

Positive developments

Precise Biometrics AB (publ), Corporate Identity No. 556545-6596 Interim Report for the period January – September 2010

- The group's net sales for the interim period amounted to SEK 38.6 million (36.5) and for the third quarter SEK 12.2 million (14.6).
- The group's gross profit for the interim period amounted to SEK 23.3 million (19.5) and for the third quarter SEK 6.9 million (5.2).
- The group's income for the interim period was SEK -10.2 million (-24.6) and for the third quarter SEK -5.2 million (-13.0).
- Earnings per share for the interim period was SEK -0.08 (-0.23) and for the third quarter SEK -0.04 (-0.12).
- Liquid assets at the end of the interim period amounted to SEK 30.9 million (59.3).

Important events during the quarter

- Precise Biometric received a hardware order at a value of SEK 2.4 million for a Match-on-Card project for government employees. The order is a follow-up order from an existing customer in the Middle East.

Important events after end of quarter

- Precise Biometrics' Nigerian partner Interswitch is rolling out a state ID card with biometric technology from Precise Biometrics. The project is the first of its kind in the world and the ID card also includes e-payment. The card program will be rolled out over the coming years and starts to generate income for Precise Biometrics in 2011. The order value is not finalized and thus cannot be communicated at this point.

For further information

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Precise Biometrics is a market-leading provider of products and solutions for fingerprint recognition. The tech proves people's identities in a fast and secure way, while it reduces costs related to password management, theft and fraud.

Precise Biometrics serves business and government organizations throughout the world and its technology is used by close to 100 million users. Precise Biometrics is listed on NASDAQ OMX Stockholm small cap list (PREC).

For more information, please visit www.precisebiometrics.com.



Positive developments

- Interview with the President & CEO, Thomas Marschall

What are your comments on the last quarter?

Despite sales being lower compared to the same period last year, we are showing a positive result development with effect from improved margins combined with a more cost-efficient organization. Sales during the quarter mainly consisted of ongoing orders from several of our established customers, the largest of which was an order for hardware worth SEK 2.4 million from a customer in the Middle East.



It is also interesting to note that our partner OKI has placed a bulk order for licenses for a government project in Asia. This is a positive development for our activities in the Embedded segment, i.e. the segment where our technology is embedded in third-party products and where we can generate license earnings on a recurring basis.

What is your opinion on 2010 as a whole?

Even though we are on the right track and showing a result that is better than 2009, we are not satisfied with the current result level. However, we have a very optimistic outlook on the future. The activity level in the market has increased with several interesting ongoing projects for Precise Biometrics.

Several consolidations have taken place during the quarter in the biometrics market, what does this mean for Precise Biometrics?

The consolidations show that biometric solutions have reached an acceptance level, which makes the market increasingly more interesting for different players. With our position as a global market-leader, we have the best opportunities to capitalize on this development.

If we look at what has actually happened during the quarter, we can see that Cogent has been sold to 3M and L-1 has been sold to Sagem. Both of these players are mainly focused on areas that are not a high priority for Precise Biometrics, for example, applications involving police and border control. The sensor manufacturers UPEK and AuthenTec have also undertaken a merger, and I see this as an indication of a specialization where sensor manufacturers are going to be concentrating on their core activities. This can create opportunities for new forms of cooperation, where Precise Biometrics can deliver software and MINEX approved algorithms.

Just after the end of the quarter you communicated an interesting transaction with Interswitch in Nigeria, would you like to say something about this?

As we indicated previously, we are involved in several interesting partnerships and business opportunities of which this project is a good example. The SmartGov initiative is an important breakthrough via our partner in Nigeria, Interswitch, which has great potential for increasing

our earnings next year. The interesting thing here is the combination of ID card and the practical benefit of being able to make payments with the same card. This is of great interest to the whole of Africa, but also for other parts of the world where they want to improve services for their citizens while also securing tax revenues by departing from a cash-based society.

How would you summarize the current situation?

Precise Biometrics has an excellent market and commercial position, even if the long decision-making processes for large orders and break-through partnerships demand a great deal of patience. We have an ambitious business plan and are developing a new customer oriented organization to achieve further expansion. Early next year we will be presenting several new opportunities to package our world-leading technology into solutions that will solve challenging problems for our customers. The potential in the market and Precise Biometrics' opportunities to realize this, are increasing every quarter.

Sales and resultInterim period; January to September 2010

Sales for the interim period amounted to SEK 38.6 million (36.5). The gross profit was SEK 23.3 million (19.5). The gross margin improved to 60 % compared to 53% the same period the previous year. The gross margin improves due to a more favourable sales mix combined with higher margins on hardware sales. Operating expenses for the interim period were reduced to SEK 33.4 million (38.1). The group's net loss for the interim period improved to SEK -10.2 million (-24.6). The result is impacted by negative currency effects. Losses per share (average number of shares) for the interim period amounted to SEK -0.08 (-0.23).

Third quarter; July to September 2010

Sales for the third quarter were SEK 12.2 million (14.6). The gross profit was SEK 6.9 million (5.2). The gross margin improved to 56% (36%). The gross margin improves due to a more favourable sales mix combined with higher margins on hardware sales. Operating costs were SEK 12.0 million (12.5). The Group's net loss for the third quarter improved to SEK -5.2 million (-13.0). The result is impacted by negative currency effects. Losses per share (average number of shares) for the third quarter amounted to SEK -0.04 (-0.12).

Financing and liquidity

Equity amounted as of September 30, 2010 to SEK 35.3 million (42.6) and equity/share to SEK 0.26 (0.32).

Cash flow from current operations amounted to SEK -3.1 million (-1.5). Liquid assets at the end of the interim period amounted to SEK 30.9 million (59.3).

Market and sales – Q3 2010

Sales during this quarter have been characterized by a combination of hardware, above all the Precise 200 MC reader, and software in the form of licenses. A large part of sales go to existing customers, such as the ID card for employees at a government agency in the Middle East, which Precise Biometrics has been delivering for the last few years. Ongoing sales also consist of Match-on-Card licenses via our established partners Gemalto and Safenet. New projects in this quarter include an order from our partner OKI, which has supplied circuits with Precise Biometrics' technology to a government project in Asia where a token with fingerprint technology will be used to identify employees, and which involves several hundred thousand persons.

Hardware sales remain dominated by activities in the US market, primarily in the government sector. Rules, regulations and directives are often the motivating factor behind these government projects, for example the initiative within of cyber security.

A large number of new projects and negotiations are in progress in the national ID card market, and these involve both countries with large populations as well as smaller countries and individual states. Precise Biometrics is well-positioned for these projects through its partnerships, existing references, and a wide range of products – notwithstanding tougher competition from above all smaller and newer players. Current major ID card projects include one from Brazil, which has recently communicated that they will need Match-on-Card in their future ID card. This project has been preceded by the amendment of a law, which has taken fourteen years to realize.

To highlight its position as a market leader, Precise Biometrics launched a Match-on-Card website www.matchoncard.com in August. The website has been conceived as an complete

information point for parties interested in Match-on-Card, with a clear focus on end-customers. The objective is to spread information on the technology and its business potential, to demonstrate its extensive distribution, and to inspire new applications.

Parent company

Parent company sales for the interim period amounted to SEK 33.4 million (26.3). Operating loss before tax for the interim period amounted to SEK -12.5 million (-27.8).

Liquid assets at the end of the third quarter amounted to SEK 23.7 million (58.3).

Organization and staff

The parent company of Precise Biometrics has its head office in Lund, Sweden. The organization also consists of the subsidiaries Precise Biometrics Inc. in Washington DC, USA, and Precise Biometrics Solutions AB with office in Karlstad. The subsidiary in Asia, Precise Biometrics Asia Ltd., is in the process of being closed. The organization also includes the dormant company Precise Biometrics Services AB.

As of September 30, 2010 the group had 34 (35) employees, 32 in Sweden and 2 in the US. Of these employees, 24 (26) were men and 10 (9) were women.

Investments in tangible fixed assets

No investments in tangible fixed assets were made in the first half of the year.

Capitalization and depreciation of development work

Development work costs of SEK 2.3 million (1.0) were capitalized during the interim period. Depreciation of capitalized costs for development work amounted to SEK 1.1 million (1.0) during the interim period.

During the third quarter development costs of SEK 0.8 million (0.3) were capitalized. Depreciation of capitalized development costs amounted to SEK 0.3 million (0.4) during the quarter.

Patents

The group's long-term patent strategy focuses on establishing a strong protection around Precise Match-on-Card™ as our core technology. The patents portfolio has been successively improved since 2001 and at the end of the third quarter in 2010 included 74 registered patents and 29 applications for patents in 21 different product families. Precise Biometrics has 13 different patent families just for the Match-on-Card technology.

Shares

The company's share is listed on the Small Cap list of the Nasdaq OMX Nordic.

The total number of registered shares at the end of the quarter was 134,960,800. During the interim period the average turnover per day was SEK 1,624 thousand and the list price ranged from SEK 2.58 to 1.40. During the third quarter the average turnover per day was SEK 508 thousand and the list price ranged from SEK 1.90 to 1.40.

The main shareholders as of September 30, 2010

<i>Name</i>	<i>Percentage of share capital</i>	<i>No. of shares</i>
Avanza Pension Försäkring	6.7%	8,990,382
Swedbank Robur fonder	3.9%	5,315,932
Stockpicker fonder	3.6%	4,886,778
Nordnet Pensionsförsäkring	1.8%	2,450,390

Source: SIS Ägarservice

Nomination committee

Following a decision at the Annual General Meeting on April 21, 2010 a Nomination Committee shall be organized. The Nomination Committee shall consist of representatives from each of the three major shareholders per August 31, 2010 as well as the Chairman of the Board.

Accordingly the Nomination Committee consists of Kerstin Stenberg (Swedbank Robur fonder), Per Bernhult (Stockpicker fonder) and Uno Johnsson (HJ Byggkonsulter AB). The Chairman of the Board, Lisa Thorsted, is also represented in the Nomination Committee, and is the convener.

Risk factors

Precise Biometrics is exposed to both commercial and financial risks, which to a large extent lie outside the reach and influence of the company. For a full account of identified risks, please refer to the Annual Report for 2009, which was submitted April 1, 2010. No further essential risks or uncertainties have arisen after the submission of the Annual Report.

Future report dates

Year-end Report	February 4, 2011
General Annual Meeting	April 27, 2011

General Annual Meeting

The general annual meeting for Precise Biometrics AB (publ) will be held on Wednesday April 27, 2011 at 16.00 at Precise Biometrics headquarters in Lund, Scheelevägen 30.

The annual report for 2010 will be published by the latest two weeks before the annual general meeting.

Accounting principles

This interim report has been prepared in accordance with IAS 34, Interim reporting and the Swedish Company Accounts Act.

New IFRS, additions to IAS and IFRIC interpretations taking effect January 1, 2010, will not have a material effect on the financial statements.

For information on the applied accounting principles please refer to the Annual Report for 2009.

The Board of Directors and the President certify that the interim report gives a true and fair overview of the parent company's and group's operations, their financial position and results of operations, and describes significant risks and uncertainties facing the parent company and other companies in the group.

The board of directors

Lisa Thorsted, chairman

Marc Chatel

Lena Widin Klasén

Eva Maria Matell Torbjörn Clementz

Thomas Marschall, President and CEO

Review report

We have conducted a general review of the interim report for Precise Biometrics AB (publ) for the period January 1, 2010 to September 30, 2010. It is the responsibility of the board members and CEO to prepare and present this interim report fair in accordance with the Annual Accounts Act and IAS 34. Our responsibility is to express an opinion on this interim report based on our general review.

We have conducted our general review in accordance with the Swedish Standard for general reviews SÖG 2410 *General review of financial interim information conducted by the company's auditors*. A general review consists of making enquiries, in the first instance to persons who are responsible for financial issues and accounting issues, to conduct an analytic review and to take other general review measures. A general review has a different focus and is of a significantly smaller scope in comparison with the focus and scope of an audit in accordance with the Standards on Auditing in Sweden (RS) and otherwise generally accepted auditing standards. The review measures taken during a general review do not allow us to acquire a sufficient degree of certainty so as to be aware of all the important circumstances we would have identified if an audit was conducted. The opinion we have expressed on the basis of a general review therefore does not have the degree of certainty that an opinion based on an audit has.

On the basis of our general review we have not found any circumstances that have given us reason to believe that the interim report has not in all essential respects been prepared in accordance with the Annual Accounting Act and IAS 34.

Lund, October 20, 2010

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Ola Bjärehäll

Authorized public accountant

Authorized public accountant

Senior auditor

Income statement, Group

(Figures in thousands SEK)

	Q3 2010	Q3 2009	Q1-Q3 2010	Q1-Q3 2009	Full year 2009
Net sales	12,177	14,565	38,606	36,508	68,655
Cost of goods sold	-5,289	-9,344	-15,294	-17,007	-32,863
Gross profit	6,888	5,221	23,312	19,501	35,792
Selling expenses	-4,291	-10,158	-13,527	-22,725	-30,445
Administrative expenses	-2,121	-2,749	-7,388	-9,549	-12,554
R&D costs	-2,542	-2,580	-11,207	-9,076	-12,092
Other operating income and changes in value	-3,075	-1,977	-1,295	-1,711	-977
	-12,029	-17,464	-33,417	-43,061	-56,068
Operating result	-5,141	-12,243	-10,105	-23,560	-20,276
Financial costs	-10	-707	-124	-1,016	-1,492
Result after financial items	-5,151	-12,950	-10,229	-24,576	-21,768
Tax	-	-	-	-	-4
Result for the period	-5,151	-12,950	-10,229	-24,576	-21,772
Result attributable to:					
Owners of the parent	-5,151	-12,950	-10,229	-24,576	-21,772
<i>Results per share, SEK</i>	<i>-0.04</i>	<i>-0.12</i>	<i>-0.08</i>	<i>-0.23</i>	<i>-0.19</i>

Comprehensive income, Group *(according to IAS 1)*

(Figures in thousands SEK)

	Q3	Q3	Q1-Q3	Q1-Q3	Full year
	2010	2009	2010	2009	2009
Change in accumulated exchange rate differences	708	440	128	505	621
Comprehensive income for the period, net of tax	708	440	128	505	621
Profit/loss for the period	-5,151	-12,950	-10,229	-24,576	-21,772
Total comprehensive income for the period	-4,443	-12,510	-10,101	-24,071	-21,151
Total comprehensive income attributable to:					
Owners of the parent	-4,443	-12,510	-10,101	-24,071	-21,151

Balance Sheet, Group

(Figures in thousands SEK)

	9/30/2010	9/30/2009	12/31/2009
Assets			
Intangible fixed assets	5,008	3,959	3,802
Tangible fixed assets	643	939	868
Inventories	6,425	1,933	6,047
Accounts receivable - trade	5,923	8,755	16,758
Other current receivables	2,547	4,486	4,734
Cash and bank balances	30,906	59,321	40,884
Total assets	51,452	79,393	73,093
Equity and liabilities			
Equity	35,307	42,557	45,408
Current liabilities	16,145	36,836	27,685
Total equity and liabilities	51,452	79,393	73,093
Pledged assets	26,400	26,400	26,400
Contingent liabilities	-	-	-

Cash Flow Statement, Group

(Figures in thousands SEK)	Q3	Q3	Q1-Q3	Q1-Q3	Full year
	2010	2009	2010	2009	2009
Cash flow from operating activities					
before changes in working capital	-4,216	-7,016	-9,292	-17,536	-14,276
Cash flow from changes in working capital	1,163	5,546	1,691	978	-6,931
Cash flow from operating activities	-3,053	-1,469	-7,601	-16,558	-21,207
Cash flow from investing activities	-821	-333	-2,377	-990	-1,299
Cash flow from financing activities	0	59,603	0	65,526	52,047
Cash flow for the period	-3,874	57,801	-9,978	47,978	29,541
Liquid funds at the beginning of the period	34,780	1,520	40,884	11,343	11,343
Liquid funds at the end of the period	30,906	59,321	30,906	59,321	40,884

Key Figures, Group

	<u>9/30/2010</u>	<u>9/30/2009</u>	<u>12/31/2009</u>
Working capital (thousands SEK)	29,656	37,659	40,738
Liquid ratio	244%	197%	225%
Equity/assets ratio	69%	54%	62%
Return on average equity	-	-	neg
Capital employed (thousands SEK)	36,705	57,459	46,900
Return on capital employed	-	-	neg
Result per share (SEK)	-0.08	-0.23	-0.19
EBITDA (thousands SEK)	-8,709	-16,482	-12,662
Equity per share (SEK)	0.26	0.32	0.34
Number of shares	134,960,800	134,960,800	134,960,800
Number of employees at the end of the period	34	35	36
Average number of employees during the period	34	39	38

Definitions - Key Figures

Working capital: Current assets less current liabilities

Liquid ratio: Current assets less inventories divided by current liabilities

Equity/assets ratio: Equity as of the balance sheet date divided by total assets as of the balance sheet date

Return on equity: Profit/loss for the period divided by average equity

Capital employed: Balance sheet total minus non-interest-bearing liabilities and provisions

Return on capital employed: Profit/loss after financial items plus financial expenses divided by the average capital employed

Result per share: Profit/loss after tax divided by the average number of shares. The options are not included in the calculation due to calculation of potential shares would result in an improvement in loss per share which is not permitted according to IAS 33

EBITDA: Profit/loss before net financial items, depreciations, write-downs and tax

Equity per share: Equity at the end of the period divided by the number of shares at the end of the period
Quarterly earnings ratios are not disclosed

Operating costs (as described on pg 4): Operating costs excluding costs for products sold, participations in associated companies and goodwill write-down, but including depreciation and write-downs and capitalization of costs for development work

Changes in equity, Group

(Figures in thousands SEK)

	Capital stock	Other paid in capital	Reserves	Balanced profit/year's profit	Total equity
Opening balance as at January 1, 2009	40,488	500,155	-466	-524,173	16,004
Comprehensive income for the period	-	-	505	-24,576	-24,071
Transactions with the shareholders					
Stock option program ¹⁾	-	-77	-	-	-77
New share issue ²⁾	-	50,701	-	-	50,701
Closing balance as at September 30, 2009	40,488	550,779	39	-548,749	42,557
Opening balance as at January 1, 2010	53,984	537,214	155	-545,945	45,408
Comprehensive income for the period	-	-	128	-10,229	-10,101
Closing balance as at September 30, 2010	53,984	537,214	283	-556,174	35,307

¹⁾ Repurchase of 450,000 share options.

²⁾ New share issue totalling 33 740 200 new shares at a rate of SEK 1.60 with deductions for issue costs .

Turnover and profitability by Regions Q3 2010

(Figures in thousands SEK)	North America		Europe		Middle East & Africa		Asia	
	2010	2009	2010	2009	2010	2009	2010	2009
Net sales	7,641	9,753	1,739	2,301	2,095	1,992	724	520
Expenses ¹⁾	<u>-6,780</u>	<u>-7,321</u>	<u>-1,545</u>	<u>-2,128</u>	<u>-2,400</u>	<u>-1,885</u>	<u>-14</u>	<u>-1,124</u>
Operating profit/loss	861	2,431	194	173	-305	107	710	-604
	Latin America		Other		Total			
	2010	2009	2010	2009	2010	2009		
Net sales	-22	-	-	-1	12,177	14,565		
Expenses ¹⁾	-	<u>-7</u>	<u>-3</u>	<u>-188</u>	<u>-10,742</u>	<u>-12,646</u>		
Operating profit/loss	-22	-7	-3	-189	1,435	1,919		

Turnover and profitability by Regions Q1-Q3 2010

(Figures in thousands SEK)	North America		Europe		Middle East & Africa		Asia	
	2010	2009	2010	2009	2010	2009	2010	2009
Net sales	20,421	13,956	8,265	10,965	7,378	7,375	1,652	1,037
Expenses ¹⁾	<u>-15,155</u>	<u>-9,895</u>	<u>-5,505</u>	<u>-10,448</u>	<u>-6,498</u>	<u>-5,353</u>	<u>-333</u>	<u>-2,377</u>
Operating profit/loss	5,266	4,061	2,760	517	880	2,022	1,319	-1,340
	Latin America		Other		Total			
	2010	2009	2010	2009	2010	2009		
Net sales	890	3,175	-	-	38,606	36,508		
Expenses ¹⁾	-	<u>-7</u>	<u>231</u>	<u>-188</u>	<u>-27,260</u>	<u>-28,080</u>		
Operating profit/loss	890	3,168	231	-188	11,346	8,428		

¹⁾ The above expenses in Regions include Cost of goods sold as well as operation expenses for each region.

Income statement, Parent company

(Figures in thousands SEK)

	Q1-Q3 2010	Q1-Q3 2009	Full Year 2009
Net sales	33,351	26,338	57,397
Cost of goods sold	-18,400	-14,271	-28,493
Gross profit	14,951	12,067	28,904
Selling expenses	-10,408	-11,884	-20,562
Administrative expenses	-6,673	-7,989	-10,390
R&D costs	-7,424	-9,076	-12,092
Other operating income and changes in value	-3,175	-4,743	-3,174
	-27,680	-33,692	-46,218
Operating result	-12,729	-21,625	-17,314
Financial costs ¹⁾	245	-6,143	-6,507
Result after financial items	-12,484	-27,768	-23,821
Tax	-	-	-
Result for the period	-12,484	-27,768	-23,821

¹⁾ Include a write-down of the value in the subsidiary Precise Biometrics Solutions AB amounting SEK 5.5 million in 2009

Balance Sheet, Parent company

(Figures in thousands SEK)	<u>9/30/2010</u>	<u>9/30/2009</u>	<u>12/31/2009</u>
Assets			
Intangible fixed assets	4,884	3,804	3,655
Tangible fixed assets	318	531	479
Participations in group companies	1,058	1,058	1,058
Inventories	6,426	1,933	6,047
Accounts receivable - trade	1,886	2,523	6,176
Other current receivables	38,809	40,520	54,865
Cash and bank balances	23,695	58,324	28,494
Total assets	77,076	108,693	100,774
Equity and liabilities			
Equity	67,279	77,755	79,763
Other provisions	173	541	284
Current liabilities	9,624	30,397	20,727
Total equity and liabilities	77,076	108,693	100,774
Pledged assets	24,000	24,000	24,000
Contingent liabilities	2,000	2,000	2,000

Telephone conference

On the occasion of today's Interim Report we have the pleasure to invite investors and journalists to the following informative meeting during the day

- The conference starts at 11:00 (CET)
- To participate, please call + 46 (0)8 506 853 32

An operator will note your name and connect you to the conference. She/he will also provide you with information about what to do if you have any questions.

The presentation will be held in English but afterwards there will be an opportunity to ask questions in Swedish.

Participating on behalf of Precise Biometrics

- Thomas Marschall, President and CEO
- Patrik Norberg, CFO

A recording from the conference will be available for three days after the telephone meeting. To listen to the conference afterwards dial +46 (0)8 506 269 49. When asked to state a reference number please dial 248415 and finish with (#).

Please visit www.precisebiometrics.com/presentations where a presentation can be downloaded.

For further information

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Precise Biometrics is a market-leading provider of products and solutions for fingerprint recognition. The technology proves people's identities in a fast and secure way, while it reduces costs related to password management, identity theft and fraud.

Precise Biometrics serves business and government organizations throughout the world and its technology is licensed to close to 100 million users. Precise Biometrics is listed on NASDAQ OMX Stockholm small cap list (PREC).

For more information, please visit www.precisebiometrics.com

