

Q3



PRECISE BIOMETRICS INTERIM REPORT

JANUARY-SEPTEMBER 2017

REDUCED SALES DUE TO FEWER CUSTOMER PROJECTS

INTERIM REPORT FOR THE PERIOD FROM JANUARY TO SEPTEMBER 2017

Sales dropped during the third quarter due to the company's having won fewer customer projects because of tough competition in the market for capacitive sensors. The lower level of sales resulted in an operating loss. The technology shift from capacitive sensors to new sensor technologies is opening up new opportunities. Precise Biometrics is involved in several projects involving ultrasound and optical sensors, as well as biometric payment cards.

THIRD QUARTER

- Net sales for the remaining operation totaled SEK 10.1 (23.0) million.
- The operating profit/loss for the remaining operation for the quarter totaled SEK -6.5 (8.6) million.
- The profit/loss for the period for the remaining operation totaled SEK -7.5 (21.8) million.
- Earnings per share for the remaining operation totaled SEK -0.02 (0.06).
- Earnings per share for the total operation totaled SEK -0.02 (0.05).
- Cash flow from total operating activities totaled SEK 3.9 (8.4) million.

INTERIM PERIOD

- Net sales for the remaining operation during the interim period totaled SEK 46.9 (62.5) million.
- The operating profit/loss for the remaining operation for the interim period totaled SEK -8.7 (21.0) million.
- The profit/loss for the period for the remaining operation totaled SEK -10.7 (34.2) million.
- Earnings per share for the remaining operation totaled SEK -0.03 (0.10).
- Earnings per share for the total operation totaled SEK -0.02 (0.08).
- Cash flow from the total remaining operation totaled SEK 19.7 (25.9) million. Cash and cash equivalents for the total operation totaled SEK 116.7 (75.0) million at the end of the interim period.

SIGNIFICANT EVENTS

- Precise BioMatchTM Embedded was integrated into the world's first biometric contactless payment card from AirPlus.
- Licensing agreements were signed with the Chinese module house O-Film and an Asian display manufacturer.
- After the end of the quarter, an upgrade of Precise BioMatch Embedded was announced that supports small fingerprint sensors and constrained microprocessors.

FINANCIAL DATA AND KEY INDICATORS

As a consequence of the fact that the Mobile Smart Card Solutions business area has been classified as a business held for sale, previously reported figures have been converted in order to improve comparability. In order to obtain comparable historical data, previously reported figures have only been adjusted for the expenses relating directly to the discontinued business area, which will no longer affect the company's remaining operation. The resources that were previously allocated to the Mobile Smart Card Solutions business will be transferred to the Fingerprint Technology business area at the latest in connection with the disposal and have therefore not been included in the business held

for sale. This reinforcement of resources is taking place in order to meet the market's demand for increasingly advanced solutions in the field of Fingerprint Technology.

The discontinued operation's impact on the financial position has not been reported separately, as the company does not consider it possible to report the discontinued operation's impact on cash flow. Cash flow is instead reported for the total operation.

Unless otherwise specified, reported figures in the interim report relate to the remaining operation.

KEY INDICATORS

Amounts in SEK thousand unless otherwise stated	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year	Rolling 12 mon.
Net sales	10,081	22,959	46,858	62,519	83,299	67,638
Net sales growth, %	-56.1%	70.6%	-25.0%	162.8%	95.7%	-16.8%
Gross margin, %	90.5%	98.2%	93.8%	98.0%	98.0%	95.1%
Operating profit/loss	-6,480	8,576	-8,659	20,979	25,407	-4,230
Operating margin, %	-64.3%	37.4%	-18.5%	33.6%	30.5%	-6.3%
Cash flow from operating activities	3,887	8,411	19,695	25,908	37,658	31,447
Cash and cash equivalents	116,722	75,047	116,722	75,047	135,753	116,722

PRESENTATION OF THE INTERIM REPORT

In connection with today's interim report, we issue an invitation to an information event today at 10:00. Please see the last page of the interim report for further information about participation.

CEO COMMENTS

As communicated previously, the company's sales during the second half of the year will not reach our earlier estimate. In the increasingly tough competition in the market for capacitive sensors, neither we nor our sensor customers have managed to win projects to the extent we had expected.

The market for fingerprint sensors for mobile phones is dominated by a small number of players who have been early to market and gained competitive advantages. There have been few other sensor manufacturers who have been able to match the constantly increasing demands of mobile phone manufacturers for smaller sensors, increased performance, lower price and delivery time. This has led to that we, together with our customers, have won fewer projects and been awarded lower volumes.

We are, however, seeing a technology shift from capacitive sensors to new sensor technologies based on, among other things, demands from mobile manufacturers for full-screen displays. This means that interest in ultrasound and optical sensors has increased, which opens up new opportunities for us and our customers who have these new sensor technologies. At the moment we are involved in a number of such projects, and I believe that the first product launches will be starting in the first half of 2018.

During the third quarter we signed a licensing agreement with O-Film, one of the leading module houses, which integrates fingerprint modules with sensors from several well-known sensor manufacturers. A licensing agreement was also signed with an Asian display manufacturer that is developing a new generation of displays for mobile phones in which fingerprint recognition is integrated into the display. We have also announced that AirPlus, a world-leading player in the field of corporate travel management, implemented the world's first successful use of a contactless biometric payment card using our software. The intention is that this card will make it easy for AirPlus travelers to verify transactions by means of contactless payment.

We now have licensing agreements with 30 customers, which represents an effective global distribution channel for the company's algorithm solutions. Just under half of these customers have licensing agreements that cover both mobile devices (Precise BioMatch Mobile) and new product areas (Precise BioMatch Embedded).

The company's cash position is strong, which gives us the opportunities we feel are necessary to make use of the opportunities for growth in the market. We have invested in development resources in order to meet our customers' demands for both existing and new sensor technologies, and have made investments in our technology for new areas of application and, not least of all, in local support resources for our customers. We have good cost control and are careful not to increase expenses any more than we consider necessary.

All in all, I am positive about the company's outlook, despite the weak revenue trend this quarter. New sensor technologies are in an interesting phase and will be opening up new opportunities for us as early as next year. Interest in biometric payment cards is becoming tangible, and we are well positioned in this area. Biometrics will increasingly be replacing passwords and other forms of authentication, and we intend to drive and be part of this trend in the future.

OUTLOOK

Because of tough competition for Precise Biometrics and the company's customers, sales have not developed in accordance with the company's earlier estimate. As previously announced, Precise Biometrics has therefore revised its estimate of revenues for the full year 2017, from the previously announced level of approximately SEK 83 million to an interval of SEK 60-70 million. As a consequence of this weaker sales trend, the company will report an operating loss, which differs from the earlier estimate that the full year 2017 would produce an operating profit.

MARKET AND SALES

Precise Biometrics develops and sells fingerprint software for convenient and secure authentication of people's identity in mobile phones, smart cards and products with small fingerprint sensors. The company offers the following solutions:

Precise BioMatch™ Mobile, an algorithm solution for mobile phones and tablets.

Precise BioMatch™ Embedded, an algorithm solution for, e.g., smart cards, wearables, locks and cars.

Precise Match-on-Card™, an algorithm solution for national ID cards.

Precise BioLive™, fingerprint software for spoof and liveness detection that protects fingerprint sensors against fake fingers.



Market developments

The development of mobile phones with full-screen displays has increased interest in ultrasound and optical sensors. These new sensor technologies make it possible to place the sensor beneath the display, without adapting the phone's case, providing more attractive, cost-efficient and durable phones. It also offers new opportunities for users, such as using the fingerprint sensor under water. Precise BioMatch Mobile supports ultrasound and optical sensors, which makes us and our customers with these technologies well positioned for the upcoming technology shift.

The mobile phone will increasingly contain all of our important documents such as passports, drivers' licenses and payment cards, which increases the risk of fraud. The company's spoof and liveness detection solution enhances security by protecting the fingerprint sensor against fake fingers. The company is evaluating how it can develop its offering by means of complementary biometric modalities and solutions for convenient and secure authentication of devices, users and transactions. Fingerprints is already being used together with other biometric modalities for various user applications. Biometric solutions are the most secure way to protect devices and transactions against attempted fraud without compromising on user-friendliness.

The global acceptance and use of fingerprint technology means that the technology will also be used in other product areas. The combination of user-friendliness, high security and low cost makes fingerprint technology the natural choice for authentication in a number of products. During the year we have seen several successful test projects that have increased the interest of payment providers in the commercial launch of biometric payment cards. The world's first biometric contactless card from AirPlus, with Precise BioMatch Embedded, is an excellent example of this.

In addition to payment, there is demand for the use of biometric smart cards in other areas of application. Precise BioMatch Embedded has been integrated, through the partnership with Fingerprint Cards, into a reference design for biometric cards from CardLab. The reference design has been produced in order to create intelligent, secure solutions for EU citizens and is part of the EU Commission's Horizon 2020 program. Precise Biometrics is involved in a number of card projects and is holding far-reaching discussions with a number of players in the card industry.

The cost of biometric cards is being reduced through the use of both small sensors and increasingly constrained microprocessors. This places tough demands on the fingerprint software if the cards are to be able to provide the user with a secure and convenient user experience. In connection with the biggest trade show of the year for payment solutions, Money 20/20, Precise Biometrics launched a powerful and efficient upgrade of Precise BioMatch Embedded. This solution meets the payment card

industry's demands for biometric performance and a good user experience. Precise BioMatch Embedded enables the use of smaller sensors, which means that the production cost of biometric cards can be reduced.

The company has also made major progress in the development of Precise BioMatch Mobile. The biometric performance has been improved while the response time has been shortened. The company is working continuously to further develop the company's solutions in order to meet customers' demands for smaller sensors, increased security, limited processors and new areas of application.

NET SALES AND EARNINGS IN THE THIRD QUARTER

Net sales for the third quarter totaled SEK 10.1 (23.0) million. Net sales for the period were affected by a provision totaling SEK 3.3 million in respect of a correction for previously received royalties from one of the company's customers.

The gross margin during the quarter totaled 90.5% (97.8%). Adjusted for the provision for royalties, the gross margin totaled 92.8%. The gross margin was charged with amortization of acquired intangible assets attributable to the acquisition of NexID Biometrics of SEK 0.2 (0.0) million, which had a 2.0%-unit impact on the gross margin.

Operating expenses for the quarter increased because of increased personnel resources as well as higher sales costs in Asia and the USA, and totaled SEK 15.6 (14.0) million.

The operating profit/loss for the quarter totaled SEK -6.5 (8.6) million as a consequence of lower net sales and increased operating expenses. Earnings for the period totaled SEK -7.5 (21.8) million. The operating profit/loss at EBITDA level totaled SEK -5.6 (9.1) million. Earnings per share (average number of shares) for Q3 totaled SEK -0.02 (0.06).

NET SALES AND OPERATING PROFIT/LOSS FOR THE INTERIM PERIOD

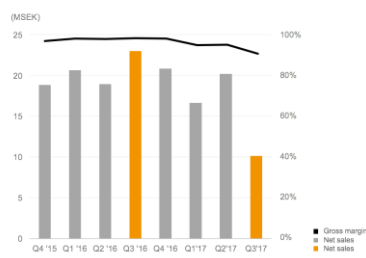
Net sales during the interim period totaled SEK 46.9 (62.5) million. There was a negative impact on net sales because fewer customer projects were won.

The gross margin during the interim period totaled 93.8% (98.0%). The gross margin was charged with amortization of acquired intangible assets (NexID Biometrics) of SEK 0.5 (0.0) million, which had a 1.2%-unit impact on the gross margin.

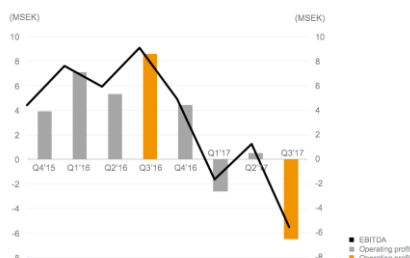
Operating expenses for the interim period increased because of increased personnel resources as well as higher sales costs in Asia and the USA, and totaled SEK 52.6 (40.3) million.

The operating profit/loss for the interim period totaled SEK -8.7 (21.0) million because of lower net sales and increased operating expenses. Earnings for the period totaled SEK -10.7 (34.2) million. The operating profit/loss at EBITDA level totaled SEK -6.1 (22.5) million. Earnings per share (average number of shares) for the interim period totaled SEK -0.03 (0.10).

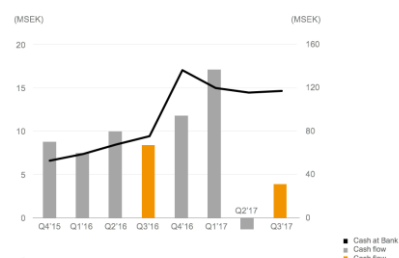
NET SALES & GROSS MARGIN



OPERATING PROFIT & EBITDA



OPERATIONAL CASH FLOW & CASH AT BANK



NET FINANCIAL ITEMS AND TAX

Net financial items for the total operation during the third quarter were SEK -0.9 (0.0) million and the tax expense for the total operation totaled SEK -0.1 (13.2) million.

Net financial items for the total operation during the interim period were SEK -1.6 (0.0) million and the tax expense was SEK -0.4 (13.2) million.

CASH FLOW AND INVESTMENTS

Cash flow during the quarter from the company's total operating activities totaled SEK 3.9 (8.4) million. During the third quarter the Group invested SEK 0.1 (0.1) million in equipment. Depreciation of equipment during the quarter totaled SEK 0.1 (0.1) million.

Cash flow during the period from the company's total operating activities totaled SEK 19.7 (25.9) million. The Group invested SEK 0.8 (0.4) million in equipment during the period. Depreciation of equipment during the period totaled SEK 0.2 (0.3) million.

During the interim period the purchase price for the acquisition of NexID Biometrics Inc. was paid in the amount of SEK 31.4 million (Note 1).

CAPITALIZATION AND AMORTIZATION OF DEVELOPMENT WORK

Development expenses of SEK 2.0 (0.8) million were capitalized during the third quarter. Amortization of capitalized development expenses during the quarter totaled SEK 0.6 (0.4) million.

Development costs during the interim period were capitalized in the amount of SEK 6.0 (3.2) million. Amortization of capitalized expenses totaled SEK 1.8 (1.3) million during the interim period.

FINANCIAL POSITION AND LIQUIDITY

During the quarter the incentive program for the company's employees, which was decided by the shareholders' general meeting on May 16, 2017, have been implemented. The acquisition of NexID Biometrics Inc. was completed during the interim period and the purchase price of SEK 31.4 million was paid.

The company's cash and cash equivalents at the end of the period totaled SEK 116.7 (75.0) million.

Total equity at the end of the interim period totaled SEK 155.2 (112.1) million, and equity per share was SEK 0.43 (0.32).

PARENT COMPANY

The parent company's net sales for the interim period totaled SEK 46.2 (62.5) million. The parent company's earnings were charged with amortization of goodwill totaling SEK 1.6 (0.0) million. Earnings for the period totaled SEK -14.2 (22.6) million.

Cash and cash equivalents at the end of the period totaled SEK 115.3 (61.3) million, and equity SEK 145.4 (113.4) million.

ORGANIZATION AND STAFF

The organization consists of a head office in Lund, Sweden and offices in Karlstad, Sweden and Potsdam, USA. To secure a local presence in key markets, sales consultants are hired in Taiwan, China and Korea. At the end of the interim period the Group had a workforce of 46 (36) people, including consultants. The number of employees was 34 (27), of which 30 (27) were in Sweden.

During the quarter, the company's management team was extended with Fredrik Sjöholm, responsible for sales and business development of new product areas, and Fredrik Clementson took up the position of R&D Director.

REPORTING DATES

Year-end Report 2017	February 13, 2018
Q1 2018 Interim Report	May 15, 2018
Q2 2018 Interim Report	August 15, 2018
Q3 2018 Interim Report	November 13, 2018
Year-end Report 2018	February 13, 2019

RISK FACTORS

The Group's and the parent company's business risks and risk management as well as the management of financial risks are described in detail in the Annual Report for 2016. NexID Biometrics Inc. was acquired during 2017 and a preliminary acquisition calculation has been prepared. Risk associated with the acquisition is primarily if sales and earnings do not develop as planned, in which case there may be a need to write down intangible assets. The risk associated with the sale of the Mobile Smart Card Solutions business area is if expected commission revenues are not received, in which case there may be a write-down requirement. Otherwise there have been no events of significant importance during the year that would affect or change these descriptions of the Group's or the parent company's risks and how they are managed.

ACCOUNTING POLICIES

This interim report has been prepared in accordance with IAS 34 Interim Reporting. The recognition and measurement policies as well as the bases of estimates applied in the Annual Report for 2016 have been used in this interim report as well. The parent company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Annual Reporting Board's recommendation RFR2 Accounting for Legal Entities. Acquisition costs related to the business combination (see Note 1) were recorded in the parent company's balance sheet and increased the amount of goodwill. This item was recorded as an expense in the Group.

In accordance with IFRS 5, the Mobile Smart Card Solutions business area is recorded as a business held for sale. As a consequence of the fact that the Mobile Smart Card Solutions business area has been classified as a business held for sale, previously reported figures have been converted in order to improve comparability. In order to obtain comparable historical data, previously reported figures have only been adjusted for the expenses relating directly to the discontinued business area, which will no longer affect the company's remaining operation. The resources that were previously allocated to the Mobile Smart Card Solutions business area have been transferred to the Fingerprint Technology business area and have therefore not been included in the business held for sale. In accordance with IFRS 8, the discontinued business area is not included in segment reporting. As the remaining operation consists exclusively of the Fingerprint Technology business area, there is therefore no longer any segment reporting.

The company has performed a new assessment in respect of the calculation of the deferred tax asset. As of the third quarter, the calculation is based on an assessment of the Group's future earnings.

Work by the Group to evaluate IFRS 15 Revenue from contracts with customers started in 2016 and has proceeded during the interim period. The analysis was performed on the basis of the standard's five-step model and assessed revenue streams based on identified and existing performance commitments. The overall conclusion is that the implementation of IFRS 15 based on current agreements has only a limited impact on the Group's and the parent company's revenue recognition. Revenues for the Fingerprint Technology business area consist of royalties, licenses and support/maintenance. Royalties/revenues are variable and are classified as "usage-based". Licensing revenues, which are classified as "a right to access," and support/maintenance are viewed as a performance commitment and are recognized as revenue over the term of the agreement. For product sales, revenue recognition takes place when control passes to the customer, which normally takes place upon delivery and corresponds with the current accounting policy. The variable components consist of possible returns and complaints, which are for insignificant amounts and do not have any impact on revenue recognition. The Group has chosen to apply the policy with full retroactivity in connection with the transition to the new accounting standard.

During the interim period, the Group has evaluated the effects of IFRS 9 Financial Instruments, and no change is expected on the basis of the analysis performed of the existing classification. The Group and the parent company will introduce a model for providing for future bad debts based on historical

performance combined with predictive analysis. It is not believed that the introduction of the model will have a significant impact on the Group's profit.

An analysis was launched in 2017 to investigate how the impact of IFRS 16 Leases will affect the company's financial reporting.

Otherwise, the new standards and interpretations that came into force from fiscal year 2017 have not had any material impact on financial reporting.

For more information on the accounting policies applied, please refer to the Annual Report for 2016.

ALTERNATIVE KEY INDICATORS

Precise Biometrics presents financial definitions and reconciliations of alternative key indicators in this interim report. Precise Biometrics presents alternative key indicators as these provide valuable supplementary information for investors and company management, making it possible to evaluate the company's performance.

AUDIT

This interim report has been audited by the company's auditors.

Lund, Tuesday, November 14, 2017

Torgny Hellström, Chairman of the Board

Torbjörn Clementz

Mats Lindoff

Matts Lilja

Synnöve Trygg

Anna Almlöf

Håkan Persson, CEO

This information is information that Precise Biometrics AB is obligated to disclose pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 08:00 CET on November 14, 2017.

AUDITOR'S REVIEW REPORT

Precise Biometrics AB (publ), corp. ID no. 556545-6596

To the Board of Precise Biometrics AB (publ)

Introduction

We have performed a general review of the summary of the financial interim report (interim report) for Precise Biometrics AB (publ) as of September 30, 2017 and the nine-month period that ended on that date. It is the responsibility of the Board and the CEO to prepare and present this interim report in accordance with IAS and the Swedish Annual Accounts Act. It is our responsibility to express a conclusion on this interim report on the basis of our general review.

The emphasis and scope of the general review

We have conducted our general review in accordance with the International Standard on Review Engagements ISRE 2410 *General review of financial interim information conducted by the company's auditors*. A general review consists of making inquiries, in the first instance of persons who are responsible for financial issues and accounting issues, to conduct an analytical review and to perform other general review measures. A general review has a different focus and is of a significantly smaller scope in comparison with the focus and scope of an audit in accordance with the International Standards on Auditing and otherwise generally accepted auditing standards.

The review measures performed during a general review do not allow us to obtain a sufficient degree of certainty so as to be aware of all the important circumstances we would have identified if an audit were conducted. Therefore the opinion we have expressed on the basis of a general review does not have the same degree of certainty as an opinion based on an audit.

Conclusion

On the basis of our general review we have not found any circumstances that have given us reason to believe that the interim report has not in all material respects been prepared in accordance with IAS 34 and the Swedish Annual Accounts Act, and for the parent company in accordance with the Swedish Annual Accounts Act.

Malmö, November 14, 2017

Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

Consolidated income statement – in summary

(Amounts in SEK thousand)

	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year	Rolling 12 mon.
Net sales	10,081	22,959	46,858	62,519	83,299	67,638
Cost of goods sold	-960	-419	-2,909	-1,260	-1,681	-3,330
Gross profit/loss	9,121	22,540	43,949	61,259	81,618	64,308
Selling expenses	-6,486	-5,625	-22,743	-13,092	-18,183	-27,835
Administrative expenses	-2,982	-3,151	-10,609	-10,366	-15,004	-15,247
R&D costs	-6,148	-5,637	-18,329	-17,689	-24,904	-25,544
Other operating income/expenses	14	449	-927	866	1,881	88
	-15,601	-13,964	-52,608	-40,280	-56,211	-68,538
Operating profit/loss	-6,480	8,576	-8,659	20,979	25,407	-4,230
Financial income/expenses	-877	2	-1,643	-8	-12	-1,647
Profit/loss before tax	-7,357	8,578	-10,302	20,971	25,395	-5,878
Tax	-135	13,200	-359	13,200	13,200	-359
Profit/loss for the period from remaining operation	-7,491	21,778	-10,661	34,171	38,595	-6,237
Profit/loss after tax from discontinued operation	1,661	-3,982	2,920	-5,668	-7,402	1,185
Profit/loss for the period, total operation	-5,830	17,796	-7,741	28,503	31,193	-5,051
Profit/loss for the period from total operation attributable to:						
Parent company shareholders	-5,830	17,796	-7,741	28,503	31,193	-5,051
Earnings per share, remaining operation, SEK						
- before dilution, SEK	-0.02	0.06	-0.03	0.10	0.11	-0.02
- after dilution, SEK	-0.02	0.06	-0.03	0.10	0.11	-0.02
Earnings per share, total operation, SEK						
- before dilution, SEK	-0.02	0.05	-0.02	0.08	0.09	-0.01
- after dilution, SEK	-0.02	0.05	-0.02	0.08	0.09	-0.01
Consolidated statement of comprehensive income						
(Amounts in SEK thousand)						
Profit/loss for the period	-5,830	17,796	-7,741	28,503	31,193	-5,051
Other comprehensive income:						
Items that may be reclassified to profit or loss						
Changes in accumulated exchange rate differences	44	293	-189	510	1,516	817
Other comprehensive income for the period, net of tax	44	293	-189	510	1,516	817
Total comprehensive income for the period	-5,787	18,089	-7,931	29,013	32,709	-4,235
Profit/loss for the period attributable to holders of participations in the parent company.	-5,787	18,089	-7,931	29,013	32,709	-4,235

Note 2

Consolidated balance sheet – in summary

(Amounts in SEK thousand)		9/30/2017	9/30/2016	12/31/2016
Assets				
Intangible assets	Note 1	43,708	9,593	10,436
Property, plant and equipment		826	1,529	1,285
Financial assets		12,841	13,200	13,200
Total fixed assets		57,375	24,322	24,921
Inventories		-	6,504	2,190
Trade receivables		15,215	7,015	18,432
Other current receivables		6,963	18,578	14,800
Cash and cash equivalents		116,722	75,047	135,753
Total current assets		138,900	107,144	171,176
Assets held for sale	Note 2	2,844	-	-
Total assets		199,118	131,466	196,096
Equity and liabilities				
Equity		155,200	112,074	163,011
Total equity		155,200	112,074	163,011
Current liabilities		43,918	19,392	33,085
Total liabilities		43,918	19,392	33,085
Total equity and liabilities		199,118	131,466	196,096

Consolidated statement of changes in equity – in summary

(Amounts in SEK thousand)	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year	Rolling 12 mon.
Equity at start of period	160,793	93,986	163,011	83,059	83,059	112,074
Profit/loss for the period	-5,830	17,797	-7,741	28,504	31,193	-5,051
Exchange rate differences	43	291	-191	511	1,516	812
New share issue ¹⁾	-	-	-72	-	47,243	47,171
Warrant programs	194		194			194
Equity at end of period	155,200	112,074	155,200	112,074	163,011	155,200

¹⁾ Costs of the new share issue total SEK 72 thousand, and for 2016 the costs of the new share issue of SEK 2.8 million are included in the amount recorded.

Consolidated cash flow statement – in summary

(Amounts in SEK thousand)

	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year	Rolling 12 mon.
Cash flow from operating activities before changes in working capital	-4,322	6,656	-3,208	21,044	24,824	573
Cash flow from changes in working capital	8,209	1,755	22,903	4,863	12,834	30,874
Cash flow from operating activities	3,887	8,411	19,695	25,908	37,658	31,447
Cash flow from investing activities	-2,015	-963	-38,048	-3,579	-5,268	-39,737
Cash flow from financing activities	194	-	194	-	50,000	50,194
Cash flow for the period	2,066	7,448	-18,160	22,329	82,390	41,903
Cash and cash equivalents at start of period	115,006	67,411	135,753	52,356	52,356	75,047
Translation difference in cash and cash equivalents	-350	188	-872	362	1,007	-228
Cash and cash equivalents at end of period	116,722	75,047	116,722	75,047	135,753	116,722

Consolidated key indicators

(Amounts in SEK thousand unless otherwise stated)

	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year	Rolling 12 mon.
Net sales	10,081	22,959	46,858	62,519	83,299	67,638
Net sales growth, %	-56.1%	70.6%	-25.0%	162.8%	95.7%	-16.8%
Gross margin, %	90.5%	98.2%	93.8%	98.0%	98.0%	95.1%
Operating profit/loss	-6,480	8,576	-8,659	20,979	25,407	-4,230
Operating profit/loss, total operation	-4,818	4,594	-5,739	15,311	18,005	-3,045
Working capital, total operation	94,982	87,751	94,982	87,751	138,091	94,982
Capital employed, total operation	155,200	112,074	155,200	112,074	163,011	155,200
Quick ratio, total operation, %	316%	519%	316%	519%	511%	316%
Equity/assets ratio, total operation, %	77.9%	85.2%	77.9%	85.2%	83.0%	77.9%
Return on equity, total operation, %	-3.7%	17.3%	-2.1%	29.2%	25.4%	-3.2%
Earnings per share before dilution, SEK	-0.02	0.06	-0.03	0.10	0.11	-0.02
Earnings per share before dilution, total operation, SEK	-0.02	0.05	-0.02	0.08	0.09	-0.01
Earnings per share after dilution, SEK	Note 3 -0.02	0.06	-0.03	0.10	0.11	-0.02
Earnings per share after dilution, total operation, SEK	Note 3 -0.02	0.05	-0.02	0.08	0.09	-0.01
Equity per share, total operation, SEK	0.43	0.32	0.43	0.32	0.45	0.43
No. of shares (thousands)	360,231	345,306	360,231	345,306	360,231	360,231
Weighted average number of shares, adjusted for dilution effect (thousand)	360,231	346,145	360,481	346,224	346,843	360,481
Number of employees at end of period	34	27	34	27	26	31
Average number of employees during the period	34	27	33	27	26	29

Quarterly summary

(Amounts in SEK thousand unless otherwise stated)

	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Full year
Net sales	10,081	20,160	16,617	20,780	22,959	83,299
Sequential net sales growth, %	-50.0%	21.3%	-19.4%	10.7%	70.6%	95.7%
Operating profit/loss	-6,480	481	-2,661	4,429	8,576	25,407
Operating profit/loss, total operation	-4,818	1,750	-2,670	2,694	4,594	18,005
EBITDA	-5,622	1,219	-1,715	4,934	9,084	27,424
EBITDA, total operation	-3,961	3,033	-1,138	3,784	6,654	24,836
Cash flow from operating activities, total operation	3,887	-1,314	17,123	11,751	8,411	37,658
Capital employed, total operation	155,200	160,793	159,488	163,011	112,074	163,011

Reconciliation of alternative key indicators

(Amounts in SEK thousand unless otherwise stated)

	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year	Rolling 12 mon.
EBITDA	-5,622	9,084	-6,119	22,490	27,424	-1,185
Depreciation	-857	-508	-2,541	-1,512	-2,017	-3,046
Write-downs	0					
Operating profit/loss	-6,480	8,576	-8,660	20,978	25,407	-4,231
EBITDA, total operation	-3,961	6,653	-2,066	21,051	24,835	1,718
Depreciation, total operation	-857	-1,530	-3,673	-5,211	-6,301	-4,763
Write-downs, total operation	-	-529	-	-529	-529	-
Operating profit/loss, total operation	-4,818	4,594	-5,739	15,311	18,005	-3,045
Operating profit/loss, remaining operation	-6,479	8,576	-8,659	20,979	25,408	-4,231
Operating profit/loss, discontinued operation	1,661	-3,982	2,920	-5,668	-7,402	1,185
Operating profit/loss, total operation	-4,818	4,594	-5,739	15,311	18,005	-3,046
Selling expenses	-6,486	-5,625	-22,743	-13,092	-18,183	-27,835
Administrative expenses	-2,982	-3,151	-10,609	-10,366	-15,004	-15,247
R&D costs	-6,148	-5,637	-18,329	-17,689	-24,904	-25,544
Other operating income/expenses	14	449	-927	866	1,881	88
Total operating expenses, remaining operation	-15,601	-13,964	-52,608	-40,280	-56,211	-68,538
Capital employed, total operation	155,200	112,074	155,200	112,074	163,011	155,200
Non-interest-bearing liabilities, total operation	43,918	19,392	43,918	50,385	33,085	43,918
Balance sheet total, total operation	199,118	131,466	199,118	162,459	196,096	199,118
Equity, total operation	155,200	112,074	155,200	112,074	163,011	155,200
Average equity, total operation	159,069	103,030	159,395	97,566	123,035	159,395

Parent company income statement – in summary

(Amounts in SEK thousand)

	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year	Rolling 12 mon.
Net sales	9,661	22,959	46,166	62,519	83,299	66,946
Cost of goods sold	566	-419	-3,950	-1,260	-1,681	-4,372
Gross profit/loss	10,228	22,540	42,216	61,259	81,618	62,574
Selling expenses	-7,210	-5,626	-22,689	-13,093	-18,306	-27,902
Administrative expenses	-3,321	-3,150	-10,779	-10,363	-13,902	-14,318
R&D costs	-7,034	-5,762	-18,027	-17,689	-24,904	-25,242
Other operating income/expenses	-1,384	1,319	-4,910	2,470	6,424	-956
	-18,949	-13,219	-56,405	-38,675	-50,687	-68,418
Operating profit/loss	-8,721	9,321	-14,189	22,584	30,931	-5,844
Financial income/expenses	-930	114	-1,702	229	-5,467	-7,399
Profit/loss before tax	-9,651	9,435	-15,891	22,813	25,463	-13,243
Tax	-	13,200	-	13,200	13,200	-
Profit/loss for the period from remaining operation	-9,651	22,635	-15,891	36,013	38,663	-13,243
Profit/loss after tax from discontinued operation	357	-2,347	-1,001	-3,873	-5,083	-2,211
Profit/loss for the period, total operation	-9,295	20,288	-16,893	32,140	33,580	-15,454

Parent company balance sheet – in summary

(Amounts in SEK thousand)

		9/30/2017	9/30/2016	12/31/2016
Assets				
Intangible assets	Note 1	43,146	9,593	10,436
Property, plant and equipment		688	1,529	1,285
Financial assets		14,558	32,270	31,789
Total fixed assets		58,393	43,392	43,509
Inventories		-	3,496	1,576
Trade receivables		13,615	5,767	16,173
Other current receivables		6,121	17,952	14,170
Cash and cash equivalents		115,326	61,303	120,796
Total current assets		135,062	88,519	152,715
Assets held for sale	Note 2	2,328	-	-
Total assets		195,782	131,911	196,225
Equity and liabilities				
Equity		145,414	113,426	162,108
Total equity		145,414	113,426	162,108
Provisions		103	78	103
Total provisions		103	78	103
Current liabilities		50,266	18,407	34,014
Total liabilities		50,266	18,407	34,014
Total equity and liabilities		195,782	131,911	196,225

Note 1 Business combinations

Below is a description of the business combination completed by the Group during the year.

NexID Biometrics Inc.

On February 9, 2017 Precise Biometrics AB acquired the assets and liabilities of NexID Biometrics Inc. With this acquisition, Precise Biometrics is extending its software offering to include liveness detection, which further improves the security of fingerprint recognition. The acquisition reinforces the company's position as the leader in the field of fingerprint software and creates further opportunities for growth in the rapidly expanding market for fingerprint technology.

NexID Biometrics had three employees at the time of the acquisition. NexID's net sales in the fiscal year that ended on December 31, 2016 totaled SEK 2.2 million.

The acquired assets are included in the Group as of February 9, 2017. The acquisition affected the Group's net sales by SEK 2.2 million and the operating profit/loss by SEK -2.2 million. Costs in connection with the acquisition affected the Group's profit/loss in 2016 to the order of SEK -1.1 million.

The purchase price totaled SEK 31,360 thousand and was paid in cash. The goodwill that arose in connection with the acquisition relates to the company's strong position in the field of liveness detection.

Acquisition analysis, provisional	SEK thousand
Impact on cash and cash equivalents	
Purchase price	31,360
Fair value of identifiable assets in NexID on the acquisition date	
Intangible assets	7,776
- of which patents	1,138
- of which software	1,619
- of which database	4,276
- of which customer relations	743
Tangible assets	119
Inventories	40
Total assets	7,935
Goodwill	23,425
Purchase price	31,360

The assets and liabilities from the acquisition are predominantly recorded (98%) in the parent company's balance sheet. Depreciation of identifiable fixed assets takes place on a straight-line basis over between 5 and 15 years. Acquisition costs totaling SEK 1,071 thousand have been capitalized in the parent company, and goodwill in the parent company has therefore increased to SEK 24,496 thousand. Goodwill for the parent company is written off over ten years in accordance with its expected useful life.

Note 2 Assets held for sale

On June 21, 2017 Precise Biometrics announced that the company had concluded an agreement with IDENTOS GmbH on the takeover of the Mobile Smart Card Solutions business area, which includes the business operation involving smart card readers under the Tactivo brand. Identos will take over the development of new smart card readers under the Tactivo brand, patents, trademark rights, manufacturing, sales and customer support as of January 1, 2018. Identos will be introduced to existing customers and partners during the second half of 2017, before gradually taking over sales.

As of June 30, 2017 assets belonging to Mobile Smart Card Solutions have been reclassified and recorded as assets held for sale and profit/loss from a discontinued operation.

Group

Income statement (SEK thousand)	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year
Sales	2,464	2,499	8,375	9,049	13,924
Expenses	-803	-6,481	-5,455	-14,717	-21,326
Operating profit/loss	1,661	-3,982	2,920	-5,668	-7,402
Write-down to sales value	-	-	-	-	-
Profit/loss before tax from discontinued operation	1,661	-3,982	2,920	-5,668	-7,402

Balance sheet (SEK thousand)	2017 Q3
Capitalized development expenses	1,301
Tools	261
Inventories	1,282
Total assets held for sale	2,844

Parent company

Income statement (SEK thousand)	2017 Q3	2016 Q3	2017 Q1-Q3	2016 Q1-Q3	2016 Full year
Sales	1,393	1,430	5,354	4,846	7,156
Expenses	-1,036	-3,777	-6,356	-8,719	-12,239
Operating profit/loss	357	-2,347	-1,001	-3,873	-5,083
Write-down to sales value	-	-	-	-	-
Profit/loss before tax from discontinued operation	357	-2,347	-1,001	-3,873	-5,083

Balance sheet (SEK thousand)	2017 Q3
Capitalized development expenses	1,301
Tools	261
Inventories	766
Total assets held for sale	2,328

Note 3 Option program

The shareholders' general meeting on May 16, 2017 made a decision on an incentive scheme for the company's employees to the effect that a maximum of five million (5,000,000) stock options can be issued, with each stock option providing entitlement to subscribe to one (1) share in the company. Subscription to the stock options must take place no later than December 31, 2017, with the Board having the right to extend the subscription period. Subscription through the exercising of stock options may take place during the period June 1, 2020 until June 30, 2020. The subscription price for the options has been set at SEK 0.06 and the subscription price for the shares at SEK 5.40. At the end of the interim period, 3,230,000 options had been subscribed, corresponding to 65% of total stock options. The amount paid for the subscribed stock options is SEK 194 thousand.

Assuming that all stock options are exercised to subscribe to new shares, the number of shares in the company will increase by 5,000,000 shares. The company also has a stock option program, adopted at the AGM in 2014, and a total of 2,610,000 options were subscribed with the right to subscribe to the corresponding number of shares during the period July 1 - December 31, 2017. This would mean that if there is full subscription, the number of shares in the company may increase by 7,610,000.

Dilution effects are only considered in the event that the earnings per share become worse. The dilution effects have not been considered, as the average price during the quarter is below the price in the current option programs.

Note 4 Definitions of key indicators

Net sales growth

Percentage change compared with the corresponding period in the previous year.

Gross margin

Gross profit/loss divided by net sales.

Operating profit/loss

Profit/loss before financial net and tax.

Operating profit/loss, total operation

Operating profit/loss plus profit/loss after tax from discontinued operation.

Operating expenses

Operating expenses excluding cost of goods sold.

EBITDA

Profit/loss before financial net and depreciation.

Cash flow, total operation

Cash flow from operating activities after changes in working capital.

Working capital, total operation

Current assets minus current liabilities.

Capital employed, total operation

Total assets less non-interest bearing liabilities and provisions.

Equity, total operation

Equity at the end of the period.

Average equity, total operation

Average equity has been calculated as opening equity in the period plus closing equity divided by two.

Quick ratio, total operation

Current assets excluding inventories divided by current liabilities.

Equity/assets ratio, total operation

Equity divided by total assets on the balance sheet date.

Return on equity, total operation

Profit/loss for the period from total operation divided by average equity.

Earnings per share, remaining operation, before dilution

Profit/loss for the period from remaining operation divided by average number of shares.

Earnings per share, remaining operation, after dilution

Profit/loss for the period from remaining operation divided by weighted average number of shares.

Earnings per share, total operation, before dilution

Profit/loss for the period from total operation divided by average number of shares.

Earnings per share, total operation, after dilution

Profit/loss for the period from total operation divided by weighted average number of shares.

Equity per share, total operation

Equity on the balance sheet date divided by the number of shares on the balance sheet date.

Return on equity, total operation

Profit/loss after tax divided by average equity.

INVITATION TO PRESENTATION OF THE INTERIM REPORT

On the occasion of today's interim report, we invite investors and the media to an information conference call.

The conference call starts at 10:00 AM (CET).

To take part, click on the link below to listen to and follow the presentation online, or call +46 8 5664 2690, +44 20 3008 9819 or +1 85 5753 2236 to follow it over the phone.

<https://tv.streamfabriken.com/precise-biometrics-q3-2017>

You will be asked to state your name when you connect to the conference call and there will be an opportunity to ask questions in Swedish. The conference will be held in English.

Participating on behalf of Precise Biometrics:

Håkan Persson, CEO

Göran Thuresson, CFO

The conference call will be made available at <http://precisebiometrics.com/investor/sv/finansiell-information/rapporter/>