

Q2



PRECISE BIOMETRICS INTERIM REPORT

JANUARY-JUNE 2018

PROGRESS IN FOCUS AREA MOBILE

INTERIM REPORT FOR THE PERIOD JANUARY TO JUNE 2018

SECOND QUARTER

- Net sales for the remaining operation totaled SEK 18.7 (20.1) million.
- The operating profit/loss for the remaining operation for the quarter totaled SEK -3.3 (0.5) million.
- The profit/loss for the period for the remaining operation totaled SEK -4.1 (0.2) million.
- Earnings per share for the remaining operation totaled SEK -0.01 (0.00).
- Earnings per share for the total operation totaled SEK -0.01 (0.00).
- Cash flow from total operating activities totaled SEK -8.6 (-1.3) million.

INTERIM PERIOD

- Net sales for the remaining operation totaled SEK 36.9 (36.8) million.
- The operating profit/loss for the remaining operation for the interim period totaled SEK -5.3 (-2.2) million.
- The profit/loss for the period for the remaining operation totaled SEK -6.6 (-3.2) million.
- Earnings per share for the remaining operation totaled SEK -0.02 (-0.01).
- Earnings per share for the total operation totaled SEK -0.02 (-0.01).
- Cash flow from total operating activities totaled SEK -16.8 (15.8) million.
- Cash and cash equivalents were SEK 93.6 (115.0) million at the end of the period.

SIGNIFICANT EVENTS DURING THE QUARTER

- Huawei Honor 10 was launched, in which Precise BioMatch Mobile has been implemented with a Qualcomm ultrasound sensor beneath the glass.
- Deepened collaboration with NXP and Kona-i, two prominent actors in the field of smart cards who supply payment cards to banks.
- Introduced Precise BioMatch Card, a powerful algorithm solution for fingerprint recognition in smart cards.

SIGNIFICANT EVENTS SINCE THE END OF THE QUARTER

- Stefan K Persson took over as new CEO as of August 1.

FINANCIAL DATA AND KEY INDICATORS

As a result of the Mobile Smart Card Solutions business area having been disposed of as of January 1, 2018, previously reported figures have been restated in order to improve comparability. The business area has been reported as a business held for sale starting in the interim report for the second quarter of 2017. In order to obtain comparable historical data, previously reported figures have only been adjusted for the expenses relating directly to the discontinued business area, which will no longer affect the company's remaining operation. The discontinued operation's impact on the financial position has not been reported separately, as the company does not consider it possible to report the discontinued operation's impact on cash flow. Cash flow is instead reported for the total operation.

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

KEY INDICATORS

Amounts in SEK thousand unless otherwise stated	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Net sales	18,728	20,160	36,880	36,777	61,039	61,142
Net sales growth, %	-7.1%	6.5%	0.3%	-7.0%	-26.7%	-24.1%
Gross margin, %	82.8%	95.0%	87.4%	94.7%	93.3%	88.9%
Operating profit/loss	-3,296	482	-5,329	-2,179	-13,936	-17,086
Operating margin, %	-17.6%	2.4%	-14.5%	-5.9%	-22.8%	-27.9%
Cash flow from operating activities	-8,609	-1,314	-16,835	15,808	22,788	-9,855
Cash and cash equivalents, total operation	93,580	115,006	93,580	115,006	116,955	93,580

PRESENTATION OF THE INTERIM REPORT

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

THE CHAIRMAN'S COMMENTS

Fingerprint sensors with optics or ultrasound that are placed beneath the glass are gaining more and more ground in the high-end mobile segment. Interest in these sensors is being driven by new design, in which the screen covers the entire front of the mobile phone. Several mobile phones have been launched this year with optical or ultrasound sensors. One of these phones is the Huawei Honor 10, in which our Precise BioMatch Mobile software is integrated with an ultrasound sensor from Qualcomm. The device has been a sales success and has sold more than three million units in less than three months. To further strengthen our position and win new business, we are continuing our close collaboration with several customers that are focusing on optical and ultrasound sensors. There are long lead times in this segment and it takes time from the start of a project until it generates royalty revenues.

FOCUS AREAS

MOBILE	HIGH-END
	LOW-END
	SMART CARDS
	NEW APPLICATIONS

The prices of capacitive fingerprint sensors are continuing to fall, which enables more mobile phones in the low-price segment to get such sensors. Our software is included in a number of phones in this segment that were launched recently, from suppliers including Nokia, TCL and Lenovo.

New pilot projects with biometric payment cards have been launched, and at the same time the evaluations from the first pilot projects in countries including the USA and Japan have generated overwhelmingly positive responses. The major benefits highlighted in these evaluations are that biometric payment cards provide a smooth user experience and that fingerprints are perceived to be a more secure authentication method than PIN codes.

The major suppliers of payment solutions are working to confirm the specifications for biometric payment cards, which is a precondition for the cards to be able to enter into commercial use. The first specification from MasterCard is expected to come before the end of the year, which means that biometric cards for payments could be used commercially and provide us with royalty revenues in the latter part of 2019.

We have deepened our collaboration with NXP and Kona-i, two prominent actors in the field of smart cards. These partnerships strengthen our position as the leading supplier of fingerprint software for smart cards.

The use of biometrics in new areas of application is on the increase, and the technology is moving into more and more areas. A number of new products with fingerprint technology were launched during the quarter, including USB keys and crypto wallets with fingerprint readers, which increases security for the user.

On August 1, Stefan K Persson started as CEO of Precise Biometrics. The Board looks forward to working with Stefan in continuing to develop our business in our focus areas and to broaden the use of biometrics in new areas of application.

Work to generate profitable growth continues, and our financial position provides us with opportunities to continue to invest in the focus areas we have identified.

MARKET AND SALES

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

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

Precise BioMatch™ Card, algorithm solution for smart cards.

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

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



Market developments

The market for fingerprint sensors for mobile phones is growing, but is characterized by price pressure in capacitive sensors. Sensors are being made smaller and as such cheaper to manufacture. In the high-end segment, capacitive sensors are being replaced by the new generation of sensors that are placed beneath the display or glass. According to an analysis from IDC, smartphones sales recovered somewhat during the quarter, but still fell by 1.8% compared with the corresponding period last year.

The technological shift in the sensor market from capacitive sensors to optical and ultrasound sensors has accelerated. A number of mobile phones were launched during the first half of the year with fingerprint sensors placed beneath the display or the glass. According to an analysis by IHS Markit, next year more than 100 million sensors will be sold with sensors placed beneath the display or glass.

The market for biometric payment cards continues to develop and is moving towards a commercial launch. The major suppliers of payment solutions are working to complete specifications for these cards and are conducting a dialog with banks about their introduction to end customers. It's the payment industry's possibility to increase transaction speed in stores by securing contactless payments and an easier user experience that are driving the interest.

The introduction of new legislation in the EU that is intended to increase competition in the field of financial services is causing banks and suppliers of payment solutions to look for new ways to improve their services. The law also stipulates stricter requirements for security in contactless payments. Users now have to identify themselves for every fifth payment, which makes the user experience worse for contactless cards, as a PIN code is required regularly and for purchases over SEK 250.

MasterCard, VISA, JCB and Carte Bancaire have carried out pilot projects with biometric cards in Europe, the USA, the Middle East and Japan. Initial evaluations show that the cards provide a good user experience and that customers perceive fingerprints to be a more secure authentication method than PIN codes. These evaluations also show that education is needed on how to use the cards, and that it must be possible for enrollment of the user's fingerprint to be performed simply and securely by the user without visiting a bank. More and more pilot projects for biometric cards are being launched all over the world, and there is also increased interest in China, despite high penetration of mobile payments, including one Chinese bank that will be launching a pilot with a local card supplier.

Discussions are being held in the biometric cards ecosystem about where on the cards fingerprint matching should take place to guarantee a high level of security. Precise Biometrics advocates that authentication and storage of the user's fingerprint template should take place in a secure chip on the card where the payment application is run, in the same way as PIN codes are processed at present, as this provides the best protection of the user's identity. This is a technically challenging solution that requires an algorithm solution that can handle the authentication of fingerprints in extremely restricted environments, which is supported by Precise Biometrics.

NET SALES AND OPERATING PROFIT/LOSS IN THE SECOND QUARTER

Net sales in the second quarter totaled SEK 18.7 (20.2) million. Revenues from licenses and services rose, while royalty revenues were lower.

The gross margin during the quarter totaled 82.8% (95.0%). A change was made during the quarter in the assessment of the amortization period for capitalized development expenses, which resulted in increased amortization of SEK 0.5 million and an impairment of one project of SEK 0.9 million. This changed assessment affected the gross margin by 7.5 percentage points. The gross margin was also affected by lower sales and higher amortization of capitalized development expenses. Total amortization and impairment of capitalized development expenses totaled SEK 2.4 (0.5) million, and amortization of acquired intangible assets totaled SEK 0.2 (0.2) million.

Operating expenses were in line with previous year and totaled SEK 18.8 (18.7) million.

The operating profit/loss for the quarter totaled SEK -3.3 (0.5) million as a result of lower sales and the change in the amortization period for capitalized development expenses. Earnings for the period totaled SEK -4.1 (0.2) million. The operating profit/loss at EBITDA level totaled SEK -0.5 (1.2) million. Earnings per share (average number of shares) for the second quarter totaled SEK -0.01 (0.00).

NET SALES AND OPERATING PROFIT/LOSS FOR THE INTERIM PERIOD

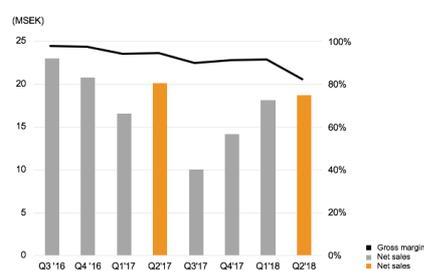
Net sales during the interim period totaled SEK 36.9 (36.8) million. Revenues from licenses and services rose, while royalty revenues fell.

The gross margin during the interim period totaled 87.4% (94.7%). The change in the amortization period for capitalized development expenses affected the gross margin by 3.8 percentage points. The gross margin was also affected by higher amortization of capitalized development expenses. Total amortization and impairment of capitalized development expenses totaled SEK 3.2 (1.2) million, and amortization of acquired intangible assets totaled SEK 0.4 (0.3) million.

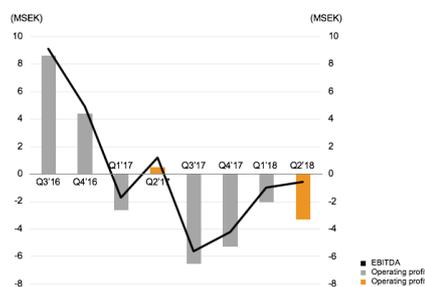
Operating expenses for the interim period increased slightly and totaled SEK 37.6 (37.0) million. Operating expenses include severance payments to the former CEO of SEK 1.4 (0.0) million, excluding social insurance costs.

The operating profit/loss for the interim period totaled SEK -5.3 (-2.2) million, primarily due to the change in the amortization period for capitalized development expenses and higher operating expenses. Earnings for the period totaled SEK -6.6 (-3.2) million. The operating profit/loss at EBITDA level totaled SEK -1.5 (-0.5) million. Earnings per share (average number of shares) for the period totaled SEK -0.02 (-0.01).

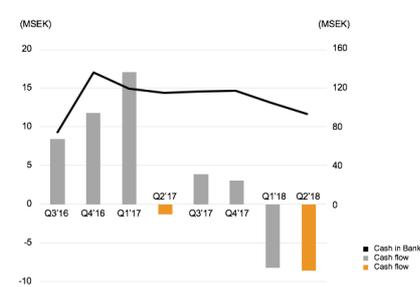
NET SALES & GROSS MARGIN



OPERATING PROFIT



OPERATING CASH FLOW



NET FINANCIAL ITEMS AND TAX

Net financial items for the total operation during the second quarter totaled SEK -0.4 (-0.1) million and the tax expense totaled SEK -0.4 (-0.1) million. The upcoming change in corporation tax affected the deferred tax asset in the second quarter to the order of SEK -0.3 (0.0) million.

Net financial items for the total operation during the interim period totaled SEK -0.7 (-0.8) million and the tax expense totaled SEK -0.5 (-0.2) million.

CASH FLOW AND INVESTMENTS

Cash flow during the quarter from the company's total operating activities totaled SEK -8.6 (-1.3) million. In the second quarter the Group invested SEK 0.2 (0.3) million in equipment. Depreciation for equipment during the quarter totaled SEK 0.1 (0.1) million and for intangible assets, SEK 0.1 (0.0) million.

Cash flow during the interim period from the company's total operating activities totaled SEK -16.8 (15.8) million. An advance payment of SEK 17.5 million had a positive impact on cash flow in 2017. The Group invested SEK 0.4 (0.7) million in equipment during the interim period. Depreciation for equipment during the interim period totaled SEK 0.2 (0.1) million and for intangible assets, SEK 0.1 (0.0) million.

CAPITALIZATION AND AMORTIZATION OF DEVELOPMENT WORK

Development expenses of SEK 3.1 (2.2) million were capitalized during the second quarter. Amortization of capitalized development expenses totaled SEK 1.5 (0.5) million during the quarter.

Development expenses of SEK 6.3 (4.1) million were capitalized during the interim period. Amortization of capitalized development expenses totaled SEK 2.3 (1.2) million during the interim period. The increase in the amortization amount is due to a change in the assessment of the amortization period for capitalized development expenses and higher capitalized development expenses compared with the previous year.

FINANCIAL POSITION AND LIQUIDITY

Cash and cash equivalents at the end of the interim period totaled SEK 93.6 (115.0) million.

Total equity at the end of the interim period totaled SEK 139.8 (160.8) million, and equity per share was SEK 0.39 (0.45).

PARENT COMPANY

The parent company's net sales for the interim period totaled SEK 36.9 (40.5) million. The operating profit/loss was charged with amortization of goodwill totaling SEK 1.2 (1.0) million.

Cash and cash equivalents at the end of the interim period totaled SEK 92.1 (112.0) million, and equity SEK 138.3 (154.4) million.

ORGANIZATION AND STAFF

The organization consists of a head office in Lund, Sweden and offices in Karlstad, Sweden and Potsdam, USA. To secure a local presence in key markets, sales consultants have been hired in Taiwan, China and Korea. At the end of the interim period the Group had a workforce of 44 (42) people, including consultants. The number of employees was 34 (33), of which 29 (30) were in Sweden.

Stefan K Persson took up the post of CEO on August 1, 2018. As previously announced, Göran Thuresson, CFO, has decided to return to the role of interim consultant, but will remain as CFO until a successor has taken up the post.

REPORTING DATES

Q3 Interim Report 2018
Year-end Report 2018

November 13, 2018
February 13, 2019

ACCOUNTING POLICIES

This interim report has been prepared in accordance with IAS 34 Interim Reporting. During the first quarter of 2018, IFRS 9 and IFRS 15 were implemented, which had no effect on earnings. Otherwise the recognition and measurement policies as well as the bases of estimates applied in the Annual Report for 2017 have been used in this interim report as well.

The parent company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Annual Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

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

Change in assessment of amortization period for capitalized development expenses

The rate of development and change in the industry where Precise Biometrics operates is becoming ever faster, which caused the company to carry out a review of the current amortization period in accordance with IAS 38 p.104, and in connection with this there was a change in the assessment of the amortization period for existing and future capitalized development expenses. The changed assessment resulted in a change in the amortization period from five to three years. The effect on earnings of the changes is SEK -1.4 million, of which SEK -0.9 million is attributable to the impairment of a project.

New or amended accounting standards implemented in 2018

IFRS 15

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

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

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

which is in accordance with how the Group previously reported revenues. Usage-based royalties are reported after the customer has used the license in the end product. This accounting practice also corresponds to previous accounting policies.

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

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

IFRS 9

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

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

Accounting standards applicable after 2018

IFRS 16

IFRS 16 replaces IAS 17 as of January 1, 2019. According to the new standard, most leased assets shall be reported in the balance sheet and lessees shall divide the expense into interest payments and depreciation of the asset. An analysis was launched in 2017 to investigate how the impact of IFRS 16 Leases will affect the company's financial reporting. This analysis has proceeded during 2018 and will be completed during 2018.

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

ALTERNATIVE KEY INDICATORS

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

OWNERSHIP STRUCTURE

Precise Biometrics AB (publ), corporate ID number 556545-6596, is the parent company in the Precise Group. Precise Biometrics AB's shares are listed on the Small Cap list of the Nasdaq OMX Nordic. The number of shareholders at the end of the interim period was 22,894 (24,882). During the second quarter 78,604,626 shares were traded. The closing price on June 30 was SEK 1.69, and during the second quarter the share price fluctuated between SEK 1.35 and SEK 1.99.

SIGNIFICANT EVENTS SINCE THE END OF THE PERIOD

- Stefan K Persson took over as new CEO as of August 1.

AUDIT

This interim report has not been audited by the company's auditors.

Lund, August 15, 2018

Torgny Hellström, Chairman of the Board

Torbjörn Clementz,
Board member

Mats Lindoff,
Board member

Matts Lilja,
Board member

Synnöve Trygg,
Board member

Anna Almlöf,
Board member

Stefan K Persson, CEO

This information is information that Precise Biometrics AB is obligated to disclose pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 8:00 AM on August 15, 2018.

Consolidated income statement – in summary

(Amounts in SEK thousand)

		2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Net sales	Note 1	18,728	20,160	36,880	36,777	61,039	61,142
Cost of goods sold		-3,214	-1,004	-4,641	-1,949	-4,091	-6,783
Gross profit		15,515	19,156	32,240	34,828	56,948	54,360
Selling expenses		-7,231	-8,140	-15,116	-16,257	-29,735	-28,593
Administrative expenses		-3,775	-3,643	-8,952	-7,627	-14,105	-15,430
R&D expenses		-7,233	-6,559	-13,056	-12,181	-25,276	-26,151
Other operating income/expenses		-572	-333	-444	-942	-1,769	-1,272
		-18,811	-18,674	-37,569	-37,007	-70,885	-71,446
Operating profit/loss		-3,296	482	-5,329	-2,179	-13,936	-17,086
Financial income/expenses		-407	-124	-684	-766	-1,664	-1,582
Profit/loss before tax		-3,703	357	-6,014	-2,946	-15,600	-18,668
Tax		-403	-135	-538	-225	-7,094	-7,408
Profit/loss for the period from remaining operation		-4,106	223	-6,552	-3,170	-22,694	-26,075
Profit/loss after tax from discontinued operation	Note 2	443	1,268	512	1,259	5,263	4,516
Profit/loss for the period, total operation		-3,664	1,491	-6,039	-1,911	-17,431	-21,559
Profit/loss for the period from total operation attributable to:							
Parent company shareholders		-3,664	1,491	-6,039	-1,911	-17,431	-21,559
Earnings per share, remaining operation, SEK							
- before dilution, SEK		-0.01	0.00	-0.02	-0.01	-0.06	-0.07
- after dilution, SEK		-0.01	0.00	-0.02	-0.01	-0.06	-0.07
Earnings per share, total operation, SEK							
- before dilution, SEK		-0.01	0.00	-0.02	-0.01	-0.05	-0.06
- after dilution, SEK		-0.01	0.00	-0.02	-0.01	-0.05	-0.06

Consolidated statement of comprehensive income

(Amounts in SEK thousand)

	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Profit/loss for the period	-3,664	1,491	-6,039	-1,911	-17,431	-21,559
Other comprehensive income:						
Items that may be reclassified to profit or loss	0	0	0	0	0	0
Changes in accumulated exchange rate differences	77	-187	137	-233	104	474
Other comprehensive income for the period, net of tax	77	-187	137	-233	104	474
Total comprehensive income for the period	-3,587	1,303	-5,903	-2,145	-17,327	-21,085
Profit/loss for the period attributable to holders of participations in the parent company.	-3,587	1,303	-5,903	-2,145	-17,327	-21,085

Consolidated balance sheet – in summary

(Amounts in SEK thousand)		6/30/2018	6/30/2017	12/31/2017
Assets				
Intangible assets	Note 3	47,979	42,478	45,306
Fixed assets	Note 3	1,017	785	956
Financial assets		5,568	13,200	6,106
Total fixed assets		54,563	56,463	52,368
Inventories	Note 2	-	-	-
Accounts receivable	Note 4	13,932	18,099	13,106
Other current receivables	Note 4	13,264	10,044	5,628
Cash and cash equivalents	Note 4	93,580	115,006	116,955
Total current assets		120,777	143,148	135,688
Assets held for sale	Note 2	-	2,462	1,562
Total assets		175,340	202,073	189,618
Equity and liabilities				
Equity		139,842	160,793	145,805
Total equity		139,842	160,793	145,805
Current liabilities	Note 4	35,498	41,281	43,813
Total liabilities		35,498	41,281	43,813
Total equity and liabilities		175,340	202,073	189,618

Consolidated statement of changes in equity – in summary

(Amounts in SEK thousand)		2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Equity at start of period		145,805	163,009	163,009	160,793
Profit/loss for the period		-6,039	-1,911	-17,431	-21,559
Exchange rate differences		137	-233	104	474
New share issue expenses		0	-72	-72	0
Option program	Note 5	-60	0	194	134
Equity at end of period		139,842	160,793	145,805	139,842

Consolidated cash flow statement – in summary

(Amounts in SEK thousand)	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Cash flow from operating activities before changes in working capital	-510	2,895	-185	1,115	-4,670	-5,969
Cash flow from changes in working capital	-8,099	-4,209	-16,650	14,694	27,458	-3,886
Cash flow from operating activities	-8,609	-1,314	-16,835	15,808	22,788	-9,855
Cash flow from investing activities	-3,144	-2,621	-6,590	-36,033	-40,821	-11,378
Cash flow from financing activities	Note 5	0	-60	0	194	134
Cash flow for the period	-11,753	-3,935	-23,485	-20,225	-17,840	-21,099
Cash and cash equivalents at start of period	105,297	119,249	116,955	135,753	135,753	115,006
Translation difference in cash and cash equivalents	35	-307	110	-522	-958	-326
Cash and cash equivalents at end of period	93,580	115,006	93,580	115,006	116,955	93,580

Consolidated key indicators

(Amounts in SEK thousand unless otherwise stated)

	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Net sales	18,728	20,160	36,880	36,777	61,039	61,142
Net sales growth, %	-7.1%	6.5%	0.3%	-7.0%	-26.7%	-24.1%
Gross margin, %	82.8%	95.0%	87.4%	94.7%	93.3%	88.9%
Operating profit/loss	-3,296	482	-5,329	-2,179	-13,936	-17,086
Operating margin, %	-17.6%	2.4%	-14.5%	-5.9%	-22.8%	-27.9%
Operating profit/loss, total operation	-2,853	1,750	-4,817	-920	-8,673	-12,571
Working capital, total operation	85,278	101,868	85,278	101,868	91,875	85,278
Capital employed, total operation	139,842	160,793	139,842	160,793	145,805	139,842
Liquidity ratio, total operation,%	340%	347%	340%	347%	310%	340%
Equity/assets ratio, total operation,%	79.8%	79.6%	79.8%	79.6%	76.9%	79.8%
Return on equity, total operation, %	neg	12.5%	neg	12.5%	neg	neg
Earnings per share before dilution, SEK	-0.01	0.00	-0.02	-0.01	-0.06	-0.07
Earnings per share before dilution, total operation, SEK	-0.01	0.00	-0.02	-0.01	-0.05	-0.06
Earnings per share after dilution, SEK	-0.01	0.00	-0.02	-0.01	-0.06	-0.07
Earnings per share after dilution, total operation, SEK	-0.01	0.00	-0.02	-0.01	-0.05	-0.06
Equity per share, total operation, SEK	0.39	0.45	0.39	0.45	0.40	0.39
No. of shares (thousands)	360,231	360,231	360,231	360,231	360,231	360,231
Weighted average number of shares, adjusted for dilution effect	360,231	360,550	360,231	360,550	360,231	360,231
Number of employees at end of period	34	33	34	33	35	34
Average number of employees during the period	35	32	35	30	32	34

Quarterly summary

(Amounts in SEK thousand unless otherwise stated)

	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Full year	Rolling 12 mon.
Net sales	18,728	18,152	14,181	10,081	20,160	61,039	61,142
Net sales growth, %	3.2%	28.0%	40.7%	-50.0%	21.3%	-26.7%	-24.1%
Operating profit/loss	-3,296	-2,033	-5,278	-6,479	482	-13,936	-17,086
Operating profit/loss, total operation	-2,853	-1,964	-2,935	-4,818	1,750	-8,673	-12,571
EBITDA	-522	-957	-4,232	-5,621	1,220	-10,350	-11,332
EBITDA, total operation	-80	-888	-1,890	-3,959	3,033	-3,953	-6,818
Cash flow from total operating activities	-8,609	-8,226	3,093	3,887	-1,314	22,788	-9,855
Capital employed, total operation	139,842	143,429	145,805	155,200	160,793	145,805	139,842

Reconciliation of alternative key indicators

(Amounts in SEK thousand unless otherwise stated)

	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Gross profit	15,515	19,156	32,240	34,828	56,948	54,360
Net sales	18,728	20,160	36,880	36,777	61,039	61,142
Gross margin, %	82.8%	95.0%	87.4%	94.7%	93.3%	88.9%
Operating profit/loss	-3,296	482	-5,329	-2,179	-13,936	-17,086
Net sales	18,728	20,160	36,880	36,777	61,039	61,142
Operating margin, %	-17.6%	2.4%	-14.5%	-5.9%	-22.8%	-27.9%
EBITDA	-522	1,220	-1,479	-494	-10,350	-11,332
Depreciation & Amortization	-1,842	-738	-2,918	-1,685	-3,586	-4,821
Impairments	-932	0	-932	0	0	-932
Operating profit/loss	-3,296	482	-5,329	-2,179	-13,936	-17,086
EBITDA, total operation	-80	3,033	-967	1,896	-3,953	-6,818
Depreciation & Amortization	-1,842	-1,283	-2,918	-2,816	-4,720	-4,821
Impairments	-932	0	-932	0	0	-932
Operating profit/loss, total operation	-2,853	1,750	-4,817	-920	-8,673	-12,571
Operating profit/loss, remaining operation	-3,296	482	-5,329	-2,179	-13,936	-17,086
Operating profit/loss, discontinued operation	443	1,268	512	1,259	5,263	4,514
Operating profit/loss, total operation	-2,853	1,750	-4,817	-920	-8,673	-12,571
Selling expenses	-7,231	-8,140	-15,116	-16,257	-29,735	-28,593
Administrative expenses	-3,775	-3,643	-8,952	-7,627	-14,105	-15,430
R&D expenses	-7,233	-6,559	-13,056	-12,181	-25,276	-26,151
Other operating income/expenses	-572	-333	-444	-942	-1,769	-1,272
Total operating expenses, remaining operation	-18,811	-18,674	-37,569	-37,007	-70,885	-71,446
Balance sheet total, total operation	175,340	202,073	175,340	202,073	189,618	175,340
Non-interest-bearing liabilities, total operation	35,498	41,281	35,498	41,281	43,813	35,498
Capital employed, total operation	139,842	160,793	139,842	160,793	145,805	139,842
Closing equity, total operation	139,842	160,793	139,842	160,793	145,805	139,842
Average equity	146,069	148,841	146,069	148,841	155,321	146,069
Current assets minus inventories	120,777	143,148	120,777	143,148	135,688	120,777
Current liabilities	35,498	41,281	35,498	41,281	43,813	35,498
Liquidity ratio	340%	347%	340%	347%	310%	340%
Equity	139,842	160,793	139,842	160,793	145,805	139,842
Total assets	175,340	202,073	175,340	202,073	189,618	175,340
Equity/assets ratio	79.8%	79.6%	79.8%	79.6%	76.9%	79.8%
Profit/loss after tax (rolling 12 mon.)	-21,559	18,575	-21,559	18,575	-17,431	-21,559
Average equity	146,069	148,841	146,069	148,841	155,321	146,069
Return on equity	neg	12.5%	neg	12.5%	neg	neg

Parent company income statement

(Amounts in SEK thousand; Total operation)

	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Net sales	18,809	21,998	36,861	40,465	68,735	65,131
Cost of goods sold	-4,171	-5,119	-5,748	-8,496	-14,061	-11,313
Gross profit	14,639	16,879	31,113	31,969	54,674	53,818
Selling expenses	-7,296	-7,813	-15,057	-15,592	-30,025	-29,462
Administrative expenses	-3,782	-3,541	-9,041	-7,552	-14,140	-15,680
R&D expenses	-7,362	-6,051	-13,258	-11,734	-26,398	-27,898
Other operating income/expenses	1,851	-2,434	2,563	-3,919	-5,487	995
	-16,588	-19,839	-34,792	-38,797	-76,049	-72,044
Operating profit/loss	-1,950	-2,960	-3,679	-6,828	-21,375	-18,227
Financial income/expenses	-407	-134	-684	-772	8,910	8,998
Profit/loss before tax	-2,356	-3,094	-4,363	-7,599	-12,465	-9,229
Tax	-276	0	-276	0	-6,600	-6,876
Profit/loss for the period	-2,632	-3,094	-4,639	-7,599	-19,065	-16,105

Parent company balance sheet

(Amounts in SEK thousand)

		6/30/2018	6/30/2017	12/31/2017
Assets				
Intangible assets	Note 1	45,581	43,830	45,433
Fixed assets		711	919	1,037
Financial assets		10,197	12,847	9,819
Total fixed assets		56,489	57,596	56,289
Inventories		-	773	-
Accounts receivable		13,671	16,433	11,133
Other current receivables		12,905	15,546	5,526
Cash and cash equivalents		92,110	112,012	115,283
Total current assets		118,686	144,764	131,942
Total assets		175,175	202,360	188,231
Equity and liabilities				
Equity		138,304	154,408	143,243
Total equity		138,304	154,408	143,243
Provisions		103	103	103
Total provisions		103	103	103
Current liabilities		36,768	47,850	44,885
Total liabilities		36,768	47,850	44,885
Total equity and liabilities		175,175	202,360	188,231

Note 1. Revenue allocation

	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year	Rolling 12 mon.
Revenue type						
Royalties	4,653	5,790	10,168	12,064	11,320	9,424
Licenses	10,999	8,580	20,209	16,118	34,014	38,105
Support & Maintenance	2,146	2,245	5,171	4,164	8,304	9,310
Other	930	3,546	1,333	4,432	7,402	4,303
Total	18,728	20,160	36,880	36,777	61,039	61,142
Country/Region						
Europe	2,466	3,336	6,786	4,828	4,515	6,473
- of which Sweden	1,211	1,813	2,635	2,903	974	706
- of which France	357	608	2,717	723	1,005	2,999
Asia	14,492	13,034	22,865	23,527	40,931	40,268
- of which China	6,554	7,786	8,389	13,070	18,097	13,416
- of which Taiwan	2,901	2,441	5,686	4,933	10,712	11,464
US	1,770	3,790	7,230	8,422	15,594	14,402
Total	18,728	20,160	36,880	36,777	61,039	61,142
Timing of revenue allocation						
Services transferred over time	13,145	10,824	25,380	20,282	42,317	47,416
Services transferred at a point in time	5,583	9,336	11,500	16,496	18,722	13,727
Total	18,728	20,160	36,880	36,777	61,039	61,142

Note 2. Discontinued operation

On June 21, 2017 Precise Biometrics announced that the company had concluded an agreement with IDENTOS GmbH on the takeover of the Mobile Smart Card Solutions business area, which includes the business operation involving smart card readers under the Tactivo brand. The transaction was completed as planned on January 1, 2018 and Identos took over the development of new smart card readers under the Tactivo brand, patents, trade mark rights, manufacturing, sales and customer support.

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

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

(Amounts in SEK thousand)

Income Statement	2018 Q1-Q2	2017 Q1-Q2	2017 Full year
Sales	2,101	5,911	13,203
Expenses	-1,589	-4,652	-7,940
Profit/loss before tax from discontinued operation	512	1,259	5,263
Balance sheet			
	2018 6/30/2018	2017 6/30/2017	2017 12/31/2017
Capitalized development expenses	-	1,301	1,301
Tools	-	261	261
Inventories	-	900	-
	-	2,462	1,562

Note 3. Business combinations

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

NexID Biometrics Inc.

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

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

Acquisition analysis SEK thousand

Impact on cash and cash equivalents

Purchase price	31,360
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Fair value of identifiable assets in NexID on the acquisition date

Intangible assets		7,776
- of which patents	1,138	
- of which software	1,619	
- of which database	4,276	
- of which customer relations	743	

Tangible assets		119
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Inventories		40
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Total assets		7,935
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Goodwill		23,425
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Purchase price		31,360
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The assets and liabilities from the acquisition are predominantly recorded (98%) in the parent company's balance sheet. Depreciation of identifiable fixed assets takes place on a straight-line basis over between 5 and 15 years. Acquisition costs totaling SEK 1,071 thousand have been capitalized in the parent company, and goodwill in the parent company therefore increased to SEK 24,496 thousand. Goodwill in the parent company is written off over ten years in accordance with its expected useful life.

Note 4. Financial instruments

	6/30/2018		6/30/2017	
	Fair value	Book value	Fair value	Book value
Financial assets				
<i>Loans receivable and accounts receivable</i>				
Accrued income	5,670	5,670	5,958	5,958
Accounts receivable	13,932	13,932	18,099	18,099
Other receivables	7,594	7,594	4,086	4,086
Cash and cash equivalents	93,580	93,580	115,006	115,006
Total	120,777	120,777	143,149	143,149
Financial liabilities				
<i>Financial liabilities at fair value via the income statement</i>				
Derivatives	1,622	1,622	-	-
<i>Financial liabilities valued at the accrued cost of acquisition</i>				
Accounts payable	2,880	2,880	3,936	3,936
Other liabilities	2,574	2,574	681	681
Other accrued expenses	28,422	28,422	36,664	36,664
Total	35,498	35,498	41,281	41,281

Note 5. Option program

The 2017 shareholders' general meeting made a decision to offer an incentive plan for the company's employees to the effect that a maximum of five million (5,000,000) stock options can be issued, with each stock option providing entitlement to subscribe to one (1) share in the company. Subscription to the stock options was to take place no later than December 31, 2017, with the Board having the right to extend the subscription period. Subscription through the exercising of stock options may take place during the period June 1, 2020 until June 30, 2020. The subscription price for the options has been set at SEK 0.06 and the subscription price for the shares at SEK 5.40. At the end of the interim period, 2,230,000 options have been subscribed, corresponding to 45% of total stock options; this was after the options subscribed by the former CEO had been bought back. Assuming that all stock options are exercised to subscribe to new shares, the number of shares in the company will increase by 5,000,000 shares.

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

Note 6. Closely-related party transactions

The Chairman of the Board had a consulting assignment as acting Chairman of the Board in the company until the new CEO took up his post, which took place on August 1, 2018. The compensation level for the assignment was based on market conditions, and the cost to the company during the interim period totaled SEK 1,562 thousand. Another Board member had a consulting assignment, which started and ended during the first quarter of 2018. The compensation level for the assignment was based on market conditions and totaled SEK 42 thousand.

Financial glossary

Net sales growth

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

Gross margin

Gross profit/loss divided by net sales.

Operating profit/loss

Profit/loss before financial net and tax.

Operating profit/loss, total operation

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

Operating expenses

Operating expenses excluding cost of goods sold.

EBITDA

Profit/loss before financial net and depreciation.

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

Operating margin

Operating profit/loss divided by net sales.

Cash flow, total operation

Cash flow from operating activities after changes in working capital.

Working capital, total operation

Current assets minus current liabilities.

Capital employed, total operation

Total assets less non-interest-bearing liabilities and provisions.

Equity, total operation

Equity at the end of the period.

Average equity, total operation

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

Liquidity ratio, total operation

Current assets excluding inventories divided by current liabilities.

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

Equity/assets ratio, total operation

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

Return on equity, total operation

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

Earnings per share, remaining operation, before dilution

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

Earnings per share, remaining operation, after dilution

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

Earnings per share, total operation, before dilution

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

Earnings per share, total operation, after dilution

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

Equity per share, total operation

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

Invitation to presentation of the interim report

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

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

To take part, click on the following link <https://tv.streamfabriken.com/precise-biometrics-q2-2018> to listen to and follow the presentation online, or call one of the below numbers to follow it over the phone:

- Sweden +46856642696
- UK: +442030089807
- US: +18558315946

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

Participating on behalf of Precise Biometrics:

Torgny Hellström, Chairman of the Board
Stefan K Persson, CEO
Göran Thuresson, CFO

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