

Q3



PRECISE BIOMETRICS INTERIM REPORT

JANUARY-SEPTEMBER 2018

REVISED STRATEGY TO GENERATE NEW BUSINESS

INTERIM REPORT FOR THE PERIOD JANUARY TO SEPTEMBER 2018

THIRD QUARTER

- Net sales for the remaining operation totaled SEK 16.8 (10.1) million.
- The operating profit/loss for the remaining operation totaled SEK -0.4 (-6.5) million.
- The profit/loss for the remaining operation totaled SEK -0.7 (-7.5) million.
- Earnings per share for the remaining operation totaled SEK 0.00 (-0.02).
- Earnings per share for the total operation totaled SEK 0.00 (-0.02).
- Cash flow from total operating activities totaled SEK -0.2 (3.9) million.

INTERIM PERIOD

- Net sales for the remaining operation totaled SEK 53.7 (46.9) million.
- The operating profit/loss for the remaining operation totaled SEK -5.7 (-8.7) million.
- The profit/loss for the period for the remaining operation totaled SEK -7.2 (-10.7) million.
- Earnings per share for the remaining operation totaled SEK -0.02 (-0.03).
- Earnings per share for the total operation totaled SEK -0.02 (-0.02).
- Cash flow from total operating activities totaled SEK -17.0 (19.7) million.
- Cash and cash equivalents were SEK 91.3 (116.7) million at the end of the period.

SIGNIFICANT EVENTS DURING THE QUARTER

- Stefan K Persson took over as new CEO as of August 1.
- Ulrik Nilsson took over as new CFO as of September 27.
- Oppo R17 was launched, in which Precise BioMatch Mobile has been implemented with an optical sensor beneath the glass from Silead.

SIGNIFICANT EVENTS SINCE THE END OF THE QUARTER

- A revised strategy was presented in which the company will develop biometric authentication solutions in new areas of application.
- A planned re-organization of the business was announced with the purpose to improve customer service and enable growth in new areas.

FINANCIAL DATA AND KEY INDICATORS

As a result of the Mobile Smart Card Solutions business area having been disposed of as of January 1, 2018, previously reported figures have been restated in order to improve comparability. The business area was reported as a business held for sale starting in the interim report for the second quarter of 2017. 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 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	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 months
Net sales	16,817	10,081	53,697	46,858	61,039	67,878
Net sales growth, %	66.8%	-56.1%	14.6%	-25.0%	-26.7%	0.4%
Gross margin, %	84.3%	90.5%	86.4%	93.8%	93.3%	87.5%
Operating profit/loss	-367	-6,479	-5,696	-8,658	-13,936	-10,974
Operating margin, %	-2.2%	-64.3%	-10.6%	-18.5%	-22.8%	-16.2%
Cash flow from operating activities	-153	3,887	-16,988	19,695	22,788	-13,895
Cash and cash equivalents, total operation	91,309	116,722	91,309	116,722	116,955	91,309

PRESENTATION OF THE INTERIM REPORT

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

THE CEO'S COMMENTS

I took up the position of CEO on August 1, 2018, which means that these are my first "CEO's comments." I am delighted to be on board, and since taking up my position I have observed an extremely interesting industry in a phase of expansion, one in which biometric solutions are being made increasingly available to the public through a number of applications. Historically, Precise Biometrics' core activities have been in the field of fingerprint biometrics, with a focus on mobile devices. With the increased use of smart devices such as mobile phones, vehicles, consumer electronics and wearables, we are seeing increased demand for biometric solutions that make life more convenient and secure.

By studying the market and technical developments, we have identified opportunities to expand our existing business into new areas, and I am convinced that we are well positioned to take the next step in our development. Having previously delivered high-quality biometric solutions for fingerprints, we now have an opportunity to enter into a broader system of solutions, in which we intend to combine different biometric modalities for sectors such as finance, gaming, medicine and security. The ability to read data through a fingerprint, iris, face, behavior and geodata enables the kind of user experience and security that the market is demanding.

We intend to restructure our organization with the aim of improving customer service and support, and enhancing our ambitions to combine different biometric modalities. The Asian market for biometrics is growing rapidly, which is why we recently announced our intentions to set up an office in Shanghai during the first half of 2019, in order to offer customer service and support locally. At the same time, we are planning to centralize our research & development in Sweden in Lund. This will enable us to continue to develop solutions that combine different biometric modalities. Tests of our new offerings will be starting during the first half of the year, but are not expected to have any significant financial impact during 2019.

We have seen increased net sales and reduced losses during the quarter compared with the corresponding quarter last year. The improved profit is primarily due to increased royalty revenues and a restated provision.

We have good collaboration with a large number of customers who focus on optical and ultrasound sensors, and we will continue to focus on these areas. We are competing for several mobile projects in these new sensor technologies, but competition is tough in this area and there is a high level of uncertainty about which technical solutions will be used.

The first contact-based biometric payment cards are approaching their commercial launch, which will be a milestone in the development of biometric payment solutions. It takes us one step closer to the introduction of contactless biometric payment cards, which will become the preferred payment solution, as this provides a much better user experience than contact-based cards. We are expecting initial smaller volumes in the field of smart cards during the second half of 2019, with higher volumes during 2020.

As has been communicated previously, our efforts to generate profitable growth remain our top priority, and we are convinced that the planned reorganization of our business will make a positive contribution to our development.

MARKET AND SALES

Precise Biometrics develops and sells biometric authentication solutions for the convenient, secure verification of people's identity in mobile phones and smart cards, and for services. The company offers the following solutions:

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

Precise BioMatch™ Card, algorithm solution for smart cards.

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

Precise BioLive™, fingerprint software that protects fingerprint sensors against fake fingers.



Market developments

The trend of under-display sensors is continuing. A number of flagship phones were launched during the quarter from Huawei, Oppo, Vivo and Xiaomi with optical sensors integrated under the screen. This clear trend has resulted in additional sensor manufacturers having developed their product ranges and planning to extend their offerings to include optical sensors. While this development is taking off, the next generation of under-display sensors is being tested, which make it possible to read fingerprints on a larger part of the screen compared with current technology, which requires the finger to be placed on a specific point. This development is a natural step towards the goal of developing displays with built in sensors that can read fingerprints over the whole screen.

According to an analysis by IHS Markit, optical and ultrasound sensors will increase and account for more than 100 million sensors in 2019, a significant part of the market value for fingerprint sensors, as the average price of these sensors is significantly higher than the price of capacitive sensors. Sales of capacitive sensors are increasing, but prices per unit continues to decrease which impacts the average sales price for fingerprint software. In total, the market value for capacitive sensors are decreasing as prices are dropping faster than volumes are increasing.

The first contact-based biometric payment cards are approaching their commercial launch. This will be a milestone in the development of biometric payment solutions and is a step along the road to contactless biometric payment cards, which will be the dominant solution in the longer term as they provide a much better user experience. The first contactless biometric payment cards are expected to launch in minor volumes during 2019.

Card manufacturers are focusing increasingly on the certification of contactless biometric payment cards, which is a precondition for card issuers to be able to achieve a broad launch on the market. The first specification of requirements for contactless biometric payment cards is expected soon from MasterCard. Certification and subsequent commercial launches can then take place.

An analysis by Goode Intelligence from October estimates that there will be 579 million biometric payment cards in use in 2023. According to this analytical company, this market trend is being driven by a number of factors: demand for simple authentication of payments, a desire to reduce card fraud, and regulation and standardization.

With the increased use of smart devices, biometric solutions are becoming increasingly available to the public. Biometric systems with fingerprint, facial, voice, behavioral and iris recognition enable a digital identity that makes day-to-day life more convenient and secure. These solutions meet the demand from users for simple, secure authentication while at the same time creating new opportunities to personalize services based on biometrics and user behavior.

NET SALES AND OPERATING PROFIT/LOSS IN THE THIRD QUARTER

Net sales in the third quarter totaled SEK 16.8 (10.1) million. The reserve of SEK 3.3 million made in the third quarter of 2017 has, following final settlement, been reversed with a positive impact on revenue of SEK 1.3 million in net sales for the quarter. Adjusted for the items mentioned, the comparable increase is 16% or SEK 2.1 million, primarily explained by increased royalty revenues.

The gross margin during the quarter totaled 84.3% (90.5). The gross margin was impacted positively by 1.3 (-2.3) percentage points by the aforementioned revenue of SEK 1.3 million. The change in the assessment of the amortization period for capitalized development expenses, which was implemented in 2018, resulted in an increased amortization of SEK 0.9 million compared with last year. This changed assessment had a negative impact on the gross margin of 5.1 percentage points. Total amortization of capitalized development expenses totaled SEK 2.1 (0.6) million, and amortization of acquired intangible assets totaled SEK 0.2 (0.2) million.

Operating expenses for the quarter decreased by SEK 1.1 million compared with last year and totaled SEK 14.5 (15.6) million.

The operating profit/loss for the quarter totaled SEK -0.4 (-6.5) million. The reserve of SEK 3.3 million made in the third quarter of 2017 has been reversed with a positive impact of SEK 1.3 million, corresponding to a change of SEK 4.6 million. Lower operating expenses contributed to the improved operating profit/loss. Earnings for the period totaled SEK -0.7 (-7.5) million. The profit/loss at EBITDA level totaled SEK 2.1 (-5.6) million. Earnings per share (average number of shares) for the third quarter totaled SEK 0.00 (-0.02).

NET SALES AND OPERATING PROFIT/LOSS FOR THE INTERIM PERIOD

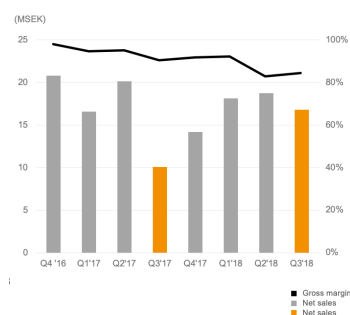
Net sales during the interim period totaled SEK 53.7 (46.9) million. Adjusted for the reversed figure of SEK 1.3 (-3.3) million, the comparable increase is SEK 2.2 million. Revenues from royalties, licenses and services increased.

The gross margin during the interim period totaled 86.4% (93.8). The change in the amortization period for capitalized development expenses had a negative impact on the gross margin of 4.5 percentage points. The gross margin is also charged with higher amortization of capitalized development expenses. Total amortization and impairment of capitalized development expenses totaled SEK 5.3 (1.8) million, and amortization of acquired intangible assets totaled SEK 0.6 (0.5) million.

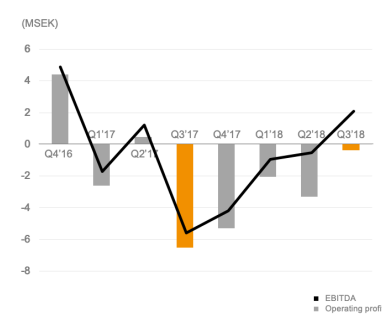
Operating expenses for the interim period decreased slightly and totaled SEK 52.1 (52.6) million. Operating expenses include severance payments to the former CEO of SEK 1.4 (0.0) million, excluding social insurance costs.

The operating profit/loss for the interim period totaled SEK -5.7 (-8.7) million. Earnings for the period totaled SEK -7.2 (-10.7) million. The profit/loss at EBITDA level totaled SEK 0.6 (-6.1) million. Earnings per share (average number of shares) for the interim period totaled SEK -0.02 (-0.03).

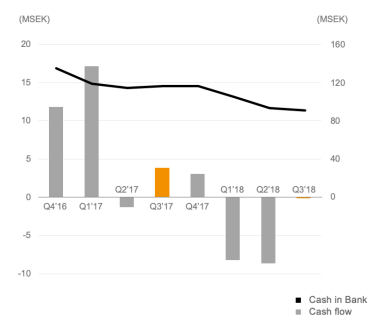
NET SALES & GROSS MARGIN



OPERATING PROFIT/LOSS



OPERATING CASH FLOW



NET FINANCIAL ITEMS AND TAX

Net financial items for the total operation during the first quarter totaled SEK -0.1 (-0.9) million and the tax expense totaled SEK -0.2 (-0.1) million.

Net financial items for the total operation during the interim period totaled SEK -0.8 (-1.6) million and the tax expense totaled SEK -0.8 (-0.4) million. The upcoming change in corporation tax affected the deferred tax asset during the interim period to the order of SEK -0.4 (0.0) million.

CASH FLOW AND INVESTMENTS

Cash flow during the quarter from the company's total operating activities totaled SEK -0.2 (3.9) million. During the third quarter the Group invested SEK 0.1 (0.3) million in equipment. Depreciation for equipment during the quarter totaled SEK 0.1 (0.1) million and for intangible assets, SEK 0.2 (0.2) million.

Cash flow during the interim period from the company's total operating activities totaled SEK -17.0 (19.7) million. An advance payment of SEK 17.5 million had a positive impact on cash flow in 2017. The Group invested SEK 0.3 (0.5) million in equipment during the interim period and SEK 0.0 (0.3) million in intangible assets during the interim period. Depreciation for equipment during the interim period totaled SEK 0.3 (0.2) million and for intangible assets, SEK 0.7 (0.5) million.

CAPITALIZATION AND AMORTIZATION OF DEVELOPMENT WORK

Development expenses of SEK 2.0 (2.0) million were capitalized during the third quarter. Amortization of capitalized development expenses totaled SEK 2.1 (0.6) million during the quarter.

Development expenses of SEK 8.3 (6.0) million were capitalized during the interim period. Amortization of capitalized development expenses totaled SEK 4.4 (1.8) million during the interim period. The increase in the amortization amount is due to a change in the assessment of the amortization period for capitalized development expenses and higher capitalized development expenses compared with the previous year.

FINANCIAL POSITION AND LIQUIDITY

Cash and cash equivalents at the end of the interim period totaled SEK 91.3 (116.7) million.

Total equity at the end of the interim period totaled SEK 139.4 (155.2) million, and equity per share was SEK 0.39 (0.43).

PARENT COMPANY

The parent company's net sales for the interim period totaled SEK 53.3 (51.5) million. The operating profit/loss was charged with amortization of goodwill totaling SEK 1.8 (1.6) million.

Cash and cash equivalents at the end of the interim period totaled SEK 90.0 (115.3) million, and equity SEK 135.5 (145.4) 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 have been hired in Taiwan, China and Korea. At the end of the interim period the Group had a workforce of 43 (46) people, including consultants. The number of employees was 33 (34), of which 28 (30) were in Sweden.

Stefan K Persson took up the position of CEO on August 1, 2018 and Ulrik Nilsson took up the position of CFO on September 27, 2018.

REPORTING DATES

Year-end Report 2018	February 13, 2019
Q1 Interim Report 2019	May 14, 2019
Q2 Interim Report 2019	August 16, 2019
Q3 Interim Report 2019	November 15, 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 2017. 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. During the first quarter of 2018, IFRS 9 and IFRS 15 were implemented, which had no effect on earnings. Otherwise the recognition and measurement policies as well as the bases of estimates applied in the Annual Report for 2017 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 RFR 2, Accounting for Legal Entities.

The disposal of the Mobile Smart Card Solutions business area was completed as planned as of January 1, 2018. Information about the sale was issued in June 2017 and in accordance with IFRS 5 the business area was reported as a business held for sale for the rest of 2017. In order to obtain comparable historical data, previously reported figures were adjusted with respect to expenses relating directly to the discontinued business area and will therefore no longer affect the company's remaining operation. In accordance with IFRS 8, the discontinued operation is not reported in segment reporting, and as the remaining operation consists exclusively of the Fingerprint Technology business area, there is therefore no longer any segment reporting.

Change in assessment of amortization period for capitalized development expenses

The rate of development and change in the industry where Precise Biometrics operates is becoming ever faster, which caused the company to carry out a review of the current amortization period in accordance with IAS 38 p.104, and in connection with this there was a change in the assessment of the amortization period for existing and future capitalized development expenses. The changed assessment resulted in a change in the amortization period from five to three years. The accumulated effect on earnings of the changes totals SEK -2.4 million, of which SEK -0.9 million is attributable to the impairment of a project.

New or amended accounting standards implemented in 2018

IFRS 15

IFRS 15 replaces all previously issued standards and interpretations dealing with revenues with one combined model for revenue recognition. IFRS 15 came into force on January 1, 2018. The standard is based on the principle that revenue shall be reported when a promised product or service has been transferred to the customer, i.e., when the customer has acquired control of it, which can take place over time or at one point in time. Revenue shall consist of the amount that the company expects to receive in compensation in exchange for the goods or services supplied.

Work by the Group to evaluate IFRS 15 Revenue from contracts with customers started in 2016 and was completed during 2017. The analysis was performed on the basis of the standard's five-step model and assessed revenue streams based on identified and currently valid agreements with customers.

Revenues in the Fingerprint Technology business area consist of the sale of a software solution for fingerprint identification. Agreements give the customer a license for the software, which is developed and updated on an ongoing basis. The Group has made the assessment that there is a performance commitment to the customer. It has been concluded that the license should be classified as a right to access in accordance with the guidance in IFRS 15 for licenses. Part of the revenue streams for the software solution consists of usage-based royalties (the royalty is based on the number of end products in which the Group's customers use the license). As a result of the license's having been assessed to be a right to access, revenue from this is reported over time in accordance with IFRS 15, which is in accordance with how the Group previously reported revenues. Usage-based royalties are reported after the customer has used the license in the end product. This accounting practice also corresponds to previous accounting policies.

The Group has chosen to apply the policy with full retroactivity in connection with the transition to the new accounting standard. As explained above, the transition to IFRS 15 does not entail any retrospective adjustment of previously reported figures. The extended disclosure requirements in IFRS 15 have affected the Group's financial reporting, and for this reason more detailed information is being issued.

When calculating future variable remuneration, commission revenues, attributable to the disposal of the Mobile Smart Card Solutions business area, revenues are only included to the extent that the Group avoids a significant reversal of revenues when the uncertainty associated with the variable remuneration ceases. Commission revenues are completely variable and the underlying agreement therefore contains no significant financing component, and for this reason the expected commission revenue received is reported in the Group on the line "Profit/loss from discontinued operation" and in the parent company under "Other revenues/expenses."

IFRS 9

IFRS 9 describes the recognition of financial assets and liabilities and replaces IAS 39 Financial instruments: Recognition and Measurement. The Group evaluated the effects of IFRS 9 in 2017.

The Group has introduced a model for providing for future bad debts based on historical performance combined with predictive analysis. The introduction of the model has not had any significant impact on the Group's profit.

Accounting standards applicable after 2018

IFRS 16

IFRS 16 replaces IAS 17 as of January 1, 2019. According to the new standard, most leased assets shall be reported in the balance sheet and lessees shall divide the expense into interest payments and depreciation of the asset. An analysis was launched in 2017 to investigate how the impact of IFRS 16 Leases will affect the company's financial reporting. The analysis has continued during 2018 and our initial calculation does not indicate any significant impact on financial information. The analysis will be completed during the fourth quarter of 2018.

For more information about the accounting policies applied, please refer to the Annual Report for 2017.

ALTERNATIVE KEY INDICATORS

Precise Biometrics presents financial definitions and reconciliations of alternative key indicators in this interim report. Precise Biometrics presents alternative key figures as these provide valuable supplementary information for investors and company management, making it possible to evaluate the company's performance. The alternative key indicators reported in this report can differ in their calculation method from similar measures used by other companies.

OWNERSHIP STRUCTURE

Precise Biometrics AB (publ), corporate ID number 556545-6596, is the parent company in the Precise Group. Precise Biometrics AB's shares are listed on the Small Cap list of the Nasdaq OMX Nordic. The number of shareholders at the end of the interim period was 22,894 (24,882). 61,678,555 shares were traded during the third quarter. The closing price on September 30 was SEK 1.62, and during the third quarter the share price fluctuated between SEK 1.62 and SEK 1.91.

SIGNIFICANT EVENTS SINCE THE END OF THE PERIOD

- A revised strategy was presented in which the company will develop biometric authentication solutions in new areas of application.
- Plans were published to reorganize the business in order to improve customer service and enable growth in new areas.

AUDIT

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

The undersigned certifies that the interim report provides a true and fair view of the parent company's and the Group's operations, financial position and financial results, and describes the significant risks and uncertainty factors faced by the parent company and the companies that belong to the Group.

Lund, November 13, 2018

Torgny Hellström

Chairman of the Board

Torbjörn Clementz,	Mats Lindoff,	Matts Lilja,	Synnöve Trygg,	Anna Almlöf,
Board member	Board member	Board member	Board member	Board member

Stefan K 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 8:00 AM on November 13, 2018.

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, 2018 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 elected 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 13, 2018

Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

Consolidated income statement – in summary

(Amounts in SEK thousand)

		2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 mon.
Net sales	Note 1	16,817	10,081	53,697	46,858	61,039	67,878
Cost of goods sold		-2,639	-960	-7,280	-2,909	-4,091	-8,462
Gross profit		14,178	9,121	46,417	43,949	56,948	59,416
Selling expenses		-6,005	-6,485	-21,121	-22,743	-29,735	-28,113
Administrative expenses		-2,849	-2,982	-11,801	-10,609	-14,105	-15,298
R&D expenses		-5,683	-6,148	-18,739	-18,329	-25,276	-25,685
Other operating income/expenses		-8	14	-453	-927	-1,769	-1,294
		-14,545	-15,601	-52,113	-52,608	-70,885	-70,390
Operating profit/loss		-367	-6,479	-5,696	-8,658	-13,936	-10,974
Financial income/expenses		-73	-877	-757	-1,643	-1,664	-777
Profit/loss before tax		-439	-7,356	-6,453	-10,302	-15,600	-11,751
Tax		-229	-135	-767	-359	-7,094	-7,502
Profit/loss for the period from remaining operation		-668	-7,491	-7,220	-10,661	-22,694	-19,253
Profit/loss after tax from discontinued operation	Note 2	228	1,661	741	2,920	5,263	3,083
Profit/loss for the period, total operation		-440	-5,830	-6,479	-7,741	-17,431	-16,170
Profit/loss for the period from total operation attributable to:							
Parent company shareholders		-440	-5,830	-6,479	-7,741	-17,431	-16,170
Earnings per share, remaining operation, SEK							
- before dilution, SEK		0.00	-0.02	-0.02	-0.03	-0.06	-0.05
- after dilution, SEK		0.00	-0.02	-0.02	-0.03	-0.06	-0.05
Earnings per share, total operation, SEK							
- before dilution, SEK		0.00	-0.02	-0.02	-0.02	-0.05	-0.04
- after dilution, SEK		0.00	-0.02	-0.02	-0.02	-0.05	-0.04

Consolidated statement of comprehensive income

(Amounts in SEK thousand)

	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 mon.
Profit/loss for the period	-440	-5 830	-6 479	-7 741	-17 431	-16 170
Other comprehensive income:						
Items that may be reclassified to profit or loss	0	0	0	0	0	0
Changes in accumulated exchange rate differences	-15	44	122	-190	104	415
Other comprehensive income for the period, net of tax	-15	44	122	-190	104	415
Total comprehensive income for the period	-455	-5 787	-6 358	-7 931	-17 327	-15 754
Profit/loss for the period attributable to holders of participations in the parent company.	-455	-5 787	-6 358	-7 931	-17 327	-15 754

Consolidated balance sheet – in summary

(Amounts in SEK thousand)		9/30/2018	9/30/2017	12/31/2017
Assets				
Intangible assets	Note 3	47,660	43,708	45,306
Fixed assets	Note 3	964	826	956
Financial assets		5,339	12,841	6,106
Total fixed assets		53,963	57,375	52,368
Inventories	Note 2	-	-	-
Accounts receivable	Note 4	14,799	15,215	13,106
Other current receivables	Note 4	12,136	6,963	5,628
Cash and cash equivalents	Note 4	91,309	116,722	116,955
Total current assets		118,244	138,900	135,688
Assets held for sale	Note 2	-	2,844	1,562
Total assets		172,207	199,118	189,618
Equity and liabilities				
Equity		139,387	155,200	145,805
Total equity		139,387	155,200	145,805
Current liabilities	Note 4	32,820	43,918	43,813
Total liabilities		32,820	43,918	43,813
Total equity and liabilities		172,207	199,118	189,618

Consolidated statement of changes in equity – in summary

(Amounts in SEK thousand)		2018 Q1-Q3	2017 Q1-Q3	2017 Full year
Equity at start of period		145,805	163,011	163,009
Profit/loss for the period		-6,479	-7,741	-17,431
Exchange rate differences		122	-190	104
New share issue expenses		-	-72	-72
Option program	Note 5	-60	194	194
Equity at end of period		139,387	155,200	145,805

Consolidated cash flow statement – in summary

(Amounts in SEK thousand)	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 mon.
Cash flow from operating activities before changes in working capital	2,277	-4,322	2,092	-3,208	-4,670	630
Cash flow from changes in working capital	-2,430	8,209	-19,080	22,903	27,458	-14,526
Cash flow from operating activities	-153	3,887	-16,988	19,695	22,788	-13,896
Cash flow from investing activities	-2,103	-2,015	-8,693	-38,048	-40,821	-11,466
Cash flow from financing activities	Note 5	-	194	-60	194	194
Cash flow for the period	-2,256	2,066	-25,741	-18,160	-17,840	-25,421
Cash and cash equivalents at start of period	93,580	115,006	116,955	135,753	135,753	116,722
Translation difference in cash and cash equivalents	-15	-350	95	-872	-958	9
Cash and cash equivalents at end of period	91,309	116,722	91,309	116,722	116,955	91,309

Consolidated key indicators

(Amounts in SEK thousand unless otherwise stated)

	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 mon.
Net sales	16,817	10,081	53,697	46,858	61,039	67,878
Net sales growth, %	66.8%	-56.1%	14.6%	-25.0%	-26.7%	0.4%
Gross margin, %	84.3%	90.5%	86.4%	93.8%	93.3%	87.5%
Operating profit/loss	-367	-6,479	-5,696	-8,658	-13,936	-10,974
Operating margin, %	-2.2%	-64.3%	-10.6%	-18.5%	-22.8%	-16.2%
Operating profit/loss, total operation	-139	-4,818	-4,956	-5,738	-8,673	-7,891
Working capital, total operation	85,424	94,982	85,424	94,982	91,875	85,424
Capital employed, total operation	139,387	155,200	139,387	155,200	145,805	139,387
Liquidity ratio, total operation,%	360%	316%	360%	316%	310%	360%
Equity/assets ratio, total operation,%	80.9%	77.9%	80.9%	77.9%	76.9%	80.9%
Return on equity, total operation, %	neg	neg	neg	neg	neg	neg
Earnings per share before dilution, SEK	0.00	-0.02	-0.02	-0.03	-0.06	-0.05
Earnings per share before dilution, total operation, SEK	0.00	-0.02	-0.02	-0.02	-0.05	-0.04
Earnings per share after dilution, SEK	Note 5	0.00	-0.02	-0.03	-0.06	-0.05
Earnings per share after dilution, total operation, SEK	Note 5	0.00	-0.02	-0.02	-0.05	-0.04
Equity per share, total operation, SEK	0.39	0.43	0.39	0.43	0.40	0.39
No. of shares (thousands)	360,231	360,231	360,231	360,231	360,231	360,231
Weighted average number of shares, adjusted for dilution effect	360,231	360,231	360,231	360,481	360,231	360,231
Number of employees at end of period	33	34	33	34	35	33
Average number of employees during the period	33	34	34	33	32	34

Quarterly summary

(Amounts in SEK thousand unless otherwise stated)

	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Full year	Rolling 12 mon.
Net sales	16,817	18,728	18,152	14,181	10,081	61,039	67,878
Sequential net sales growth, %	-10.2%	3.2%	28.0%	40.7%	-50.0%	-26.7%	0.4%
Operating profit/loss	-367	-3,296	-2,033	-5,278	-6,479	-13,936	-10,974
Operating profit/loss, total operation	-139	-2,853	-1,964	-2,935	-4,818	-8,673	-7,891
EBITDA	2,108	-522	-957	-4,232	-5,621	-10,350	-3,604
EBITDA, total operation	2,336	-80	-888	-1,890	-3,959	-3,953	-521
Cash flow from total operating activities	-153	-8,609	-8,226	3,093	3,887	22,788	-13,895
Capital employed, total operation	139,387	139,842	143,429	145,805	155,200	145,805	139,387

Reconciliation of alternative key indicators
(Amounts in SEK thousand unless otherwise stated)

	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 mon.
Gross profit	14,178	9,121	46,417	43,949	56,948	59,416
Net sales	16,817	10,081	53,697	46,858	61,039	67,878
Gross margin, %	84.3%	90.5%	86.4%	93.8%	93.3%	87.5%
Operating profit/loss	-367	-6,479	-5,696	-8,658	-13,936	-10,974
Net sales	16,817	10,081	53,697	46,858	61,039	67,878
Operating margin, %	-2.2%	-64.3%	-10.6%	-18.5%	-22.8%	-16.2%
EBITDA	2,108	-5,621	629	-6,117	-10,350	-3,604
Depreciation & Amortization	-2,475	-857	-5,393	-2,541	-3,586	-6,438
Impairments	0	0	-932	0	0	-932
Operating profit/loss	-367	-6,479	-5,696	-8,658	-13,936	-10,974
EBITDA, total operation	2,336	-3,961	1,369	-2,066	-3,953	-521
Depreciation & Amortization	-2,475	-857	-5,393	-3,673	-4,720	-6,438
Impairments	0	0	-932	0	0	-932
Operating profit/loss, total operation	-139	-4,818	-4,956	-5,738	-8,673	-7,891
Operating profit/loss, remaining operation	-367	-6,479	-5,696	-8,658	-13,936	-10,974
Operating profit/loss, discontinued operation	228	1,661	741	2,920	5,263	3,083
Operating profit/loss, total operation	-139	-4,818	-4,956	-5,738	-8,673	-7,891
Selling expenses	-6,005	-6,485	-21,121	-22,743	-29,735	-28,113
Administrative expenses	-2,849	-2,982	-11,801	-10,609	-14,105	-15,298
R&D expenses	-5,683	-6,148	-18,739	-18,329	-25,276	-25,685
Other operating income/expenses	-8	14	-453	-927	-1,769	-1,294
Total operating expenses, remaining operation	-14,545	-15,601	-52,113	-52,608	-70,885	-70,390
Balance sheet total, total operation	172,207	199,118	172,207	199,118	189,618	172,207
Non-interest-bearing liabilities, total operation	32,820	43,918	32,820	43,918	43,813	32,820
Capital employed, total operation	139,387	155,200	139,387	155,200	145,805	139,387
Closing equity, total operation	139,387	155,200	139,387	155,200	145,805	139,387
Average equity	142,116	159,622	142,116	159,622	155,321	142,116
Current assets minus inventories	118,244	138,900	118,244	138,900	135,688	118,244
Current liabilities	32,820	43,918	32,820	43,918	43,813	32,820
Liquidity ratio	360%	316%	360%	316%	310%	360%
Equity	139,387	155,200	139,387	155,200	145,805	139,387
Total assets	172,207	199,118	172,207	199,118	189,618	172,207
Equity/assets ratio	80.9%	77.9%	80.9%	77.9%	76.9%	80.9%
Profit/loss after tax (rolling 12 mon.)	-16,170	-5,052	-16,170	-5,052	-17,431	-16,170
Average equity	142,116	159,622	142,116	159,622	155,321	142,116
Return on equity	neg	neg	neg	neg	neg	neg

Parent company income statement

(Amounts in SEK thousand; Total operation)

	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 mon.
Net sales	16,460	11,055	53,320	51,520	68,735	70,536
Cost of goods sold	-3,265	-74	-9,013	-8,570	-14,061	-14,504
Gross profit	13,194	10,980	44,307	42,950	54,674	56,032
Selling expenses	-6,015	-7,210	-21,071	-22,802	-30,025	-28,294
Administrative expenses	-2,852	-3,321	-11,893	-10,873	-14,140	-15,160
R&D expenses	-5,217	-7,277	-18,475	-19,010	-26,398	-25,862
Other operating income/expenses	-2,331	-1,538	232	-5,457	-5,487	202
	-16,415	-19,345	-51,207	-58,142	-76,049	-69,114
Operating profit/loss	-3,220	-8,365	-6,899	-15,192	-21,375	-13,082
Financial income/expenses	320	-930	-364	-1,702	8,910	10,248
Profit/loss before tax	-2,900	-9,295	-7,264	-16,894	-12,465	-2,835
Tax	-144	0	-420	0	-6,600	-7,020
Profit/loss for the period	-3,044	-9,295	-7,684	-16,894	-19,065	-9,855

Parent company balance sheet

(Amounts in SEK thousand)

		9/30/2018	9/30/2017	12/31/2017
Assets				
Intangible assets	Note 3	44,650	44,447	45,433
Fixed assets		675	949	1,037
Financial assets		7,538	14,558	9,819
Total fixed assets		52,862	59,955	56,289
Inventories		-	766	-
Accounts receivable		14,637	13,615	11,133
Other current receivables		12,528	6,121	5,526
Cash and cash equivalents		89,994	115,326	115,283
Total current assets		117,160	135,827	131,942
Total assets		170,022	195,782	188,231
Equity and liabilities				
Equity		135,499	145,413	143,243
Total equity		135,499	145,413	143,243
Provisions		103	103	103
Total provisions		103	103	103
Current liabilities		34,420	50,266	44,885
Total liabilities		34,420	50,266	44,885
Total equity and liabilities		170,022	195,782	188,231

Note 1. Revenue allocation

	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Full year	Rolling 12 mon.
Revenue type						
Royalties	5,725	-2,217	15,893	9,847	11,320	17,366
Licenses	7,999	8,497	28,208	24,615	34,014	37,607
Support & Maintenance	2,091	1,932	7,262	6,096	8,304	9,469
Other	1,001	1,869	2,334	6,300	7,402	3,436
Total	16,817	10,081	53,697	46,858	61,039	67,878
Country/Region						
Europe	3,123	-2,091	9,909	2,737	4,515	11,687
- of which Sweden	2,426	-2,728	5,061	175	974	5,860
- of which France	239	66	2,956	789	1,005	3,172
Asia	9,895	8,597	32,760	32,123	40,931	41,567
- of which China	1,739	2,554	10,128	15,624	18,097	12,601
- of which Taiwan	2,409	2,803	8,095	7,736	10,712	11,070
US	3,798	3,581	11,028	12,003	15,594	14,619
Total	16,817	10,081	53,697	46,858	61,039	67,878
Timing of revenue allocation						
Services transferred over time	10,090	10,430	35,470	30,711	42,317	47,076
Services transferred at a point in time	6,727	-348	18,227	16,147	18,722	20,802
Total	16,817	10,081	53,697	46,858	61,039	67,878

Note 2. Discontinued operation

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. The transaction was completed as planned on January 1, 2018 and Identos took over the development of new smart card readers under the Tactivo brand, patents, trade mark rights, manufacturing, sales and customer support.

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.

Precise Biometrics will receive commissions from Identos GmbH for the years 2018-2020. Future commission revenues will be calculated quarterly on the basis of data received from Identos GmbH, and as such the trend in commission revenues is an item that must be evaluated by management and can vary over time.

(Amounts in SEK thousand)

<u>Income statement</u>	2018 Q3	2017 Q3	2018 Q1-Q3	2017 Q1-Q3	2017 Helår
Sales	-	2 464	-	8 375	13 203
Variable purchase price	228	-	2 330	-	-
Expenses	-	-802	-	-5 454	-7 940
Assets sold	-	-	-1 589	-	-
Profit/loss before tax from discontinued operation	228	1 661	741	2 920	5 263
<u>Balance sheet</u>	2018 Q3	2017 Q3	2018 Q3	2017 Q3	2017 Q4
Capatilized development costs	-	1 301	-	1 301	1 301
Tools	-	261	-	261	261
Inventories	-	1 282	-	1 282	-
	-	2 844	-	2 844	1 562

Note 3. Business combinations

Below is a description of the business combination completed by the Group in 2017.
NexID Biometrics Inc.

On February 9, 2017 Precise Biometrics AB acquired the assets and liabilities of NexID Biometrics Inc. With this acquisition, Precise Biometrics extended 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.

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 SEK thousand

Impact on cash and cash equivalents

Purchase price	31,360
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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
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Goodwill		23,425
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Purchase price		31,360
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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 therefore increased to SEK 24,496 thousand. Goodwill in the parent company is written off over ten years in accordance with its expected useful life.

Note 4. Financial instruments

	9/30/2018		9/30/2017	
	Fair value	Book value	Fair value	Book value
Financial assets				
<i>Loans receivable and accounts receivable</i>				
Accrued income	5,099	5,099	1,427	1,427
Accounts receivable	14,799	14,799	15,215	15,215
Other receivables	7,037	7,037	5,536	5,536
Cash and cash equivalents	91,309	91,309	116,722	116,722
Total	118,244	118,244	138,900	138,900
Financial liabilities				
<i>Financial liabilities at fair value via the income statement</i>				
Derivatives	647	647	-	-
<i>Financial liabilities valued at the accrued cost of acquisition</i>				
Accounts payable	2,254	2,254	2,834	2,834
Other liabilities	4,284	4,284	2,960	2,960
Other accrued expenses	25,635	25,635	38,125	38,125
Total	32,820	32,820	43,918	43,918

Derivatives consist of forward currency contracts and are used for hedging purposes. These are valued according to level 2. The fair value with respect to other financial assets and liabilities corresponds in all material respects with the carrying amount in the balance sheet.

Note 5. Option program

The 2017 shareholders' general meeting made a decision to offer an incentive plan 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 was to 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, 2,230,000 options have been subscribed, corresponding to 45% of total stock options; this was after the options subscribed by the former CEO had been bought back. Assuming that all stock options are exercised to subscribe to new shares, the number of shares in the company will increase by 2,230,000 shares.

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 first quarter is below the price in the current option program.

Note 6. Closely-related party transactions

The Chairman of the Board had a consulting assignment as acting Chairman of the Board in the company until the new CEO took up his post, which took place on August 1, 2018. The compensation level for the assignment was based on market conditions, and the cost to the company during the interim period totaled SEK 1,629 thousand. Another Board member had a consulting assignment, which started and ended during the first quarter of 2018. The compensation level for the assignment was based on market conditions and totaled SEK 42 thousand.

Financial glossary

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.

This key figure shows the Group's profit/loss before depreciation/amortization of capitalized assets.

Operating margin

Operating profit/loss divided by net sales.

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

Calculated as equity for the last four quarters divided by four.

Liquidity ratio, total operation

Current assets excluding inventories divided by current liabilities.

This key figure shows the Group's ability to pay in the short term.

Equity/assets ratio, total operation

Equity divided by total assets on the balance sheet date. This key figure shows what proportion of assets is funded by equity. This measure can be of interest when assessing the Group's ability to pay in the long term.

Return on equity, total operation

Profit/loss after tax divided by average equity. This key figure shows the operation's return on shareholders' capital invested and is thus a measure of how profitable the Group is. Investors can compare this measure with the current bank interest rate or return from alternative investments. The measure can also be used to compare profitability between companies in the same industry.

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.

INVITATION TO PRESENTATION OF THE INTERIM REPORT

On the occasion of today's interim report, we invite investors and the media to an informational 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 2696 to follow it over the phone.

<https://tv.streamfabriken.com/precise-biometrics-q3-2018>

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 call will be held in English.

Participating on behalf of Precise Biometrics:

Stefan K Persson, CEO

Ulrik Nilsson, CFO

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