

SIGNIFICANT MARKET POTENTIAL IN THE US

Precise Biometrics AB (publ), Corporate Identity No. 556545-6596
Interim Report for the period January – March 2011

- The group's net sales for the first quarter were SEK 3.6 million (19.3).
- Losses for the first quarter were SEK -9.7 million (-0.3).
- Loss per share for the first quarter was SEK -0.07 (0.00).
- Available cash at the end of the quarter were SEK 11.6 million (35.5).

Important events during the quarter

- The new more efficient and customer orientated organization, which includes the three business areas Mobile, IAM and Access Solutions, and a new Management Team came into effect January 1, 2011. This is an important part of the strategic platform for the company's development according to the *Plan 2015*.
- Precise Biometrics released a new fingerprint family - Precise Sense™ - targeted for volume sales towards the bank and corporate segments. The product family includes six different types of designs aimed to meet different requirements. Three of the designs were released in January 2011.
- The Board of Directors has resolved, subject to approval of the Annual General Meeting on April 27, to undertake an issue of shares with preferential rights for Precise Biometrics' shareholders that will raise a maximum of SEK 54 million before deduction of issue related costs.

Important events after the end of the quarter

- Precise Biometrics was noted for the fastest result in the MINEX II test – the most important US government test for standardized Match-on-Card. Precise Biometrics was also the only biometric supplier that was approved with three different card manufacturers. New US directives states that all federal government agencies must implement PIV (Personal Identity Verification) - a program that specifies how government employees must identify themselves - starting 2012. And as PIV will include Match-on-Card, Precise Biometrics will be very well positioned on the US government market which comprises 5.7 million users.
- Precise Biometrics launched a new embedded offer. Embedded solutions enable hardware manufacturers to implement biometric verification on their products. Precise Biometrics' new offer enable customers a shorter going-to-market process and a higher freedom to choose the functionalities that fits the hardware better.

For further information

Thomas Marschall, President and CEO, Precise Biometrics AB
Tel. +46 (0)46 31 11 10 or +46 (0)734 35 11 10
E-mail thomas.marschall@precisebiometrics.com

Patrik Norberg, CFO, Precise Biometrics AB
Tel. +46 46 31 11 47 or +46 734 35 11 47
E-mail patrik.norberg@precisebiometrics.com

Precise Biometrics is a market-leading provider of solutions for fingerprint recognition to prove people's identities. With top-of-the-line expertise in fingerprint verification, Precise Biometrics offers fast, accurate and secure authentication of a person.

Its core product, Precise Match-on-Card™, adds value to ID, SIM, enterprise and bank cards as well as systems for access control to buildings, computers and networks. Precise Biometrics serves business and government organizations throughout the world and its technology is licensed to close to 100 million users.

For more information, please visit www.precisebiometrics.com



Significant market potential in the US

- Interview with the President & CEO, Thomas Marschall

How would you sum up the beginning of the year?

There is no doubt in my mind that the biggest event was the very positive results from the US government agency MINEX II. The test showed that Precise Biometrics is in a class of its own when it comes to standardized Match-on-Card technology for one thing we hold the fastest technology. Precise Biometrics was also the only biometric supplier that was approved with three different card manufactures.



This assessment gives us a unique position in the US government market, where a presidential directive already requires every agency to present and implement a plan for how their employees are going to identify themselves. It opens up a market of 5.7 million users, but we might also see this effect to extend beyond the public ID program, in that case we are talking about a market that covers 15 to 20 million persons in the next 3 to 4 years.

What can you say about your development during the first quarter?

One thing that's very important is that during this quarter we have put our new structure in place for the three business areas Mobile, IAM and Access Solutions - a very important part of our strategic platform for the company's development until 2015 - 'Plan 2015'. The new more efficient and customer orientated organization creates transparency and makes it easier for shareholders to follow our development in these different areas. In Mobile, for example, we are seeing a substantial potential for biometrics and in this area we are also making large investments.

We are of course not satisfied with the result for the period. However in comparison with the same period last year one must take in consideration that we had the final delivery of a large order from the US Department of State in the first quarter 2010. Nevertheless this development is in line with our expectations, considering that the US budget was not adopted until in April 2011. The US is our biggest market and along with many other companies the delays have also had a negative effect on us.

Why is Precise Biometrics issuing new shares?

The new issue of shares is related to our ambitious business plan - Plan 2015 - which among other things demands extensive investments in product development. The main emphasis is on biometric solutions targeting mobile handheld units, but there are other areas as well. On the sales side we are also reinforcing with persons with relevant backgrounds within specific segments.

We are also expecting major hardware orders from US government agencies, and the issue is needed to finance the working capital we need to handle these orders.

What is happening within the framework of Plan 2015?

We are quite simply now in a position where our activities are fully in line with the plan. One important job is to capitalize the Company for growth, and this is why we have presented our proposal for a new issue of shares. We have also reinforced the management for the Company



by setting up a new Management Team, and the direct responsibility for Sales and Marketing now lies in each of the new business areas. We are also in the process of recruiting new employees in sales with the emphasis on the US, where we are now reinforcing our presence in order to fully capture the significant market potential in the region.

How do you think your development will progress during the year?

I am convinced that 2011 is going to be the most successful year Precise Biometrics has had so far. It's all about the continuation of our positive development in the last few years, but above all I'm counting on excellent results within the framework of our Plan 2015. The top result in the US MINEX II assessment also gives us a unique position which we will derive great benefit from in the time ahead, above all in the important US market.

Sales and result

First quarter 2011

Sales for the first quarter was SEK 3.6 million, compared to the corresponding period previous year of 19.3 - which included the final invoicing of the large US Department of State hardware order obtained in 2009. The gross margin amounted to 77% compared to 60% last year, with effect from higher proportion of license sales. Operating costs were SEK 12.4 million (11.7). Adjusting for negative currency fluctuations the operating costs are in line with previous year. The Group's net loss for the first quarter was SEK -9.7 million (-0.3).

Loss per share (average number of shares) for the first quarter was SEK -0.07 (0.00).

Financing and liquidity

Equity amounted as of March 31, 2011 to SEK 21.7 million (45.1) and equity/share to SEK 0.16 (0.33).

Cash flow from current operations during the quarter was SEK -11.2 million (-4.7). Liquid assets as of March 31, 2011 amounted to SEK 11.6 million (35.5).

Market and sales – Q1 2011

Sales during the fourth quarter have been characterized by running license sales, within the business area IAM, from the ongoing national ID cards projects. However the postponed budget process in the US has affected Precise Biometrics' hardware sales, since government customers in US haven't been able to place expected orders. Within Access Solutions most sales have been follow-up orders from the largest customer within this business area such as the largest budget gym chain in Scandinavia.

In order to broaden its product range to encompass new industries, remain competitive and be able to offer attractive volume sales, Precise Biometrics has developed a completely new generation of fingerprint readers primarily intended for the banking and corporate segments. This product family, collectively called Precise Sense™, includes six different models and focuses on meeting different types of requirements. Three of the models were launched in January 2011. With Precise Sense™, Precise Biometrics is now offering improved cost-efficiency and enhanced user friendliness. The new readers are available as combined fingerprint and smart card readers, but also as readers only intended for fingerprint recognition. All the readers incorporate either swipe, or touch sensors. In a long term perspective, the new Precise Sense™ readers are expected to be introduced with contactless cards and NFC technology.

The most important event, after the end of the quarter, was the result from the US government test MINEX II, the leading interoperability test for standardized Match-on-Card. Precise Biometrics emerged not only with the fastest technology, but also was the only biometric supplier that was approved together with 3 different card vendors. This gives Precise Biometrics a unique position in the US government market, where a new presidential directive concerning PIV (Personal Identity Verification, a program that specifies how all US federal employees and contractors must identify themselves) states that all US government agencies must implement PIV starting 2012. This opens up a significant market for Precise Biometrics including 5.7 million users.

The new more efficient and customer orientated organization, with the three business areas; Mobile, IAM and Access Solutions and the new Management Team came into effect January 1, 2011. This is an important part of the strategic platform for the company's development according to the Plan 2015.

Parent company

Parent company sales for the first quarter amounted to SEK 2.7 million (17.2). Operating profit before tax for the first quarter amounted to SEK -12.0 million (-0.4).

At the end of the first quarter 22 persons were employed in the parent company. Available cash at the end of the first quarter amounted to SEK 7.9 million (28.1). Investments in tangible fixed assets have been made to an amount of SEK 0.02 million (0.04).

During the first quarter costs for development work were capitalized to an amount of SEK 1.7 million (0.6) with main impact from new investments within the Mobile segment.

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 organization also includes the dormant company Precise Biometrics Services AB.

As of March 31, 2011 the group had 34 (35) employees, 31 in Sweden and 3 in the US. Of these employees, 25 (25) were men and 9 (10) were women.

Investments in tangible fixed assets

In the first quarter the group has invested SEK 0.02 million (0.04) in tangible fixed assets.

Capitalization and depreciation of development work

During the first quarter costs for development work have been capitalized to an amount of SEK 1.7 million (0.6) with main impact from new investments within the Mobile segment.

Depreciation of capitalized costs for development work amounted in the first quarter to SEK 0.2 million (0.4).

Patents

The patents portfolio has been successively improved since 2001 and at the end of the first quarter in 2011 included 70 registered patents and 36 applications for patents in 19 different product families. Precise Biometrics has 11 different patent families just for the Match-on-Card technology.

Shares

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

The total number of registered shares at the end of the quarter was 134,960,800. During the quarter the average turnover per day was SEK 1,337 thousand and the list price ranged from SEK 1.18 to 2.48.

The Board of Directors has resolved, subject to approval of the Annual General Meeting on April 27, to undertake an issue of shares with preferential rights for Precise Biometrics' shareholders that will raise a maximum of SEK 54 million before deduction of issue related costs. The rights issue is guaranteed to 38 million, corresponding to 70% of the total amount.

The subscription price is set at SEK 1.00 per share.

The maximum number of new shares that may be issued is 53,984,320, resulting in an increase from 134,960,800 shares up to a maximum number of shares of 188,945,120 following completion of the rights issue.

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 2010, which was submitted April 4th 2011.

In response to the earthquake disaster in Japan there is a general uncertainty in the electronic component industry in regards to the availability of electronic components from Japan. However, for Precise Biometrics' production no direct risk has currently been identified.

Future report dates

Interim Report Q2	July 19, 2011
Interim Report Q3	October 25, 2011
Year-end Report	February 3, 2012

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, 2011, will not have a material effect on the financial statements.

For information on the applied accounting principles please refer to the Annual Report for 2010.

This quarterly report has not been subjected to review by the Company's auditors.

Lund, April 26, 2011

Thomas Marschall, President and CEO, Precise Biometrics AB (publ)

Income statement, Group
 (Figures in thousands SEK)

	Q1	Q1	Full year
	2011	2010	2010
Net sales	3,554	19,280	44,944
Cost of goods sold	-816	-7,767	-17,425
Gross profit/loss	2,738	11,513	27,519
Selling expenses	-3,586	-4,186	-18,293
Administrative expenses	-3,133	-3,001	-10,012
R&D costs	-4,380	-4,670	-12,526
Other operating income and changes in value	-1,345	112	-1,185
	-12,444	-11,745	-42,016
Operating result	-9,706	-232	-14,497
Financial costs	-23	-98	-135
Result after financial items	-9,729	-330	-14,632
Tax	-	-	-16
Result for the period	-9,729	-330	-14,648
Result attributable to:			
Owners of the parent	-9,729	-330	-14,648
<i>Results per share, SEK</i>	<i>-0.07</i>	<i>0.00</i>	<i>-0.11</i>

Comprehensive income, Group *(according to IAS 1)*
(Figures in thousands SEK)

	Q1 2011	Q1 2010	Full year 2010
Change in accumulated exchange rate differences	234	4	334
Reverse of accumulated exchange rate differences in disposed subsidiary	-	-	150
Comprehensive income for the period, net of tax	234	4	484
Profit/loss for the period	-9,729	-330	-14,648
Total comprehensive income for the period	-9,495	-326	-14,164
Total comprehensive income attributable to: Owners of the parent	-9,495	-326	-14,164

Balance Sheet, Group
(Figures in thousands SEK)

	3/31/2011	3/31/2010	12/31/2010
Assets			
Intangible fixed assets	8,174	4,087	6,664
Tangible fixed assets	626	805	704
Inventories	9,005	5,870	8,402
Accounts receivable - trade	3,357	11,982	4,968
Other current receivables	3,608	5,030	2,809
Cash and bank balances	11,614	35,497	24,544
Total assets	36,384	63,271	48,091
Equity and liabilities			
Equity	21,749	45,082	31,244
Current liabilities	14,635	18,189	16,847
Total equity and liabilities	36,384	63,271	48,091
Pledged assets	26,400	26,400	26,400
Contingent liabilities	-	-	-

Cash Flow Statement, Group

(Figures in thousands SEK)

	Q1 2011	Q1 2010	Full year 2010
Cash flow from operating activities			
before changes in working capital	-9,363	-50	-12,919
Cash flow from changes in working capital	-1,807	-4,649	2,781
Cash flow from operating activities	-11,170	-4,699	-10,138
Cash flow from investing activities	-1,760	-688	-4,710
Cash flow from financing activities	-	-	-1,492
Cash flow for the period	-12,930	-5,387	-16,340
Liquid funds at the beginning of the period	24,544	40,884	40,884
Liquid funds at the end of the period	11,614	35,497	24,544

Key Figures, Group

	3/31/2011	3/31/2010	12/31/2010
Working capital (thousands SEK)	12,949	40,190	23,876
Liquid ratio	127%	289%	192%
Equity/assets ratio	60%	71%	65%
Return on average equity	-	-	neg
Capital employed (thousands SEK)	23,134	46,400	32,494
Return on capital employed	-	-	neg
Profit/loss per share (SEK)	-0.07	0.00	-0.11
EBITDA (thousands SEK)	-9,378	131	-12,485
Equity per share (SEK)	0.16	0.33	0.23
Number of shares	134,960,800	134,960,800	134,960,800
Number of employees at the end of the period	34	35	34
Average number of employees during the period	34	35	34

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

Profit/loss 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 in Sales and result): Operating costs excluding costs for products sold, participations in associated companies and goodwill write-down, but including depreciation and write-downs and after 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, 2010	53,984	537,214	155	-545,945	45,408
Comprehensive income for the period	-	-	484	-14,648	-14,164
Closing balance as at December 31, 2010	53,984	537,214	639	-560,593	31,244
Opening balance as at January 1, 2011	53,984	537,214	639	-560,593	31,244
Comprehensive income for the period	-	-	234	-9,729	-9,495
Closing balance as at March 31, 2011	53,984	537,214	873	-570,322	21,749

Turnover and profitability by segments

Q1 2011¹⁾

(Figures in thousands SEK)

	IAM		ACCESS SOLUTIONS		MOBILE	
	2011	2010	2011	2010	2011	2010
Net sales	1,855	18,095	1,699	1,185	-	-
Expenses ²⁾	<u>-5,692</u>	<u>-18,208</u>	<u>-1,758</u>	<u>-1,576</u>	<u>-5,890</u>	<u>-</u>
Operating profit/loss	-3,837	-113	-59	-391	-5,890	-
	TOTAL					
	2011	2010				
Net sales	3,554	19,280				
Expenses ²⁾	<u>-13,340</u>	<u>-19,784</u>				
Operating profit/loss	-9,786	-504				

1) From January 2011 a new sales organisation came into effect. The 2010 figures are restated accordingly.

2) The above expenses in the segments include Cost of goods sold as well as direct and share of indirect operation expenses. Direct operation expenses also include capitalized development work allocated per segment.

Income statement, Parent company

(Figures in thousands SEK)

	Q1 2011	Q1 2010	Full year 2010
Net sales	2,675	17,176	38,825
Cost of goods sold	-3,232	-8,791	-21,957
Gross profit/loss	-557	8,385	16,868
Selling expenses	-2,539	-3,188	-14,409
Administrative expenses	-2,914	-2,803	-9,012
R&D costs	-2,709	-3,158	-7,232
Other operating income and changes in value	-3,343	312	-2,831
	-11,505	-8,837	-33,484
Operating result	-12,062	-452	-16,616
Financial costs ¹⁾	103	30	349
Result after financial items	-11,959	-422	-16,267
Tax	-	-	-
Result for the period	-11,959	-422	-16,267

Balance Sheet, Parent company

(Figures in thousands SEK)

	<u>3/31/2011</u>	<u>3/31/2010</u>	<u>12/31/2010</u>
Assets			
Intangible fixed assets	8,065	3,947	6,548
Tangible fixed assets	326	437	381
Participations in group companies	1,058	1,058	1,058
Inventories	9,005	5,870	8,402
Accounts receivable - trade	1,863	4,862	2,810
Other current receivables	31,225	46,853	33,403
Cash and bank balances	7,856	28,080	21,129
Total assets	59,398	91,107	73,731
Equity and liabilities			
Equity	51,128	79,341	63,086
Other provisions	156	225	162
Current liabilities	8,114	11,541	10,483
Total equity and liabilities	59,398	91,107	73,731
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 14:30 (CET)
- To participate, please call +46 (0)8 505 598 09

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 257286 and finish with (#).

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

For further information

Thomas Marschall, President and CEO, Precise Biometrics
Tel. +46 (0)46 31 11 10 or +46 (0)734 35 11 10
E-mail thomas.marschall@precisebiometrics.com

Patrik Norberg, CFO, Precise Biometrics AB
Tel. +46 46 31 11 47 or +46 734 35 11 47
E-mail patrik.norberg@precisebiometrics.com

Precise Biometrics AB (Headquarters)
Box 798
SE-220 07 Lund
Tel.: +46 (0)46 31 11 00
Fax: +46 (0)46 31 11 01
E-mail: info@precisebiometrics.com

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