

ANNUAL REPORT

2016

CONVENIENT AND SECURE
IDENTITY AUTHENTICATION
FOR EVERYONE,
EVERYWHERE





CONVENIENT AND SECURE IDENTITY AUTHENTICATION FOR EVERYONE, EVERYWHERE

This report contains prospective information based on Precise Biometrics' current expectations. Even if company management considers expectations based on such prospective information to be reasonable, no guarantee can be given that these expectations will prove to be correct. Consequently, actual future results may vary significantly compared with what is set out in the prospective information, for reasons including changed conditions in respect of the economy, market and competition, changes in legal requirements and other political measures, exchange rate variations and other factors. The Annual Report is published in Swedish and English. The Swedish version is the original version and has been audited by Precise Biometrics' auditors.

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THE YEAR IN BRIEF

Precise Biometrics has strengthened the company's position in a fast-growing market, developed the range of products and signed agreements with many new customers who are important players in the ongoing development of the biometrics market. Sales increased by 73% to SEK 97.2 million with a profit at EBITDA level of SEK 24.8 million. 2016 was the company's best year so far, and in 2017 Precise Biometrics will be growing the organization so that it can handle the growth in sales that the company expects in the future.

PRECISE BIOMETRICS IN FIGURES

- 97.2** NET SALES, SEK MILLION
- 78.8** GROSS MARGIN, %
- 24.8** EBITDA, SEK MILLION
- 138.1** WORKING CAPITAL, SEK MILLION
- 123.0** AVERAGE EQUITY, SEK MILLION
- 83.1** EQUITY/ASSETS RATIO, %
- 37.7** OPERATING CASH FLOW, SEK MILLION

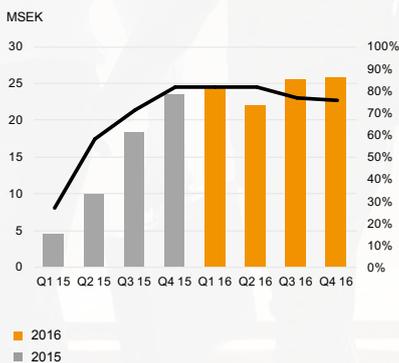
THE COMPANY IN BRIEF

- FOUNDED 1997**
- HEAD OFFICE IN LUND, SWEDEN**
- OPERATIONS IN EUROPE, ASIA, USA**
- APPROXIMATELY 40 EMPLOYEES AND CONSULTANTS**
- LISTED ON NASDAQ OMX STOCKHOLM 2000**

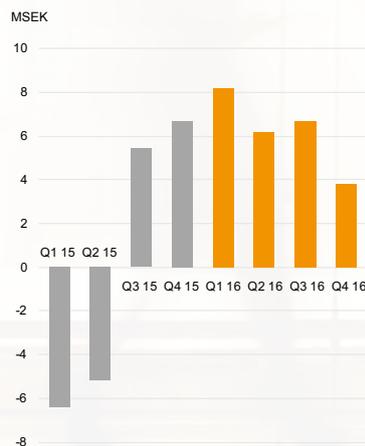
DID YOU KNOW THAT

- Our algorithm solution for the authentication of fingerprints:
 - / Authenticates a finger in less than 30 milliseconds with a level of security five times higher than a four-digit PIN code.
 - / Is used hundreds of millions of times a day all over the world.
 - / Resulted in time savings of approx. 4.9 billion hours in 2016.

NET SALES AND GROSS MARGIN



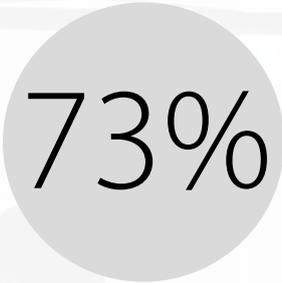
EBITDA



OPERATING CASH FLOW



IMPORTANT EVENTS DURING 2016



73%

INCREASED NET SALES BY 73% COMPARED WITH PREVIOUS YEAR



14 NEW LICENSING AGREEMENTS SIGNED, AMONG OTHERS WITH QUALCOMM TECHNOLOGIES & SAMSUNG ELECTRONICS



AGREEMENT TO ACQUIRE NEXID BIOMETRICS AND THE COMPANY'S LEADING TECHNOLOGY FOR LIVENESS DETECTION



PRECISE BIOMATCH MOBILE WAS INTEGRATED INTO 110 MOBILE DEVICES, ONE OF THEM THE XIAOMI MI 5S, THE FIRST PHONE WITH AN ULTRASOUND SENSOR UNDER 400 MICROMETERS OF GLASS



TOGETHER WITH PARTNERS, LAUNCHED THE FIRST COMPLETE SAFETY ARCHITECTURE FOR BIOMETRIC FINGERPRINT AUTHENTICATION



OBERTHUR INTEGRATED PRECISE BIOMATCH EMBEDDED INTO ITS SECURE ELEMENT, PEARL BY OT



PRECISE BIOMATCH EMBEDDED WAS INTEGRATED INTO CREDIT CARDS FROM KONA-I, WHICH WAS EXHIBITED AT MONEY 20/20



WON FRAMEWORK AGREEMENT WITH THE US DEFENSE LOGISTICS AGENCY TO INCREASE THE NUMBER OF USERS OF TACTIVO

THIS IS PRECISE BIOMETRICS



Precise Biometrics is a market-leading supplier of solutions for convenient and secure authentication of people's identity. The company's patented software solutions for fingerprint identification provide the market's best user experience and security for products with small sensors and have become a de facto standard among sensor manufacturers. The software consists of advanced algorithms that process, analyze and match images of fingerprints. Precise Biometrics also develops and sells mobile smart card readers for smartphones and tablets.

The company has 20 years' experience developing fingerprint software for small fingerprint sensors. Precise Biometrics' competence and understanding of both image processing and user experience and security are decisive in terms of enhancing the company's technical leadership in a rapidly expanding market. The company's fingerprint recognition software works with all sensor technologies, operating systems and hardware platforms.

Market with major growth potential

The Fingerprint Technology business area is Precise Biometrics' biggest and fastest-growing business area. The company's fingerprint recognition software is integrated into more than 170 mobile phones and tablets from over 40 manufacturers and is used hundreds of millions of times every day all over the world. The software consists of advanced algorithms that provide the market's best user experience and security for products with small finger fingerprint sensors and platforms with limited processing power and memory.

The company's addressable market is expected to quadruple by 2020 and total 2.5 billion devices. 1.3 billion of these are expected to be smartphones. Smart cards and other product areas are expected to grow rapidly and total 600 million each. Precise Biometrics' scalable business model makes it possible to manage rapid growth with relatively low cost increases.

Customers

Precise Biometrics' fingerprint software is sold primarily to sensor manufacturers, and also to security companies and resellers of products with fingerprint technology. The company's revenues consist of licensing fees, royalties from sensor manufacturers that are based on integrating the software into end products, as well as revenues from support and maintenance. The company has 24 licensing agreements covering the rapidly expanding global market for fingerprint technology. The company's customers include companies such as Elan Microelectronics, Fingerprint Cards, Focaltech, Samsung Electronics, Silead, Synaptics and Qualcomm. In close collaboration with the company's customers, Precise Biometrics' software is integrated into end products such as mobile phones, tablets, laptops, smart cards, cars, wearables and IoT. The company's Precise BioMatch Mobile algorithm solution is now integrated into mobile devices from several leading manufacturers such as Coolpad, Google, Huawei, HTC, Lenovo, LG, Oppo, Sony, ZTE and Xiaomi.

World-class research and development

Precise Biometrics has the best, most experienced team in the industry in the field of research and development. The company is continuously developing the functionality and performance of the fingerprint software for existing and new product areas. Precise Biometrics has reinforced its research and development through the acquisition of NexID Biometrics, which provides the company with access to competence in image processing and liveness detection, as well as close collaboration with Clarkson University in the USA, which is a leader in the field of biometric research. More than 30 per cent of net sales are reinvested in research and development in order to maintain the company's leading position in a strongly expanding market. Precise Biometrics' technological edge is based on extensive experience developing algorithm solutions for fingerprint recognition for products with small sensors and limited platforms. The company's patent portfolio is comprehensive and protects the company's technology in selected markets.



Smart card readers for smartphones and tablets

The Mobile Smart Card Solutions business area consists of Tactivo, a product portfolio of smart card readers for smartphones and tablets. Tactivo enables convenient and secure mobility in organizations that require smart cards to log into IT systems. Tactivo is marketed through a network of partners in the USA, Europe, the Middle East

and Asia as an element of complete mobility solutions. The product contributes to a better working environment, increased information security through two-factor authentication and reduced operational costs. The company's biggest customer is the US Department of Defense.

CEO COMMENTS – LEADING POSITION IN A FAST-GROWING MARKET

We have strengthened the company's position as the leading supplier of fingerprint software and created good conditions for continued growth in a market that is expected to quadruple by the year 2020.

2016 was an eventful year in which we made major progress in the fingerprint technology market. We increased net sales by 73 per cent to SEK 97.2 million and led the company into profitability. We have strengthened our position in a fast-growing market, developed our range of products and acquired many new customers who are important players in the ongoing development of the biometrics market.

Sales in the Fingerprint Technology business area grew by 96 per cent and are the basis of the company's growth. Our fingerprint software was integrated into a total of 110 models of mobile devices in 2016. This is double the level of the previous year and about half of all models with fingerprint technology that were launched in 2016. We signed 14 new licensing agreements for the distribution of our software, which gives us better opportunities to win market shares in a changing, rapidly expanding market.

The fingerprint technology market is expected to quadruple by 2020

In the space of just a few years, fingerprint technology has moved from being a new, exciting function to become almost standard for secure and convenient authentication of identity on mobile phones. About half of all mobile phones sold during 2016 included the technology, the previous year one third. This growth is expected to continue, and within a few years virtually all mobile phones will be equipped with a fingerprint sensor. There are a plethora of interesting areas of application emerging that are the result of the tremendous

interest in the technology, most notably payment cards and various kinds of wearables. Most analysts believe that the total market for fingerprint technology will quadruple and total at least 2.5 billion devices by the year 2020. Of this total volume, at least 1.2 billion devices are expected to come from new product areas.

Global reach for sales of fingerprint software

Our fingerprint recognition software has become a de facto standard among sensor manufacturers. We have a total of 24 licensing agreements for the global distribution of our software for mobile devices, smart cards, wearables and other product areas. Revenues from our biggest customer, Fingerprint Cards (FPC), are falling gradually following their decision to use their own proprietary software in the mobile devices segment. We believe that revenues from our other customers will compensate in full for this loss of revenue from the second half of 2017, as the projects we are now in the final phase of start to generate substantial volumes. We have intensified collaboration with many of our customers in order to help them with integration projects with mobile phone manufacturers. These partnerships reinforce our customer relations and we are now expanding our organization in Asia to meet demand for local support and be even closer to our customers.

Technological edge in new product areas

Our extensive experience in the development of fingerprint software for products with limited memory and processor resources gives us unique competence and good opportunities to acquire a large market share in product areas such as smart cards, wearables and IoT. Just over one year ago we, together with partners, launched the first complete security

“WE ARE INVOLVED IN SEVERAL PROJECTS AT AN ADVANCED STAGE IN NEW PRODUCT AREAS”



Net sales, MSEK



**“THIS ACQUISITION IS AN IMPORTANT
PIECE OF THE PUZZLE IN DEVELOPING
OUR PRODUCT RANGE AND
TECHNOLOGICAL LEADERSHIP”**



architecture for biometric fingerprint authentication for wearables and home electronics. We are involved in several projects at an advanced stage in new product areas, including secure payments. Our collaboration with Oberthur is one example of this, where we are now working with the next generation of Secure Elements. We expect initial volumes from new product areas in 2017.

Continued innovation and product development

We have enhanced our offering in several areas. We continue to develop the performance and functionality of our algorithm solutions and offer integration services that make it easier for our customers to use the solutions. We have reinforced our development team with new competence and continue to recruit in order to strengthen our ability to innovate and meet our customers' requirements. The acquisition of NexID Biometrics gives us access to a software solution for liveness detection that has been developed through ten years of development by leading researchers in the field. By extending our product to include liveness detection, we can significantly improve the security of fingerprint authentication with a great user experience and meet customers' demands for increased security, for reasons including the prevention of fraud. This acquisition is an important piece of the puzzle in developing our product range and technological leadership, as well as meeting the market's demands for increased security. We plan to have a product ready for the market during the third quarter of 2017.

Tactivo has not developed as expected

Sales in the Mobile Smart Card Solutions business area did not meet our expectations, largely because of a lack of sales to US government agencies. Sales to the health care markets in the UK and Sweden also experienced a weak trend, with customers being slow to move from pilot tests to deployment in larger volumes. In 2017 the City of Gothenburg is planning to introduce a mobile solution with Tactivo to more than 10,000 employees, and demand is growing among other organizations in the health

care sector. A number of other interesting projects are also under way, in particular with German authorities and customers in the banking sector in the Middle East.

An exciting year ahead of us

We have a leading market position, the market's best fingerprint software and a global distribution network that gives us opportunities to take advantage of the rapidly expanding market for fingerprint technology.

We believe that net sales in 2017 will be on par with the previous year because of the significant fall in revenues from FPC, although this will be balanced by a gradual increase in revenues from our other customers. We expect bigger volumes from these customers, starting during the second half of the year, after which we will maintain a high rate of growth.

The market is in a very interesting phase, with fingerprint technology continuing to grow rapidly in the mobile segment and also spreading into a number of new product areas. In order to meet increased demand for our software and create better conditions for long-term growth, we are increasing our investments in research and development as well as our customer support organization. Through these investments, we are building the organization to be able to manage the growth in sales that we envisage in the future. 2017 will be another exciting year, one in which we will continue to prepare the company for growth.

/ Håkan Persson, CEO, Precise Biometrics

SMART CARDS THE NEXT MAJOR GROWTH AREA

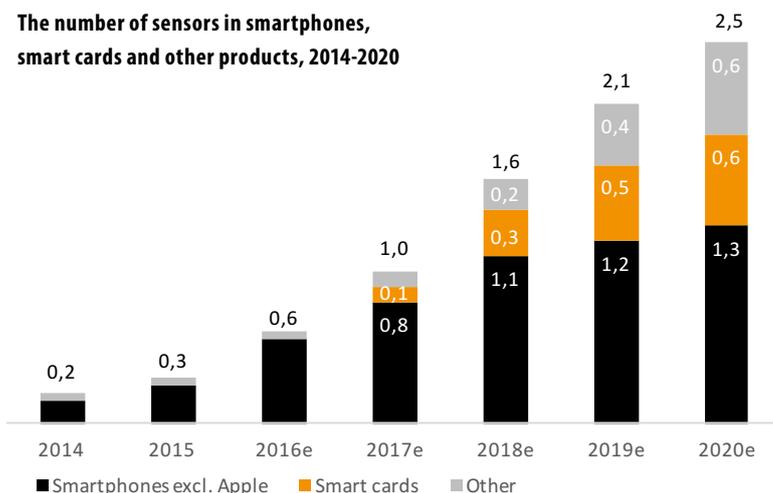
Fingerprint technology is well on its way to becoming the de facto standard for secure and convenient authentication of mobile devices. New areas of application are now emerging for fingerprint technology; in particular smart cards and payment cards, as well as wearables, cars and IoT. This market has the potential to be at least as big as the company's market for smartphones, which is estimated to reach 1.3 billion devices by 2020.

Every day millions of people use Precise Biometrics' software for secure, quick access to mobile devices and to authenticate digital transactions and payments. Hundreds of millions of people around the world have replaced the PIN code and password in favor of a quick touch of the finger on a sensor. The technology has been so popular that manufacturers are also now increasingly integrating fingerprint recognition into mobile devices in the low- and medium-price segment.

Rapid growth of the mobile market

Pareto Securities Equity Research believes that the global market for smartphones with fingerprint technology will continue to grow rapidly and be present in more than 80% of all smartphones in 2020, representing 1.3 billion units excluding the Apple iPhone. This means growth of more than 700 million devices from 2016 volumes, when there were almost 600 million smartphones.

The number of sensors in smartphones, smart cards and other products, 2014-2020



Source: Pareto Securities Equity Research





Consumers prefer fingerprint

The fact that fingerprint recognition has made a general breakthrough among consumers paves the way for new areas of application. In a study in July 2016, 68 per cent of Visa's European card customers said that they were interested in a biometric solution to identify themselves when using payment cards. Of these, more than eight out of ten people preferred fingerprint reading ahead of other biometric modalities to identify an individual such as voice, face, eye movement, heart and user patterns.

Fingerprint technology has good opportunities to become the preferred modality for authentication in a number of new product areas, such as smart cards and payment cards, wearables, cars and other connected products, what is known as the Internet of Things (IoT). The market for fingerprint solutions for these products is expected to take off during 2017 and has the potential to be at least as big as the market for smartphones.

Payment cards the next big market

Fingerprint technology has great potential in the financial sector. The use of biometrics in financial solutions is expected to increase by an average of more than 50 per cent a year until 2020. By that year it is estimated that financial products and services will account for one third of the total market for biometric solutions (Biometrics Research Group). This includes various payment card solutions, mobile payment services such as Apple Pay, Samsung Pay and MiPay, as well as wearables with payment solutions. The analyst firm Goode Intelligence expects the biometric market for financial services to be worth 11 billion US dollars in 2020. The biggest potential for growth is in the field of payment cards. There are more than four billion payment cards in circulation worldwide. These are replaced on average every other year, which means an annual addressable market of more than two billion cards. Analysts agree that the market for fingerprint technology for payment cards will grow rapidly and that the first cards will come into use in 2017, before generating significant volumes in 2018. SEB Equity Research believes that there will be more than 1.5 billion payment cards with fingerprint technology by 2020, while other analysts are more cautious in their forecasts and envisage a market of around half a billion payment cards with fingerprint technology by 2020.

Contactless payment with fingerprint

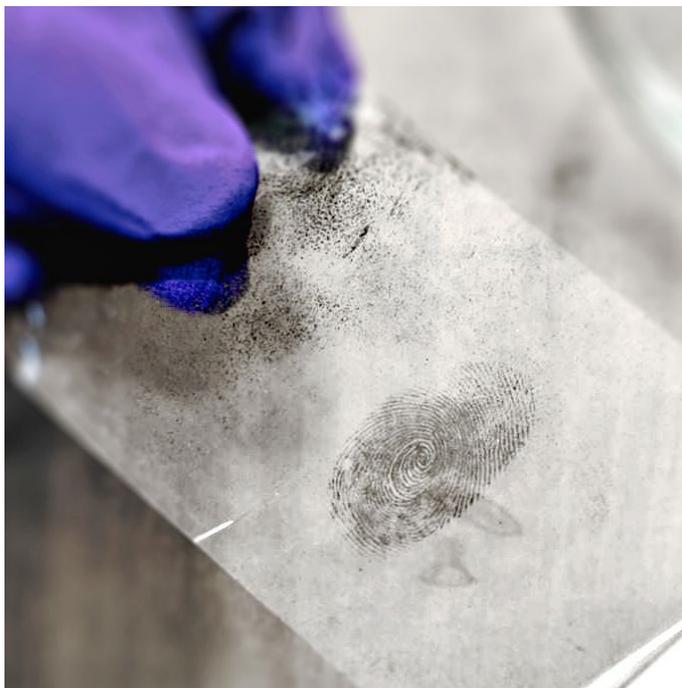
It looks as though card payments of the future will increasingly be contactless, which means that the payment card uses wireless technology to communicate with, for example, a card terminal. As contactless payments do not require identification with a PIN code, biometrics is considered a convenient and secure solution to minimize security risks. At present contactless cards have penetrated 40 per cent of the market for payments with smart payment cards, and according to SEB this is expected to increase to 90 per cent by 2020. Most of the expansion so far has taken place in Asia, where the use of fingerprint recognition is increasing the most in the area of contactless payments. By 2020 it is estimated that six out of ten contactless payment cards will have fingerprint recognition (SEB).

Focus on security

As the world becomes increasingly connected, there is also increased exposure of sensitive data and the risks of theft and fraud. The average annual global cost of fraud involving smart cards has increased by 15 per cent since 2002 and amounted to 16 billion US dollars in 2014 (Redeye Research, The Nilson Report). The cost of card fraud is expected to continue to rise rapidly in the future as well. Payment cards with fingerprint technology can offer higher security than normal payment cards. Security is based on a Secure Element, a platform that protects against intrusion and manipulation, where fingerprint technology can also be integrated.

Many sensor manufacturers, payment service providers and credit card companies are currently developing payment solutions with fingerprint recognition. But there are many challenges that need to be resolved. Payment cards only have room for small sensors, primarily for cost reasons but also because of the limited physical space on the payment card. The software not only has to be powerful enough to be able to quickly authenticate a user's identity, it must also be sufficiently effective and light to fit in and operate in a limited technical environment. Compared with a smartphone, a smart card has only a fraction of the memory and processing speed. This means a far greater demand for powerful, effective algorithm solutions that provide fast and secure matching in limited platforms than is the case for the mobile market.

Another security trend is Anti-Spoofing, protection against fraud using false fingerprints. The use of liveness detection, the ability to differentiate between a finger from a living person and an artificial copy, is expected to increase over the years ahead, as this further increases the security of fingerprint technology.



What is biometrics?

The word biometrics comes from the Greek words bi'os (life) and me'tron (measure). The Biometrics Research Group defines biometrics as measurable physical and behavioral properties that make it possible to authenticate an individual person's identity. Biometrics is used as a collective term for the technologies used to measure a person's unique characteristics and thus authenticate his or her identity.



BIOMETRIC TECHNOLOGIES

Biometrics involves measuring either an individual's personal attributes (e.g., fingerprint, iris) or something they do (e.g., movement patterns, speech). Biometric technologies are automatic systems set up in order to: (1) collect biometric information (e.g., fingerprints) from a person; (2) extract information from the material for a template; (3) compare information from templates saved previously; (4) determine whether the biometric information is identical. Biometric technologies therefore consist of both hardware (e.g., fingerprint sensor), which can physically read the biometric information, and software, which together with the hardware gathers biometric information in order to extract, compare and match the information.

USER EXPERIENCE

The key to the user experience of a biometric solution is that it works to the highest possible level of security (accuracy) and that it achieves the highest possible speed for processing the information so that the individual can be authenticated. This means that the time from the point when a person's unique physical characteristics start to be read until the person is either given access or rejected must be as short as possible.

FAR/FRR

The terms FAR (False Acceptance Rate) and FRR (False Rejection Rate) are used to describe the security of a solution. These terms have a symbiotic relationship with one another and are determined by the limits in the software. A low FAR means a more secure solution (no unauthorized persons are allowed in), but it can result in a high FRR (more authorized persons are denied). A high-quality biometric system with a good user experience provides rapid authentication and has a high level of accuracy (low FAR and FRR values). A four-digit PIN code corresponds to a security level of 1/10,000, which means that one person in 10,000 gains unauthorized access. This can be compared with the high level of security commonly used for fingerprint technology in modern mobile phones, where one user in 50,000 gains unauthorized access. This level of security is even higher in certain phones.

OUR BUSINESS

Profitable growth in a fast-growing market

The company's business experienced a positive trend during the year with a sales increase of 73% and a profit at EBITDA level of SEK 24.8 million. This strong growth is based on sales in the Fingerprint Technology business area, which increased by 96% and amounted to SEK 83.3 million. This growth is a result of the company's leading position in the fast-growing market for fingerprint technology for mobile phones. Sales in the Mobile Smart Card Solutions business area were in line with the previous year, totaling SEK 13.9 million.

Strategy for continued growth

Precise Biometrics' strategy is to further strengthen the company's position as market leader in the field of fingerprint software and create the conditions for continued growth in the field of mobile devices and new product areas. This will take place by reinforcing existing customer partnerships and extending integration support in order to help customers deliver competitive fingerprint solutions. Precise Biometrics also aims to make sure that the company's algorithm solutions continue to offer industry-leading performance for products with small sensors and limited processing environments. The company will further develop the functionality of its software solutions to meet the demand for solutions in new product areas, especially in the area of payments. In addition to this, Precise Biometrics will optimize sales of Tactivo to existing customers.

The company works actively and strategically with patents, pattern protection and trademarks in order to guarantee the rights to its own technology, to create value for future business transactions and to increase the company's competitive strength. The

company's current products and solutions are protected by a comprehensive portfolio of patents, trademarks and registered patterns.

Organization

The company is organized in two business areas: Fingerprint Technology and Mobile Smart Card Solutions.

Fingerprint Technology

In this business area, the company develops and sells fingerprint software for convenient, and secure authentication of people's identity in mobile phones, smart cards and other products with small fingerprint sensors. Precise Biometrics' patented software provides the best user experience for products with small sensors for platforms with limited processing power and memory.

Mobile Smart Card Solutions

This business area consists of Tactivo, a product portfolio of smart card readers for smartphones and tablets. Tactivo enables convenient and secure mobility in organizations that require smart cards to log in to IT systems and thus contributes to a more efficient, enhanced working environment, increased information security and reduced operating expenses.

Business concept

Precise Biometrics' business concept is to work together with strong partners to offer authentication of digital identities that enable convenient and secure access to systems, information and resources.





MISSION

We provide convenient and secure authentication of digital identity, enabling access to systems, information and resources

VISION

Convenient and secure authentication of identity for everyone, everywhere

OBJECTIVES

1

Reinforce the company's position as market leader in the field of fingerprint software.

2

Secure industry-leading performance of the company's algorithm solutions for small sensors and limited processing environments.

3

Further develop the company's fingerprint software offering in order to meet demand in the area of mobile devices and new product areas.

4

Optimize sales of Tactivo through existing distribution channels.

FINGERPRINT TECHNOLOGY

In this business area, the company develops and sells fingerprint software for convenient and secure authentication of people's identity in mobile phones, smart cards and other products with small fingerprint sensors. Precise Biometrics' patented software provides the best user experience for products with small sensors for platforms with limited processing power and memory. It consists of advanced algorithms that process, analyze and match images of fingerprints and are key to the user experience of fingerprint technology. The software works with all sensor technologies, operating systems and hardware platforms.

With 20 years' experience developing fingerprint software for small sensors and limited platforms, Precise Biometrics is the leading independent supplier of fingerprint software. The software has become the de facto standard among sensor manufacturers and has set the standard for the best user experience on mobile devices. The company's software is used every day by millions of people and is integrated into more than 170 mobile devices from over 40 different manufacturers and in more than 100 million national ID cards.

Business focus

Precise Biometrics shall strengthen the company's position as market leader in the field of fingerprint software. The company shall extend existing customer partnerships and increase integration support in order to help customers deliver competitive fingerprint solutions. Precise Biometrics shall make sure that the company's algorithm solutions continue to offer industry-leading performance for products with small sensors and limited processing environments.

The company shall further develop the functionality of its solutions to meet the demand for solutions for mobile devices and new product areas, especially in the area of payments.

THE COMPANY OFFERS THREE ALGORITHM SOLUTIONS WITHIN THE BUSINESS AREA:

PRECISE BIOMATCH™ MOBILE

Algorithm solution for integration into mobile phones, tablets and laptops.

PRECISE BIOMATCH™ EMBEDDED

Algorithm solution for integration into products with small sensors and limited platforms, such as smart cards, wearables, locks and cars.

PRECISE MATCH-ON-CARD™

Algorithm solution for integration into national ID cards.

Business model

Precise Biometrics develops and sells fingerprint software primarily to sensor manufacturers, and also to security companies and resellers of products with fingerprint technology. The company's revenues are based on three sources: Licensing revenues, royalties and support and maintenance.



The ecosystem

In 2016 around 800 million smartphones with fingerprint technology were sold, just over one quarter of them Apple iPhones. Excluding the sales from Apple, which is not an addressable market for the company, the market doubled in 2016 from 300 to 600 million. In 2017 the company's addressable market is expected to total more than 800 million smartphones.

The ecosystem surrounding mobile phone manufacturers is a global, multi-billion dollar business characterized by a high rate of innovation. Precise Biometrics has established a position as the market-leading supplier of fingerprint software and has partnership agreements with 24 sensor manufacturers for the delivery of algorithm solutions for mobile devices. About half of the agreements also include the company's algorithm solution for other product areas. In view of the fast pace of change in the market, the company is working in a targeted way to strengthen its position in relation to both mobile phone manufacturers and other players in the ecosystem. Precise Biometrics also works actively with players who are establishing themselves in the fingerprint technology market in new product areas, especially smart cards, wearables and IoT.

Precise Biometrics' scalable business model is based on generic software that is distributed through a wide-ranging network of customers, which creates good opportunities for growth in the rapidly expanding market for fingerprint technology. The company's software solutions can be integrated into all kinds of sensors, operating systems, platforms or end products with fingerprint technology.

Customers

At the turn of the year Precise Biometrics had 24 licensing agreements. The company's customers encompass both established market leaders and new players in the field of fingerprint technology and include sensor manufacturers, security companies and resellers. Our customers, like our partners, encompass several different sensor technologies and provide us with a strong, broad platform for effective sales and distribution in both current and new product areas that are expected to grow quickly in the future.

Precise Biometrics works in close collaboration and has partnerships with our customers in order to meet demand from both mobile phone manufacturers and other suppliers of products with fingerprint technology. This collaboration involves a degree of joint development and marketing aimed at, for example, manufacturers of mobile phones and other products with small sensors.

OUR CUSTOMERS

**BETTERLIFE, CHIPONE, CYPRESS, DAEJIN, ELAN,
EOSMEM, FINGERPRINT CARDS, FOCALTECH,
GEMALTO, GINGYTECH, IDEX, IMAGE MATCH
DESIGN, INVENSENSE, J-METRICS, JP-SENSOR,
MSTAR, OBERTHUR TECHNOLOGIES,
OXI TECHNOLOGY, RF CONTROL,
SAMSUNG ELECTRONICS, SILEAD,
SYNAPTICS, VKANSEE, QUALCOMM**



Xiaomi Mi 5S

In September 2016 Precise BioMatch Mobile enabled the launch of the first phone with an ultrasound sensor under 400 micrometers of glass, the Xiaomi Mi 5S, with Qualcomm's ultrasound-based fingerprint solution Snapdragon Sense ID.

Precise BioMatch Mobile, standard for the mobile industry

Pressing buttons and remembering PIN codes will soon be a thing of the past. When it comes to mobile phones, fingerprint technology is now more or less a must for consumers, as it is both more convenient and more secure than PIN codes. We have never used our mobile phones as much as we do today, often several times an hour, spending as much as 40 hours a year unlocking them with a PIN code. The authentication process can be shortened by several seconds each time by using fingerprint technology instead.

One of the biggest challenges with fingerprint technology in mobile devices is to succeed in implementing a powerful algorithm solution that quickly and securely processes, analyses and matches images of fingerprints. The user needs to be able to provide authentication simply and securely in order to unlock their phone in a fraction of a second without having to worry about the position of the finger when it comes into contact with the sensor. The fact that fingerprint sensors in mobile devices are also small and only capture parts of the fingerprint makes it a major challenge to match an individual's identity.

Precise Biometrics' algorithm solution Precise BioMatch Mobile offers industry-leading performance with convenient and secure recognition of fingerprints in mobile phones, tablets or laptops. Precise BioMatch Mobile enables authentication that is several times faster than PIN codes in mobile phones. In 2016 alone, our algorithm solution produced time savings of 4.9 billion hours.

Precise Biometrics' tried and tested algorithm solution for mobile devices is the preferred choice among sensor manufacturers who want to offer the best user experience and security in their products. Every day, millions of users unlock their mobile device using the company's technology.

In 2016 more and more manufacturers chose to use Precise BioMatch Mobile. The solution was integrated into 110 mobile devices, 55 more than in the previous year, and is now integrated into more than 170 mobile devices from over 40 manufacturers, many of them leading manufacturers such as Coolpad, Google, Huawei, HTC, Lenovo, LG, Oppo, Sony, ZTE and Xiaomi.

Precise BioMatch Mobile was integrated into 110 mobile devices in 2016



HTC Bolt/10 EVO



Huawei P9 Lite

Our algorithm solution enabled time savings of 4.9 billion hours in 2016

Precise BioMatch Mobile is integrated into mobile devices from more than 40 manufacturers, many of them leading manufacturers such as Coolpad, Google, Huawei, HTC, LG, Lenovo, Oppo, Sony, ZTE and Xiaomi



Oppo F1S

Market development

In 2016 fingerprint technology became somewhat of a standard for identification in mobile devices in the upper product segments, and the technology is being implemented in more and more low-price phones. In total more than 800 million smartphones were sold with a fingerprint sensor, just over one quarter of them Apple iPhones. Precise BioMatch Mobile was integrated into more than half of the phone models launched in the market, and the company's software is now integrated into over 170 mobile devices from more than 40 different manufacturers. As a consequence of the company's strong market development, the business area's revenues rose by 96% to SEK 83.3 million.

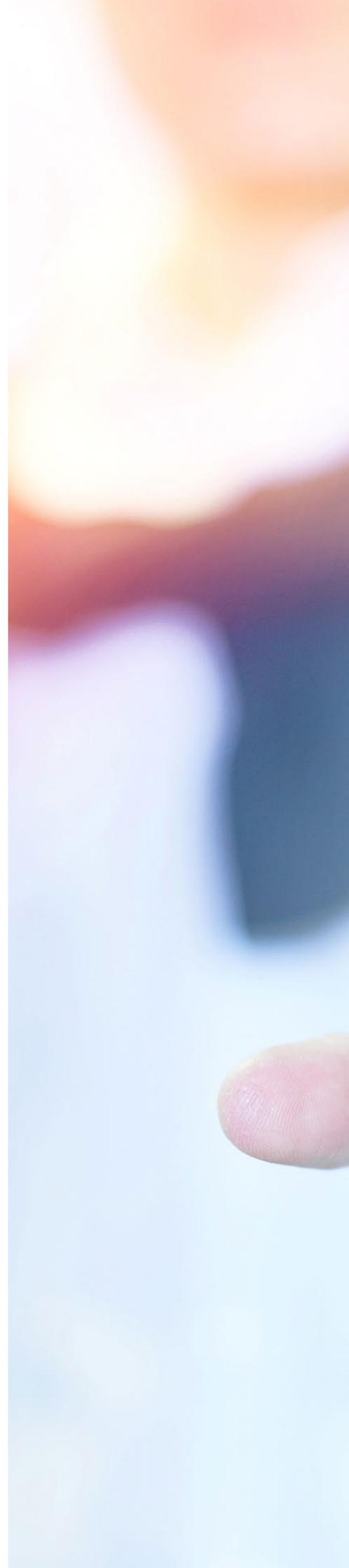
Precise Biometrics' strategy of being an independent algorithm supplier regardless of sensor technology has produced results. The company's software has become a de facto standard among sensor manufacturer and during the year the company received royalty revenues from nine customers, six more than in the previous year. In 2016 the company signed agreements with 14 new sensor manufacturers, security companies and resellers, more than doubling the number of customers. Among the new customer agreements are local suppliers and leaders in the telecoms industry such as Qualcomm and Samsung Electronics. The agreement signed with Samsung Electronics at the end of the year creates further opportunities for growth, especially in the associate company Samsung Mobile, but also for the rest of the mobile market and in other product areas. The company has 24 licensing agreements covering both the mobile market and the market for new products with fingerprint technology.

Competition in the market and therefore sales to the company's new sensor customers is expected to increase and will gradually drive growth and comfortably compensate for the effects of Fingerprint Cards having developed their own algorithm solution for mobile devices, which they are using for their customers. One example of this market development

is the agreement signed in July with the leading sensor and platform manufacturer Qualcomm. Shortly after that, the Xiaomi Mi 5S was launched with a sensor from Qualcomm and the Xiaomi 5S Plus with a sensor from Fingerprint Cards. Both featured Precise BioMatch Mobile, which resulted in royalty revenues. Precise Biometrics is seeing an increase in demand for the company's offering and its competence to secure the integration of fingerprint software into mobile devices. The company has intensified its collaboration with many customers in major integration projects at the premises of mobile phone manufacturers, which are expected to generate major volumes during the latter part of 2017 and continue into 2018.

During the year the company initiated several exciting projects in new product areas for fingerprint technology, in particular in the areas of payment cards and wearables. The biggest potential is in the field of payment solutions. The company's Precise BioMatch Embedded algorithm solution has been certified by the Korea Internet & Security Agency in South Korea for payments with smart cards. This is an important step in enabling payments using fingerprint technology. Together with Gemalto, Fingerprint Cards and ST Microelectronics, Precise Biometrics launched the first complete security architecture for biometric fingerprint authentication. This makes it easy to replace the traditional password-based login with convenient and secure fingerprint technology in other product areas such as payment cards, wearables and IoT.

The agreement with the security company Oberthur includes the integration of Precise Biometrics' algorithm solution into the company's Secure Element, Pearl By OT. This makes it possible to offer convenient and secure authentication through fingerprint technology for all kinds of products, from mobile devices and smart cards to locks.



Strategic acquisition in the field of liveness detection reinforces Precise Biometrics' competitive strength

With the acquisition of US company NexID Biometrics, Precise Biometrics is extending its software offering to include liveness detection, which further improves the security of fingerprint recognition. Liveness detection is a technology that makes it possible to identify false fingers in a fraction of a second. This enables Precise Biometrics to enhance security for customers and users of fingerprint technology. This 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 increase in mobile payments and e-commerce has led to more cases of fraud, which is also expected to continue to grow. Security is a decisive factor in the choice of fingerprint solutions. Liveness detection reduces the risk of fraud significantly, particularly for mobile payments. Through this acquisition, Precise Biometrics can address future security requirements for mobile payments and emerging standards for biometric authentication.

NexID Biometrics, with its head office in Potsdam, New York State, has extensive experience in processing and analyzing fingerprints. The acquisition will provide Precise Biometrics with access to competence in the area of anti-spoofing and data collection of fingerprints, which is becoming an important part of Precise Biometrics'

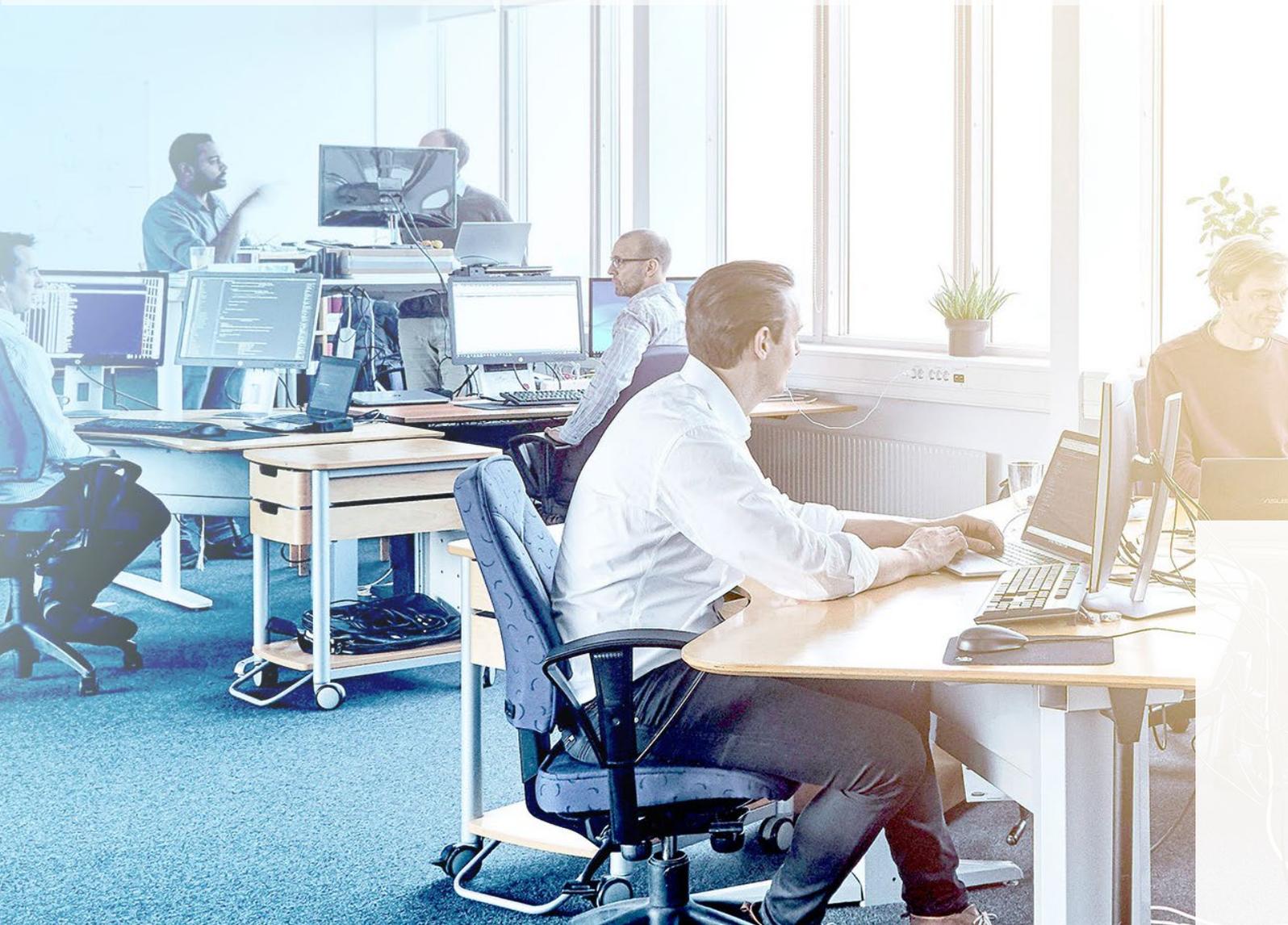
research and development. It also gives Precise Biometrics access to a close relationship with Clarkson University, one of the leading authorities in research into biometric authentication and one of five universities in the USA's Center for Identification Technology Research (CITeR), with a research program that focuses on biometric vulnerability and intelligence. Precise Biometrics will continue to maintain close collaboration with Clarkson University. NexID Biometrics' co-founder, Stephanie Schuckers, is currently Director of CITeR and will take on the role of advisor for Precise Biometrics in matters concerning strategy and product development. The acquisition also includes rights to a portfolio of eleven approved or pending proprietary and university-approved patents.

The liveness detection software is now optimized for mobile devices and will be integrated into Precise BioMatch Mobile during the third quarter of 2017. The new solution is expected to generate revenues from the beginning of 2018. NexID Biometrics also brings valuable sales experience in biometric solutions and will become Precise Biometrics' base for the US market. This gives the company an opportunity to provide better service to regional customers.

Product development

In 2016 the company continued to invest in research and development in order to further strengthen its competitiveness. Precise Biometrics offers the best performance in the market in terms of user experience and security for products with small sensors and limited platforms. The company's algorithm solutions are particularly suitable for smart cards, wearables and IoT, products with significantly smaller memory and processing resources than mobile phones. This puts the company in a good position to win significant market share in new product areas and further strengthen its position as the leading supplier of fingerprint software. The company has the most experienced research and development team in the industry. As a consequence of the significant growth in customers, the team has been augmented with several new algorithm specialists and project managers, in order to promote the company's research and its ability to integrate fingerprint solutions.

The trend is moving towards smaller sensors and the sensor being located under the mobile phone's display glass. This places tougher demands on image enhancement and the performance of the algorithm solution. The emerging market for smart cards is increasing demands on the algorithm solution being resource-efficient so that it can operate in increasingly limited microcontrollers while still providing a good user experience. The R&D team is continuing to develop the performance of the algorithm solutions in order to meet these challenges and guarantee a good user experience with high security. The acquisition of NexID Biometrics gives Precise Biometrics access to a software solution for liveness detection that has been developed through ten years by leading researchers in the field. Precise Biometrics is currently working to integrate the solution into the company's fingerprint software in order to further enhance the security of fingerprint technology and combat fraud.



How the technology works

The company's fingerprint software consists of advanced algorithm solutions that process, analyze and verify images of fingerprints. This software is key to the user experience of fingerprint technology. In simple terms, the company's algorithm solutions do the following: Enhance and analyze the image of the fingerprint that comes from the fingerprint sensor. Extract unique properties from the image and create a template, an original, which is stored in a secure location in the device. This template is then matched against the images and unique properties that are extracted each time a fingerprint is read.

If the fingerprint's unique properties match the template, the user is authenticated and is given access to the device, for example a mobile phone, or a payment is verified. Precise Biometrics' algorithm solutions interact with other software and algorithms from the company's customers in a total solution.

“WE HAVE THE MOST EXPERIENCED TEAM IN THE INDUSTRY FOR RESEARCH AND DEVELOPMENT OF FINGERPRINT SOFTWARE”

1. A biometric sensor produces an image of the fingerprint.



2. An algorithm extracts the fingerprint's unique characteristics from the image and creates a template.



3. During enrollment the template is saved in a safe place on the device.



4. An algorithm compares the new template with the one enrolled.



5. A similarity score is calculated.



6. A predetermined similarity value determines if it's a match or not.



We develop products for growth

- Interview with Rutger Petersson, R&D Director

"The biggest and perhaps most exciting development for the company is the market trend towards smaller and smaller fingerprint sensors and tougher demands for biometric performance. This is a natural consequence of fingerprint technology being well on the way to becoming the standard for mobile devices," says Rutger Petersson, R&D Director at Precise Biometrics.

The quest for smaller sensors is being driven by customers' demands for cost-efficiency. The smaller the sensors, the lower the costs of silicon, which is used in most so-called capacitive sensors. This is important not least for manufacturers of mobile devices in the low- and mid-range segment, where the use of fingerprint technology will be further increasing in the future.

"If anyone can meet this need, we can. The first sensors developed our algorithm for measured 10 x 10 millimeters. We're now supporting sensors that have shrunk to 5 x 5 and 10 x 3 millimeters," says Rutger Petersson, who has been working in technical development at the company since 2007. He emphasizes the company's focus on developing algorithm solutions that can handle even smaller sensors without losing performance.

With shrinking sensors, the challenge is increasing to be able to quickly extract all the unique properties from an increasingly small part of the finger without any vital information being lost. "This is where our light, but powerful patented algorithm solutions are ideal."

Precise Biometrics' algorithm solutions have been developed to achieve fast, secure matching under the toughest conditions in the market: a small sensor, a chip with limited memory and a microprocessor with a low clock speed. Products such as payment cards, wearables and other IoT products have such limitations.

An average smartphone, for example, has about ten thousand times more memory and a processor that is ten times faster than a payment card.

"Our Precise BioMatch Embedded algorithm has been designed to handle these tough conditions, which gives us an enormous advantage now that demand is starting to take off

in other areas, while the mobile market just keeps on growing." The agreement with the security company Oberthur Technologies means that Precise Biometrics is delivering algorithm solutions for a Secure Element, a limited but secure platform for the algorithm to operate in, on a payment card for example. It is expected that the market for fingerprint recognition on payment cards in particular will increase rapidly in the years ahead.

"The partnership with Oberthur Technologies makes it possible to offer fingerprint identification on small sensors with the highest level of security, which is absolutely necessary for payment solutions," says Rutger Petersson.

With Precise Biometrics' acquisition of NexID Biometrics, the company can now offer additional security through liveness detection. "It's my objective to put together a fingerprint solution with built-in support for anti-spoofing that provides a good user experience. This is particularly important when it comes to financial transactions involving larger amounts, or handling sensitive information in a secure manner."

"Another trend is the increase in new sensor technologies in the market. Especially ultrasound sensors and optical sensors. As our algorithm solutions can deal with all kinds of sensors on the market, we're ready for this development," says Rutger Peterson. Another trend is that fingerprint sensors are starting to be installed under the display glass. "This puts even tougher demands not only on the image quality generated by the fingerprint sensor, but also on the algorithm's performance, which is very exciting for our development team."

"Our algorithm solutions are essentially generic and work regardless of sensor technology or hardware platform, although growth in both mobile devices and other product areas is increasing the need for adaptations in the form of optimizations for customer-specific sensors. We've therefore spent time and energy in rationalizing our ability to perform customer adaptations in parallel with our product development. The aim of this is to help our customers improve the biometric performance of their solutions and to get to the market more quickly. All of this means that we have a positive view of our future development."





MOBILE SMART CARD SOLUTIONS

This business area consists of Tactivo, a product portfolio of smart card readers for smartphones and tablets. Tactivo enables convenient and secure mobility in organizations that require smart cards to log in to IT systems and thus contributes to a more efficient, enhanced working environment, increased information security and reduced operating expenses.

Tactivo for iPhone and iPad is designed as a cover, which while enhancing the user experience also protects the device. There is also extra protection, Guardian Case, which can be fitted outside the smart card reader for use in harsh environments.

Business focus

Precise Biometrics shall optimize sales of Tactivo through existing partners. The company's strategy is to offer the best smart card solutions on the market to enable convenient and secure mobility in organizations that require smart cards to log in to IT systems. Tactivo makes sure that the right people have access to the right information at the right time, for example in the home-help service sector when in contact with a patient at home.

Business model

Tactivo is sold through a network of partners as an element of integrated solutions for mobile access to IT systems. The business model enables broad-based, cost-efficient sales, distribution through relevant channels and the installation of products in companies, organizations and government agencies that use smart cards.

Partners

Precise Biometrics has agreements with partners that integrate Tactivo into mobile applications and also manage distribution and sales in the priority markets – the US, the UK and Sweden. The company's partners are operators that have distinguished themselves by either an ability to achieve strong local sales or a system solution that is particularly suitable for integration with Tactivo.

Customers

Precise Biometrics' sales of Tactivo are focused on US government agencies as well as the health care sector in Sweden and the UK. In the US, federal and military agencies use Tactivo for

mobile access to email and documentation. The health care sector is demanding solutions with Tactivo to achieve mobile access to health care systems in order to reduce costs, improve information security and increase efficiency. These solutions also improve patient safety and free up time that can be devoted to recipients of health care. Customers are primarily in Swedish municipalities and county councils, as well as NHS trusts in the UK.

Market development

Sales of Tactivo have not performed as well as originally expected and amounted to SEK 13.9 million, which was on par with the previous year. Sales to US government agencies increased during the year but were adversely affected by discussions about how digital alternatives can replace smart cards for mobile access to information. The US government agency market consists of two sectors, the military and the federal sectors, which between them have an existing infrastructure of smart cards held by several million users, with Tactivo providing secure mobile access to email and information. During the second quarter the company, through a channel partner, signed a framework agreement with the Defense Logistics Agency to facilitate a wide-ranging increase in the number of users of Tactivo within their organization. This solution has not been extended to the extent originally stated by the agency, largely because of ongoing discussions about replacing smart cards with digital encryption keys.

Sales in the Swedish and UK health care markets were also lower than expected. Long sales processes, often preceded by extensive pilot projects, have resulted in sales not having increased in line with the company's expectations. In the fall the company received an order for a more wide-ranging pilot project from the City of Gothenburg, which has an ambition to introduce a mobile solution featuring Tactivo to 10,000 employees during 2017.

In Germany, federal and military authorities inquired about solutions with Tactivo to achieve convenient and secure access to email and information from mobile devices. During the year several official bodies tested solutions with Tactivo, one of them being BIS, the agency for information security.

A REWARDING WORKPLACE

Precise Biometrics shall be an attractive workplace where creative people are happy, inspired and develop. We therefore have a culture that values initiative and employees' ambitions, and allows scope for personal development. The engagement, competence and loyalty of our employees, combined with our common core values, are decisive in order that Precise Biometrics shall continue to be the market leader. We conduct a dialog about the company's objectives in order to create drive and strengthen the community.

Our employees' creativity and constant desire to develop are valued highly and constitute an important success factor. All employees are proud of the fact that the company's products and solutions are used hundreds of millions of times every day. Precise Biometrics has five core values, which are deeply embedded in employees and represent the foundation on which the company is governed:

-  **OPENNESS:** We are open, honest and responsive.
-  **INNOVATION:** We seek, strive and work together to create innovative ideas that meet our customers' needs.
-  **RELIABILITY:** We assume responsibility and keep our promises.
-  **QUALITY:** Our deliveries are well-considered, carefully designed and of the highest quality.
-  **ENGAGEMENT:** We always do our best and the work we produce has a direct impact on the success of our customers and our companies.

The company works actively to attract and retain employees with the right competence. Precise Biometrics encourages further education and offers benefits such as an occupational health care plan, a pension plan, result-based variable pay and an option plan. Many employees have worked for the company for a long time and have extensive experience developing and selling solutions featuring fingerprint technology.





One day at Precise Biometrics



IN BRIEF

Name: Deniz Misirli

Age: 39

Working at Precise Biometrics since: 2001

Works as: System Architect

Leisure interests: Concerts, listens to psych rock and drone

What's a normal working day like for you?

I work with our products in both business areas, Fingerprint Technology and Mobile Smart Card Solutions. Among other things, I'm responsible for making sure that the products follow a common thread, which means that APIs are consistent and compatible. I also make sure that our products comply with the standards that affect them, for example ISO, and monitor developments in the various standardization platforms such as FIDO Alliance and Global Platform.

My day starts with a breakfast coffee and a status check with my colleagues. Then the priorities for the day are made, maybe something happened overnight and there has to be some re-prioritizing. You have to be agile, as developments are moving so quickly, especially in the field of fingerprint technology.

What's the most enjoyable thing about your job?

Being able to work with competent, inventive people.

What do you think will be the next big thing?

I think that FIDO will be much bigger than it is now. FIDO Alliance is an organization that develops specifications and certifies compatible products for simple, secure online authentication. FIDO authentication with fingerprints could have made people's everyday lives so much easier.

What's a normal working day like for you?

Customer support is top of the list of priorities. My colleague Håkan, who's also a test and support engineer, and I deal with cases as soon as they pop up. We collaborate a lot on customer support, which gives us a joint understanding of customers and their questions. It's a challenge to interpret what's being requested and to answer the customer in an encouraging way. When there's time between support cases, I work to improve the regression test, to update test specifications and to test JIRA cases.

What's the most enjoyable thing about your job?

Being able to work in a team, discussing and finding solutions together with my colleagues makes me feel a sense of community and helps me to develop.

What are you looking forward to in 2017?

Continuing the task of enhancing our tests to make sure that what we deliver to customers is of the highest quality. The development of algorithms is moving quickly, which makes it especially important that we test correctly, for example that we perform continuous regression tests to capture bugs, and also that we test before integrations and in connection with delivery.



IN BRIEF

Name: Ann-Marie Jansson

Age: 50

Working at Precise Biometrics since: 2016

Works as: Test and Support Engineer

Leisure interests: Gardening, trips to the countryside, cooking and home improvements

SUSTAINABILITY

Sustainability is an important element of Precise Biometrics' business and shall promote social and environmentally aware responsibility. The company focuses on the areas where our business is considered to have the greatest impact: Working Environment, Equal Treatment in All Relationships, Business Ethics and Environment. The company's sustainability policy acts as a guiding principle for the company's actions when more short-term, operational decisions have to be made, and also for long-term, strategic development. Precise Biometrics will evaluate the company's efforts in this area on an ongoing basis in order to further integrate sustainability into the company's development.

Working environment

Precise Biometrics is a knowledge-based company that depends on the desire and ambition of our employees to continuously push the limits of technology. The company works actively to create a working environment that gives employees the right conditions in which to develop. A stimulating, secure working environment is created by means of openness, creating an understanding of the company's objectives, responsibility to the individual, training and salary benefits such as occupational health care and pension insurance. Precise Biometrics works continuously to create a workplace that prevents any unhealthy impact on the health and wellbeing of employees. All forms of discrimination are unacceptable and it must be equally easy for all employees to pursue a career, regardless of background and gender.

Equal treatment in all relationships

Precise Biometrics is developing to become an increasingly international company with increased diversity. Precise Biometrics does not accept any form of discrimination against employees in connection with employment or duties at work on the basis of gender, religion, age, physical ability, sexual orientation, nationality, political opinion or social or ethnic origin. The company's long-term objective for equality is that there shall be no differences in the company with regard to professional roles and levels of compensation that can be related to gender affiliation. Furthermore, all employees shall perceive that they have an equal situation regardless of gender in their day-to-day work and in respect of the impact of work on their private and family life. The company also has an ambition to promote a more even gender balance, although without compromising on competence, and to achieve a situation in which the numbers of company employees are more evenly distributed in respect of gender within all units.

Code of Conduct and business ethics

The company's Code of Conduct emphasizes the fundamental ethical principles that Precise Biometrics observes when conducting its business operations, and supports the compa-

ny's employees and consultants in their relations with business partners and other stakeholders. The Code of Conduct includes, among other things, guidelines, values and rules on ethical business, relationships with employees, customers and suppliers, and information to shareholders. All employees are expected to support and uphold the company's values and responsibilities. The company has created an opportunity for the company's employees, business partners and other stakeholders to report any possible serious or sensitive irregularities or improper conduct that could have a detrimental effect on the company's business operations or stakeholders, what is known as a whistleblowing procedure.

Environmental impact

Precise Biometrics strives to select efficient, sustainable alternatives in order to reduce the company's impact on the environment. The company develops and sells fingerprint software, which in itself has little impact on the environment. Precise Biometrics strives to choose environmentally-friendly IT infrastructure and deliver software solutions as downloadable files, which involves minimal environmental impact in connection with delivery and distribution.

The company also conducts some development of smart card readers, which are manufactured and assembled at carefully selected manufacturers. These partner manufacturers purchase components for the products according to the specifications of Precise Biometrics. The company is working to manufacture products as resource-efficiently as possible in order to minimize its environmental impact through efficient production and optimal material recycling at the end of their life cycle. The products are CE and FCC marked, which guarantees high quality and compliance with current regulations and standards.

Precise Biometrics is growing to become an increasingly international company with operations in a number of countries in Europe, North America and Asia. As air travel accounts for a large proportion of the company's climate impact, videoconferencing is used in order to minimize the number of trips. In 2016 more than one thousand video meetings were held, of which approx. five per cent replaced physical travel. This is a saving of emissions of approx. 35,000 kg CO₂, the equivalent of 50 return flights to Beijing. The company recently moved into new premises, which have environmental certification in accordance with LEED Gold. LEED is an international certification system that assesses the environmental impact from five aspects: the location of the premises, water-saving, energy consumption, internal environment, and material and resource consumption.

Precise Biometrics evaluates procedures and work methods on an ongoing basis in order to identify more effective methods that reduce the company's environmental impact.

ADMINISTRATION REPORT

The Board of Directors and the CEO of Precise Biometrics (publ), CIN 556545-6596, with headquarters in Lund Municipality, Sweden, hereby submit their Annual Report and consolidated financial statements for the fiscal year 2016.

ACTIVITIES

Precise Biometrics is a market-leading supplier of solutions for convenient and secure authentication of people's identity. The company's patented software solutions for fingerprint identification provide the market's best user experience and security for products with small sensors and has become a de facto standard among sensor manufacturers. Precise Biometrics also develops and sells mobile smart card readers for smartphones and tablets.

The company's solutions are used hundreds of millions of times every day by people all over the world and are marketed together with strong business partners.

The company's business concept is to work together with strong partners to offer authentication of digital identities that enable convenient and secure access to systems, information and resources. The products include both software and hardware for verification of the identity of individuals through fingerprint technology and smart cards. The company sells its products in a global market through a strong network of partners consisting of sensor manufacturers, smart card manufacturers, systems integrators and local resellers.

In the Fingerprint Technology business area, the company develops and sells fingerprint software for convenient and secure authentication of people's identity in mobile phones, smart cards and other products with small fingerprint sensors. Precise Biometrics' patented software provides the best user experience for products with small sensors for platforms with limited processing power and memory. It consists of advanced algorithms that process, analyze and match images of fingerprints and are key to the user experience of fingerprint technology. The software works with all sensor technologies, operating systems and hardware platforms.

The Mobile Smart Card Solutions business area consists of Tactivo, a product portfolio of smart card readers for smartphones and tablets. Tactivo enables mobility in organizations that require smart cards to log in to IT systems and thus contributes to a more efficient, enhanced working environment, increased information security and reduced operating expenses.

IMPORTANT EVENTS

- Signed 14 new licensing agreements
 - Precise Biometrics signed licensing agreements with Qualcomm Technologies
 - Precise Biometrics signed licensing agreements with Samsung Electronics

- Agreement to acquire NexID Biometrics and the company's leading technology for liveness detection.
- New share issue carried out to a value of SEK 50 million, for the purpose of financing the acquisition of NexID Biometrics while at the same time maintaining the financial position.
- Precise BioMatch Mobile was integrated into the Xiaomi Mi 5S, the first phone with an ultrasound sensor under 400 micrometers of glass.
- Together with partners, launched the first complete safety architecture for biometric fingerprint authentication.
- Oberthur integrated Precise BioMatch Embedded into its Secure Element, Pearl By OT.
- Precise BioMatch Embedded was integrated into credit cards from Kona-i, which appeared at Money 20/20.
- Won framework agreement with the DLA to increase the number of users of Tactivo.

SALES AND EARNINGS

Net sales during the full-year period increased to SEK 97.2 million (56.3). The largest share of sales came from the **Fingerprint Technology** business area, which accounted for SEK 83.3 million (42.6). Net sales in the **Mobile Smart Card Solutions** business area amounted to SEK 13.9 million (13.8); the business area also includes **Desktop & Physical Access Solutions**, which was previously reported separately.

The gross margin in the full-year period was 78.8% (69.7%), representing a gross profit of SEK 76.7 million (39.3). This improvement is primarily due to a higher proportion of software sales. The gross profit was charged with depreciation and write-downs of capitalized development expenses, and in 2016 there was a write-down of capitalized development expenses of SEK 0.5 million (0.0). The gross profit was also negatively affected by depreciation of inventories, which amounted to SEK 4.6 million (0.4).

Operating expenses increased to SEK 58.6 million (48.7). Of these, selling and administrative expenses accounted for SEK 34.7 million (26.3). This increase is explained by increased investments in selling activities and legal costs in connection with acquisitions.

The operating profit improved to SEK 18.0 million (-9.4) as a consequence of higher net sales. An operating profit at EBITDA level of SEK 24.8 million (0.5) was achieved for the full year 2016.

INVESTMENTS IN TANGIBLE FIXED ASSETS

The group invested SEK 0.4 million (0.6) during the year in tangible fixed assets. Depreciation of tangible fixed assets during the period amounted to SEK 1.3 million (1.2).



CAPITALIZATION AND DEPRECIATION OF DEVELOPMENT WORK

Development expenses of SEK 4.8 (2.4) million were capitalized during the year. Depreciation of capitalized development expenses amounted to SEK 5.0 million (8.6) during the year. Write-downs of capitalized development expenses amounted to SEK 0.5 million (0.0) during the year.

FINANCING AND LIQUIDITY

A new share issue of SEK 50 million was conducted and registered by the Swedish Companies Registration Office in December. The new share issue was fully paid at the year-end and is included in cash and cash equivalents. After deducting expenses relating to the new share issue, SEK 47.2 million has been added to the company's equity. As of December 31, 2016 equity amounted to SEK 163.0 million (83.1) and equity per share to SEK 0.45 (0.24).

Cash flow from operations improved to SEK 37.7 million (-4.5).

Cash and cash equivalents at the year-end amounted to SEK 135.8 million (52.4), of which SEK 50.0 million was contributed via a new share issue. Since the end of the year the purchase price for the acquisition of NexID Biometrics has been paid of approx. SEK 31 million (USD 3.5 million).

FIVE-YEAR SUMMARY

The Five-Year Summary, which is part of the administration report, appears on pages 40-42 in order to better illustrate financial development.

THE SHARE AND THE SHAREHOLDERS

The number of shares and voting rights were increased during the year through a private placement. The share issue was registered by the Swedish Companies Registration Office in December, and at the year-end Precise Biometrics' share capital was SEK 10,806,944, distributed among 360,231,467 shares listed on Nasdaq Stockholm's Small Cap list, Industrial Goods & Services Sector. A standard trading unit is one share. The quote value of the share is SEK 0.03.

Share price development

In 2016 there was a total turnover of 2,282,496,007 PREC shares, i.e., an average turnover of 9,021,723 shares per day of trading. The closing price on December 30, 2016 was SEK 3.32. During the year the share price fluctuated from SEK 2.00 to 5.90.

Ownership structure

The number of shareholders at the end of the year was 27,325 (25,533). The proportion of foreign owners was 15.6% (14.6).

Transferability of shares

There are no limits to the transferability of the shares. Nor are there any agreements known to the company between shareholders that can involve limitations to the right to transfer shares.

Warrants

In 2016 Precise Biometrics had a program of warrants covering all employees of the company in 2014. The program initiated in

2014 involved the issuing of warrants, which were transferred to the employees at market rates. A total of 2,610,000 options were subscribed to and shares may be subscribed to through the exercising of the warrants during the period July 1 – December 31, 2017. Each warrant provides entitlement to subscribe to one share for SEK 2.50. The warrants were sold at a market value in accordance with the Black & Scholes valuation method.

Full exercising of the warrants will cause the dilution effect from the warrants to be as follows:

Weighted average number of ordinary shares: 345,960,357
 Dilution effect of warrants: 882,210
 Weighted average number of ordinary shares, adjusted for dilution effect: 346,842,567

See also Note 10 and the section entitled The share and shareholders for further information.

PATENTS

The company's overall patent strategy has the objective of securing the rights to our own technology and products in selected markets, creating value for future business, and enhancing the company's competitiveness. The patent portfolio has been successively strengthened to include 81 different patents in selected markets and 14 patent applications within 21 different patent families at the end of 2016.

TRADE MARKS

Precise Biometrics works actively and strategically with a brand portfolio consisting of a small number of carefully selected trade marks:

TACTIVO™ - the trade mark for Precise Biometrics' smart card readers. The trade mark is registered in the EU, the US and Australia, and has been applied for in Canada, China and Russia.

PRECISE BIOMETRICS™ - registered as both an image and word mark in several countries.

PRECISE BIOMATCH™ - the overall trade mark for the technology, and also used as the basis for the naming of software products. The trade mark is registered in both the EU and the US.

BIOMATCH™ - the overall trade mark for Precise Biometrics' technology. The trade mark is registered in both the EU and the US.

RESEARCH AND DEVELOPMENT (R&D)

Research at Precise Biometrics is of fundamental importance for the company and is important in order to maintain competitiveness in an industry that is continuously developing. The main objective of research and development is to further develop the fingerprint algorithms on which the company's products are based. Precise Biometrics' research and development department works with the development of existing products and patents, and to develop new solutions.

ORGANIZATION AND STAFF

The organization consists of a head office in Lund, Sweden and offices in Karlstad, Sweden, Potsdam, New York and Reston, Virginia, USA. To secure a local presence in key markets, sales consultants are hired in the US, Taiwan, China and Korea.

As of December 31, 2016 the group had 36 (35) staff members, including consultants. The number of employees was 26 (22), of which 26 (22) were in Sweden.

CORPORATE GOVERNANCE

The company has chosen to produce a Corporate Governance Report that is separate from the Administration Report.

GUIDELINES FOR REMUNERATION TO LEADING EXECUTIVES

A decision was made at the Annual General Meeting in 2016 on the establishment of guidelines for remuneration to leading executives, with the effect that remuneration and terms of employment shall be in line with the market and competitive, and that there will be a predetermined cap on remuneration. The variable salary will not exceed 75 per cent of the fixed annual salary for the CEO and 50 per cent for other executives. Remuneration will also be provided in the form of options or other share-related incentive plans.

The CEO is subject to a mutual term of notice of 6 months, and the other executives to a term of notice of 3-6 months. Severance pay for the CEO may not exceed 6 months' salary if employment is terminated at the initiative of the company. Other executives are not entitled to severance pay.

The retirement age is 65, and pension premiums are calculated on a scale based on age and salary, and may amount to a maximum of 25 per cent of the fixed salary. The guidelines laid down by the AGM correspond with those for the previous year.

THE BOARD'S PROPOSAL ON GUIDELINES FOR REMUNERATION TO LEADING EXECUTIVES

The board proposes that the AGM 2017 make a decision on guidelines for remuneration to leading executives that corresponds with the guidelines decided by the AGM 2016.

Please refer to Note 5 for further information.

CHANGE OF CONTROL CLAUSE

The company is not a party to any agreement that takes effect or is amended or ceases to be valid if control over the company is changed as a consequence of a public takeover bid.

SUSTAINABILITY AND ENVIRONMENT

Sustainability is an important part of Precise Biometrics' business. The company focuses on the areas where our business is considered to have the greatest impact: Working Environment, Equal Treatment in All Relationships, Business Ethics and Environment.

Precise Biometrics works continuously to create a workplace that prevents any unhealthy impact on the health and wellbeing of employees. Different backgrounds and experiences are important for the company's development, and Precise Biometrics does not accept any form of discrimination against employees in connection with employment or duties at work on the basis of gender, religion,

age, physical ability, sexual orientation, nationality, political opinion or social or ethnic origin. The company's Code of Conduct emphasizes the fundamental ethical principles that Precise Biometrics observes when conducting its business operations, and supports the company's employees and consultants in their relations with business partners and other stakeholders. The Code of Conduct includes, among other things, guidelines, values and rules on ethical business, relationships with employees, customers and suppliers, and information to shareholders. Precise Biometrics strives to select efficient, sustainable alternatives in order to reduce the company's impact on the environment. The company develops and sells fingerprint software, which in itself has little impact on the environment. Precise Biometrics strives to choose environmentally-friendly IT infrastructure and deliver software solutions as downloadable files, which involves minimal environmental impact in connection with delivery and distribution. The company also conducts some development of smart card readers, which are manufactured and assembled at carefully selected manufacturers. The products are CE and FCC marked, which guarantees high quality and compliance with current regulations and standards.

SIGNIFICANT RISKS AND UNCERTAINTIES

The following specification of risk factors does not claim to be complete, nor are the risks ranked in their order of importance.

RISKS RELATED TO OPERATIONS

Technological development

The market in which the company operates is subject to rapid changes. New technology and new players are constantly emerging. The company's technology must therefore to a large extent be accepted by the leading players in the market, both by suppliers and customers. The market must be mature enough to understand and accept the new technology supplied by the company.

Market development

As the market in which the company operates grows and the number of players increases, there is a risk that alternative technologies will be developed and that the price of comparable products will thereby be reduced. This can mean that major investment in marketing and sales may be required to achieve the expected sales volumes.

Production capacity

The company relies on external production capacity. If the demand for components and production capacity should increase, the manufacturing costs for the company's products will also increase. An increase in the demand for components could also lead to delayed deliveries, which could result in the displacement of earnings.

Staff

There are a number of key persons in Precise Biometrics who are important for operations, especially in research and development, where they possess unique competence. If one or more of these key persons should leave the company it could, in the short term, have a negative impact on the business. There is also a risk that the recruitment of new staff for these positions could take time and result in additional costs for the company.

Partners

The company cooperates with several partners. They include smart card manufacturers, chip manufacturers and suppliers of applications. The company relies on these partnerships so it can offer end customers complete security solutions. There is a risk of closure for one or more of these partnerships, or that they fail to achieve the expected results, which would lead to a loss in expected future revenues.

Patents and industrial and intellectual property rights

It is important for the company to protect its technology and products through patents or other industrial and intellectual property rights in order to create opportunities for future revenues. The company therefore pursues an active patent strategy, which involves applying for patents for strategically important inventions in selected countries. Nevertheless, it cannot be guaranteed that the company will obtain patents in the countries where it has made applications, or that patents will not be declared invalid. There is also a risk that the company's patents will be circumvented (known as a design around) or that the company's technology will be used in countries where the company has no patent protection. The company cannot guarantee that its products will not be considered to infringe on other granted patents or other intellectual property rights, and if such is the case the company's business, profits, opportunities to deliver products and financial position may be negatively affected.

Competitors

The company is active in the market for biometrics. The competition in this market is severe. Competing companies can have substantially larger financial and industrial resources at their disposal than the company, and it cannot be ruled out that competition from players like this will lead to diminished market shares and/or a reduction in Precise Biometrics' profitability.

Sales

The biometrics market is still at an early stage. Judgments and decisions in a rapidly developing industry are made with reservation for several uncertainty factors. There is a dependency on partners and the development of competitors, as well as the market's acceptance of biometrics. Another important factor is the development rate and penetration of the services in which biometric solutions will be used, which leads to difficulties in predicting the future development of the business. The development of the company depends on the continued expansion of the market for biometrics. A delay in the penetration of more applications and markets will affect sales and profits. For the business area Fingerprint Technology there are risks involved in the fact that Precise Biometrics has been dependent on a small number of hardware partners for its sales. These risks diminish by having more customers and a platform-independent product portfolio.

Forecasting problems

The company operates in a rapidly changing market. The market for Fingerprint Technology products is in an early stage of development

and revenues are to a large extent based on royalties from customers using them. All products are characterized by long selling-in processes. Earlier or later submissions of orders can have a significant effect on sales and profits. These factors make forecasting very difficult.

FINANCIAL RISKS

The company is exposed to various financial risks, which are managed in accordance with policies adopted by the board. The company is mainly exposed to capital risk, currency risk and credit risk. For the fiscal year 2016, the company achieved a positive cash flow over a 12-month period for the first time. There is, however, no guarantee that new capital can be raised if the need should arise, or that such capital can be raised on favorable terms. The currency risk to which the company is exposed arises primarily from the fact that the company's expenses are primarily in Swedish kronor (SEK), while a significant part of revenues are generated in foreign currency, mainly USD. The company works on the basis of a policy that aims to minimize currency exposure in the business. The company has guidelines on the issue of credit to its customers. The company works continuously to minimize the period for which the company currently has capital tied up, for example, in inventories and accounts receivable.

FUTURE PROSPECTS

The company has a leading market position, the best fingerprint software on the market and a global distribution network that provides opportunities to capitalize on the rapidly growing market for fingerprint technology, a market that is expected to quadruple by the year 2020. Precise Biometrics' fingerprint recognition software has become a de facto standard among sensor manufacturers. The company's extensive experience in the development of fingerprint software for products with very limited memory and processor resources gives us unique competence and good opportunities to acquire a large market share in product areas such as smart cards, wearables and IoT.

To meet increased demand for the company's software and to create improved conditions for long-term growth, Precise Biometrics is increasing its investments in research and development in order to secure the company's technological leadership and develop the product range, and also to grow the company's customer-focused organization for support and integration. Through these investments, Precise Biometrics is building the organization to be able to manage the growth in sales that is expected in the future. The acquisition of NexID Biometrics provides the company with access to a software solution for liveness detection, for which there is a high level of interest from the company's customers, and this will be strategically important for strengthening Precise Biometrics' competitiveness.

The company expects a weaker revenue trend during the first half of 2017, but expects a gradual increase in volumes and revenues from the second half of the year and onwards. Net sales for 2017 are expected to be on par with net sales in 2016.

THE PARENT COMPANY

Parent company sales for the fiscal year amounted to SEK 90.5 million (49.8). Earnings before tax for the fiscal year amounted to SEK 20.4 million (-43.9). A write-down of the receivable from the subsidiary Precise Biometrics, Inc. was reported during the year of SEK 5.8 million (35.9) and is included in Result from participations in group companies. The new share issue conducted has an impact on the parent company's liquid assets of SEK 50.0 million and on equity of SEK 47.2 million. Liquid assets at the end of the year therefore amounted to SEK 120.8 million (46.9).

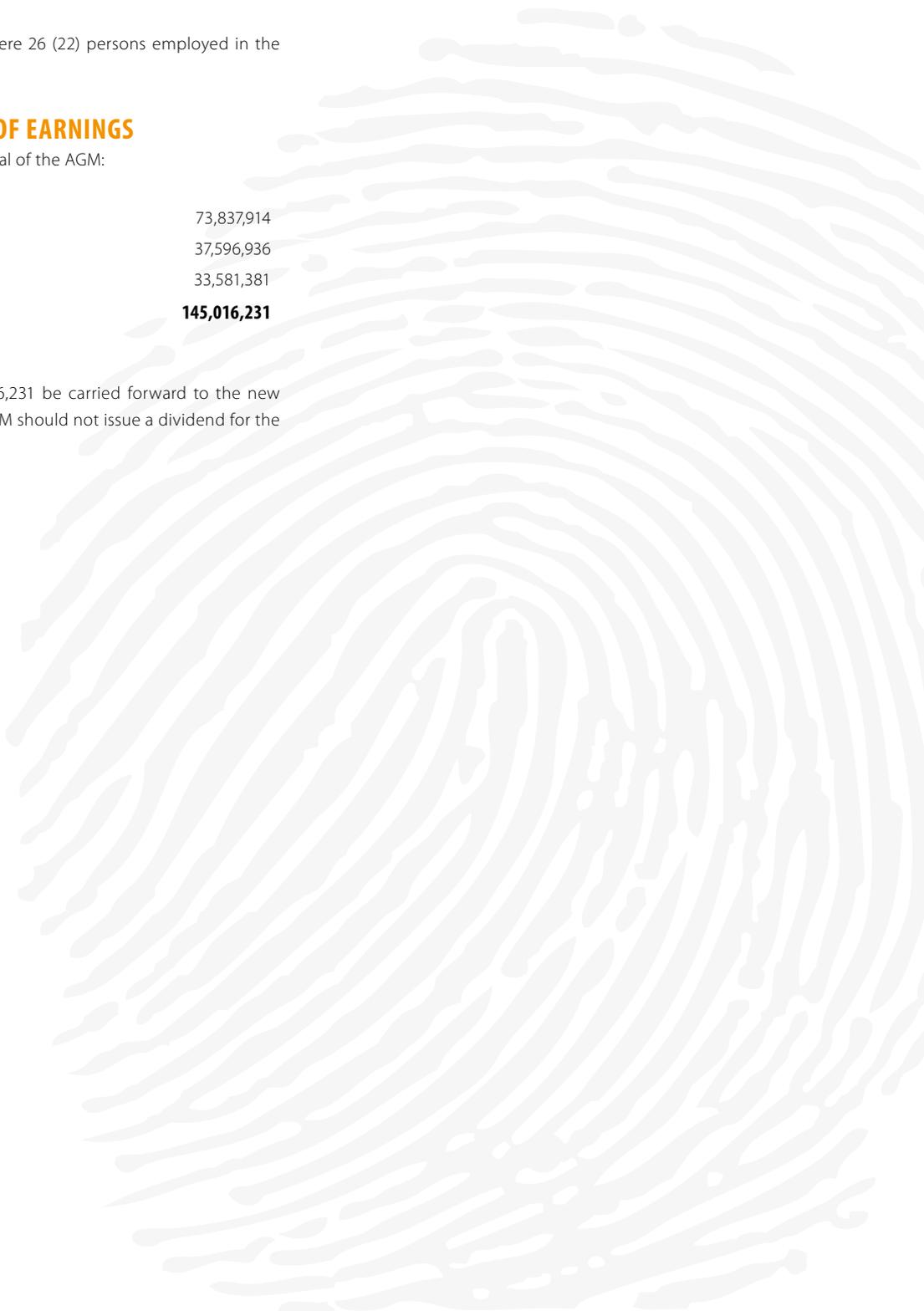
At the end of the fiscal year there were 26 (22) persons employed in the parent company.

PROPOSED DISTRIBUTION OF EARNINGS

The following assets are at the disposal of the AGM:

| | |
|------------------------------------|--------------------|
| Share premium reserve, SEK | 73,837,914 |
| Retained earnings, SEK | 37,596,936 |
| Profit for the year, SEK | 33,581,381 |
| Total non-restricted equity | 145,016,231 |

The board proposes that SEK 145,016,231 be carried forward to the new year. The board proposes that the AGM should not issue a dividend for the fiscal year 2016.



Five Year Overview

INCOME STATEMENT

| <i>SEK thousands</i> | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------------|---------------|----------------|----------------|----------------|
| Net sales | 97,223 | 56,337 | 31,387 | 34,944 | 28,281 |
| Cost of goods and services sold | -20,573 | -17,059 | -14,208 | -15,976 | -12,495 |
| Gross profit/loss | 76,650 | 39,278 | 17,179 | 18,968 | 15,786 |
| Selling expenses | -19,496 | -12,685 | -19,907 | -24,777 | -25,812 |
| Administration expenses | -15,192 | -13,587 | -14,343 | -14,706 | -13,909 |
| R&D expenses | -26,152 | -22,631 | -28,984 | -21,307 | -18,239 |
| Other operating income/expenses | 2,195 | 219 | 1,508 | -358 | -728 |
| Operating profit/loss | 18,005 | -9,407 | -44,547 | -42,180 | -42,902 |
| Net financial items | -12 | -62 | 502 | -1,092 | -4,050 |
| Profit/loss after financial items | 17,993 | -9,469 | -44,045 | -43,272 | -46,952 |
| Tax | 13,200 | - | - | - | - |
| Profit/loss for the year | 31,193 | -9,469 | -44,045 | -43,272 | -46,952 |

Conversion of comparative figures for the reporting of depreciation of capitalized development expenses was not performed for the years 2012-2014, see also Note 1.

BALANCE SHEET

| <i>SEK thousands</i> | 12/31/2016 | 12/31/2015 | 12/31/2014 | 12/31/2013 | 12/31/2012 |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Assets | | | | | |
| Intangible fixed assets | 10,436 | 11,152 | 17,360 | 21,574 | 18,358 |
| Tangible fixed assets | 1,285 | 2,132 | 2,784 | 3,475 | 1,829 |
| Financial fixed assets | 13,200 | - | - | - | - |
| Current assets | 171,176 | 85,665 | 86,056 | 127,875 | 65,464 |
| of which cash and bank balances | 135,753 | 52,356 | 59,659 | 101,197 | 37,584 |
| Total assets | 196,096 | 98,949 | 106,200 | 152,924 | 85,651 |
| Equity and liabilities | | | | | |
| Equity | 163,011 | 83,059 | 91,983 | 134,547 | 48,195 |
| Current liabilities and provisions | 33,085 | 15,890 | 14,217 | 18,377 | 37,456 |
| Total equity and liabilities | 196,096 | 98,949 | 106,200 | 152,924 | 85,651 |

CASH FLOW STATEMENT

| <i>SEK thousands</i> | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------------|---------------|----------------|---------------|--------------|
| Cash flow from operating activities before change in working capital | | | | | |
| change in working capital | 24,824 | 396 | -30,664 | -36,942 | -44,620 |
| Changes in working capital | 12,834 | -4,854 | -3,265 | 2,723 | -4,252 |
| Cash flow from investing activities | -5,268 | -3,004 | -7,870 | -11,749 | -9,143 |
| Cash flow from financing activities | 50,000 | - | 261 | 109,580 | 66,669 |
| Change in liquid assets | 82,390 | -7,463 | -41,538 | 63,612 | 8,654 |

KEY FIGURES (GROUP)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---------|---------|---------|---------|---------|
| Net sales (SEK thousands) | 97,223 | 56,337 | 31,387 | 34,944 | 28,281 |
| Net sales growth | 72.6% | 79.5% | -10.2% | 23.6% | 30.8% |
| Operating profit/loss (SEK thousands) | 18,005 | -9,407 | -44,547 | -42,180 | -42,902 |
| EBITDA (SEK thousands) | 24,836 | 457 | -31,773 | -35,293 | -40,100 |
| Working capital (SEK thousands) | 138,091 | 69,775 | 71,839 | 109,498 | 28,008 |
| Liquidity ratio | 511% | 486% | 522% | 618% | 145% |
| Equity/assets ratio | 83% | 84% | 87% | 88% | 56% |
| Return on equity | 25.4% | neg | neg | neg | neg |
| Capital employed (SEK thousands) | 163,011 | 83,059 | 91,983 | 134,547 | 48,195 |
| Earnings per share (SEK) | 0.09 | -0.03 | -0.13 | -0.13 | -0.18 |
| Equity per share (SEK) | 0.45 | 0.24 | 0.27 | 0.39 | 0.18 |
| No. of shares (thousands) | 360,231 | 345,306 | 345,306 | 345,306 | 264,523 |
| Weighted average number of shares, adjusted for dilution effect | 346,843 | 345,306 | 345,306 | 306,147 | 207,840 |
| Number of employees at end of period | 26 | 22 | 22 | 29 | 37 |
| Average number of employees during the period | 26 | 22 | 27 | 34 | 37 |

See the Financial Glossary for definitions.

The years 2012-2014 have not recalculated with any dilution effects.

THE GROUP, RECONCILIATION OF ALTERNATIVE KEY FIGURES

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|---------|---------|---------|---------|---------|
| EBITDA (SEK thousands) | 24,836 | 457 | -31,773 | -35,293 | -40,100 |
| Depreciation (SEK thousands) | -6,300 | -9,865 | -9,578 | -4,792 | -2,154 |
| Write-downs (SEK thousands) | -529 | - | -3,196 | -2,095 | -648 |
| Operating profit/loss (SEK thousands) | 18,005 | -9,407 | -44,547 | -42,180 | -42,902 |
| Capital employed (SEK thousands) | 163,011 | 83,059 | 91,983 | 134,547 | 48,195 |
| Non-interest-bearing liabilities (SEK thousands) | 33,085 | 15,890 | 14,217 | 18,377 | 37,456 |
| Balance sheet total (SEK thousands) | 196,096 | 98,949 | 106,200 | 152,924 | 85,651 |
| Return on equity | 25.4% | neg | neg | neg | neg |
| Profit/loss after tax (SEK thousands) | 31,194 | -9,469 | -44,045 | -43,272 | -46,952 |
| Average equity (SEK thousands) | 123,035 | 87,521 | 113,265 | 91,371 | 58,297 |
| Equity per share (SEK) | 0.45 | 0.24 | 0.27 | 0.39 | 0.18 |
| Equity (SEK thousands) | 163,011 | 83,059 | 91,983 | 134,547 | 48,195 |
| No. of shares (thousands) | 360,231 | 345,306 | 345,306 | 345,306 | 264,523 |
| Operating expenses (SEK thousands) | -58,645 | -48,685 | -61,726 | -61,148 | -58,688 |
| Selling expenses | -19,496 | -12,685 | -19,907 | -24,777 | -25,812 |
| Administration expenses | -15,192 | -13,587 | -14,343 | -14,706 | -13,909 |
| R&D expenses | -26,152 | -22,631 | -28,984 | -21,307 | -18,239 |
| Other operating income/expenses | 2,195 | 219 | 1,508 | -358 | -728 |

See the Financial Glossary for definitions.

The years 2012-2014 have not recalculated with any dilution effects.



CONSOLIDATED INCOME STATEMENT

SEK thousands

| | Note | 2016 | 2015 |
|--|-----------|----------------|----------------|
| Net sales | 2 | 97,223 | 56,337 |
| Cost of goods and services sold | 1,3,20 | -20,573 | -17,059 |
| Gross profit | | 76,650 | 39,278 |
| Selling expenses | | -19,496 | -12,685 |
| Administration expenses | | -15,192 | -13,587 |
| R&D expenses | | -26,152 | -22,631 |
| Other operating income | | 2,195 | 218 |
| | 3,4,5,6,7 | -58,645 | -48,685 |
| Operating profit/loss | | 18,005 | -9,407 |
| Interest income | 8 | 2 | 15 |
| Interest expenses | 8 | -13 | -77 |
| | | -12 | -62 |
| Profit/loss before tax | | 17,993 | -9,469 |
| Tax | 9 | 13,200 | - |
| PROFIT/LOSS FOR THE YEAR | | 31,193 | -9,469 |
| Profit/loss for the year attributable to holders of participations in the parent company | | 31,193 | -9,469 |
| Earnings per share, SEK (before dilution) | 10 | 0.09 | -0.03 |
| Earnings per share, SEK (after dilution) | 10 | 0.09 | -0.03 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | |
|--|---------------|---------------|
| Profit/loss for the year | 31,193 | -9,469 |
| Other comprehensive income: | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Translation differences, foreign operations | 1,516 | 545 |
| Other comprehensive income for the year | 1,516 | 545 |
| Comprehensive income for the year attributable to holders of participations in the parent company | 32,709 | -8,924 |

CONSOLIDATED BALANCE SHEET

SEK thousands

| ASSETS | Note | 12/31/2016 | 12/31/2015 |
|---|-------|----------------|---------------|
| Fixed assets | | | |
| Intangible fixed assets | 12 | 10,436 | 11,152 |
| Tangible fixed assets | 13 | 1,285 | 2,132 |
| Deferred tax assets | 9 | 13,200 | - |
| Total fixed assets | | 24,921 | 13,284 |
| Current assets | | | |
| Inventories | 14 | 2,190 | 8,503 |
| Accounts receivable | 15,19 | 18,432 | 8,830 |
| Other receivables | 19 | 2,631 | 419 |
| Prepaid expenses and accrued income | 16,19 | 12,169 | 15,557 |
| Liquid assets | 19 | 135,753 | 52,356 |
| Total current assets | | 171,176 | 85,665 |
| TOTAL ASSETS | | 196,096 | 98,949 |
| EQUITY & LIABILITIES | | | |
| EQUITY | | | |
| Share capital | | 10,806 | 10,359 |
| Additional paid-in capital | | 822,765 | 775,969 |
| Reserves and translation differences | | 3,957 | 2,441 |
| Retained loss for the year | | -705,710 | -696,241 |
| Profit/loss for the year | | 31,193 | -9,469 |
| Total equity | | 163,011 | 83,059 |
| Total equity attributable to the parent company's shareholders | | 163,011 | 83,059 |
| Current liabilities | | | |
| Accounts payable | 19 | 4,599 | 4,167 |
| Other current liabilities | 19 | 1,179 | 1,901 |
| Accrued expenses and prepaid income | 18 | 27,098 | 9,514 |
| Other provisions | 17 | 208 | 308 |
| Total current liabilities | | 33,085 | 15,890 |
| TOTAL EQUITY AND LIABILITIES | | 196,096 | 98,949 |

CONSOLIDATED CASH FLOW STATEMENT

SEK thousands

| | Note | 2016 | 2015 |
|---|------|----------------|---------------|
| Cash flow from operating activities | | | |
| Operating profit/loss | | 18,005 | -9,407 |
| Reversal depreciation and write-downs | | 6,831 | 9,864 |
| Net financial items | 8 | -12 | -61 |
| Cash flow from operating activities before change in working capital | | 24,824 | 396 |
| Cash flow from changes in working capital | | | |
| Change in inventories | | 6,421 | 3,683 |
| Change in current receivables | | -8,068 | -10,106 |
| Change in provisions | | -112 | -109 |
| Change in current liabilities | | 14,593 | 1,678 |
| | | 12,834 | -4,854 |
| Cash flow from operating activities | | 37,658 | -4,459 |
| Cash flow from investing activities | | | |
| Investments in intangible assets | | -4,840 | -2,434 |
| Acquisitions of tangible fixed assets | | -427 | -570 |
| Cash flow from investing activities | | -5,268 | -3,004 |
| Cash flow from financing activities | | | |
| New share issue | | 50,000 | - |
| Cash flow from financing activities | | 50,000 | - |
| Cash flow for the year | | 82,390 | -7,463 |
| Liquid assets at beginning of year | | 52,356 | 59,659 |
| Exchange rate differences in liquid assets | | 1,007 | 160 |
| Liquid assets at end of year¹⁾ | | 135,753 | 52,356 |

¹⁾ The balance sheet item liquid assets only includes bank balances at both the beginning and end of the year.

CHANGE IN EQUITY (GROUP)

SEK thousands

| | Attributable to parent company's owners | | | | |
|--|---|----------------------------|------------------------|---|----------------|
| | Share capital | Additional paid-in capital | Translation difference | Retained loss/Profit or loss for the year | Total equity |
| Opening balance as of January 1, 2015 | 96,685 | 689,643 | 1,896 | -696,241 | 91,983 |
| Comprehensive income | | | | | |
| Profit/loss for the year | - | - | - | -9,469 | -9,469 |
| Other comprehensive income | | | | | |
| Exchange rate differences | - | - | 545 | - | 545 |
| Total other comprehensive income | - | - | 545 | - | 545 |
| Total comprehensive income | - | - | 545 | -9,469 | -8,924 |
| Transactions with shareholders | | | | | |
| Reduction in nominal value of shares | -86,326 | 86,326 | - | - | - |
| Total transactions with shareholders | -86,326 | 86,326 | - | - | - |
| Closing balance as of December 31, 2015 | 10,359 | 775,969 | 2,441 | -705,710 | 83,059 |
| Opening balance as of January 1, 2016 | 10,359 | 775,969 | 2,441 | -705,710 | 83,059 |
| Comprehensive income | | | | | |
| Profit/loss for the year | - | - | - | 31,193 | 31,193 |
| Other comprehensive income | | | | | |
| Exchange rate differences | - | - | 1,516 | - | 1,516 |
| Total other comprehensive income | - | - | 1,516 | - | 1,516 |
| Total comprehensive income | - | - | 1,516 | 31,193 | 32,709 |
| Transactions with shareholders | | | | | |
| New share issue ¹⁾ | 447 | 46,796 | - | - | 47,243 |
| Total transactions with shareholders | 447 | 46,796 | - | - | 47,243 |
| Closing balance as of December 31, 2016 | 10,806 | 822,765 | 3,957 | -674,517 | 163,011 |

¹⁾ New share issue expenses amount to SEK 2,759 thousand.

NOTES (GROUP)

NOTE 1 - GENERAL ACCOUNTING POLICIES

NOTE 2 - SEGMENT INFORMATION

NOTE 3 - EXPENSES ALLOCATED PER TYPE

NOTE 4 - EMPLOYEES AND PERSONNEL EXPENSES

NOTE 5 - REMUNERATION TO LEADING EXECUTIVES

NOTE 6 - AUDITORS' REMUNERATION

NOTE 7 - OPERATIONAL LEASING AGREEMENTS

NOTE 8 - INTEREST INCOME AND INTEREST EXPENSES

NOTE 9 - INCOME TAX AND DEFERRED TAX

NOTE 10 - EARNINGS PER SHARE

NOTE 11 - RISK FACTORS

NOTE 12 - INTANGIBLE FIXED ASSETS

NOTE 13 - TANGIBLE FIXED ASSETS

NOTE 14 - INVENTORIES

NOTE 15 - ACCOUNTS RECEIVABLE

NOTE 16 - PREPAID EXPENSES AND ACCRUED INCOME

NOTE 17 - OTHER PROVISIONS

NOTE 18 - ACCRUED EXPENSES AND PREPAID INCOME

NOTE 19 - FINANCIAL INSTRUMENTS

NOTE 20 - WRITE-DOWNS

NOTE 21 - IMPORTANT EVENTS

NOTE 1 - GENERAL ACCOUNTING POLICIES

GENERAL

The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act, RFR 1 Supplementary Accounting Regulations for Groups and the International Financial Reporting Standards (IFRS) as adopted by the EU.

The recognition and measurement policies as well as the bases of estimates applied in the Annual Report for 2015 have also been used in this annual report as well, with the exception of the changes in accounting policies in respect of depreciation and write-downs of capitalized development expenses (see also section entitled "Intangible assets" below).

Alternative key figures have been included for 2016 in accordance with ESMA's guidelines from July 3, 2016. Precise Biometrics presents financial definitions and reconciliations of alternative key indicators in this annual report. The presentation of alternative key figures provides valuable supplementary information for investors and company management, making it possible to evaluate the company's performance.

Otherwise, the new standards and interpretations that came into force from the fiscal year 2016 did not have any material impact on financial reporting.

Unless otherwise stated, all amounts are given in SEK thousands, and unless otherwise stated amounts in brackets refer to the previous fiscal year.

New or amended accounting policies, 2016

Depreciation and write-downs of capitalized development expenses were previously reported under R&D expenses in the income statement. As from 2016, depreciation and write-downs of capitalized development expenses in respect of product development are reported as Cost of goods sold. This reclassification means that reported R&D expenses decrease and reported Cost of goods sold increases. The comparative figures in this annual report have been recalculated in accordance with the reclassification, as shown at the end of Note 1. Depreciation and write-downs of capitalized development expenses not attributable to product development are reported as before under R&D expenses.

None of the new and amended standards and interpretations to be applied as from January 1, 2016 had any material impact on the group's or the parent company's financial statements.

No new or amended IFRS were applied in advance.

New or amended accounting standards applicable after 2016

A number of new or amended IFRS have not yet come into force and have not been applied in advance in the preparation of the group's and the

parent company's financial statements. Below is a description of the IFRS that may affect the group's or the parent company's financial statements. Other new or amended standards or interpretations published by IASB are not expected to have any impact on the group's or the parent company's financial statements.

IFRS 2 Share-based benefits

IFRS 2 Share-based benefits has been amended in three areas:

(i) the effect of vesting conditions on the valuation of share-based benefits that are settled in cash, (ii) the classification of share-based benefits that include an obligation for the employee to pay tax at source on the compensation and (iii) the reporting of an amendment to the terms that cause a share-based benefit to change classification to be settled in cash.

The amendment to IFRS 2 comes into force for fiscal years that begin on January 1, 2018 or later. The standard, which is expected to be approved by the EU in 2017, will upon approval by the EU be applied by the group and the parent company as from January 1, 2018.

The amendments are not expected to have any material effect on the group.

IAS 12 Income taxes

IAS 12 has been amended to clarify how deferred tax is to be reported when holdings of debt instruments are measured at fair value and to ensure that any limitations in the opportunities to utilize tax losses shall be taken into account when defining deferred tax assets.

The amendment, which will be applied as from January 1, 2017, is not expected to have any material effect on the group's financial statements.

IFRS 9 Financial instruments

IFRS 9 describes the recognition of financial assets and liabilities and replaces IAS 39 Financial instruments: Recognition and Measurement. As in IAS 39, financial assets are classified in different categories, some of which are measured at accrued acquisition value and others at fair value. IFRS 9 introduces categories other than those in IAS 39. In order to assess how financial instruments are to be reported in accordance with IFRS 9, a company must look at the contractual cash flows as well as the business model under which the instrument is held. IFRS 9 also introduces a new model for write-downs of financial assets. One purpose of the new model is to ensure that credit losses are reported earlier than under IAS 39. For financial liabilities, IFRS 9 largely corresponds with IAS 39. For liabilities reported at fair value, however, the part of change in the fair value that is attributable to the credit risk of the liability must be reported in other comprehensive income rather than in profit or loss, unless this causes an accounting mismatch. Amended criteria for hedge accounting may result in more financial hedging strategies meeting the requirements for hedge accounting according to IFRS 9 than according to IAS 39.

IFRS 9 Financial instruments comes into force on January 1, 2018. The standard will be applied by the group and the parent company as from January 1, 2018. During the year the group started to evaluate the effects of the standard. IFRS 9 is not expected to have any material impact on expected credit losses.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces all previously issued standards and interpretations dealing with revenues with one combined model for revenue recognition. 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.

IFRS 15, Revenue from contracts with customers, comes into force for fiscal years that begin on January 1, 2018 or later. The group and the parent company intend to apply the standard as from January 1, 2018. During the year the group started to evaluate the effects of the standard. Compared with the current principles, the change is expected to have a limited effect on the group's revenue recognition.

IFRS 16 Leases

IFRS 16 replaces IAS 17 as from 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. The EU is expected to approve the standard in 2017.

In the next year an investigation will start to investigate how IFRS 16 will affect the financial statements of the group and the parent company.

CONSOLIDATED ACCOUNTS

The consolidated statements are prepared using the acquisition method. Subsidiaries are included in the consolidated financial statements as of the date the controlling influence is transferred to the parent company.

Intergroup transactions, balance sheet items, earnings and expenses between group companies are eliminated. Profits and losses resulting from intergroup transactions, and which are reported in assets, are also eliminated.

The accounting policies for subsidiaries have been changed as necessary in order to guarantee the consistent application of the group's policies.

SEGMENT REPORTING

Operating segments are reported so as to correspond with the internal reporting submitted to the chief executive. The chief executive is the function responsible for allocation of resources and assessment of operating segment profits. A new assessment was made because there had been organizational changes. According to this, it is the

Chief Executive Officer together with the group executive that constitute the function responsible for allocation of resources and assessment of operating segment profits.

Since January 1, 2016 the business has been divided into two different business areas, Mobile Smart Card Solutions and Fingerprint Technology. Segment reporting for 2016 took place in the same way, but as from January 1, 2016 Desktop & Physical Access Solutions became part of the Mobile Smart Card Solutions business area. The group executive does, however, also follow up business activities from a product perspective. The group has three types of product categories, which are products, licenses and services. See also Note 2, Segment information.

TRANSLATION OF FOREIGN CURRENCY

Functional currency

Items included in the financial reports for the different units in the group are valued in the currency used in the financial environment where the respective companies are primarily active (functional currency). Swedish kronor (SEK) is used in the consolidated financial statements, which is the parent company's functional currency and reporting currency.

Transactions and balance sheet items

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Exchange rate gains and losses incurred upon payment of such transactions and during conversion of monetary assets or liabilities in foreign currencies at the closing rate are reported in the income statement as Other operating income/expenses and as financial income/expenses. Foreign exchange differences on financial transactions which are classified as net investment in foreign activities are reported in other comprehensive income.

Group companies

The earnings and financial position for all group companies which have a functional currency other than the reporting currency are translated to the group's reporting currency as follows:

Assets and liabilities for each of the balance sheets are translated at the closing rate. Income and expenses for each of the income statements are translated at average exchange rates for the period, insofar as this average rate is a reasonable approximation of the accumulated effect of the rates applicable on the transaction date, otherwise income and expenses are converted at the rate prevailing on the transaction date. All exchange rate differences are reported as a separate part of equity.

TANGIBLE FIXED ASSETS

Tangible fixed assets are valued at the acquisition value minus accumulated depreciation. The acquisition value includes charges that can be directly attributed to the acquisition of the asset.

Additional expenditures are added to the asset's reported value or are reported as a separate asset, depending on which is appropriate, only when it is likely that the future financial benefits associated with the asset will benefit the group and the asset's acquisition value can

be reliably measured. All other forms of repairs and maintenance are recorded as expenses in the income statement in the period when they arise.

In order to reduce their acquisition value to the estimated residual value, tangible fixed assets are depreciated on a straight-line basis according to plan over the estimated period of use as follows:

Computers 3 years
Equipment 5 years

Depreciation of tangible fixed assets is included in Selling expenses, Administration expenses and R&D expenses in the income statement. The residual values and life of assets are assessed on the balance sheet date, and adjusted when necessary. In the event the reported value of an asset is considered to exceed its estimated recovery value, the asset is immediately written down to its recovery value. Gains and losses on disposals are determined through a comparison between the proceeds of sale and the reported value, and are reported in the income statement.

INTANGIBLE ASSETS

Research and development

Research expenses are reported as they arise. Development expenses consist of expenses for the further development of equipment and software for biometric fingerprint identification. These are reported as intangible assets when it is likely that the project will be successful in terms of its commercial and technical potential, and if the costs can be reliably measured. Other development expenses are reported as they arise. Previously reported development expenses are not carried forward to the subsequent period. Development expenses have a limited useful life and are amortized on a straight-line basis from the date when the commercial production of the product can begin. The estimated useful life is two to five years.

Software

Expenses for the maintenance of software are reported as expenses as they arise. Expenses for the acquisition and development of software are capitalized on the basis of the expenses incurred when the actual software was acquired and deployed, or when expenses for development were incurred. These expenses are written off during the estimated useful life, which extends to five years. There was no capitalization of software during 2015 and 2016.

Patents

Patents have a limited useful life and are therefore reported at the acquisition value minus accumulated depreciation. Depreciation is recorded on a straight-line basis over ten years.

WRITE-DOWNS

Assets that are depreciated are assessed in relation to the reduction in value whenever events or changed conditions indicate that the reported value is not recoverable. Write-downs are recorded for the amount by which the asset's reported value exceeds its recovery value, which is the higher of the net sales value and the utility value.

For an asset, the recovery value is calculated for the cash generating unit that the asset belongs to, i.e., the lowest levels where there are identifiable cash flows.

FINANCIAL INSTRUMENTS

Accounts receivable

Accounts receivable arise when the group supplies products or services directly to a customer without the intention of trading the resulting receivable. Accounts receivable are reported initially at fair value and thereafter at the accrued acquisition value minus any provision for impairment. A provision for impairment of accounts receivable is made when there is objective evidence that the group will not be able to receive all the amounts due in accordance with the original conditions for the receivable. The amount of the provision consists of the difference between the asset's reported value and the current value of estimated future cash flows, discounted using the effective interest rate.

Other financial liabilities

A financial asset is recognized in the balance sheet when the company becomes a party to the contractual terms of the instrument. A liability is recognized when the counterparty has delivered and there is a contractual obligation to pay, even if an invoice has not yet been received. A supplier invoice is recognized when the invoice is received.

A financial liability is removed from the balance sheet when the obligation specified in the contract is honored or settled in any other way.

Other financial liabilities consist primarily of accounts payable, which are reported at accrued acquisition value.

SHARE CAPITAL

Common stock is classified as equity. Transaction costs directly attributable to the issue of new common stock or options are reported in equity as a deduction from issue liquidity.

INCOME TAXES

Tax expenses for the period include current and deferred taxes. Tax is reported in the income statement, except when the tax relates to items reported in other comprehensive income or directly in equity.

In such cases, the tax is also reported in other comprehensive income or equity. The valuation of all tax liabilities/receivables is recorded at nominal amounts and the actual tax cost is calculated on the basis of the tax regulations enacted on the balance sheet date, or enacted in practice in the countries where the parent company and its subsidiaries operate and generate taxable income. The executive regularly assesses the claims made in tax returns concerning situations where the applicable tax regulations are subject to interpretation. When appropriate, it allocates provisions for amounts that will in all probability be paid to the tax authority.

In accordance with the balance sheet method, deferred tax is reported as all temporary differences arising between the taxable value of assets and liabilities and their reported values in the consolidated

financial statements. However, deferred tax is not reported if it has arisen as a result of a transaction that constitutes the first reporting of an asset or liability that is not a business acquisition, and which at the time of the transaction affects neither reported nor taxable income. Deferred income tax is calculated by applying tax rates (and laws) enacted or published on the balance sheet date and which are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax receivables relating to loss carryforwards are reported to the extent that it is probable that deductions can be offset against future profits for tax purposes. A deferred tax asset was reported for 2016. Deferred tax on temporary differences for investments in subsidiaries is not reported since the parent company can control the date for reversing temporary differences and it is not considered likely that reversals will occur in the foreseeable future.

INVENTORIES

Inventories have been valued at the lower of the acquisition value and the net sales value, with due consideration for obsolescence. The net sales value is the estimated sales price in current operations, with a deduction for estimated costs of production and to achieve a sale.

The acquisition value is calculated by applying the first-in/first-out (FIFO) valuation method and includes expenses incurred in connection with the acquisition of inventory assets and in order to bring them to their current condition and location.

REMUNERATION TO EMPLOYEES

Pensions

The group only has defined-contribution pension plans. Pension plans are financed through payments from respective group companies. For defined-contribution pension plans, the group pays contributions to privately managed pension insurance plans on a contractual basis. The group has no additional payment obligations after the contributions have been paid.

Severance pay

Compensation upon termination of employment is paid when an employee is given notice prior to the normal retirement date, or when an employee accepts voluntary retirement from employment in exchange for such compensation. The group reports severance pay when it is clearly obligated either to terminate an employee in accordance with a detailed, formal plan without any possibility of recall, or to pay compensation when serving notice as a result of an offer having been made to encourage voluntary layoff. Benefits that fall due more than 12 months after the balance sheet date are discounted to the current value.

Flexible pay

The group reports a liability and cost for flexible pay on the basis of the result for the year when an obligation exists.

Share-based compensation

Precise Biometrics has an outstanding options program for employees in Sweden. Warrants have been issued to employees in Sweden under the program (see Note 5 - Remuneration to leading executives) and transferred to them on ordinary market terms. On acquisition of subscription options by employees, the payments received are reported in other paid-in capital. The share capital is increased by each newly issued share's nominal value upon utilization of options, and the corresponding share premium is reported in other paid-in capital.

ACCOUNTS PAYABLE

Accounts payable are initially valued at the fair value and thereafter at the accrued acquisition value with the application of the effective rate method.

PROVISIONS

Provisions are reported when the group has an existing legal or informal obligation as a result of previous events, and it is more likely than not that an outflow of resources will be necessary to settle the commitment, and the amount has been calculated reliably.

Provisions are established for expected warranty requirements relating to products sold in the Mobile Smart Card Solutions business segment during the last fiscal year. Provisions are currently recorded at 2% of booked revenues, reflecting the estimate of the amount that will be paid out. Expenses are estimated to be incurred in the following fiscal year.

REVENUE

The group's revenues consist primarily of revenues from licenses and sales of products, and are reported on delivery to the customer in accordance with the terms and conditions of delivery. Sales are posted net of VAT and discounts.

License revenues are reported when license agreements, without interruption clauses, have been signed and delivery has taken place, and when price and payment plans have been determined without any other commitments in addition to the provision of licenses. Licenses sold in combination with hardware, which are a prerequisite for the functioning of the software, are reported as revenue when the hardware has been delivered. License revenues are normally invoiced for a twelve-month period at a one-time amount, while royalties are reported as revenue for the period the customer reports the use of the licenses, and is based on received royalty reporting (see Note 2). Revenues are thus reported in the period when they have been earned, based on received reporting. Consultancy services performed on account are reported as the work is completed. Support and Maintenance revenues are reported on the basis of the length of the agreement. Revenues from sales of services are reported in the period in which the services are carried out. The revenues are calculated on the basis of the degree of completion for the specific transaction based on the proportion of incurred expenses in relation to the total expenses in the project.

LEASING AGREEMENTS

Leasing in which an essential part of the risks and advantages of ownership are retained by the lessor is classified as operational leasing. Payments made during the term of the lease (after deductions for any incentives from the lessor) are reported as an expense in the income statement on a straight-line basis over the term of the lease. The group has no financial leasing contracts.

EFFECTS OF AMENDED ACCOUNTING POLICIES FOR DEPRECIATION AND WRITE-DOWNS OF CAPITALIZED DEVELOPMENT EXPENSES

| Income statement for the full year 2015 | Reported | Adjustment | After adjustment |
|--|----------|------------|------------------|
| Cost of goods and services sold | -8,415 | -8,644 | -17,059 |
| Gross profit/loss | 47,922 | -8,644 | 39,278 |
| R&D expenses | -31,275 | 8,644 | 22,631 |

IMPORTANT ESTIMATES AND EVALUATIONS FOR ACCOUNTING PURPOSES

In order to prepare the financial statements in accordance with generally accepted accounting principles, it is necessary to make estimates and assumptions that affect the income statement, balance sheet and other disclosures. Actual outcomes may differ from the estimates made.

A) Important estimates and assumptions for accounting purposes

Income recognition

Royalty income is confirmed by the customer reporting to the company on a quarterly basis by agreement. The base data must be quality-assured in order to guarantee completeness and accuracy, and a customer invoice is created on this basis. When the base data for revenue recognition is received after the balance sheet date, accrued royalty income is recorded.

Capitalization of development expenses

The area where estimates and assumptions could involve the risk of adjustments to reported values for assets and liabilities during the next fiscal year is mainly related to capitalized development expenses. The group regularly examines whether there is a need for write-downs of capitalized development expenses in accordance with the account-

ing policies described under Intangible assets and Write-downs.

When examining the need for write-downs, forecasts of future cash flows are used, and these are based on the best possible estimates of future revenues and expenses, based on the historical trend, general market conditions, developments and forecasts for the industry, and other available information. Examination takes place by discounting future cash flows at a rate of 25% over a five-year period, and the examination conducted has not resulted in any need for write-downs.

Income tax

The group has to pay taxes in two countries. In view of the historical development of the group's earnings, an assessment has been made that the group's tax expense is limited, at least in the short term. The group makes ongoing estimates related to opportunities to utilize loss deductions in the future, based on its historical and expected future development of earnings. A deferred tax asset has been booked as of the third quarter of 2016. The outcome for the last 12 months was used when calculating the deferred tax asset. An alternative basis for assessment is to forecast the sales and earnings trend for the next few years. Because of significant uncertainty and variation in volume and revenues for the market trend, the company's own actual earnings history has been chosen (see Income taxes).

B) Important assessments in the application of the group's accounting policies

Assessment concerning the future survival of the company

In the fall of 2014 the company implemented a reorganization and refocusing of its activities to achieve profitability in 2015, which was duly achieved. In 2016 profitability continued to improve, primarily as a consequence of an increased focus within the Fingerprint Technology business area. The high level of growth has been exclusively organic. The acquisition of NexID Biometrics in the US took place after the year-end and will not affect net sales and earnings until 2017. The strong positive trend in 2016 is expected to continue during the next few years, although growth is expected to slow down in the first half of 2017 before increasing again during the second half. The company has signed partnership agreements with the two largest sensor manufacturers, and its market positioning is therefore still considered to be good.

The parent company has a net group receivable in the US subsidiary, and the outstanding amount of the receivable is at the same level as the equity in the US subsidiary.

The company considers the liquidity situation to be satisfactory.

NOTE 2 - SEGMENT INFORMATION

The group's business activities are reported in two business areas in a way that corresponds with internal reporting that is submitted to the chief executive and with the way the group executive team monitors the business. As of January 2016 there is a new business area division, and 2015 has been recalculated accordingly.

| | MOBILE SMART CARD SOLUTIONS | | FINGERPRINT TECHNOLOGY | | UNALLOCATED | | TOTAL | |
|--|--------------------------------|---------|---------------------------|--------|-------------|-------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | | | | | |
| External sales | 13,924 | 13,778 | 83,299 | 42,559 | - | - | 97,223 | 56,337 |
| Earnings | | | | | | | | |
| Earnings per segment ¹⁾ | -22,161 | -21,970 | 34,429 | 11,138 | 5,737 | 1,424 | 18,005 | -9,407 |
| Net interest | | | | | | | -12 | -62 |
| Profit/loss before tax | | | | | | | 17,993 | -9,469 |
| Other disclosures | | | | | | | | |
| Fixed assets per segment ²⁾ | 1,961 | 5,836 | 8,475 | 5,316 | 1,285 | 2,132 | 11,721 | 11,152 |

¹⁾ Earnings per business area consists of income minus cost of goods sold as well as direct and a proportion of indirect expenses.

²⁾ All fixed assets are attributable to the parent company in Sweden, and for this reason no additional geographical information is provided.

AN ALLOCATION OF REVENUES PER PRODUCT TYPE IS AS FOLLOWS:

| | PRODUCTS | | ROYALTIES | | LICENSES | | SERVICES | | TOTAL | |
|-----------------|----------|--------|-----------|--------|----------|--------|----------|------|--------|--------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | | | | | | | |
| External sales | 14,903 | 13,796 | 55,219 | 30,426 | 25,116 | 11,616 | 1,985 | 499 | 97,223 | 56,337 |

The group's revenues from external customers in Sweden amount to SEK 45.0 million (35.9) and total revenues from external customers in other countries amount to SEK 52.2 million (20.4), of which income from the USA, SEK 22.5 million (8.4) and Asia, SEK 22.4 million (4.3).

The group has 1 (1) major customer that accounts for more than 10% of net sales. Revenues from this customer amount to 44% (55%) of net sales. Revenues are reported in the Fingerprint Technology business area in both 2016 and 2015 and relate to the same customer.

SEGMENT DIVISION PARENT COMPANY

| | MOBILE SMART CARD SOLUTIONS | | FINGERPRINT TECHNOLOGY | | TOTAL | |
|-----------------|-----------------------------|-------|------------------------|--------|--------|--------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | | | |
| External sales | 7,386 | 3,735 | 83,069 | 46,020 | 90,455 | 49,755 |

The parent company's revenues from external customers in Sweden amount to SEK 45.0 million (35.9) and revenues from external customers in other countries amount to SEK 45.5 million (13.9), of which revenues from the US account for SEK 14.2 million (1.8) and Asia SEK 22.4 million (4.3).

NOTE 3 - COSTS ALLOCATED PER TYPE

| | 2016 | 2015 |
|--|---------------|---------------|
| Employee benefit expenses | 31,808 | 25,790 |
| Cost of purchasing and handling commercial goods | 16,453 | 8,415 |
| Depreciation and write-downs | 6,831 | 9,864 |
| Development costs | 6,806 | 4,353 |
| Consultancy costs | 6,017 | 6,973 |
| Other external expenses ¹⁾ | 11,303 | 10,348 |
| Total | 79,218 | 65,743 |

¹⁾ This item includes exchange rate gains/losses.

NOTE 4 - EMPLOYEES AND PERSONNEL EXPENSES

| Gender balance in group | 2016 | | 2015 | |
|-------------------------------|-----------|----------|-----------|----------|
| | Men | Women | Men | Women |
| Precise Biometrics AB, Sweden | 20 | 6 | 17 | 5 |
| Precise Biometrics, Inc., USA | 0 | 0 | 0 | 0 |
| | 20 | 6 | 17 | 5 |

Gender balance in corporate management

Proportion of women

| | 2016 | 2015 |
|----------------------------------|------|------|
| The board of directors | 33% | 17% |
| CEO and other leading executives | 0% | 0% |

Salaries and remuneration are allocated as follows:

Board and CEO, Sweden

| | 2016 | 2015 |
|---|--------------|--------------|
| Salaries and other remuneration | 4,416 | 3,857 |
| Pension expenses | 473 | 450 |
| Payroll overhead, including payroll tax | 1,500 | 1,212 |
| Total | 6,389 | 5,519 |

Others, Sweden

| | 2016 | 2015 |
|---|---------------|---------------|
| Salaries and other remuneration | 16,895 | 13,726 |
| Pension expenses | 2,977 | 2,228 |
| Payroll overhead, including payroll tax | 6,068 | 4,389 |
| Total | 25,939 | 20,343 |

TOTAL, SWEDEN

32,328 **25,862**

Others, USA

| | | |
|---------------------------------|----------|------------|
| Salaries and other remuneration | - | 756 |
| Pension expenses | - | 31 |
| Payroll overhead | - | 109 |
| Total | - | 896 |

TOTAL

32,328 **26,758**

NOTE 5 - REMUNERATION TO LEADING EXECUTIVES

Principles

Remuneration is paid to the Chairman of the Board and board members in accordance with the decision of the AGM.

Remuneration to the CEO and other leading executives consists of their basic salary, flexible remuneration and pension benefits. Håkan Persson took up the position of CEO on November 8, 2013. He has been employed since August 8, 2014. In addition to a period of notice of 6 months, there is also a severance payment of 6 months upon termination by the company.

Other leading executives are those persons who together with CEO constitute corporate management. The number of other leading executives during the year amounted to four (4) people. For the composition of group management see the section, Management, in the annual report.

The distribution between basic salary and flexible remuneration must be proportional to the responsibilities and authority of the executive. For the CEO, flexible remuneration is set at a maximum of 75% of basic salary. For other leading executives, flexible remuneration is set at a maximum of 50% of basic salary.

| REMUNERATION AND OTHER BENEFITS IN 2015 | BASIC SALARY/ BOARD REMUN. | COMMITTEE FEE | FLEXIBLE REMUNERA- TION | OTHER BENEFITS | PENSION EXPENSES | OTHER REMUNERA- TION | TOTAL |
|---|-------------------------------|------------------|-------------------------------|-------------------|---------------------|----------------------------|---------------|
| Torgny Hellström, Chairman of the Board | 500 | 50 | - | - | - | - | 550 |
| Matts Lilja, board member | 175 | 25 | - | - | - | - | 200 |
| Mats Lindoff, board member | 175 | 25 | - | - | - | - | 200 |
| Eva-Maria Matell, board member | 175 | 25 | - | - | - | - | 200 |
| Anders Harrysson, board member | 175 | 25 | - | - | - | - | 200 |
| Torbjörn Clementz, board member | 175 | 25 | - | - | - | - | 200 |
| Håkan Persson, CEO | 1,800 | - | 487 | 40 | 450 | 19 | 2,796 |
| Other leading executives, 4 persons | 2,959 | - | 790 | 44 | 638 | 1,530 | 5,961 |
| Total | 6,134 | 175 | 1,277 | 84 | 1,088 | 1,549 | 10,307 |

| REMUNERATION AND OTHER BENEFITS IN 2016 | BASIC SALARY/ BOARD REMUN. | COMMITTEE FEE | FLEXIBLE REMUNERA- TION | OTHER BENEFITS | PENSION EXPENSES | OTHER REMUNERA- TION | TOTAL |
|--|-------------------------------|------------------|-------------------------------|-------------------|---------------------|----------------------------|---------------|
| Torgny Hellström, Chairman of the Board | 524 | 60 | - | - | - | - | 584 |
| Matts Lilja, board member | 185 | 25 | - | - | - | - | 210 |
| Mats Lindoff, board member | 185 | 25 | - | - | - | - | 210 |
| Torbjörn Clementz, board member | 186 | 59 | - | - | - | - | 245 |
| Synnöve Trygg, board member ²⁾ | 127 | 23 | - | - | - | - | 150 |
| Anna Almlöf, board member ²⁾ | 127 | 17 | - | - | - | - | 143 |
| Eva-Maria Matell, board member ¹⁾ | 58 | 8 | - | - | - | - | 66 |
| Anders Harrysson, board member ¹⁾ | 73 | 10 | - | - | - | - | 83 |
| Håkan Persson, CEO | 1,890 | - | 781 | 53 | 473 | - | 3,197 |
| Other leading executives, 4 persons | 3,965 | - | 949 | 58 | 771 | - | 5,743 |
| Total | 7,319 | 227 | 1,730 | 111 | 1,244 | 0 | 10,632 |

¹⁾ Stood down at the AGM in 2016

²⁾ Took up post at the AGM in 2016

The amounts in the table are exclusive of payroll overhead. Payment of remuneration to the board takes place monthly from May 2003 at 1/12 of the remuneration decided by the AGM. As from April 23, 2013, payment of remuneration to the committee took place monthly at 1/12 of the remuneration decided by the AGM. Remuneration paid has been reported as an expense. The above remuneration refers to expenses that have affected net profit/loss for the year.

The group only has defined-contribution pension plans. Pension expenses refer to the expenses that have affected net profit/loss for the year. The Chairman of the Board has not received any remuneration in addition to the board remuneration.

Flexible remuneration

Flexible remuneration for the CEO and leading executives is based on group earnings and individual targets. These targets are set by the board for the CEO, and by the board and the CEO for leading executives. The maximum amount for flexible remuneration that may be paid to the CEO is 75% of basic salary. For other leading executives, flexible remuneration can amount to a maximum of 50 per cent of basic salary. In 2016, flexible remuneration to leading executives was between 25 and 30 per cent.

Other benefits

Other benefits consist of benefits for cars and insurance.

Share-based compensation

A new option program was issued in 2014 in which a total of 2,610,000 options were subscribed by employees, of which the CEO had 1,000,000 options and other group executives 700,000 options. Precise Biometrics received an infusion of SEK 261,000 into liquid assets. The subscription of shares with the utilization of subscription options can take place during the July 1 – December 31, 2017 at a price of SEK 2.50. At full utilization of the subscription options, the capital stock will increase by SEK 78,300, which corresponds to approximately 0.7 % of the company's current share capital. Payments received by Precise Biometrics through the transfers have been reported in additional paid-in capital.

Precise Biometrics currently has an ongoing option program. Of the 2,610,000 outstanding options (4,400,000 options), it was not possible to utilize any of the options (0 options) during the year.

The nominal value of one share is SEK 0.03.

The weighted average actual value for options that were allocated in 2014 was established with the help of an external valuer and the Black & Scholes valuation model and amounts to SEK 0.10 per option. Important input data in the model are the volume-weighted average share price during the period May 5, 2014 to May 16, 2014 of SEK 1.12, the above redemption price, volatility of approximately 40%, an expected option term of 3 years and an annual risk-free interest rate of 2.63%. The volatility measured as the standard deviation for the expected return on share price is based on a statistical analysis of daily share prices over the last seven years.

No cost has been reported in the income statement since the allocated options have been paid for by employees.

The subscription price corresponded to 220 per cent of the volume-weighted average price at the time of valuation.

Pensions

The retirement age for the CEO is 65. Pension premiums shall amount to a maximum of 25% of the fixed salary from the parent company. For other leading executives the retirement age is also 65. In accordance with the pension agreement, premiums are calculated according to a scale based on age and salary. For the highest current age interval, the premium amounts to 7% of the pension-based salary up to 7.5 base amounts, 42% of the pension-based salary between 7.5 and 20 base amounts and 25% of the pension-based salary for salaries over 20 base amounts.

For further information on accounting, see Note 1 in the "Pensions" section.

Severance pay

There is a mutual period of 6 months' notice for the company and the CEO. Severance pay of 6 monthly salaries will also be paid if the CEO is given notice by the company. A period of notice of 3-6 months is applicable for the company and other leading executives. No severance pay is paid for other leading executives.

Change in control

There are no agreements between the company and its employees, with the exception of the employment contracts commented on above, under which compensation must be paid to employees if their employment is terminated as a result of a public takeover bid.

Preparation and decision-making process

The compensation committee is assigned to consider issues related to salaries, pension conditions, incentive plans and other terms and conditions of employment for the executive. In 2016 the committee focused primarily on remuneration to the CEO and leading executives, including incentive plans. The board makes decisions on remuneration to the CEO, based on the recommendations of the compensation committee within the framework of guidelines decided at the AGM. Remuneration to other leading executives has been decided by the CEO following consultation with the compensation committee and the board. At the AGM in 2016 guidelines were adopted for the determination of salaries and other remuneration to the CEO and other leading executives.

NOTE 6 - AUDITORS' REMUNERATION

| | 2016 | 2015 |
|---|--------------|------------|
| Ernst & Young | | |
| Audit assignment | 894 | 200 |
| Auditing activities in addition to the audit assignment | 129 | 82 |
| Tax consulting | 2 | - |
| Total Ernst & Young | 1,024 | 282 |
| PwC | | |
| Audit assignment | - | 220 |
| Auditing activities in addition to the audit assignment | - | 170 |
| Total PwC | 0 | 390 |
| TOTAL | 1,024 | 672 |

NOTE 7 - OPERATIONAL LEASING AGREEMENTS

| | 2016 | 2015 |
|--|--------------|--------------|
| Leasing costs during the year | 1,458 | 2,772 |
| Other leasing | 240 | 287 |
| Total | 1,698 | 3,059 |
| Nominal value of agreed future leasing charges: | | |
| Due for payment within 1 year | 1,697 | 807 |
| Due for payment after 1 year, but within 5 years | 5,231 | 5,072 |
| Due for payment after 5 years | - | - |
| Total | 6,928 | 5,879 |

Operational leasing agreements mainly refer to office rent.

NOTE 8 - INTEREST INCOME AND INTEREST EXPENSES

| | 2016 | 2015 |
|-------------------------|-----------|-----------|
| Interest income | 2 | 15 |
| Total | 2 | 15 |
| Other interest expenses | 13 | 77 |
| Total | 13 | 77 |

NOTE 9 - INCOME TAX AND DEFERRED TAX ASSETS

| Tax expense for the year | 2016 | 2015 |
|--|---------------|-------------|
| Current tax on profit/loss for the year | - | - |
| Change in deferred tax in respect of temporary differences | 13,200 | - |
| Tax expense | 13,200 | 0 |

| Reconciliation of effective tax | 2016 | 2015 |
|--|---------------|-------------|
| Profit/loss before tax | 17,993 | -9,469 |
| Tax calculated as per national tax rates applicable for profit in respective countries | -3,958 | 2,083 |
| Tax effect of non-deductible expenses | -131 | 42 |
| Tax effect of items reported in equity | 607 | - |
| Deferred tax asset in respect of tax losses not previously considered | 13,200 | - |
| Utilization of tax loss carryforwards not previously considered | 3,482 | - |
| Tax losses for which no deferred tax claim has been reported | 0 | -2,125 |
| Tax expense | 13,200 | 0 |

Tax on group profit before tax differs from the theoretical amount that would have resulted from a weighted average tax rate in the consolidated companies as above.

The parent company booked a deferred tax asset in respect of the future utilization of tax loss carryforwards amounting to SEK 13,200 thousands (0). As it is difficult for the company to assess a period of time covering more than three years, a conservative estimate has been made and the deferred tax asset is therefore based on the last rolling 12-month period which is calculated for the subsequent three-year period.

Deferred tax on temporary differences for investments in subsidiaries is not reported since the parent company can control the date for reversing temporary differences and it is not considered likely that reversals will be made in the foreseeable future.

| Deferred tax asset | 2016 | 2015 |
|---------------------------|---------------|-------------|
| Tax loss carryforwards | 13,200 | - |
| Reported value | 13,200 | - |

| Specification of change in deferred tax asset | 2016 | 2015 |
|--|---------------|-------------|
| Opening reported value | - | - |
| Change in temporary differences reported in the income statement | 13,200 | - |
| Closing reported value of deferred tax asset | 13,200 | - |

There are tax loss carryforwards for which deferred tax assets have not been reported in the balance sheet amounting to SEK 593,072 thousands (637,803), of which SEK 42,046 thousands relates to Precise Biometrics, Inc., USA with a time limit of 20 years. A deficit equivalent to SEK 138 thousands falls due in 2020. There is no further time limitation for the utilization of tax loss carryforwards.

NOTE 10 - EARNINGS PER SHARE

Before dilution

Earnings per share before dilution are calculated by dividing earnings attributable to parent company owners by a weighted average number of outstanding common shares during the period, excluding repurchased shares of the parent company.

| | 2016 | 2015 |
|---|---------|---------|
| Profit/loss attributable to parent company shareholders (SEK thousands) | 31,193 | -9,469 |
| Weighted average number of outstanding common stock (thousands) | 345,960 | 345,306 |
| Earnings per share before dilution (SEK per share) | 0.09 | -0.03 |

Profit/loss per share after dilution

To calculate earnings per share after dilution, the weighted average number of outstanding common stock is adjusted for the dilution effect of all potential common stock. The parent company only has one category of potential common stock with a dilution effect, i.e., stock options.

For stock options, a calculation is made for the number of shares that could have been purchased at fair value (calculated at the average market price for the year for the parent company stock), for an amount corresponding to the monetary value of the subscription rights linked to the market price of outstanding stock options.

Since the profit/loss attributable to the limited liability company is negative for 2015, outstanding stock options have not been considered in the calculation below for 2015.

| | 2016 | 2015 |
|--|---------|---------|
| Earnings attributable to parent company shareholders | 31,193 | -9,469 |
| Weighted average number of outstanding common stock (thousands) | 345,960 | 345,306 |
| Weighted average number of common stock for calculation of earnings per share after dilution (thousands) | 346,843 | 345,306 |
| Earnings per share after dilution (SEK per share) | 0.09 | -0.03 |

NOTE 11 - RISK FACTORS

Precise Biometrics is exposed to a number of risks that arise primarily in connection with the company's buying and selling foreign currency, as changes in exchange rates affect the company's earnings and cash flows. The company is also exposed to credit risk, liquidity risk and capital risk. The board adopts policies for risk management, which are set out in the company's Economic and Finance Policy.

The following specification of risk factors does not claim to be complete, nor are the risks ranked in their order of importance.

Currency exposure risk

Precise Biometrics' currency exposure includes both transaction and translation exposure. Transaction exposure arises because sales and purchases take place in different currencies. The company is exposed to currency risks through its business, as a significant proportion of revenues are generated in foreign currencies, primarily USD, while the majority of the company's expenses are in Swedish kronor. This means that changes in exchange rates affect the company's earnings and cash flows. In order to reduce exposure, a policy has been adopted that allows hedging in accordance with a predetermined model which involves a hedging of forecast net flow to the order of approximately 50 per cent. Before hedging takes place, the costs of this shall also be taken into account. Translation exposure is normally not hedged. There was no hedging during 2016.

Sensitivity analysis

If SEK had weakened/strengthened by 5% in relation to USD, and EUR and all other variables had remained constant, earnings for the year for 2016 would have been SEK 4,669 thousands (2,173) higher/lower.

Capital risk

The company has a capital risk if the company does not generate a profit and an underlying cash flow, but is dependent on new capital from shareholders or taking out loans. This risk is monitored continuously through the company's internal controls and reporting, as well as the limits defined by the board. Nor is there any guarantee that new capital can be acquired if the need should arise, or that such capital can be acquired on favorable terms.

Credit risk

The risk that the company's customers fail to pay accounts receivable is a customer credit risk. In order to limit this, the company applies a credit policy and outstanding accounts receivable are monitored very closely on an ongoing basis. In the event of uncertainties regarding credit ratings, payment in advance shall be required and no new orders shall be delivered if a customer has significant overdue accounts receivable. The company is of the opinion that there is no concentration of credit risk in any individual customer or counterparty.

Liquidity risk

The board and the executive monitor the liquidity situation closely in order to make sure that adequate liquidity is available to meet the needs of operating activities. Some of the company's revenues consist of royalties, which are settled on a quarterly basis and thus have some impact on the company's cash flow.

Forecasting problems

The company operates in a rapidly changing market. The market for products in the Fingerprint Technology business area is in an early stage of development and revenues are to a large extent royalties based on customer usage. The company has long sales processes and the advanced issue or postponement of an order can have a significant impact on net sales and earnings, which makes forecasting very difficult.

Cash flow

The company strives to minimize the time capital is tied up, primarily in accounts receivable. To minimize the possible impact of capital being tied up, the company works actively to follow up on outstanding accounts receivable and also to minimize inventory through forecasting and production planning.

NOTE 12 - INTANGIBLE FIXED ASSETS

| CAPITALIZED DEVELOPMENT EXPENSES | 12/31/2016 | 12/31/2015 |
|---|-------------------|-------------------|
| Opening acquisition value | 31,193 | 95,502 |
| Additions during the year | 4,840 | 2,436 |
| Sales/disposals | - | -66,745 |
| Closing acquisition value | 36,033 | 31,193 |
| Opening accumulated depreciation | -18,321 | -67,833 |
| Depreciation for the year | -5,028 | -8,642 |
| Sales/disposals | - | 58,154 |
| Closing accumulated depreciation | -23,349 | -18,321 |
| Opening accumulated write-downs | -1,720 | -10,309 |
| Write-downs for the year | -529 | - |
| Sales/disposals | - | 8,589 |
| Closing accumulated write-downs | -2,249 | -1,720 |
| Planned residual value | 10,436 | 11,152 |

| PATENTS | 12/31/2016 | 12/31/2015 |
|---|-------------------|-------------------|
| Opening acquisition value | 11,563 | 11,563 |
| Additions during the year | - | - |
| Closing acquisition value | 11,563 | 11,563 |
| Opening accumulated depreciation | -11,563 | -11,563 |
| Depreciation for the year | - | - |
| Closing accumulated depreciation | -11,563 | -11,563 |
| Planned residual value | 0 | 0 |

| CAPITALIZED DATA EXPENSES | 12/31/2016 | 12/31/2015 |
|---|-------------------|-------------------|
| Opening acquisition value | 4,214 | 4,214 |
| Additions during the year | - | - |
| Closing acquisition value | 4,214 | 4,214 |
| Opening accumulated depreciation | -4,214 | -4,214 |
| Depreciation for the year | - | - |
| Closing accumulated depreciation | -4,214 | -4,214 |
| Planned residual value | 0 | 0 |

Comments to the note:

When calculating useful value, future cash flows were discounted at a rate of 25%. Depreciation for capitalized development expenses is included in the item Cost of goods sold. See comment in Note 20 regarding write-downs for the year.

NOTE 13 - TANGIBLE FIXED ASSETS

| | 12/31/2016 | 12/31/2015 |
|---|----------------|---------------|
| EQUIPMENT AND TOOLS | | |
| Opening acquisition value | 12,553 | 14,370 |
| Additions during the year | 427 | 570 |
| Sales/disposals | - | -2,387 |
| Closing acquisition value | 12,981 | 12,553 |
| Opening accumulated depreciation | -9,575 | -10,740 |
| Depreciation for the year | -1,275 | -1,222 |
| Sales/disposals | - | 2,387 |
| Closing accumulated depreciation | -10,850 | -9,575 |
| Opening accumulated write-downs | -846 | -846 |
| Write-downs for the year | - | - |
| Closing accumulated write-downs | -846 | -846 |
| Book value | 1,285 | 2,132 |

Comments to the note:

Depreciation is included in the items Selling expenses, Administration expenses and R&D expenses in the income statement.

NOTE 14 - INVENTORIES

| | 12/31/2016 | 12/31/2015 |
|------------------|--------------|--------------|
| Components | 610 | 3,786 |
| Goods for resale | 1,580 | 4,717 |
| Total | 2,190 | 8,503 |

The cost of goods sold for the group includes write-downs of inventories of SEK 4,643 thousands (425). Write-downs of inventories have increased as articles that were previously considered salable were considered obsolete in 2016 because of low sales and it was not thought that the products could be sold for an amount in excess of the acquisition value. There were no significant reversals of previously recorded write-downs during 2016 and 2015.

NOTE 15 - ACCOUNTS RECEIVABLE

| | 12/31/2016 | 12/31/2015 |
|---------------------------------------|---------------|--------------|
| Accounts receivable | 19,008 | 8,830 |
| Reserve for impairment of receivables | -576 | - |
| Total | 18,432 | 8,830 |

As of December 31, 2016 accounts receivable amounting to SEK 720 thousands (1,689) were due. There is a write-down for one customer receivable amounting to SEK 576 thousands, but apart from this there are not considered to be any write-down requirements for accounts receivable. These relate to a number of independent customers who previously have not had any payment difficulties.

| The aging analysis of all accounts receivable is as follows | 12/31/2016 | 12/31/2015 |
|--|---------------|--------------|
| Not due | 17,303 | 7,117 |
| Less than 3 months | 659 | 1,275 |
| 3 to 6 months | 303 | 131 |
| Of which written down | - | - |
| More than 6 months | 743 | 307 |
| Of which written down | -576 | - |
| Total | 18,432 | 8,830 |

The other categories within accounts receivable and other receivables do not include any assets for which there is a write-down requirement. The maximum exposure to credit risk on the balance sheet date is the fair value for each category of receivable. The group has no collateral as security.

| The reported amounts for each currency for the group's accounts receivable are as follows: | 12/31/2016 | 12/31/2015 |
|---|------------|------------|
| SEK | 290 | 510 |
| USD | 2,130 | 1,016 |
| EUR | -52 | -2 |

NOTE 16 - PREPAID EXPENSES AND ACCRUED INCOME

| | 12/31/2016 | 12/31/2015 |
|------------------------------|---------------|---------------|
| Prepaid rents | 0 | 313 |
| Prepaid insurance | 53 | 209 |
| Accrued income ¹⁾ | 10,796 | 14,089 |
| Prepaid pension premiums | 256 | 146 |
| Prepaid patent charges | 319 | 247 |
| Other items | 746 | 553 |
| Total | 12,169 | 15,557 |

¹⁾ Accrued royalty revenues relate to reported revenues for royalties that had not been invoiced as of the balance sheet date as the base data for revenue recognition is received after the balance sheet date.

NOTE 17 - OTHER PROVISIONS

| GUARANTEE PROVISIONS | 12/31/2016 | 12/31/2015 |
|----------------------------------|-------------------|-------------------|
| As of January 1, 2016 | 308 | 404 |
| Dissolution of guarantee reserve | -100 | -96 |
| As of December 31, 2016 | 208 | 308 |

Provisions are made for expected guarantee claims in respect of products sold in the Mobile Smart Card Solutions business segment.

NOTE 18 - ACCRUED EXPENSES AND PREPAID INCOME

| | 12/31/2016 | 12/31/2015 |
|----------------------------------|-------------------|-------------------|
| Prepaid income | 14,749 | 1,644 |
| Accrued vacation pay | 2,286 | 2,230 |
| Payroll overhead and other taxes | 1,223 | 1,075 |
| Other accrued expenses | 8,840 | 4,565 |
| Total | 27,098 | 9,514 |

NOTE 19 - FINANCIAL INSTRUMENTS

| | 12/31/2016 | | 12/31/2015 | |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Fair value | Book value | Fair value | Book value |
| Financial assets | | | | |
| Accrued income | 10,796 | 10,796 | 14,089 | 14,089 |
| Accounts receivable | 18,432 | 18,432 | 8,830 | 8,830 |
| Other receivables | 2,631 | 2,631 | 419 | 419 |
| Liquid assets | 135,753 | 135,753 | 52,356 | 52,356 |
| Total financial assets | 167,613 | 167,613 | 75,694 | 75,694 |
| Financial liabilities | | | | |
| Accounts payable | 4,599 | 4,599 | 4,167 | 4,167 |
| Other liabilities | 1,179 | 1,179 | 1,901 | 1,901 |
| Other accrued expenses | 8,840 | 8,840 | 4,565 | 4,565 |
| Total financial liabilities | 14,618 | 14,618 | 10,633 | 10,633 |

NOTE 20 - WRITE-DOWNS

In 2016 inventories were written down by SEK 4,643 thousands (425), which reduced inventories by the corresponding amount, see also Note 14. In 2016 intangible fixed assets were also written down by an amount of SEK 529 thousands (0). A write-down of a doubtful receivable was recorded in 2016 for SEK 576 thousands (0).

NOTE 21 - IMPORTANT EVENTS SINCE THE END OF THE YEAR

Extended licensing agreement with existing sensor customer with guaranteed licensing revenue of at least SEK 17.5 million over two years.

The acquisition of NexID Biometrics, USA was completed on February 9, 2017 following authority approval by the relevant government agencies in the USA. The acquisition took the form of an asset purchase and the purchase price amounted to SEK 31.4 million. The acquisition analysis has not been completed as of the date of the submission of the company's annual report. Acquired tangible assets amount to SEK 0.2 million, which means that the majority of the purchase price will be allocated to intangible assets, including goodwill.



PARENT COMPANY'S INCOME STATEMENT

SEK thousands

| | Note | 2016 | 2015 |
|--|-----------|----------------|----------------|
| Net sales | 8 | 90,455 | 49,755 |
| Cost of goods and services sold | 2 | -12,810 | -14,144 |
| Gross profit | | 77,645 | 35,612 |
| Selling expenses | | -18,530 | -11,082 |
| Administration expenses | | -14,090 | -13,586 |
| R&D expenses | | -26,152 | -22,631 |
| Other operating income | | 6,976 | 3,140 |
| | 2,3,4,5,6 | -51,796 | -44,160 |
| Operating profit/loss | | 25,849 | -8,548 |
| Interest income | 10 | 340 | 643 |
| Profit/loss from participations in group companies | 9 | -5,800 | -35,911 |
| Interest expenses | 10 | -7 | -73 |
| | | -5,467 | -35,341 |
| Profit/loss before tax | | 20,381 | -43,889 |
| Tax | 7 | 13,200 | - |
| PROFIT/LOSS FOR THE YEAR | | 33,581 | -43,889 |

PARENT COMPANY'S STATEMENT OF COMPREHENSIVE INCOME

| | | |
|--|---------------|----------------|
| Profit/loss for the year | 33,581 | -43,889 |
| Other comprehensive income for the year | 33,581 | -43,889 |

PARENT COMPANY'S BALANCE SHEET

SEK thousands

| ASSETS | Note | 12/31/2016 | 12/31/2015 |
|-------------------------------------|--------|----------------|---------------|
| Fixed assets | | | |
| Intangible fixed assets | 11 | 10,436 | 11,152 |
| Tangible fixed assets | 12 | 1,285 | 2,132 |
| Financial fixed assets | 7, 13 | 30,689 | 10,135 |
| Acquisitions in progress | 13 | 1,100 | - |
| Total fixed assets | | 43,509 | 23,419 |
| Current assets | | | |
| Inventories | 14 | 1,576 | 5,746 |
| Accounts receivable | 15, 21 | 16,173 | 4,848 |
| Other receivables | 21 | 2,008 | 273 |
| Prepaid expenses and accrued income | 16 | 12,162 | 15,517 |
| Liquid assets | 21 | 120,796 | 46,860 |
| Total current assets | | 152,715 | 73,244 |
| TOTAL ASSETS | | 196,225 | 96,663 |
| EQUITY & LIABILITIES | | | |
| EQUITY | | | |
| Share capital | 17 | 10,807 | 10,359 |
| Statutory reserve | | 1,445 | 1,445 |
| Reserve for development expenses | | 4,840 | - |
| Total restricted equity | | 17,092 | 11,804 |
| Premium fund | | 73,838 | 27,044 |
| Retained earnings | | 37,597 | 86,326 |
| Profit/loss for the year | | 33,581 | -43,889 |
| Total non-restricted equity | | 145,016 | 69,481 |
| Total equity | | 162,108 | 81,285 |
| Provisions | | | |
| Other provisions | 18 | 103 | 78 |
| Total provisions | | 103 | 78 |
| Current liabilities | | | |
| Accounts payable | 21 | 4,548 | 3,279 |
| Debts to affiliated companies | | 1,775 | 1,780 |
| Other current liabilities | 21 | 939 | 1,846 |
| Accrued expenses and prepaid income | 19 | 26,751 | 8,395 |
| Total current liabilities | | 34,014 | 15,300 |
| TOTAL EQUITY AND LIABILITIES | | 196,225 | 96,663 |

PARENT COMPANY'S CASH FLOW STATEMENT

SEK thousands

| | Note | 2016 | 2015 |
|---|------|----------------|----------------|
| Cash flow from operating activities | | | |
| Operating profit/loss | | 25,849 | -8,548 |
| Reversal of depreciation and write-downs | | 6,831 | 9,864 |
| Net financial items | 10 | 333 | 570 |
| Cash flow from operating activities before change in working capital | | 33,013 | 1,886 |
| Cash flow from changes in working capital | | | |
| Change in inventories | | 4,170 | 1,692 |
| Change in current receivables | | -22,863 | -12,233 |
| Change in provisions | | 25 | -134 |
| Change in current liabilities | | 14,860 | 1,674 |
| | | -3,808 | -9,001 |
| Cash flow from operating activities | | 29,204 | -7,115 |
| Investments in intangible assets | | -4,840 | -2,434 |
| Acquisitions of tangible fixed assets | | -427 | -570 |
| Cash flow from investing activities | | -5,268 | -3,004 |
| New share issue | | 50,000 | - |
| Cash flow from financing activities | | 50,000 | - |
| Cash flow for the year | | 73,936 | -10,119 |
| Liquid assets at beginning of year | | 46,860 | 56,979 |
| Liquid assets at end of year¹⁾ | | 120,796 | 46,860 |

¹⁾ The balance sheet item liquid assets only includes bank balances at both the beginning and end of the year.

CHANGE IN EQUITY

PARENT COMPANY

SEK thousands

| | RESTRICTED EQUITY | | | UNRESTRICTED EQUITY | | Total equity |
|--|-------------------|-------------------|--|---------------------|-------------------|----------------|
| | Share capital | Statutory reserve | Reserve for capitalized development expenses | Premium fund | Retained earnings | |
| Opening balance as of January 1, 2015 | 96,685 | 1,445 | - | 63,869 | -36,825 | 125,174 |
| Comprehensive income | | | | | | |
| Profit/loss for the year | - | - | - | - | -43,889 | -43,889 |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | -43,889 | -43,889 |
| Transactions with shareholders | | | | | | |
| Transfer of retained earnings | - | - | - | -36,825 | 36,825 | - |
| Reduction in nominal value of shares | -86,326 | - | - | - | 86,326 | - |
| Total transactions with shareholders | - | - | - | -36,825 | 123,151 | - |
| Closing balance as of December 31, 2015 | 10,359 | 1,445 | - | 27,044 | 42,437 | 81,285 |
| Opening balance as of January 1, 2016 | 10,359 | 1,445 | - | 27,044 | 42,437 | 81,285 |
| Comprehensive income | | | | | | |
| Profit/loss for the year | - | - | - | - | 33,581 | 33,581 |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive income | - | - | - | - | 33,581 | 33,581 |
| Transactions with shareholders | | | | | | |
| New share issue | 447 | - | - | 46,794 | - | 47,241 |
| Transfer of capitalized development expenses | - | - | 4,840 | - | -4,840 | - |
| Total transactions with shareholders | 447 | - | 4,840 | 46,794 | -4,840 | 47,241 |
| Closing balance as of December 31, 2016 | 10,807 | 1,445 | 4,840 | 73,838 | 71,178 | 162,108 |

NOTES (PARENT COMPANY)

NOTE 1 - GENERAL ACCOUNTING POLICIES

NOTE 2 - EXPENSES ALLOCATED PER TYPE

NOTE 3 - EMPLOYEES AND PERSONNEL EXPENSES

NOTE 4 - REMUNERATION TO LEADING EXECUTIVES

NOTE 5 - AUDITORS' REMUNERATION

NOTE 6 - OPERATIONAL LEASING AGREEMENTS

NOTE 7 - INCOME TAX AND DEFERRED TAX

NOTE 8 - PURCHASES AND SALES BETWEEN COMPANIES IN THE GROUP

NOTE 9 - PROFIT/LOSS FROM PARTICIPATIONS IN GROUP COMPANIES

NOTE 10 - INTEREST INCOME AND INTEREST EXPENSES

NOTE 11 - INTANGIBLE FIXED ASSETS

NOTE 12 - TANGIBLE FIXED ASSETS

NOTE 13 - FINANCIAL FIXED ASSETS

NOTE 14 - INVENTORIES

NOTE 15 - ACCOUNTS RECEIVABLE

NOTE 16 - PREPAID EXPENSES AND ACCRUED INCOME

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NOTE 18 - OTHER PROVISIONS

NOTE 19 - ACCRUED EXPENSES AND PREPAID INCOME

NOTE 20 - RELATED PARTY TRANSACTIONS

NOTE 21 - FINANCIAL INSTRUMENTS

NOTE 22 - PROPOSED DISTRIBUTION OF EARNINGS

NOTE 1 - GENERAL ACCOUNTING POLICIES

GENERAL

The parent company applies the same accounting policies as the group except in the cases specified in the section entitled 'The parent company's accounting policies'.

THE PARENT COMPANY'S ACCOUNTING POLICIES

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. This means that the parent company, in its financial statements, applies all of the EU-approved IFRS and statements as far as is possible within the framework of the Swedish Annual Accounts Act and with due regard to the relationship between accounting and taxation.

The accounting and measurement policies as well as the bases of estimates applied in the annual report for 2015 have also been used in this annual report, with the exception of the changes in accounting policies in respect of depreciation and write-downs of capitalized development expenses, see Note 1 for the group section entitled 'Intangible assets'.

Financial fixed assets

Shares and participations in subsidiaries are reported at the acquisition value, after deductions for depreciation. The acquisition value is included in acquisition-related costs and, where appropriate, supplementary purchase prices. Dividends received are reported as financial revenues. Dividends that exceed the subsidiary's comprehensive income for the period, or that result in the book value of the holding's net assets in the consolidated financial statements being less than the book value of the participations, are an indication that there is a write-down requirement.

When there is an indication that shares and participations in a subsidiary have diminished in value, an estimate is made of the recovery value. A write-down is reported if this is lower than the reported value. Write-downs are reported in the item Results from participations in group companies.

NOTE 2 - COSTS ALLOCATED PER TYPE

| | 2016 | 2015 |
|--|---------------|---------------|
| Employee benefit expenses | 31,808 | 24,868 |
| Cost of purchasing and handling commercial goods | 7,255 | 5,499 |
| Depreciation and write-downs | 6,831 | 9,864 |
| Development costs | 6,693 | 4,353 |
| Consultancy costs | 5,841 | 6,711 |
| Other external expenses ¹⁾ | 6,178 | 7,009 |
| Total | 64,606 | 58,304 |

¹⁾This item includes exchange rate gains/losses.



NOTE 3 - EMPLOYEES AND PERSONNEL EXPENSES

| Gender balance | 2016 | | 2015 | |
|-------------------------------|------|-------|------|-------|
| | Men | Women | Men | Women |
| Precise Biometrics AB, Sweden | 20 | 6 | 17 | 5 |
| | 20 | 6 | 17 | 5 |

| Gender balance in corporate management | 2016 | 2015 |
|--|------|------|
| <i>Proportion of women</i> | | |
| Board of directors | 33% | 17% |
| CEO and leading executives | 0% | 0% |

| Salaries and remunerations are allocated as follows: | 2016 | 2015 |
|--|---------------|---------------|
| <i>Board and CEO, Sweden</i> | | |
| Salaries and other remuneration | 4,416 | 3,857 |
| Pension expenses | 473 | 450 |
| Payroll overhead, including payroll tax | 1,500 | 1,212 |
| Total | 6,389 | 5,519 |
| <i>Others, Sweden</i> | | |
| Salaries and other remuneration | 16,895 | 13,726 |
| Pension expenses | 2,977 | 2,228 |
| Payroll overhead, including payroll tax | 6,068 | 4,389 |
| Total | 25,939 | 20,343 |
| TOTAL, SWEDEN | 32,328 | 25,862 |
| TOTAL | 32,328 | 25,862 |

NOTE 4 - REMUNERATION TO LEADING EXECUTIVES

Principles

Remuneration is paid to the Chairman of the Board and board members in accordance with the decision of the AGM.

Remuneration to the CEO and other leading executives consists of their basic salary, flexible remuneration and pension benefits. Håkan Persson took up the position of CEO on November 8, 2013. He has been employed since August 8, 2014. In addition to the 6-month period of notice, severance pay for 6 months is also included upon termination by the company.

Other leading executives are those persons who together with the CEO constitute corporate management. There was an average of four leading executives during the year. For the composition of corporate management, see the section entitled 'Management' in the annual report.

The distribution between basic salary and flexible remuneration shall be in proportion to the executive's level of responsibility and authority. For the CEO, flexible remuneration is set to a maximum of 75% of basic salary. For other leading executives, flexible remuneration is a maximum of 50% of the basic salary.

For further information see Note 5 for the group.

NOTE 5 - AUDITORS' REMUNERATION

| | 2016 | 2015 |
|---|------------|------------|
| Ernst & Young | | |
| Audit assignment | 794 | 200 |
| Auditing activities in addition to the audit assignment | 129 | 82 |
| Tax consulting | 2 | - |
| Total Ernst & Young | 925 | 282 |
| PwC | | |
| Audit assignment | - | 176 |
| Auditing activities in addition to the audit assignment | - | 170 |
| Total PwC | 0 | 346 |
| TOTAL | 925 | 628 |

NOTE 6 - OPERATIONAL LEASING AGREEMENTS

| | 2016 | 2015 |
|--|--------------|--------------|
| Leasing costs during the year | 1,445 | 2,327 |
| Other leasing | 240 | 287 |
| Total | 1,685 | 2,614 |
| Nominal value of agreed future leasing charges: | | |
| Due for payment within 1 year | 1,697 | 795 |
| Due for payment after 1 year, but within 5 years | 5,231 | 5,060 |
| Due for payment after 5 years | - | - |
| Total | 6,928 | 5,855 |

Operational leasing agreements mainly refer to office rent.



NOTE 7 - INCOME TAX AND DEFERRED TAX

| Tax expense for the year | 2016 | 2015 |
|--|---------------|-------------|
| Current tax on profit/loss for the year | - | - |
| Change in deferred tax in respect of temporary differences | 13,200 | - |
| Tax expense | 13,200 | 0 |
| | | |
| Reconciliation of effective tax | 2016 | 2015 |
| Profit/loss before tax | 20,381 | -43,889 |
| Tax calculated as per national tax rates applicable for profit in respective countries | -4,484 | 9,655 |
| Tax effect of non-deductible expenses | -1,407 | -7,943 |
| Tax effect of items reported in equity | 607 | - |
| Deferred tax asset in respect of tax losses not previously considered | 13,200 | - |
| Utilization of tax loss carryforwards not previously considered | 5,281 | - |
| Tax losses for which no deferred tax claim has been reported | - | -1,712 |
| Tax expense | 13,200 | 0 |

The parent company booked a deferred tax asset in respect of the future utilization of tax loss carryforwards amounting to SEK 13,200 thousands (0). As it is difficult for the company to assess a period of time covering more than three years, a conservative estimate has been made and the deferred tax asset is therefore based on the last rolling 12-month period which is calculated for the subsequent three-year period.

Deferred tax on temporary differences for investments in subsidiaries is not reported since the parent company can control the date for reversing temporary differences and it is not considered likely that reversals will be made in the foreseeable future.

| Deferred tax asset | 2016 | 2015 |
|--|---------------|-------------|
| Tax loss carryforwards | 13,200 | - |
| Reported value | 13,200 | - |
| | | |
| Specification of change in deferred tax asset | 2016 | 2015 |
| Opening reported value | - | - |
| Change in temporary differences reported in the income statement | 13,200 | - |
| Closing reported value of deferred tax asset | 13,200 | - |

There are tax loss carryforwards for which deferred tax assets have not been reported in the balance sheet amounting to SEK 551,026 thousands (637,803). There is no time limitation for the utilization of tax loss carryforwards.

NOTE 8 - PURCHASES AND SALES BETWEEN COMPANIES IN THE GROUP

Parent company sales to other group companies amounted to SEK 1.6 million (2.1). Purchases from group companies amounted to SEK 1.7 million (2.8).

Internal pricing between the parent company and foreign subsidiaries takes place on the basis of the Transactional Net Margin Method and the profit level is determined in accordance with the Return on Sales, which was approximately 2% for 2016. Internal pricing between Swedish companies takes place according to market conditions.

NOTE 9 - PROFIT/LOSS FROM PARTICIPATIONS IN GROUP COMPANIES

| | 2016 | 2015 |
|---|---------------|-----------------|
| Write-down of receivables from Precise Biometrics, Inc. | -5,800 | - 35,911 |
| Total | -5,800 | - 35,911 |

NOTE 10 - INTEREST INCOME AND INTEREST EXPENSES

| | 2016 | 2015 |
|-------------------------|------------|------------|
| Interest income | 340 | 643 |
| Total | 340 | 643 |
| Other interest expenses | 7 | 73 |
| Total | 7 | 73 |

NOTE 11 - INTANGIBLE FIXED ASSETS

| CAPITALIZED DEVELOPMENT EXPENSES | 12/31/2016 | 12/31/2015 |
|---|-------------------|-------------------|
| Opening acquisition value | 28,878 | 93,187 |
| Additions during the year | 4,840 | 2,434 |
| Sales/disposals | - | -66,743 |
| Closing acquisition value | 33,719 | 28,878 |
| Opening accumulated depreciation | -16,007 | -65,519 |
| Depreciation for the year | -5,028 | -8,642 |
| Sales/disposals | - | 58,154 |
| Closing accumulated depreciation | -21,035 | -16,007 |
| Opening accumulated write-downs | -1,719 | -10,309 |
| Write-downs for the year | -529 | - |
| Sales/disposals | - | 8,590 |
| Closing accumulated write-downs | -2,248 | -1,719 |
| Planned residual value | 10,436 | 11,152 |
| | | |
| PATENTS | 12/31/2016 | 12/31/2015 |
| Opening acquisition value | 8,721 | 8,721 |
| Additions during the year | - | - |
| Closing acquisition value | 8,721 | 8,721 |
| Opening accumulated depreciation | -8,721 | -8,721 |
| Depreciation for the year | - | - |
| Closing accumulated depreciation | -8,721 | -8,721 |
| Planned residual value | 0 | 0 |
| | | |
| CAPITALIZED DATA EXPENSES | 12/31/2016 | 12/31/2015 |
| Opening acquisition value | 972 | 972 |
| Additions during the year | - | - |
| Closing acquisition value | 972 | 972 |
| Opening accumulated depreciation | -972 | -972 |
| Depreciation for the year | - | - |
| Closing accumulated depreciation | -972 | -972 |
| Planned residual value | 0 | 0 |

Comments to the note:

Depreciation of capitalized development expenses is included in the item Cost of goods sold. See comment in Note 20 regarding write-downs for the year under notes for the group.

NOTE 12 - TANGIBLE FIXED ASSETS

| EQUIPMENT AND TOOLS | 12/31/2016 | 12/31/2015 |
|---|-------------------|-------------------|
| Opening acquisition value | 11,148 | 12,965 |
| Additions during the year | 427 | 570 |
| Sales/disposals | - | -2,387 |
| Closing acquisition value | 11,576 | 11,148 |
| Opening accumulated depreciation | -8,170 | -9,335 |
| Depreciation for the year | -1,275 | -1,222 |
| Sales/disposals | - | 2,387 |
| Closing accumulated depreciation | -9,445 | -8,170 |
| Opening accumulated write-downs | -846 | -846 |
| Write-downs for the year | - | - |
| Closing accumulated write-downs | -846 | -846 |
| Planned residual value | 1,285 | 2,132 |

Comments to the note:

Depreciation is included in the items Selling expenses, Administration expenses and R&D expenses in the income statement.



NOTE 13 - FINANCIAL FIXED ASSETS

| PARTICIPATIONS IN SUBSIDIARIES | 12/31/2016 | 12/31/2015 |
|--|-------------------|-------------------|
| Precise Biometrics Services AB | | |
| Corp. ID no. 556582-9347, reg. office: Lund municipality, County of Skåne | | |
| Number of shares | 1,000 | 1,000 |
| Share of equity | 100% | 100% |
| Book value | 100 | 100 |
| Precise Biometrics, Inc | | |
| Reston, Virginia, USA | | |
| Number of shares | 10 | 10 |
| Share of equity | 100% | 100% |
| Book value | 958 | 958 |
| Total | 1,058 | 1,058 |
| LONG-TERM RECEIVABLES FROM GROUP COMPANIES | 12/31/2016 | 12/31/2015 |
| As of January 1 | 9,077 | - |
| Transfer of current group receivables | 13,153 | 44,988 |
| Write-down of group receivable | -5,800 | -35,911 |
| Total | 16,430 | 9,077 |
| Deferred tax asset in accordance with Note 7. | 13,200 | - |
| Total | 30,689 | 10,135 |
| ACQUISITIONS IN PROGRESS | 12/31/2016 | 12/31/2015 |
| Acquisition costs in respect of the acquisition of NexID Biometrics, USA. As of the balance sheet date the acquisition had not been completed. | 1,100 | - |

NOTE 14 - INVENTORIES

| | 12/31/2016 | 12/31/2015 |
|------------------|-------------------|-------------------|
| Components | 610 | 3,786 |
| Goods for resale | 966 | 1,960 |
| Total | 1,576 | 5,746 |

The cost of goods sold for the parent company includes write-downs of inventories of SEK 2,071 thousands (425). Write-downs of inventories have increased as articles that were previously considered salable were considered obsolete in 2016 because of low sales and it was not thought that the products could be sold for an amount in excess of the acquisition value. There were no significant reversals of previously recorded write-downs during 2016 and 2015. See comment in Note 20 under the group regarding write-downs for the year.

NOTE 15 - ACCOUNTS RECEIVABLE

| | 12/31/2016 | 12/31/2015 |
|---------------------------------------|---------------|--------------|
| Accounts receivable | 16,582 | 4,848 |
| Reserve for impairment of receivables | -409 | - |
| Total | 16,173 | 4,848 |

As of December 31, 2016 accounts receivable amounting to SEK 325 thousands (116) were due. There is a write-down for one customer receivable amounting to SEK 409 thousands, but apart from this there are not considered to be any write-down requirements for accounts receivable. These relate to a number of independent customers who previously have not had any payment difficulties.

The aging analysis of all accounts receivable is as follows:

| | 12/31/2016 | 12/31/2015 |
|-----------------------|---------------|--------------|
| Not due | 15,848 | 4,732 |
| Less than 3 months | 441 | 42 |
| 3 to 6 months | 293 | 91 |
| Of which written down | - | - |
| More than 6 months | - | -17 |
| Of which written down | -409 | - |
| Total | 16,173 | 4,848 |

The other categories within accounts receivable and other receivables do not include any assets for which there is a write-down requirement.

The maximum exposure for credit risk on the balance sheet date is the actual value for every category of receivables. The parent company has no collateral as security.

NOTE 16 - PREPAID EXPENSES AND ACCRUED INCOME

| | 12/31/2016 | 12/31/2015 |
|------------------------------|---------------|---------------|
| Prepaid rents | - | 312 |
| Prepaid insurance | 53 | 170 |
| Accrued income ¹⁾ | 10,796 | 14,089 |
| Prepaid pension premiums | 256 | 146 |
| Prepaid patent charges | 319 | 247 |
| Other items | 739 | 554 |
| Total | 12,162 | 15,517 |

¹⁾ Accrued royalty revenues relate to reported revenues for royalties that had not been invoiced as of the balance sheet date as the base data for revenue recognition is received after the balance sheet date.

NOTE 17 - EQUITY

NUMBER OF SHARES

| | |
|--------------------------------|-------------|
| As of December 31, 2015 | 345,306,094 |
| As of December 31, 2016 | 360,231,467 |

Warrants to employees

An option program was issued in 2014 for all employees for a maximum of 8,000,000 options following a decision at the AGM in 2014. A total of 2,610,000 options have been subscribed and Precise Biometrics received additional liquid assets of SEK 261,000. Subscription options may be exercised during the period July 1 – December 31, 2017 at a price of SEK 2.50. The market value has been established by an external valuer using the Black & Scholes model. At the time of the valuation the share price was SEK 1.13, which is based on the volume-weighted share price during the period May 5, 2014 to May 16, 2014. The subscription price corresponded to 220 per cent of the volume-weighted average price at the time of valuation.

At full utilization of the subscription options, the share capital will increase by SEK 78,300, which corresponds to approximately 0.7% of the company's current share capital. Payments received by Precise Biometrics through the transfers have been reported in additional paid-in capital.

The nominal value of one share is SEK 0.03.

Share capital was increased by SEK 447,761 in 2016. Following this increase, at the end of the year the share capital amounted to SEK 10,806,944.

NOTE 18 - OTHER PROVISIONS

GUARANTEE PROVISIONS

| | 12/31/2016 | 12/31/2015 |
|---|------------|------------|
| As of January 1, 2016 | 78 | 212 |
| Change in guarantee reserve during the year | 25 | -134 |
| As of December 31, 2016 | 103 | 78 |

Provisions are made for expected guarantee claims in respect of products sold in the Mobile Smart Card Solutions business segment.

NOTE 19 - ACCRUED EXPENSES AND PREPAID INCOME

| | 12/31/2016 | 12/31/2015 |
|----------------------------------|---------------|--------------|
| Prepaid income | 14,749 | 1,644 |
| Accrued vacation pay | 2,286 | 2,230 |
| Payroll overhead and other taxes | 1,223 | 1,075 |
| Other accrued expenses | 8,494 | 3,446 |
| Total | 26,751 | 8,395 |

NOTE 20 - RELATED PARTY TRANSACTIONS

There were no related party transactions, 0 (137), either started or completed during 2016.

Internal pricing between the parent company and foreign subsidiaries takes place on the basis of the Transactional Net Margin Method and the profit level is determined in accordance with the Return on Sales, which was approximately 2% for 2016. There are no sales between business areas.

NOTE 21 - FINANCIAL INSTRUMENTS

| | 12/31/2016 | | 12/31/2015 | |
|------------------------------------|----------------|----------------|---------------|---------------|
| | Fair value | Book value | Fair value | Book value |
| Financial assets | | | | |
| Accrued income | 10,796 | 10,796 | 14,089 | 14,089 |
| Accounts receivable | 16,173 | 16,173 | 4,848 | 4,848 |
| Other receivables | 2,008 | 2,008 | 273 | 273 |
| Liquid assets | 120,796 | 120,796 | 46,860 | 46,860 |
| Total financial assets | 149,773 | 149,773 | 66,070 | 66,070 |
| Financial liabilities | | | | |
| Accounts payable | 4,548 | 4,548 | 3,279 | 3,279 |
| Other liabilities | 939 | 939 | 1,846 | 1,846 |
| Other accrued expenses | 8,494 | 8,494 | 3,446 | 3,446 |
| Total financial liabilities | 13,981 | 13,981 | 8,571 | 8,571 |

NOTE 22 - PROPOSED DISTRIBUTION OF EARNINGS

The following assets in the parent company are at the disposal of the AGM:

| | |
|------------------------------------|--------------------|
| Share premium reserve, SEK | 73 837 914 |
| Retained earnings, SEK | 37 596 936 |
| Profit for the year, SEK | 33 581 381 |
| Total non-restricted equity | 145 016 231 |

The board proposes that the AGM should not issue a dividend for the fiscal year 2016.

| | |
|---|--------------------|
| Total dividen from retained earnings, SEK | 0 |
| Carried forward to the new year, SEK | 145 016 231 |
| Total | 145 016 231 |



ASSURANCE

The board of directors and the CEO give their assurance that the consolidated financial statements have been prepared in accordance with international accounting standards (IFRS) as adopted by the EU and give a fair view of the group's financial position and results.

The Annual Report has been prepared in accordance with generally accepted accounting principles and gives a fair view of the parent company's financial position and results.

The Administration Report for the group and the parent company gives a fair view of the group's and the parent company's activities, financial position and results, and describes the essential risks and uncertainty factors faced by the parent company and the companies in the group.

The income statements and balance sheets, including the consolidated financial statements, will be presented for the approval of the Annual General Meeting on May 16, 2017.

April 3, 2017

Torgny Hellström

Chairman of the Board

Torbjörn Clementz

Board member

Synnöve Trygg

Board member

Mats Lindoff

Board member

Anna Almlöf

Board member

Matts Lilja

Board member

Håkan Persson

CEO

Our audit report was submitted on April 3, 2017

Ernst & Young AB

Johan Thuresson

Authorized Public Accountant

AUDITOR'S REPORT

To the general meeting of the shareholders of Precise Biometrics AB (publ), corporate identity number 556545-6596

THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

Appendix 1 Auditor's report for a public limited liability parent company preparing its consolidated accounts in accordance with International Financial Reporting Standards as adopted by the EU and the Annual Accounts Act

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Precise Biometrics AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 34-84 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31st of December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31st of December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

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

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

Key Audit Matters

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

Revenue recognition

As per the company's statement of comprehensive income, the sales revenue for the year 2016 totals SEK 97.2 million. Revenues consist of license fees, royalties and product sales. Revenues from the sale of goods are recognised upon delivery in accordance with the terms of delivery. Revenue accumulated from license fees is recognised based on licensing agreements, and revenue accumulated from royalties is recognised in the period where customers report the use of licenses. The revenue recognition relating to licenses and royalties therefore, requires a managerial decision as to which period it should be recognised in. This means that the revenue recognition includes an essential amount of assessment entries, making it a particularly significant area of the audit.

Please see note 1 for accounting policies of revenues. How the company's revenue is distributed between the various business areas can be seen in note 2.

The process for revenue recognition has been evaluated and tested in our audit. We have, amongst other things, performed an analytical procedure, reviewed contracts, made payment checks on income and received third party confirmation, as well as reviewed accruals against underlying documentation. In addition to this, we have also examined whether the information disclosed in the financial statements is adequate.

Capitalised development costs

As per the company's statement of financial position as at 31 December 2016, the capitalised development costs totals SEK 10.4 million. Development expenditure is recognised as an asset in the statement of financial position if the product or process is technically and commercially viable, and if the company has sufficient resources to complete the development and thereby can use or sell the intangible asset. The intangible assets are stated at cost, less any accumulated depreciation, amortisation and impairment loss. Depreciation is calculated based on the estimated useful life. The company regularly tests if events or changes in circumstance indicate that impairment is needed. Tests are conducted by assessing the project with respect to future cash flows. Projects that won't provide future economic benefits to the company

are written down. Forecasts of future cash flows are based on estimates of future revenues. The company has identified impairment for 2016. The initial recognition of capitalised development costs and the impairment tests performed are based on estimates by the management, making the capitalised development costs a particularly significant area of the audit.

Please see note 1 for a description of the accounting policies and a description of estimates and assessments. Recognised capitalised development costs can be found in Note 12 "Development costs" for the Group and note 11 for the parent company, along with depreciations, amortisations and impairment losses, as well as the yearly acquisitions.

The process used by management for assessing the expenditure, that meets the criteria for recognition as capitalised development costs, has been evaluated and tested in our audit. The process used by management for assessing indications of an existing impairment as well as performing an impairment test, including reviewing probable assumptions concerning future revenues, has also been evaluated and tested. We have assessed whether adequate disclosure of information has been made in the financial statements.

Deferred tax assets

As per the company's statement of financial position as at 31 December 2016, the deferred tax assets totals SEK 13.2 million and is attributable to the company's tax deficit. The company recognises deferred tax assets in respect of tax loss to the extent that the management believes it probable that deductions can be offset against future taxable profits. The valuation of deferred tax assets is based on the management's assessment of the company's future tax revenue, making the recognition of deferred tax assets a particularly significant area of the audit.

Please see note 1 "Accounting and valuation principles" and "Significant estimates and assessments for accounting purposes" for a description of accounting estimates and assumptions. The group's tax situation can be found in note 9 and for the parent company in note 7.

The company's forecasting of future tax revenues has been examined in the audit by challenging the assumptions made in the forecast and by comparison with historical results, as well as by other means. We have also reviewed the size of the tax deficit compared to provisions. We have also assessed whether adequate disclosure of information has been made in the financial statements.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-33 and pages 96-104. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those

risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequen-

ces of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Precise Biometrics AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Lund the 3 April 2017
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant



CORPORATE GOVERNANCE REPORT 2016

The Corporate Governance Report provides a general description of how Precise Biometrics works, how the company's decision-making functions, and how the company applies the Swedish Corporate Governance Code ("the Code"). Certain disclosures in accordance with Chapter 6, Section 6 of the Swedish Annual Accounts Act can be found in the Administration Report on pages 32-37 in the Annual Report.

CONTROL OF PRECISE BIOMETRICS

Corporate governance is the system through which the owners, directly or indirectly, govern and control a company. In a limited liability company like Precise Biometrics, governance, control and management are allocated between the shareholders, auditors, board of directors and the CEO in accordance with current legislation, regulations and instructions. The governance of Precise Biometrics is based on the Swedish Companies Act, the company's articles of association, the Nasdaq Stockholm rules for issuers, the Code, and internal control documents such as financial policy and information policy, see website under Investors/Corporate Governance.

The board of directors of Precise Biometrics is responsible for implementing appropriate corporate governance and reviews this annually together with leading executives. The Corporate Governance Report describes how Precise Biometrics was governed during 2016. There are no deviations from the rules of the Code to report for the fiscal year 2016.

ARTICLES OF ASSOCIATION

The company's articles of association contain no restrictions on the number of votes that each shareholder may cast at a shareholders' general meeting. The company's articles of association contain no special provisions concerning the appointment or dismissal of board members, or concerning amendments to the articles of association.

ANNUAL GENERAL MEETING

The AGM is Precise Biometrics' highest ranking decision-making body and the forum through which shareholders can exercise their influence over the company. At the AGM, shareholders exercise their right to vote by appointing board members and external auditors, making decisions on the adoption of the income statement and balance sheet, express an opinion on the discharge of liability for board members and the CEO in relation to the company, determine principles for how the nomination committee is to be elected, and establish guidelines for remuneration to leading executives. Shareholders also have the opportunity at the AGM to ask questions concerning the company and normally all the members of the board, the group executive team and the auditors must be present to answer such questions.

Precise Biometrics' AGM 2016 was held at the company's head office in Lund, Sweden on May 17, 2016. The AGM adopted the accounts for 2015 and granted the board of directors and the CEO discharge from liability for the fiscal year 2015. In addition to mandatory matters, as set out in the articles of association, the following decisions were made:

- Torgny Hellström, Torbjörn Clementz, Matts Lilja and Mats Lindoff were re-elected, and Synnöve Trygg and Anna Almlöf were elected as new board members. Torgny Hellström was re-elected as Chairman of the Board.
- The accounting firm Ernst & Young AB was re-elected as the company's auditor for a mandate period of one year, with authorized public accountant Johan Thuresson as lead auditor.
- No dividend is to be paid for the fiscal year 2015.
- The level of the board fee and committee fee was confirmed, as were guidelines for remuneration to leading executives, the essential content of which is that remuneration and terms of employment shall be in line with the market and competitive.
- The board was authorized, as in previous years, to make a decision on the new issue of a maximum of 34,530,609 shares and/or convertibles, with or without departure from the preferential rights of shareholders, for the purpose of enabling the company to receive a capital infusion from new owners, which are considered to be strategically important from an operational, financial, structural or other perspective.

For further information on the decisions taken at the AGM 2016, please refer to the company's website under Corporate Governance/Annual General Meeting.

Precise Biometrics' AGM 2017 will take place on May 16 at 16:00 at Mobilvägen 10 in Lund, Sweden. Shareholders who wish to participate in the meeting must be registered in the company's share register no later than May 10, 2017, and applications to participate in the meeting must be submitted as indicated in the notice.

NOMINATION COMMITTEE

According to the principles for the organization of the nomination committee adopted at the AGM 2016, the nomination committee shall consist of representatives of two to three of the company's largest shareholders as of August 30, 2016 and the Chairman of the Board. If any of these shareholders should forgo the opportunity to appoint a representative, the shareholder with the next largest holding shall be consulted.

The nomination committee prior to the AGM 2017 consists of Hans Ek (SEB Fonder), Carina Lundberg Markow (Folksam and KPA) and Torgny Hellström (Chairman of the Board). In addition to the Chairman of the

Board, the members represent the three largest shareholders in the company as of August 30, 2016 who have agreed to participate in the nomination committee.

The nomination committee is assigned to submit proposals at the AGM to the Chairman and other board members, including a motivating statement concerning the proposals, propose remuneration for board members and auditors, propose compensation for committee work where appropriate, and submit a proposal for a person to chair the AGM. In addition the nomination committee shall also express an opinion on the independence of the board members in relation to the company and major shareholders.

BOARD OF DIRECTORS

The board is responsible for the company's organization and the administration of the company's affairs, and is tasked with managing

the company's affairs on behalf of the owners in such a way that the owners' interest in a good, long-term return on capital invested is satisfied in the best possible way. The board is responsible for ensuring that the company's organization is appropriate and that the business is run in accordance with the Swedish Companies Act, the articles of association, the Code, other applicable laws and regulations, and the board's rules of procedure.

The board follows written rules of procedure that are adopted every year. The rules of procedure include instructions for the company's CEO, the assignments incumbent on the Chairman, the agenda of board meetings, and decision-making procedures. In accordance with the rules of procedure, eight ordinary board meetings shall be held in addition to the statutory board meeting. The board meets according to an annual schedule adopted in advance. In addition to these, the board convenes whenever necessary. In 2016, the board held 13 board meetings at which minutes were taken.



TORGNY HELLSTRÖM



TORBJÖRN CLEMENTZ



SYNNÖVE TRYGG

| | | | |
|---|--|---|--|
| POSITION | Chairman | Board member | Board member |
| YEAR OF SELECTION | 2013 | 2009 | 2016 |
| YEAR OF BIRTH | 1958 | 1961 | 1959 |
| EDUCATION | LL.B. | MBA | MBA |
| OTHER ASSIGNMENTS | Chairman of the Board at MagComp AB, board member at DDM Holding AG, Switzerland and True Heading AB (publ). | Board member at the Sport and Rehab clinic in Ängelholm, Euro Football Partners | Board member at companies including Intrum Justitia AB, Landshypotek Bank AB and Volvo Finans AB |
| CURRENT POSITION | Founder and senior management consultant at Ruddex International AB | CFO at Kährs Group | |
| PREVIOUS ASSIGNMENTS | CEO and other leading positions within Anoto Group, Vice President at Ericsson, leading positions at Ericsson, IBM Europe and IBM Nordic legal departments | CFO at One Nordic AB, CFO and Vice President at BE Group | CEO at, among others, SEB Kort AB |
| SHARES IN PRECISE BIOMETRICS | 25,000 | 59,555 | 0 |
| ATTENDANCE/BOARD MEETINGS | 13/13 | 10/13 | 8/13 |
| COMMITTEE WORK | Audit committee & Compensation committee | Audit committee | Audit committee |
| ATTENDANCE/COMMITTEE MEETINGS | 14/14 | 7/7 | 4/7 |
| INDEPENDENT OF THE COMPANY AND ITS MANAGEMENT AND MAJOR SHAREHOLDERS | yes | yes | yes |

The Chairman organizes and leads the work of the board. Issues dealt with during the year included strategy and long-term focus, organization, corporate governance, financing, and interim and year-end reports. The board conducted an evaluation of the board in which members submitted in writing their views on the board and the work of the board. The results were discussed in individual meetings between each board member and the Chairman of the Board, and jointly with the entire board. The Chairman of the Board presented the results of the board evaluation to the nomination committee.

The CEO keeps the board of directors up-to-date at all times on the development of the business. In addition to the ordinary meetings, the Chairman and other directors have been in continuous contact with leading executives in the company, primarily the CEO and the CFO. In addition to meetings where minutes were taken, the board has received monthly updates on the company's financial results and position.

Precise Biometrics' board of directors shall, in accordance with the articles of association, consist of a minimum of three, and a maximum of seven members. Since the AGM 2016 the board has consisted of six members: Torgny Hellström (Chairman), Torbjörn Clementz, Matts Lilja, Mats Lindoff, Synnöve Trygg and Anna Almlöf. All board members are independent in relation to Precise Biometrics AB and corporate management, and also to larger shareholders. At the time of the submission of the annual report, none of the board members in the company have a direct or indirect holding in the company that represents at least one tenth of the voting rights for all shares in the company. The table below sets out the age, education and other assignments of board members, together with their holding of financial instruments in the company.

The table below also reports the attendance of members at board and committee meetings for elections, etc., as well as their independence. Remuneration to board members is described in Note 5.

**ANNA ALMLÖF****MATTS LILJA****MATS LINDOFF**

| | | |
|--|---|--|
| Board member | Board member | Board member |
| 2016 | 2013 | 2014 |
| 1967 | 1965 | 1961 |
| MBA | Technical college graduate | M.Sc. |
| Board member at Lagercrantz Group | Board member at Blinkfyrar AB | Board member at Enea and Combain. |
| Senior Advisor with own business | CEO of Blink Services | Consultant in own company, Lindoff Technology AB. |
| Senior Vice President of Strategy, Marketing and Services and member of group executive at Gunnebo AB. Various positions at Ericsson, including Head of Product Management at Ericsson Global Services | CEO at Strainlabs AB, Ammeraal Beltech, ISG Systems AB, Opax A/S and Opax AB. Business Developer at SAAB Security | CTO at Sony Ericsson, CEO at C Technologies, Product Development Manager at Ericsson |
| 0 | 0 | 0 |
| 9/13 | 13/13 | 12/13 |
| Compensation committee | Compensation committee | Compensation committee |
| 3/7 | 7/7 | 6/7 |
| yes | yes | yes |

AUDIT COMMITTEE

The audit committee's undertaking is to support the board in its work to fulfill its responsibilities in the areas of auditing, internal control and financial reporting. In addition to this, the work of the audit committee includes supporting the board in the preparation of proposals for the choice of auditor and, when applicable, the procurement of audit services, monitoring the auditor's independence and staying informed about the Swedish Supervisory Board of Public Accountants' quality control of the auditor. In 2016 the committee focused primarily on reporting (quarterly reports, annual financial reporting and internal reporting), business-related risks and internal control. The committee holds meetings two or three times a year and in conjunction with the compilation of each interim report. The committee held seven meetings during the year, of which four were in conjunction with the quarterly reports. The audit committee must meet the company's auditor at least once in every calendar year. Since the AGM 2016 the company's audit committee has consisted of board members Torbjörn Clementz (committee chairman), Torgny Hellström and Synnöve Trygg.

COMPENSATION COMMITTEE

The duties of the compensation committee include issues concerning salaries, pension terms and conditions, incentive plans and other terms and conditions for the employment of the CEO and other leading executives. In 2016 the committee focused primarily on remuneration to leading executives, including the issue of incentive plans. The committee has also prepared board proposals for guidelines for remuneration to leading executives, which can be found in the Administration Report. The committee held seven meetings during the year. Since the AGM 2016 the company's compensation committee has consisted of board members Torgny Hellström (committee chairman), Mats Lindoff, Matts Lilja and Anna Almlöf.

GROUP EXECUTIVE TEAM

Precise Biometrics' group executive team is based at the headquarters in Lund, Sweden. At the end of 2016 the group executive team consisted of the CEO, CFO, COO, R&D Director and Corporate Marketing Manager. The composition of the group ensures short decision-making channels. The group held formal weekly meetings during the year.



HÅKAN PERSSON



PATRIK LINDEBERG



GÖRAN THURESSON

| | | | |
|---------------------------------------|--|--|--|
| POSITION | CEO | COO | CFO |
| EMPLOYED SINCE | 2014 | 2007 | 2016 |
| YEAR OF BIRTH | 1961 | 1973 | 1960 |
| EDUCATION | MBA | M.Sc. | MBA |
| PREVIOUS ASSIGNMENTS | CEO at Scalado AB, Country Manager at IBM Software Group, President Market Division at EMEA Telelogic AB | VP R&D and CTO at Precise Biometrics, Manager Technical Account Management at Teleca and Obigo | CFO and Group Controller in international groups such as Weidmüller, BE Group Sweden, Schneider Electric, Procordia Food and Securitas |
| SHARES IN PRECISE BIOMETRICS | 0 | 0 | 0 |
| WARRANTS IN PRECISE BIOMETRICS | 1,000,000 | 150,000 | 0 |

and a strategy and budget meeting. The table below provides a more detailed presentation of the group management team.

AUDITORS

At the AGM 2016 Ernst & Young AB (EY), with Johan Thuresson as lead auditor, was elected to be Precise Biometrics’ auditor for the period until the AGM 2017. The auditors undertake assignments for other listed companies, but not to such an extent that the time required is not allocated for Precise Biometrics. None of the auditors has any assignments that would question their independence. As part of his audit assignment, Johan Thuresson participated in one board meeting and three audit committee meetings, and has been in regular contact with the CEO, the CFO and the Chairman of the Board.

Information on remuneration to the auditors, both for the parent company and the group, can be found in Note 6 in the group’s notes and in Note 5 in the parent company’s notes.

INTERNAL CONTROL AND RISK MANAGEMENT IN RESPECT OF FINANCIAL REPORTING

In accordance with both the Swedish Companies Act and the Code, the board is responsible for ensuring that the company maintains a good level of internal control and is regularly informed of and evaluates how the company’s system for internal control is working. The report has been limited to include only the internal control of financial reporting.

The company’s organization and the way the business is run form an important platform for internal control. All areas of responsibility and employees have clearly defined roles. The most important policy documents are documented in the form of policies and instructions, and have been adopted by the boards and are revised annually. These documents are primarily the economic and finance policy, the Code of Conduct, the communication policy, the insider trading policy, the IT policy, the sustainability policy, the equality and diversity plan and the working environment policy.



RUTGER PETERSSON

DANIEL EDLUND

| | |
|--|---|
| R&D Director | Corporate Marketing Manager |
| 2007 | 2014 |
| 1975 | 1979 |
| M.Sc. | MBA |
| Several technical positions at Precise Biometrics, Ericsson and Teleca Mobile, primarily in project management | Management positions in the ICT industry as Director of Communications, Marketing and Account Manager at Huawei Technologies Nordics, AxiCom Cohn & Wolfe, and Porter Novelli |
| 0 | 25,000 |
| 150,000 | 200,000 |



Control environment. Operational decisions are made by the group executive, while decisions on strategy, focus, acquisitions and general financial matters are made by the board. Internal control is designed to work in this organization. The basis of internal control in respect of financial reporting consists of the general control environment with an organization, decision-making paths, authorizations and responsibilities that have been documented and communicated. The company's control environment also consists of collaboration between the group executive, the board and the compensation and audit committees. In order to create and maintain a functional control environment the board has prepared several important documents for the financial reporting. These documents consist of, among other things, the rules of procedure as applied by the board and instructions for the CEO. The CEO is responsible for ensuring that the guidelines adopted by the board are followed in daily operational work. The CEO briefs the board on a fixed regular basis at board meetings and through monthly reports. The company follows a well-defined procedure in relation to annual and monthly financial reporting. The closing financial statements are presented to the board every month according to a pre-determined template.

The company's auditors report at least once every fiscal year to the board and at least twice to the audit committee. An examination of internal control was performed within the framework of the external audit. The lead auditor also maintains regular contact with the Chairman of the Board.

Risk assessment. The group executive and the board perform assessment on an ongoing basis of the extent of the company's risk management, in particular in respect of financial reporting. The company pays special attention to risks in the financial statements, i.e., whether there are any accounting errors and the way in which assets and liabilities are valued. The management of internal transactions within the group can also be subject to risks. These risks are considered, however, to be of minor importance in that the company has a well-defined monthly financial reporting process and established follow-up procedures and policies.

Control activities. To guarantee that the financial reporting process at all times presents a fair and true view, a number of control activities have been integrated, and these involve various parts of the organization. The company has a limited number of people who are company signatories, and an appropriate set of attestation rules has been produced and is updated as required. Manual inspections are carried out to prevent errors in financial reporting. These inspections are also integrated into accounting and other IT systems. The regular

audit involves an evaluation of those controls that the auditor considers reliable. Any observations following this examination are reported to both the group executive and the board.

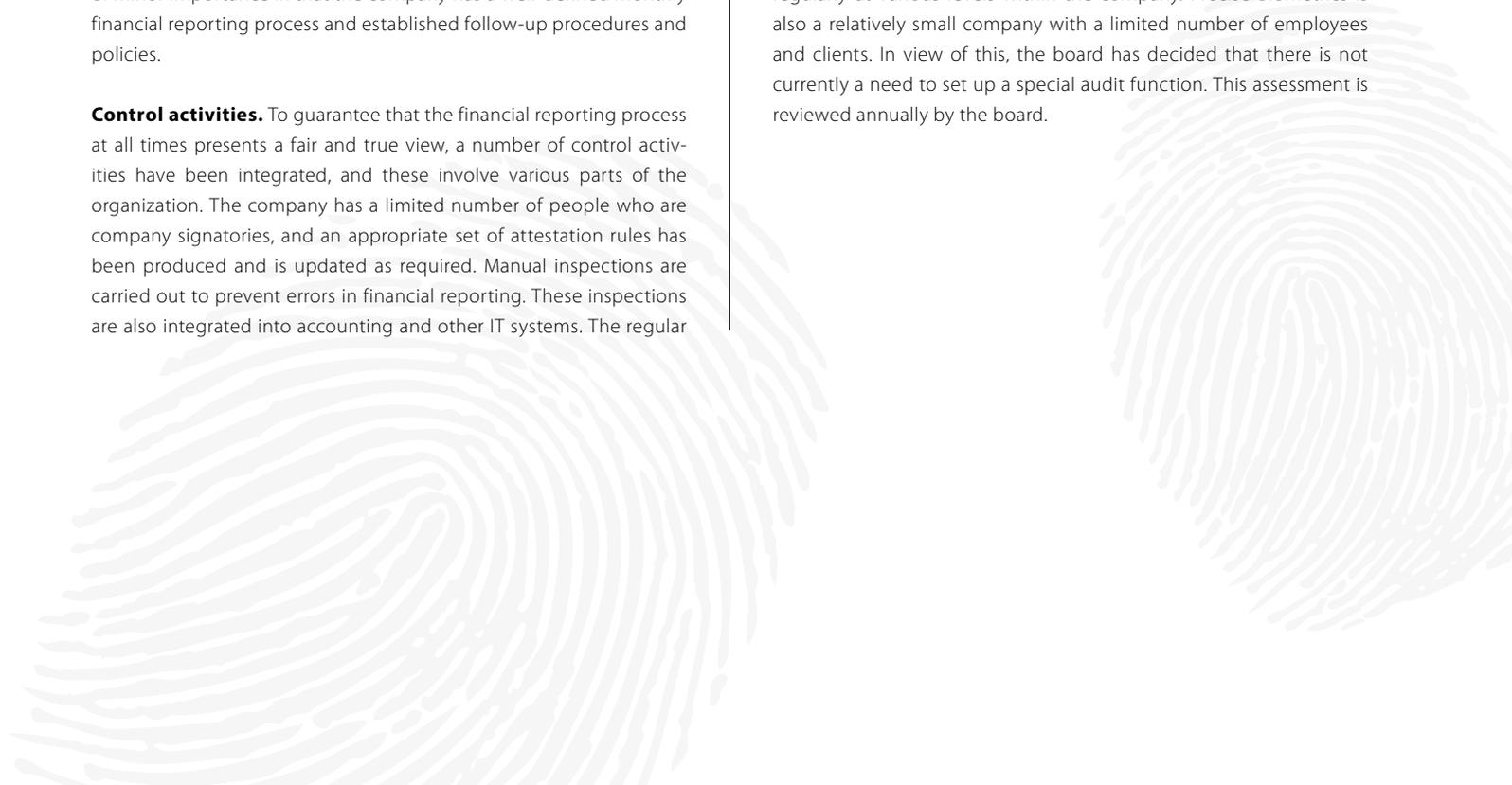
Information and communication. Precise Biometrics has defined how information and communication in respect of financial reporting shall take place in an effective, correct way. The communication policy drawn up aims to promote the correctness of the company's communication, both externally and internally.

External information and communication take place in accordance with the EU's Market Abuse Regulation, Swedish law, the stock exchange's Rule Book for Issuers and the Code. The company issues interim financial statements for the business three times a year, as of March 31, as of June 30 and as of September 30. The company also reports on the year-end financial statement as of December 31 in its year-end report. All documents, press releases and presentations in connection with reports are available on the company's website.

The board receives monthly reports from the CEO and the CFO about the company's financial position, development and projects in progress. The company continuously informs staff of updates to accounting policies, policies and other changes in reporting requirements.

Follow-up. The board and the audit committee continually assess the information submitted by the group executive. The company's financial situation is reviewed at every board meeting and through monthly reports. Budget comparisons and forecasts, including analysis of any deviations, are described in the monthly reports. The board examines interim and year-end financial statements before they are published. Every year the board evaluates both its own work and that of the CEO.

Internal audits. Precise Biometrics has well-prepared governance and internal control systems, compliance with which is followed up regularly at various levels within the company. Precise Biometrics is also a relatively small company with a limited number of employees and clients. In view of this, the board has decided that there is not currently a need to set up a special audit function. This assessment is reviewed annually by the board.



AUDITOR'S REPORT ON THE CORPORATE GOVERNANCE STATEMENT

To the general meeting of the shareholders of Precise Biometrics AB (publ), corporate identity number 556545-6596

Engagement and responsibility

It is the Board of Directors who is responsible for the corporate governance statement for the year 2016 on pages 89-94 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

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

Opinions

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

Lund the 3 April 2017
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant



FINANCIAL GLOSSARY

SHARE PRICE

The last price paid during the period.

BALANCE SHEET TOTAL

The value of all assets on the balance sheet date.

GROSS MARGIN

Gross profit/loss divided by net sales.

EBITDA

Operating profit/loss before financial items and depreciation.

EQUITY

Equity at the end of the year. The average equity has been calculated as opening equity plus closing equity divided by two.

EQUITY PER SHARE

Equity at the end of the year divided by the number of shares at the end of the year. Average number of outstanding shares during the year: Number of shares at the beginning of the year plus the number of shares at the end of the year divided by two.

LIQUIDITY RATIO

Current assets minus inventories, divided by current liabilities.

NET SALES GROWTH

Percentage change compared with the previous year.

OPERATING CASH FLOW

Cash flow from operating activities after change in working capital.

EARNINGS PER SHARE

Profit/loss after net financials divided by number of shares. The calculation has been made in accordance with IAS 33 Earnings per share. In accordance with IAS 33, recalculation after dilution must not produce better earnings per share compared with before dilution.

RETURN ON EQUITY

Profit/loss for the year divided by average equity.

RETURN ON CAPITAL EMPLOYED

Earnings after net financials plus financial expenses, divided by average capital employed.

WORKING CAPITAL

Inventories, current receivables and provisions minus current liabilities.

OPERATING EXPENSES

Operating expenses excluding costs of goods sold, but including depreciation, write-downs, and after capitalization of expenses.

OPERATING MARGIN

Operating profit/loss divided by net sales.

OPERATING PROFIT/LOSS

Profit/loss before net financials and tax.

DEBT/EQUITY RATIO

Interest-bearing liabilities divided by equity.

EQUITY/ASSETS RATIO

Equity on the balance sheet date divided by total assets on the balance sheet date.

CAPITAL EMPLOYED

Balance sheet total minus non interest-bearing liabilities and reserves. Average capital employed has been calculated as opening plus closing capital employed divided by two.

ANNUAL GENERAL MEETING

The Annual General Meeting for shareholders in Precise Biometrics AB (publ) will be held on Tuesday May 16, 2017 at 16:00 at Mobilvägen 10 in Lund, Sweden.

Shareholders who wish to participate in the AGM must be registered in the share register kept by Euroclear Sweden AB on May 10, 2017, and also notify their participation to Precise Biometrics AB no later than Wednesday May 10, 2017 at 16:00.

REGISTRATION IN THE SHARE REGISTER

Shareholders who have their shares registered through a bank or in the name of an authorized agent must, in order to participate in the meeting, temporarily register the shares in their own name in the share register kept by Euroclear Sweden AB no later than Wednesday May 10, 2017. Shareholders must inform the administrator in good time.

REGISTERING TO ATTEND THE AGM

Shareholders must notify their intention to attend the AGM no later than May 10, 2017 at 16:00. Registration may take place by post or email: arsstamma2017@precisebiometrics.com
Precise Biometrics AB, "Årsstämma", Mobilvägen 10, SE-223 62 Lund

APPLICATIONS MUST INCLUDE:

Name
Social security number/Corp ID number
Address
Phone number
Number of shares
Assistants, if appropriate

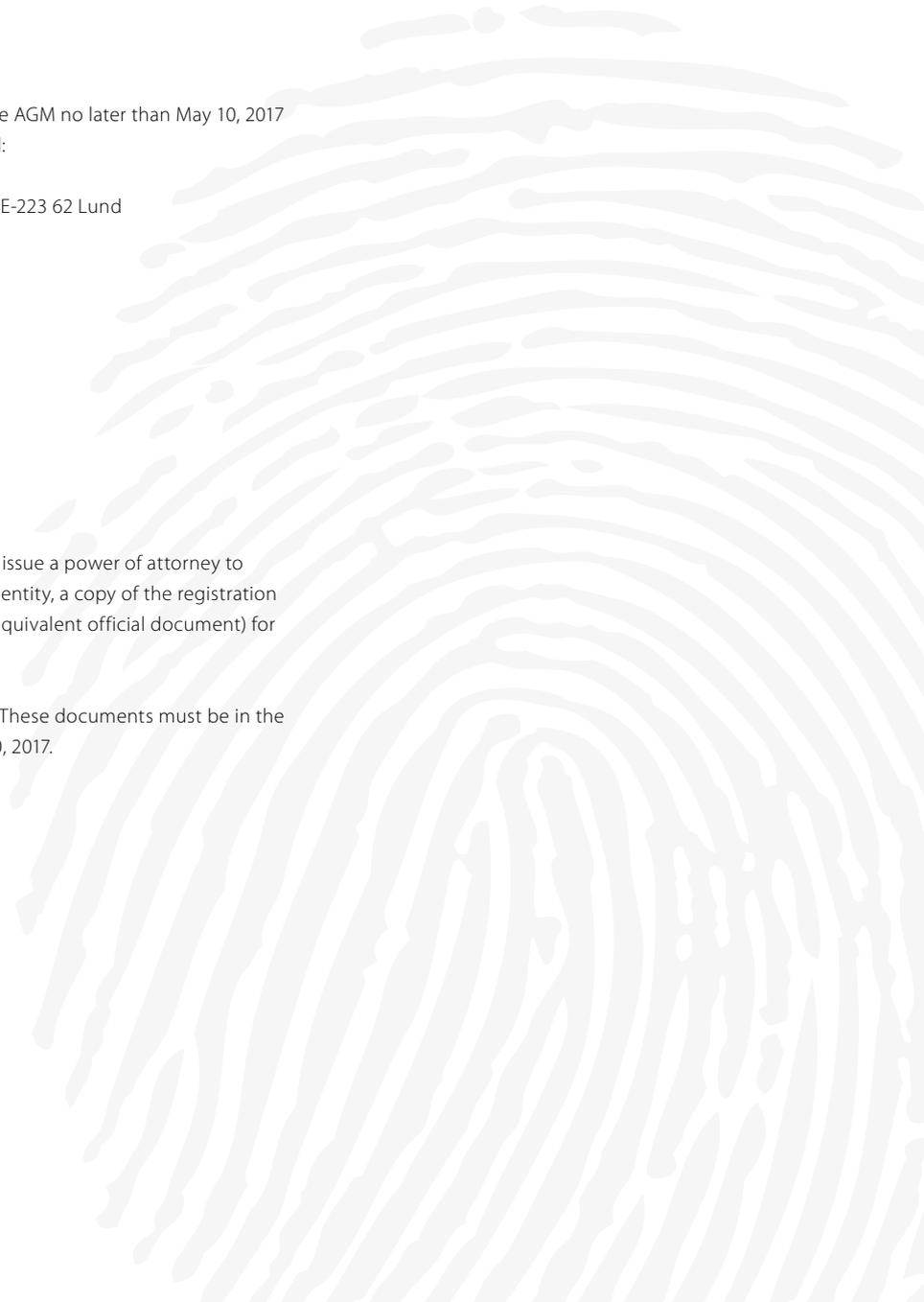
REPRESENTATIVES

Shareholders who are represented by an agent must issue a power of attorney to the agent. If a powers of attorney is issued by a legal entity, a copy of the registration certificate (or if such a document does not exist, an equivalent official document) for the legal entity must be enclosed.

The document must not be more than one year old. These documents must be in the possession of Precise Biometrics no later than May 10, 2017.

INVESTOR CONTACT

Håkan Persson, CEO of Precise Biometrics
Tel.: +46 46 31 11 05
Email: investor@precisebiometrics.com



FINANCIAL CALENDAR

INTERIM REPORT, FIRST QUARTER 2017

May 16, 2017 (08:00)

ANNUAL GENERAL MEETING

May 16, 2017 (13:00-19:00)

INTERIM REPORT, SECOND QUARTER 2017

August 16, 2017 (08:00)

INTERIM REPORT, THIRD QUARTER 2017

November 14, 2017 (08:00)

YEAR-END REPORT 2017

February 13, 2018 (08:00)

Financial reports are published in Swedish and English at precisebiometrics.com

CONTACT

Precise Biometrics AB
Mobilvägen 10
223 62 Lund
Sweden
+46 46 31 11 00

INVESTOR CONTACT

Håkan Persson, CEO
investor@precisebiometrics.com
+46 46 31 11 05



THE SHARE & SHAREHOLDERS

HISTORY

Precise Biometrics' share was listed on the Stockholm Stock Exchange on October 3, 2000 at a quotation price of SEK 63.19.

As of December 30, 2016 the company had 360,231,467 shares listed on the Small Cap list of the Nasdaq OMX Nordic. A standard trading unit is one share. The short name is PREC and the ISIN code is SE0001823303.

SHARE PRICE DEVELOPMENT

In 2016 there was total turnover of 2,282,496,007 PREC shares, i.e., an average turnover of 9,021,723 shares per day of trading. The closing price on December 30, 2016 was SEK 3.32. During the year the share price fluctuated from SEK 2.00 to 5.90.

OWNERSHIP

The number of shareholders at the end of the year was 27,325 (25,533). Foreign shareholders accounted for 15.6 per cent (14.6). See table for shareholder statistics as of December 30, 2016.

OPTION PROGRAM

In 2014 an option program was initiated for all employees of the company. Subscription options have been transferred to the employees at market rates as part of the program. The allocated volume was contained within an authorization for a maximum of 8,000,000 subscription options issued at the Annual General Meeting in 2014.

The market value has been established by an external valuer using the Black & Scholes model. At the time of the valuation the share price was SEK 1.12, which is based on the volume-weighted share price during the period May 5, 2014 to May 16, 2014.

The subscription price was set to SEK 2.50.

A total of 2,610,000 were subscribed to by employees in 2014, which provided Precise Biometrics with liquid assets in an amount of SEK 261,000. No options were subscribed in 2015 and 2016, respectively.

Shares may be subscribed to through the exercising of subscription options during the period July 1 - December 31, 2017.

See also Note 17 in the parent company's notes for additional information.

SHAREHOLDER INFORMATION

Previously published annual reports, interim reports and other information can be found at www.precisebiometrics.com. It also possible to order information by calling +46 46 31 11 00.

Questions may be addressed directly to the company via email: investor@precisebiometrics.com.



SHARE CAPITAL DEVELOPMENT IN THE LAST TEN YEARS

| | INCREASE IN NO. OF SHARES | TOTAL NUMBER OF SHARES | INCREASE IN SHARE CAPITAL, SEK | TOTAL SHARE CAPITAL, SEK | NOMINAL AMOUNT, SEK |
|--|------------------------------|---------------------------|-----------------------------------|-----------------------------|------------------------|
| 2006 - New issue ¹⁾ | 1,125,000 | 72,915,450 | 450,000 | 29,166,180 | 0.40 |
| 2006 - New issue ²⁾ | 24,305,150 | 97,220,600 | 9,722,060 | 38,888,240 | 0.40 |
| 2007 - New issue ³⁾ | 4,000,000 | 101,220,600 | 1,600,000 | 40,488,240 | 0.40 |
| 2009 - New issue ⁴⁾ | 33,740,200 | 134,960,800 | 13,496,080 | 53,984,320 | 0.40 |
| 2011 - New issue ⁵⁾ | 53,984,320 | 188,945,120 | 21,593,728 | 75,578,048 | 0.40 |
| 2012 - New issue ⁶⁾ | 75,578,048 | 264,523,168 | 30,231,219 | 105,809,267 | 0.40 |
| 2012 - Reduction of share capital ⁷⁾ | - | 264,523,168 | -31,742,780 | 74,066,487 | 0.28 |
| 2013 - New issue ⁸⁾ | 58,782,926 | 323,306,094 | 16,459,219 | 90,525,706 | 0.28 |
| 2013 - New issue ⁹⁾ | 22,000,000 | 345,306,094 | 6,160,000 | 96,685,706 | 0.28 |
| 2015 - Reduction of share capital ¹⁰⁾ | 22,000,000 | 345,306,094 | -86,326,523 | 10,359,183 | 0.03 |
| 2016 - New issue ¹¹⁾ | 14,925,373 | 360,231,467 | 447,761 | 10,806,944 | 0.03 |

¹⁾ Non-cash issue for acquisition of 30 per cent of Smart Unicorn Solutions.

²⁾ Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 3.50 and Precise Biometrics received an issue amount of SEK 85 million.

³⁾ Non-cash issue for acquisition of 8 per cent of Smart Unicorn Solutions.

⁴⁾ Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 1.60 and Precise Biometrics received an issue amount of SEK 54 million.

⁵⁾ Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 1.00 and Precise Biometrics received an issue amount of SEK 54 million.

⁶⁾ Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 0.72 and Precise Biometrics received an issue amount of SEK 54.4 million.

⁷⁾ Reduction of share capital. The AGM decided, in accordance with the board's proposal, that the company's share capital should be reduced by SEK 31,742,780.16 to cover losses. The reduction represents a reduction in the nominal value of the shares by SEK 0.12 from SEK 0.40 to SEK 0.28.

⁸⁾ Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 0.93 and Precise Biometrics received an issue amount of SEK 54.7 million.

⁹⁾ Special issue of 22 million shares. The subscription rate amounted to SEK 3.90 and Precise Biometrics received an issue amount of SEK 85.8 million.

¹⁰⁾ Reduction of share capital. The AGM decided, in accordance with the board's proposal, that the company's share capital should be reduced from SEK 96.7 million to SEK 10.4 million. The reduction represents a fall in the nominal value of the shares by SEK 0.25 from SEK 0.28 to SEK 0.03.

¹¹⁾ Special issue of 14.9 million shares. The subscription rate amounted to SEK 3.35 and Precise Biometrics received an issue amount of SEK 47.2 million.



SHAREHOLDER STATISTICS

SHAREHOLDER REGISTER

| | NUMBER OF SHARES | NO. IN % OF CAPITAL STOCK AND VOTES |
|----------------------------------|--------------------|--|
| Avanza Pension Försäkring AB | 28,177,040 | 7.8% |
| Nordnet Pensionsförsäkring AB | 7,680,434 | 2.1% |
| Swedbank Försäkring | 5,114,330 | 1.4% |
| Bengt Andersson | 3,459,340 | 1.0% |
| Folksam | 3,330,055 | 0.9% |
| Bank of New York Mellon, Ireland | 3,000,554 | 0.8% |
| Bank of New York Mellon, UK | 2,593,655 | 0.7% |
| SEB Investment Management | 2,388,306 | 0.7% |
| Bank of New York Mellon, Belgium | 2,341,511 | 0.7% |
| Jaculator Förvaltning AB | 1,915,000 | 0.5% |
| Others | 300,231,242 | 83.3% |
| Total | 360,231,467 | 100.0% |

ALLOCATION OF SHAREHOLDERS

| | NUMBER OF SHARES | NO. IN % |
|-----------------|------------------|----------|
| Foreign owners | 56,020,099 | 15.6% |
| Swedish owners | 304,211,368 | 84.4% |
| of which | | |
| Institutions | 69,067,056 | 19.2% |
| Unit trusts | 2,609,001 | 0.7% |
| Private persons | 232,535,311 | 64.5% |

ALLOCATION OF SHARES

| | NO. IN % |
|--------------------------|----------|
| 10 largest shareholders | 16.7% |
| 25 largest shareholders | 22.3% |
| 100 largest shareholders | 35.9% |

SHAREHOLDER STATISTICS (NUMBER OF SHARES OWNED)

| | NO. OF SHAREHOLDERS | NO. IN % | NUMBER OF SHARES | PROPORTION OF VOTES |
|----------------------|---------------------|---------------|--------------------|---------------------|
| 1-2,000 | 14,818 | 54.2% | 11,232,710 | 3.1% |
| 2,001-10,000 | 8,230 | 30.1% | 43,239,162 | 12.0% |
| 10,001-100,000 | 3,816 | 14.0% | 112,388,303 | 31.2% |
| 100,001-1,000,000 | 425 | 1.6% | 100,129,011 | 27.8% |
| 1,000,001-50,000,000 | 36 | 0.1% | 93,242,281 | 25.9% |
| Total | 27,325 | 100.0% | 360,231,467 | 100.0% |

GEOGRAPHIC DISTRIBUTION OF SHAREHOLDINGS IN PER CENT

| | SHARE |
|---------------|---------------|
| Sweden | 84.4% |
| Denmark | 5.6% |
| Great Britain | 1.8% |
| Switzerland | 1.5% |
| Luxembourg | 1.3% |
| Norway | 1.2% |
| Finland | 1.1% |
| Ireland | 0.9% |
| Belgium | 0.7% |
| USA | 0.7% |
| China | 0.2% |
| Others | 0.9% |
| | 100.0% |

Source: EuroClear as of December 31, 2016

