Our global presence

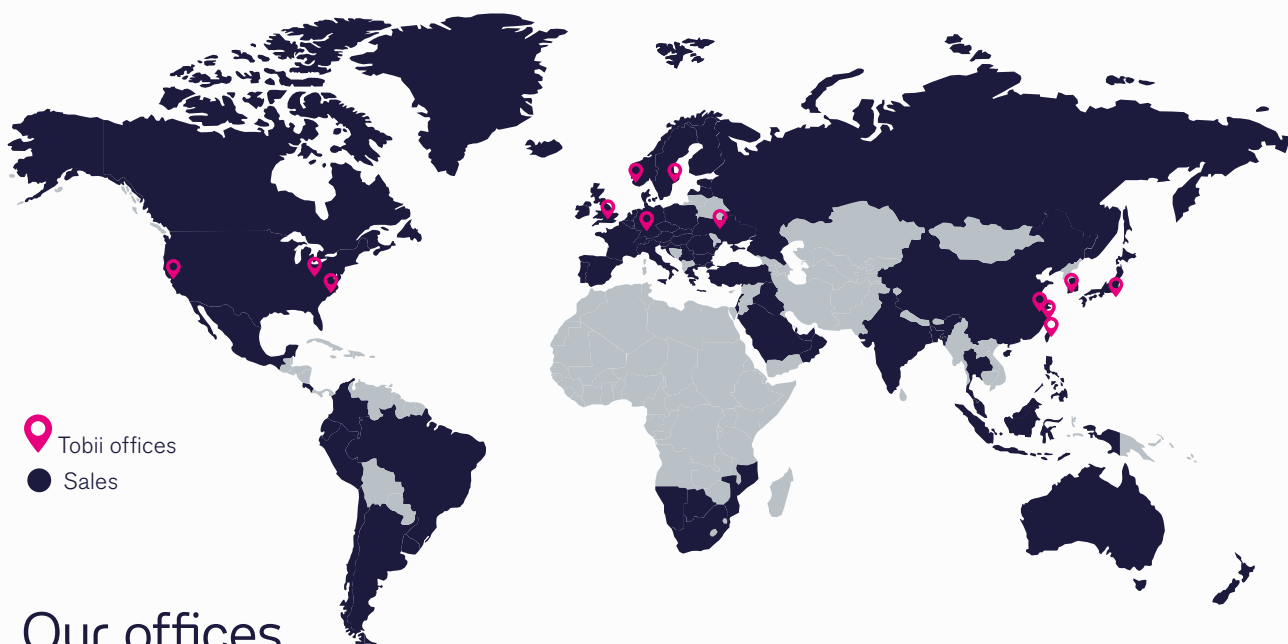
Tobii has a global presence through its offices in the US, Europe and Asia. Sales are conducted directly in primary markets and through resellers in other countries.

1,014
employees

15
offices

70
countries with a
sales presence

380
employed in
R&D*



Our offices

NORTH AMERICA

Pittsburgh, US
Sales and R&D

Washington DC, US
Sales

Mountain View, US
Sales

EUROPE

Stockholm, Sweden
Sales and R&D

Bergen, Norway
Sales and R&D

Frankfurt, Germany
Sales

Warwick, UK
Sales

Kiev, Ukraine
R&D
(external consultants)

Reading, UK
Sales

Sheffield, UK
Sales

OTHER COUNTRIES

Tokyo, Japan
Sales

Suzhou, China
Sales and R&D

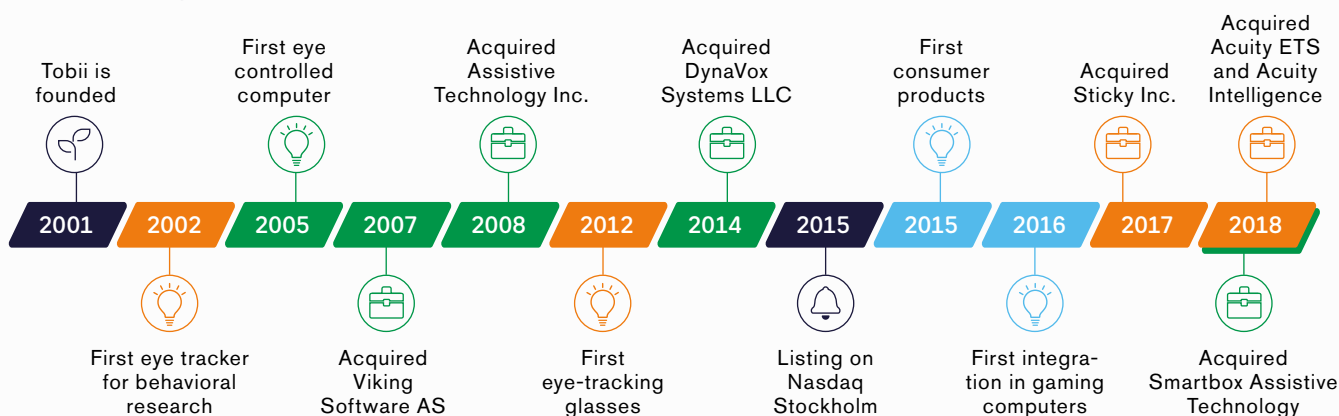
Shanghai, China
Sales

Seoul, South Korea
Sales

Taipei, Taiwan
Sales

*Includes employees and external consultancy in Kiev.

Looking back



Strong growth and important breakthroughs

Tobii had a very eventful year in 2018. We increased sales at a good pace, secured our leading positions, launched innovative new products, made strategic acquisitions, welcomed many new Tobiians and reached key milestones in PC and VR.

We have a strong ambition to improve lives and entire industries through innovative technology and products adapted to humans. Tobii's products currently create fundamental value for customers and users within a variety of areas. We continue to develop our market-leading, growing and profitable Tobii Dynavox and Tobii Pro businesses, and to invest in Tobii Tech to create a large mass market business. In 2018 the Group's net sales increased by 18%, adjusted for currency effects, through organic growth in all three business units and through acquisitions. At the same time, we maintained a gross margin of more than 70%.

In early 2018, we updated our financial targets to provide the stock market with a current picture of the Company's focus and ambition within each business unit over the next three-year period. The Group aims to achieve profitability in 2020 through a combination of continued profitability improvements within Tobii Dynavox and Tobii Pro, strong growth in Tobii Tech, and only minor cost increases. The business plan is fully funded and in early 2019 we also issued a bond loan of SEK 300 million to finance acquisitions.

We welcomed many new employees and the organization grew by 20% over the course of the year. All three business units grew organically, with added contributions from acquisitions within Tobii Dynavox and Tobii Pro. We have an ambition to be a fantastic place to work, and we are extra proud that we were ranked fourth among Sweden's best employers.

SUCCESSFUL TURNAROUND FOR TOBII DYNVOX

Tobii Dynavox aims to provide people with special needs the opportunity to communicate and realize their full potential, regardless of disability. We are very proud that we gave 25,000 more people a voice in 2018. The global market for assistive technology for communication is still very undeveloped with only a small percentage of those in need having access to such products. We saw robust sales growth in several countries with established reimbursement systems, and a strong surge in sales in several European countries with recently improved funding systems.

A key concept in the Tobii Dynavox growth strategy is to offer communication solutions at different price points, from

simple apps and entry level products to advanced medical grade products with related services. After updating a large number of products, we started 2018 with a robust portfolio. During the year we recaptured a strong position in the touch screen segment and launched the Snap + Core First communication software in about ten languages. We invested in a major expansion of training programs for more than 30,000 therapists and speech and language pathologists (tripled from the previous year), which contributed to increased awareness and sales of our assistive technology for communication. Overall Tobii Dynavox performed very well and achieved growth with a 9% increase in revenue, adjusted for currency effects and acquisitions.

The October acquisition of Smartbox Assistive Technology was part of the strategy to strengthen our product offering and presence in key markets. However, as yet we have not been able to initiate the integration process or to realize positive effects of the merger because the UK competition authority, CMA, is conducting a review of the acquisition.

VERY STRONG YEAR FOR TOBII PRO

We see a very positive market trend for Tobii Pro. Eye tracking is becoming more commonly accepted as a method for studying behavior, and demand for Tobii Pro's solutions and services is growing. Customers understand the value of eye tracking and a growing number are also buying larger volumes to make use of eye tracking more broadly in their business. This trend had a favorable impact on sales, which rose by 26%, adjusted for currency effects.

Tobii Pro has a long history of developing high quality, innovative products. The business unit's most successful product of all time is the eye-tracking Glasses 2, which continues to be Tobii Pro's best-seller. By making eye-tracking studies possible not only in labs, but also in everyday environments, the glasses have made eye tracking relevant for completely new customer groups. Eye-tracking studies in VR environments also increased sharply during the year and Tobii Pro broadened its range of products with several new solutions in this area.

During the year we invested in Tobii Pro's global sales organization, which contributed to its strong sales. Part of the growth strategy is to increase our sales presence in markets

“Tobii is standing on a stable foundation with leading products and a strong market position.”

Henrik Eskilsson, CEO

with high potential, and the Acuity acquisition aimed to strengthen Tobii Pro's presence in the UK. In 2018, we continued to expand within the field of "professional performance", where hundreds of customers in areas as diverse as the automotive industry, sports and surgery benefit from eye tracking to improve processes, safety, learning and performance.

IMPORTANT MILESTONES FOR TOBII TECH

One strong trend is the use of a growing number of sensor technologies to make products such as computers, VR headsets, AR glasses and smartphones more intelligent, intuitive and immersive. Eye tracking is a natural next step in this trend. In 2018 we invested heavily to create conditions for Tobii Tech to realize the volume potential within PC and VR. The market in these areas is in its infancy with the launch of the first set of innovative products that integrate eye tracking. Tobii Tech's goal is to be the world-leading provider of eye-tracking technology to OEM customers, and in the long term to achieve net sales of several SEK billion with strong profitability. During the year Tobii Tech's net sales rose by 20%, adjusted for currency effects.

We took several more steps forward in the PC segment. Collaboration with device manufacturers and other players in the ecosystem resulted in new computer models with built-in eye tracking, a large number of new game titles with enhanced gaming experiences, the introduction of eye tracking in eSports, and a game coaching platform that was launched together with Dell Alienware. We launched a new integration platform, Tobii IS5, which enables a much more discreet and attractive integration in many more product models. The new platform enables Tobii Tech to drive substantially higher volumes. Important steps toward standardization of eye tracking were also taken through the establishment of a USB standard for

the technology, which was developed by Tobii, Intel and Microsoft. Microsoft also added Tobii eye tracking as a standard interaction in Windows.

The VR market has the initial hype behind it and the industry is now focusing on making outstanding products and user experiences. In particular, so-called stand alone VR headsets have grown rapidly in 2018 and the total market for VR and AR headsets is expected to increase tenfold over the next four years. We have an important role to play since eye tracking is a key technology for creating the VR products of the future. Demand is very strong and during the year we worked in several integration projects with for instance Qualcomm, which launched a reference design for VR headsets that integrate Tobii eye tracking and HTC, which presented Vive Pro Eye in January 2019. Integration of eye tracking by one of the largest players in VR has strong symbolic value and we are optimistic about market developments going forward.

ONWARD TOGETHER

Tobii is standing on a stable foundation with leading products and a strong market position in established segments. We will continue to change the world for customers and users through innovative technology and outstanding products. With a clear focus on long-term value creation, we will continue to grow, strengthen our position and achieve our profitability targets.

I would like to take this opportunity to thank all of our customers and shareholders for your trust and confidence in Tobii. I would also like to thank all of my amazing colleagues who collectively make Tobii an outstanding organization. Together we work to bridge the gap between humans and advanced technology for a more inclusive society.

Danderyd in April 2019
Henrik Eskilsson, President and CEO

Our driving force – to do amazing things

Our company culture is characterized by ambition and resourcefulness, combined with a strong focus on succeeding together as a team.

CULTURE AND VALUES

Tobiians are driven by dedication and a constant will to improve, renew and surpass themselves, making Tobii the world leader in eye tracking. Every day, we give more and more companies, organizations and people access to technology and knowledge that enables them to change both individual lives and entire industries. Our aim is to continue to be the driving force for development for years to come. We are linked by our common vision and strong shared values. These values guide all our employees in achieving success and being a world-class workplace. At Tobii, everyone is free to be themselves. Our differences are one of our greatest assets, since they stimulate curiosity and innovation, while contributing to a more dynamic workplace.

VISION AND MISSION

Tobii's vision and mission comprise a fundamental starting point for the Group's operations and long-term ambition. Eye tracking has the potential to create profound value within a multitude of uses – value that we are committed to achieving. Tobii is a leading participant in a field that is part of a larger ecosystem of companies and technologies that all contribute to the vision.

Our mission is to fundamentally transform and improve individual lives and entire industries through humanized technology. With eye tracking as a base, Tobii creates the conditions for new insights into human behavior and intuitive user interfaces.





VISION

"Tobii's vision is a world where all technology works in harmony with natural human behavior."




Tobiians are driven by dedication and a constant will to improve, renew and surpass themselves, making Tobii the world leader in eye tracking.



VALUES

Amaze our customers
Succeed together
Make it real
Beat yesterday
Share passion





READ MORE

Get to know our employees in the Sustainability Report on page 45.



Megatrends benefit Tobii

Tobii's business is influenced by several major and transformative trends in the technology sector and in society at large. Some of these trends are described below.



ARTIFICIAL INTELLIGENCE

Artificial intelligence will transform technology, entire industries and our society over the next few decades. Most major companies are making large investments in developing increasingly sophisticated AI solutions. In our everyday lives we already encounter smart speakers, voice recognition and digital assistants like Alexa, Google Assistant and Siri.

Technology advances and AI also affect companies and workplaces by improving efficiency and automating processes, products and services using intelligent, independent machines and software.

TOBII'S PERSPECTIVE

At Tobii we are convinced that consumers will demand that the smartphones, computers, tablets, VR and AR products of the future are much more intelligent and better adapted to users. To accomplish this, they need to know who we are, what we have seen and what we are interested in. Eye tracking will therefore likely serve as an important component in artificial intelligence in essentially all such products in the future.



NATURAL INTERACTION WITH TECHNOLOGY

Over the past decade, there has been a rapid development of increasingly natural user interfaces. Apple's launch of the iPhone can be viewed as the spark that started this revolution. Using simple and intuitive touch screen interfaces, we can surf the net, watch videos and use social media.

Sensors for gestures, movements and fingerprints, facial recognition and voice-based digital assistants all facilitate an increasingly natural interaction with various products.

TOBII'S PERSPECTIVE

Eye tracking is the natural next step in this development. The technology enables products to determine when the user is present, what we pay attention to, and what interests us. It can better understand what we want to see, know and do, and react in a way that is more like human behavior. Consequently, the products are perceived as simpler and more pleasant to use.



BATTLE FOR OUR ATTENTION

The concept "attention economy" was coined in the nineties and assumes that time and attention are the primary limited resource in this modern, digitized world where our basic needs are met and we have free access to unlimited information. The companies that are best at capturing the attention of their customers are the ones that become the most successful, which has become particularly clear in the internet economy. As consumers, we have become experts at ignoring ads and clicking selectively. Impressions or clicks are therefore far from exact measures of what we pay attention to.

TOBII'S PERSPECTIVE

Tobii Pro is a driving force for developments at large and works with both consumer panels and software solutions to broadly measure consumer behavior. As eye tracking becomes established in consumer electronics, gaze data may become the new hard currency for the advertising market and a key factor for customer insights and optimization of the overall user experience.



MIX OF VIRTUAL AND REAL

Virtual worlds or environments that mix reality with the virtual create completely new prospects for how we interact with technology, with each other and with the outside world. VR and AR are expected to bring about even more radical changes than smartphones have over the past decade. The technology is still immature, but many large companies are making extensive investments in developing both technology and user experiences.

TOBII'S PERSPECTIVE

The growth of VR and AR represents a clear business opportunity for Tobii. Eye tracking plays a key role in both VR headsets and AR glasses since it allows for both a more natural user interface and realistic experiences, as well as contributing to system improvements in the products themselves.



INCLUSION OF ALL PEOPLE

There is a growing respect for the fact that humans are equal in value and all deserve a fulfilling life with the right to realize individual potential regardless of disability or special needs. In developed countries like Sweden and the US, people with varying functional capabilities are visible in society, attend ordinary schools and are included in movies, TV and advertising. Today, technology can overcome and transcend physical or cognitive barriers. These limitations no longer define us as human beings.

TOBII'S PERSPECTIVE

Through our assistive technology for communication, Tobii is a driving force of this societal trend. Communication is important for inclusion, since it enables people to reach their full potential. Our goal is to give a voice to as many people as possible. We also strive to be an inclusive and non-discriminating workplace.



COMPETENCE IN A GLOBAL PERSPECTIVE

New skills are in constant demand to keep up with the rapid pace of technological changes.

Competition for talent is particularly intense in areas such as IT, mathematics, programming and marketing since companies in most sectors need such specialists. At the same time, demographic changes and an increasingly globalized labor market enable companies to recruit talent internationally, which also contributes to multicultural and dynamic workplaces.

TOBII'S PERSPECTIVE

Tobii has a unique ability to attract talent through its very strong company culture, exciting challenges and meaningful products. We have a global approach to recruitment and how we are organized, which creates opportunities for international experience and career development for many of Tobii's employees.

Customer focus for strategy and organization

Tobii's business is structured in independent business units that focus on very different customer segments and market opportunities. Through the Group, synergies are reached on technology and collaboration between the business units on joint opportunities.

INDEPENDENT BUSINESS UNITS

To address the great number of uses for eye tracking within diverse industries with different customer needs and different stages of market development, Tobii's business is based on independent operating units. Each of Tobii's three business units is run by CEOs with their own management teams and include all business-critical functions. Strategy and targets are set at the business unit level based on the market conditions within each field.

By organizing the Company into smaller units and encouraging participation among teams and employees, Tobii benefits from and maintains its entrepreneurial spirit. Through the Group, the business units share a technology foundation, as well as a common brand, values, patents and other intellectual property. Synergies are also achieved through collaborative efforts between the business units, as well as Group-wide functions such as HR, finance, logistics and IT.

R&D AS GROWTH ENGINE

A high pace of development regarding technology, intellectual property and new products are top priorities

for Tobii to retain its market-leading position in its established segments and to be an attractive partner for future volume customers.

Each business unit conducts R&D with a focus on developing absolutely world-class products that customers love. Tobii also continually identifies and develops new business opportunities through R&D, which is therefore a fundamental engine for growth and success.

Eye-tracking technology is developed and adapted in all three business units. Tobii Tech develops eye-tracking platforms for integration in computers and VR headsets, but also sells standard platforms to the other two business units on market-based terms. Tobii Dynavox and Tobii Pro also pay for any needed modifications of these platforms. The technology in Tobii Pro Glasses is developed by the business unit itself.

ORGANIC GROWTH AND ACQUISITIONS

The growth targets of the business units are based on organic growth driven by increased market penetration, expansion of each product portfolio and offering, as well as geographic expansion. The Group's growth strategy also includes the potential acquisition of companies, technologies and intellectual property. Potential acquisition targets relevant to each business unit are continually evaluated. Acquisitions require separate financing.

"Financial target for the Group is to reach profitability in 2020."

A leading patent portfolio provides strength and future revenue

Innovation and patents are integral to the Tobii business model. Being on the leading edge and protecting our innovations creates business opportunities for both the short and long term. All three business units work proactively to identify trailblazing inventions and opportunities for patent registrations in their ongoing development activities.

A strong patent position is important for Tobii to be highly competitive with sustainable long-term margins, opportunities for substantial future licensing revenue and strong protection for its own technology and products.

As interest in eye tracking has increased in several mass markets, the pace of patent applications has also increased in this area. Tobii has one of the strongest portfolios of eye-tracking related patents in the industry with respect to both the size and the quality of the patents. For Tobii it is important to continue to build a broad and deep patent portfolio in order to retain a competitive position and to have a strong offering for integration customers. At year-end, Tobii's patent portfolio contained a total of 466 granted and registered patent applications, wherein 350 of these have already been granted.

A strong patent portfolio requires not only quantity – even more importantly, it must maintain a high level of quality. In order to have genuine value, those patents that are registered must be of high quality, specific and nuanced to provide as broad or specific protection as possible.

FOCUS ON CORE TECHNOLOGY AND APPLICATIONS

Tobii's patent portfolio includes both its core technology and various applications for its use. The core technology refers to algorithms, system architecture, optics and application components, which are widely applied in many different types of products where eye tracking is used and will be used – from computers and mobile devices to eye-tracking glasses, VR and AR. One important area involves various techniques for achieving high-quality eye tracking at a low cost and low power consumption. Patents on how eye tracking is applied are as important as patents on the basic technology itself, and Tobii's portfolio also includes patents in areas such as user interface and interaction, analysis, computer games and VR.

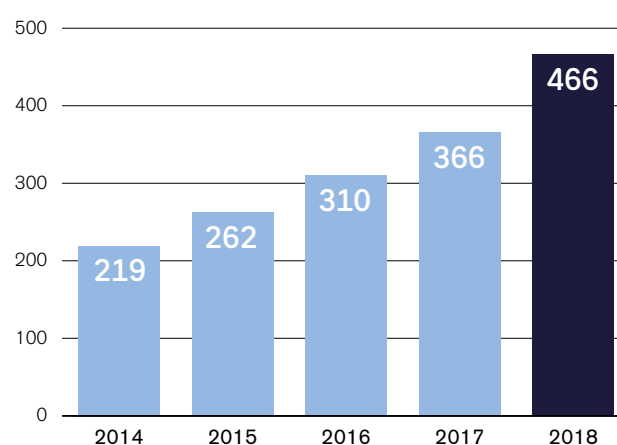
PROTECT PROPRIETARY AND CUSTOMER PRODUCTS

A strong patent position provides solid protection for both proprietary and customer products and makes Tobii an excellent technology partner for integration customers. Compared with other independent eye-tracking providers, Tobii's has by far the strongest portfolio of eye-tracking related patents.

REVENUE FROM TOBII'S LICENSING PROGRAM

In the long term, patent licenses can generate substantial value in the form of revenue. Tobii already has licensing agreements with a number of smaller eye-tracking companies that use innovations that are protected by Tobii patents.

Number of Tobii patents and patent applications





Three strong business units

Tobii's three business units, Tobii Dynavox, Tobii Pro and Tobii Tech, are market leaders in their respective fields. Tobii Dynavox focuses on assistive technology to help individuals with disabilities and special needs to communicate. Tobii Pro provides specialized eye-tracking solutions that add deep insights and unique objectivity to a multitude of areas in human behavior research. Tobii has established two cash flow-generating operations in these business units that have good potential for profitable growth over a long period of

time. Together they form a strong foundation for the Group's operations, organization and development.

Tobii Tech offers market-leading eye-tracking technology to volume customers who integrate the technology into their products. Its customers can be found in the PC, VR and AR segments, as well as a range of niche markets. The business unit is making large investments to develop technology and establish several new markets with very large long-term potential.



tobii dynavox

The world's leading supplier of assistive technology for communication.

Tobii Dynavox's mission is to empower people with disabilities to do what they once did, or never thought possible.

An overarching objective is to retain and strengthen its position as the world leader in assistive technology for communication. Very low global penetration offers the potential for long-term market growth, driven by gradually more effective funding systems and increased awareness of needs and available solutions.

Tobii Dynavox's long-term financial target is to increase revenue on average by 10% per year with an EBIT margin of 15–20%.



tobii pro

The world's leading supplier of eye-tracking solutions for understanding human behavior.

Tobii Pro's mission is to empower professionals with revolutionary insights into human behavior, using eye tracking as our foundation.

An overarching objective is to retain and strengthen the business unit's position as the world leader in eye-tracking solutions for behavioral studies. There is great potential to increase use within existing customer segments and to expand use of the business unit's current products and services to new applications.

Tobii Pro's long-term financial target is to increase revenue on average by 15–20% per year, and to reach an EBIT margin of 15% by 2020.



tobii tech

The world's leading supplier of eye-tracking technology for integration into consumer electronics and other volume products.

Tobii Tech's mission is to develop visual sensing technology that results in smarter devices, better experiences, and actionable insight.

An overarching objective is to maintain its position as the world's leading supplier of eye-tracking technology for integration into high-volume products, and in the long-term to achieve sales of several billion SEK with good profitability. This development is expected to occur gradually over several years and requires major investments in technology and market development.

Tobii Tech's financial target is to reach profitability in 2021.

SHARE OF THE GROUP'S
SALES



READ MORE

Tobii Dynavox on pages 18–23

SHARE OF THE GROUP'S
SALES



READ MORE


Tobii Pro on pages 24–29

SHARE OF THE GROUP'S
SALES



READ MORE

Tobii Tech on pages 30–37



"Eye tracking has given me the freedom to express my views and to live a more independent life. I can perform tasks without assistance, edit my YouTube videos on my own and chat with my friends without needing anyone to help me write. It's changed my entire life," says Victor.

Reach full potential

Tobii Dynavox's users have varying needs, but most of them are unable to speak without assistive technology. Some need language learning support, while others have motor disabilities. Common diagnoses among Tobii Dynavox's end users are cerebral palsy, spinal cord injuries, ALS, autism and aphasia. Communication opens up new opportunities – interacting with siblings, children or friends, graduating from high school and college, expressing our free will and opinions – things that most of us take for granted, but from which many of our users have been completely excluded.

When Victor was born he was diagnosed with cerebral palsy, a diagnosis that limits his motor function and ability to speak and express himself. But Victor is determined not to allow the diagnosis to define who he is or to stop him from achieving his dreams. He has learned four languages and studied IT in college. Today he works as a marketing assistant at Tobii Dynavox. He uses eye tracking for everything from speaking and discussing soccer on Facebook to playing video games and working.

Assistive technology that gives our users a voice and independence

Tobii Dynavox is the world's leading supplier of assistive technology for communication. Our products empower people with disabilities to do what they once did, or never thought possible. For some, this involves developing reading and writing skills, for others the ability to return to work. We support our users in their development journey, wherever it begins. The ability to communicate and the opportunity for a more independent life often have a dramatic impact on quality of life for users and their families and close friends.

Important events 2018

- Grew sales by successfully executing the strategy of offering leading solutions in all price segments and introducing new products.
- Acquired Smartbox Assistive Technology.

Financial performance

FINANCIAL GOALS

Increase revenue
per year by

10%

Reach an operating
margin of

15-20%

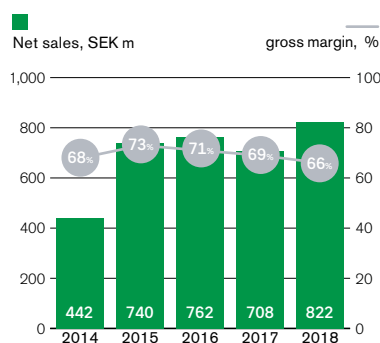
SHARE OF THE GROUP'S NET SALES



NET SALES, SEK M

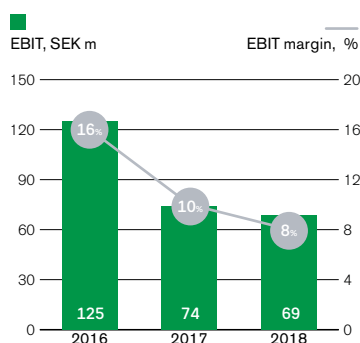
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NET SALES AND GROSS MARGIN



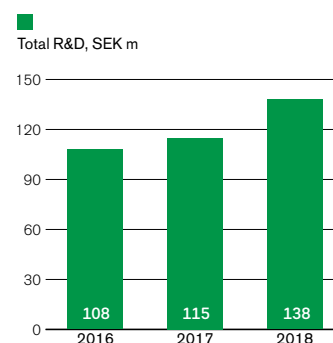
Net sales grew by 9% in 2018, adjusted for currency effects and acquisitions. This was driven mainly by strong sales of new touch screen devices and communication software.

OPERATING PROFIT/LOSS (EBIT) AND OPERATING MARGIN



Operating profit and operating margin were affected by a lower gross margin and substantial non-recurring costs related to acquisition and changes in the Group's corporate structure.

RESEARCH & DEVELOPMENT



Tobii Dynavox increased its investments in development of new products in order to maintain its market-leading position and to address more needs of end users and access to funding in various markets.

Market, position and customers

EXTENSIVE NEED, BUT FEW HAVE ACCESS TO THE RIGHT HELP

Tobii Dynavox is driven by the philosophy that as many people with disabilities as possible should have access to assistive technology for communication. The needs are great. Globally, more than 50 million individuals need assistive technology to be able to communicate effectively. However, extremely few people have access to assistive technology for communication due to low awareness of what is available and the lack of social and financial infrastructure to offer the right support in many countries. Because of the fundamental value of communication for the individual, combined with the low penetration rate, there is substantial inherent growth potential in this market.

STRONG POSITION AMONG NICHE COMPANIES AND TECHNOLOGY GIANTS

The main markets currently comprise some ten countries with systems for funding and prescribing assistive technology for communication. Tobii Dynavox has more than 40% of the total market for assistive technology for communication and about 75% in eye-controlled products. Competition in the lower price segments primarily comes in the form of consumer tablets and computers, while a number of specialized suppliers compete in the market for medical-grade products.



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Customer and user networks

Tobii Dynavox's users have varying needs, but most of them are unable to speak without assistive technology for communication. Some need language learning support, while others have motor disabilities. Common diagnoses among Tobii Dynavox's end users are cerebral palsy, spinal cord injuries, ALS, autism and aphasia.



End users are often people with disabilities who are highly dependent on a well-functioning network.



Speech therapists play a key role in the value chain by evaluating both the needs of the end user and the available solutions, after which they recommend and prescribe assistive technology.



Customers are usually funding sources such as government or private insurance agencies, or schools that provide assistive technology for communication to the end user in certain markets. Some solutions are sold directly to the end user.

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Tobii Dynavox and other specialized suppliers offer assistive technology for communication in the form of hardware and/or software, as well as services and support that help users get started with the products.

Products and solutions

ASSISTIVE TECHNOLOGY FOR VARIED ABILITIES

Tobii Dynavox has a diversified portfolio to meet varying needs and circumstances. Medical-grade solutions are sold together with extensive service commitments through insurance coverage. Products in the mid-range segment are sold directly to individuals and schools and allow expansion into new geographic markets with limited funding systems. The core of our assistive technology is communication software based on clinically developed language

systems. The popularity of our software among end-users and therapists alike is attributed to the fact that it can be used interchangeably among most of our devices. This encourages developmental progress with the same language support. The simplest and least expensive communication solution involves apps used on ordinary consumer tablets, which serves as an effective method to raise awareness among new users and their families.

TOBII DYNAVOX PRODUCT PORTFOLIO

	Eye-controlled communication devices	Touch screen-controlled communication devices	Computer accessories for access and eye control
Medical-grade products	✓	✓	✓
Mid-range products	✓	✓	✓
Software and apps for communication	✓	✓	✓
Other software	✓	✓	✓



I-Series+ I-12+ I-15+ is Tobii Dynavox's family of medical grade, eye gaze-controlled communication devices, enabling speech generation, access to common computer functions and environmental control.

The **Speech Case** converts an iPad into an adapted communication device with extra loud speakers and an ergonomic, durable design.



Snap + Core First is an intuitive symbol-based communication software that fosters growth, engagement and literacy.

Strategy for profitable growth

Tobii Dynavox's long-term financial target is to increase revenue on average by 10% per year with an EBIT margin of 15-20%. The targets are based on underlying market growth, the potential for the business unit to capture additional market share, increase penetration, address new customer groups and expand into new geographic markets. To achieve this growth Tobii Dynavox has a number of strategic initiatives:

KNOWLEDGE AND AWARENESS

The percentage of people with access to appropriate assistive technology for communication varies greatly between countries, regions and diagnoses, even in those countries where funding is available. The main reason is inadequate knowledge of the potential and the value that assistive technology for communication creates for the individual and society. In 2018 Tobii Dynavox trained 30,000 therapists and prescribers, three times more than the previous year. Tobii Dynavox is also engaged in long-term initiatives to increase awareness among the general public and to influence decision-makers and legislation.

DIFFERENTIATED PRODUCT PORTFOLIO

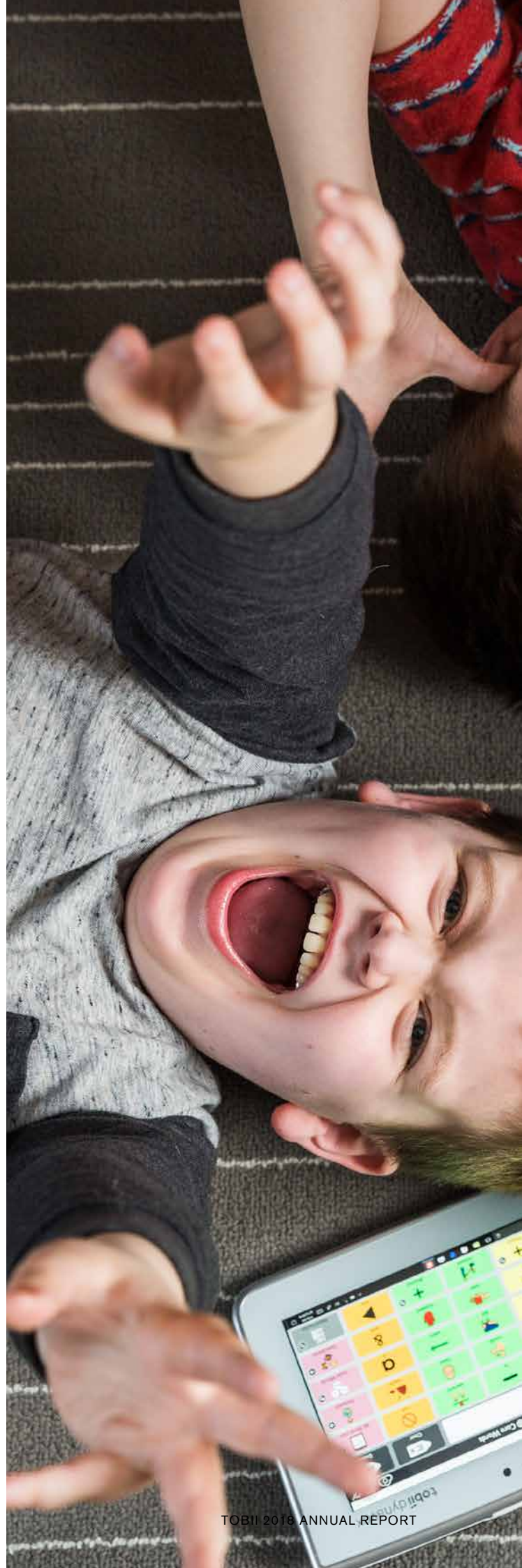
Tobii Dynavox's product strategy is to offer leading solutions for all types of communication obstacles and the varying needs and circumstances of end users, including both eye-controlled and touch screen-based communication devices, as well as communication software. With customizable and intuitive products in different price ranges, Tobii Dynavox can reach many more users and expand into new geographic markets. Tobii Dynavox offers software that can be used interchangeably on either our own proprietary hardware or on mass consumer tablets. Our customers do not have to learn a new language system when the need for a new device arises, which is a major advantage for them and an important sales lever.

NEW MARKETS AND USER GROUPS

There is substantial growth potential by addressing both new user groups and new geographic markets. Several potential user groups, such as people with aphasia, end up in the institutional care system, instead of receiving help with their communication skills. One explanation is that no provider has focused on addressing the specific needs of this group. With its development resources and extensive clinical expertise, Tobii Dynavox has the potential to develop outstanding products for additional user groups. By customizing its products to local languages and cultures, Tobii Dynavox can also expand in the long term to major geographic markets where use of assistive technology for communication is currently nonexistent.

ACQUISITIONS THAT COMPLEMENT

Tobii Dynavox has completed several successful acquisitions in the assistive technology market, which have added sales channels, products and expertise, thereby contributing to growth in the business unit. Tobii Dynavox also sees future opportunities to both broaden and strengthen its position and accelerate growth through carefully selected acquisitions, and is therefore actively pursuing such a strategy. In 2018 Smartbox Assistive Technology Ltd. was acquired as part of this strategy.







Eye tracking provides insight into human behavior

Tobii Pro's customers can be found in a wide range of areas where eye tracking is used to understand human behavior. Studying eye movements provides unique insights into what really catches our attention and what information we process, which is then used to understand what affects behavior, decision-making and emotions. Common areas of research include psychology, behavioral sciences, linguistics and neurology. Tobii Pro end customers also include brand owners, ad buyers, e-commerce companies, website owners, software providers, industrial companies, professional sports teams and simulator operators.

German Heart Center Berlin (photo) uses eye-tracking glasses to better understand the cognitive processes of doctors by seeing how they react to different stimuli and complications during a procedure and what catches their attention during surgery.

This knowledge is used to enhance learning by giving students a better visual representation of best practice. It can also be used as an assessment tool to see if students are focusing on the right things during simulated operations.



The world's leading supplier of eye-tracking solutions for understanding human behavior

Unique insights in an increasingly data-driven world

Tobii Pro is the world leader in eye-tracking solutions for studying and understanding human behavior. Studies of what people look at and pay attention to provide objective data that often cannot be obtained by other means. The findings of these studies are used in a wide range of insights and research disciplines, as well as in behavioral therapy and other clinical applications. Companies use eye tracking to better understand their customers or to optimize their own processes.

Important events 2018

- Further secured its leading position through sharply increased sales.
- Launched several products for different types of studies: the Tobii Pro Nano eye tracker and the software applications Tobii Pro Sprint, Tobii Pro VR Analytics and Tobii Pro Lab VR 360.
- Acquired the reseller Acuity ETS and the consultant business Acuity Intelligence.

Financial performance

FINANCIAL GOALS

Increase revenue per year by

15-20%

Reach an operating margin of

15%

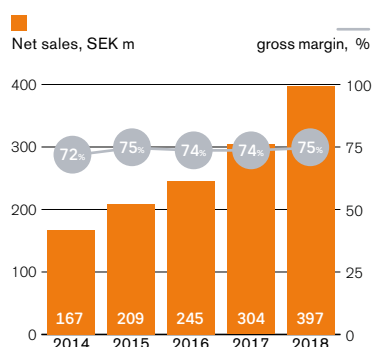
SHARE OF THE GROUP'S NET SALES



NET SALES, SEK M

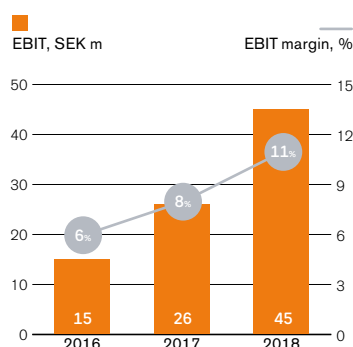
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NET SALES AND GROSS MARGIN



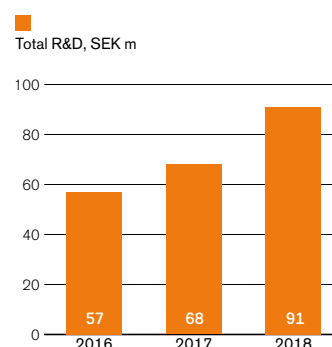
Tobii Pro's net sales adjusted for currency effects rose by 26%. Underlying factors included a strong product portfolio, expansion of the global sales organization, increased demand from both repeat and new customers, as well as an increased quantity of large orders.

OPERATING PROFIT/LOSS (EBIT) AND OPERATING MARGIN



The improved operating profit was driven by increased sales and economies of scale in the organization.

RESEARCH & DEVELOPMENT



In parallel with strong sales growth, Tobii Pro increased investments in development of current and future products and offerings.

Market, position and customers

GROWING MARKET WITH NEW CUSTOMER GROUPS

The market trend for eye-tracking research is very positive with rapidly increasing demand. In 2018 Tobii Pro had very strong growth of 26%, adjusted for currency effects. The favorable trend was the result of increased use by established customer segments, solid growth in new areas and the exit of a competitor from the market.

INCREASED USE IN ESTABLISHED SEGMENTS

In 2018 sales surged in the established segments targeting both commercial and academic customers. Customer understanding of how to apply the technology and the unique insights it can provide is growing year by year and at an accelerated pace. The quantity of volume orders from customers who want to use eye tracking more broadly in their operations also increased in 2018.

GOOD GROWTH IN NEW AREAS

During the year, sales increased sharply within the business segment "professional performance," a relatively new application field pioneered by our team in Japan. Eye-tracking analytics is used to help businesses understand how the work environment impacts employee performance. The focus is on improving efficiency, safety and cutting training times.

STRENGTHENED MARKET POSITION

Tobii Pro has a global market share of more than 60%. Tobii Pro customers include more than 3,500 companies and 2,500 research institutions. Competitors are primarily small companies specializing in a particular type of hardware or analysis software.

In 2017, one of Tobii Pro's largest competitors was acquired and then left the field. Since then Tobii Pro has successfully taken over a large portion of that company's customers, thereby further strengthening its market-leading position.

Market maturity remains consistently low in all segments in which Tobii Pro is active, setting the stage for robust growth going forward.



READ MORE

Discover Tobii Pro's range of products at tobiipro.com



Industry participants

Tobii Pro's customers use eye tracking to study human behavior. Eye tracking is used both alone, and in combination with other measurement methods such as EEG, pulse or facial expressions.



End customers include academic researchers and businesses that use eye tracking to benefit from the insights it can provide about human behavior in various situations.



Market research companies conduct studies on behalf of end customers, and are thus both important customers and partners of Tobii Pro.



The service organization Tobii Pro Insight offers expertise on how to conduct eye-tracking studies and interpret the results. It serves as a catalyst for product upselling and for the roll-out of use with large customers.

tobii pro

Tobii Pro and other specialized suppliers provide hardware and/or software for collection and analysis of data.

Products and solutions

EYE-TRACKING SOLUTIONS FOR DIFFERENT TYPES OF STUDIES

As the use of eye tracking increases in several different areas, Tobii Pro is investing in the development of solutions tailored to various sub-segments. In academic research for example, highly sophisticated with eye-tracking hardware tracks eye movements extremely high precision and is then enhanced with advanced analytics software. There are also simpler screen-based solutions or portable eye-tracking glasses for companies that want to study consumer behavior. In 2018, the product portfolio was expanded with the launch of several new and improved products. For example, Tobii Pro strengthened its offering with segment-specific solutions for our different customer groups, including easy-to-use software and SaaS (Software as a Service) applications. The Tobii Pro Insight service organization, which conducts studies on behalf of Tobii Pro's customers, is an important component of the full offering. It also plays a key role in helping new customers understand how they can draw insightful conclusions from eye tracking.

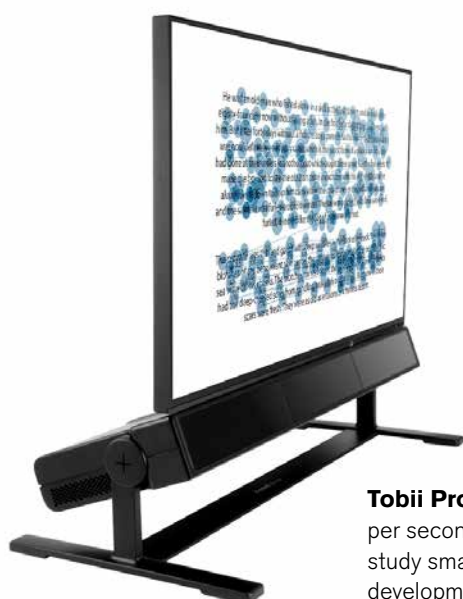
PRODUCT PORTFOLIO TOBII PRO

	Eye-tracking hardware	Analytics software	Services
Touch screen-based products	✓	✓	✓
Eye-tracking glasses	✓	✓	✓
VR hardware with eye tracking	✓	✓	✓

Tobii Pro VR Analytics is a software tool that measures and visualizes what people look at in VR environments. Such studies are gaining rapid popularity since behavior in such controlled environments can be studied in an infinite number of research scenarios.



Tobii Pro Glasses 2, the flagship product in this business unit, is used to study what people look at when they move in various contexts and environments.



Tobii Pro Spectrum is a powerful eye tracker that takes 1,200 images per second with extremely high precision. It is used by researchers who study small details in our eye movements in fields such as neurology and developmental psychology.

Strategy for profitable growth

Tobii Pro's long-term financial target is to increase revenue on average by 15-20% per year, and to reach an EBIT margin of 15% by 2020. It can accelerate and benefit from strong underlying market growth to achieve this target through an array of strategic initiatives:

SPECIALIZED SOLUTIONS

In order to take advantage of growth opportunities in existing and new sub-segments, Tobii Pro is investing heavily in its product portfolio. Based on its market-leading position in advanced research solutions, Tobii Pro is expanding its offering with innovative new applications for everything from large-scale, cost effective eye-tracking tests to simplified user tests in screen, VR and daily life contexts. In 2018, Tobii Pro launched the Tobii Pro Nano eye tracker, along with the Tobii Pro Sprint, Tobii Pro VR Analytics and Tobii Pro Lab VR 360 software applications.

SERVICES AS KEY COMPONENT

Tobii Pro is also investing in its Insight service business to reach customers seeking a simplified way of incorporating eye-tracking research learnings into their decision-making. Tobii Pro Insight already contributes to new insights and measurable improvements for a growing group of return and new customers.

BUSINESS DEVELOPMENT AND NEW APPLICATIONS

Eye tracking as a tool for studying behavior or attention has the potential for much broader applications than what currently exist. In parallel with its established business, Tobii Pro is exploring opportunities to create new types of data-driven products and services. One example is measuring the effectiveness of digital ads, where information about attention provides far more relevant data than page views or clicks. In 2018, Tobii Pro continued to develop the Tobii Pro Pulse service to measure ad performance based on data from a consumer panel equipped with eye tracking on their home computers. This type of effectiveness measurement could have a significant long-term impact on the digital economy.

GEOGRAPHIC EXPANSION AND MARKET SEGMENTS

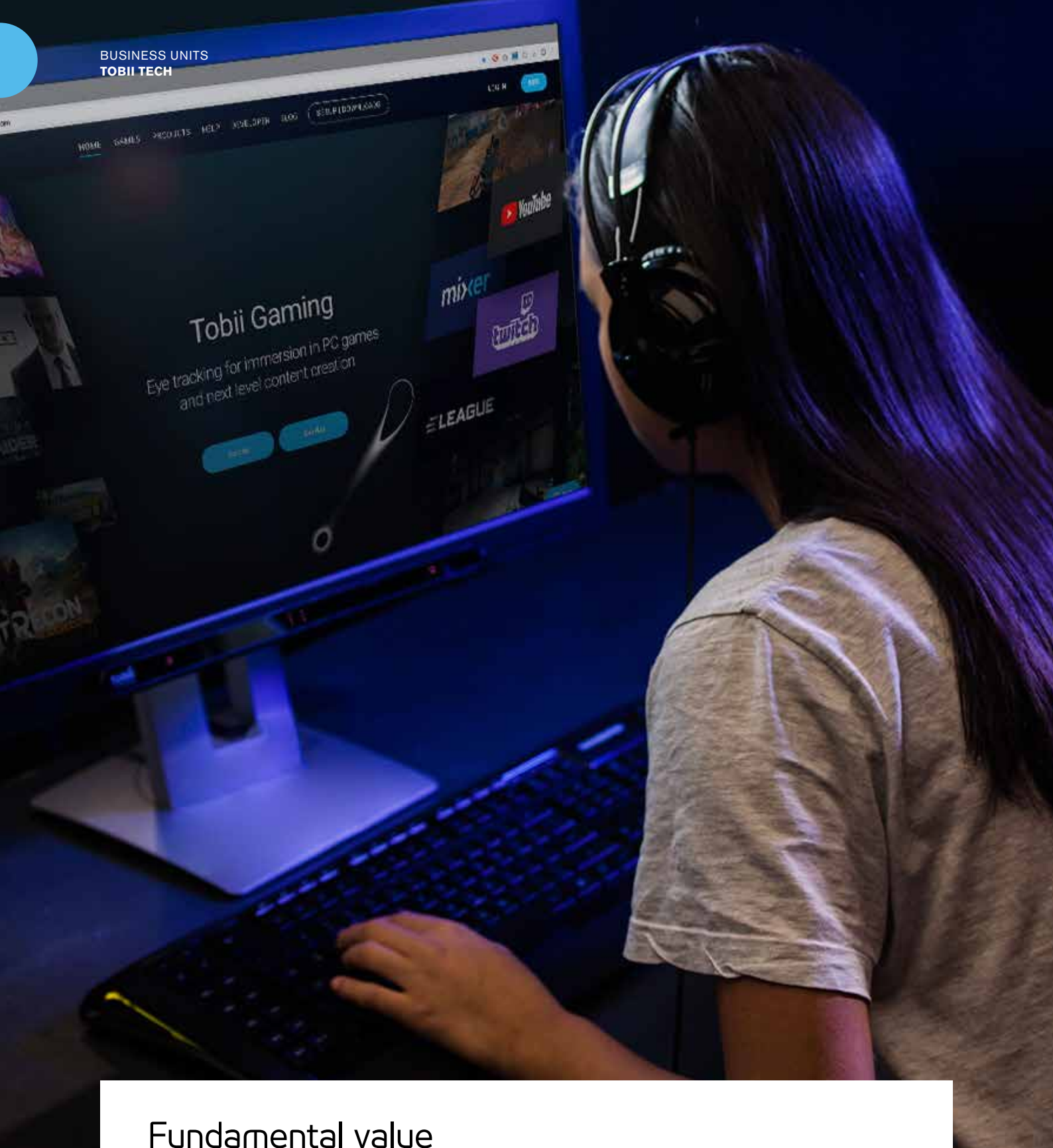
Tobii Pro has a strong international presence through its global direct sales organization and network of resellers, and is constantly looking to drive sales in regions where its presence is currently low. Tobii Pro has also implemented a clearer segment-based organization with the aim of increasing customer satisfaction and improving internal efficiency.

ACQUISITIONS

Tobii Pro has a proactive acquisition strategy aimed at adding sales channels, products and expertise to increase growth in the business unit. In 2018, our largest reseller Acuity ETS and the consultant business Acuity Intelligence were acquired as part of this strategy.







Fundamental value in natural user interfaces

Eye tracking is a unique sensor technology that makes it possible to profoundly change how we interact with technology. A device equipped with eye tracking can “see” the user. It knows who the user is, whether the user is present and what the user is looking at.

As a result, it understands the user's interest, focus and processed information. This in turn sets the stage for a more intuitive user experience adapted to our natural behavior. The value of this is fundamental.



The world's leading supplier of eye-tracking technology for integration into consumer electronics and other volume products

Technology adapted to our natural behavior

Through world-leading eye-tracking technology, Tobii Tech offers its customers the means to create revolutionary products that understand its users. In mass market products such as computers, VR and AR-headsets, smartphones and vehicles, the technology contributes to more intuitive and natural user interfaces and experiences. Eye tracking also creates substantial value in a wide range of niche products.

Important events 2018

- Increased sales by 21 %.
- Launched the Tobii IS5 eye-tracking platform for integration in laptops and monitors.
- Dell launched additional gaming computers under the Alienware brand with Tobii eye tracking.
- HTC launched Vive Pro Eye, a VR headset that integrates Tobii eye tracking (Jan. 2019).
- Qualcomm launched a reference design for mobile VR and AR headsets prepared for Tobii eye tracking.

Financial performance

SHARE OF THE GROUP'S SALES



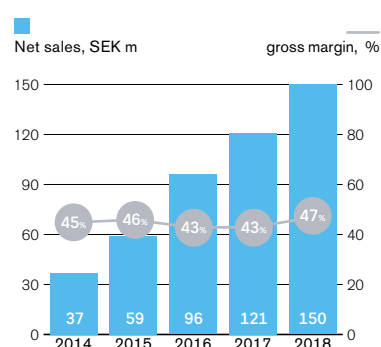
NET SALES, SEK M

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FINANCIAL TARGET

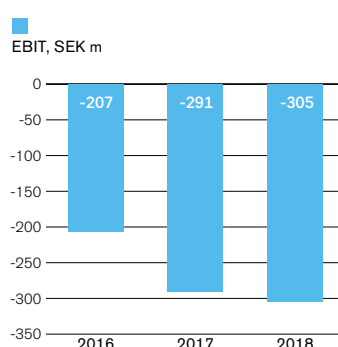
Tobii Tech's financial target is to reach profitability in 2021.

NET SALES AND GROSS MARGIN



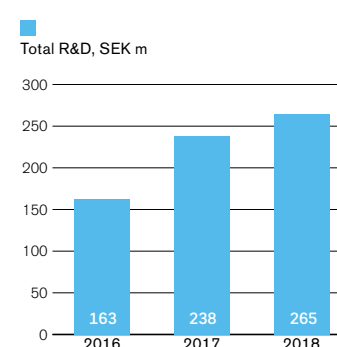
Net sales increased by 21 %, adjusted for currency effects, through increased sales to integration customers in the PC and VR segments, as well as in niche applications. Internal sales to the other two business units accounted for 44 % of net sales.

OPERATING PROFIT/LOSS (EBIT)



Tobii Tech continued to expand to meet the growing demand for eye tracking in VR. The size needed to execute Tobii Tech's strategy is now in place.

RESEARCH & DEVELOPMENT



The increased investments in R&D reflect the planned expansion that Tobii Tech carried out during the year, to address the demand for eye tracking within VR.

Products and solutions

Integration solutions for various form factors and applications

Tobii continually invests in developing and improving its core technology to meet the demands of volume customers for accurate eye tracking with small, power-efficient and cost-effective components. Partnerships with other leading technology providers are also a key aspect of the product strategy to offer optimized solutions for different types of products. Tobii Tech provides eye-tracking technology for integration as platforms, components, reference designs and licensing.

EYE-TRACKING PLATFORMS

Complete platforms contain Tobii's custom developed components on a circuit board and are sold together with algorithms and licenses for IP and software applications. In 2018, the new Tobii IS5 eye-tracking platform was launched for integration in laptops and monitors. Development of this platform required a major investment of more than SEK 100 million, but it enables integration of eye tracking in a broader range of laptops. Consequently, IS5 is expected to drive a sharp increase in volume in the PC segment moving forward.

SYSTEM LICENSES AND COMPONENTS

For deeper or more complex integrations, Tobii provides eye-tracking technology in the form of system licenses. Tobii works closely with the customer to develop an optimized system consisting of optical components such as eye-tracking cameras and illuminators and processing that are deeply integrated into the product. In addition, Tobii provides eye-tracking algorithms. The business model is based on a combination of project and

licensing revenues. In some instances, Tobii provides custom-designed hardware components that are applied to the customer's system design. Examples of such components include Tobii EyeChip (ASIC, which contains Tobii's eye-tracking algorithms), Tobii EyeCamera and Tobii EyeSensor.

TECHNOLOGY AND PATENT LICENSING

Tobii offers technology and patent licensing to customers who partly or wholly develop their own eye-tracking solutions. In the long term, patent licenses can generate substantial revenue for Tobii. Tobii's patents also protect proprietary and customer products.



Tobii IS5 was launched in 2018 and is the latest generation's integration platforms for built-in eye tracking in laptop computers and screens.



READ MORE

Learn about Tobii's patent strategy on page 15.

Goals and market outlook

Tobii's belief is that the majority of computers, VR and AR headsets, smartphones, and vehicles will be equipped with eye tracking in the future. Given high penetration in these areas, Tobii estimates that the total market in the long term can amount to more than a billion units annually.

One overall objective for Tobii Tech is to retain its position as the world's leading supplier of eye-tracking technology for integration into high-volume products and, in the long term, to achieve sales of several billion SEK with good profitability. This development is expected to take place gradually over a number of years and require considerable investments in technology and market development.

The goals are based on underlying market estimates, the potential for the business unit to capture a market-leading position, and customer and user benefit. Eye tracking creates clear value for Tobii's integration

customers such as differentiation, better products and better user experiences. In certain cases it also serves as a key component of the solution itself.

Central to the strategy of the business unit is to focus on sub-segments with great future potential for which Tobii's technology is well suited. Tobii Tech's primary focus in 2018 was the gaming PC market, VR and high-value niche markets. Additional areas that are being explored include mainstream computers, AR, and smartphones. Tobii Tech also delivers eye-tracking technology to the two other business units in the Tobii Group.

The competition mainly consists of small players who specialize in a certain market segment. Certain technology giants also invest in eye-tracking technology, expertise and IP.

Focus areas

A key component in many niche applications

Eye tracking is used in a variety of different niche applications, where the value of the technology is often a central component of the solution. Both aspects of eye tracking are used – understanding or drawing conclusions from cognitive processes by measuring eye movements and using eye gaze as part of the user interface. Applications include robotic surgery, screening for and identification of dyslexia as well as various other health conditions, optometry and lie detection.

In 2018 Tobii added several new companies to the list of new customers, but also worked with return customers on updates and further development of their solutions.

These customers usually develop turnkey solutions including the application software themselves and purchase Tobii's integration platform, including eye-tracking algorithms. There is good market potential within niche applications. Although product volumes are small in relation to integration customers in the mass market segment, the margins per unit are often many times higher, which typically results in high profitability with these customers and transactions.

Additional future market opportunities

There are additional segments in which eye tracking can create substantial value with large or very large potential. One such area is smartphones. The market is still relatively unexplored, but interest in smart, optical sensors is steadily increasing. Tobii is engaging with various companies and believes that there is good long-term potential for wide-scale integration of eye tracking.

Vehicles are another nascent area for eye tracking, where it is used as part of the safety system. Tobii believes this market will have good future expansion opportunities as it matures.



PC gaming and eSports - fast growing industries

MARKET, POSITION AND CUSTOMERS

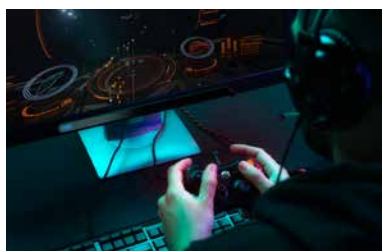
The PC gaming industry alone represents a large potential market with around one billion active players. It also serves as an early adopter to the larger mainstream computer market. Some 260 million desktop computers and notebooks and more than 160 million tablets are sold annually. The annual sales of premium gaming computers amount to approximately 20 million units, about 6 million of which are gaming notebooks.

Tobii's initial focus is to introduce eye tracking in the gaming computer segment. Market penetration is still low and Tobii is working in close cooperation with world-leading manufacturers of gaming computers and game studios to create strong user experiences and drive market developments.



READ MORE
Visit gaming.tobii.com

LARGE VALUE IN COMPUTER GAMES AND ESPORTS



Immersive gaming experience

Eye tracking contributes to a more immersive experience, realism and intensity in many different types of games. Combining eye control with traditional gaming controls makes it possible, for instance, to move in one direction and aim in another at the same time. The scene moves to where the player is looking just as when looking around in reality, and different effects can be created depending on where the player is looking.



Streaming and broadcasting

Streamers – gamers who broadcast live video when they play – use eye tracking to provide their viewers with more insight into what is happening in the game. Eye tracking is also used in eSports tournaments. Being able to see where the players are looking allows for a more engaging and coherent viewing experience.



Competition-oriented game coaching

Game coaching based on eye tracking provides eSport players with unique training and development insights. Through custom exercises they can compare themselves with professional players and thereby improve their learning curve.

DEVELOPMENTS IN 2018

Tobii Tech closely cooperates with integration customers, game studios and other participants in the ecosystem to increase the value and use of eye tracking. During the year almost 50 new games with eye-tracking support were launched and the total selection now includes about 150 games. Players of some of the world's largest gaming tournaments produced by Eleague and ESL used eye tracking for the first time, so commentators and the audience had the opportunity to watch from the player's perspective. The function, which is called Tobii Ghost, is also used by "streamers" who broadcast live video when they play, which also reaches millions of viewers. Together with Alienware (Dell), Tobii developed a web-based training platform with eye tracking for players called Alienware Academy, which was launched at CES in January 2019. One major investment for Tobii has been the development of the new integration platform IS5, which was launched at the end of the year. IS5 is modular, smaller and more power-efficient than its predecessor, has better eye-tracking performance and uses invisible IR light. It is an important linchpin for Tobii to be able to reach more customers, products and larger volumes. During the year, Tobii Tech also initiated an integration project relating to several future products, starting with the integration of the Tobii IS5 in Dell's premium gaming computer, Alienware Arena-51m, launched in January 2019.



tobii/ghost

SMARTER USER INTERFACE IN ORDINARY COMPUTERS

In computers in general, eye tracking can contribute to more intuitive user interfaces, accessibility modifications and increased productivity. It can also contribute to increased graphics performance, power efficiency and user identification. Tobii Aware is a software solution that can use the computer's existing smart sensors (Windows Hello camera) to provide the user with a more intelligent, intuitive and insightful experience.

Examples of functionality:

- Increased security by automatically blurring the screen or turning it off when the user looks away.
- Optimization of processor capacity and power consumption based on user presence.
- Increased comfort through health reminders based on screen time, user position and distance from the screen.



Focus areas

Virtual worlds become more real with eye tracking.

Eye tracking enables major improvements in virtual reality (VR) and augmented reality (AR), both in the user experience and through improved performance in the device itself. In games and entertainment, eye tracking creates an immersive experience and realism, for example through eye contact and more natural interaction between hand and eye movements. It also simplifies user interaction with objects, menus and the user interface in general. Eye tracking also helps to solve major technical challenges related to graphics handling and accurate 3D rendering. The technology offers manufacturers major advantages, such as greatly reducing the processing power required for image rendering, lowering the cost of hardware, and enabling the use of higher-resolution displays. There is therefore broad consensus within the industry that eye tracking is a key component that will be widely implemented.



READ MORE
Visit vr.tobii.com

STRENGTHEN VALUE WITH EYE TRACKING IN VR

Better device

- Foveated rendering – high-quality image at gaze point
- Image quality optimized to distance between the pupils
- User identification



Better experiences

- Intuitive hand-eye coordination
- Social interaction and eye contact
- Two-step interaction – look-click
- Natural aiming



MARKET, POSITION AND CUSTOMERS

The market for VR and AR is at an early phase. In 2018 over 4 million units were sold and this figure is expected to ten-fold by 2022. Tobii believes that the majority of future headsets will have integrated eye tracking and Tobii is well positioned as the leading supplier of eye-tracking technology. The objective is to retain and expand its market-leading position as these markets develop.

The competition consists primarily of a number of smaller, specialized eye-tracking companies and start-ups. Competition also comes from headset manufacturers that choose to develop their own eye-tracking technology. The VR market is currently divided between three major headset manufacturers, which together have almost 80% of the market. AR is still at an early phase but is an area that is receiving heavy investment in technology and which in the long term has great market potential for eye tracking.

Market estimate for VR and AR 2018–2022

Technology	Sub-segment	Units sold (million)	
		2018	2022
Virtual Reality	Company	1.3	16.0
	Consumer	2.8	15.5
Augmented Reality	Company	0.2	18.8
	Consumer	0.0	2.8
Total		4.3	53.1

Source: IDC Worldwide Quarterly AR and VR Headset Tracker, Dec. 2018

The market estimate includes tethered and standalone VR headsets, but not headsets that use smartphones as a screen.

DEVELOPMENTS IN 2018

During the year Tobii expanded collaboration with a number of VR manufacturers and other participants in the ecosystem. As a result of these collaborative efforts, Tobii's eye-tracking technology is being integrated into a reference design from Qualcomm, with the potential to reach integration customers who base their VR headsets on Qualcomm's mobile processor platforms, and a supplier contract was signed with HTC for integration of eye tracking into their product HTC Vive Pro Eye. In addition, Tobii has several collaborative efforts with important VR/AR headset manufacturers that have not been publicly announced.



Tobii and Qualcomm are collaborating to make eye tracking available for standalone VR headsets and jointly launched a development kit that includes Tobii's eye-tracking technology. Qualcomm is a leading supplier of system on chip (SoC) and is positioned as a key technology partner for many headset manufacturers.

Vive Pro Eye is HTC's next-generation VR headset and is equipped with Tobii eye tracking. Having one of the leading suppliers in the industry launch a product with eye tracking is a breakthrough both for Tobii and for the technology itself.





Tobii's value-driving factors

World leader in eye tracking, a technology that changes lives, brings new insights and provides more natural user experiences.

LEADING TECHNOLOGY AND PRODUCTS

Tobii has a world-leading technology and patent portfolio in eye tracking. Our highly refined proprietary technology includes eye-tracking hardware, and algorithms and software that create unique user benefits within several different areas of application. Tobii has first-class products in all segments addressed by the three business units.

STRONG POSITIONS AND BRIGHT MARKET PROSPECTS

Tobii leads the market in all segments addressed by the three business units. However, market maturity is still quite low, including in established areas. Consequently, Tobii Dynavox and Tobii Pro have good long-term growth potential. Tobii Tech addresses a number of mass markets in which eye-tracking is still at an early phase, but where the long-term potential is very large.

PRODUCTS THAT PROVIDE BENEFITS TO SOCIETY

Many of Tobii's products have a strong positive impact on both society and on individuals. Our assistive technology for communication is often of crucial life-altering significance for users and eye tracking also contributes to new insights and improvements in research and various clinical applica-

tions. Tobii aims to deliver quality products that take into account the needs and safety of users and the environment.

ATTRACTIVE EMPLOYER

As one of the highest ranked employers (#4) in Sweden, Tobii is well-equipped to attract top talent. Tobii was also ranked as one of the best employers at its second largest office in Pittsburgh, USA. An open and inclusive company culture in which everyone is encouraged to participate produces excellence in eye tracking and other specialist areas, while contributing to employee productivity and job satisfaction.

STRATEGY FOR PROFITABLE GROWTH

All three business units contributed to Tobii's strong growth of 18% in 2018, adjusted for currency effects. Tobii's two largest business units, Tobii Dynavox and Tobii Pro, contribute profitability and positive cash flows to the Group, while major investments are being made in Tobii Tech to reach mass market segments with substantial long-term potential. Tobii has achieved the size necessary to implement the strategic plan and is focused on achieving operational and financial targets, especially the Group's goal of achieving profitability in 2020.

The share and shareholders

The Tobii share has been listed on Nasdaq Stockholm since 2015, where it is traded under the TOBII ticker. At the end of 2018, Tobii's market capitalization was about SEK 2,666 million (3,444) and its share price was SEK 27.08 (35.40).

SHARE CLASS AND NUMBER OF SHARES

There is only one class of shares and all shares have the same right to dividends and carry entitlement to one vote per share at shareholders' meetings. The number of outstanding shares on December 31, 2018 was 98,925,103 and 99,186,353 shares after full dilution. The dilution is attributed to the 2.9 million warrants and employee stock options within the framework of the Company's incentive programs that entitles subscription for an equal number of shares. The subscription price for these options varies depending on when the option series are issued. The series with the lowest subscription price entitles holders to subscribe for shares at SEK 20.00 and the series with the highest right entitles holders to subscribe for shares at SEK 73.70 per share, see Note 8.

PRICE TREND

The share price reached a 52-week high of SEK 48.80 and a 52-week low of SEK 25.46. Tobii's market capitalization at year-end was SEK 2,666 million. In 2018, 67,426,072 Tobii shares were traded on Nasdaq Stockholm, which corresponds to an average daily turnover per trading day of 269,704 shares.

OWNERSHIP STRUCTURE

On December 31, 2018, Tobii had almost 26,000 shareholders, a 6 % decrease since last year. The ten largest shareholders' share amounted to 40.5 %. The Board of Directors and Group Management had 12.5 % of the shares in the Company, of which the Company's three founders accounted for 9.8 %¹⁾. Almost 96 % of shareholders are registered in Sweden. The share of foreign-owned shares was 29 %.

DIVIDEND POLICY

All shares carry equal rights to dividends and to the Company's assets and potential surpluses in the event of liquidation. It is the intention of the Board of Directors to continue to give priority to Tobii's development and expansion plans for the business unit Tobii Tech over shareholder dividends over the next few years.

Share data

Marketplace	Nasdaq Stockholm
Listed	April 24, 2015
Segment	Mid cap
Sector	Technology
Ticker	TOBII
ISIN code	SE0002591420
Currency	SEK
Number of shares	98,925,103
52-week high 2018	SEK 48.80
52-week low 2018	SEK 25.46
Closing rate 2018	SEK 27.08
Share performance 2018	-25.97%

Analysts

ABG Sundal Collier	Daniel Thorsson
Carnegie	Mikael Laséen
SEB	Sebastian Olsson

Ten largest shareholders

Shareholder	Number of shares	Share, %
Swedbank Robur Fonder	9,214,769	9.3
Handelsbanken Fonder	5,700,000	5.8
Henrik Eskilsson ¹⁾	4,526,117	4.0
Sjätte AP-fonden	4,000,630	4.0
Amadeus Capital Partners	3,215,122	3.3
Oppenheimer	3,000,000	3.0
John Elvesjö	2,874,572	2.9
Avanza Pension	2,768,631	2.0
Mårten Skogö	2,604,930	2.6
Nils Bernhard	2,205,000	2.2
Total ten largest shareholders	40,109,771	40.5
Other shareholders	58,815,332	59.5
Total	98,925,103	100.0

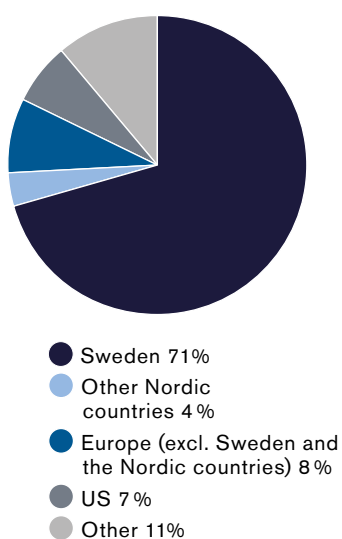
¹⁾ Excluding 2,835 shares owned by Henrik Eskilsson AB, a company wholly owned by Henrik Eskilsson, and 1,565,511 shares owned by Eskilsson Consulting AB, a company where Henrik Eskilsson is a minority shareholder with 22.5 % of the shares.

Source: Euroclear and Modular Finance.

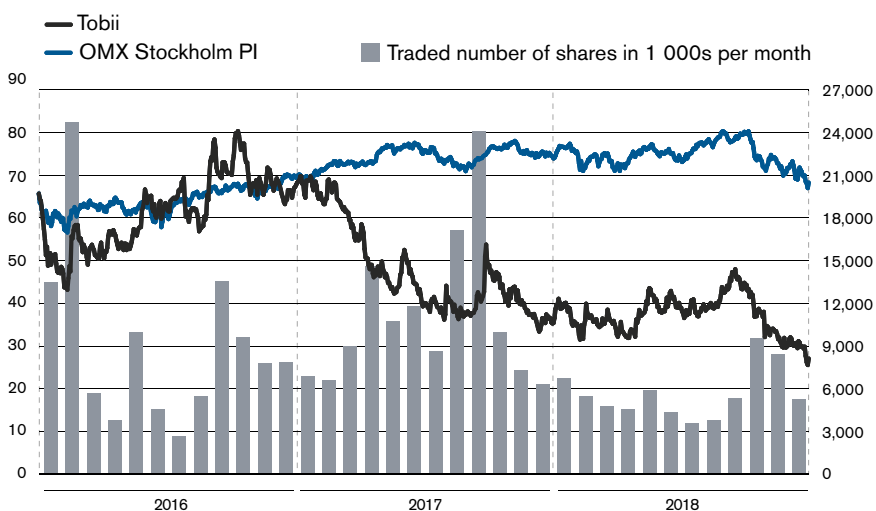
Shareholder structure

Shareholding	No. of shareholders	Number of shares	Shares/votes, %	Market value, SEK 000
1–500	18,541	2,695,164	2.72	72,985
501–1,000	3,168	2,474,777	2.50	67,017
1,001–5,000	3,661	8,057,409	8.14	218,195
5,001–10,000	525	3,804,444	3.85	13,024
10,001–15,000	160	1,995,122	2.02	54,028
15,001–20,000	68	1,204,852	1.22	32,627
20,001–	261	78,693,335	79.55	2 131,016
Total December 31, 2018	26,384	98,925,103	100.00	2,678,892

HOLDING BY REGION



SHARE PRICE



Risks and risk management

Tobii is exposed to various risks that can influence the Group's business, profit or financial position. Below is a summary of the most important operational risks and how they are managed.

The risk description does not claim to be exhaustive, but only addresses a selection of the risks to which the Group is exposed or may become exposed. For example, global, macroeconomic risks that affect companies in general are not

described. A description of financial risks and risk management in addition to those described below is presented in Note 3. The Group's management of risks is also addressed in the Corporate Governance Report on page 65.

Significance	15. Regulatory compliance 7. Quality problems and warranty claims 10. Insurance coverage in the event of liability	13. Intellectual property 6. Changes in funding and insurance systems 4. Untested benefit within new segments 9. Delivery problems and inefficient inventory management	3. Price pressure and competition from consumer products 1. Rapid technology changes 2. Increased competition
	17. Financing risk 12. IT and data security 8. Personal injury 14. Impairment of intangible assets 18. Business ethics	11. Dependence on key personnel 5. Dependence on important customers 19. Currency risk 20. Acquisition risk	
	16. Tax risk		
	Probability		

Risk

Management

1. Rapid technological changes

The markets that Tobii addresses are characterized by rapid technological changes. Consequently, the ability of each business unit to predict technical advances and market needs, and to adapt their products accordingly, is critical for the continued success of both the business units and the Group as a whole.

Monitor market trends and investments in development of core technology and products in all three business units

2. Increased competition

If Tobii's competitors or new players develop technologies and products that offer a better price and performance, there is a risk that they will take market share from Tobii. Moreover, it is likely that in the future Tobii will encounter competition to a greater extent from large, well-established and well-financed entities.

Investments in R&D, with a focus on developing technology that offers better performance at a lower cost, as well as investments in a strong patent portfolio that can provide important competitive advantages as we move toward broader applications in consumer electronics.

3. Price pressure and competition from consumer products

Both Tobii Dynavox and Tobii Pro offer specialized products that encounter competition from simpler and less expensive consumer products. There is a risk that this trend will continue and also impact more product categories.

Develop clearly differentiated products and solutions, that enable Tobii Dynavox and Tobii Pro to offer high-value solutions at maintained price points as well as very cost-effective and lower priced products in significantly higher quantities.

4. Untested benefit within new segments

For Tobii Tech, there is a risk that the strategy of entering new volume markets could fail, for example, if customers do not feel that user benefits warrant the cost or if the technology's performance is insufficient.

Invest in own development of applications that showcase and realize the benefits of eye tracking. In parallel with this, create and grow an eco-system of game and other software development partners that create applications that integrate and realize new user experiences based on eye tracking. Customer satisfaction surveys among early adopter end-users.

5. Dependence on important customers

Tobii Tech enters certain contracts with large integration customers without binding volume commitments or guarantees. There is a risk that customers might choose not to implement planned integrations, even if they have been announced as "design wins."

Close collaboration with key customers; cultivate relationships with more integration customers. Address more sub-segments.

6. Changes in funding and insurance systems

Most of Tobii Dynavox's end users depend on reimbursement from public and private funding systems to buy the Company's products. Changes in such systems could have both positive and negative effects. Tobii may also be affected by changes in applicable legislation and in procurement processes.

Proactive initiatives within Tobii Dynavox to lobby and build relationships with legislative or governing bodies and to improve the long-term opportunities for funding assistive technology for communication.

7. Quality problems and warranty claims

Defects in Tobii's own products or the components that Tobii supplies to integration customers could lead to considerable warranty claims, costly recall programs and lowered confidence in the Company and its products.

Comprehensive quality program during the product development process and control of subcontractors.

8. Personal injury

If faults in Tobii's products should cause personal injury, it could lead to substantial damage claims, costly recall programs or that the product can no longer be sold.

Comprehensive quality program during the product development process, and verification and certification of the products against current standards.

9. Delivery problems and inefficient inventory management

Tobii is dependent on a small number of external providers for the supply of components and product assembly. If these do not deliver according to the Company's requirements, it could lead to quality issues, delayed deliveries, loss of revenue or higher costs. Faults or omissions in forecasts or orders from Tobii or its customers could result in excess or insufficient inventories of a particular component or product, which in turn could lead to loss of revenue or higher costs.

Collaborate closely with large, highly reputable suppliers. Strive for parallel suppliers. Make continuous forecasts and measure sales to adapt inventory and delivery capacity. Conduct audits of key suppliers.

10. Insurance coverage in the event of liability

Tobii has insured its businesses against loss and/or potential liability in case of third-party claims relating, for example, to property damage, business interruption, occupational injuries, product liability or product recall. There is a risk that Tobii's insurance coverage may not fully reimburse Tobii for any and all liability.

Regular review and, when needed, alter insurance coverage.

11. Dependence on key personnel

Tobii is dependent on a variety of expert competencies and key individuals. If Tobii fails to retain senior executives and key personnel or to recruit highly skilled personnel, this could hamper the Group's future expansion.

Offer market terms and conditions, incentive programs for key personnel, and initiatives to maintain and develop Tobii's "employer brand" and appeal as a workplace.

12. IT and data security

A significant breakdown or other disruption in the IT systems could affect Tobii's ability to conduct its operations and fulfill its customer commitments. There is also a risk that trade secrets, such as information regarding research and development, or personal data or other sensitive information about employees or customers, could be used incorrectly or disclosed if Tobii were exposed to data hacking.

An action plan is in place for disruptions due to unforeseen events in the form of adopted contingency plans, as well as systems and routines surrounding personal data. Through Tobii's Code of Business Conduct and Ethics, which includes its IT policy and information, all employees receive information regarding what information may be disclosed, and how. Concluded a project in 2018 aimed at meeting GDPR requirements and strengthened the organization to handle issues regarding user privacy.

13. Intellectual property

Tobii deems that the importance of intellectual property will increase in pace with the establishment of eye tracking in volume markets. If patent protection does not provide the market benefits the Company expects, or if Tobii is sued for infringement of others' intellectual property, it could lead to costly legal and administrative processes, claims, licensing fees, or sales stops of Tobii's products.

Map patents within new product areas. Further development of the Company's own patent portfolio. See more on page 15.

14. Impairment of intangible assets

A large part of Tobii's R&D expenditures is capitalized as intangible assets. If Tobii's technology and product development initiatives result in products that do not fulfill Tobii's or the market's requirements and therefore do not become commercial successes, this may lead to significant impairments

Regularly perform impairment tests through analysis of future expected earnings related to the projects and brands that are included in the balance sheet. For more, see Note 15.

15. Regulatory compliance

Irregularities in Tobii's compliance and routines can expose the Company to considerable financial risks, market risks or operational risks. For example, many of Tobii Dynavox's products are registered as medical devices, which places particular demands on certification.

Regularly review certifications and personal data handling routines.

16. Tax risk

Tobii's sales are realized primarily through subsidiaries in several countries. Transactions are made in accordance with the Group's Transfer Pricing Policy. If local tax authorities make an assessment of transfer pricing that deviates from the Company's, there is a risk of higher tax costs.

Annual review of tax risks together with external tax experts. Adjust tax appropriations on the basis of this review.

17. Financing risk

Inadequate access to financing for investments could lead to limited growth opportunities.

Good transparent communication to the stock market and lenders, as well as focus on cost efficiency within the business units.

18. Business ethics

Compliance with Tobii's business ethics principles, as well as laws and regulations is important for the Company's continued success. Failure to comply would involve both specific business risks and the risk of a negative impact on the Company's reputation.

Through Tobii's Code of Conduct, which also includes our Supplier Policy, all employees and suppliers sign in agreement with the Company's business ethics principles and zero tolerance for all forms of bribery and corruption. Recurrent training for employees, risk analysis and review of suppliers.

19. Currency risk

Since Tobii has large parts of its business and its primary revenue in geographic markets other than Sweden, there is a risk of negative impact from currency fluctuations.

Tobii has chosen not to hedge its net exposure to currencies such as the USD, EUR and JPY since Tobii's currency mix entails a limited net impact.

20. Acquisition risk

Tobii evaluates potential acquisitions in line with the Company's acquisition strategy and there is a risk that the Company will not succeed in identifying suitable companies to acquire, or fail to carry out acquisitions because of, for example, competition from other participants or lack of adequate financing. Because of Tobii's leading position in specific markets, competition law could also pose obstacles.

Meticulous acquisition analyses and analyses of market conditions, as well as compliance with applicable rules and legislation.



Tobii's work on sustainability 2018

Tobii's sustainability agenda is to create long-term value and to transform and improve lives and entire industries through technology adapted to humans. One of our strongest driving forces is to provide first-class products and services to our customers and users. Our employees should have a fun and challenging job, while having the opportunity to be inspired by a higher purpose. Moreover, Tobii should advocate good work conditions among its subcontractors and take environmental responsibility in production and product handling.

Tobii's sustainability areas:

- Our employees, our greatest success factor
- Business ethics and values
- Products that provide benefits to society
- Sustainable product design and environmental impact
- Sustainability in the supply chain



READ MORE.

Tobii's business model and organization pages 16–37.
Risk and risk management pages 41–43.

Our employees, our greatest success factor

Tobii's foremost success factor is our ambitious and passionate employees who together shape the open, innovative and dedicated culture that is reflected throughout our entire organization. Tobii places great emphasis on being able to offer an inspiring workplace that fosters personal growth and a good work-life balance. This enables us to retain and continue to attract top talent in a highly competitive job market, and deliver on the business' ambitious goals.

LEADERSHIP AND LEARNING

Tobii offers a stimulating workplace with generous opportunities for our employees to grow both individually and as part of a team of colleagues. Skills development is provided through challenging work tasks and exchanges with colleagues, as well as through internal and external training. Employees can rotate among projects, business units and industries at Tobii to broaden the exchange of knowledge and career development within the company.

With a rapidly growing organization, it is particularly important for Tobii to provide support and training for experienced and new managers, giving them the tools they need, enabling them to pass on our culture and equip their teams for success. Tobii is also dependent on highly niche specialist skills, many of which are in short supply. Therefore, we place a high priority on retaining talent by investing in continuous development.

DIVERSITY, GENDER EQUALITY AND INCLUSION

Tobii is an international, multicultural workplace characterized by openness, curiosity and friendship. We have employees from over 50 different countries working in our Stockholm office. Diversity and the way we treat each other strengthens

us and is a key factor behind Tobii's success. Our different backgrounds, personalities and experiences bring new ideas and approaches. Together we make Tobii an attractive, world-class workplace.

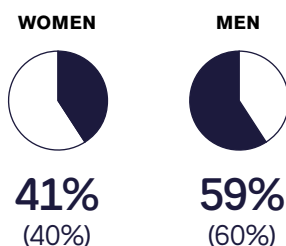
"Our Stockholm-based Tobii Uni leadership program became so popular that we decided to mirror the program in our US office this year to reduce travel and expenses, and to improve sustainability. Tobii Talks, our regular lunchtime presentation series, is held at the office and features both wide-ranging issues and extremely specific topics alike. We also arrange meetups, hackathons and an annual developer conference where our employees share in-depth technical expertise. Tobiians really value shared learning."



– Sara Jakobsson, Global HR Partner

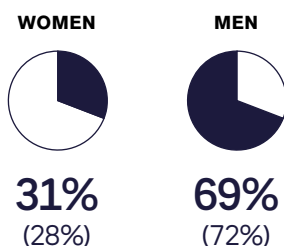
Employees in numbers*

GENDER DISTRIBUTION, TOTAL



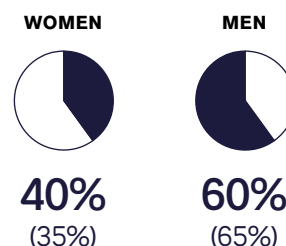
Gender distribution is based on employee responses in the employee survey. In Kyiv an additional 27 employees worked, 6 of whom (22%) are women.

GENDER DISTRIBUTION, SWEDEN



At the end of the year 456 people were employed in Sweden, 139 of whom are women.

MANAGERS, TOTAL



The distribution between women and men was 14%/86% in Tobii's Group Management and 42%/58% in the Board of Directors.

*The figures cover employees in the Tobii Group as at December 31, 2018, excluding staff in the acquired company Smartbox Assistive Technology.



We put knowledge, skills and abilities first and respect each other regardless of sex, gender identity, ethnicity, religion, disability, sexual orientation or age. We strive to attain diversity and an even distribution among individual functions, managers and throughout the company in general. The proportion of female employees in the Group is 41% (40%), but the gender distribution varies between different business units and functions. In 2018, we continued to increase the proportion of female managers and women in under-represented occupational groups and teams.

In the Stockholm office, we embraced a broader approach to diversity and gender equality with initiatives in ethnic diversity, LGBTQ and how we include both extroverted and introverted personality types. We also work actively to raise awareness of prejudices and how they affect decision-making and work in favor of/against different groups. Employees born in countries other than Sweden are given an opportunity to learn Swedish at work, which many people greatly appreciate. At Tobii everyone is accepted as they are, which creates a sense of security and pride among our employees across the globe.

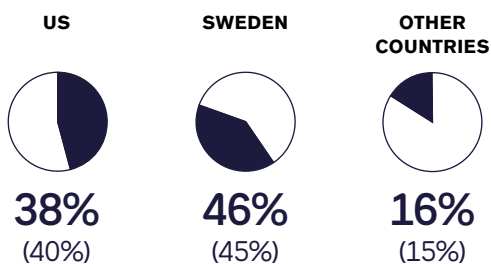
WELLNESS AND FUN AT WORK

We work proactively to offer all Tobiians a work environment that aims to prevent stress and psychosocial illness. We also encourage our employees to actively participate in creating an atmosphere where we all enjoy working and performing at our best.

As work life evolves to be characterized by constant availability, flexible work and a rapid pace of change, it is becoming increasingly important to focus on wellbeing, work-life balance and supporting each other. Tobii has grown rapidly in the past few years. As such, it was natural to focus in 2018 on working with organizational development and equipping ourselves to meet any future challenges that can arise in a rapidly changing business.

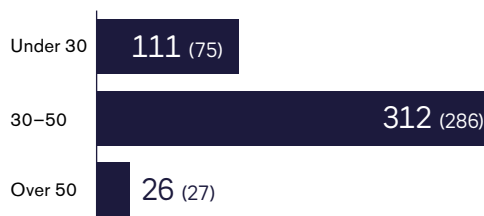
The physical work environment has a great impact on job satisfaction and efficiency. In 2018 we made major efforts to meet the varying needs of our employees. Four of our offices abroad moved to new premises with a better design and more representative spaces and a greater sense of togetherness.

EMPLOYEES, REGION



The total number of full-time equivalent employees was 1,014 (842) at the end of the year. An additional 27 employees were working at the office in Kyiv.

MATURITY ANALYSIS, EMPLOYEES

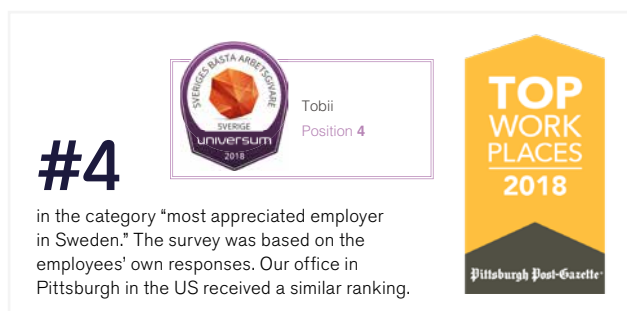


Maturity analysis for employees in Sweden.

Tobii offers health screenings for employees every year in Sweden and China. We also carry out a number of different activities around diet, sleep, stress and exercise to encourage employee wellbeing. The employee-led group behind these activities is called Team Tobii. There are similar initiatives, adapted to local needs and cultures, in many of Tobii's offices.

TOP-RANKED WORKPLACE

Tobii strives to be a top-ranked employer in Sweden and internationally. In 2018 Tobii was ranked as Sweden's fourth most appreciated employer in market research company Universum's annual ranking. Our US office in Pittsburgh received a similar ranking.



FOCUS 2019

- Continued focus on skills development and leadership development through increased engagement in knowledge sharing and internal training
- Raise ambitions on diversity and inclusion to promote health and safety, job satisfaction and become a more attractive employer
- We will actively work on balance between work and leisure, and a long-term approach in a changing and global world of work

RESULTS OF THE EMPLOYEE SATISFACTION SURVEY

The annual employee satisfaction survey continues to show very satisfied employees. The results of the survey are used in all the business units to highlight our strengths and identify potential for further improvement.

Regular performance reviews are another important part of our feedback process. Our ambition is to cover 100 % of employees worldwide. In 2018 95 % (95 %) of people employed for more than one year have had performance reviews.

PARTICIPATION

93% (94 %)
globally

EMPLOYEE INDEX

79 (80)
Proportion of positive responses on questions that reflect job satisfaction. The industry average was 67 (67).

LEADERSHIP INDEX

86 (86)
Proportion of positive responses to questions about the employee's manager.

Employees in numbers

PERMANENT EMPLOYEES, FTE

1,014 (842)

PROJECT AND HOURLY EMPLOYEES, FTE

11 (11)

The figures refer to employees as at December 31, 2018, excluding staff in the acquired company Smartbox Assistive Technology. In addition to permanent and project employees, Tobii also engages some 129 (40) consultants. Employee turnover for permanent employees within the Tobii Group was 12 % (7 %) in 2018. In Sweden and the US, the countries where Tobii has the most employees, turnover was 15 % (8 %) and 9 % (12 %), respectively. This can be compared with an industry standard in Sweden of some 20 % (15 %) and approximately 19 % (30 %) in the US.



88 % of employees stated that their work is engaging, 84 % said that they find their work meaningful and 89 % that they believe in Tobii's values.

From Tobii's employee satisfaction survey 2018

Values and Code of Conduct guide us

It is important for us to be a transparent and responsible company that builds and earns trust, collaboration and high dedication. We have strong common values and high ambitions in terms of our business ethics and our actions, as a company and as individuals. This is important to retain a good reputation, repeat customers, and motivated employees, but also to be a positive force in society.

CULTURE AND VALUES

Tobiiians are driven by curiosity and a constant will to improve, renew and surpass themselves, making Tobii a world-leading pioneer in eye tracking. Our common mission binds us together and we believe that our differences are one of the greatest advantages of working at Tobii. All of our employees should have the opportunity to be themselves and feel at home.

Our common values are reflected throughout our organization and form a central basis for our collective behavior. By doing things "the Tobii way," we reinforce our corporate culture, which is shaped by ambitious, resourceful employees, teamwork and passion.

TOBII'S CODE OF BUSINESS CONDUCT AND ETHICS

Tobii's Code of Business Conduct and Ethics defines the business ethics principles that the organization follows. It is based on the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the Swedish Corporate Governance Code. The Code of Business Conduct is a policy framework that includes the Employer Policy, Anti-corruption Policy, Export Policy, Information Policy, Insider Trading Policy, Whistleblower Policy, Environmental Policy and Supplier Policy.

All employees should act in accordance with our values and principles of business ethics. All new employees undergo training in the Code of Business Conduct as part of the induction program. The training comprises lectures and a web-based training course in which all employees certify that they understand the content of the Code and commit to follow it. The Code also includes information on how to report complaints, as well as whistleblowing procedures. Tobii has clear procedures for handling different issues, and it is very unusual for suspected irregularities to be reported. In 2018, all employees globally underwent training in GDPR.

Risks of bribery and corruption are tackled as part of the risk analysis that the Group Management conducts every year together with the Board of Directors. To minimize such risks, in 2018 Tobii worked with offices in regions where the risk of corruption is considered to be higher. This helped us increase risk awareness and work on day-to-day situations encountered by our employees. Tobii's Supplier Policy also stipulates zero tolerance of all forms of bribery, corruption, extortion and embezzlement.



FOCUS 2019

- Development of current business ethics training program
- Recurrent follow-up of risk analysis and action plan



The Tobii Way

Our common values are reflected throughout our organization and form a central basis for our collective behavior. By doing things “the Tobii way,” we reinforce our corporate culture, which is shaped by ambitious, resourceful employees, teamwork and passion.

Amaze our customers – Happy and successful customers are the key to our own long-term success. We combine a profound understanding of their needs with an ambition to deliver amazing products in every detail.

Succeed together – Success is always a united effort. We work as one team with a common purpose in a flat, open and informal organization where helping one another is a natural part of life.

Make it real – We want to create a better reality. We each take responsibility for bringing our ideas to life. We have the freedom and the courage to make decisions. We dig in and do the hard work needed.

Beat yesterday – Challenging goals are in our DNA. To stay in the lead, we are bold and relentless in improving what we do and how we do it, from visionary innovations down to the smallest detail.

Share passion – Our passion and positive energy are contagious. By sharing them, we make our adventure together even more fun, exciting and meaningful.

Products that provide benefits to society

Many of Tobii's products have a strong positive impact on both society and on individual lives. Our assistive technology for communication is often of crucial significance to those who use it, and eye tracking also contributes to new insights and improvements in research and various clinical applications. Tobii's ambition is to deliver meaningful, quality products that are as safe as possible for users and the environment.

Tobii's assistive technology for communication helps people with disabilities to express themselves and live richer, more independent lives. For many, the difference in their lives is huge, leading to increased well-being and the ability to attend school, complete their education and get a job. For society, in the long-run this will contribute to equality is more appropriate here than democracy, enabling more people to enter the workforce and reducing care costs. In 2018 we helped an additional 20,000 people to gain a voice.

Tobii's eye tracking contributes to groundbreaking research advances in research in disciplines such as neurology and developmental psychology. Many of the solutions developed by Tobii Tech's integration customers in niche markets originate in research. For example, this has led to safer new early identification methods for conditions such as autism, dyslexia and Alzheimer's, as well as solutions that increase safety in conjunction with certain types of surgery.

KNOWLEDGE AND INFLUENCE

In our effort to help more people with special needs, Tobii is committed to spreading knowledge and influencing attitudes and legislation. We want to promote change in a society where

communication is far from a universal right. Tobii Dynavox engaged in major campaigns in 2018 to educate speech therapists and other medical professionals about our products and to show how they can be optimally adapted to help users. We also pursue a long-term public relations and lobbying strategy to influence politicians and the public regarding the products that are actually available and to increase understanding of people with disabilities.

THE CUSTOMER JOURNEY IN FOCUS

Tobii maintains an ongoing dialogue with our customers to improve commitment and customer satisfaction and thereby boost the levels of use, repeat customers and recommendations. In 2018 Tobii Pro implemented a structured approach to customer feedback, which generates valuable input for product and organizational development and helps us to optimize market communication and customer support. Tobii Dynavox also used automated customer feedback and measured usage levels to help reduce obstacles, increase product use and ensure that products actually achieve their full potential value. Tobii Tech focussed on automating and scaling customer support for a broader consumer base.



FOCUS 2019

- Work further to increase awareness and knowledge
- Continue to measure and use customer feedback to develop activities and products



A lively chatterbox

"I am Kathrin from Germany. Strangers might call me 'severely disabled' or 'extremely limited in all aspects of life'. Friends and colleagues describe me as a lively chatterbox or an ambitious workaholic. I describe myself as a researcher eager for knowledge, a master's student, a research assistant at Cologne University, a supporter of seven assistants, a lecturer in alternative and supplementary communication and also a woman who solely speaks using her eyes."

Environmental impact from products and operations

Tobii will offer quality products with economic and environmental efficiency throughout the entire supply chain, from design and production to sales and delivery. We continually strive to reduce the environmental impact of our business. Activities in the value chain where Tobii can achieve the greatest changes are in product design and transport.

PRODUCT DESIGN AND MATERIAL CHOICES

The most important thing for our customers is to ensure that our products maintain their high quality and perform as expected. Many of Tobii's users are dependent on our products, so it goes without saying that we strive for the highest product safety possible. Tobii complies with the regulations for the production of consumer electronics and uses only materials and components that meet the RoHS2 and REACH standards. Some products also meet additional requirements such as medical classification. However, we recognize the need to work more systematically on regulatory issues and processes.

Materials play a major role in how users perceive our products. When choosing materials, Tobii aims to improve the user experience, as well as the lifetime and usability of the product. The choice of materials is defined in the early phase of product development and design. Tobii is working on the development of clear procedures and material requirements as early as the design phase.

To ensure that we comply with customer requirements and implement effective processes, Tobii is working on ISO certification at the Stockholm, Suzhou and Pittsburgh offices, which



are the largest in process terms. Operations in Pittsburgh are certified under the quality management system ISO 13485 for medical devices. In 2018 we made strides in systematizing our improvement work in Stockholm by implementing the ISO 9001 and ISO 14001 quality and environmental management systems.

Continual R&D has helped to gradually reduce the size of Tobii's products. This trend is driven by user demand for small, discreet components as well as lightweight, easy-to-use

Tobii's environmental impact in figures

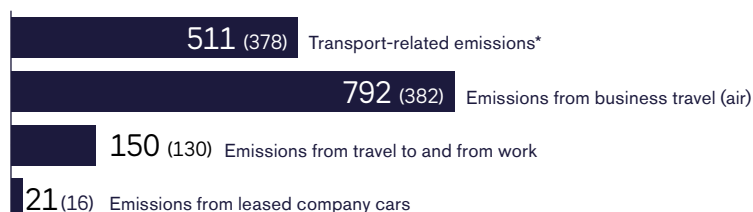
Energy consumption, MWh (Stockholm)

	2017	2018
Electricity	84.1*	106.4**

* Only relates to energy consumption for the portion of office space in Stockholm over which Tobii has direct control (1,247 m²). Data from energy provider.

** Only relates to energy consumption for the portion of office space in Stockholm over which Tobii has direct control (1,247 m²). Energy consumption for 2018 is an estimate based on data for Q1 – Q3 from energy suppliers. The increase is due to full use of office space throughout 2018, compared with partial use during part of 2017.

Emissions, tons CO₂ (Stockholm)



Tobii has no CO₂ emissions under scope 2 for the parts of the operation over which Tobii AB in Stockholm has direct control. The aim moving forward is to include scope 2 emissions for the entire operation. Emissions from business travel only applies to travel booked through a travel agency. Emissions from travel to and from work relates to an estimate of employees' car travel to and from the Stockholm office. Data about emissions from leased company cars come from the leasing contract partner.

*Applies to Tobii AB. Transports for Tobii global, including Tobii AB, generated 642 tons of CO₂ (588). The increase in emissions is attributed to more longer and larger shipments from Asia to Europe and the US, which required rapid air transport.



products. Other advantages of this trend include lower material use, and waste reduction when a product can no longer be used. The aggregated environmental impact of the product can also be reduced by using conscious packaging and packing materials for shipping. Tobii AB's shipping instructions, shipping boxes and filling material are all made of recycled, environmentally preferable materials.

GREENHOUSE GAS EMISSIONS

As a growing, global company, Tobii wants to minimize the greenhouse gas emissions caused by its business. In conjunction with ISO certification of Tobii AB's operations in Stockholm, a register of environmental aspects was drawn up in 2018. The analysis showed that a substantial portion of Tobii's climate-changing emissions come from transport of products from the manufacturer to customers and from employee business travel. Tobii is a global company with employees and customers all over the world. We are constantly improving our infrastructure for virtual meetings but these cannot entirely replace face-to-face meetings. Air travel is therefore often considered to be necessary. Tobii offsets the greenhouse gas emissions that arise in transporting products.

ENERGY USE

Part of Tobii's environmental impact comes from energy use in our offices. We have therefore introduced 100% renewable energy on the premises where we have our own contracts with energy suppliers. While renovating the head office and moving four of our regional offices, Tobii introduced measures for more efficient design and energy consumption. There is currently no systematic monitoring of energy consumption in other offices and manufacturing units because Tobii does not have direct contracts with electricity suppliers for these premises.

FOCUS 2019

- Introduce clearer procedures in managing and complying with regulatory aspects regarding choice of material, recycling and guarantees
- Implementing the quality management system ISO 9001 in Suzhou

"The majority of Tobii's products are manufactured in Southeast Asia and are transported to customers in Asia, Europe and North America. In 2018 we reviewed our transport procedures and switched to a logistics company which uses rail and road transport to a greater extent. This is expected to reduce costs and carbon emissions over time."

– Caroline Sundström, Head of Quality and Environment



Safe and fair working conditions at our subcontractors

As a producer of components and end-user products, Tobii strives to ensure that our subcontractors in Asia manufacture products according to the highest applicable standards regarding working conditions and environmental impact. Tobii's suppliers assemble various components and do not handle the raw material itself. The work is performed in high-tech factories where the risk of child labor, forced labor, or improper handling of hazardous materials is low.

COMPLIANCE WITH COMPANY AND INDUSTRY POLICIES

Tobii's Code of Business Conduct and Ethics and its Supplier Code of Conduct aim to ensure that all companies throughout the supply chain assume environmental and ethical responsibility, that working conditions within the supply chain are safe and fair, and that workers are treated with respect and dignity. The Code applies to all direct suppliers and must be signed by all new suppliers. Tobii has also signed the Responsible Business Alliance (RBA – formerly the EICC) Code of Conduct, which is an industry standard for companies in the electronics industry, and has updated the Company's policies accordingly.

Under Tobii's Code of Business Conduct and Ethics, suppliers must also continually adopt measures to ensure that labor rights are respected. Tobii's Code prohibits working weeks longer than 60 hours, except in emergencies or unusual situations. The Code also places demands on suppliers to constantly strive to reduce their environmental impact over time, specifically with respect to use of materials, energy consumption, and manufacturing and transport-related pollution.

"We conduct comprehensive reviews of suppliers regarding social and environmental issues, as well as anti-corruption/business ethics and quality, in partnership with an external consulting company. We then monitor the results with the suppliers on an ongoing basis every year until all suggested improvements have been satisfactorily tackled. The review program is evaluated each year and in 2018 this led to an update of the survey material used in the audits and to Tobii strengthening internal expertise on supplier follow-up in the office in Suzhou."

– Catharina Hökfelt, Head of Strategic Sourcing

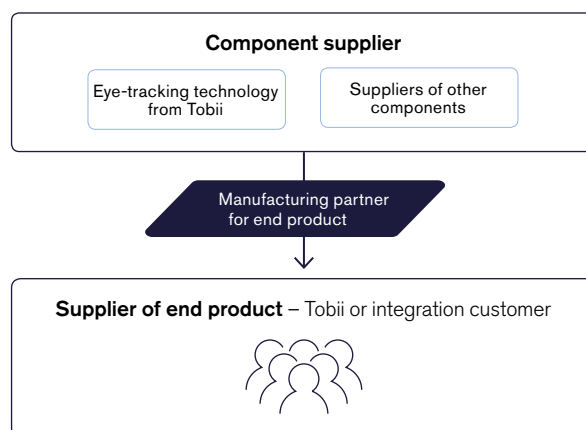


TOBII'S REVIEW PROGRAM

Within the remit of Tobii's review program, annual plans are drawn up indicating which suppliers are to be audited and when. The plans are based on mapping and risk assessment of component suppliers, where the evaluation incorporates geographical location (country risk analysis), industrial analysis (type of production) and the supplier's proportion of Tobii's purchasing. About ten component suppliers based in South-east Asia are covered. Before entering into new supplier partnerships, Tobii always carries out an assessment which includes ISO 9001 and 14001 as criteria. We also always visit the supplier before embarking on a partnership and carry out a visual inspection.

By working closely with suppliers and encouraging continual improvement, Tobii can indirectly address risks farther down the chain. One such risk is the use of conflict minerals. Our Supplier Code of Conduct includes a provision regarding responsible purchasing of tantalum, tin, tungsten, and gold to ensure that conflict minerals do not directly or indirectly finance or otherwise favor conflicts and violations of human rights.

Supply chain for production of end-customer products



FOCUS 2019

- Increase audit activity with a focus on medium/high risk suppliers in Southeast Asia, with more audits and greater monitoring
- Continue to build inhouse competence on supplier assessment expertise

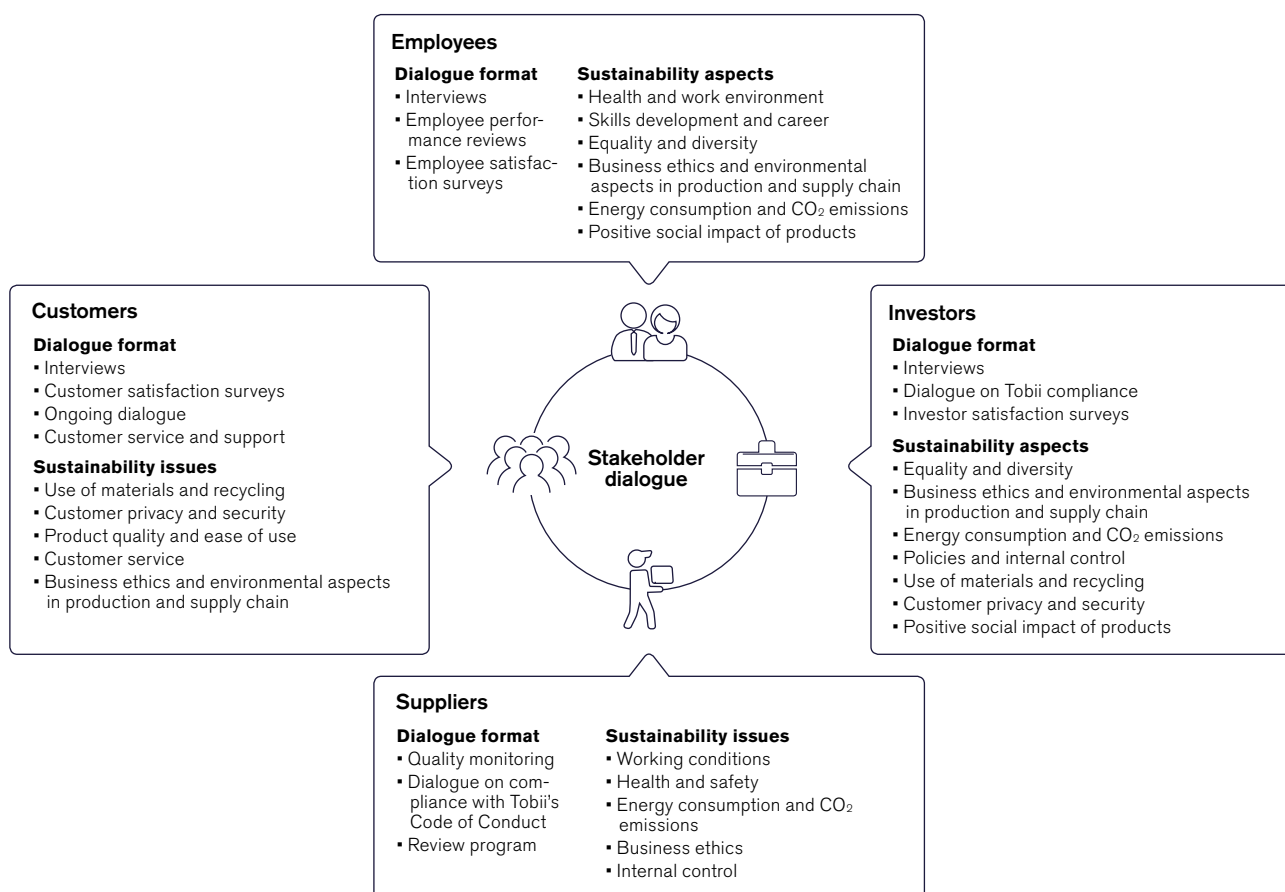
Our approach to sustainability

Sustainability is integrated into our entire operation. An annual review is carried out comprising representatives of different parts of the business. Sustainability reporting is done in accordance with the GRI standards, Core option, and is based on the impact our business has, the risks and business opportunities identified as well as stakeholder input. The reporting covers the whole group, although some data and examples only refer to certain operations where indicated.

STAKEHOLDERS CONTRIBUTE TO TOBII'S FOCUS ON SUSTAINABILITY

Tobii values an ongoing, transparent dialogue with stakeholders. Feedback is gathered throughout the year through ongoing dialogue with customers, employees, investors, and suppliers. In producing the 2018 sustainability report, Tobii carried out a detailed stakeholder analysis. To ensure that all relevant groups were involved, we used the recommendations in "Business reporting on the SDGs – Integrating the SDGs into corporate reporting: A practical guide". Additionally, Tobii carried out a minor supplement to the stakeholder dialogue conducted in 2016 and 2017.

We continually work to implement improvements based on the feedback received from the various stakeholder groups. The parts of the organization responsible for specific issues receive feedback regarding the results of the sustainability-specific stakeholder dialogue. The customer experience is a key aspect of our strategy and governance, as are our efforts to ensure that Tobii can attract and retain the right talent. Good relationships with the right suppliers are crucial for our ability to deliver quality products to our customers and also help to build trust among our stakeholders.



MATERIAL ASPECTS

The materiality analysis draws on the result of the stakeholder dialogue and an assessment of Tobii's actual impact on aspects such as the environment and climate, social conditions and work environment respecting, human rights and combatting corruption.

MANAGEMENT TABLE

The table below provides an overview of Tobii's key sustainability issues, the policies that underlie our work and how we monitor and evaluate our work. Governance is evaluated via an annual review and update of Tobii's policy framework. Operations in Pittsburgh are certified under the quality management system ISO 13485 for medical devices. Stockholm operations were certified under the quality and environmental management systems ISO 9001 and ISO 14001 in 2018. Implementation of ISO 14001 and 9001 is in progress in Suzhou and Pittsburgh.

Topic	Governance/Policies	Purpose	Monitoring/review	Responsibility
Anti-discrimination, diversity and gender equality	Code of conduct, employer policy, whistleblower policy, diversity policy	Tobii wants to be a top-ranked employer in which all employees are respected for their knowledge and enjoy their work.	Annual performance reviews, action plans drawn up on the basis of the result in the employee satisfaction survey.	Chief Human Resources Officer
Business ethics and anti-corruption	Anti-corruption policy, export control policy, supplier code of conduct, insider trading policy, whistleblower policy	We work preventively to combat corruption by creating clarity on the fact that our business is always to be characterized by good business ethics. This is fundamental to long-term, sustainable business.	Dialogue with local offices in risk markets, training all employees in Tobii's Code of Business Conduct and Ethics, clear processes for following up reports of irregularities received.	Senior VP Global Operations, sales managers, purchasing managers
Work environment for our employees	Work Environment Policy, employee handbooks, induction days, performance reviews, intranet	All Tobiians must have a healthy, satisfactory and productive working environment. At Tobii, people are to feel stimulated and challenged in their work, and included in the team and the company irrespective of their background and characteristics.	Annual employee satisfaction surveys, performance reviews, individual conversations between manager and employee. Work environment issues are also handled by local work environment teams.	Chief Human Resources Officer
Skills development	Employee handbooks, induction days, performance reviews, intranet	Employees are offered skills development by working on different types of projects, testing new duties and learning from colleagues. Tobii provides internal conferences and courses and an opportunity to attend external training courses.	Supported by their line manager, each employee draws up a personal development plan with regular monitoring that activities are carried out. Monitoring also takes place through annual performance reviews and employee satisfaction surveys.	Chief Human Resources Officer
Suppliers' working conditions	Supplier code of conduct	Tobii works to ensure that our products are manufactured in line with the highest applicable standard in terms of environmental and social issues at suppliers.	Review program with annual plans for which suppliers are to be audited and when based on the company's risk assessment.	Head of Strategic Sourcing
Customer health and safety	Quality policy	Good quality products are essential to customers' and thus also Tobii's success. Many users are also dependent on our products and striving for the highest product safety goes without saying.	Safety testing of all products, ISO certification of relevant sites, following up customer support cases, including user feedback in the R&D process.	Senior VP Global Operations, product managers
Materials	Environmental policy	Material choices are made in the design and product development process in terms of user experience, usability, lifetime and environmental impact.	Only materials and components approved under RoHS2 and REACH are used.	Senior VP Global Operations
Energy consumption	Environmental policy	Tobii strives to minimize environmental impact from energy consumption and strives to use renewable energy in the parts of the business where this is possible.	Energy consumption is measured and followed up for the premises where Tobii has contracts with energy providers.	Senior VP Global Operations Heads of local offices
Environmental impact of suppliers	Supplier code of conduct	To minimize the environmental impact throughout the value chain Tobii sets criteria for subcontractors whereby compliance with industry policies and local legislation is a minimum requirement.	Review program with annual plans for which suppliers are to be audited and when based on the company's risk assessment.	Senior VP Global Operations
Emissions of greenhouse gases	Environmental policy, travel policy/employee handbook	As a growing, global company, Tobii wants to minimize greenhouse gas emissions caused by its business.	Monitoring emissions from transport and climate offsetting such emissions. Evaluation of alternative logistics solutions to reduce emissions of greenhouse gases and cut costs.	Senior VP Global Operations, Chief Human Resources Officer

SUSTAINABILITY REPORT IN ACCORDANCE WITH THE ANNUAL ACCOUNTS ACT

Tobii is subject to the requirement to produce a sustainability report under the Swedish Annual Accounts Act.

This report contains information required under the points shown here.

- Business model – Strategy (p. 14)
- Our business units (p. 17)

Policies and results for key areas:

- Staff – Employees (p. 46)
- Social issues, human rights – Employees (p. 46), Values and Code of Business Ethics (p. 50), Working conditions at our subcontractors (p. 56)

- Anti-corruption – Values and Code of Business Conduct and Ethics (p. 50), Working conditions at our subcontractors (p. 56)
- Environment – Environmental impact (p. 54)
- Governance – Governance table (p. 58)
- Risks – Risks and risk management (p. 43)

GRI index

Disclosure	Comments	Page
GRI 101: Foundation 2016		
General disclosures		
GRI 102: General Disclosures 2016	1. ORGANIZATIONAL PROFILE	
102-1 Name of the organization	Tobii AB (publ)	
102-2 Activities, brands, products, and services		17
102-3 Location of headquarters	Danderyd, Sweden	
102-4 Location of operations		7
102-5 Ownership and legal form		5, 39
102-6 Markets served		7
102-7 Scale of the organization		6-7
102-8 Information on employees and other workers		46-47
102-9 Supply chain		56
102-10 Significant changes to the organization and its supply chain		6, 8
102-11 Precautionary Principle or approach	Tobii follows the Precautionary Principle, which means that we avoid using materials for which there is any doubt regarding impact on humans or the environment.	
102-12 External initiatives		50, 54, 56-57
102-13 Memberships of associations	Tobii is a member of the International Society for Augmentative and Alternative Communication (ISSAC), which works to improve the quality of life of children and adults who use AAC in their daily lives.	
2. STRATEGY		
102-14 Statement from senior decision-maker		62
3. ETHICS AND INTEGRITY		
102-16 Values, principles, standards and norms of behavior	Tobii has signed the Responsible Business Alliance (RBA) Code of Conduct	10, 50
4. GOVERNANCE		
102-18 Governance structure	Sustainability group reports to the Group's management team, which makes strategic decisions. The Board of Directors reviews and approves the annual sustainability agenda.	58
5. STAKEHOLDER ENGAGEMENT		
102-40 List of stakeholder groups		57
102-41 Collective bargaining agreements	Tobii is not affiliated with any collective bargaining agreements.	
102-42 Identifying and selecting stakeholders		57
102-43 Approach to stakeholder engagement		57
102-44 Key topics and concerns raised		57
6. REPORTING PRACTICE		
102-45 Entities included in the consolidated financial statements	The sustainability report includes the Tobii Group. Any exceptions from this are indicated in connection with the information reported. Certain information is reported specifically for Sweden and the US where Tobii has the most employees.	
102-46 Defining report content and topic Boundaries		57
102-47 List of material topics		58
102-48 Restatements of information	Not applicable	
102-49 Changes in reporting	Not applicable	
102-50 Reporting period	January 1 - December 31, 2018	
102-51 Date of most recent report	April 10, 2019	
102-52 Reporting cycle	Annual, calendar year	

102-53 Contact point for questions regarding the report	Rica Pantermehl, Head of Quality and Environment (interim), rica.pantermehl@tobii.com
102-54 Claims of reporting in accordance with the GRI Standards	GRI Standards, Core level.
102-55 GRI content index	59-61
102-56 External assurance	The GRI report is the Tobii Group's sustainability report for 2018 and has been approved by the Board of Directors. It was not audited by a third party.

Material aspects	Description	Comments	Page
Business ethics			
GRI 103: Management Approach 2016	103-1 Explanation of the impact of the material topic and its Boundary		50
	103-2 The management approach and its components		58
	103-3 Evaluation of the management approach		50, 58
GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures		50
Materials			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary		54
	103-2 The management approach and its components		58
	103-3 Evaluation of the management approach		54
GRI 301: Materials 2016	301-2 Recycled input materials used	Indicator is not reported.	
Energy consumption			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary		55
	103-2 The management approach and its components		58
	103-3 Evaluation of the management approach		55, 58
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Only refers to the energy use that the Stockholm office has direct control over.	54
Emissions of greenhouse gases			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary		55
	103-2 The management approach and its components		58
	103-3 Evaluation of the management approach		55
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Tobii has no direct emissions of greenhouse gases as emissions from leased company cars are reported under scope 3.	
	305-2 Energy indirect (Scope 2) GHG emissions	Only refers to the Stockholm office. Tobii has no indirect greenhouse gas emissions within scope 2 for the parts of the operation over which Tobii AB has direct control.	54
	305-3 Other indirect (Scope 3) GHG emissions	Indirect greenhouse gas emissions in scope 3 are reported only for Tobii AB in Stockholm, apart from emissions from transport, which are also reported for the Group as a whole.	54
Environmental impact of suppliers			
GRI 103: Management Approach 2016	103-1 Explanation of the impact of the material topic and its Boundary		56
	103-2 The management approach and its components		56, 58
	103-3 Evaluation of the management approach		58
GRI 308: Supplier Environmental Assessment 2016	308-2 Negative environmental impacts in the supply chain and actions taken	Indicator is not reported. Monitoring and improvement measures are carried out in line with a plan reviewed annually.	

Working environment for our employees		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47-48
	103-2 The management approach and its components	48, 58
	103-3 Evaluation of the management approach	58
GRI 403: Occupational Health and Safety 2016	403-2 Types of injury and rates of injury, occupational diseases, absenteeism, work-related fatalities	Data only available for Tobii AB in Sweden. Only a few cases of work-related sick leave occurred in 2018; none resulted in long-term sick leave. The exact number of cases is not reported out of respect to employee privacy. <15 people (>5 people) were on sick leave for more than 14 days during the year. Not reported by gender. In 2018 the number of employees increased by just over 120 full-time equivalent staff.
Training and education		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	13, 46
	103-2 The management approach and its components	46, 58
	103-3 Evaluation of the management approach	58
GRI 404: Training and Education 2016	404-3 Percentage of employees receiving regular performance and career development reviews	Not reported by employment type or gender. 48
Diversity and gender equality		
GRI 103: Management Approach 2016	103-1 Explanation of the impact of the material topic and its Boundary	13, 46-47
	103-2 The management approach and its components	56, 58
	103-3 Evaluation of the management approach	58
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Gender distribution per age group reported only for permanent employees in Sweden. In 2018 48% of new recruits were women globally and 43% in Sweden. 46
Suppliers' working conditions		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	56
	103-2 The management approach and its components	58
	103-3 Evaluation of the management approach	58
GRI 414: Supplier Social Assessment 2016	414-2 Negative social impacts in the supply chain and actions taken	Indicator is not reported. Assessment and improvement measures are carried out in line with a plan reviewed annually.
Customer health and safety		
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	52, 53
	103-2 The management approach and its components	58
	103-3 Evaluation of the management approach	58
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	Indicator is not reported. All product categories are tested with respect to health and safety for the user.

AUDITOR'S REPORT ON THE STATUTORY SUSTAINABILITY REPORT

To the general meeting of the shareholders in Tobii AB, corporate identity number 556613-9654

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability report for the year 2018 on pages 45–61 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

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

Opinion

A statutory sustainability report has been prepared.

Stockholm April 10, 2019
PricewaterhouseCoopers AB

Johan Engstam

Authorised Public Accountant

Questions to Tobii's Chairman of the Board



// Tobii is a technology company in which sustainability is inherent and clearly integrated into the corporate culture.

Kent Sander, Chairman of the Board

WHAT HAVE BEEN THE MOST IMPORTANT QUESTIONS FOR THE BOARD OF DIRECTORS IN 2018?

The eye-tracking market in general is still in its infancy. Therefore Tobii needs to work with a long-term approach to continue to grow and retain its leadership position over time. The strategic issues are therefore always a central element in the Board's work at Tobii. Over the course of the year, the Board has reviewed the financial goals and made decisions on acquisitions and capital structure. Another prioritized area has been to monitor progress in relation to plans and goals. From this perspective it is rewarding to note Tobii Pro's extremely strong performance during the year and the important breakthrough contracts in VR and PC for Tobii Tech. It has also been important to put Tobii Dynavox back on a path to growth, which the Company has successfully accomplished.

WHAT ARE THE MAIN CONCLUSIONS FROM THE STRATEGY INITIATIVE?

Tobii is executing essentially the same plan that the Company has had over the past few years and we have therefore only needed to fine-tune certain aspects of the strategy. This is a strength, since we have avoided major fluctuations in the business and have been able to focus on developing the technology, business and the organization. The Board has also revised the financial goals, where the overarching goal is for

Tobii to become profitable in 2020. The Company has made good progress toward this goal since both Tobii Dynavox and Tobii Pro are now growing profitably and are well on the way to reaching their own financial goals. Tobii Tech needs to considerably boost revenue to achieve its goal of profitability in 2021. It is also important to note that there are many other opportunities in Tobii Tech that have potential to create growth for some time to come. For the Company it is important to increase the focus on profitability and to stabilize the cost trend. The organization has grown substantially in recent years, completely according to plan, and has now essentially reached the size needed to achieve the goals.

HOW SHOULD INVESTORS VIEW TOBII?

Most importantly, investors should look at the solid business with profitable growth that we have created in Tobii Dynavox and Tobii Pro. Both are also clear market leaders in their respective segments, where the market will grow for some time to come. This clearly shows the broad potential of eye tracking, the Group's technological leadership and Tobii's ability to create and develop profitable growth deals. In addition, we have a growing mass market potential in Tobii Tech. We also see how customers in other areas turn to Tobii as the market leader to understand how eye tracking can benefit their operations and business. Tobii has essentially followed its plan thus far and because of its leading position and know-how, it has the greatest opportunity to benefit from the enormous potential in the market.

HOW DO YOU SEE TOBII FROM THE STANDPOINT OF SUSTAINABILITY?

Tobii is a technology company in which sustainability is inherent and clearly integrated into the corporate culture. It is expressed in many ways, but especially through the operations at Tobii Dynavox. We are incredibly proud of being able to give people a voice with the help of our technology and products that resulted in an impressive 45 percent increase in the number of users in 2018. We also have a fabulous diversity within the Company. Tobii has operations throughout the world and a strong international character, which I am reminded of every time I am at one of the offices. About fifty nationalities are represented at the Stockholm office and succeeding with a melting pot of so many cultures is a major achievement. Tobii was also ranked as the fourth best employer in Sweden during the year. This ranking is even more impressive considering that we successfully climbed from seventh to fourth place at the same time that the Company sharply expanded.

WHAT IS THE BOARD'S VIEW ON CONTINUED ACQUISITIONS AND FUNDING OF THE BUSINESS?

Tobii constantly evaluates how its product portfolios and market presence can be strengthened and therefore has an active acquisition agenda. In 2018, Acuity and Smartbox, both of the UK, were acquired to strengthen Tobii Pro and Tobii Dynavox and we will consider new acquisitions moving forward. Regarding funding, we believe that we are fully funded to be able to manage organic growth according to our plan. Acquisitions are funded separately, however, and in early 2019 Tobii ensured a separate funding solution for completed and potential acquisitions through a bond loan.

Director's report

The Board of Directors of Tobii AB (publ) (corp. id no. 556613-9654) hereby presents the following annual report and consolidated financial statements for fiscal year January 1, 2018 to December 31, 2018. The Company's registered office is in Danderyd, Sweden.

The Company's shares have been listed on Nasdaq Stockholm since April 24, 2015.

THE GROUP'S OPERATIONS

Tobii AB (publ) and its subsidiaries ("the Group") are global market leaders in eye-tracking solutions. Eye tracking is a technology that, with a high level of precision, shows where a person is looking. This information can be used to design natural and effective user interfaces for computers and other devices, or to gain deep insights into human behavior.

The Group conducts its business through three business units, each with its own distinct markets, products and organizations. The business units are accounted for as separate segments.

- Tobii Dynavox is the world's leading provider of assistive technology for communication, also known as augmentative and alternative communication.
- Tobii Pro is the world's leading provider of eye-tracking solutions for behavioral research studies.
- Tobii Tech is the world's leading provider of eye-tracking technology for integration into consumer electronics and other volume products.

Tobii AB was founded in 2001 and the Group operates globally with about 1,000 employees and fifteen offices in ten countries. Sales are conducted directly and via resellers.

CHANGES IN THE STRUCTURE OF THE GROUP

On February 28, 2018, Tobii acquired all shares in the British companies Acuity ETS Ltd and Acuity Intelligence Ltd. Acuity ETS is the largest reseller of Tobii Pro's research solutions, and Acuity Intelligence is a research and consulting firm within neuroscience. The acquisition is aimed at strengthening Tobii Pro by enabling direct sales of products and services in the UK.

On October 1, 2018, Tobii acquired all shares in the British companies Smartbox Assistive Technology Ltd and Sensory Software International Ltd. These strategically important acquisitions increase the size of business for Tobii Dynavox by 15%, add complementary products, expands its sales and marketing presence, and are expected to create clear synergies. However, Tobii Dynavox will not begin the integration process until a decision is received from the CMA, the local competition regulatory authority in the UK.

No other material changes occurred in the Group structure during the financial year. Additional information can be found under Events after the reporting period below. Additional acquisition-related information is presented in Note 31.

SALES

The Group's net sales rose by 21% in 2018 to SEK 1,302 million (1079). Adjusted for currency effects, the increase was 18%.

Net sales for Tobii Dynavox rose by 16% to SEK 822 million (708). Adjusted for acquisitions and currency effects, the

increase was 9%. Growth was largely driven by a positive sales trend for the business unit's new touchscreen products and new products in the mid-price segment.

Tobii Pro's net sales rose by 30% to SEK 397 million (304). Adjusted for currency effects, growth was 26%. Underlying factors that contributed to the strong growth include Tobii Pro's strong product portfolio, expansion of the global sales organization, and increased demand from both repeat and new customers, as well as an increased quantity of large orders.

Tobii Tech's net sales rose by 24% to SEK 150 million (121). Adjusted for currency effects, the increase was 21%. External sales of eye-tracking technology to integration customers totaled SEK 84 million (67), a 25% increase.

The North American market accounted for 58% (60%) of consolidated sales, the European market 23% (22%), and the rest of the world 19% (18%).

RESULTS

The Group's gross margin was 70% (71%). The operating loss for the Group was SEK -191 million (-191) and the EBIT margin was -15% (-18%). Tobii Dynavox contributed SEK 69 million (74) and Tobii Pro SEK 45 million (26), while investments in Tobii Tech had a negative impact of SEK -305 million (-291) on the Group's operating loss. The Group's operating loss was also impacted by substantial one-off factors in the fourth quarter.

Tobii Dynavox had a gross margin of 66% (69%). The decline was mainly due to changes in the product mix, which had an impact on revenue recognition in accordance with the new IFRS 15 standard, as well as non-recurrent effects related to the Smartbox acquisition. Operating profit totaled SEK 69 million (74) and the operating margin was 8% (10%). The decline was attributable to the lower gross margin as well as the effects mentioned above in the fourth quarter.

Tobii Pro's gross margin was 75% (74%). The operating profit improved to SEK 45 million (26) and the operating margin increased to 11% (8%), primarily through increased sales and economies of scale in sales.

Tobii Tech's gross margin was 47% (43%) for full-year 2018. The operating loss amounted to SEK -305 million (-291) due to a strong expansion of the organization that was carried out according to the business plan to meet the demand for Tobii's technology. Tobii Tech's expansion rate began to level off at the end of the year since the organization needed to execute its strategy was essentially in place.

PROFIT/LOSS BEFORE TAX

The Group's pretax loss was SEK -166 million (-225) compared with full year 2017. Net financial items amounted to SEK 25 million (-34), primarily as a result of currency effects that impacted the value of the Group's dollar-denominated (USD) financial assets, having a positive effect compared with the same period in 2017.

NET PROFIT/LOSS AND EARNINGS PER SHARE

Net loss was SEK -174 million (-192) and earnings per share reached SEK -1.79 (-1.98). The average number of outstanding shares for full-year 2018 was 98 million (97), and the number of shares at period-end was 99 million (97).

CASH FLOW, LIQUIDITY AND FINANCIAL POSITION

Cash flow after investing activities was SEK -238 million (-221). Cash flow from operating activities was SEK -21 million (-62), while the change in working capital contributed positively at SEK 8 million (27). Investing activities increased by SEK 38 million to SEK 225 million, of which SEK 201 million related to capitalization of R&D.

Acquisitions had a negative impact of SEK 159 million for the year.

At the close of the period, the Group had SEK 192 million (537) in net cash, as well as unutilized debt financing of SEK 250 million.

RESEARCH AND DEVELOPMENT

To preserve and further strengthen the Group's leading position, every business unit invests significant resources in research and development (R&D). Of the Group's more than 1,000 employees as per December 31, 2018, nearly 380 worked in R&D. The organization also includes about 130 consultants.

The Group's total R&D expenditures rose by SEK 74 million to SEK 494 million (420), of which SEK 201 million (158) or 41 % (37 %) was capitalized in the balance sheet, while R&D amortization rose by SEK 9 million to SEK 128 million (119). Consequently, R&D expenses reported in the income statement rose to SEK 421 million (382), corresponding to 32 % (35 %) of net sales.

PERSONNEL

The average number of employees in the Group in 2018 grew by 138 to 917. The number of employees recalculated to full-time equivalents at the close of the period was 1,014 (842). Compared with the same time in the previous year, the number of employees increased by 172, or 20%, through an expansion of the R&D, sales and marketing organizations and acquisitions.

Guidelines for salaries and remuneration to the Group's senior executives resolved by the General Meeting are presented in the Corporate Governance Report on pages 65–69. The Board will propose the Annual General Meeting 2019 to adopt guidelines that are in line with previous, except for variable remuneration for which some changes are proposed.

Details about the actual amounts paid in 2018 are presented in Note 8.

SUSTAINABILITY

In 2018 Tobii's sustainability group worked with the various functions of the organization to monitor, measure, and set targets for the Group's sustainability efforts. The Board of Directors approved the company's sustainability agenda for 2018. A description of Tobii's sustainability efforts can be found in the sustainability report on pages 45–61 of this annual report. The sustainability report for 2018 was prepared in accordance with GRI Standards at the Core level.

THE PARENT COMPANY

The Group's Parent Company, Tobii AB (publ) with more than 400 employees, is involved in sales, marketing, R&D, procurement, manufacturing, technical support and IT. The Parent Company's net sales during the full year totaled SEK 849 million (743) and the operating loss was SEK -251 million (-212). At the end of the period, the Parent Company had SEK 92 million (470) in cash and cash equivalents.

CHANGES IN THE BOARD

At the Annual General Meeting on May 8, 2018, Kent Sander, John Elvesjö, Nils Bernhard, Åsa Hedin, Heli Arantola and Jan Wäreby were re-elected to serve as members of Tobii's Board of Directors. Charlotta Falvin was elected to serve as a new board member. Kent Sander was re-elected as Chairman of the Board.

EVENTS AFTER THE END OF THE REPORTING PERIOD

In conjunction with the CES tech show in January, Tobii announced that products launched by HTC and Dell Alienware included integrated eye-tracking technology from the Company.

During the same month the Company also communicated that CMA, the British competition regulator, which was conducting an investigation of the effects of Tobii's acquisition of Smartbox Assistive Technology Ltd, had announced its intention to proceed with a more in-depth phase 2 investigation.

In February, Tobii announced the issuance of 3-year senior covered bonds of SEK 300 million under a loan facility of SEK 600 million with maturity in February 2022. The interest rate for the bond loan was set at 3 months STIBOR + 575 basis points. The debt financing existing at year-end 2018 has been settled. The remaining bond liquidity will be used to finance future acquisitions and for general business purposes. The bonds issued in accordance with the Bond Loan are secured by collateral in shares in current and future material subsidiaries and certain intra-Group loans.

At the same time, Tobii also announced that it had adapted its legal corporate structure to the Company's existing operational structure with independent business units. As a result, since January 1, 2019 the business unit companies are wholly owned subsidiaries of Tobii AB, while Group functions remain in the Parent Company.

OUTLOOK

Tobii estimates that the long-term market potential for the Group's business units is good. All three took several important steps during the year, and Tobii made significant R&D and market investments to consolidate its leading position in established areas and to introduce eye tracking in new areas.

The business units' long-term financial goals are described on page 17.

DIVIDENDS

Board of Directors' proposal for 2018 is that no dividend should be paid to shareholders.

PROPOSED APPROPRIATION OF NON-RESTRICTED EQUITY

Non-restricted equity in the Parent company at the disposal of the Annual General Meeting:

Premium reserve	1,624,054
Retained earnings	-531,808
Loss for the year	-212,760
Total	879,486

The Board of Directors and the CEO propose that the amount be carried forward:

879,486

Corporate Governance Report

Tobii AB (publ) is a Swedish public limited liability company with its registered office in Danderyd, Sweden. The Company's shares have been listed on Nasdaq Stockholm since April 24, 2015. Tobii's Corporate Governance Report, examined by the Group's auditors, is presented below. The report describes the division of responsibility between the Company's three decision-making bodies — the Annual General Meeting, the Board of Directors and the CEO — and how they act and interact in accordance with applicable laws, regulations and internal processes.

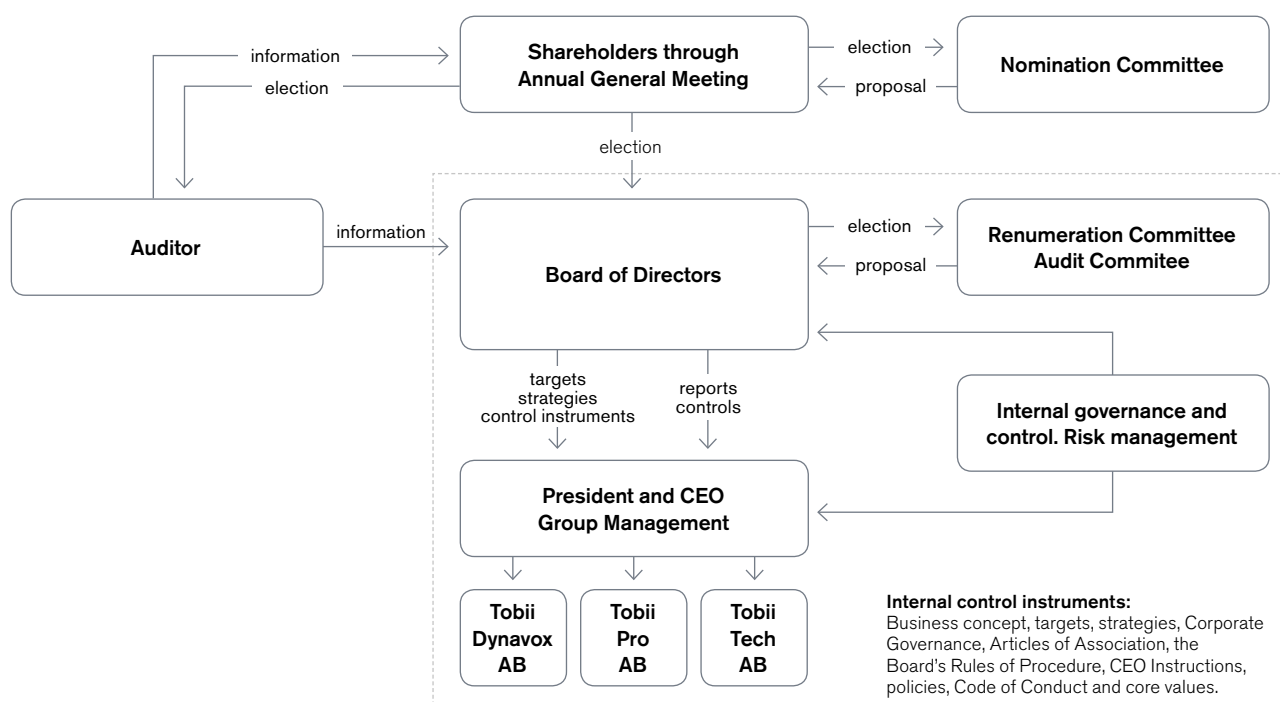
PRINCIPLES FOR TOBII CORPORATE GOVERNANCE

Governance of the Company and the Group is based on Tobii's Articles of Association and external regulations such as the Swedish Companies Act, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code ("The Code"). In addition, Tobii applies internal regulations and policies. The responsibility for governance and control is divided among the shareholders at the Annual General Meeting, the Board and the CEO. An overview of the Group's governance and control, including internal and external governance instruments, is presented in the illustration below.

COMPLIANCE WITH THE SWEDISH CORPORATE GOVERNANCE CODE

Since the first day of trading on Nasdaq Stockholm (April 24, 2015), Tobii has applied the Code and, as of December 1, 2016, Tobii applies the revised Code. The Code is applied in all Swedish companies with shares listed on a regulated market in Sweden. The Code is based on the "comply or explain" principle, which means that the Code itself allows room to deviate from the rules, under the condition that all such deviations and chosen alternatives are explained and that the reasons for the deviations are detailed in the corporate governance report. Tobii reported a deviation from the Code in 2018 when the Company did not have an internal control function.

Corporate governance structure



Internal control instruments:
Business concept, targets, strategies, Corporate Governance, Articles of Association, the Board's Rules of Procedure, CEO Instructions, policies, Code of Conduct and core values.

External control instruments:
Swedish Companies Act, other relevant acts, Nasdaq Stockholm's Rule Book for Issuers and the Swedish Corporate Governance Code.

INTERNAL RULES

To ensure compliance with the laws and rules that apply, and to fulfill Tobii's demands on its own operations, Tobii also applies internal rules and policies that include:

- Tobii's own Articles of Association and the Board of Directors' Rules of Procedure.
- Tobii's Code of Conduct and Business Ethics and policy framework that covers all employees, regardless of position or stationing, as well as consultants and others who have been commissioned by the company.
- Tobii Group-wide governance document and manuals, as well as ISO and FDA certifications.

Authorized personnel can access Tobii's governance documents on the Company's intranet. All policies are reviewed every year and updated as needed.

ARTICLES OF ASSOCIATION

The current Articles of Association were adopted on March 9, 2015. The Articles of Association stipulate that the Company's business is to conduct research, development and sales of software and computer-related hardware and any other activities compatible therewith. The Articles of Association also define the rights of the shareholders, the number of Board members and auditors, that the Annual General Meeting is to be held once a year within six months after the end of the fiscal year, how notice of the Annual General Meeting is to be issued and that the registered office of the Company's Board is in Danderyd, Sweden. The current Articles of Association are available on Tobii's website.

SHAREHOLDERS

For information regarding ownership structure and the largest owners, refer to pages 38–40 in this Annual Report.

VOTING RIGHTS

There is only one class of shares and all shares have the same number of votes – one vote per share.

GENERAL MEETING OF SHAREHOLDERS

Shareholders exercise their right to decide on Tobii's affairs at the Annual General Meeting, which is the Company's highest decision-making body. The Annual General Meeting must be held in Danderyd or Stockholm within six months from the close of the fiscal year. General meetings of shareholders are to be convened by publication of the convening notice in the Swedish National Gazette (Sw. Post- och Inrikes Tidningar) and on the Company's website. At the time of notice, an announcement that the notice has been issued is to be published in Svenska Dagbladet. At the Annual General Meeting, decisions are made regarding the adoption of the Company's income statements and balance sheets, appropriation of the Company's earnings, granting discharge from liability for the Board of Directors and CEO, election of Board members, Chairman of the Board and auditors, adoption of remuneration to the Board and auditors, and other issues that are a matter for the meeting in accordance with the Swedish Companies Act, the Articles of Association or the Code. Extraordinary General Meetings are held when the Board deems it necessary in accordance with the Swedish Companies Act. The Articles of Association contain no separate rules regarding the meeting's amendment of the Articles of Association.

TOBII'S 2018 ANNUAL GENERAL MEETING

At the 2018 Annual General Meeting held on May 8 in the presence of 76 shareholders, directly or through proxy, and the Company's auditor, it was decided that the Company's Board should comprise six ordinary members, and no alternate board members. Kent Sander was re-elected Chairman of the Board and Nils Bernhard, John Elvesjö, Åsa Hedin, Heli Arantola and Jan Wäreby were re-elected members of the Board. Charlotta Falvin was elected to serve as a new board member. Johan Engstam was appointed to serve as the auditor in charge from PwC.

In addition, the Annual General Meeting granted discharge from liability for the Board of Directors and the CEO, adopted the income statements and balance sheets in the annual report, and resolved in accordance with the Board's and the CEO's proposed appropriation of non-restricted equity. The Meeting also resolved to authorize the Board to decide, during the period up until the next Annual General Meeting, on the issue of new shares corresponding to an increase of a maximum 10 percent and to implement a new long-term incentive program for senior executives and other key individuals within the Tobii Group.

The Annual General Meeting resolved in accordance with the Nomination Committee's proposal for fees to the Board of Directors. For more information, see "Remuneration to the Board and Committees" below.

The Annual General Meeting resolved in accordance with the Board's proposed guidelines for remuneration to the CEO and other senior executives, see below under "Remuneration to the CEO and other senior executives."

The minutes from the Annual General Meeting are available on Tobii's website.

TOBII'S 2019 ANNUAL GENERAL MEETING

Tobii AB will hold its Annual General Meeting on May 9, 2019 in Stockholm, Sweden. The convening notice is available on Tobii's website.

NOMINATION COMMITTEE

The Nomination Committee's primary task is to submit proposals to the Annual General Meeting regarding the composition of the Board of Directors, which is then resolved by the Annual General Meeting. The work of the Nomination Committee begins with reviewing the evaluation of the work of the Board that the Board has commissioned. The Committee then submits proposals in respect of Board member candidates and Chairman of the Board for the pending mandate period. Furthermore, the Nomination Committee submits proposals regarding the election of auditors and remuneration to the Board and auditors.

COMPOSITION OF THE NOMINATION COMMITTEE

It was resolved at the Extraordinary General Meeting held on March 9, 2015 that prior to every Annual General Meeting, the Nomination Committee is to comprise representatives from the three largest shareholders listed in the shareholders' share register maintained by Euroclear Sweden as of September 30 each year, together with the Chairman of the Board. In total, the Nomination Committee is to comprise four members. Should any of these shareholders opt to waive the right to appoint a representative, the right shall pass to the largest shareholder next in line, and so on. As long as the three founders Henrik Eskilsson, John Elvesjö and Mårten Skogö together own shares in the Company, directly or indirectly, that make them one of the three largest owners, they have the right to jointly nominate one of the three shareholder representatives in the Nomination Committee. The member representing the largest shareholder is to convene the first meeting of the Nomination Committee and

be appointed Chairman of the Nomination Committee unless the Committee unanimously appoints someone else. However, the Chairman of the Board may not serve as Chairman of the Nomination Committee.

Ahead of the 2019 Annual General Meeting, the Nomination Committee was appointed in accordance with the above principles.

The Nomination Committee has had four recorded meetings, three in the fall of 2018 and one in January 2019. Tobii's Nomination Committee fulfills the requirement for independence. The table below presents the members of the Nomination Committee and the owners who appointed them.

NOMINATION COMMITTEE AHEAD OF THE 2019 ANNUAL GENERAL MEETING

Member	Appointed by	Share of votes
Jan Andersson	Swedbank Robur	9.46 %
Carl Cederschiöld	Handelsbanken	4.72 %
Henrik Tellving	Tobii's three founders	9.80 %
Kent Sander	Director serving as Chairman of the Board	Not applicable

CONTACT THE NOMINATION COMMITTEE

Tobii's Nomination Committee can be contacted via email at valberedning@tobii.com.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for Tobii's organization and the management of the Company's affairs.

COMPOSITION OF THE BOARD OF DIRECTORS

According to Tobii's Articles of Association, Board members elected by the Annual General Meeting are to comprise a minimum of three and a maximum of nine, with no alternate members. At present, the Company's Board of Directors comprises six ordinary members. The requirement to achieve diversity and breadth, as well as an effort to achieve an even distribution of gender, have been taken into account in the composition of Tobii's Board of Directors. The Board members have vast experience in the industry and expertise in both technology and international business. For more information about the Board members, see page 70.

The Articles of Association contain no separate rules regarding the appointment or removal of Board members.

The composition of the Board fulfills the Code's stipulation concerning independent members. Independent assessments for each Board member are presented in the table below.

THE BOARD'S RULES OF PROCEDURE

The Board adopts Rules of Procedure for its work every year. The Rules are adopted in conjunction with the statutory Board meeting and are amended thereafter as needed. The Rules of Procedure describe the responsibilities and duties of the Board and its Committees, the internal division of duties and practices, and the division between the Board members and the CEO. The current Rules of Procedure were adopted on May 8, 2018.

WORK OF THE BOARD

According to the Rules of Procedure, Tobii's Board is to convene a minimum of six times in addition to the statutory meeting. The Board of Directors held a total of 21 recorded meetings in 2018. Normally, the Company's CFO serves as secretary at the Board meetings.

The Board held 21 recorded meetings in 2018, one of which was the statutory Board meeting. The many meetings reflect an intensive business year. Key issues during the year concerned strategy, market position, product development and significant risks. The Board's work year is illustrated in the diagram on the following page.

EVALUATION OF THE WORK OF THE BOARD

According to the Board's Rules of Procedure, the Chairman of the Board is to ensure that the work of the Board is annually evaluated through a systematic and structured process aimed at developing the Board's processes and efficiency. In 2018 this evaluation was conducted using an externally developed questionnaire. The results were presented at the Board meeting in December 2018.

BOARD COMMITTEES

The Board has established two committees: the Audit Committee and the Remuneration Committee. The Committees have no decision-making authority, but are tasked primarily with presenting proposals and conclusions to the Board.

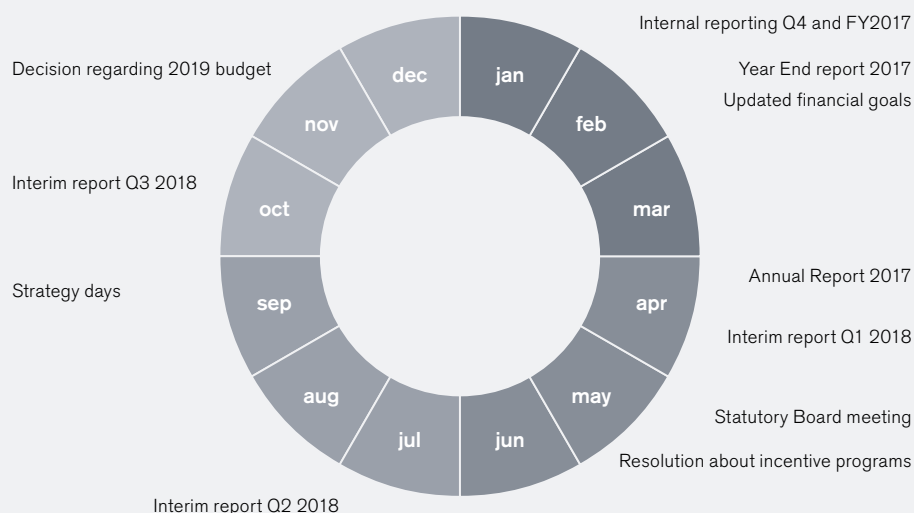
COMPOSITION OF THE BOARD OF DIRECTORS, COMMITTEES AND MEETING ATTENDANCE

Board members elected by the AGM	year elected	DOB	Independent		Attendance		
			company employee	among largest shareholders	board meetings	audit committee	remuneration committee
Kent Sander, chair	2014	1953	yes	yes	21/21	■	■
Heli Arantola	2016	1969	yes	yes	18/21		
Nils Bernhard	2004	1947	yes	no	20/21	■	
John Elvessjö	2006	1977	no*	no	20/21		
Charlotta Falvin**	2018	1966	yes	yes	12/21		■
Åsa Hedin	2015	1962	yes	yes	19/21	■	
Jan Wäreby	2016	1956	yes	yes	21/21		■

* John Elvessjö stepped down from the position of Vice President of Tobii in 2018 and is therefore independent in relation to the Company.

** Charlotta Falvin was elected to serve on the Board in May 2018 and has only been present at Board meetings after that date.

THE BOARD'S WORK YEAR



AUDIT COMMITTEE

On behalf of the Board, the Audit Committee, without prejudice to the Board's responsibilities and tasks, is to monitor the following:

- the Company's financial reporting
- the effectiveness of the Company's internal controls
- internal auditing and risk management
- the audit of the annual accounts and consolidated financial statements
- the impartiality and independence of the auditors
- whether auditors are providing other services besides audit services for the Company

Moreover, the Audit Committee is to assist in the preparation of proposals to the Annual General Meeting's election of auditors, regularly meet with Tobii's auditors and report to the Board of Directors. The Audit Committee is appointed annually by the Board. In 2018, the Committee was made up of Åsa Hedin, Chair, and members John Elvessjö and Nils Bernhard.

The Audit Committee had six recorded meetings in 2018.

REMUNERATION COMMITTEE

The Remuneration Committee is tasked primarily with addressing issues concerning guidelines for remuneration, salaries, variable compensation, incentive programs, pension and other forms of remuneration to Group management.

In 2018, the Committee was made up of Kent Sander, Chairman, and members Charlotta Falvin (from the 2018 AGM) and Jan Wäreby. The Committee held 3 recorded meetings in 2018.

REMUNERATION TO THE MEMBERS OF THE BOARD OF DIRECTORS AND COMMITTEES

Remuneration to the Board of Directors is decided at the Annual General Meeting. The 2018 Annual General Meeting resolved that Board fees would amount to SEK 1,539,000 to be allocated as SEK 530,000 for the Chairman of the Board and SEK

210,000 each for other Board members. Fees for Committee work are as follows: SEK 90,000 to the Chairman of the Audit Committee and SEK 45,000 each to the other two members of the Audit Committee and SEK 37,000 to the Chairman of the Remuneration Committee and SEK 21,000 each to the other two members of the Remuneration Committee. Remuneration to the Board is presented in detail in Note 8.

CEO AND GROUP MANAGEMENT

The CEO is responsible for the day-to-day management of Tobii in accordance with the Board's guidelines and instructions. The current CEO's instructions were adopted by the Board on May 8, 2018. The CEO is tasked with compiling information and decision-making documents ahead of the Board meetings.

The CEO is assisted by Group Management consisting of the three Presidents of the business units (from January 1, 2019 they are the CEOs of the business unit companies Tobii Dynavox AB, Tobii Pro AB and Tobii Tech AB), as well as the Chief Financial Officer, Chief Human Resources Officer and the Chief Science Officer. The extended group management team also includes the Corporate Communications Director, the Senior VP Global Operations and the Chief IP Officer.

Group Management holds monthly meetings during which issues concerning operations are discussed. A more detailed presentation of the CEO and the Group Management Team is on page 71.

REMUNERATION TO THE CEO AND SENIOR EXECUTIVES

The Board has decided on the current remuneration levels and other employment conditions for the CEO and other senior executives. To the extent it is possible, agreements regarding retirement benefits are to be based on defined contributions and coincide with the levels, practices and collective agreements that apply in the country where the senior executive is employed. CEO Henrik Eskilsson, and other Group management members have an employee agreement with up to six month's mutual period of notice and the right to four-month severance pay under the condition the Company is the party giving notice.

Other senior executives have employee agreements with up to six month's mutual period of notice, without severance pay, or the longer period of notice that follows according to law. The CEO and other senior executives are not entitled to any additional remuneration in conjunction with the termination of their employment. In 2018, total remuneration to the CEO and senior executives amounted to approximately SEK 20.5 million. In 2018, in two cases the Board of Directors resolved to depart from the guidelines that the Annual General Meeting adopted in May 2018 (see Tobii's 2018 Annual General Meeting above). Both cases relate to payment of retention bonuses, which will be deducted from future performance bonuses until June 2020.

Remuneration to the CEO and other senior executives is presented in detail in Note 8.

AUDITORS

Tobii's auditors are responsible for reviewing the annual report, the consolidated statements, the Corporate Governance Report and accounting as well as the administration of the Board of Directors and the CEO. The auditors follow an audit plan and report their observations to the Audit Committee. The auditors participate in the Annual General Meeting to present the Auditors' Report, which describes the audit process and the observations made. Furthermore, the auditors normally participate in one Board meeting each year.

The Company's audit firm, PricewaterhouseCoopers AB, was re-elected at the 2017 Annual General Meeting through to the 2018 Annual General Meeting. Auditor in charge is Authorized Public Accountant Johan Engstam.

REMUNERATION TO THE AUDITOR

The 2017 Annual General Meeting decided that the auditors fee should be paid on account. Remuneration to the auditors is presented in detail in Note 7.

INTERNAL CONTROL AND RISK MANAGEMENT REGARDING FINANCIAL REPORTING

Internal control and risk management regarding financial reporting is a central component in Tobii's corporate governance. The process is intended to provide reasonable security in terms of reliability of the interim reports, year-end statements and annual reports, and that these statements are prepared in accordance with applicable laws, accounting standards and other regulations.

Since the Board's decision in November 2016, Tobii's risk management and internal governance and control is based on the Internal Control - Integrated Framework launched by the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) in 2013. According to COSO, internal governance and control is a process that involves the following components: control environment, risk assessment, control activities, information and communication, and monitoring.

CONTROL ENVIRONMENT

Control environment is the foundation of the internal control and risk management within Tobii and comprises the values and the culture that the Board and management communicate and operate from, together with the organization structure, leadership, delegation of authority, decision-making structures and employee expertise. A number of internal steering documents, adopted by the Board, are associated with this.

The Board has the overall responsibility for internal control and reporting, and has appointed an Audit Committee tasked with and responsible for overseeing Tobii's financial reporting and monitoring the efficiency of this process. For more information, refer to the section under the "Audit Committee" heading above.

RISK MANAGEMENT

The significant risks that influence internal control in terms of financial reporting are identified and managed at Group level, business unit level and subsidiary level. In the Board, the Audit Committee is responsible for identifying and managing significant financial risks or risks for errors in the financial reports to ensure correct financial statements. Particular priority is given to identifying processes where the risk for material errors relatively speaking are higher due to the complexity of the process or in contexts involving substantial values.

CONTROL ACTIVITIES

The risks identified regarding financial reporting are managed via the Company's control activities. Control activities are intended to prevent, uncover and correct misstatements and deviations. This is managed through manual controls in the form of reviews and inventories, as well as automatic controls through the IT system. Detailed financial analyses of the results and follow-up against budget and forecasts complement the operations-specific controls and provide an overall confirmation of the reporting quality.

INFORMATION AND COMMUNICATION

The Board has prepared an Information Policy for the dissemination of external information that will ensure that the market receives relevant, reliable, correct and pertinent information about the Company's development and financial position. The Board has also prepared an Insider Trading Policy aimed at safeguarding the integrity of the dissemination of information.

The Company's internal steering instruments in the form of policies, guidelines and manuals concerning internal and external communication are regularly updated and communicated internally via relevant channels, including internal meetings, email and the Company's intranet.

MONITORING

Risk assessment and implementation of the control activities are monitored regularly. This includes both formal and informal routines used by those responsible at each level. Procedures include monitoring results against budget and plans, analyses and key ratios. The Board regularly receives reports on the Group's financial position and development. After each quarter, the Group's financial situation is addressed and Group management analyzes the financial reports in detail every month. The Audit Committee monitors the accounts at its meetings and receives reports from the auditors regarding their observations.

Tobii does not have an internal audit function. The Board of Directors has determined that the follow-up of internal control carried out by the Board of Directors and the management serves as an adequate audit function considering the operations and size of the Company.

EVENTS AND ACTIVITIES 2018

In 2018 the new General Data Protection Regulation (GDPR) came into force throughout the EU, with the aim of creating a uniform and equivalent level of data protection in order to allow the free flow of data within Europe. Two new accounting standards also entered into force on January 1, 2018: IFRS 9, Financial instruments and IFRS 15, Revenue from contracts with customers. In 2018 Tobii amended its policies and procedures to comply with the new laws and accounting policies.

Otherwise, Tobii continued throughout to constantly improve internal controls and governance in pace with growing operations and intensified requirements.

Board of Directors



KENT SANDER
Chairman of the Board
Elected: 2014
Born: 1953
Education: BSc in Business Administration.
Main assignments and experience: More than 30 years in leading positions at international IT and telecom companies. Chairman of the Board of Serneke Group AB, Mr Green & Co AB, OnePhone Holding AB and Triboron International AB. Formerly CEO of TruePosition, Executive VP Sales for Ericsson USA and Chairman of the Board for Transmode.
Shareholding in Tobii: 39,500 shares and 80,000 warrants.



HELI ARANTOLA
Elected: 2016
Born: 1969
Education: Doctor of Science in Economics
Main assignments and experience: EVP Categories and Concepts at HK Scan. Many years of experience from executive positions in the Fazer Group. Member of the board of directors of S-Bank, chairperson of the innovation committee of the Confederation of Finnish Industries and the board of directors of the Foundation for Aalto University of Science and Technology.
Shareholding in Tobii: Holds no shares or warrants in the Company.



NILS BERNHARD
Elected: 2004
Born: 1947
Education: MSc in Electrical Engineering and MSc in Business and Economics.
Main assignments and experience: Chairman of the board of directors of Ortivus AB, Board member of Alfa Invest AB and Pajeb Kvarts AB. Founder of Precise Biometrics AB and Dannemora Mineral AB among others. Approximately 30 years of experience as board member, entrepreneur and private investor in many different industries and actively involved in seven companies' IPOs. Long experience of senior positions in the shipbuilding sector and the SKF Group's steel operations.
Shareholding in Tobii: 2,205,000 shares directly and indirectly through companies and 28,000 warrants.



JOHN ELVESJÖ
Elected: 2006
Born: 1977
Education: Studies in Engineering Physics.
Main assignments and experience: Managing partner and member of the board of directors of Brightly Ventures I AB and member of the board of directors of The Incredible Machine of Sweden AB. Previously Vice President and Co-Founder of Tobii AB, member of the board of directors of Timpen Capital AB, HolidayPhone AB, Sticky Inc. and Vinnova (Swedish Governmental Agency for Innovation Systems).
Shareholding in Tobii: 2,874,572 shares, 84,000 warrants.



CHARLOTTA FALVIN
Elected: 2018
Born: 1966
Education: MSc in Business Administration, Lund University.
Main assignments and experience: Many years of experience from leading positions in IT and telecom, e.g. at Axis, Decuma and TAT. Chairman of the board of directors at Lund University, Malmö Startups and Handelsbanken, board member at the Faculty of Engineering, Lund University (LTH), Malmö Startups and Handelsbanken, member of the board of directors at Invisio, Net Insight, Bure Equity and Boule Diagnostics. Previously member of the board of directors at Axis, Doro and CLX Communications.
Shareholding in Tobii: Holds no shares or warrants in the Company.



ÅSA HEDIN
Elected: 2015
Born: 1962
Education: MSc in Biophysics and Bioengineering, BSc in Physics.
Main assignments and experience: More than 30 years in leading positions in international med tech and tech companies. Industrial Advisor at the Department of Microtechnology and Nanoscience at Chalmers AB. Board member of C-rad AB, Nolato AB, Cellavision AB, Immunovia AB, Neonode Inc. and E. Öhman J:or Fonder AB. Previously CEO of Elekta Instrument AB and business unit EVP of Elekta Neuroscience.
Shareholding in Tobii: 7,000 shares and 28,000 warrants.



JAN WÄREBY
Elected: 2016
Born: 1956
Education: MS.c.
Main assignments and experience: Chairman of the Board RISE AB and Obelixus AB; board member of GapWaves AB, Incell International AB, Defentry AB and Agapi Boating AB. Extensive experience from senior positions within the Ericsson Group, Senior VP of Sales at Ericsson, Senior VP of Multimedia Business Unit, and Executive Vice President and Head of Sales and Marketing at Sony Ericsson Mobile Communications.
Shareholding in Tobii: 30,800 shares.

Group Management



From left: Johan Wilsby, Fredrik Ruben, Henrik Eskilsson, Mårten Skogö, Cecilia Eriksson and Tom Englund.

HENRIK ESKILSSON

CEO, President and Co-Founder of Tobii, acting business unit president and CEO of Tobii Tech AB

Employed: 2001

Born: 1974

MSc in Industrial Engineering and Management, International Profile, Linköping University. Co-Founder of Tobii AB. Founder of Trampolin-specialisten i Stockholm AB.

Shareholding in Tobii: 4,526,117 shares and 286,000 warrants. Henrik Eskilsson also owns 2,835 shares through Henrik Eskilsson AB, and 22.5% of the company Eskilsson Consulting AB, which in turn owns 1,565,511 shares in Tobii.

MÅRTEN SKOGÖ

CSO and co-founder of Tobii

Employed: 2001

Born: 1977

Studies in Engineering Physics, Royal Swedish Institute of Technology. Co-Founder of Tobii AB. Board member of Fortlax AB. Awarded the Polhem Prize in 2015 for eye tracking.

Shareholding in Tobii: 2,604,930 shares and 67,993 warrants.

JOHAN WILSBY

Chief Financial Officer

Employed: 2017

Born: 1966

MSc in Business and Economics, Stockholm School of Economics. Previously CFO at Fingerprint Cards and Transmode, Chief Financial Officer at Hewlett-Packard in the Nordic countries and the Baltic and CFO for western Europe at Microsoft.

Shareholding in Tobii: 10,253 shares and 114,000 warrants.

FREDRIK RUBEN

Business unit President Tobii Dynavox AB

Employed: 2014

Born: 1977

MSc in Industrial Engineering and Management, Linköping University. Formerly CEO and President of 3L System Group (publ) and CEO of Vitec Måklarsystem AB.

Shareholding in Tobii: 599,950 shares and 198,009 warrants.

CECILIA ERIKSSON

Global HR Director

Employed: 2011

Born: 1983

BSc in Human Resources and Behavioral Science, Örebro University. Global HR Director since 2015. Formerly management consultant at PwC and has held numerous roles in the recruiting and staffing industry.

Shareholding in Tobii: 58,757 warrants.

TOM ENGLUND

Business unit President Tobii Pro AB

Employed: 2009

Born: 1976

MSc in Industrial Engineering and Management, Linköping University. Studies at École Polytechnique Fédérale de Lausanne and HEC in Lausanne. International experience from leading positions at Atlas Copco and as a management consultant at Accenture.

Shareholding in Tobii: 54,120 shares and 226,811 warrants.

Financial statements 2018

Multi-year overview, Group

SEK m	2018	2017	2016	2015	2014
Net Sales, SEK m	1,302.2	1,078.9	1,053.3	967.3	620.6
EBITDA, SEK m	-27.5	-52.4	50.3	81.1	5.6
Operating profit/loss (EBIT), SEK m	-190.7	-191.4	-67.0	-35.7	-68.9
Net Profit/Loss for the year, SEK m	-174.3	-192.0	-49.8	-24.6	-50.9
Gross margin, %	70.1	70.7	72.3	74.8	70.8
EBITDA margin, %	-2.1	-4.9	4.8	8.4	0.9
EBIT margin, %	-14.6	-17.7	-6.4	-3.7	-11.1
Cash flow from operating activities	-13.0	-34.8	67.6	79.9	0.7
Cash flow after investing activities, SEK m	-237.5	-221.4	-74.5	-40.7	-117.7
Earnings per share, SEK	-1.79	-1.98	-0.57	-0.30	-0.82
Earnings per share, diluted, SEK	-1.79	-1.98	-0.57	-0.30	-0.82
Equity per share, SEK	8.5	10.1	12.5	9.1	5.6
Working capital, SEK m	-30.4	-44.5	16.8	22.9	18.7
Total assets, SEK m	1,324.8	1,342.7	1,486.6	1,035.4	752.9
Net cash (+)/net debt (-), SEK m	192.3	536.8	771.7	370.9	-15.1
Equity, SEK m	835.0	978.9	1,215.1	793.8	389.0
Equity/assets ratio, %	63.0	72.9	81.7	76.7	51.7
Net debt/equity, %	neg	neg	neg	neg	3.9
Return on total equity, %	-124.9	-235.3	-6.2	-3.6	-17.2
Average number of shares, million	97.6	97.1	87.9	81.8	61.9
Number of outstanding shares at period-end, million	98.9	97.3	97.0	87.6	68.9
Average number of employees	917	779	682	582	467

Multi-year overview, business units

SEK m	2018	2017 ²⁾	2016	2015	2014
Net sales					
Tobii Dynavox	822.0	708.3	761.7	740.3	441.7
Tobii Pro	396.6	304.1	244.9	209.5	167.3
Tobii Tech	149.8	120.6	96.4	58.6	36.6
Other and eliminations ¹⁾	-66.2	-54.0	-49.7	-41.1	-25.0
The Group	1,302.2	1,078.9	1,053.3	967.3	620.6
Gross margin, %					
Tobii Dynavox	66.4	68.5	70.9	72.9	68.3
Tobii Pro	74.9	74.2	73.5	75.1	71.6
Tobii Tech	46.9	43.4	43.4	45.8	44.5
The Group	70.1	70.7	72.3	74.8	70.8
EBITDA					
Tobii Dynavox	138.7	135.2	184.9	182.1	74.4
Tobii Pro	100.8	65.5	45.1	44.3	23.6
Tobii Tech	-267.1	-253.2	-179.7	-145.2	-90.6
Other and eliminations ¹⁾	0.2	0.0	0.0	-0.2	-1.9
The Group	-27.5	-52.4	50.3	81.1	5.6
EBITDA margin, %					
Tobii Dynavox	16.9	19.1	24.3	24.6	16.9
Tobii Pro	25.4	21.6	18.4	21.2	14.1
Tobii Tech	neg	neg	neg	neg	neg
The Group	-2.1	-4.9	4.8	8.4	0.9
Operating profit/loss (EBIT)					
Tobii Dynavox	69.0	73.6	124.7	119.0	41.9
Tobii Pro	44.9	25.8	15.5	21.2	12.9
Tobii Tech	-304.7	-290.8	-207.2	-175.7	-121.6
Other and eliminations ¹⁾	0.1	0.0	0.0	-0.2	-2.0
The Group	-190.7	-191.4	-67.0	-35.7	-68.9
EBIT margin, %					
Tobii Dynavox	8.4	10.4	16.4	16.1	9.5
Tobii Pro	11.3	8.5	6.3	10.1	7.7
Tobii Tech	neg	neg	neg	neg	neg
The Group	-14.6	-17.7	-6.4	-3.7	-11.1

¹⁾ Other and eliminations refers entirely to internal sales from Tobii Tech to Tobii Dynavox and Tobii Pro.

²⁾ 2017 figures are restated following changes to current accounting principles, see Note 1 Accounting principles.

Consolidated statement of comprehensive income

SEK m	Note	2018	2017
Net sales	5	1,302.2	1,078.9
Cost of goods and services sold		-389.1	-315.7
Gross profit		913.1	763.2
Selling expenses		-555.6	-462.7
Research and development expenses		-420.8	-382.5
Administrative expenses	7	-152.3	-103.1
Other operating income and operating expenses	11	24.9	-6.3
Operating profit/loss	5, 6, 7, 8, 9, 10	-190.7	-191.4
<i>Profit/loss from financial items</i>			
Financial income	12	26.8	4.2
Financial expenses	12	-2.0	-37.9
Total financial income and expenses		24.8	-33.7
Profit/Loss before tax		-165.9	-225.0
Taxes	13	-8.4	33.1
Profit/loss for the year		-174.3	-192.0
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange rate differences		-18.9	18.9
Other comprehensive income, net after tax		-18.9	18.9
Total comprehensive income for the year		-193.2	-173.1
<i>Profit/loss for the year attributable to:</i>			
Parent company shareholders		-174.6	-192.1
Non-controlling interests		0.3	0.1
Total Loss for the year		-174.3	-192.0
<i>Total comprehensive income attributable to:</i>			
Parent company shareholders		-193.5	-173.2
Non-controlling interests		0.3	0.1
Total comprehensive income for the year		-193.2	-173.1
Basic earnings per share, SEK	14	-1.79	-1.98
Earnings per share after dilution, SEK	14	-1.79	-1.98
Average number of outstanding shares, (thousands)	14	97,579	97,080
Average number of outstanding shares after dilution, (thousands)	14	97,840	99,062

Consolidated balance sheet

SEK m	Note	2018-12-31	2017-12-31 ¹⁾	2017-01-01 ¹⁾
Non-current assets				
Goodwill	15	107.0	30.0	0.3
Capitalized product development costs	15	345.7	292.6	255.2
Trademarks	15	114.9	93.6	102.5
Other intangible assets	15	91.8	19.3	12.4
Property, plant and equipment	16	32.0	31.0	28.1
<i>Financial and other non-current assets</i>				0.0
Deferred tax assets	13	83.7	90.1	54.9
Other financial assets		5.2	3.5	3.5
Total non-current assets		780.4	560.1	456.8
Current assets				
Accounts receivable	18	206.5	145.9	151.7
Inventories	19	86.9	59.4	67.3
Other receivables		14.0	10.9	13.6
Prepaid expenses and accrued income	20	44.7	29.6	25.6
Cash and cash equivalents	21	192.3	536.8	771.7
Total current assets		544.4	782.6	1,029.8
Total assets		1,324.8	1,342.7	1,486.6
Equity				
Share capital	23	0.7	0.7	0.7
Other paid-in capital		1,629.3	1,581.5	1,566.2
Reserves	24	-5.3	13.7	-5.2
Retained earnings including profit/loss for the year		-790.6	-617.6	-427.0
Total equity attributable to parent company's shareholders		834.2	978.4	1,134.7
Non-controlling interests		0.8	0.4	0.3
Total equity		835.0	978.9	1,135.0
Non-current liabilities				
Deferred tax liabilities	13	6.5	0.3	0.3
Provisions	25	5.0	2.2	8.4
Other non-current liabilities		95.8	71.0	65.4
Total non-current liabilities		107.3	73.5	74.0
Current liabilities				
Accounts payable	26	102.1	61.9	59.0
Other liabilities	26	29.4	27.9	22.7
Accrued expenses and deferred income	27	250.9	200.5	195.8
Total current liabilities		382.5	290.3	277.6
Total liabilities		489.8	363.8	351.6
Total equity and liabilities		1,324.8	1,342.7	1,486.6

1) Restated with application of IFRS 15.

Consolidated statement of changes in equity

SEK m	Note	Attributable to parent company shareholders					Non-controlling interests	Total equity
		Share capital	Other paid-in capital	Reserves	Retained earnings	Total		
Opening balance, Jan 1, 2017		0.7	1,566.2	-1.6	-350.5	1,214.8	0.3	1,215.1
Change in accounting principles				-3.6	-76.6	-80.2		-80.2
Restated equity Jan. 1, 2017		0.7	1,566.2	-5.2	-427.0	1,134.7	0.3	1,135.0
Profit/loss for the year					-192.1	-192.1	0.1	-192.0
Other comprehensive income				18.9		18.9		18.9
Comprehensive income for the year				18.9	-192.1	-173.2	0.1	-173.1
New share issue, exercise of warrants incentive program		0.0	10.0			10.0		10.0
Sale of warrants, incentive program			5.4			5.4		5.4
Equity-settled share-based payment transactions under IFRS 2	8				1.7	1.7		1.7
Closing balance, Dec. 31, 2017		0.7	1,581.5	13.7	-617.5	978.4	0.4	978.9
Profit/loss for the year					-174.6	-174.6	0.3	-174.3
Other comprehensive income				-18.9		-18.9		-18.9
Comprehensive income for the year				-18.9	-174.6	-193.5	0.3	-193.2
New share issue, exercise of warrants incentive program		0.0	41.2			41.3		41.3
Sale of warrants, incentive program			6.6			6.6		6.6
Equity-settled share-based payment transactions under IFRS 2	8				1.5	1.5		1.5
Closing balance, Dec. 31, 2018		0.7	1,629.3	-5.3	-790.6	834.2	0.7	835.0

Consolidated cash flow statement

SEK m	Note	2018	2017
Cash flow from operating activities			
Profit/loss after financial items		-165.9	-225.0
Adjustment for items not included in the cash flow:			
Amortization and write downs on intangible assets	9	141.4	119.4
Depreciation and write downs on property, plant and equipment	9	21.7	19.6
Unrealized exchange rate differences		-23.9	35.0
Changes in provisions		2.9	-6.2
Other items not affecting the cash flow		5.0	-4.9
Taxes paid		-2.2	0.6
Cash flow from operating activities before change in working capital		-20.9	-61.6
Cash flow from change in working capital			
Increase(-)/Decrease(+) in inventories		-24.0	-4.5
Increase(-)/Decrease(+) in operating receivables		-41.2	4.6
Increase(+)/Decrease(-) in operating liabilities		73.0	26.6
Cash flow from operating activities		-13.0	-34.9
Investments			
Investing activities			
Investments in intangible assets	15	-204.2	-159.4
Investments in property, plant and equipment	16	-18.9	-26.9
Investments in financial assets		-1.4	-0.3
Cash flow after investing activities		-237.5	-221.4
Acquisition of subsidiary companies		-158.8	-23.7
Cash flow after investments		-396.3	-245.0
Financing activities			
Sale/exercise of warrants, incentive program		47.8	15.3
Cash flow from financing activities		47.8	15.3
Cash flow for the year		-348.5	-229.7
Exchange rate differences in cash and cash equivalents		4.0	-5.2
Cash and cash equivalents at the beginning of the year		536.8	771.7
Cash and cash equivalents at year-end	21	192.3	536.8

Parent company income statement

SEK m	Note	2018	2017
Net sales		849.4	742.9
Cost of goods and services sold		-374.0	-313.1
Gross profit		475.4	429.8
Selling expenses		-206.3	-190.6
Research and development expenses		-415.1	-371.0
Administrative expenses	7	-131.6	-76.3
Other operating income	11	52.9	39.4
Other operating expenses	11	-26.5	-42.9
Operating profit/loss	5, 6, 7, 8, 9, 10	-251.2	-211.6
<i>Profit/loss from financial items</i>			
Financial income	12	44.3	27.1
Financial expenses	12	-1.9	-37.2
Total financial income and expenses		42.6	-10.1
Profit/Loss before tax		-208.6	-221.6
Taxes	13	-4.2	33.5
Profit/loss for the year		-212.8	-188.1

The parent company has no items in 2018 or 2017 reported in Other comprehensive income. The profit/loss for the year for the parent company is thus also the year's comprehensive income. Therefore, the parent company does not present a separate "Statement of comprehensive income."

Parent company balance sheet

SEK m	Note	2018-12-31	2017-12-31 ¹⁾	2017-01-01 ¹⁾
Non-current assets				
Goodwill	15	10.9	26.8	0.0
Capitalized product development costs	15	338.8	283.7	180.2
Trademark	15	40.7	49.7	0.0
Other intangible assets	15	44.1	19.3	12.4
Property, plant and equipment	16	5.0	9.9	7.7
<i>Financial assets</i>				
Participations in Group companies	17	310.3	157.3	157.2
Deferred tax assets	13	61.7	65.9	32.4
Receivables from Group companies	30	299.8	283.5	373.0
Other financial assets		0.0	0.0	1.8
Total non-current assets		1,111.3	896.0	764.7
Current assets				
Accounts receivable	18	53.9	52.9	48.5
Receivables from Group companies	30	45.9	67.6	100.3
Inventories	19	36.7	36.1	43.7
Other receivables		59.1	56.4	9.5
Prepaid expenses and accrued income	20	24.0	13.6	10.9
Cash and cash equivalents	21	92.0	470.1	685.7
Total current assets		311.6	696.6	898.6
Total assets		1,422.9	1,592.6	1,663.3

1) Restated with application of IFRS 15.

SEK m	Note	2018-12-31	2017-12-31 ¹⁾	2017-01-01 ¹⁾
Equity				
Share capital	23	0.7	0.7	0.7
Statutory reserve		5.3	5.3	5.3
Reserve for development expenditures		264.5	207.7	80.4
Total restricted equity		270.5	213.7	86.4
Premium reserve		1,624.0	1,576.2	1,560.9
Retained earnings		-531.7	-288.4	-162.9
Profit/loss for the year		-212.8	-188.1	0.1
Total non-restricted equity		879.5	1,099.7	1,398.1
Total equity		1,150.0	1,313.4	1,484.5
Provisions	25	1.4	2.2	8.3
Non-current liabilities				
Other non-current liabilities		27.6	24.6	11.9
Total non-current liabilities		27.6	24.6	11.9
Current liabilities				
Accounts payable	26	80.9	45.1	38.2
Liabilities to Group companies	30	23.2	95.6	20.0
Other liabilities	26	48.4	28.2	18.7
Accrued expenses and deferred income	27	91.7	83.6	81.6
Total current liabilities		244.0	252.5	158.5
Total liabilities		272.9	279.2	178.7
Total equity and liabilities		1,422.9	1,592.6	1,663.3

1) Restated with application of IFRS 15.

Parent company statement of changes in equity

SEK m	Note	Restricted equity			Premium reserve	Retained earnings	Total equity
		Share capital	Statutory reserve	Reserve for development expenditure			
Opening balance, Jan 1, 2017		0.7	5.3	80.4	1,560.9	-147.5	1,499.8
Change in accounting principles						-15.3	-15.3
Restated equity Jan. 1, 2017		0.7	5.3	80.4	1,560.9	-162.8	1,484.6
Profit/loss for the year						-188.1	-188.1
Transfer from unrestricted to restricted equity, reserve for development expenditures				127.3		-127.3	–
Transactions with shareholders							
New share issue, exercise of warrants incentive program		0.0			10.0		10.0
Sale of warrants, incentive program					5.3		5.3
Equity-settled share-based payment transactions under IFRS 2	8					1.6	1.6
Total transactions with shareholders		0.0			15.3	1.6	16.9
Closing balance, Dec. 31, 2017		0.7	5.3	207.7	1,576.2	-476.5	1,313.4
Profit/loss for the year						-212.8	-212.8
Transfer from unrestricted to restricted equity, reserve for development expenditures				56.8		-56.8	–
Transactions with shareholders							
New share issue, exercise of warrants incentive program		0.0			41.2		41.3
Sale of warrants, incentive program					6.6		6.6
Equity-settled share-based payment transactions under IFRS 2	8					1.5	1.5
Total transactions with shareholders					47.8	1.5	49.4
Closing balance, Dec. 31, 2018		0.7	5.3	264.5	1,624.1	-744.6	1,150.0

Parent company cash flow statement

SEK m	Note	2018	2017
Cash flow from operating activities			
Profit/loss after financial items		-208.6	-221.7
Adjustment for items not included in the cash flow:			
Amortization and write downs on intangible assets	9	146.1	110.9
Depreciation and write downs on property, plant and equipment	9	6.7	10.5
Unrealized exchange rate differences		-23.9	37.0
Changes in provisions		-0.8	-6.2
Other items not affecting the cash flow		-3.0	-2.5
Taxes paid		0.0	0.0
Cash flow from operating activities before change in working capital		-83.5	-72.0
Cash flow from change in working capital			
Increase(-)/Decrease(+) in inventories		-0.6	7.6
Increase(-)/Decrease(+) in operating receivables		7.6	-19.5
Increase(+)/Decrease(-) in operating liabilities		-8.6	94.0
Cash flow from operating activities		-85.1	10.1
Investments			
Investing activities			
Investments in intangible assets	15	-201.1	-261.8
Investments in property, plant and equipment	16	-3.9	-10.0
Investments in financial assets		7.5	54.3
Cash flow after investing activities		-282.6	-207.4
Acquisition of subsidiary companies		-143.7	-23.7
Cash flow after investments		-426.2	-231.1
Financing activities			
Rights issue, exercise of warrants		41.3	10.0
Sale/exercise of warrants, incentive program		6.6	5.3
Cash flow from financing activities		47.9	15.3
Cash flow for the year		-378.3	-215.8
Cash and cash equivalents at the beginning of the year		470.1	685.7
Cash and cash equivalents at year-end	21	92.0	470.1

Notes

Note 1. General information

Tobii AB (publ) (the parent company), corporate identity number 556613-9654, is a Swedish limited liability company with its registered office in Danderyd, Sweden. The address of the head office is Karlsrovägen 2D, Danderyd, Sweden. Tobii AB (publ) and its subsidiaries (referred to collectively as the Group) is a global market-leading provider of eye-tracking solutions. A product with an integrated eye-tracking sensor knows what a user is looking at. This makes it possible to interact with computers and equipment using the eyes.

Tobii operates globally from its offices in Sweden, the USA (offices in Washington D.C., Pittsburgh and Mountain View), China, Japan, Great Britain, Germany, Norway, South Korea and Taiwan.

Note 2. Summary of important accounting policies

BASIS ON WHICH THE STATEMENTS HAVE BEEN PREPARED

The consolidated financial statements have been prepared in accordance with international Financial Reporting standards (IFRS), issued by the international accounting standards Board (IASB) and the interpretation statements of the international Financial Reporting Interpretations Committee (IFRIC) as approved by the European Commission for application within the EU. Furthermore, the Swedish Financial Reporting Board's Recommendation RFR 1, "Supplementary accounting Rules for Groups" has also been applied. The parent company's financial reports have been prepared in accordance with the Swedish Annual Accounts Act and standard RFR 2, Accounting for legal entities.

The preparation of reports in accordance with IFRS requires the use of a number of important estimates for accounting purposes. It also requires that management carry out certain assessments when applying the Group's accounting policies. For areas that involve a high degree of assessment, which are complex or where assumptions and estimates are of material importance for the consolidated financial statements, see Note 4.

CHANGES IN ACCOUNTING PRINCIPLES AND DISCLOSURES

New standards applied by the Group from January 1, 2018

IFRS 15, "Revenue from contracts with customers" is applied from January 1, 2018. Tobii applies the retrospective transition method specified in the standard and has restated the 2017 income statement and balance sheet in accordance with IFRS 15. The restatement has resulted in a decrease in opening equity of SEK 80 million as at January 1, 2017, and an increase of the same amount in the liability Contracts with customers. A specification of the effects of restatement can be found in Note 32 Effects from IFRS 15 restatement below. The restatement relates to warranties and customer support commitments which Tobii has sold in earlier years but had not yet fulfilled as at January 1, 2017. The application of IFRS 15 has had a negative impact of SEK 6 million on revenue for 2017, compared with reported revenue in accordance with the previous standard. The values presented are before tax.

The Tobii Dynavox business unit sells certain products as packages comprised partly of computer products that are delivered to customers at date of sale, and partly as service commitments in the form of enhanced warranties and customer support which are fulfilled in future periods after the date of sale. As a result of the introduction of IFRS 15, revenue from service commitments delivered in periods later than the computer product with which they are sold are postponed compared with previous standards. The effect on the restated revenue for 2017 is a decrease of 0.5% and mainly relates to Tobii Dynavox. The Tobii Pro business unit is affected to a lesser extent since the products are not sold as packages, but as separate products.

IFRS 9 "Financial Instruments" applies from January 1, 2018. The standard deals with the classification, valuation and resolution of financial assets and liabilities, introduces new rules for hedge accounting and a new model for impairment of financial assets. The transition to the new standard has no material effect material impact on Tobii's classification and valuation of financial instruments. Tobii does not use hedge accounting. The new model for calculating bad debt provision based on expected credit losses rather than realized credit losses has no material impact on the Group's bad debt provision. Since the effects are not material, the transition to IFRS 9 has no effect on the opening balance for the financial year 2018.

New standards and interpretations not yet adopted by the Group:

IFRS 16 Leases

IFRS 16 for leases applies from January 1, 2019. The standard replaces IAS 17 leases and related interpretations and for lessees, the standard eliminates the classification of leases as either operating or finance, as required by IAS 17, and instead introduces a single lease accounting model. In this model a lessee is required to recognize, (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of leased assets separately from interest on lease liabilities in the income statement.

The mandatory application date for the IFRS 16 standard was January 1, 2019. Tobii started applying IFRS 16 from January 1, 2019. Preparatory work has been carried out within the Group to implement IFRS 16. The work has involved identifying and reviewing leases, implementing a Group-wide system solution to meet the accounting and reporting requirements and evaluating the effect of IFRS 16. The general impact of IFRS 16, the results of the preparatory work and the preliminary effects of the application of the standard are described below.

Transition to IFRS 16

At the transition to IFRS 16 on January 1, 2019 Tobii has applied IFRS 16 according to the simplified transition approach, which means that the financial year 2018 is not restated, but the accumulated effect of the transition will be recognized as an opening balance adjustment. The lease liability is the sum of the present value of all future payments until the lease expires. The practical expedient to set the right of use asset (before adjustments for any prepayments) equal to the lease liability has been applied for the transition. The discount rate is the Tobii Group's incremental borrowing rate with consideration taken to the maturity of the lease. In applying IFRS 16 for the first time, the group uses practical expedients permitted by the standard, when applicable.

The applied practical solutions include the following:

There is no reassessment of whether a contract is, or contains, a lease at the date of transition to IFRS 16. This means that the standard is applied to all contracts of higher value that were identified as leases under IAS 17 and IFRIC 4.

The practical expedient for definition of a lease has been applied, which means that all components within a lease have been considered as a lease component.

Operating leases with a remaining lease term of less than 12 months as at January 1, 2019, are accounted for as short-term leases, which means they are not recognized on the balance sheet at transition.

The short-term lease exception and the asset of low value exception have also been applied.

The estimated opening balance of the right-of-use assets is about SEK 121 million and the opening balance of the lease liability is about SEK 116 million for ongoing leases. The difference between the opening balance for assets and liabilities is prepaid lease payments. The Group's preliminary estimate is that the new accounting rules will have a somewhat positive impact on profit/loss and a very small effect on net profit/loss for full year 2019. The effect on net profit/loss is the difference after tax between operating leasing costs and the sum of depreciation and interest expenses. The largest asset classes for the leases are offices and cars.

No other IFRS or IFRIC interpretations that have not yet come into effect are expected to have any material impact on the Group.

FUNCTIONAL CURRENCY AND DATES

The parent company's functional currency is the Swedish krona (SEK), which is also the reporting currency for the parent company and the Group. This means that the financial statements are presented in Swedish krona. Unless otherwise stated, all amounts are rounded to the nearest million (SEK million). Amounts in parentheses refer to the previous year. Income statement items refer to the period January 1 – December 31, while balance sheet items refer to December 31.

CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to or has rights to variable returns from its interest in the entity and can affect the returns through its control in the entity. Subsidiaries are included in the consolidated financial statements as of the date on which control was transferred to the Group. They are excluded from the consolidated financial statements as of the date on which control ceases.

Subsidiaries are recognized according to the acquisition method. Acquisition cost consists of the fair value of transferred assets, liabilities and shares issued by the Group. The purchase price also includes the fair value of all assets or liabilities arising as a result of an agreement on conditional purchase price. Acquisition-related costs are recognized as an expense when they arise. Identifiable acquired assets and assumed liabilities in a business combination are initially measured at fair value on the date of acquisition.

When acquisition cost in a business combination exceeds the fair value of the acquired assets and assumed liabilities, as well as any contingent liabilities recognized separately, the difference is recognized as goodwill. When the difference is negative, it is recognized in the statement of comprehensive income.

The subsidiaries' financial statements are included in the consolidated financial statements from the date of acquisition until such time as controlling interest is relinquished. When the Group no longer has controlling interest, all remaining holdings are recognized at fair value from the date on when controlling interest ceases. Changes in the carrying amount are recognized in the income statement. The fair value is applied as the initial carrying amount and is the basis for continued recognition of the remaining interest as an associated company, joint venture or financial asset. All amounts referring to the divested entity previously recognized in Other comprehensive income are recognized as though the Group had directly divested the related assets or liabilities. Amounts previously recognized in Other comprehensive income may consequently be reclassified to profit/loss.

Transactions to be eliminated on consolidation

Intra-Group receivables and liabilities, income or expense, unrealized gains or losses that arise from intra-Group transactions are eliminated in their entirety in the preparation of the consolidated financial statements.

Segment reporting

The Group conducts its business through three business units, Tobii Dynavox, Tobii Pro and Tobii Tech, each of which has its own distinct markets, products and organizations. The Company reports each business unit as a separate segment. For further description of each segment see pages 16–37.

Operating segments are reported in a manner consistent with the internal reporting presented to the chief operating decision maker. The chief operating decision maker is the function responsible for allocation of resources and analyzing the segment's profit/loss. This function has been identified as Group Management in this Group.

Group Management primarily used sales, operating profit/loss before depreciation, amortization and write-downs (EBITDA), operating profit/loss and investments in research and development in its analysis of the business units' performance.

Sales per geographic market are separated into the following markets: North America, Europe and other countries. The same accounting principles applied to the consolidated Group also apply to the business segments.

FOREIGN CURRENCY

Transactions in foreign currency

Transactions in foreign currency are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currency are translated into the functional currency at the exchange rates prevailing on the balance sheet date. Non-monetary assets and liabilities recognized at historic cost are translated at the exchange rates prevailing on the date of the transaction. Non-monetary assets and liabilities recognized at fair value are translated into the functional currency at the exchange rate prevailing on the date fair value measurement was applied. Exchange rate differences that arise on the translations are recognized in the income statement, both in operating profit/ loss and in net financial items depending on the nature of the underlying transactions.

SEK m	Closing rate		Average rate	
	2018	2017	2018	2017
EUR	10,275	9,850	10,256	9,635
USD	8,971	8,232	8,720	8,533
JPY	0,082	0,073	0,079	0,076

Foreign entities' financial statements

The functional currency is the currency in the primary economic environments in which the companies operate. Assets and liabilities in foreign operations, including goodwill and other consolidated surpluses and deficits, are translated from the foreign entities' functional currency to the Group's presentation currency, Swedish krona, at the exchange rate prevailing on balance sheet date. Income and expenses in a foreign entity is translated to Swedish krona at an average rate that is an approximation of the exchange rates pertaining on the dates of the transactions respectively. Translation differences that arise on the translation of foreign entities are recognized in Other comprehensive income as a translation reserve. When a foreign entity is divested, the accumulated translation differences attributable to the entity are recognized in the consolidated statement of comprehensive income.

REVENUE RECOGNITION

General

The Group recognizes revenue in the income statement when its amount can be measured reliably and it is probable that future economic benefits will accrue to the Group. Income is recognized net after VAT at the fair value of the amounts received or expected to be received, less any granted discounts.

Sale of goods

Tobii's revenue from goods consists primarily of the sale of self-manufactured products at fixed prices. Revenue from the sale of goods is recognized when control of the products is transferred, which occurs when the products are delivered to the buyer and there are no unfulfilled commitments that can affect the buyer's approval of the products. If there is significant uncertainty regarding payment, associated expenses or risk of return, revenue is not recognized.

Service assignments

Revenue from services consists primarily of support, service contracts, installations, consultancy assignments and training. These services are provided either based on time and material, and revenue is recognized in the period during which the service is rendered – or as fixed price agreements during a defined period and revenue is recognized in the period during which the service is rendered, allocated on a straight-line basis over the term of the agreement.

Sale of bundles including both goods and services

Certain products are sold as bundles comprised partly of goods that are sold to customers at date of sale, and partly as service commitments in the form of enhanced warranties and customer support which are fulfilled in future periods after the date of sale. For such sales, revenue is allocated between goods and service commitments. Revenue for goods and service commitments, respectively, is then recognized according to the model for the respective sale above.

Rental revenue

Revenue and corresponding expenses regarding leasing of Tobii's products are recognized in the period to which the rental refers.

Royalty revenue

Revenue from royalties is allocated in line with economic implications of the agreement in question.

Government grants

Government grants are recognized in the balance sheet as deferred income when there is reasonable assurance that the grant will be received and the Group will fulfill the terms associated with the grant. Grants are allocated systematically in the income statement in the same manner and over the same periods as the expenses for which the grants are intended to compensate.

Government grants related to assets are reported in the balance sheet as deferred income and allocated over the asset's useful life as operating income.

LEASES

Tobii has no assets leased through finance leases, i.e. leases where all significant risks and benefits associated with ownership of the leased asset have been transferred to the Group.

Leases where all significant risks and benefits associated with ownership are retained by the lessor are classified as operating leases. All leases are classified and recognized as rental agreements, meaning that the lease fees are recognized as expenses and allocated over the duration of the agreement based on utilization, which may differ from what is actually paid as lease fees during the year. Tobii's leases refer primarily to the rental of offices.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses consist of interest income on funds in banks, receivables and interest expenses on borrowings, exchange rate differences, and unrealized and realized gains on financial investments within the financial activities.

Exchange rate differences attributable to financial receivables and liabilities are recognized among financial items in the income statement. Exchange rate differences attributed to operating items are recognized in the respective item in the income statement and included in operating profit/loss.

TAXES

Income tax comprises current tax and deferred tax. Income tax is recognized in the income statement except when the underlying transaction is recognized directly in equity or other comprehensive income, in which case the associated tax effect is recognized in equity or other comprehensive income respectively. Current tax is tax that is to be paid or received the current year, with application of the tax rates adopted, or adopted in practice, on the balance sheet date. Also included in current tax are adjustments to current tax attributable to previous periods.

Deferred tax is calculated according to the balance sheet method on the basis of temporary differences between the recognized and tax values and carrying amounts of assets and liabilities. The following temporary differences are not considered: temporary differences arising on initial recognition of goodwill, the initial

recognition of assets and liabilities that are not business combinations and do not influence either recognized or taxable profit/loss on the date of transaction.

Furthermore, temporary differences attributable to interests in subsidiaries and associated companies that are not expected to be reversed within the foreseeable future. The measurement of deferred tax is based on how the carrying amounts of assets or liabilities are expected to be realized or settled. Deferred tax is measured at the tax rate expected to be applied and tax laws that have been enacted or in practice by the balance sheet date.

Deferred tax assets on deductible temporary differences and loss carry-forwards are recognized only to the extent it is likely they can be utilized. The value of deferred tax receivables is reduced when it is no longer considered likely that they can be utilized.

Any income tax surcharges arising in conjunction with the payment of dividends are recognized at the same time the dividend is recognized as a liability.

FINANCIAL INSTRUMENTS

Recognition and measurement of financial instruments

A financial asset or a financial liability is reported in the balance sheet when the Group becomes party to the contractual terms and conditions of the instrument. Accounts receivable is reported in the balance sheet when an invoice is sent. A liability is reported in the balance sheet when the counterpart has performed and there is a contractual obligation to pay even if the invoice has not yet been sent. Supplier invoices are reported as a liability when the invoice is received.

At initial recognition the Group measures a financial asset or financial liability at fair value. In the case of a financial asset or financial liability that is not measured at fair value through profit or loss, transaction costs are included in cost, while transaction costs for financial assets and financial liabilities recognized at fair value through profit or loss are expensed through profit or loss.

A financial asset is derecognized from the balance sheet when the rights in the contract are realized, expired or the Group loses control over them. A financial liability is removed from the balance sheet when it is extinguished; i.e., when the obligations in the agreement are discharged, canceled or terminated.

Financial assets – classification and subsequent measurement

The Group classifies its financial instruments in the following measurement categories:

- fair value through profit or loss
- fair value through other comprehensive income, or
- amortized cost

Accounts and loan receivables

Accounts and loan receivables are measured at amortized cost. Amortized cost is determined based on the effective interest which is calculated at acquisition date. The expected maturity of accounts receivable is short, and values are recognized at nominal amount with no discounts.

Impairment and expected loss

Tobii assesses expected credit losses that are linked to financial receivables. A provision for assessed losses is recognized on each reporting occasion. For accounts receivable, a method is applied under which the provision for doubtful accounts receivable corresponds to expected credit losses for the remaining maturity. If a provision is considered insufficient due to individual assessments, the provision is increased to cover the actual expected losses.

Cash and cash equivalents

The Group's cash and cash equivalents consist of cash and bank balances at financial institutions and are recognized at their nominal amount. Tobii invests a portion of its cash and cash equivalents in a Swedish short-term fixed income fund which allows access to funds within two to three bank days and where the risk of value fluctuation during this time is insignificant. These instruments are continuously measured at fair value with changes in the period recognized in profit or loss as Other financial items.

Financial liabilities – classification and subsequent measurement

Interest-bearing liabilities

Borrowings are initially recognized at fair value net of transaction costs incurred. After initial recognition, borrowings are valued at amortized cost using the effective interest method. Tobii has no interest-bearing liabilities at the end of the period.

Other financial liabilities

Contingent considerations are recognized at fair value through profit or loss. Other financial liabilities are classified and subsequently measured at amortized cost. This category includes accounts payable. The expected maturities of Tobii's accounts payable are short and values are recognized at nominal amount with no discounts.

INVENTORIES

Inventories are measured at the lower of the cost and the net realizable value. Net realizable value is the estimated selling price from operating activities less the estimated cost of production and sales. Impairment of inventories, if any, is recognized under Cost of goods and services sold

Cost for inventories is calculated using the first-in-first-out method (FIFO) and includes expenses that arise on acquisition and transportation of the inventory assets to their current location and condition. Cost for manufactured goods and work in progress includes a reasonable proportion of overhead based on normal capacity.

Intra-group profits arising from deliveries between Group companies are eliminated in the consolidated accounts.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is recognized as assets in the balance sheet if it is probable that future economic benefits will accrue to the Group and cost for the asset can be calculated reliably.

Property, plant and equipment is recognized in the Group at cost less accumulated depreciation and any impairment losses. Cost includes the purchase price and expenses directly related to transporting the asset to its location and in a condition so that it can be utilized as intended. Examples of directly related expenses included in cost are delivery and handling, installation, registration of title, and consultant and legal services.

Depreciation principles

The straight-line basis for depreciation is used for all property, plant and equipment.

The following periods of depreciation are applied:

- | | |
|--------------------------------------|---------|
| ▪ Equipment, tools and installations | 5 years |
| ▪ Demonstration units | 2 years |

Computer equipment used in the Group are recognized as an expense when they arise. Assets' residual value and useful lives are estimated every year and adjusted as required.

INTANGIBLE ASSETS

Goodwill

Goodwill consists of the difference between cost and the Group's share of the fair value of an acquired subsidiary's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill has an indeterminate useful life and is not amortized, but tested annually for any possible impairment.

Research and development

Research and development costs are recognized as an expense immediately. Expenses for development projects (related to the design and testing of new or improved products) are capitalized in the balance sheet as intangible assets to the extent these expenses are expected to generate future economic benefits. Other development costs are recognized as expenses as they arise.

Development costs previously recognized as expenses are not capitalized as assets in the balance sheet in subsequent periods. Direct expenses include personnel costs for development employees and a proportion of the indirect costs.

Amortization of capitalized development costs commences when the product is available for general use and reassessment of the useful life amortization is done annually.

The unamortized amount of capitalized development is tested for impairment annually (in accordance with IAS 36) when the products resulting from the development are not yet available for sale.

- Capitalized development costs 2–4 years

Trademarks

Trademarks acquired through business combinations are recognized at fair value on the day of acquisition. The Group's acquired trademarks have an indeterminate useful life and are not amortized, but tested annually for any possible impairment.

Patents

Expenses for patents are capitalized in the balance sheet and amortized on a straight-line basis over its estimated useful life.

IMPAIRMENT

The recognized values of the Group's assets are tested at each balance sheet date to assess whether there is evidence of impairment. The Group applies IAS 36 for impairment testing of assets other than financial assets, inventories and deferred tax assets. The asset's recoverable amount is calculated if there is indication of impairment loss. Assets exempted according to the above are tested in accordance with the relevant standard.

IMPAIRMENT TESTING FOR PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND PARTICIPATIONS IN SUBSIDIARIES.

If there is indication of impairment, the asset's recoverable amount is calculated according to IAS 36 (see below). The recoverable amount is calculated annually for goodwill and other intangible assets with indeterminate useful lives and intangible assets not yet ready for use.

If it is not possible to determine substantially independent cash flow to an individual asset when testing for impairment, then assets are to be grouped at the lowest level at which substantially independent cash flows can be identified (cash-generating units). Impairment loss is recognized when an asset or cash-generating unit's carrying amount is higher than its recoverable amount. Impairment is recognized in the income statement.

Impairment of assets attributable to cash-generating units (group of units) is initially allocated to goodwill. Thereafter, other assets included in the unit (group of units) are proportionally impaired.

Reversal of impairment

Impairment of goodwill is not reversed. Impairment of other assets is reversed if there has been a change in the assumptions that formed the basis for calculating the recoverable amount. Impairment is reversed only to the extent the asset's carrying amount after reversal does not exceed the carrying amount the asset would have had if impairment had not been recognized, with consideration to the depreciation/amortization that would have been recognized.

SHARE CAPITAL

Dividends

Dividends are recognized as a liability after the shareholders' meeting has approved the dividends.

Earnings per share

The calculation of earnings per share is based on the year's profit/loss in the Group attributable to the parent company's shareholders and the weighted average number of outstanding shares during the year.

When calculating earnings per share after dilution, the profit/loss and average number of shares are adjusted to take into account the effects of potential dilutive ordinary shares that, during the reporting period, stem from the long-term incentive program.

EMPLOYEE BENEFITS

Defined-contribution retirement plans

Commitments concerning premiums for defined-contribution plans are recognized as an expense in the income statement as they arise. Defined-contribution plans are those plans where the Company's obligations are limited to the contributions the Company has committed to pay. In such cases, the size of the employee's retirement benefit is dependent on the contributions that the Company pays into the plan or insurance company, and the returns on capital that these premiums generate. Subsequently, it is the employee who bears the actuarial risk (that benefits are lower than expected) and the investment risk (that invested assets will be insufficient to generate the expected benefits).

Defined-benefit retirement plans

The Group has no defined-benefit plans at present.

Severance pay

A provision is recognized in conjunction with terminations of employees only if the Company is formally obliged to prematurely terminate employment or when remuneration is offered as an incentive to initiate voluntary redundancy.

Share-based compensation to employees

The Group applies IFRS 2 for a share-based remuneration plan that began in 2010 and is recognized as equity-settled share-based transactions in accordance with IFRS 2. Expenses for employee stock options and warrants are measured at fair value, allocated over the duration of the program and recognized in equity. The Group recognizes a reserve for accrued social security contributions for the program based on the calculated taxable benefits payable to participants. The fair value of the employee stock options and warrants are calculated using Black& Scholes pricing model.

PROVISIONS

A provision differs from other liabilities in that there is a certain prevailing uncertainty about the date of payment or the amount required to settle the provision. A provision is recognized in the balance sheet when the Group has an existing legal or informal commitment as a result of an event that has occurred, and it is probable that an outflow of economic resources will be required to settle the commitment and the amount required can be estimated reliably. In those cases when the effect of when payment is made is material, discounting is made of expected future cash flow at an interest rate before tax that reflects actual market assessments of the time value of money and, if applicable, those risks associated with the liability.

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical data regarding warranties and a considered evaluation of the potential outcomes in relation to the probabilities associated with those outcomes.

PARENT COMPANY'S ACCOUNTING PRINCIPLES

The parent company has prepared its annual report in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 "Accounting for Legal Entities". The statements issued by the Swedish Financial Reporting Board that apply to publicly listed companies have also been applied. RFR 2 requires that the parent company in the annual report for the legal entity apply all the IFRS and statements adopted by the EU to the extent that these correspond with the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act, taking account of the association between accounting and taxation. The recommendation specifies which exemptions from and additions to IFRS are to be observed.

Classification and presentation methods

The Parent Company's income statement and balance sheet are set out in accordance with the Swedish Annual Accounts Act's schedule. The difference compared with IAS 1, "Presentation of Financial statements" which is applied in the presentation of the consolidated financial statements, relates primarily to the recording of financial income and expenses, non-current and current assets, equity and the presence of provisions as a separate heading in the parent company's balance sheet.

Expenses related to the acquisition of a subsidiary are included in goodwill. Goodwill recognized in the Parent Company is amortized over five years.

Note 3. Financial risks and risk management

Tobii, through its international operations, is exposed to financial risks that are managed in accordance with the policies adopted by the Board of Directors. The exposure comprises mainly currency risk, interest rate risk, credit risk and financing and liquidity risk.

CURRENCY RISK

Currency risk refers to the risk that fluctuating exchange rates will have a negative impact on the Group's net profit/loss, balance sheet or cash flows. Currency exposure arises when products and services are bought or sold in other currencies than the local currencies used by the respective subsidiaries (transaction exposure), and when the balance and income statements from non-Swedish subsidiaries are converted to SEK (translation exposure). Tobii's global operations give rise to significant cash flows in currencies other than SEK. Tobii is mainly exposed to changes in EUR, USD and JPY in relation to SEK.

Tobii continuously assesses the impact of the trends of the most important currencies. Presently the Group does not use any currency hedge.

Net exposure per currency in the consolidated balance sheet

SEK m	2018	2017
USD	330	302
EUR	40	33
JPY	28	20
Other	27	21
Total	424	376

A change in the exchange rate in relation to SEK by +/- 10 percent in USD, EUR, JPY and other currencies in the consolidated balance sheet would impact the balance sheet by +/- SEK 42 (38) million.

INTEREST RATE RISK

Interest rate risk arises when changes in market interest rates affect interest income from the Group's interest-bearing assets and interest expense on the Group's interest-bearing liabilities, which affects the Group's net interest and cash flow. The Group had no current or long-term debt at December 31, 2018 which means that Tobii is not exposed to risk caused by an increase in interest rates.

Based on the interest-bearing assets and liabilities at the close of 2018, an increase of one percentage (100 basis points) is calculated to have a positive impact on earnings of SEK 1.9 million in 2018 and 1.9 in 2017.

CREDIT RISK

Credit risk is the risk that a customer or other party in a transaction involving a financial instrument is unable to fulfill its commitments. Credit risk arises in the context of cash and cash equivalents, other balances with banks and financial institutions, and credit exposure through accounts receivable. The maximum exposure to credit risks regarding financial assets is equivalent to the reported value of each category, in note 22.

Financial credit risk

Tobii's cash and cash equivalents at December 31, 2018 amounted to SEK 192 (537) million. Of this, 0 (351) was placed in a quoted Swedish fixed income fund, which is a risk category 1 on a scale of 1–5 where category 1 is a risk-free investment. Other cash amounts are placed in bank accounts in accordance with the Group's placement policy which among other things, requires a maximum amount to be placed at a single financial institution and only allows placement with highly regarded financial institutions with high credit ratings.

Credit risk in accounts receivable

In markets where Tobii has its own sales company, the Company is responsible for marketing and sales to the customer. In other markets, Tobii collaborates with a network of resellers and distributors, whose capacity to carry losses can impact the Group. The amount of the credit risk is assessed for each customer and outstanding accounts receivable is reviewed regularly. Total accounts receivable at December 31, 2018 amounted to SEK 212 (168) million. No single customer accounted for 10 percent or more of Tobii's total accounts receivable. The maturity profile of outstanding accounts receivable is presented in note 18.

FINANCING AND LIQUIDITY RISK

The Group's objective is to have a capital structure that secures its capacity to continue its operations while keeping the cost of capital low. As part of this strategy, Tobii carried out a rights issue in December of 2016 which provided 449 SEK million to finance investments in smartphones and virtual reality products with eye tracking. In the event that Tobii requires access to future external financing, it is dependent upon factors such as market conditions, general access to credit and Tobii's creditworthiness. There is a risk that Tobii is not able to secure such financing with favorable terms, but Tobii's assessment is that the Company is fully financed to carry out the current business plan and a financial target for the Group is to achieve profitability in 2020. Tobii's has an active acquisition strategy in all three business units and potential acquisitions may require individual financing.

Liquidity risk pertains to the risk of not being able to cover payment obligations due to insufficient cash and cash equivalents or difficulties in obtaining external financing. To manage these uncertainties and risks the Group's operating companies prepare cash flow forecasts that are aggregated to consolidated Group values by the finance department. The forecasts are followed up regularly to ensure that the Group has sufficient cash funds to meet the estimated needs of its operations. At the close of 2018, Tobii had unutilized credit facilities for a total of SEK 250 (0) million. To a certain extent the Group also has the option to change the rate at which investments are made so as to adapt the yearly capital needs to the Group's actual financial resources.

Note 4 Important estimates and assessments when applying the accounting policies

The preparation of financial statements in accordance with IFRS requires that corporate management make assessments when applying the accounting policies. Management also makes estimates and assumptions about the future that are based on past experiences and a number of other factors that under the prevailing circumstances appear reasonable. The results of these estimates and assumptions are then used to determine the carrying amounts of assets and liabilities not otherwise clearly evident from other sources. The actual outcome may deviate from these estimates and assumptions.

These estimates and assumptions are reviewed regularly. Changes in estimates are recognized in the period in which the change is made if the change affects only that period, or in the period the change is made and future periods if the change affects both the actual period and future periods. Areas where estimates and assumptions could imply a significant risk for adjustments in the reported values of assets and liabilities during the coming fiscal year are primarily:

CAPITALIZED PRODUCT DEVELOPMENT COSTS

Expenses for development projects are capitalized to the extent the expenditure can be expected to generate economic benefits. Capitalization commences when management judges that the product will be technically or economically viable. Capitalization ceases and amortization of capitalized development expenses commences when the product is ready for sale. Capitalized development expenses are subject to annual impairment testing whereby an assessment is made on the technical and economic value of the product.

TESTING OF IMPAIRMENT FOR GOODWILL, CAPITALIZED PRODUCT DEVELOPMENT COSTS AND TRADEMARKS

The Group tests annually for impairment for goodwill, capitalized product development costs and trademarks in accordance with the Company's accounting policies. The test requires an estimation of parameters that affect the future cash flow and determination of a discount factor. Forecasts for future cash flows are based on the best possible estimation of future income and operating expenses. For more information regarding intangible assets and a description of impairment testing, assumptions and sensitivity analysis, see note 15.

MEASUREMENT OF LOSS CARRY-FORWARDS

Deferred tax assets on loss carry-forwards are recognized to the extent that it is deemed probable that future tax surpluses will be available against which the deduction can be offset. Deferred tax assets in the balance sheet amounted to SEK 83.7 million (90.1) and the loss carry-forwards will, according to the Group's forecasts, be applied against future profits. The reported tax assets are impacted by the estimates and assessments used to forecast future taxable profits and tax regulations and our forecasts indicate that the loss carry-forwards can be applied to future surpluses. See note 13 for more information about the Group's deferred taxes.

Note 5. Sales and earnings by business unit

To manage operations, Group Management monitors a number of key ratios, mainly net sales, operating profit/loss and operating profit/loss before depreciation and amortization and R&D expenditures and investments per business unit, as well as net sales per geographic area.

SALES PER BUSINESS UNIT

SEK m	2018	2017
Tobii Dynavox	822.0	708.3
Tobii Pro	396.6	304.1
Tobii Tech	149.8	120.6
Other	0.0	0.0
Eliminations ¹⁾	-66.2	-54.0
The Group	1,302.2	1,078.9

¹⁾ Eliminations refer entirely to sales from the Tobii Tech business unit to Tobii Dynavox and Tobii Pro.

OPERATING PROFIT/LOSS BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)

SEK m	2018	2017
Tobii Dynavox	138.7	135.2
Tobii Pro	100.8	65.5
Tobii Tech	-267.1	-253.2
Other	0.2	0.0
The Group	-27.5	-52.4

OPERATING PROFIT/LOSS (EBIT)

SEK m	2018	2017
Tobii Dynavox	69.0	73.6
Tobii Pro	44.9	25.8
Tobii Tech	-304.7	-290.8
Other	0.0	0.0
The Group	-190.7	-191.4
Financial items, net*	24.8	-33.7
Profit/Loss before tax	-165.9	-225.0
Tax*	-8.4	33.1
Profit/loss for the year	-174.3	-192.0

*Financial items and tax are not reported by business unit

SALES PER GEOGRAPHIC MARKET

Net sales by geographic market is based on the location of the customer's registered office. There are no individual customers who represent more than 10 percent of net sales.

SEK m	2018	2017
Sweden	20.6	16.8
Europe	283.1	216.3
US	755.2	646.5
Other countries	243.3	199.3
Total	1,302.2	1,078.9

SALES PER PRODUCT TYPE

SEK m	2018	2017
Goods	1,136.9	988.5
Services	152.5	76.6
Royalties	12.9	13.8
Total	1,302.2	1,078.9

R&D PER BUSINESS UNIT

SEK m	Total R&D expenditures	Capitalized R&D	R&D amortization	R&D expenses net, as in income statement
2018				
Tobii Dynavox	-138.0	75.8	-51.6	-113.8
Tobii Pro	-91.2	62.7	-39.3	-67.9
Tobii Tech	-264.9	62.7	-37.0	-239.2
The Group	-494.1	201.2	-127.9	-420.8

SEK m	Total R&D expenditures	Capitalized R&D	R&D amortization	R&D expenses net, as in income statement
2017				
Tobii Dynavox	-114.6	60.9	-46.6	-100.4
Tobii Pro	-67.8	49.1	-36.1	-54.8
Tobii Tech	-237.9	47.6	-36.9	-227.2
The Group	-420.3	157.5	-119.7	-382.5

NON-CURRENT ASSETS BY COUNTRY

SEK m	2018	2017
Sweden	720.8	462.1
US	37.5	81.8
Other countries	22.10	16.2
Total	780.4	560.1

Note 6. Rental commitments and significant leasing commitments

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Within 1 year	33.7	23.4	14.3	10.5
Between 2–5 years	78.9	38.4	27.1	0.5
Later than 5 years	9.7	17.0	0.0	0.0
Total commitments	122.4	78.8	41.4	10.9

Tobii's operating leasing commitments consist primarily of rent for premises.

This year's cost for operating leases:	34.5	25.8	15.3	12.2
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Note 7. Auditor's fees

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
PricewaterhouseCoopers				
Audit engagement	2.5	2.2	1.3	1.1
Audit activities not included in audit engagement	0.3	0.0	0.3	0.0
Tax consultancy services	0.0	0.0	0.0	0.0
Other services	0.0	1.4	0.0	1.4
Total	2.8	3.6	1.6	2.5
Other auditors				
Audit engagement	0.6	0.7	0.0	0.0
Audit activities not included in audit engagement	0.0	0.0	0.0	0.0
Tax consultancy services	1.6	1.2	0.2	0.1
Other services	1.8	0.7	0.0	0.0
Total	4.0	2.6	0.2	0.1
Total audit fees	6.8	6.2	2.0	2.6

Note 8. Employees and personnel costs

Average number of employees	Of which women		Of which women	
	2018	%	2017	%
The Parent Company				
Sweden	396	29%	329	27%
Other countries				
Parent company total	396	29%	329	27%
Average number of employees				
Subsidiaries				
US	366	53%	329	49%
Norway	14	14%	16	17%
UK	20	48%	10	60%
Germany	13	15%	10	0%
Japan	31	32%	26	32%
China	63	53%	52	50%
Taiwan	10	24%	6	18%
South Korea	3	0%	2	33%
Subsidiaries total	521	49%	450	45%
Total average no. of employees	917	40%	779	38%

SALARIES, REMUNERATIONS AND SOCIAL SECURITY CONTRIBUTIONS

Salaries and remunerations	The Group		The Parent Company	
	2018	2017	2018	2017
SEK m				
Board, CEO and other senior executives	19.3	17.8	19.3	17.8
Other employees	625.9	505.4	242.4	200.6
Total salaries and remunerations	645.2	523.2	261.7	218.4
Pension expenses	38.5	33.2	30.0	24.6
Other social security contributions*	121.1	99.5	85.1	66.7
Total social security contributions	159.6	132.7	115.1	91.2
Total salaries, remunerations and social security contributions	804.8	655.9	376.8	309.6

* The item Other social security contributions includes accrued social security contributions related to the Group's incentive program.

REMUNERATION TO THE PARENT COMPANY'S BOARD OF DIRECTORS, GROUP CEO AND OTHER SENIOR EXECUTIVES

SEK m 2018	Board fee/ Basic salary	Defined- contribution benefits	Tobii's incentive program	Variable remuneration	Employee stock options (IFRS 2)	Total
Kent Sander	0.7					0.7
Heli Arantola	0.2					0.2
Åsa Hedin	0.4					0.4
Charlotta Falvin ¹⁾	0.2					0.2
Nils Bernhard	0.2					0.2
Jan Wäreby	0.3					0.3
John Elvesjö	0.1					0.1
Total, Board of Directors	2.0	–	–	–	–	2.0
Henrik Eskilsson, CEO	3.0	0.7	0.1	–	0.0	3.9
John Elvesjö, Deputy CEO ²⁾	1.1	0.3	0.1	–	0.0	1.6
Senior executives (6 individuals)	8.8	2.1	0.5	3.5	0.2	15.0
Total senior executives	12.9	3.1	0.7	3.5	0.3	20.5
Total remuneration to the Parent Company's Board of Directors and other senior executives	15.0	3.1	0.7	3.5	0.3	22.5

¹⁾ Charlotta Falvin new board member 2018.²⁾ John Elvesjö resigned from his position as Deputy CEO in August 2018; remains as board member.

REMUNERATION TO THE PARENT COMPANY'S BOARD OF DIRECTORS, GROUP CEO AND OTHER SENIOR EXECUTIVES

SEK m 2017	Board fee/ Basic salary	Defined- contribution benefits	Tobii's incentive program	Variable remuneration	Employee stock options (IFRS 2)	Total
Kent Sander	0.7					0.7
Heli Arantola	0.3					0.3
Åsa Hedin	0.4					0.4
Martin Gren ¹⁾	0.1					0.1
Nils Bernhard	0.3					0.3
Jan Wäreby	0.3					0.3
John Elvesjö, Board member	–					–
Total, Board of Directors	2.0	–	–	–	–	2.0
Henrik Eskilsson, CEO	2.6	0.9	0.4	0.0	0.0	3.9
John Elvesjö, Deputy CEO	1.9	0.7	0.2	0.0	0.0	2.8
Senior executives (6 individuals)	8.4	2.3	1.1	1.2	0.3	13.2
Total, senior executives	12.9	3.9	1.7	1.3	0.3	20.0
Total remuneration to the Parent Company's Board of Directors and other senior executives	14.9	3.9	1.7	1.3	0.3	22.0

¹⁾ Martin Gren resigned from his position as Board member at the 2017 AGM.

CHANGES IN THE NUMBER OF OUTSTANDING OPTIONS IN INCENTIVE PROGRAM (THOUSANDS)

SEK m	Warrants		Employee stock options	
	2018	2017	2018	2017
At beginning of year	2,647	2,235	901	1,081
Allocated	823	800	217	169
Exercised	-1,101	-128	-485	-215
Forfeited/due	-108	-260	-43	-134
Reclassification	–	–	–	–
At year-end	2,261	2,647	591	901

INCENTIVE PROGRAM

Tobii has an incentive program for senior executives and other key employees in the Group. The program includes both warrants and employee stock options. The employee stock options are conditional on remaining in employment for large parts of the program's duration. Warrants are purchased by the employees at market price. The fair value of the warrants and employee stock options is calculated using the Black & Scholes pricing model. Assumptions which are used include volatility between 30% and 34%, interest rates between -0.3% and 1%, a time period from one to ten years and exercise price from 0% to 50% mark-up relative to the share price at the grant date.

SUBSCRIPTION TERMS FOR WARRANTS AND EMPLOYEE STOCK OPTION PROGRAM

2010/2014 series 3 entitles the employee stock option holder to subscribe for one Tobii AB share at a price of SEK 19 per share during a fixed period in 2017/2018. At January 1, 2018 there were a total of 84,500 employee stock options outstanding in the series of which 84,500 were exercised on August 1, 2018. The weighted average share price on August 1 was SEK 39.00.

2014/18:1 series entitles the warrant/employee stock option holder to subscribe for one Tobii AB share at a price of SEK 26 per share during a fixed period in 2018. On January 1, 2018 there were a total of 1,481,750 warrants and employee stock options outstanding in the series and on October 31, 2018 all options were exercised. The weighted average share price on October 31 was SEK 34.23.

2014/18:2 series entitles the employee stock option holder to subscribe for one Tobii AB share at a price of SEK 20 per share during a fixed period in 2018. At January 1, 2018 there were a total of 26,000 employee stock options outstanding in the series and on December 1, 2018, all options were exercised. The weighted average share price on December 3 was SEK 31.30.

2014/24:1 series entitles the warrant holder to subscribe for one Tobii AB share at a price of SEK 20 per share during a fixed period between 2015 and 2024. At January 1, 2018 and December 31, 2018 there were a total of 125,250 warrants outstanding in this series.

2015/20:1 series entitles the warrant holder to subscribe for one Tobii AB share at a price of SEK 26 per share for the period up to and including February 2020. At January 1, 2018 and December 31, 2018 there were a total of 136,000 warrants outstanding in this series.

LTI 2016:1 series entitles the warrant holder to subscribe for one Tobii AB share at a price of SEK 73.30 per share during a fixed period in 2019/2020. At December 31, 2018 there were a total of 599,600 warrants outstanding in this series.

LTI 2016:2 series entitles the employee stock option holder to subscribe for one Tobii AB share at a price of SEK 67.60 per share during a fixed period between 2020 and 2026. During the year 1,800 were forfeited and there is a total of 122,400 employee stock options outstanding in this series.

LTI 2017:1 series entitles the warrant holder to subscribe for one Tobii AB share at a price of SEK 60.90 per share during a fixed period in 2020/2021. There are a total of 702,400 warrants outstanding in the series.

LTI 2017:2 series entitles the employee stock option holder to subscribe for one Tobii AB share at a price of SEK 56.20 per share during a fixed period in 2021/2027. There are a total of 126,000 employee stock options outstanding in this series.

LTI 2018:1 series entitles the warrant holder to subscribe for one Tobii AB share at a price of SEK 51.60 per share during a fixed period in 2022. There are a total of 823,019 warrants outstanding in this series.

LTI 2018:2 series entitles the employee stock option holder to subscribe for one Tobii AB share at a price of SEK 39.70 per share during a fixed period in 2022/2028. There are a total of 217,000 employee stock options outstanding in this series.

During the year the average number of potential outstanding shares amounted to 261,250. When calculating the average number of potential outstanding shares only those with a lower exercise price than the average share price during the year are included. The average share price during 2018 was SEK 37.24. The average number of outstanding shares during the year was 97,578,851 and the diluted average number of outstanding shares was 97,840,101. The dilution effect of warrants in all of the Company's incentive programs corresponds to a maximum of approximately 2.9%.

Retirement benefits

Retirement benefits to the CEO and senior executives, as for all other Tobii employees, are paid to an insurance company or authority that assumes the obligations towards the employee, a defined contribution plan. The Group has no defined-benefit plans, either in Sweden or in subsidiaries outside Sweden.

SEVERANCE PAY

The CEO as well as some senior executives have a mutual notice period of four months and severance pay corresponding to four months' basic salary is to be paid on the condition that the Company is the party giving notice. Other senior executives have notice periods between three and six months, or a longer period of notice in accordance with applicable law, and in addition in some cases also severance pay corresponding to a maximum of six months' basic salary. The board of directors is entitled to deviate from these guidelines if there are specific grounds to do so. The CEO and other senior executives are not entitled to any additional remuneration in conjunction with the termination of their employment.

Note 9. Depreciation/amortization and impairment of intangible assets and property, plant and equipment

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Intangible assets (Note 15)	129.2	119.4	133.9	114.3
Tangible assets (Note 16)	21.7	19.6	6.7	6.9
Total depreciation/amortization	151.0	139.0	140.6	121.4
Impairment (Notes 15, 16)	12.2	0.0	12.2	0.0
Total depreciation/amortization/impairment	163.2	139.0	152.8	121.4

Note 10. Expenses by type

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Cost for materials and changes in inventory	246.4	176.8	296.9	247.4
Costs for employee remuneration (Note 8)	801.4	655.9	373.4	309.7
Other external expenses	306.7	292.6	304.0	272.1
Depreciation, amortization and impairments (Note 9)	163.2	139.0	152.8	121.4
Total expenses	1,517.8	1,264.3	1,127.1	950.5

Note 11. Other operating income and operating expenses

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Other operating income				
Exchange rate differences in operating receivables and liabilities	40.6	38.3	40.0	37.6
Other income	12.6	0.7	12.9	1.8
Total other operating income	53.2	39.0	52.9	39.4
Other operating expenses				
Exchange rate differences in operating receivables and liabilities	-28.3	-44.8	-26.5	-42.9
Capital loss on sale of equipment	0.2	0.0	-	-
Restructuring expenses	0.0	0.0	-	-
Other expenses	-0.2	-0.5	0.0	0.0
Total other operating expenses	-28.3	-45.3	-26.5	-42.9
Total other income and expenses	24.9	-6.3	26.4	-3.5

Note 12. Financial income and expenses

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Financial income				
Interest income and similar profit/loss items	1.0	4.2	0.4	3.9
Interest income, subsidiaries	-	-	18.1	23.2
Exchange rate differences	25.8	0.0	25.8	0.0
Total financial income	26.8	4.2	44.3	27.1
Financial expenses				
Interest expenses and similar profit/loss items	-0.2	-0.8	0.0	-0.1
Exchange rate differences	-1.9	-37.1	-1.9	-37.0
Other	0.0	-0.1	0.1	0.0
Total financial expenses	-2.1	-37.9	-1.8	-37.2
Total financial income and expenses	24.8	-33.7	42.6	-10.1

Note 13. Taxes

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Current tax	-0.8	-2.2	-	-
Current tax attributable to previous years	0.0	0.0	-	-
Total current tax	-0.8	-2.2	-	-
<i>Deferred tax</i>				
Attributable to deferred tax assets	-1.4	35.2	-4.2	33.5
Attributable to deferred tax liabilities	-6.2	0.0	-	-
Total deferred tax	-7.6	35.2	-4.2	33.5
Total tax	-8.4	33.1	-4.2	33.5
<i>Deferred tax assets</i>				
Inventories	2.4	3.7	-	-
Non-current assets	1.9	3.0	-	-
Current liabilities	0.0	0.0	-	-
Loss carry-forwards	79.4	83.4	61.8	65.9
Total deferred tax assets	83.7	90.1	61.8	65.9
<i>Deferred tax liabilities</i>				
Other	6.5	0.3	-	-
Total deferred tax liabilities	6.5	0.3	0.0	0.0

The Group's unutilized loss carry-forwards for which no deferred tax assets are recognized amounted to SEK 413.9 million and SEK 218.1 million at the close of 2018 and 2017 respectively. None of the unutilized loss carry-forwards expire within the coming 5-year period. The unutilized loss carry-forwards referring to subsidiaries in the US amount to SEK 147 million and there is a 20-year utilization period after the year in which the loss occurred. Subsequently, these loss carry-forwards expire between the years 2032 and 2037. Unutilized loss carry-forwards relating to the parent company amount to SEK 267 million and have no expiration date.

RECONCILIATION OF EFFECTIVE TAX

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Reported profit/loss before tax	-165.9	-225.0	-208.6	-221.6
Tax according to current tax rate	36.5	49.5	45.9	48.8
Difference in tax rate in foreign operations	-1.0	-0.8	0.0	0.0
Tax effect of non-deductible expenses	-0.7	-0.5	-0.7	-0.5
Tax effect of non-taxable income	0.7	0.3	0.0	0.0
Tax effect of listing/rights issue expenses, direct to equity	0.0	0.0	0.0	0.0
Deficit without corresponding tax asset	-42.9	-15.3	-45.0	-14.2
Use of previous year's deficit without tax asset	2.2	0.9	0.0	0.0
Adjustment of taxes attributable to previous years	-4.3	0.0	-4.2	0.0
Other	1.1	-1.0	-0.2	-0.6
Total recognized tax expense (-)/tax income (+)	-8.4	33.1	-4.2	33.5
Effective tax rate	5%	14%	2%	15%

Note 14. Earnings per share

	2018	2017
Earnings per share, basic		
Net loss for the year attributable to Parent Company shareholders, SEK million	-174.6	-192.1
Weighted average number of outstanding shares during the year	97,578,851	97,080,407
Earnings per share, basic SEK	-1.79	-1.98
Earnings per share, diluted		
Net loss for the year attributable to Parent Company shareholders, SEK million	-174.6	-192.1
Weighted average number of outstanding shares during the year, after dilution	97,840,101	99,062,092
Earnings per share, diluted, SEK ¹⁾	-1.79	-1.98

¹⁾ Dilution occurs when earnings per share is negatively affected by outstanding potential shares. Due to the Group's net loss for the year, both in 2017 and 2018, the calculated dilution effect would be a positive outcome for the shareholders. In such circumstances, the reported amount for earnings per share before dilution is the same as earnings per share after dilution.

**WEIGHTED AVERAGE NUMBER OF
OUTSTANDING SHARES, AFTER DILUTION**

	2018	2017
Weighted average number of outstanding shares, before dilution	97,578,851	97,080,407
Effect of outstanding potential shares in the Group's long-term incentive program (Note 8)	261,250	1,981,685
Weighted average number of outstanding shares, after dilution	97,840,101	99,062,092

Note 15. Intangible assets**GOODWILL**

	The Group		The Parent Company	
SEK m	2018	2017	2018	2017
Opening acquisition cost	41.7	12.8	30.3	–
Acquisitions	92.0	29.7	0.0	30.3
Translation differences	-2.1	-0.9	–	–
Closing acquisition cost	131.5	41.7	30.3	30.3
Opening accumulated amortization	–	–	-3.5	–
Amortization for the year (Note 9)	–	–	-3.7	-3.5
Translation differences	–	–	–	–
Closing accumulated amortization	–	–	-7.2	-3.5
Opening accumulated impairment	-11.7	-12.6	0.0	0.0
Impairment for the year (Note 9)	-12.2	–	-12.2	–
Translation differences	-0.6	0.9	0.0	0.0
Closing accumulated impairment	-24.5	-11.7	-12.2	0.0
Net carrying amount	107.0	30.0	10.9	26.8

Goodwill acquisition in the amount of SEK 92 million refers entirely to the acquisition of Acuity and SB in 2018. For further information see note 31 Business combinations.

CAPITALIZED PRODUCT DEVELOPMENT COSTS

	The Group		The Parent Company	
SEK m	2018	2017	2018	2017
Opening acquisition cost	808.1	693.0	754.6	511.6
Investments	177.5	148.9	172.7	146.4
Investments through business combinations	0.0	8.5	0.0	8.5
Disposals	-99.8	-29.9	-71.6	–
Reclassifications ¹⁾	–	–	0.9	88.1
Translation differences	2.3	-12.4	–	–
Closing acquisition cost	888.2	808.1	856.6	754.6
Opening accumulated amortization	-515.5	-437.8	-471.0	-331.4
Disposals	99.8	29.9	71.6	–
Amortization for the year (Note 9)	-124.8	-114.5	-118.4	-106.0
Impairment for the year (Note 9)	0.0	0.0	–	–
Reclassifications ¹⁾	0.0	0.0	0.0	-33.5
Translation differences	-1.9	7.0	–	–
Closing accumulated amortization	-542.5	-515.5	-517.8	-471.0
Net carrying amount	345.7	292.6	338.8	283.7

¹⁾ Tobii AB purchased Capitalized product development costs from another subsidiary in the Tobii Group in 2018.

OTHER INTANGIBLE ASSETS¹⁾

	The Group		The Parent Company	
SEK m	2018	2017	2018	2017
Opening acquisition cost	48.2	36.4	48.1	36.3
Investments	26.8	10.5	27.2	10.5
Acquisitions	50.0	1.3	0.0	1.3
Translation differences	-0.7	–	0.0	–
Closing acquisition cost	124.2	48.2	75.3	48.1
Opening accumulated amortization	-28.9	-24.0	-28.8	-23.9
Amortization for the year (Note 9)	-3.5	-4.9	-2.5	-4.9
Translation differences	0.0	–	0.0	–
Closing accumulated amortization	-32.4	-28.9	-31.3	-28.8
Net carrying amount	91.8	19.3	44.1	19.3

¹⁾ Other intangible assets are comprised primarily of patents and licenses.

Intangible assets with indeterminate useful lives are tested annually for impairment or more often if there is indication of impairment. The recoverable amount of a cash-generating unit is defined on the basis of calculations of value in use.

These calculations are based on estimated future cash flows before tax based on financial budgets and forecasts that have been approved by company management and cover a five-year period. Cash flow forecasts are based on evaluations of growth rate expectations and EBITA margin developments (operating margin before amortization and impairments of intangible assets) that are based on the budget for next year, forecasts for the coming four years based on management's long-term expectations on operations, as well as the historical development. The calculated value in use is most sensitive to changes in the assumptions about growth rate, EBITA margin and discount rates. Applied assumptions are based on previous experiences and market trends.

Impairment tests are carried out by each business unit using the following assumptions:

Tobii Dynavox

Cash flow forecasts for years 2–5 are based on an annual growth rate of 11 (11) percent. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate of 2 (2) percent. The discount rate used for calculating recoverable amounts is a between 9 and 14 (9 and 14) percent before tax.

Tobii Pro

Cash flow forecasts for years 2–5 are based on an annual growth rate of 20 (18) percent. Cash flows beyond the five-year period are extrapolated using an estimated long-term growth rate of 2 (2) percent. The discount rate used for calculating the recoverable amount is 9 (9) percent before tax.

Tobii Tech

Cash flow forecasts for years 2–4 are based on an annual growth rate of 70 (102) percent. Cash flows beyond the four-year period are extrapolated using an estimated long-term growth rate of 2 (2) percent. The discount rate used for calculating recoverable amounts is between 9 and 11 (9 and 11) percent before tax.

Required rates of return have been determined in view of the Group's future estimated capital structure and reflect the risks that apply for the different operating segments. According to the impairments tests carried out, there is no need for impairment of intangible assets with indeterminate useful lives as per Dec. 31, 2018.

Sensitivity analysis

A sensitivity analysis shows that in all three business units: a two percentage points increase in the discount rate would not indicate a need for impairment; a two percentage points decrease in growth rate would not indicate a need for impairment; and a two percentage points decrease in EBITA margin (operating margin before amortization and impairments of intangible assets) would not indicate a need for impairment.

TRADEMARKS

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Opening acquisition cost	93.6	102.5	49.7	–
Investments	0.0	0.0	0.0	49.7
Amortization	0.0	0.0	-9.0	0.0
Acquisitions	17.8	0.0	0.0	0.0
Translation differences	3.6	-8.8	–	–
Closing acquisition cost	114.9	93.6	40.7	49.7
Net carrying amount	114.9	93.6	40.7	49.7

TRADEMARKS WITH INDETERMINATE USEFUL LIVES AND CAPITALIZED DEVELOPMENT COSTS WHERE AMORTIZATION HAS NOT COMMENCED:

	2018	2017
Tobii Dynavox	246.2	133.1
Tobii Pro	102.6	57.3
Tobii Tech	95.8	63.0
Total intangible assets subject to testing for impairment:	444.5	253.4

Note 16. Intangible assets

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Opening acquisition cost	170.8	192.3	63.1	54.8
Investments	22.1	26.9	3.9	10.0
Investments through business combinations	–	–	–	–
Sale/disposal	-39.2	-36.0	-30.5	-1.6
Reclassifications	0.0	0.0	–	–
Translation differences	11.3	-12.5	–	–
Closing acquisition cost	165.1	170.8	36.5	63.1
Opening accumulated amortization	-139.8	-164.3	-53.3	-47.0
Sale/disposal	37.0	34.7	28.5	0.7
Amortization through business combinations	–	–	–	–
Amortization for the year (Note 9)	-21.7	-19.6	-6.7	-6.9
Impairment for the year (Note 9)	–	–	–	–
Reclassifications	0.0	-0.2	–	–
Translation differences	-8.5	9.5	–	–
Closing accumulated amortization	-133.1	-139.8	-31.5	-53.3
Net carrying amount	32.0	31.0	5.0	9.9

Note 17. Shares in Group companies

SEK m	The Parent Company	
	2018	2017
Acquisition cost		
Opening value at the beginning of the year	157.3	157.2
Acquisitions	153.0	0.1
Total acquisition cost	310.3	157.3

Subsidiary to Parent company	Carrying amount			
	No. of shares	Participating interest, %	Dec. 31, 2018	Dec. 31, 2017
Tobii Technology Inc., 20-3779947, Falls Church, VA, USA	100	100	0.2	0.2
Tobii Technology Norge AS, 834962322, Bergen, Norway	51	100	8.5	8.5
Tobii Technology GmbH, HRB 78844, Frankfurt, Germany	1	100	0.2	0.2
Tobii Technology Options AB, 556740-3364, Danderyd, Sweden	100,000	100	0.1	0.1
Tobii Assistive Technology Inc., 04-3284593, Boston, MA, USA	100	100	130.7	130.7
Tobii Electronics Technology Suzhou Co., Ltd., 91320594681609152B, Suzhou, China	1	100	9.8	9.8
Tobii Electronics Trading Suzhou Co., Ltd., 913205945725628424, Suzhou, China	1	100	2.2	2.2
Tobii Co., Ltd., 4309404695, Taipei, Taiwan	1	100	1.3	1.3
Tobii Technology Japan Ltd., 0104-01-075455, Tokyo, Japan	524	87	4.1	4.1
Tobii Pro AB, 556914-7613, Stockholm, Sweden	50,000	100	0.1	0.1
Tobii Dynavox AB, 556914-7563, Stockholm, Sweden	50,000	100	0.1	0.1
Tobii Holding AB, 559104-1040, Stockholm, Sweden	50,000	100	0.1	0.1
Tobii Tech AB, 559104-1081, Stockholm, Sweden	50,000	100	0.1	0.1
Smartbox Assistive Technology Ltd., 05541084 Malvern, UK	100	100	143.7	0.0
Tobii Pro UK Holdings Ltd., 11179236, Warwick, UK	17	100	0.0	0.0
Sensory Software International Ltd., 03662043 Malvern, UK	17	100	9.3	0.0
Total acquisition cost in subsidiaries			310.3	157.3

Note 18. Accounts receivable

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Accounts receivable	231.5	167.8	58.3	56.9
Accounts receivable, subsidiaries	0.0	0.0	45.9	67.6
Bad debts provision	-25.0	-21.9	-4.4	-4.1
Total accounts receivable	206.5	145.9	99.8	120.5

Maturity analysis

Not yet due	163.2	122.8	43.8	42.5
1-30 days overdue	31.8	15.9	9.4	8.3
31-60 days overdue	10.0	6.9	1.3	2.4
61-90 days overdue	5.1	3.2	0.4	0.5
Over 90 days overdue	21.3	19.1	3.4	3.2
Closing balance	231.5	167.8	58.3	56.9

Changes in the reserve for doubtful accounts receivable:

As at January 1	21.9	42.2	4.1	4.4
Provision for bad debts	24.4	13.4	4.0	0.6
Receivables written off during the year as uncollectible	0.0	-13.7	0.0	0.0
Reversal of unused amount	-19.5	-16.5	-3.1	-1.1
Exchange rate effect	-1.8	-3.5	-0.5	0.1
At December 31	25.0	21.9	4.4	4.1

Note 19. Inventories

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Raw materials and consumables	28.7	34.1	17.4	22.2
Finished products	52.3	21.1	16.0	12.5
Work in process	4.2	2.1	3.3	1.4
Advances to suppliers	1.7	2.1	–	–
Total inventories	86.9	59.4	36.7	36.1

Note 20. Prepaid expenses and accrued income

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Prepaid royalties	1.4	1.4	0.0	0.0
Prepaid rent/leasing	6.0	4.2	4.5	3.5
Prepaid insurance	6.2	6.5	0.9	0.9
Prepaid license fees	10.4	7.7	9.9	4.7
Other items	20.6	9.8	8.7	4.5
Prepaid marketing costs	3.1	3.3	2.1	1.9
Prepaid IT costs	1.9	0.7	0.3	0.5
Prepaid personnel costs	2.9	2.2	0.5	1.9
Prepaid renovation costs	1.8	0.0	0.0	0.0
Prepaid withholding tax	0.5	0.2	0.0	0.0
Accrued income – Royalties	1.1	0.0	1.1	0.0
Accrued income – Specific customer project	4.3	0.0	4.3	0.0
Other items	4.9	3.4	0.3	0.1
Total prepaid expenses, accrued income	44.7	29.6	24.0	13.6

Note 21. Cash and cash equivalents

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Short-term ¹⁾	0.3	351.3	0.3	351.3
Cash and bank balances	192.0	185.5	91.7	118.8
Total cash and cash equivalents	192.3	536.8	92.0	470.1

¹⁾ Short-term are comprised of funds that are placed in a listed Swedish fixed income fund with an insignificant risk of value fluctuation and access to the funds occurs within 2 to 3 bank days.

Note 22. Financial instruments by category in the Group

The table below represents the carrying amount and fair value for the Group's financial assets and financial liabilities by category.

		2018		2017	
SEK m	Note	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets					
Accounts and loan receivables					
Other financial assets		5.2	5.2	3.5	3.5
Accounts receivable	18	206.5	206.5	145.9	145.9
Other receivables		14.0	14.0	10.9	10.9
Cash and cash equivalents	21	192.3	192.3	536.8	536.8
Total accounts and loan receivables		418.0	418.0	697.1	697.1
Financial liabilities					
Financial liabilities recognized at fair value through the income statement:					
Other liabilities contingent consideration (level 3)	26, 31	15.0	15.0	12.3	12.3
Accounts payable		102.1	102.1	61.9	61.9
Other liabilities, non-interest bearing	26	34.7	34.7	33.1	33.1
Total financial liabilities		136.9	136.9	95.0	95.0

Financial assets and liabilities recognized at fair value classified by hierarchy level in accordance with IFRS 9.

Level 3 Data based on non-observable data. The contingent consideration is measured at fair value based on available data such as conditions stipulated in the purchase agreement and current assessments of the estimated fulfillment of those conditions.

MOVEMENTS IN CONTINGENT CONSIDERATION, LEVEL 3

SEK m	2018	2017
Opening balance January 1, 2018	12.3	–
Acquisitions during the year	17.9	13.2
Payment	-3.1	–
Change in fair value reported as other operational income/loss	-12.2	–
Exchange rate differences	0.2	-1.0
Closing balance December 31, 2018	15.0	12.3

Note 23. Development of share capital

Development of share capital	Change in share capital (SEK 000)	Share capital (SEK 000)	Total no. of shares
2001 Founding	100	100	10,000
2001 New share issue	2	102	11,768
2003 New share issue	28	130	13,014
2005 New share issue	0	130	15,222
2006 New share issue	3	133	15,501
2007 New share issue	40	173	19,451
2008 New share issue	3	176	19,751
2009 Split 1:2000	0	176	39,502,000
2009 New share issue	25	201	44,620,000
2010 New share issue	22	223	49,096,000
2011 New share issue	20	265	53,149,980
2012 New share issue	33	298	59,512,719
2014 New share issue	46	344	68,886,883
2015 Fund issue	156	500	68,886,883
2015 New share issue (Initial Public Offering)	136	636	87,613,033
2016 Rights issue, exercise of warrants	4	640	88,140,033
2016 Rights issue	64	704	96,954,036
2017 Rights issue, exercise of warrants	2	706	97,304,052
2018 Rights issue, exercise of warrants	12	718	98,925,103

Equity in the Group comprises share capital, other contributed capital, reserves and earned profits (incl. net profit/loss for the year).

THE GROUP**Share capital**

The number of shares amounts to 98,925,103 with a quotient value of SEK 0.0074 at December 31, 2018.

Reserves

Reserves comprise translation reserves that include all exchange rate differences that arise on translation to Swedish kronor (SEK) of foreign operations's financial statements prepared in the currency used in the economic environment where the respective company operates (functional currency). The parent company and the Group prepare their financial statements in SEK.

Earned profits

Earned profits in the Group comprise the profit/loss for the year and previous year's earned profits after payment of any dividends. Dividends are proposed by the Board. The Board proposes that no dividends be paid for fiscal year 2018.

Note 24. Reserves in equity

The item Reserves in equity refers entirely to translation differences.

Note 25. Provisions

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
<i>Provisions for warranties</i>				
At beginning of year	2.2	2.0	2.1	1.9
Provisions during the year	3.0	0.2	0.0	0.2
Reversals during the year	-0.9	-	-0.8	-
Utilized during the year	0.0	0.0	-	-
Translation differences	-	-	-	-
Total provisions for warranties	4.3	2.2	1.4	2.1
<i>Other provisions</i>				
At beginning of year	0.0	6.4	0.0	6.4
Provisions during the year	0.8	-	-	-
Reversals during the year	-	-6.4	-	-6.4
Translation differences	-	-	-	-
Total other provisions	0.8	0.0	0.0	0.0
Total provisions	5.0	2.2	1.4	2.1

Tobii makes no provisions for retirement obligations as the Group's retirement plans are defined-contribution plans and all retirement obligations are settled through annual payments to pension insurance companies so that Tobii will not have future financial liabilities to employees or board members. Tobii generally offers a one to two-year warranty on its products. Management estimates provisions for future warranty commitments based on previous years' warranties incurred.

Note 26. Other liabilities

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Interest-bearing liabilities				
Other non-current interest-bearing liabilities – Subsidiaries	0.0	0.0	5.1	0.0
Total non-current interest-bearing liabilities	0.0	0.0	5.1	0.0
Non-interest-bearing liabilities				
<i>Non-current non-interest-bearing liabilities</i>				
Deferred income, non-current portion	75.5	53.4	13.4	12.2
Contingent consideration (Note 22, 31)	15.0	12.3	9.1	12.3
Other non-current non-interest-bearing liabilities	5.3	5.3	–	–
Total non-interest-bearing liabilities	95.8	71.0	22.4	24.6
Total non-current liabilities	95.8	71.0	27.6	24.6
<i>Current non-interest-bearing liabilities</i>				
Accounts payable	102.1	61.9	80.9	45.1
Accounts payable, subsidiaries	–	–	51.0	105.5
Other non interest-bearing liabilities	29.4	27.9	20.4	18.4
Total current non-interest-bearing liabilities	131.6	89.8	152.3	168.9
Total non-interest-bearing liabilities	227.4	160.8	174.7	193.5
Total current liabilities	131.6	89.8	152.3	168.9
Total other liabilities	227.4	160.8	179.9	193.5

Note 27. Accrued expenses and prepaid income

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Deferred income, current portion	121.3	97.4	20.2	24.8
Accrued personnel expenses	87.1	70.1	52.1	46.3
Accrued commission, resellers	4.1	0.2	4.1	0.2
Other accrued expenses	38.4	32.7	15.2	12.3
Total accrued expenses and deferred income	250.9	200.5	91.7	83.6

Note 28. Pledged assets and contingent liabilities

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Pledged assets	0.1	0.1	0.1	0.1
Contingent liabilities	–	–	–	–

Note 29. Supplementary disclosures to the cash flow statement

SEK m	The Group		The Parent Company	
	2018	2017	2017	2017
Interest paid and received				
Interest received	0.3	0.4	18.1	23.3
Interest paid	-0.1	-0.8	0.0	-0.1
Total interest paid and received	0.3	-0.4	18.1	23.2

Note 30. Transactions with related parties

Tobii has neither pledged assets nor contingent liabilities related to senior executives or the Board of Directors. For information concerning remuneration to senior executives and Board members, refer to note 8. No related-party transactions have taken place during the 2018 period. No related-party transactions have taken place during the 2017 period.

The same price-setting principles applied for transactions with external parties apply also for intra-group purchases and sales.

Transactions between the parent company Tobii AB and its subsidiaries:

SEK m	The Group		The Parent Company	
	2018	2017	2018	2017
Sales to related parties, subsidiaries	–	–	477.3	427.3
Purchase from related parties, subsidiaries	–	–	227.9	285.5
Receivables from related parties, subsidiaries	–	–	394.5	400.6
Liabilities to related parties, subsidiaries	–	–	56.1	105.5

Note 31. Business combinations

ACUITY ETS LTD. AND ACUITY INTELLIGENCE LTD

On February 28, 2018, Tobii acquired all shares in Acuity ETS Ltd, a company registered in Hampshire, UK, and Acuity Intelligence Ltd, a company registered in Berkshire England. Acuity ETS is the largest reseller of Tobii Pro's research solutions, and Acuity Intelligence is a research and consulting firm within neuroscience. The acquisition is aimed at strengthening Tobii Pro by enabling direct sales of products and services in the UK.

The purchase consideration for the two acquired companies is shown below. The acquisition analysis is preliminary while waiting for final valuation of the acquired assets and liabilities.

SEK m	Feb. 28, 2018
Cash	14.8
Adjustment at completion	1.2
Contingent consideration	8.6
Total purchase price	24.6
Fair value of acquired assets	-1.5
Goodwill	23.1
Acquired net assets:	
Intangible assets (excl. goodwill)	0.8
Property, plant and equipment	0.1
Accounts receivable and other receivables	3.5
Accounts payable and other liabilities	-2.9
Total fair value of acquired assets	1.5

The total consideration paid for the acquired shares amounts to SEK 24.6 million. A cash payment of SEK 14.8 million was made at the time of acquisition. The agreed contingent consideration is attributable to Acuity-related net sales trend over 2018–2020. The total maximum contingent consideration amounts to SEK 19 million. Tobii's management has determined that fair value of the contingent consideration is SEK 8.6 million.

Goodwill of SEK 23.1 million is allocated to the Tobii Pro business unit and relates to the potential of strengthening the business unit through direct sales of products and services in the UK.

The gross contractual amount of acquired accounts receivable is SEK 3.4 million and will most likely be collected.

Revenue from Acuity operations during the period from the acquisition date until December 31, 2018 was SEK 19 million, and the corresponding operating profit for the same period was SEK 2 million. Transaction costs incurred for the acquisition amount

to approximately SEK 0.4 million and are recognized as administrative expenses in the consolidated income statement. Based on the assumption that the acquisition date was January 1, 2018, the Group's consolidated revenue would have been SEK 1,305 million and corresponding operating loss for the same period would have been SEK -190 million.

SMARTBOX ASSISTIVE TECHNOLOGY LTD.

On August 20, 2018 it was announced that Tobii had signed an agreement to purchase 100% of shares in Smartbox Assistive Technology Ltd and Sensory Software International Ltd, which are based in the UK. The acquisition of the companies was completed on 1 October and is thereby consolidated in the financial performance of Tobii Dynavox for the fourth quarter. Through the acquisition the Company intends to complement the Tobii Dynavox product portfolio, strengthen its sales presence in important geographic markets and accelerate the rate of innovation. The British competition regulator CMA is currently conducting an investigation of the effects of the completed acquisition, for which reason the Company is waiting before beginning to work on integration.

The purchase consideration for the two acquired companies is shown below. The acquisition analysis is preliminary while waiting for final valuation of the acquired assets and liabilities.

SEK m	Oct. 1, 2018
Cash	127.3
Adjustment at completion	16.4
Contingent consideration	9.3
Total purchase price	153.0
Fair value of acquired assets	-84.1
Goodwill	68.9
Acquired net assets:	
Intangible assets (excl. goodwill)	68.1
Property, plant and equipment	2.9
Accounts receivable and other receivables	37.3
Accounts payable and other liabilities	-24.2
Total fair value of acquired assets	84.1

The total consideration paid for the acquired shares amounts to SEK 153 million. A cash payment of SEK 127.3 million was made at the time of acquisition. The purchase consideration was adjusted in December in the amount of SEK 16.4 million. The contingent consideration is attributable to the joint net sales trend in the UK over 2018–2020. The total maximum contingent consideration amounts to SEK 11.4 million. Tobii's management has determined that fair value of the contingent consideration is approximately SEK 9.3 million.

According to the analysis, intangible surplus values are allocated as follows: software license SEK 39.8 million, trademarks SEK 17.8 million and customer relations SEK 10.5 million. Goodwill of SEK 68.9 million is allocated to the Tobii Dynavox business unit and relates to the potential of strengthening the business unit through increased sales of products and services in existing and new markets.

The gross contractual amount of acquired accounts receivable is SEK 14 million and will most likely be collected. It is not possible to specifically comment on revenue and operating profit/loss from the Smartbox business from the time of acquisition through December 31, 2018 because of the ongoing review by the CMA. The result of the wholly owned subsidiary is included in the consolidated income statement beginning at the time of acquisition in accordance with the Company's accounting policies taking into account control, voting rights and other factors.

Transaction costs incurred for the acquisition amount to approximately SEK 2.5 million and are recognized as administrative expenses in the consolidated income statement.

Note 32. Effects from IFRS 15 restatement

IFRS 15, "Revenue from contracts with customers" is applied from January 1, 2018. Note 2 above describes Tobii's implementation from the the new standard. The tables below specify the effects to restatement of IFRS 15 on the closing balances for 2017, as well as the 2017 comprehensive income and income statement for the Group and the Parent Company, respectively. The restated amounts are used as comparative figures in this annual report.

January–December 2017 – Consolidated Statement of Comprehensive Income

SEK m	Full year 2017 reported	IFRS 15	Full year 2017 restated
Net sales	1,084.3	-5.5	1,078.9
Cost of goods and services sold	-315.7	0.0	-315.7
Gross profit	768.6	-5.5	763.2
Operating profit/loss	-185.9	-5.5	-191.4
Profit/Loss before tax	-219.6	-5.5	-225.0
Net profit/loss for the period	-186.5	-5.5	-192.0
Other comprehensive income			
Exchange gain/loss	0.0	5.8	5.8
Other comprehensive income for the period	0.0	5.8	5.8
Total comprehensive income for the period	-186.5	0.4	-186.2
Net profit/loss for the period attributable to:			
Parent company shareholders	-186.7	-5.5	-192.1
Non-controlling interests	0.1	0.0	0.1
Net profit/loss for the period	-186.5	-5.5	-192.0

Total comprehensive income for the period attributable to:			
Parent company shareholders	-186.7	0.4	-186.3
Non-controlling interests	0.1	0.0	0.1
Total comprehensive income for the period	-186.5	0.4	-186.2

December 31, 2017 – Consolidated balance sheet

SEK m	Dec. 31, 2017 reported	IFRS 15	Dec. 31, 2017 restated
Total assets	1,342.7	0.0	1,342.7
Total equity	1,058.6	-79.7	978.9
Liabilities			
Non-current liabilities			
Accrued income	13.2	40.3	53.4
Other non-current liabilities	20.1	0.0	20.1
Total non-current liabilities	33.2	40.3	73.5
Current liabilities			
Accrued income	58.0	39.4	97.4
Other current liabilities	192.9	79.7	170.9
Total current liabilities	250.9	39.4	290.3
Total liabilities	284.1	79.7	363.8
Total equity and liabilities	1,342.7	0.0	1,342.7

January–December 2017 – Parent company income statement

SEK m	Full year 2017 reported	IFRS 15	Full year 2017 restated
Net sales	745.1	-2.2	742.9
Cost of goods and services sold	-313.1	0.0	-313.1
Gross profit	432.0	-2.2	429.8
Operating profit/loss	-209.4	-2.2	-211.6
Profit/Loss before tax	-219.4	-2.2	-221.6
Net profit/loss for the period	-185.9	-2.2	-188.1

December 31, 2017 – Parent company balance sheet

SEK m	Dec. 31, 2017 reported	IFRS 15	Dec. 31, 2017 restated
Total assets	1,592.6	0.0	1,592.6
Total equity	1,330.9	-17.5	1,313.4
Liabilities			
Non-current liabilities			
Accrued income	3.7	8.6	12.2
Other non-current liabilities	14.5	0.0	14.5
Total non-current liabilities	18.2	8.6	26.7
Current liabilities			
Accrued income	13.5	8.9	22.5
Other current liabilities	230.1	17.5	49.2
Total current liabilities	243.6	8.9	252.5
Total liabilities	261.7	17.5	279.2
Total equity and liabilities	1,592.6	0.0	1,592.6

Note 33. Events after the end of the reporting period

In conjunction with the CES tech show in January Tobii announced that products launched by HTC and Dell Alienware included integrated eye-tracking technology from the Company.

During the same month the Company also communicated that CMA, the British competition regulator, which was conducting an investigation of the effects of Tobii's acquisition of Smartbox Assistive Technology Ltd, had announced its intention to proceed with a more in-depth phase 2 investigation.

In February Tobii announced the issuance of 3-year senior covered bonds of SEK 300 million under a loan facility of SEK 600 million with maturity in February 2022. The interest rate for the bond loan was set at 3 months STIBOR + 575 basis points. The debt financing existing at year-end 2018 has been settled. The remaining bond liquidity will be used to finance future acquisitions and for general business purposes. The bonds issued in accordance with the Bond Loan are secured by collateral in shares in current and future material subsidiaries and certain intra-Group loans.

At the same time, Tobii also announced that it had adapted its legal corporate structure to the Company's existing operational structure with independent business units. As a result, since January 1, 2019 the business unit companies are wholly owned subsidiaries of Tobii AB, while Group functions remain in the Parent Company.

The Board's signatures

The Board of Directors and the Chief Executive Officer certify that these consolidated financial statements and Annual Report have been prepared in accordance with the International Financial Reporting Standards IFRS as adopted by the EU and generally accepted accounting principles, and gives a fair view of the Group's and Parent Company's financial position and earnings.

The Director's Report gives a fair overview of the development of the Group and Parent Company's operations, financial position and earnings, and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Danderyd, April 10, 2019
Tobii AB

Kent Sander
Chairman of the Board

Heli Arantola
Member

Nils Bernhard
Member

John Elvesjö
Member

Charlotta Falvin
Member

Åsa Hedin
Member

Jan Wäreby
Member

Henrik Eskilsson
CEO

Our auditor's report was submitted on April 10, 2019

PricewaterhouseCoopers AB

Johan Engstam
Authorized Public Accountant, Auditor in Charge

The consolidated statement of comprehensive income and the consolidated balance sheet and the Parent Company's income statement and balance sheet are subject to the approval of the Annual General Meeting on May 9, 2019.

This information is information that Tobii AB is obliged to make public pursuant to the Securities Markets Act. The information was submitted for publication on April 10, 2019.

Auditor's Report

To the meeting of shareholders in Tobii AB (publ),
Corporate Identity Number 556613-9654

REPORT ON THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

Opinions

We have audited the annual accounts and consolidated accounts of Tobii AB (publ) for 2018 with the exception of the corporate governance report on pages 65-69. The annual accounts and consolidated accounts of the company are included on pages 63-105 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinion does not cover the corporate governance report on pages 65-69. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinion in this report on the annual accounts and consolidated accounts is consistent with the content of the supplementary report that has been submitted to the parent company's and the group's audit committee in accordance with Article 11 of the Auditors regulation (537/2014).

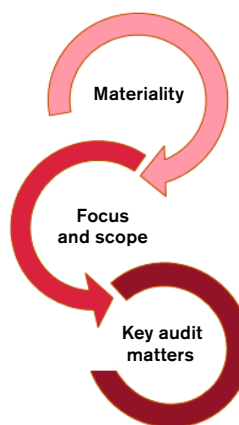
Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. It means that, based on our best knowledge and belief, no prohibited services referred to in Article 5.1 of the Auditors Regulation (537/2014) have been provided to the audited company or, as the case may be, its parent company or its controlled company in the EU.

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

Our audit activities

Overview



Materiality

- Overall materiality level: MSEK 13 which approximates 1% of the Group's net sales.

Focus and scope

- We have executed an audit covering Tobii AB and all significant subsidiaries.

Key audit matters

- Valuation of capitalized development costs
- Items impacted by management's judgements, primarily valuation of deferred tax assets and acquisition of Smartbox in 2018
- Revenue recognition – cut-off

The focus and scope of the audit

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

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

Materiality

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

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

Group materiality level	MSEK 13 (10)
How we determined this level	The materiality level is based on approximately 1 percent of the Group's net sales.
Motivation behind the determination of the materiality level	We have chosen this method to determine the materiality level as it is, according to our opinion, the most relevant measure by which the group's development is usually assessed. The level of 1% is seen in auditing standards to comprise an acceptable quantitative materiality threshold.

We agreed with Audit Committee that we would report identified errors in excess of the equivalent of 10% of the determined materiality level, as well as errors less than this amount but which we deemed should be reported for qualitative reasons.

KEY AUDIT MATTER

Valuation of capitalized development costs

We refer to Notes 2 Summary of important accounting principles, 4 Important estimates and assessments when applying the accounting policies, and 15 Intangible assets.

Capitalised expenses for product development in the amount of MSEK 345.7 comprise a significant portion of Tobii Group's balance sheet as at the end of December 2018. There is a risk that the future estimated cash flow will not be equivalent to the book value of capitalized expenses for product development and that, as a result, an impairment risk exists.

The assets are subject to ongoing depreciation. According to the Tobii Group's routine, the value of capitalized expenses for product development is tested annually for impairment. Tobii has a process for executing this test. This testing is based on the recoverable amount, which is equivalent to the value of the discounted cash flows for the identified assets.

The calculated recoverable value is based on future budgets and forecasts, approved by the Board of Directors, for the next five years. The cash flows after the first five years are extrapolated based on the estimated long-term growth rate. The process, consequently, includes assumptions of a major significance in the testing of impairment requirements. These include the assumptions regarding sales growth, margin developments and the discount rate (WACC).

Key audit matters

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

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

In evaluating the assumptions, as reported in Note 15, we have undertaken the following audit measures to assess the valuation of such assumptions and model:

- We have tested and evaluated management's assumptions regarding the discount rate, growth and margins. We test the assumptions based on what is included in the budgets and business plans, the results of the units and our knowledge of the Tobii group's development. This includes the follow-up of the accuracy of the forecasts for historical periods and provides us with a basis for testing the assumptions regarding future development. In terms of discount rate, this is based on our review of the company's calculation of WACC and the assessment of the inherent risk of operating in current markets.
- We have also, in conjunction with the testing of possible impairment requirements, checked the sensitivity of the valuations through sensitivity analyses, to determine if there are negative changes in significant parameters which individually, or on a collective basis, could imply the existence of an impairment requirement.
- We have also assessed if the accounting principles and disclosures in the annual report are correct and in accordance with IFRS.

No significant observations were made in the audit resulting in reporting to the Audit Committee.

Items impacting company management's judgements, primarily the valuation of deferred tax and acquisition of Smartbox in 2018.

We refer to Notes 2 Summary of important accounting principles, 4 Important estimates and assessments when applying the accounting policies, and 13 Taxes and 31 Business combinations.

The deferred tax asset amounted to MSEK 83.7 as at the end of December 2018. This is deemed to comprise a significant item in the group's balance sheet. There is a risk that future assessed results in a unit will, for a variety of reasons, decrease so that the losses carry forward cannot be utilized or that the right to utilize the losses carry forward will be lost, as a result of changes in legislation, tax inspections, restructuring within the group and the acquisition and sale of operations, and therefore there is a risk of impairment.

In accordance with IAS 12, Tobii has assessed the amount of losses carry forwards referring to fiscal losses existing in group companies and which the group can utilize to reduce future tax payments.

Assessment of the amount of tax losses which can be utilized includes significant assumptions and management's assessment of future earnings. This is based, in its turn, on future budgets and forecasts, approved by the Board of Directors, for the next three years, where after extrapolation takes place for subsequent years.

In connection with the business combination, the acquired assets and liabilities shall be recognized at fair value and consolidated from the date when the Group obtained a control over the acquired entity. Determining fair values includes significant estimates and judgements that affect calculations and thus the values reported on different assets and liabilities. The fair value of the Smartbox's net assets is determined as MSEK 84.1 and results in a goodwill related to the acquisition of MSEK 68.9.

Revenue recognition – cut-off

We refer to the Notes 2 Summary of important accounting principles, 4 Important estimates and assessments when applying the accounting policies, 5 Net Sales and income per business area, 18 Accounts receivable and 27 Accrued expenses and deferred income.

The Group's revenue amounts to MSEK 1 302 in 2018. The majority of Tobii Group's revenue consists of sale of goods and services. The sale of goods is recognized when control has been transferred to the purchaser while services are recognized in revenue in the period or periods in which they are provided. Tobii also has rental income from products. These revenues are reported in the period in which the renting takes place as this is deemed to comprise the correct measure of when the revenue has been earned. The Tobii Group also has royalty revenues. These are recognized in accordance with the economic implications of the agreements in place.

The risk is that there can exist a difference between the point in time when Tobii provides goods or services and when the control is transferred to clients. When the goods or services are seen to have been provided to the clients, and when revenues can, then, be reported, is based on the contractual stipulations found in the established agreements. The manual components of the invoicing routines have been reduced.

In our audit, we have assessed the valuation of losses carry forward and that deferred tax on these losses has been calculated according to the regulations in place. We have also assessed the valuation of the assets and liabilities that have arisen through the Smartbox acquisition. The audit procedures included, amongst other:

- We evaluated the management's assumptions regarding assessed future results in conjunction with a review and analysis of the forecasts regarding future earnings trends, as this is a significant assumption due to the large amount of available losses carried forward which the management deems will be able to be utilized.
- The company's assumptions regarding the earnings trend was tested against adopted budgets and business plans. This testing takes place in the same manner as the testing of capitalized costs for product development, in the manner described in that part of this Auditor's Report.
- The audit also includes the follow-up of possible ongoing tax audits and changes in tax legislation which impact the losses carry forward.
- We have assessed the management's estimates and judgements as well as calculations they used in preparing the purchase price allocation and the consolidation of Smartbox.
- We have also assessed if the accounting principles and disclosures in the annual report are correct and in accordance with IFRS.

The results of these activities have produced no significant observations as regards the audit.

In our audit, we have analyzed Tobii's processes and controls regarding revenue recognition in order to obtain an understanding of how they operate and where potential errors could occur. This analysis has been performed to enable us to focus our substantive procedures on the right areas. Our audit procedures included the following:

- Analysis of revenues as compared with the prior period and the expectation.
- We have tested, on a random basis, the reported revenue against agreements to determine if these items have been reported in the correct amounts in the correct periods.
- On a sample basis, we have confirmed outstanding receivables directly with customers. We have also tested a sample of receivables against payments received after the year end.
- We have also by analyses of values accounted for tested that deferred revenue is recognized in the correct amount.
- We have also assessed if the accounting principles and disclosures in the annual report are correct and in accordance with IFRS.

The results of these activities have produced no significant observations as regards the audit.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–62 and 111–112. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website:

http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Tobii AB for 2018 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Audit of the corporate governance report

It is the Board of Directors who is responsible for the corporate governance statement on pages 65–69 and that it has been prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevU 16. The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in

accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

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

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed as Tobii AB's auditor on the Annual General Meeting on 08 May 2018 and has been the company's auditor since 18 April 2005.

Stockholm, 10 April 2019

PricewaterhouseCoopers AB

Johan Engstam

Authorised Public Accountant
Auditor in Charge

Definitions

Tobii adopted the new European guidelines for alternative performance measures as of July 3, 2016. Tobii's key performance measures, definitions and purposes, as presented below are not defined in accordance with IFRS. These measures as defined by Tobii should not be seen as a replacement for terms and concepts in accordance with IFRS and may not be comparable to similar performance

measures used by other companies. The Company believes that these financial performance measures provide a better understanding of trends relating to financial results and that these alternative performance measures are useful information to Tobii's management, investors and other stakeholders when used in conjunction with other performance measures that are defined in accordance with IFRS.

Key performance measures	Definition	Purpose
Gross margin	Gross profit relative to net sales.	Gross margin is used to measure production profitability.
EBITDA	Operating profit/loss before depreciation, amortization and impairment	EBITDA is used to measure earnings from operating activities excluding depreciation, amortization and impairment.
EBITDA margin	Operating profit/loss before depreciation, amortization and impairment relative to net sales.	The EBITDA margin is used to illustrate EBITDA in relation to sales.
Operating profit/loss (EBIT)	Operating profit/loss before financial income and expenses, and taxes.	EBIT is used to measure operating profitability.
EBIT Earnings before interest and taxes.	Operating profit/loss in relation to net sales.	The EBIT margin is used to illustrate EBIT in relation to sales and is a measure of the Company's profitability.
Cash flow from operating activities	Cash flow from operating activities including change in working capital and before cash flow from investing and financing activities.	Cash flow from operating activities is used as a measure of the cash flow the Company generates before investments and financing.
Cash flow after investing activities	Cash flow from operating activities less investments in intangible, tangible and financial fixed assets excluding investments in subsidiaries and associates.	Cash flows after investing activities is used as a measure of the cash flow the Company generates before the acquisition of companies and financing activities.
Working capital	Inventories, accounts receivable and other current receivables less accounts payable and other current non interest-bearing liabilities.	Working capital is used to measure the Company's capacity to meet its current capital requirements.
Net cash (+)/net debt (-)	Cash and cash equivalents less interest-bearing liabilities.	Net debt represents the Company's capacity to pay off all of its debts should they fall due for payment as of the balance sheet date using the Company's available cash and cash equivalents on the balance sheet date.
Equity/assets ratio	Equity as a percentage of total assets.	The equity/assets ratio shows the percentage of total assets financed by the shareholders through equity.
Net debt/equity ratio	Interest-bearing liabilities divided by shareholders' equity.	The net debt/equity ratio measures the extent to which the Company is financed through loans.
Return on equity	Profit after tax relative to average equity during the period.	Return on equity is used to analyze profitability over time.
Equity per share	Equity at the end of the period attributable to the parent company's shareholders divided by the number of shares at the end of the period.	Equity per share measures the Company's net value per share.
Average number of employees	The average number of permanent employees, including part-time employees converted to full-time employment.	Average number of employees measures the number of full-time employees in the Company needed to generate the period's earnings.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES¹⁾

EBITDA, Operating profit/loss before depreciation, amortization and impairment

SEK m	2018	2017
Operating profit/loss before depreciation, amortization and impairment, EBITDA	-27.5	-52.4
Amortization and impairment on intangible fixed assets	-141.5	-119.4
Depreciation and write-down on property, plan and equipment	-21.7	-19.6
Operating profit/loss, EBIT	-190.7	-191.4

¹⁾ This section presents reconciliation of only those key performance measures that are not possible to calculate from information in the financial reports in this Annual Report.

Other information

This annual report is published in Swedish and English. The Swedish version is the original and has been audited by Tobii's independent auditors. The revised annual report for Tobii AB (publ) 556613-9654 consists of the Director's report and the accompanying Financial Statement on pages 63–104. The statutory sustainability report consists of pages 45–61.

TO ORDER THE ANNUAL REPORT

The annual report is published in Swedish and English and can be downloaded at www.tobii.com. The Swedish version is the original version. The printed annual report can be ordered through the contact person below.

ANNUAL GENERAL MEETING

The Annual General Meeting for Tobii AB (publ) will be held on Thursday, May 9, 2019 at 5 p.m. CET at Bygget Fest och Konferens in Stockholm. Notice of the Annual General Meeting is available at www.tobii.com. Notification of participation in the meeting must be received by the Company no later than May 3, 2019 by mail or email.
Mail: "Annual General Meeting," Tobii AB, Box 743, 182 17 Danderyd
E-mail: generalmeeting@tobii.com
URL: www.tobii.com

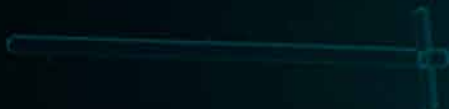
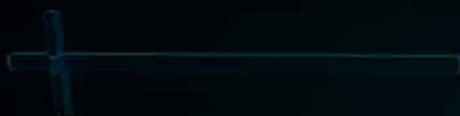
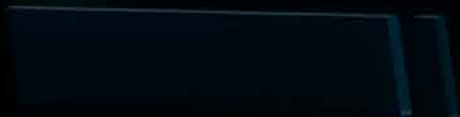
CONTACT

investor.relations@tobii.com

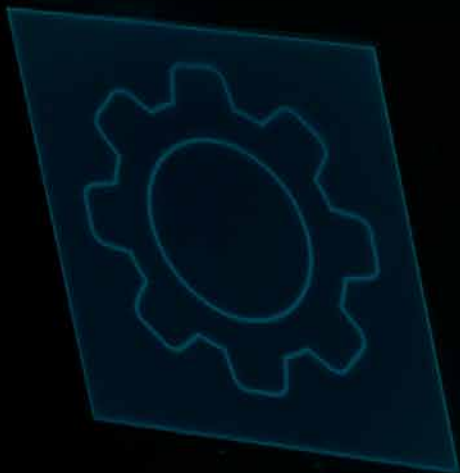




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TOBI 2018 ANNUAL REPORT

