



2010

ANNUAL REPORT



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INVESTMENT IN NEW BUSINESS AREAS TO ENCOURAGE GROWTH FOR PRECISE BIOMETRICS

The market for biometric solutions has never been better. New demand is also emerging in the mobile phone sector, where SmartPhones and Tablet PCs are contributing to the rapid developments. Precise Biometrics will be intensifying its investments in new customer segments where there is significant potential for growth, and will be launching several new products and solutions in 2011.

New expansive customer segments

Our attitudes towards digital information are changing. With the rapid development of SmartPhones and Tablet PCs we are becoming increasingly reliant on the technology that surrounds us and we are storing more and more valuable information in our phones – today we can access most the web-based services no matter where we are. In a world more and more characterized by this type of communication there is an increased demand for protection of the information that we store in our SmartPhones and Tablet PCs.

We put a lot of effort into identifying new customer requirements and there is no doubt that in the Mobile segment there is a great demand for secure identification and authentication, where our technology can bring significant benefits to customers. We started working with several projects in this segment in 2010.

Investment in the Mobile sector is just one of several elements in the new plan we presented in the year-end report for 2010 that will push us towards profitability in 2015. Our Plan 2015 is an ambitious business plan and strategic platform for accelerated growth and includes a new more customer oriented organization.



Tough targets for expansion

The overall objective of Plan 2015 is that Precise Biometrics will qualify for quotation on the Nasdaq OMX Mid Cap list in 2015. For this to happen our growth and revenue need to increase significantly and we need to expand within our chosen segments and achieve a valuation of at least SEK 1.5 billion in accordance with the current listing regulations. This corresponds to five to six times our current valuation.

This is an ambitious target, but I consider it to be entirely realistic considering the great market potential we have identified in the biometrics sector which is the basis for our business plan.

We are already in the process of implementing several activities to increase sales by developing our commercial offer and reinforcing the sales organization.

We have developed a new customer-oriented organization that focuses on the most interesting segments. We continue to refine and package our world-leading technology to clarify how we solve specific problems for our customers. We are also enhancing our competence within our development activities to match the demand emerging in the new areas.

Three business areas with great potential for expansion

In order to focus our efforts on specific customer segments we have as of 2011 organized the Company into three business areas structured around the most interesting and expansive needs of our customers.

- **Mobile** – a completely new business area based on the rapid development of SmartPhones and Tablet PCs. This creates new business opportunities for biometrics and we will initially be focusing on the Apple platform, including solutions for iPhone and iPad, but our objective is to supply products and solutions for all the larger technological platforms in the market. We expect to be already in a position to launch new products and solutions during the second half of 2011. It's within this business segment we are making investments and where we will focus our resources.
- **IAM** – covers the main part of our existing business activities and sales. IAM stands for Identity and Authentication Management and includes solutions for national ID cards and government agencies, banks and corporations, but also embedded solutions that create license earnings on a regular basis. The strategy here is to develop our existing world-leading position and to expand market shares in the ID card segments, mainly through already established

partners.

- **Access Solutions** – continues to build on the success we have already achieved with companies that offer customers and members access to services and capacity via biometric access. This can, for example, apply to gyms that with the help of our solutions stay open 24 hours a day with a minimum of personnel. Another area is security solutions within Aviation. What these solutions have in common is that they address tangible problems and create extra value for customers in the form of greater efficiency, higher potential earnings, or reduced costs. We will already start actively targeting the potential customers in Europe that can benefit from our concept this year.

The objective is that all business areas will achieve a high level of growth and have a major impact on Precise Biometrics' future growth and profitability. Our ambition is that IAM will achieve profitability in 2011, and it is possible that Access Solutions also will achieve profitability this year.

Our reporting to the capital market will be based on these business areas in future, so it will be easy to follow developments.

Continued improved results in 2010

If we look back at the market in 2010 we can see that awareness of our technology and its advantages is much greater now than just one year ago. It is becoming easier to get an overview of the market as it matures and because there are less regional differences. This means that we can focus more on globally marketable solutions for our customers, which is precisely what we want to do with our new business areas.

There has never been as much potential in the market as there is now, and we are involved in several interesting negotiations both with companies and government controlled activities. The greater interest being shown by corporate customers is motivated by two significant requirements: the need for cost-efficiency, and being able to compete with services that are more unique, more secure and more flexible when people need to identify themselves.

Developments in 2010 demonstrate that the trend of a year-by-year improvement in result has continued, which is a consequence of higher margins in combination with lower costs from a more effective organization.

As I have previously maintained, the development of Precise Biometrics must be judged over a longer period of time, especially because we still have to rely on the timing of large individual orders, which result in significant fluctuations in turnover between different quarters. We now believe that by expanding within the Mobile segment we will not only reinforce our growth, but also balance fluctuations between quarters.

Sales this year have involved a combination of fingerprint readers and licenses, and a large part of these sales have gone to existing customers. One important event was the roll-out by our Nigerian partner Interswitch of ID cards in the federal state Cross River State in Nigeria. This government ID project is the first of its kind in the world and a turning point for Precise Biometrics in Africa. The solution is based on our biometric technology in combination with a traditional ID card and payment card.

Prospects for 2011

I am convinced that 2011 is going to be the best year Precise Biometrics has had so far. I am expecting the positive development from previous years to continue, but above all I am counting on excellent results within the framework of our Plan 2015.

Our strategy for future growth includes significant investments in new product solutions within the business field Mobile in 2011. We are expecting orders for national ID cards within the business field IAM where we are involved in several large pilots in Latin America. We are also expecting to increase sales in all areas through our advanced offers and by recruiting sales staff both in Europe and the US.

We will be expanding our development activities so that our competence corresponds to the demands encountered in the new areas. We will among other things be launching more new products and solutions than in any other year, including a new product family of fingerprint readers that focuses on the banking and corporate sector called Precise Sense™. And we will also be introducing a new embedded solution that can be integrated into several different types of hardware products, where biometrics can create value.

All in all, I am looking forward to a year with many new and exciting opportunities for Precise Biometrics!



IMPORTANT EVENTS DURING THE YEAR

Group's net sales...

...for the financial year was SEK 44.9 million (68.7).

Group's income...

...for the year was SEK-14.6 million (-21.8).

Earnings per share...

...for the year amounted to SEK -0.11 (-0.19).

Liquid assets...

...at the end of the financial year was SEK 24.5 million (40.9).

Nigerian partner...

...Interswitch is rolling out a state ID card with technology from Precise Biometrics. It's the first project of its kind in the world. The ID card also includes e-payment.

Two follow-up orders...

...for hardware from an existing customer in the Middle East at a total value of SEK 6.7 million for a Match-on-Card project for government employees.

Several products...

...were launched during the year. Among them you find

- **Precise BioMatch™ ISO Match-on-Card** - a tool for integration of standardized Match-on-Card
- **Precise BioMatch™ ANSI 378** - an integration tool for standardized fingerprint recognition for both PC and Mac
- **Precise BioMatch™ Logon for Windows 7** - and a biometric logon solution for Microsoft's new operating system Windows 7

A new organization...

...has been developed during 2010. Precise Biometrics has reorganized its sales units due to an increase of new business opportunities in combination with developing a more customer oriented organization. The new organization came into effect January 1, 2011 – and consists of three business units: Mobile, IAM and Access Solutions.

After the end of the year...

...Precise Biometrics released a new family of fingerprint readers, Precise Sense™, targeted towards the banking and enterprise segments. The readers focus on cost-efficiency, user friendliness and a high degree of functionality options.

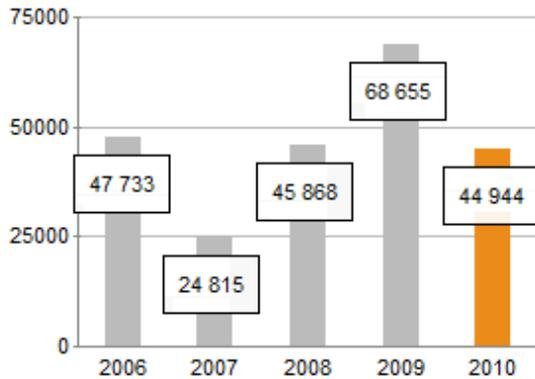
After the end of the year...

...the Board of Directors of Precise Biometrics has resolved, subject to approval of the AGM on April 27, to undertake an issue 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 carried out to realize the Company's business plan – Plan 2015

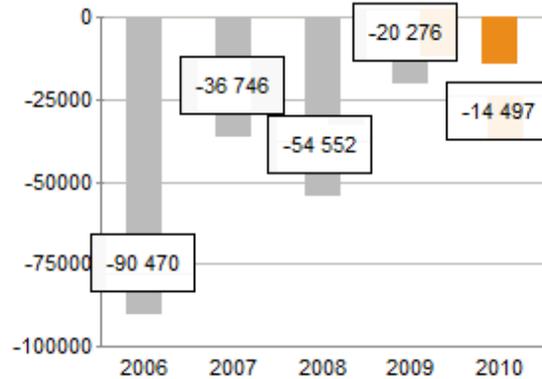
FINANCIAL HIGHLIGHTS

	2010	2009	2008
Net sales, Thousand SEK	44,944	68,655	45,868
Operating profit/loss, Thousand SEK	-14,497	-20,276	-54,552
Gross margin, %	61	52	49
Liquid assets, Thousand SEK	24,544	40,884	11,343
Cash flow from current operations before changes in working capital, Thousand SEK	-12,919	-14,276	-24,778
Working capital, Thousand SEK	23,876	40,738	5,018
Liquid ratio, %	192	225	113
Equity/assets ratio, %	65	62	47
Number of employees at year-end	34	36	44
Profit/loss per share, SEK	-0,11	-0,19	-0,54
Equity per share, SEK	0,23	0,34	0,16

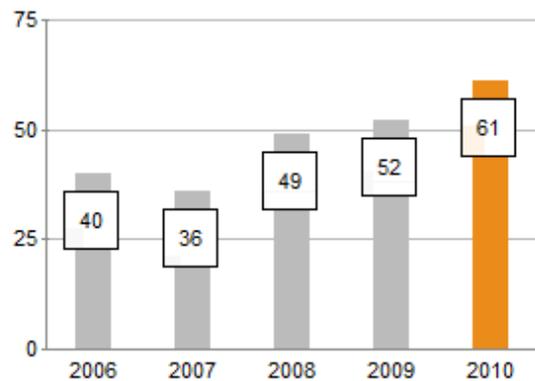
Sales
THOUSAND SEK



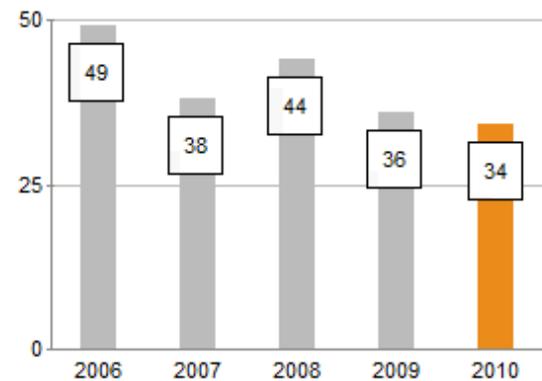
Operating profit/loss
THOUSAND SEK



Gross margin
PERCENT



Employees
NUMBER





PRECISE BIOMETRICS IN ONE MINUTE

Precise Biometrics delivers solutions that quickly, securely and reliably replace PIN codes, passwords and keys with fingerprint recognition. The Company's solutions and advanced technology are used by companies and government agencies all over the world.

The technology

Precise Biometrics supply biometric solutions that include hardware and software for smart cards, computers and embedded solutions.

Precise Biometrics packages its solutions for different market segments. The product portfolio includes Precise Match-on-Card™ – a technology that enables matching and storage of fingerprints on a smart card. Precise Biometrics is a world leader in Match-on-Card and has sold approximately 100 million licenses.



Business model

Precise Biometrics offer both fully packaged end-to-end solutions as well as solutions developed in cooperation with its partners. The Company's products are therefore sold both directly and via partners to end-customers.

Through a powerful network of selected partners, Precise Biometrics can reach out very effectively to the whole world. The Company's partners include the major smart card manufacturers, global systems integrators and local resellers as well as hardware and chip manufacturers.

By offering end-to-end solutions to end-customers in some segments, Precise Biometrics acquires the benefits of profitability while also achieving control over the entire sales flow and more easily creates value to the customer.

Business areas

Precise Biometrics implemented a reorganization of the Company's sales organization in 2010. This was because the Company wanted to adapt to new business opportunities that had developed, and create a more customer-oriented organization. In the year-end report for 2010 Precise Biometrics communicated that as of January 1, 2011 the report would be based on three new business areas: Mobile, IAM and Access Solution.

Read more about these new [Business areas](#)

Customers

Precise Biometrics' solutions are used by global corporations, government agencies, countries and organizations in several different segment areas.

Examples of these applications include national ID cards, ID cards for employees, access and exit control systems to buildings, as well as logon systems for computers and networks.

Precise Biometrics' technology is used in five national ID cards: The US Department of State ID card for US embassy and consulate employees, and in several other government agency and corporate ID cards in the Middle East, the US and Europe.

Network and industrial organizations

By participating in networks, events and industrial organizations, Precise Biometrics creates new business contacts and interfaces.

Examples of industrial organizations where Precise Biometrics has been active in 2010 include Eurosmart and GlobalPlatform.

During the year Precise Biometrics has participated in three EU-financed research projects together with other companies and research institutes. Two of these projects, both of which started in 2008, were completed after the end of year. Both projects has led to commoditization.



THIS IS PRECISE BIOMETRICS

VISION AND OBJECTIVES

Vision

Precise Biometrics' vision is to be a global leader and independent provider of interoperable and adaptable solutions based on fingerprint recognition intended for small secure platforms, and more complete, end-to-end solutions for specific segments.

Business concept

Precise Biometrics' business concept is, together with strong partners and through global networks, to offer countries, government agencies, corporations and organizations user-friendly and interoperable solutions to determine personal identity in a simple, cost-effective and reliable way.

These companies and government agencies thereby save money through reduced costs for authentication and password handling, identity theft and fraud. For users this is a simple and integrity-protecting way of identifying themselves.



Objectives

The main objective of Precise Biometrics' operations shall be long-term growth in value for the Company's shareholders. This shall be achieved through the long-term and strategic choice of profitable transactions, and be implemented through the following strategies and operational objectives.

Operational objectives

Operations shall generate profitable business by helping customers and partners to benefit from the values which Company's technology can bring to their organizations.

Operations shall focus on a limited number of specific business segments to which the company offers complete solutions for fingerprint recognition to establish personal identity. With a complete solution Precise Biometrics can take the overall responsibility for sales and the customer, and can thereby influence the sales cycle.

Precise Biometrics focuses its business to three business units; Mobile, IAM and Access Solutions. These three units will have the following focus: the substantial business potential in the fast development of SmartPhone and TabletPC (Mobile); solutions for national ID cards and governments, banks, corporations and embedded solutions (IAM); and solutions for physical access control (Access Solutions). These solutions address real challenges faced by our customers and create an added value such as increased efficiency, increased revenue possibilities or reduced costs.

The objective is that the new business units will strengthen the continued commercialization of Precise Biometrics' unique technology as each business unit will deliver straight-forward and value adding solutions. This will have a significant effect on profitability together with the expansion of Precise Biometrics' technology to new markets while still building on the success the company has had in the ID card segment.

Market strategy

One of Precise Biometrics' objectives is to develop the Company's world-leading position and to expand its market shares in its specific segments, through already established or new partners as well as in cooperation with end-customers. The overall market strategy is to continue to develop end-to-end solutions to meet specific customer demands. The strategy is also to develop concept solutions and biometric demos verified within different vertical market segments. These solutions address real challenges faced by our customers and create an added value such as increased efficiency, increased revenue possibilities or reduced costs.

Within **Mobile** Precise Biometrics sees great business potential. The Company has identified several different types of demand for verification where biometrics can supply enhanced utility for end users. The objective is that Mobile will help to improve the profitability of the Company and be a contributory factor in achieving Plan 2015. Precise Biometrics will offer packaged overall solutions targeting end-customers, but also potential partners in this area. The Company will also be enhancing its competence within its development activities to support the technological demands set by this business area.

Within **IAM** the Company will develop its position as a world leader and expand market shares in the ID card segment. The continuation of cooperation with already established partners will enable the objective of IAM to be achieved. The strategy for the national ID card market which, while expanding in terms of volumes, is also experiencing a much higher degree of competition and pressure on prices, is to establish new partnerships with chip manufacturers and to some extent with smart card manufacturers, in order to introduce the technology on the broadest possible front. This business area will also be exploring new partners for embedded solutions – Precise BioMatch Embedded.

The business area **Access Solutions** is mainly based on our success with established customers. Biometrics becomes an integrated part of the business concept for customers in this business area because it prevents the unauthorized use of membership cards cutting into their potential earnings, which is a big problem. Access Solutions will continue to build on the success the Company has already achieved. Precise Biometrics will be offering overall solutions directly to these end-customers in order to simplify the process and improve profitability. During the year sales will mainly focus on the European market because this is where the Company has identified the greatest potential for these types of solutions.



THIS IS PRECISE BIOMETRICS

ORGANIZATION

Precise Biometrics' head office is situated in the Ideon Science Park in Lund, Sweden.

Precise Biometrics AB

The parent company Precise Biometrics AB is situated in Lund.

R&D, Administration, Marketing, Sales, Logistics and some of marketing activities are run from the head office in Lund. The company's Management team also operates from the head office.

The Parent company employed a staff of 23 as of December 31, 2010.

Precise Biometrics Solutions AB

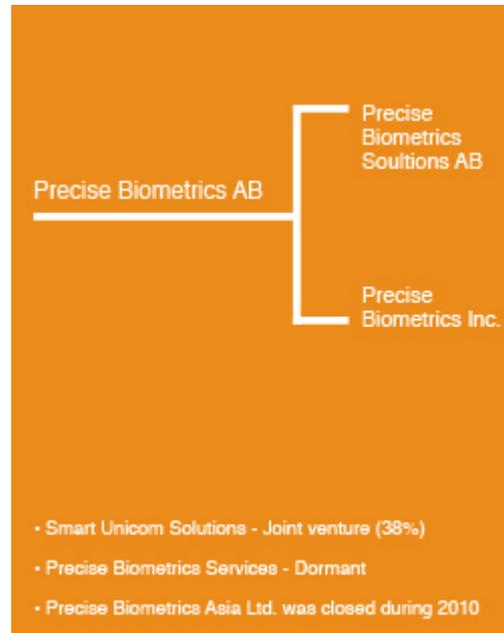
The subsidiary Precise Biometrics Solutions AB has its office in Karlstad, Sweden and is an integrated part of the parent company. The office in Karlstad is mainly engaged in software development, as well as some sales related activities. The company is also engaged in minor external consultancy assignments. The company had 9 employees as of December 31, 2010.

Precise Biometrics Inc.

The company has a subsidiary in the USA since 2000. Precise Biometrics Inc. had two employees as of December 31, 2010.

Other

- The dormant company Precise Biometrics Services is also included in the Group.
- During 2010 the subsidiary Precise Biometrics Asia Ltd. was closed.
- In 2008, Precise Biometrics wrote down the engagement in the partly owned Chinese company Smart Unicorn Solutions as a result of the company not reaching expectations.



THIS IS PRECISE BIOMETRICS

PARTNERS – AND COMPETITORS

Because the biometric sector affects so many different types of industries, the competitive situation is very complex. Precise Biometrics, for example, has competitors in the licensing of technology for smart cards, the development of algorithms, and the production of hardware.

In that the Company works with partners in some segments on different projects, it is not unusual for it to cooperate occasionally with companies that would be considered as competitors in other procurement situations.

Competitors within segments

Precise Biometrics is active in several different market segments (see section for [Business areas](#)). The complexity of the competition in these segments varies from case to case. Precise Biometrics is a market leader in several markets with a roll-out of far more installations than its competitors, while other markets are relatively new to the Company.

Competitors in the different segments consist not only of other biometrics suppliers, but can also include other types of technologies.



Consolidation of the industry

The biometric industry has continued to consolidate during the past year. Several smaller biometric suppliers have been taken over by the larger players. The Safran Group, for example, has been acquired by L-1 Identity Solutions, while their competitor Cogent has been acquired by 3M. Both L-1 Identity Solutions and Cogent have offered different types of biometric systems, which above all have focused on AFIS systems, and only a small part of their operations have been in competition with Precise Biometrics.

The world's two largest sensor manufacturers UPEK and AuthenTec have also merged together during the year. Precise Biometrics has cooperated with both manufacturers previously and this cooperation has continued seamlessly after the merger.

The consolidation in the market is indicative of the maturity of the technology.

Competitors in Match-on-Card

Precise Biometrics is a dominant player in the Match-on-Card sector. There are, however, several competitors in this expanding market, the French-based, Sagem to name one, even though Match-on-Card only consists of a small part of Sagem's product range.

There are also several other companies who offer Match-on-Card on a smaller scale, Siemens and ID3, for example, although none of these companies have achieved a significant deployment of the technology.

The majority of the competitor's Match-on-Card solutions must be combined with specific smart cards or hardware, which limits the options of end-customers. Precise Biometrics' technology is independent of smart card platforms and can also be used together with most of the fingerprint readers in the market.

Hardware

Precise Biometrics is one of the few companies that offers combined smart card and fingerprint readers. These readers are well established in the market and a large number of units have been installed.

During the year Precise Biometrics has invested in the development of a new hardware family – Precise Sense™ – which focuses on cost-efficiency and a user-friendly design for customers. The readers are mainly intended for volume sales to the banking and corporate segments and will expand the Company's product range in relation to new industries. Precise Biometrics has focused on a modular solution, which means that the readers are available in several different models to suit customer requirements. The family will include a total of six models, of which three were launched in the beginning of 2011.

Hardware sales constitute a major part of the Company's overall revenue.

How do we respond to our competitors?

Precise Biometrics, which is a world-leader in Match-on-Card, is a dominant biometric player in the market. Through attractive offers to end-customers and partners, the Company has the most users of Match-on-Card and it leverages this position to penetrate new markets. Reference customers, where the technology is well-tested in large projects where security is essential, are critical for credibility and the further development of the Company's operations.

FLEXIBILITY IS THE KEY

Precise Biometrics' technology stands out from what its competitors have to offer, primarily because of its interoperability and flexibility.

For example, the Match-on-Card technology is compatible with most fingerprint readers, security applications and smart cards, which give end-customers great freedom to choose or replace components themselves according to their specific conditions and requirements.

USER-FRIENDLY PRODUCTS

The unique experience of the Company having large multi-year deployments within the industry means it can offer products that are user-friendly, both from the perspective of end users and end customers.

NETWORKS, EVENTS AND MEDIA

Precise Biometrics influences and monitors the market and competitors through its continuous presence in the industry's key organizations, events, news channels and networks.

HISTORY



2010 – Several new products

Several new products were launched during the year - many had focus on standardization due to Precise Biometrics' great success in US standardization tests.

A significant breakthrough on the African market. The Nigerian partner Interswitch rolls out a state ID with payment functionality. The card includes biometric technology from Precise Biometrics.

A re-organization has been underway during the year in order to develop a more customer oriented organization. The new organization will come into full effect January 1, 2011.

2009 – The largest order

The largest order in the company's history. US Department of State ordered mainly fingerprint readers at the value of approximately 6 million US dollars.

Precise Biometrics' proved to have the best result ever among all entered contributions in Ongoing MINEX. Ongoing MINEX is a US standardization initiative.

2008 – Award-winning Biometrics

Frost & Sullivan appoints Precise Biometrics as key player in the biometric industry based on market growth, innovation and excellent customer service.

For the first time in the company's history, Precise Biometrics reaches a break-even result during the third quarter.

A fifth national ID card order is received, this time from Venezuela. The number of sold Match-on-Card™ licenses now is close to 100 million.

2007 – New organization

A substantial effort went underway to focus the organization's business towards a more market-oriented approach. The number of employees was reduced and the sales organization was divided into five geographic areas.

A license agreement is signed with the Japanese chip manufacturer OKI Electric Industry Co. Ltd. The agreement means that the Precise BioMatch™-technology now will be integrated to parts of a new product line from OKI.

2006 – New CEO

Scandinavian Airlines starts the implementation of biometric check-in from Precise Biometrics on all Swedish domestic flights.

Precise Biometrics' current CEO, Thomas Marschall, joins the company.

2005 – Time to grow

Precise Biometrics acquires Fyrplus Teknik in Karlstad. The subsidiary changes name to Precise Biometrics Solutions in 2007. Today the Karlstad organization is completely integrated in the group's Research and Development department.

Thailand is the first country in the world to integrate Precise Match-on-Card™ on their new national ID cards. Today five national ID card programs includes Precise Biometrics' technology.

2004 – Large orders

The first order is received from US Department of State. Today all employees at American embassies and consulates all over the world use Precise Match-on-Card™ to log on to their computers.

The fitness chain Fitness24Seven decides to use Precise Biometrics' fingerprint recognition to offer their members low prices and 24-hour access to their gyms. Fitness24Seven is today the largest low budget gym in Scandinavia.

2003 – New tools

By launching new tools for Precise Match-on-Card™ integration, the technology is now available for the majority of smart cards.

2002 – Big US breakthrough

The first breakthrough takes place on the American market with customers such as US Department of Defense and US Department of Treasury.

2000 – Stock exchange

The company was listed on the Stockholm Stock Exchange's O-list, which is now replaced with Nasdaq OMX Nordic where the company is listed on the Small Cap list.

The first patent is registered in the US. It was related to matching fingerprints on a PC. Today, Precise Biometrics has 68 different patents.

1999 – First products

The first products are launched on the market. The world's smallest fingerprint reader and the world's first combined smart card and fingerprint reader were among these first products.

1997 – An idea is born

The entrepreneur Christer Fåhræus had the idea of combining smart cards with advanced image analysis for automated fingerprint recognition. Together with Mårten Öbrink and Nils Bernhard, he founded Precise Biometrics.

SUMMARY OF THE FINANCIAL YEAR 2010

Precise Biometrics completed a new strategic platform in 2010 – a new business plan targeting 2015, and a new customer-oriented organization. The Company has also refined and packaged its technology to clarify its product range for the market. Net profit for the year was SEK -14.6 million (-21.8) after tax, as a result of a lower level of sales. The positive aspect is that the trend of annual improvements in profits continues, as a result of improved margins and greater cost-efficiency.

Annual sales

During the year Precise Biometrics had a break-through on the African market as the partner Interswitch launches a SmartCity card in Cross River State in Nigeria. The SmartCity card is a unique government ID card project with biometrics from Precise Biometrics, which combines a traditional ID card with e-payment. The card is intended to function in the entire federal state and all the three million citizens in it will receive their own card.

Precise Biometrics also received two follow-up orders for a total value of SEK 6.7 million for Precise 200 MC, combined fingerprint and smart card readers. The readers will be used together with Precise Match-on-Card™ in the continued roll-out of an ID card project for government employees for an existing customer in the Middle East.

Precise Biometrics' partner OKI ordered licenses for a government project in Asia, where the company's technology is embedded in third-party products. Match-on-Card licenses have also been sold during the year to established partners, for example Gemalto and SafeNet.

New products

Precise BioMatch™ ANSI 378 was launched during the first six months of the year, an integration tool to embed solutions based on standardized fingerprint technology. ANSI 378 has been specified by US government agencies for the so-called PIV card they issue to all their employees.

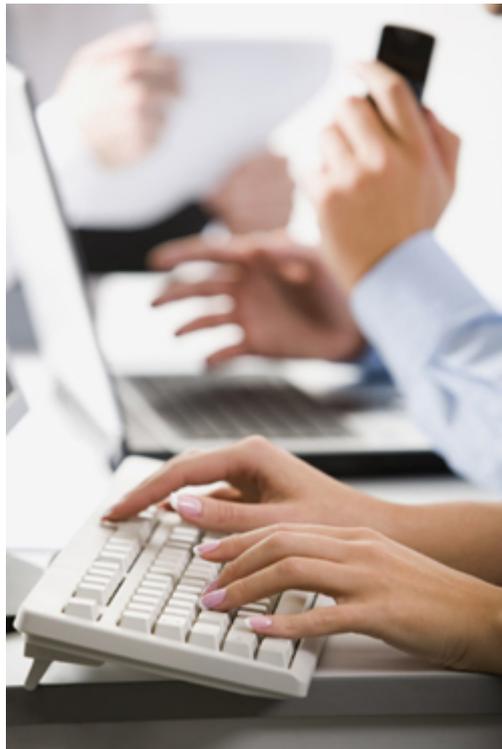
Precise Biometrics has released a new product for integration of the ISO standardized Match-on-Card – Precise BioMatch ISO Match-on-Card. This product is based on technology from the fingerprint extractor that gave the Company the highest ranking in Ongoing MINEX.

Innovations also include a logon product with fingerprint recognition for Windows 7. Precise BioMatch™ Logon for Windows 7 is a solution for simple personal logon to computers by means of fingerprint recognition in Windows 7. The purpose of the launch was among other things to improve the opportunity of testing biometrics in everyday life, before a decision is made on more extensive investments in Match-on-Card technology.

Projects and events

Precise Biometrics participated during the year in several major industrial events, for example the GSMA Mobile World Congress, which is the largest annual event in the mobile sector. The Company demonstrated the matching of fingerprints on SIM cards in mobile phones for ticketless travel, together with Sun Microsystems. Precise Biometrics also participated in the US events RSA Conference and HIMSS, together with Gemalto. Gemalto demonstrated Gemalto.NET Bio, which is based on Precise Match-on-Card and the Windows Biometric Framework for Windows 7.

To highlight its position as a market leader, Precise Biometrics launched a website for Match-on-Card: www.matchoncard.com. The site is intended as an exhaustive information point for the technology and its business utility for interested parties in Match-on-Card, primarily end customers.



New strategic business platform

A strategic platform was completed by the end of the year for the future development of the Company. An ambitious business plan has been prepared to reach forward to 2015. As part of the plan, the Company has developed a new customer-oriented organization. The objective of the business plan is to enable Precise Biometrics to be listed on Nasdaq OMX Mid Cap in 2015. The new organization involves three business areas: Mobile, IAM (Identity and Authentication Management) and Access Solutions. Mobile is a new business area that focuses on the rapid development of SmartPhones and Tablet PCs.

There is more information on the new platform and how to achieve the growth goals in [CEO Comments](#). Read more about the business areas in [Business areas](#).

RESEARCH AND DEVELOPMENT - THE FUTURE

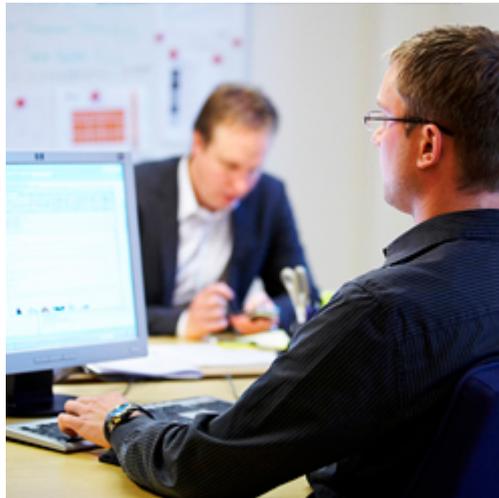
Developing world-leading technology requires major investment, cutting-edge competence and committed people. Precise Biometrics attaches great importance to Research & Development. This is where the new generations of fingerprint solutions are created, and where new products are developed and packaged.

Research

Research at Precise Biometrics is fundamental for the survival of the Company and enables it to remain competitive in an industry that is continually changing. The research team is focused on the further development of the fingerprint algorithms that form the underlying structure of the Company's products. This work takes place both in internal research projects and in external EU financed projects.

EU PROJECTS

In the last few years the research department has participated in two EU projects, Turbine and BioPass, both of which will be completed in the first quarter of 2011. These research projects have been very successful and have led to new products in both cases. A new EU project was initiated in 2010 – eGo – the objective of which is to develop technology for identification between objects and users, and entirely by means of "touch".



STANDARDIZATION

During the year the Research department has worked with different types of standardization projects. Such projects have mainly been focused on standardization of new and old products. Standardization effort has also been targeted towards different types of regional standards – mainly for the US market.

Development

The development department develops and packages Precise Biometrics' products and services. Support and consultancy services are also an integral part of the team's assignments. The development department works both on customer-specific projects and on internal development projects related to Company products and its overall product range. Precise Biometrics Solutions, the former subsidiary in Karlstad, is now fully integrated with the development department in Lund.

NEW PRODUCTS DURING THE YEAR

In parallel with work on customer-specific projects, Precise Biometrics implemented several product launches in 2010 which included a new product for integration of the ISO standardized Match-on-Card – Precise BioMatch™ ISO Match-on-Card. This product is based on technology from the Company's fingerprint extractor that achieved the highest ranking in Ongoing MINEX.

Precise BioMatch™ ANSI 378 was also launched during the year, an integration tool to embed solutions based on standardized fingerprint technology. ANSI 378 was specified in the PIV card issued to all government employees in the US.

Precise Biometrics has also released a solution for simple personal logon in Windows 7. The objective of this launch was that users considering implementing more advanced logon solutions would have the opportunity of seeing how easy it actually is to use biometrics.

During the year the development department has produced a completely new family of fingerprint readers, which will be launched in a total of 6 models. The first 3 models were released after the end of the year in January 2011. The new readers are intended to broaden the Company's product range, above all in volume sales to the banking and corporate segments. The readers are both cost-efficient and easy for customers to use. The new series includes combined fingerprint and smart card readers, as well as readers for only fingerprint recognition.

Patents

Precise Biometrics works actively to reinforce the protection around the Company's products. The patent portfolio has been successively reinforced since 2001 and at the end of 2010 included 68 patents and 28 patent applications within 17 different patent families. Ten patent families refer to Precise Match-on-Card.



RESEARCH AND DEVELOPMENT

PRODUCT PORTFOLIO AND SOLUTIONS

Precise Biometrics offers customers and partners a sophisticated product portfolio of software, hardware and services. Thanks to its extensive experience in the market the Company can offer products that match customer expectations, while also undergoing continual development and improvement.

Software

All the individual products from Precise Biometrics are based on the Company's algorithms, collectively designated as Precise BioMatch, which in turn form the Company's core technology. The algorithms in Precise BioMatch enable matching of fingerprints, on above all small platforms.



Precise Match-on-Card is one of the Precise Biometrics' main offers and is a technology that allows fingerprints to be stored and matched directly on a smart card. It includes software for integration and license-based software for both cards and computers. Precise Match-on-Card is available for several different smart card platforms, such as Java, Multos and .NET, as well as for native integration in the card's operating system. Precise Match-on-Card mainly focuses on the markets for national ID cards, ID cards for employees, and the banking market.

In addition to Precise Match-on-Card, Precise Biometrics also offers software solutions packaged for specific segments. During the year the Company has been working to expand its product portfolio and several products targeting specific industries are expected to be launched in 2011. Precise Biometrics will, for example, be diversifying its activities in relation to mobile applications for SmartPhones and Tablet PCs.

Precise Biometrics launched several software products in 2010. These new products include Precise BioMatch™ ISO Match-on-Card, a tool for integration of the standardized Match-on-Card, Precise BioMatch™ ANSI 378, an integration tool for standardized fingerprint recognition for both PC and Mac, and also Precise BioMatch™ Logon for Windows 7, a logon product with fingerprint recognition for Windows 7.

Hardware

A system for biometric identification also needs, in addition to the software, fingerprint readers. If the system is based on smart cards it will also need a card reader. For several years Precise Biometrics has offered the most established combined fingerprint and smart card readers in the market – Precise 200 MC and Precise 250 MC.

Hardware is an essential part of Precise Biometrics' sales. In order to broaden its product range to encompass new industries, remain competitive and be able to offer attractive volume sales, the Company has now 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 complying with 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. Towards the end of 2011 new Precise Sense readers are expected to be introduced with contactless cards and NFC technology.

For biometric access control, Precise Biometrics is also offering Precise BioAccess 200. This is used together with contactless cards, and fingerprints are matched in the reader.

Embedded

Precise BioMatch Embedded enables a partner or customer to integrate the Company's technology in hardware products. These products are targeting companies that work with payment terminals, access control systems, and banking services. Precise Biometrics' embedded product range will also be improved in 2011.

Support and other services

With many years of experience in the biometrics industry, Precise Biometrics is intimately familiar with the implementation of biometric projects. The Company offers various different services to its customers and partners – training, system design, system integration, integration support, upgrade support, testing and evaluation.

The services Precise Biometrics offers its end-customers and partners give them the opportunity to achieve the best possible biometric performance, and also much faster penetration in the market with their products or solutions.

NEW BUSINESS AREAS

Precise Biometrics began a reorganization of its sales activities in 2010. The Company is currently engaged in several projects that lie outside the traditional sales channels, which is why it was decided during the year to divide sales into three new business areas: Mobile, IAM and Access Solutions.

The objective is that the new business areas will have a greater impact on profitability by diversifying Precise Biometrics' technology to new markets, while also building on the success the Company has had in the ID card market.

The new segments are:

- **Mobile**
A completely new business area that benefits from the rapid development of SmartPhones and Tablet PCs. [Read more...](#)
- **IAM**
The Company's traditional sales, primarily to the ID card market, banks and embedded solutions. [Read more...](#)
- **Access Solutions**
Builds on the success the Company has had within the framework for physical access. [Read more...](#)

Read more under each respective business areas. Precise Biometrics will be reporting on the basis of these new segments as of 1 January, 2011.



BUSINESS AREAS

MOBILE – NEW BUSINESS PAVES THE WAY

Operations

Mobile is a completely new business area for the Company and will focus on the rapid development of SmartPhones and Tablet PCs.

In a world increasingly characterized by different types of mobile communication there is a need to protect the information we store in our SmartPhones and Tablet PCs. The whole way in which we relate and interact via digital mobile communication is undergoing continuous development and this is where Precise Biometrics sees an enormous business potential. The Company has identified several different types of demand for verification where biometrics can supply enhanced utility for end-users.

Initially the Company will focus on the Apple platform, including solutions for iPhone and iPad, but the objective is to supply products and solutions for all the larger SmartPhone platforms in the market.

Precise Biometrics is planning to launch new products and solutions during the second half of 2011.

Objective

The objective is that Mobile will be a strong contributory factor in achieving Plan 2015 (read more under Vision and Objectives) offering user oriented products creating value to the customers in an extensive market.

This business area will also help to dampen the fluctuations between different quarters resulting from long decision-making period in other segments.

Strategy

The strategy for future expansion includes significant investments in new product solutions in the Mobile business area in 2011.

Precise Biometrics will offer packaged overall solutions targeting end-customers, but also potential partners in this area.

The Company will also be enhancing its competence within its development activities to support the technological demands set by this business area. This means that a large part of the Company's investments in Research & Development in the coming year will relate to the Mobile business.



BUSINESS AREAS

IAM – TRADITIONAL SALES

Operations

IAM (Identity and Authentication Management) will be focusing on the Company's traditional sales such as the ID card sector, as well as the corporate and banking sector. Embedded solutions will also be included in IAM.

Precise Biometrics has been very successful in this market and its references include five national ID cards and ID cards for the employees of government agencies, such as the US Department of State.

Activities will primarily focus on sales of fingerprint readers, Precise Match-on-Card, and Precise BioMatch Embedded.

After the end of the year the Company launched a new family of fingerprint readers, which will be an important tool for IAM's sales activities in relation to the banking and corporate ID card segments.



Objective

The IAM business area already accounts for a large part of Company turnover.

Within IAM the Company will develop its position as a world leader and expand market shares in the ID card segment.

Because this business area is often characterized by long decision-making times, profits can fluctuate between quarters. Nevertheless the ambition is that IAM will be achieving profitability on an annual basis starting in 2011 and thereafter continue to be a profitable business segment. The success achieved within IAM also forms a platform from which the Company can penetrate new markets.

Strategy

The continuation of cooperation with already established partners will enable the objective of IAM to be achieved. The Company now cooperates with world-leading partners like the card supplier Gemalto, and together with these selected partners Precise Biometrics will be packaging and offering complete solutions to end-customers.

The strategy for the national ID card market which, while expanding in terms of volumes, is also experiencing a much higher degree of competition and pressure on prices, is to establish new partnerships with chip manufacturers, and to some extent with smart card manufacturers, in order to introduce the technology on the broadest possible front.

This business area will also be exploring new partners for embedded solutions – Precise BioMatch Embedded.

The sales team in IAM will also be expanded during the year and operations will be conducted from different parts of the world.

BUSINESS AREAS

ACCESS SOLUTIONS - AN INTEGRATED PART OF THE CUSTOMER'S CONCEPT

Operations

The business area Access Solutions is mainly based on Precise Biometrics' success with established customers, who in turn give their customers and members physical access to different types of services and capacity with fingerprint recognition.

This is used, for example, at 24-hour gyms. As an example the technology is used by the largest budget gym in Scandinavia – Fitness24Seven. The solution allows customers to keep membership prices at low levels due to a minimum number of personnel. Biometrics becomes an integrated part of the business concept for customers in this business area because it prevents the unauthorized use of membership cards cutting into their potential earnings, which is a big problem.



Other similar business activities that benefit from the biometric concept will be actively targeted in Europe via different campaigns during the year.

Objective

Access Solutions focuses on sales activities to expand the customer base for the types of customers who already use these solutions, but also to identify new types of customers for this technology and target them to expand this business area.

Strategy

Access Solutions will continue to build on the success the Company has already achieved, primarily by directly targeting end customers.

The Company will be offering overall solutions directly to these end-customers in order to simplify the process and improve profitability. Activities in this area are already based on this end-to-end business model.

During the year sales will mainly focus on the European market because this is where the Company has identified the greatest potential for these types of solutions.



COOPERATION THAT DEFINES THE FUTURE

Identification by using fingerprints is now an established technology with well-recognized advantages, and biometrics continues to attract more and more interest. Many of the projects in which Precise Biometrics takes part are implemented together with both partners and customers, and the list of exciting projects is long.

Precise Biometrics' customers include security-demanding US government agencies, global corporations and organizations. They include the US Department of State, AXA technologies, and five countries that have chosen to use Precise Biometrics' technology on their national ID cards. Our partners include some of the largest card suppliers in the market, such as Gemalto, Gisecke & Devrient and Spyrus.

[Here](#) is an interview with Richard Parris, Chairman and Chief Executive of the British company Intercede. Precise Biometrics and Intercede have many years of cooperation behind them and jointly develop security systems for large organizations. Intercede's largest customer is the US government with subsidiary organizations such as the Department of Education and the Federal Aviation Administration.



[de here](#)



CUSTOMERS

A FRUITFUL PARTNERSHIP WITH INTERCEDE

British Intercede and Precise Biometrics jointly offer security systems for large organizations. The increasing size of modern systems demands higher levels of security, reliability and cost-efficiency. As a key supplier of security systems to mainly US government agencies, Intercede emphasizes the superiority of biometrics, and believes that Match-on-Card will continue to be used to a far greater extent.

Intercede – a well-known player

Intercede has a turnover of 10 million dollars and is active in the UK, the US and France. Their product range includes the software Intercede MyID, a well-established identity and security platform.

“Our main customers are governments and large, global companies,” explains Richard Parris, CEO of Intercede. “Intercede MyID helps these types of organizations to issue, register, store and administrate identity documents.”

A long and fruitful partnership

Intercede and Precise Biometrics have been cooperating for about 10 years, in principle since the development of fingerprint recognition first penetrated the market.

“We have been working with security documents and biometric identification for many years, and we have always experienced Precise Biometrics’ hardware to have a leading position in the market. Our software platform is reliant on hardware and even if our customers use a variety of different systems, many of them prefer Precise Biometrics’ solutions. The technology always delivers what it promises and we are happy to emphasize Precise Biometrics’ products as a recommended choice.”

Assignment: to protect the US infrastructure

The US government is one of Intercede’s largest and most important clients. It uses the company’s MyID system in combination with technology from Precise Biometrics.

“We jointly offer systems for identity documents that in the final analysis must be capable of protecting the US infrastructure. The assignment involves a large number of subsidiary organizations and departments, for example the Department of Education and Federal Aviation Administration – a solution that includes over 100,000 users.”

Biometrics and Match-on-Card – natural solution for future challenges

Intercede is convinced that fingerprint recognition will become more and more important as the integration between different systems increases. And in this context Match-on-Card will be playing an ever greater role.

“We work with a large number of different systems, including Match-on-Card, which we consider has many advantages. We believe that many organizations all over the world will come to realize the advantages of a transition to Match-on-Card, and our purpose now is to make sure that the beneficial use of biometrics in smart cards is understood by a greater audience. This is where we walk hand in hand with Precise Biometrics, which we consider has one of the best systems for Match-on-Card in the market.”

Fingerprint recognition is becoming more and more important

Intercede believes that the industry of fingerprint recognition will continue to expand in the market.

“The more we see how different ID solutions, banking systems and payment systems are woven together, the more we will see how the superiority of biometrics in terms of security, simplicity and cost-efficiency will become more widely acknowledged. Biometric identification will without doubt continue to outcompete more resource-heavy alternatives such as password-based systems. Well-established companies like Intercede and Precise Biometrics have laid the foundation for this development and the challenge now is to further reinforce these positions as market leaders and to continue to launch new products and services. There are many opportunities here which we look forward to administrating together with Precise Biometrics – for many years ahead.”

MEET THE PEOPLE BEHIND THE COMPANY

The development and success of Precise Biometrics is directly related to the knowledge and innovative skills of the individual employees. Each new product breaks new ground, and the competition is intensive. How do employees handle such challenges?

Confidence, responsibility and job satisfaction

All employees should feel that their knowledge and opinions are in demand. They are invited to become part of an international, exciting and dynamic organization where new, technological advances are part of everyday life. The working environment is characterized by openness, influence, a high degree of responsibility and great opportunities to develop. The Company encourages further education and also offers a series of benefits such as a company health service, an options program and a result-based bonus program.



Employee statistics

- The number of employees within the group amounted to 34 (36), of which 2 in the US, at the year end.
- Of the total number of employees at the end of the year, 24 (26) were men and 10 (10) were women.
- The Company has a high proportion of employees with an academic education: 91 per cent.
- The Company has a low incidence of sick leave; in 2010 it was 1.0 per cent (1.7).
- Personnel turnover in the group was 11.7 (21.1) per cent, and the average age was 39 (38).
- Salaries and other remunerations, excluding payroll overheads, amounted to SEK 23.1 million (28.2) during the year.

Fredrik, Anna and Per tell their stories

Read more about our employees – three of our co-workers tell their stories how it is to work at Precise Biometrics.

- **Fredrik** believes in the future
- **Anna** likes being close to decisions
- **Per** has the whole of Europe on his plate

EMPLOYEES

FREDRIK BELIEVES IN THE FUTURE

Fredrik Rosqvist works as an algorithm specialist in the research and development department. He came to Precise Biometrics as a twenty-nine year old, and was given a lot of responsibility right from the start.

What does an algorithm specialist do?

Two parts are fundamental in biometric technology. The first is extraction of data from an image of a fingerprint. The second is matching the extracted data with another set of data. I work a lot with the development of both parts.

So three years ago you were put into a bit of tight spot straight away?

You could say that, me along with three others, who started in the research department at the same time. It was a challenge because the department was undergoing some big changes at the time. We were given a lot of responsibility and they expected a lot of us.

Did your education help?

It was one the deciding factors when I took this job. I have studied at the Lund Institute of Technology as an image analyst, and in my last job as a software developer for mobile phones I couldn't put my specialist knowledge to much use. Here I'm working with improving the performance of fingerprint analysis so that you get the best possible identification, and so that the algorithms take up the least possible memory space and are as fast as possible.

What does your working day look like?

There is a lot of variety. Our projects might be initiated by a product manager or a seller who has come up with an idea for product development, but it also happens that we might see potential for further improvement ourselves, which we then go on to present. We are a small company where there is close cooperation between the departments, so you feel that you get the opportunity to contribute.

What does the future look like?

I think it's going to be really exciting to watch our future development. We are at a stage where we have put in a lot of effort and we are all hoping that what we have done is going to bear fruit.





EMPLOYEES

ANNA LIKES BEING CLOSE TO DECISIONS

Anna Herdenberg has been the Company's internal lawyer for the last three years. As a lawyer at Precise Biometrics she works with the whole organization and enjoys this proximity and the opportunities to make quick decisions.

As the Company lawyer, what do you do?

A lot! All legal issues go through me, so it's quite a wide spectrum. A lot of the information is related to the fact that we are listed on the stock exchange, such as issues concerning Corporate Governance, which can involve preparations for board meetings and Annual General Meetings. I work a lot with contract issues and support our sellers in negotiations with partners and customers. I also handle industrial and intellectual property rights, i.e. our patents, trademarks and patterns.

What did you do before?

I worked as a consultant at Awapatent for fourteen years with intellectual property rights, I was also responsible for our team of lawyers there towards the end. Part of my job was working with the processes of change in conjunction with major reorganizations. After that I was working for myself for a time and worked in a few different areas, human resources for example.



What was the attraction with Precise Biometrics?

I think I was looking for more of a generalist role – where I can have an influence in a wide range of areas throughout the whole organization. When I was asked, I had no hesitation in saying yes.

What is it that's different here?

It's very easy to move things ahead. Here everyone is accessible, we work close to each other over departmental boundaries and can make quick decisions when we need to.

How would you describe Precise Biometrics?

As a company in an incredibly exciting industry, with a flat organization, open-minded, and with personnel that have a high degree of competence and knowledgeability. I also like the fact that we are a modern and flexible company. There are opportunities to influence the small things in the world around us, like in relation to sustainable thinking. I also feel a certain element of pride that the majority of the people on the board at Precise Biometrics are women, which is very unusual in listed companies.

EMPLOYEES

PER HAS THE WHOLE OF EUROPE ON HIS PLATE

Per Bahr lives in London, where he works with sales. He has been working at Precise Biometrics since 2010 and has found out that he really enjoys working for the Company, and that it's even made him proud to be a Scandinavian.

You work with sales in Europe, how does it work?

It's going well, although I have a large geographic area to cover. I have some fantastic colleagues who help with the logistics and other things. My job involves keeping in touch with customers and partners, but it does include some marketing and trade shows.

Is it a lot different from the time you spent in the microprocessor industry?

Yes, in quite a few ways. There is a lot more interest in biometrics than the products I was working with before. We have such a lot to offer our users with biometrics in terms of security, convenience and time. And then your life changes when you move from a large US company to a small Swedish one. There is space here for everyone to ask questions and to contribute to the development of the Company. And also respect for the individual and family life, which means that you feel proud of Scandinavia.

**How does it work living in London as your base?**

It's excellent. I get over to France by train, and in London we have as many airports as in the whole of southern Scandinavia – it's easy to reach the rest of Europe. Lots of big companies have offices here and London has a strong financial sector. This is ideal for a company that works with smart cards and biometric identification.

How do you see the future?

I believe that we have good products and are well-positioned in biometrics. We can do quite a lot of things that nobody else can, which is positive for our future prospects. It's also interesting for me personally. I really appreciate my job, the congenial organization, and working with so many competent people.

A HEALTHY ORGANIZATION FOR SUSTAINABILITY

Precise Biometrics have a responsible attitude and will too achieve sustainability in the organization. The company acts with respect for customers, owners and employees, as well as for other stakeholders and the environment. Precise Biometrics assures these ambitions by following international principles.

Code of Conduct

The Code of Conduct highlights the fundamental principles that Precise Biometrics observes when conducting its business operations, and supports the Company's employees in their relations with business partners and other interested parties. Precise Biometrics' Code of Conduct is based on:

- The UN general declaration on human rights.
- The UN initiative Global Compact, the objective of which is to promote social and environmental awareness in internationally active companies.
- The ILO declaration on fundamental principles and rights in the workplace.

All employees are expected to support and uphold the Company's values and responsibilities. Precise Biometrics also encourages its suppliers and other business partners to follow these principles. The Code of Conduct includes a policy structure that helps employees to act and take decisions in accordance with the code.



Ethics - Secure identity and preservation of integrity

The objective of Precise Biometrics' solutions is to enhance security during personal identification, while also preserving or reinforcing personal integrity. Individuals, companies and public authorities all over the world use Precise Biometrics' systems every day to secure their identities and protect their integrity. The right to feel safe and secure is one of the most important fundamental principles in a democratic society. It is important to emphasize that this also includes their right to be able to identify themselves and protect their integrity and property. This is a corner stone in a well-functioning society.

ADVANTAGES OF PRECISE BIOMETRICS' TECHNOLOGY FROM THE PERSPECTIVE OF INTEGRITY

- In many countries it is difficult for individuals to identify themselves in their dealings with banks and public authorities. By matching fingerprints with information stored on a smart card it is possible to identify individuals in a secure way, without having to connect to a central database. This would, for example, enable contacts with banks and healthcare in developing countries to be simplified.
- Protects ownership rights.
- Reduces the risk of identity theft.
- Reduces the need for storage of identity details in databases, which in turn reduces the risk that sensitive personal information can be stolen or misused.
- Reduces the risk of unauthorized persons gaining access to protected areas, e.g. airports, power stations, offices etc.
- Reduces the risk of unauthorized access to computer systems.

RISKS WITH PRECISE BIOMETRICS' TECHNOLOGY FROM THE PERSPECTIVE OF INTEGRITY

- There is a potential risk of misuse with all technical equipment from the point of view of the users. Products that enhance security can be misused to limit the movement of individuals for the wrong reasons.
- Handling errors can potentially create problems for individuals who are affected, and it is therefore of great importance that Precise Biometrics' solutions are implemented and used correctly.

PRECISE BIOMETRICS' RESPONSIBILITY

The Company's sales are mainly directed to global and well-established partners, and seldom directly to end-customers and end-users. The Company has confidence in the processes and policies of its partners in terms of analysing the countries and organizations that use the products and the risks/infringement that this usage could pose for Precise Biometrics' Code of Conduct or national legislation. Precise Biometrics also conducts its own risk analyses during its establishment in new markets or when entering new partnership agreements in those cases and to the extent the Company considers this to be necessary. The Company's subcontractors must follow the agreed guidelines drawn up in supplier contracts. In 2010 Precise Biometric initiated the development of a separate policy for suppliers and the work will continue during 2011. The Company is non-political and does not support special interests. Precise Biometrics maintains a high level

of business ethics and all our employees are encouraged to report any deviations from the Code of Conduct to their immediate manager.

Environment

Precise Biometrics' core products consist of intangible assets such as software and algorithms, which are sold in the form of user licenses. In this context the Company also supplies development tools and other user interfaces for fingerprint recognition. Use of the Company's products has no, or negligible impact on the environment. The products can also be used to reduce the use of paper, since signatures can be made digitally by means of fingerprints instead of a physical signature on a printed document.

Precise Biometrics does not manufacture physical products and purchases electronic components from different suppliers for assembly by subcontractors. Precise Biometrics only chooses well-known and established suppliers that have signed delivery contracts.

Recyclable and non-toxic materials and components should be used as far as this is possible. Subcontractors are responsible to ensure that they follow the handling instructions included with products when they are discarded. Precise Biometrics complies with the EU's RoHS directive on the restriction of hazardous substances in electronic products and the WEEE directive on collection and recycling.

Precise Biometrics also aims to minimize the number of travels made and to select the most environment-friendly means of transportation possible. Recycling and the efficient use of resources are key factors in purchasing for the Company's offices.

Staff

Precise Biometrics shall be a safe and stimulating workplace. All forms of discrimination are unacceptable, which is regulated in Company's HR policy. All employees are entitled to annual developmental conversations with their immediate manager and a personal development plan. Issues concerning the working environment, health and safety are handled within the framework of Swedish legislation.



THE SHARE AND SHAREHOLDERS

History

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

As of December 31, 2010, the company had 134,960,800 shares listed on the Small Cap list of Nasdaq OMX Nordic. A standard trading unit is one share. The short name is PREC and its ISIN code is SE0001823303.

Share Price Movement

In 2010, there was a total turnover of 218,041,940 PREC shares, i.e. an average turnover of 908,508 shares per day of trading. The closing price on December 30, 2010 was SEK 2.40. During the year the stock price varied between SEK 1.40 and 2.58.

Ownership

There were 7,897 (8,362) stockholders at the end of the year. 13.7 (18.7) per cent of the shareholders were from outside Sweden. See table, for ownership structure as of December 31, 2010.

Option program

Precise Biometrics has one ongoing option program.

It includes the management team and was launched in 2008 and ends in May 2011. The program consists of 2,500,000 options.

See also Note 18 for additional information.

Stockholder information

Previous annual reports, interim reports and other information may be found at www.precisebiometrics.com. Information may also be ordered by calling +46 (0)46-31 11 00.

Questions can be addressed directly to the Company via email to investor@precisebiometrics.com.

CAPITAL STOCK DEVELOPMENT

	<i>Increase in no. of shares</i>	<i>Total no. shares</i>	<i>Increase in capital share, SEK</i>	<i>Total share capital, SEK</i>	<i>Nominal amount, SEK</i>
1997 - Company registered	1,000	1,000	100,000	100,000	100
1997 - New Issue	220	1,220	22,000	122,000	100
1998 - Split	1,218,780	1,220,000	-	122,000	0.1
1998 - New Issue	180,000	1,400,000	18,000	140,000	0.1
1998 - New Issue	223,700	1,623,700	22,370	162,370	0.1
1999 - Bonus issue	-	1,623,700	487,110	649,480	0.4
1999 - New issue	720,000	2,343,700	288,000	937,480	0.4
2000 - New issue ¹	250,000	2,593,700	100,000	1,037,480	0.4
2000 - Redemption of subs. options	74,000	2,667,700	29,600	1,067,080	0.4
2000 - New issue ²	600,000	3,267,700	240,000	1,307,080	0.4
2000 - Redemption of subs. options	204,500	3,472,200	81,800	1,388,880	0.4
2001 - Redemption of subs. options	54,500	3,526,700	21,800	1,410,680	0.4
2002 - New issue ³	350,000	3,876,700	140,000	1,550,680	0.4
2002 - Redemption of subs. options	80,000	3,956,700	32,000	1,582,680	0.4
2002 - New issue ⁴	7,913,400	11,870,100	3,165,360	4,748,040	0.4
2003 - New issue ⁵	23,740,200	35,610,300	9,496,080	14,244,120	0.4
2004 - New issue ⁶	5,000,000	40,610,300	2,000,000	16,244,120	0.4
2004 - New issue ⁷	20,305,150	60,915,450	8,122,060	24,366,180	0.4
2005 - New issue ⁸	105,000	61,965,450	420,000	24,786,180	0.4
2005 - New issue ⁹	1,053,750	63,019,200	421,500	25,207,680	0.4
2005 - New issue ¹⁰	8,700,000	71,719,200	3,480,000	28,687,680	0.4
2005 - New issue ¹¹	71,250	71,790,450	28,500	28,716,180	0.4
2006 - New issue ¹²	1,125,000	72,915,450	450,000	29,166,180	0.4
2006 - New issue ¹³	24,305,150	97,220,600	9,722,060	38,888,240	0.4
2007 - New issue ¹⁴	4,000,000	101,220,600	1,600,000	40,488,240	0.4
2009 - New issue ¹⁵	33,740,200	134,960,800	13,496,080	53,984,320	0.4

1) Issue directed to institutional investors. The subscription rate amounted to SEK 160 and Precise Biometrics received an issue amount of SEK 40 million.

2) Issue directed to institutional investors. The subscription rate amounted to SEK 225 and Precise Biometrics received an issue amount of SEK 135.3 million.

3) Issue directed to institutional investors and a small number of large private investors. The subscription rate amounted to SEK 87 and Precise Biometrics received an issue amount of SEK 30.5 million.

4) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 4 and Precise Biometrics received an issue amount of SEK 31.7 million.

5) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 1.70 and Precise Biometrics received an issue amount of SEK 40.4 million.

6) Issue directed to institutional investors and a small number of large private investors. The subscription rate amounted to SEK 3.10 and Precise Biometrics received an issue amount of SEK 15.5 million.

7) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 2.25 and Precise Biometrics received an issue amount of SEK 45.7 million.

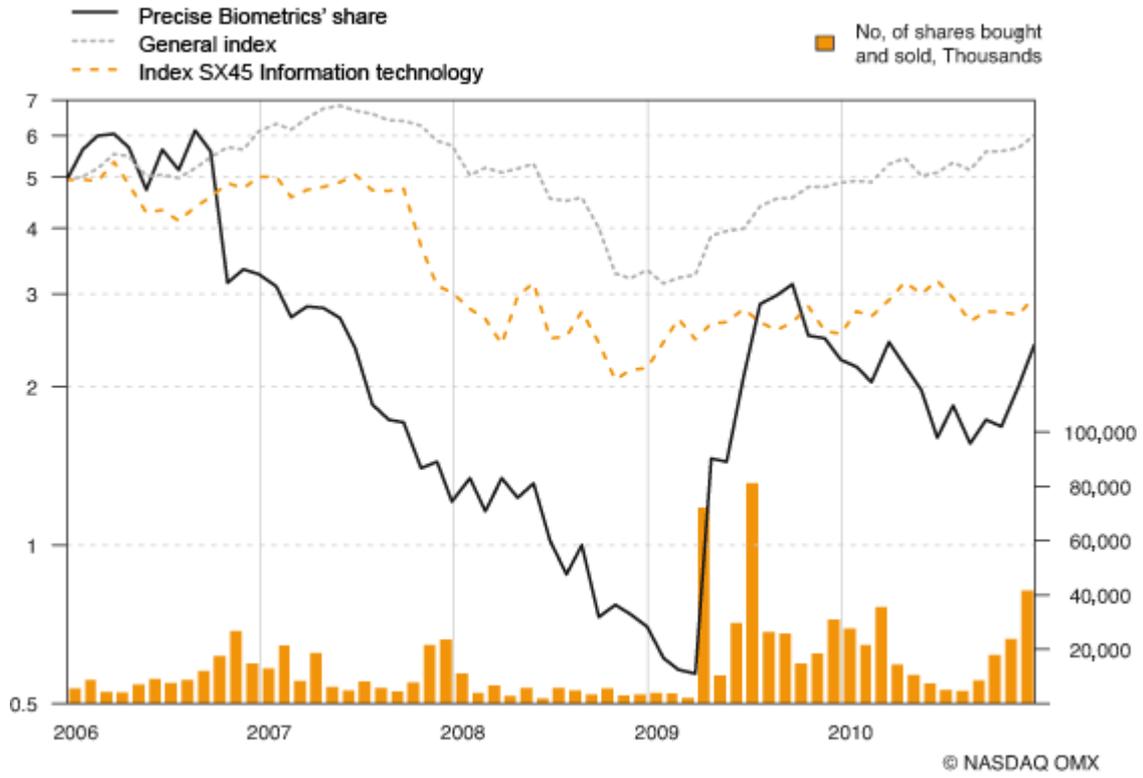
8) Issue directed to the Japanese partner Silex technology, Inc. The subscription rate amounted to SEK 7.04 and Precise Biometrics received an issue amount of SEK 7 million.

- 9) Issue directed to Loqware Sweden AB's main shareholders for acquisition of the company for a value of SEK 8.3 million.
- 10) Issue directed to European institutional investors. The subscription rate amounted to SEK 7.25 and Precise Biometrics received approx. SEK 63 million before deductions for issue costs.
- 11) Issue for acquisition of remaining shares in Loqware Sweden AB. Precise Biometrics received approx. SEK 580,000.
- 12) Non-cash issue for acquisition of 30 per cent of Smart Unicorn Solutions.
- 13) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 3.50 and Precise Biometrics received an issue amount of SEK 85 million.
- 14) Non-cash issue for acquisition of 8 percent of Smart Unicorn Solutions.
- 15) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 1.60 and Precise Biometrics received an issue amount of SEK 54 million.



THE SHARE AND SHAREHOLDERS

SHARE PRICE MOVEMENT AND TURNOVER





THE SHARE AND SHAREHOLDERS

SHAREHOLDER STATISTICS

Shareholder register

	<i>No of shares</i>	<i>No in % of share capital and votes</i>
Avanza Pension Försäkring AB	12,282,294	9,1%
Swedbank Robur fonder	5,315,932	3,9%
Stockpicker fonder	3,615,704	2,7%
Nordnet Pensionsförsäkring AB	2,925,252	2,2%
HJ Byggkonsulter AB	2,300,000	1,7%
Marc Chatel	1,663,079	1,2%
Swedbank Försäkring AB	1,557,643	1,2%
Skandia AB	1,328,067	1,0%
Johnny Ludvigsson	1,210,000	0,9%
Christer Jönsson	860,469	0,6%
Others	101,902,360	75,5%
Total	134,960,800	100,0%

Allocation of shares

	<i>No of Shares</i>	<i>No in %</i>
Foreign owners	18,542,106	13,7%
Swedish owners	116,418,694	86,3%
whereof institutions		14,6%
Stock funds		6,8%
Private investors		64,9%

Allocation of shareholders

	<i>No in %</i>
10 largest shareholders	24,5%
25 largest shareholders	30,4%
100 largest shareholders	42,1%

Geographic allocation of shares in %

	<i>No in %</i>
Sweden	86,0%
Denmark	3,4%
Switzerland	2,5%
Luxembourg	1,2%
Great Britain	1,1%
Ireland	1,0%
United States	0,8%
Netherlands	0,8%
Norway	0,7%
Latvia	0,4%
France	0,4%
Others	1,7%

Shareholder statistics

	<i>No of shareholders</i>	<i>No in %</i>	<i>No of shares</i>	<i>Proportion of votes in %</i>
1-2 000	3444	43,6%	2934380	2,2%
2 001-10 000	2707	34,3%	14043143	10,4%
10 001-100 000	1579	20,0%	47908239	35,5%
100 001-1 000 000	156	2,0%	36501043	27,0%
1 000 001-15 000 000	10	0,1%	33573995	24,9%
Total	7896	100%	134960800	100,0%



RISKS

Investment in stock shares is always related to risks. Precise Biometrics is facing risks from both external and internal condition, which to a large extent lie outside the reach and influence of the company.

Investments in Precise Biometrics can be considered a risk, even considering that the company is in an early commercial state. In addition to the information in this annual report, each risk that the company is subjected to and its meaning to the company's future development should be considered.

These risks are described in **note 30**.

FIVE-YEAR REVIEW

Income statements, Thousands SEK

	Year				
	2010	2009	2008	2007	2006
Net sales	44,944	68,655	45,868	24,815	47,733
Cost of goods and services sold	-17,425	-32,863	-23,324	-15,928	-28,814
Gross profit	27,519	35,792	22,544	8,887	18,919
Selling-, administration- and R&D expenses	-40,831	-55,091	-51,956	-44,727	-89,080
Other operating income/expenses	-1,185	-977	5,598	542	-2,043
Results from holdings in associated companies	-	-	-30,738	-1,448	-18,266
Operating profit/loss	-14,497	-20,276	-54,552	-36,746	-90,470
Net financials	-135	-1,492	403	1,457	-328
Profit/loss after financial items	-14,632	-21,768	-54,149	-35,289	-90,798
Tax	-16	-4	-31	-	-77
Profit/loss for the year	-14,648	-21,772	-54,180	-35,289	-90,875

Balance sheet, Thousands SEK

	Year				
	2010	2009	2008	2007	2006
Assets					
Intangible fixed assets	6,664	3,802	9,683	10,316	14,018
Tangible fixed assets	704	868	1,303	1,602	2,424
Deferred tax assets	-	-	-	-	7
Financial fixed assets	-	-	-	6,470	151
Holdings in associated companies	-	-	-	22,396	13,124
Current assets	40,723	68,423	23,026	45,367	96,955
<i>of which liquid assets and current investments</i>	<i>24,544</i>	<i>40,884</i>	<i>11,343</i>	<i>32,516</i>	<i>76,302</i>
Total assets	48,091	73,093	34,012	86,151	126,679
Equity & liabilities					
Equity	31,244	45,408	16,004	71,201	95,016
Current liabilities	16,847	27,685	18,008	14,950	31,663
Total equity and liabilities	48,091	73,093	34,012	86,151	126,679

Cash flow analysis, Thousand SEK

	Year				
	2010	2009	2008	2007	2006
Cash flow from current operations					
before changes in working capital	-12,919	-14,276	-24,778	-29,224	-54,097
Changes in operating capital	2,781	-6,931	4,945	-7,549	20,006
Cash flow from investment business	-4,710	-1,299	-1,794	-7,095	-22,484
Cash flow from financial business	-1,492	52,047	454	82	73,647
Change in liquid assets	-16,340	29,541	-21,173	-43,786	17,072

KEY RATIOS

	Year				
	2010	2009	2008	2007	2006
Gross margin	61%	52%	49%	36%	40%
Working capital, thousand SEK	23,876	40,738	5,018	30,417	65,292
Liquid ratio	192%	225%	113%	291%	293%
Equity/assets ratio	65%	62%	47%	83%	75%
Return on equity	neg	neg	neg	neg	neg
Capital employed, thousand SEK	39,575	31,839	44,111	84,702	98,040
Return on capital employed,	neg	neg	neg	neg	neg
Profit/loss per share SEK	-0,11	-0,19	-0,54	-0,35	-1,22
EBITDA, thousand SEK	-12,485	-12,662	-22,132	-31,679	-71,545
Equity per share, SEK	0,23	0,34	0,16	0,70	0,98
No of shares	134,960,800	134,960,800	101,220,600	101,220,600	97,220,600
Average number of outstanding shares	134,960,800	112,467,333	101,220,600	99,553,933	74,753,379
Operating cash flow per share, SEK	-0,07	-0,16	-0,20	-0,37	-0,46
Number of employees at the end of the year	34	36	44	38	49
Average number of employees	34	38	41	45	66



ADMINISTRATION & CORPORATE GOVERNANCE REPORT

The Board of Directors and the President of Precise Biometrics AB (publ), CIN 556545-6596, with headquarters in Lund, Sweden, hereby submits their Annual Report and consolidated financial statements for the fiscal year 2010.

Activities

Precise Biometrics is an innovative company that offers commercial solutions based on fingerprint recognition to establish personal identity. With cutting-edge competence in fingerprint recognition, Precise Biometrics offers rapid, reliable and secure verification.

The Company's core technology, Precise BioMatch™, can easily be integrated in many systems –such as ID, SIM and bank cards, security circuits, access to computers, networks and physical access control. The company operates in a global market and its technology is licensed to nearly 100 million users throughout the world.

Precise Biometrics' business concept is, together with strong partners and through global networks, to offer countries, public authorities, companies and organizations user-friendly and interoperable solutions to determine personal identity in a simple, cost-effective and reliable way.

Precise Biometrics' vision is to be a global leader and independent provider of interoperable and adaptable solutions based on fingerprint recognition intended for small secure platforms, as well as more complete, end-to-end solutions for specific segments.

The group's most important operational objectives in the coming year and beyond include:

- Continued roll out and market leading position within the important National ID card segment, with expansion into the high volume segment for smart cards, and the SIM and bank card segment.
- Underpinning Precise Biometrics' market image as a reliable supplier with core competencies and long experience of highly advanced fingerprint solutions.
- Precise Biometrics has continued to cultivate and package its worldleading technology to clarify how the company solves specific problems for their customers. The company has launched several products during 2010 and will continue with product launches in 2011.
- During 2010 Precise Biometrics has established a strategic platform for the future development of company. From this platform an ambitious business plan to the year 2015 has been set - Plan 2015, and a new customeroriented organization has been developed.

The sales organization

In 2010 Precise Biometrics' markets and sales have been organized in five geographical markets Europe (including the Nordic markets), North America, Middle East & Africa, Asia and Latin America. Read more about the geographical market in [Note 3](#).

Precise Biometrics has during 2010 reorganized its sales organization due to increase of new business opportunities in combination with developing a more customer oriented organization. The new organization came into full effect January 1, 2011 – and consists of three business units Mobile, IAM and Access Solutions. Mobile is a brand new and strategically important business unit, from which Precise Biometrics will provide solutions for the SmartPhone and TabletPC markets.

The most important business events during the year

- Nigerian partner Interswitch is rolling out a state ID card with technology from Precise Biometrics. It's the first project of its kind in the world, as the state ID card also includes epayment.
- Precise Biometric received two followup orders for hardware from an existing customer in the Middle East at a total value of SEK 6.7 million for a MatchonCard project for government employees.
- Precise Biometrics launched several products during the year. Among them a tool for integration of standardized MatchonCard – Precise BioMatch™ ISO MatchonCard; an integration tool for standardized fingerprint recognition for both PC and Mac: Precise BioMatch™ ANSI 378 and a biometric logon solution for Microsoft's new operating system Windows 7, Precise BioMatch™ Logon for Windows 7. After the end of the year Precise Biometrics released a new

family of fingerprint readers, Precise Sense™, targeted towards the banking and enterprise segments. The readers focus on costefficiency, user friendliness and a high degree of functionality options.

- Precise Biometrics has during 2010 reorganized its sales organization due to increase of new business opportunities in combination with developing a more customer oriented organization.
- The Board of Directors of Precise Biometrics has resolved, subject to approval of the AGM on April 27, to undertake an issue 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 carried out to realize the Company's business plan – Plan 2015

Patents

The group's overall patent strategy is based on primarily applying for patents based on innovations within the company's Match-on-Card technology. This strategy aims at guaranteeing rights to our own technology, creating value for future business, and providing protection from competitors. New patent applications will focus on mobile applications of Precise Match-on-Card™.

Since 2001, the patent portfolio has gradually been enhanced to include 68 different patents and 28 patent applications within 17 different patent families at the end of 2010. Precise Biometrics has 10 different patent families for the Match-on-Card technology alone.

Brands

Precise Biometrics works actively and strategically with its trademark portfolio which contains a few carefully selected trademarks:

PRECISE BIOMETRICS™ – registered both as a device mark and as a word mark in a number of countries

PRECISE BIOMATCH™ – comprehensive trademark for the core technology. It is also used as foundation in the branding of the software products. The trademark is registered as a Community Trademark and in the USA

PRECISE MATCH-ON-CARD™ – well established and well-known trademark of Precise Biometrics that refers for the technology to save and match a fingerprint on a smart card. The trademark is registered as a Community Trademark

PRECISE SENSE™ - the trademark for the new biometric readers

Sales and income

Sales during the financial year amounted to SEK 44.9 million (68.7). The gross margin was 61 percent compared with 52 percent in the previous year. The group's net loss for the fiscal year was SEK -14.6 million (-21.8).

Operating expenses for the financial year amounted to SEK -42.0 million (-51.1).

Earnings per share (average number of shares) for the period was SEK -0.11 (-0.19).

Financing and liquidity

As of 31 December 2010, equity stock amounted to SEK 31.2 million (45.4) and equity per share to SEK 0.23 (0.34).

The cash flow from current operations during the year amounted to SEK -10.1 million (-21.2). Cash and cash equivalents at the end of the financial year amounted to SEK 24.5 million (40.9).

Capitalization and depreciation of development work

Development expenditures of SEK 4.5 million (1.3) were capitalized during the financial year. During the year, depreciation and writedowns of capitalized development expenditures amounted to SEK 1.6 million (2.2), of which writedowns accounted for SEK 0.3 million (0.1).

Research and development

The R&D department works on both product development and research activities aimed at generate or further develop products, solutions and algorithms. By participating in various standardization bodies, the Company works to influence standardization development in the group's core technology.

In 2010, Precise Biometrics has launched several software products – several of them focusing on standardization. Among the new product are:

- **Precise BioMatch™ ISO Match-on-Card** - a tool for integration of standardized Match-on-Card
- **Precise BioMatch™ ANSI 378** – an integration tool for standardized fingerprint recognition for both PC and Mac
- **Precise BioMatch™ Logon** for Windows 7 - a logon product with fingerprint recognition for Windows 7.

Organization and personnel

Precise Biometrics has its headquarters in Lund, Sweden. The organization also consists of the subsidiaries, Precise Biometrics Inc. in Washington DC, USA and Precise Biometrics Solutions AB with offices in Karlstad, Sweden. The dormant companies Precise Biometrics Services AB is also part of the group. During 2010 the former subsidiary Precise Biometrics

Asia Ltd has been closed.

There were 34 (36) employees at the end of the year, of which two are based in the US. Of the total number of employees at the end of the year, 24 (26) were men and 10 (10) were women.

Absence due to illness in the Group was low during the year, amounting to 1.0 (1.7) percent overall. Personnel turnover in the group was 11.7 percent (21.0).

Salaries and other remuneration, excluding payroll overheads, amounted to SEK 23.1 million (28.2) during the year.

The share

The Company's stock is listed on the Small Cap list of the NASDAQ OMX Nordic.

The total number of registered shares at the end of the financial year was 134,960,800, and the value of capital stock was SEK 53,984,320. During the financial year, average sales amounted to SEK 1 949 thousand per day and the share price fluctuated between SEK 1.40 and 2.58.

Proposed guidelines for the compensation of leading officials

The stockholders' meeting decided to adopt the board of directors' proposal for establishing guidelines for the compensation of leading officials, mainly involving remuneration and employment terms and conditions on general market and competitive terms and predetermined caps on remuneration. Bonus remuneration must not exceed 50% of the fixed annual salary for the president and 30% for other executives. Bonus remuneration for US employees must not exceed 50% of basic salary. Remuneration may also be provided in the form of options or other stock-related incentive programs.

The president is subject to a mutual period of notice of 6 months and the other executives to a period of notice of 3-6 months. Severance pay for the president may not exceed 12 months' salary if employment is terminated at the discretion of the company. Other executives are not entitled to severance pay.

Retirement age is 65; pension premiums are calculated on a scale based on age and salary, and may amount to a maximum of 25% of the fixed salary. The proposal implies a level of remuneration that basically corresponds to the previous year.

Parent company

Parent company sales for the financial year amounted to SEK 38.8 million (57.4). Operating loss before tax for the financial year amounted to SEK -16.3 million (-23.8).

At the end of the financial year, 23 persons were employed in the parent company.

Liquid assets at the end of the year amounted to SEK 21.1 million (28.5). Investments in property, plant and equipment amounted to SEK 0.2 million (0.0).

During the financial year, capitalized development expenditure amounted to SEK 4.5 million (1.1).

Proposed treatment of accumulated loss

Parent company

The following assets are at the disposal of the annual stockholders' meeting:

Accumulated loss, SEK.....	0
Net loss for the year, SEK.....	-16 266 877
Total accumulated loss.....	-16 266 877

The board of directors and the president propose managing the accumulated loss as follows:

Reduction of share premium reserve SEK.....	13 315 567 (in non-restricted equity)
Reduction of statutory reserve SEK.....	2 951 310
Total.....	16 266 877

CORPORATE GOVERNANCE REPORT

From July 1, 2008, Precise Biometrics has applied the Swedish corporate governance code (the Code). Corporate governance is founded on the company by-laws, the Swedish Companies Act and stock exchange rules, including the Code. Precise Biometrics differs from the Code mainly when it comes to the following items:

- The company has decided to not establish a specific internal audit function. This is further explained in the section "The board of directors' report on internal control for the 2010 financial year"
- The board of Directors has chosen to not establish a specific audit committee, instead the Board of Directors self constitutes the audit committee. Read more in the section "Audit Committee"
- The board of Directors has chosen to not establish a specific compensation committee, instead the Board of Directors self constitutes the compensation committee. Read more in the section "Compensation committee"

The Corporate Governance Report describes in outline the way in which the company applies the Code.

The Annual General Meeting

The Swedish Companies Act and the company by-laws describe how General Annual Meetings must be convened and who is entitled to attend and vote at them. The minutes of the meeting are available on the Precise Biometrics website.

The annual general 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.

Under the company by-laws, the meeting must be convened through announcements posted in the Post- och Inrikes Tidningar newspaper. Shareholders wishing to attend the meeting must be entered in the capital stock register by 19 April at the latest. Applications to attend the meeting must be made in the manner specified in the convening notice.

The nomination committee

Under a decision taken at the company's General Annual Meeting held on 21 April 2010 a nomination committee must be appointed. The nomination committee must consist of representatives from each of the three largest shareholders as of 31 August prior to the General Annual Meeting and the chairman of the board of directors. The nomination committee is made up of the following persons: Kerstin Stenberg (Swedbank Robur funds), Per Brenhult (Stockpicker fonder) and Uno Jonsson (HJ Byggekonsulter AB). The Chairman of the Board, Lisa Thorsted, is also represented in the Nomination Committee, and is the convener.

The nomination committee's proposals for the board of directors and fees paid to members of the board of directors, proposals for auditors and auditors' fees and proposals for the chairman of the meeting must be contained in the notice convening the General Annual Meeting.

The board of directors

The members of the board of directors are elected at the General Annual Meeting. During the periods between General Annual Meetings, the board of directors of Precise Biometrics is the highest executive body.

The company by-laws contain no restrictions concerning the eligibility of the members of the board. Under the by-laws, the board of directors must consist of at least three and at the most seven members with a maximum of three alternates.

Following the General Annual Meetings in April 2008, the board of directors consisted of five ordinary members. None of the members of the board are employed in the company. The composition of the board of directors and the various tasks of its members are described under the headline "Board of directors" in the Annual report.

The work of the board of directors

The work of the board of directors complies with annually established rules of procedure. The rules of procedure include instructions to the company's president, the tasks of the chairman of the board, the agenda of board meetings and the decision-making procedure. In 2010, the board of directors held six meetings at which the minutes were taken. Issues discussed during the year included strategy and long-term aims, organization, Corporate Governance, and quarter and year-end reports.

During the year, the board of directors also appraised the work of the board.

In addition to the ordinary meetings, the chairman and other board members were in constant contact with leading officials of the company, primarily the president and the CFO. Besides meetings where minutes were taken, the board of directors also received monthly updates on the company's financial results and position.

Fees paid to the members of the board of directors appear in Note 26 of the financial statements.

Group executive

The Precise Biometrics executive is based at the head office in Lund. The composition of the executive as of December 31 2010 is described under the headline "Management team" in the financial statements, and is designed to shorten decision-making pathways. During the year, the group held formal weekly meetings and a strategy and budget meeting.

Compensation committee

The task of the compensation committee is to manage questions relating to salary, pension terms, incentive schemes and other terms and conditions of employment for the company executive. Proposal of guidelines for leading officials are described in the administration report in the Annual Report. The compensation committee is made up of the entire board of directors. Since the board consist of five members it has been decided that no separate compensation committee should be set up, and instead the board of directors self constitutes the compensation committee.

The audit committee

Since the board of directors consists of five members it has been decided not to form a separate audit committee. These issues are managed by the board as a whole. There are two separate Audit Committee meetings held during the year. Discussion topics in the meetings include reporting, business related risks and internal control. To provide for disclosure needs the company's auditors report to the board of directors at least twice a year. In addition, the chairman of the board has regular contact with the head auditor.

See further below in the section "The board of directors' report on internal control for the 2010 financial year".

Auditors

The annual 2008 General Annual Meeting chose Öhrlings Price WaterhouseCoopers AB, with Eva Carlsvi as chief auditor, as Precise Biometrics' auditors up to and including the General Annual Meeting in 2012. Öhrlings Price WaterhouseCoopers have been the company's auditors since the company was established in 1998. The auditors perform assignments for other listed companies, but not to an extent which would interfere with the proper auditing of Precise Biometrics. None of the auditors have assignments which would throw doubts on their independence.

Information about the auditors' fees may be found in the Annual Report, [Note 8](#) for both the consolidated statements and the parent company.

Policies (within Corporate Governance)

Precise Biometrics has established a number of policies. Overall these policies represent the guidelines determined by the board of directors and executive management to govern the organization's operations. Below is a description of the policies established by the company. All policies are revised annually.

FINANCE POLICY

This policy is intended to establish clear guidelines for how the company manages financing, currency exposure, investments, insurances, and financial and accounting reporting.

INFORMATION POLICY

The information policy ensures that the company publishes consistent and correct information about its business and meets stock exchange requirements about disclosures to the stock market.

INSIDER POLICY

This policy ensures that there is no insider trading in the company stock. The company maintains a log of all transactions which may affect the stock price and the people in the company and on the board of directors who may have knowledge of these transactions.

IT POLICY

This policy is intended to establish guidelines for ownership rights and the purchase of computers. The IT policy also includes stipulations as to which programs are allowed and the procedures which apply to the installation of software. Rules for internet use also form part of the IT policy.

ETHICS POLICY

The company's ethics policy deals with issues and values concerning the company's relations with its environment, its staff, its market and its stockholders.

ENVIRONMENTAL POLICY

The purpose of the company's environmental policy is to fulfill the policy's guidelines regarding operations, investments and other activities and their effect on the environment. This is primarily focused on how the company is using recyclable material in its production of hardware. Another focus area is that the employees should, as to what is possible, use environmental friendly travel alternatives.

Risks

See [Note 30](#) in the Annual report for information.

Change of control clause

There are no agreements to which the company is committed that would come into effect, cause the company to be changed, or cease to be valid, if the control of the company was changed as a result of a public takeover bid, and no agreements of such a nature that nationalization would in all probability seriously damage the Company.

The board of directors' report on internal control for the 2010 financial year

Under the Swedish Companies Act and the Code, the board of directors is responsible for internal control. According to the Code, the board of directors must ensure there is good internal control and keep itself constantly informed about and evaluate the functioning of the company's internal control system. The board of directors' report has been limited only to include internal control of the financial reports. The report has not been examined by the auditors.

THE CONTROL ENVIRONMENT

In order to create and maintain an efficient control environment, the board of directors has drawn up a number of documents of significance to financial reporting. These documents include the board of directors' rules of procedure and instructions for the president. The president is responsible for ensuring compliance in day-to-day operational work with the guidelines prepared by the board of directors. The president regularly reports to the board of directors based on established procedures, at meetings of the board and more informal update meetings.

In addition, the company auditors report to the board of directors at least twice per financial year. It should also be noted that the review of the internal control is done in the external audit. The head auditor also has regular contact with the chairman of the board.

The most important parts of the control environment are the steering documents on reporting and financial reporting. The company follows a clear procedure in relation to annual and monthly financial reporting. The closing financial statements are presented to the board of directors every month according to a predetermined template.

The company organization and the way in which business is run are also important bases for internal control. All areas of responsibility and employees have clearly defined roles. In general, the company policies are important bases for the functioning of the control environment.

RISK ASSESSMENT AND INSPECTION ACTIVITIES

Precise Biometrics constantly assesses the current risk situation applying to financial reporting. Above all, the company examines the risk in financial statements, i.e. whether there are errors in accounting and the way in which assets and liabilities are assessed as well as the completeness of these. There may also be risks associated with the management of intragroup balances. However, such risks are assessed as being minor in nature, as the company has a clear monthly financial closing process and established monitoring procedures and policies. It should also be noted that the company constantly updates its finance handbook.

Manual inspections are performed in order to prevent errors in financial reporting. The inspections are also incorporated in reporting and other IT systems.

INFORMATION AND COMMUNICATIONS

The board of directors receives monthly reports from the president and CFO about the company's financial position, progress and ongoing projects.

The company constantly informs relevant staff about updated financial reporting principles, policies and other changes to reporting requirements.

External information and communications are subject to the company information policy.

FOLLOW-UP

The board of directors and the auditing committee constantly assess the information submitted by the company executive. The company's financial position is discussed at every board meeting and at more informal monthly update meetings. Comparisons with budgets and forecasts, along with analysis of non-compliances, are described in monthly reports.

The board of directors examines interim and year-end financial statements before they are published.

External auditing information also includes auditing internal control in the group.

In this light, the board of directors did not find it necessary to perform a separate internal audit.



FINANCIAL REPORTS

INCOME STATEMENTS

Group, figures in Thousands SEK

	Note	2010	2009
Net sales	3	44,944	68,655
Cost of goods and services sold		-17,425	-32,863
Gross profit		27,519	35,792
Selling expenses		-18,293	-30,445
Administration expenses		-10,012	-12,554
R & D expenses	10	-12,526	-12,092
Other operating income		-	-
Other operating expenses		-1,185	-977
		-42,016	-56,068
Operating profit/loss	7, 8, 9, 30	-14,497	-20,276
Interest revenue		37	58
Interest expenses		-172	-1,550
		-135	-1,492
Profit/loss before tax		-14,632	-21,768
Income tax	11, 13	-16	-4
NET PROFIT/LOSS FOR THE YEAR		-14,648	-21,772
Profit/loss attributable to:			
Owners of the parent		-14,648	-21,772
Profit/loss per share, attributable to owners of the parent (SEK per share)			
<i>Profit/loss per share, SEK (before dilution)</i>	12	-0,11	-0,19
Groups report concerning comprehensive income			
Change in accumulated exchange rate differences		334	621
Reverse of accumulated exchange differences in disposed subsidiary		150	-
Comprehensive income for the year, net of tax		484	621

Profit/loss for the year	-14,648	-21,772
Total comprehensive income for the year	-14,164	-21,151
Total comprehensive income attributable to:		
Owners of the parent	-14,164	-21,151

Parent Company, figures in Thousands SEK

	Note	2010	2009
Net sales	3	38,825	57,397
Cost of goods and services sold		-21,957	-28,493
Gross profit		16,868	28,904
Selling expenses		-14,409	-20,562
Administration expenses		-9,012	-10,390
R & D expenses		-7,232	-12,092
Other operating income		-	-
Other operating expenses		-2,831	-3,174
		-33,484	-46,218
Operating profit/loss	7, 8, 9	-16,616	-17,314
Interest revenue		445	459
Interest expenses		-96	-1,484
Result from holdings in subsidiaries	17	-	-5,482
		349	-6,507
Profit/loss before tax		-16,267	-23,821
Income tax		-	-
NET PROFIT/LOSS FOR THE YEAR		-16,267	-23,821

Parent companies report concerning comprehensive income

Comprehensive income for the year, net of tax	-	-
Comprehensive income for the year, net of tax	-	-
Profit/loss for the year	-16,267	-23,821
Total comprehensive income for the year	-16,267	-23,821
Total comprehensive income attributable to:		
Owners of the parent	-16,267	-23,821



FINANCIAL REPORTS

BALANCE SHEET

Group, figures in Thousands SEK

	Note	2010	2009
ASSETS			
Fixed assets			
Intangible fixed assets	<u>4</u>	6,664	3,802
Tangible fixed assets	<u>6</u>	704	868
Total fixed assets		7,368	4,670
Current assets			
Inventories	<u>14</u>	8,402	6,047
Accounts receivable and other receivables	<u>15</u>	7,777	21,492
Liquid assets	<u>16</u>	24,544	40,884
Total current assets		40,723	68,423
TOTAL ASSETS		48,091	73,093
EQUITY & LIABILITIES			
EQUITY			
Capital stock	<u>18</u>	53,984	53,984
Other added capital		537,214	537,214
Reserves	<u>19</u>	639	155
Profit/loss for the year		-560,593	-545,945
Total equity		31,244	45,408
Current liabilities			
Trade accounts payable and other liabilities	<u>20</u>	13,153	22,059
Borrowing	<u>21</u>	3,000	4,490
Other provisions	<u>22</u>	694	1,136
Total current liabilities		16,847	27,685
TOTAL EQUITY AND LIABILITIES		48,091	73,093
MEMORANDUM ITEMS			
Pledged assets	<u>23</u>	26,400	26,400
Contingent liabilities		NONE	NONE

Parent Company, figures in Thousands SEK

	Note	2010	2009
ASSETS			
Fixed assets			
Intangible fixed assets	<u>5</u>	6,548	3,655
Tangible fixed assets	<u>6</u>	381	479
Financial fixed assets	<u>17</u>	1,058	1,058
Total fixed assets		7,987	5,192
Current assets			
Inventories		8,402	6,047
Accounts receivable		2,810	6,176
Receivables from group companies		31,235	50,761
Other receivables		694	1,357
Prepaid expenses and accrued income	<u>27</u>	1,474	2,748
Liquid assets	<u>16</u>	21,129	28,494
Total current assets		65,744	95,583
TOTAL ASSETS		73,731	100,775
EQUITY			
Capital stock	<u>18</u>	53,984	53,984
Statutory reserve		12,054	12,464
<i>Total restricted equity</i>		<i>66,038</i>	<i>66,448</i>
Share premium reserve		13,315	37,136
Profit/loss for the year		-16,267	-23,821
<i>Total unrestricted equity</i>		<i>-2,952</i>	<i>13,315</i>
Total equity		63,086	79,763
Provisions			
Other provisions	<u>22</u>	162	284
Current liabilities			
Accounts payable	<u>20</u>	3,443	9,833
Other liabilities		163	1,946
Accrued expenses and prepaid income		6,877	8,949
Total current liabilities		10,483	20,728
TOTAL EQUITY AND LIABILITIES		73,731	100,775
MEMORANDUM ITEMS			
Pledged assets	<u>23</u>	24,000	24,000
Contingents liabilities	<u>24</u>	2,000	2,000

CHANGE IN EQUITY

Group, figures in Thousands SEK

	Attributable to parent company owners				Total equity
	Capital Stock	Other paid-in capital	Reserves	Balanced profit	
Opening balance of January 1, 2009	40,488	500,155	-466	-524,173	16,004
Total Other profit/loss for the year	-	-	621	-21,772	-21,151
Transactions with the shareholders					
Stock option program ¹	-	-77	-	-	-77
New share issue ²	13,496	37,136	-	-	50,632
Closing balance as at December 31, 2009	53,984	537,214	155	-545,945	45,408
Profit/loss for the year			484	-14,648	-14,164
Closing balance as at December 31, 2010	53,984	537,214	639	-560,593	31,244

Parent company, figures in Thousands SEK

	Attributable to parent company owners				Total equity
	Capital stock	Statutory reserve	Share premium reserve	Profit/loss for the year	
Opening balance as at January 1, 2009	40,488	71,876	0	-54,636	57,728
Transfer of annual profit/loss	-	-54,636	-	54,636	0
New share issue ²	13,496	-	37,136	-	50,632
Group contributions	-	-4,776	-	-	-4,776
Profit/loss for the year	-	-	-	-23,821	-23,821
Closing balance as at December 31, 2009	53,984	12,464	37,136	-23,821	79,763
Group contributions		-410			-410
Transfer of annual profit/loss			-23,821	23,821	0
Profit/loss for the year	-	-	-	-16,267	-16,267
Closing balance as at December 31, 2010	53,984	12,054	13,315	-16,267	63,086

1) Repurchase of 450,000 share options.

2) New share issue totaling 33,740,200 new shares at a rate of SEK 1.60 with deduction for issue costs SEK 3,352 thousand.



FINANCIAL REPORTS

CASH FLOW STATEMENT

Figures in Thousands SEK

	Note	Group		Parent Company	
		2010	2009	2010	2009
Cash flow from current operations					
Cash flow from current operations	28	-9,236	-18,975	-934	-30,240
Net interest		-135	-1,492	349	-1,025
Taxes paid		-767	-740	-599	-550
Cash flow from current operations		-10,138	-21,207	-1,184	-31,815
Cash flow from investment business					
Capitalized development work		-4,466	-1,253	-4,466	-1,098
Aquisition of tangible fixed assets		-244	-46	-223	-46
Cash flow from investment business		-4,710	-1,299	-4,689	-1,144
Cash flow from financial business					
Payment for issue of common stock		-	50,632	-	50,632
Loans raised		-	18,117	-	18,117
Amortization of loans		-1,492	-16,625	-1,492	-16,625
Payment for issue of options		-	-77	-	-
Cash flow from financial business		-1,492	52,047	-1,492	52,124
Decrease/Increase in liquid assets					
Opening liquid assets		40,884	11,343	28,494	9,329
Closing liquid assets		24,544	40,884	21,129	28,494

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NOTE 1

General information

Precise Biometrics AB is an innovative company that supplies world-leading systems for authentication by means of fingerprints and smart cards. The Company's solutions replace keys, PIN codes and passwords, and improve security during the use of ID cards and passports. With its in-house developed technology, Precise Match-on-Card™, the Company has a leading position in the smart ID card sector.

The product range includes systems for secure entrance control, access to computers and networks, as well as ID cards and passports. The Company's head office is in Lund. There are also subsidiaries in Washington D.C., USA (Precise Biometrics Inc.) and in Karlstad (Precise Biometrics Solutions AB). The subsidiary Precise Biometrics Solutions AB has its head office in Karlstad.

Precise Biometrics is listed on the Stockholm Nasdaq OMX Small Cap list (PREC).



NOTE 2

Accounting policies

General

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council 1.2 Supplementary Accounting Regulations for Groups.

The consolidated financial statements have been prepared in accordance with the acquisition method, with the exception of financial assets valued at fair value in the income statement.

The parent company essentially applies the same accounting principles as the group.

The annual financial statements of the parent company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Accounting Standards Council 2.2 Accounting Regulations for Legal Entities.

New and amended standards applied by the Group from January 1, 2010

IFRIC 17 (new), Distribution of non-cash assets to owners (effective from 1 January 2010). The interpretation is a part of the IASB's annual improvements project that was published in April 2009. This Interpretation provides guidance on accounting for arrangements under which a company distributes non-cash assets to owners. An amendment was also made in IFRS 5, which requires that assets classified as held for distribution only if they are available in their current condition and distribution is highly probable. The Group will apply IFRIC 17 from 1 January 2010, but it has no effect on the consolidated financial statements.

IAS 38 (revised) Intangible Assets (effective from 1 January 2010). The amendment is part of the IASB's annual improvements project that was published in April 2009 and the Group will adopt IAS 38 at the same time as IFRS 3 (revised) is applied. The amendment clarifies the fair value of an intangible asset acquired in a business acquisition. According to the amendment, intangible assets are grouped and treated as one asset if the assets have similar economic life. The amendment has no effect on the consolidated financial statements.

IFRS 3 (revised), Business Combinations (effective from 1 January 2010). The revised standard continues to apply the purchase method to business acquisitions, but with some significant changes. For example, all payments to purchase a business at fair value are accounted for at the acquisition date, while contingent payments are classified as liabilities that subsequently are revaluated through the income statement. Non-controlling interest in the acquired business may be valued either at fair value or the proportionate share of the acquirer's net assets held by non-controlling interest. All transaction costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively for all business acquisitions from 1 January 2010.

IFRS 5 (amendment), Assets Held for Sale and Discontinued Operations (effective from 1 January 2010). The amendment is part of the IASB's annual improvements project that was published in April 2009. The amendment clarifies that IFRS 5 specifies the disclosure requirements pertaining to fixed assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement in IAS 1 still applies, in particular paragraph 15 (to give true and fair view) and section 125 (sources of uncertainty in estimations). The Group will apply IFRS 5 (Amendment) from 1 January 2010. The amendment has no effect on the consolidated financial statements.

Consolidated financial statements

SUBSIDIARIES

Subsidiaries are all the companies, including companies for special purposes, where the group is entitled to arrange financial and operative strategies in the structure normally employed for a stockholding of more than half of the voting rights.

Subsidiaries are included in the consolidated financial statements as of the date the controlling influence is transferred to the group. They are excluded from the consolidated financial statements as of the date when the controlling influence is no longer valid.

The acquisition method is used to report the group's acquisition of subsidiaries. The acquisition cost consists of the fair value of assets submitted in payment, issued equity instruments and accrued or acquired liabilities as of the date of transfer, plus any expenses directly attributable to the acquisition. Identifiable acquired assets and liabilities and any contingent liabilities in the acquisition of a company are initially valued at fair value on the date of acquisition, regardless of the scope of any minority interests. The surplus deriving from the difference between the acquisition value and the fair value of the group's share of identifiable acquired net assets is reported as goodwill. If the acquisition value is less than the fair value of the acquired subsidiary's net assets, the difference is recognized directly in the income statement.

Intragroup transactions and balance sheet items, including unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated, unless the transaction is evidence of the need for an impairment write-down for the transferred asset.

ASSOCIATED COMPANIES

Associated companies are all the companies where the group has a significant but not controlling influence, which in general is applicable for a stockholding comprising between 20 and 50 percent of the votes. Holdings in associated companies are recognized according to the equity method and are initially valued at the acquisition value, which consists of the fair value of the assets issued in payment.

The value of holdings in an associated company reported by the group includes goodwill (net value after any accumulated write-downs) identified during the acquisition.

The group's share of earnings in the associated company after the acquisition is recognized in the income statement and its share of changes in reserves after the acquisition is recognized in reserves. Accumulated changes after the acquisition are recognized as a change in the recognized value of the holding.

Unrealized gains on transactions between the group and its associated companies are eliminated proportional to the group's holding in the associate company.

Unrealized losses are also eliminated, unless the transaction is evidence of an impairment write-down need for the transferred asset.

Participations in associated companies are recognized in operating income/loss in that the investment is of an operative and not financial nature.

SEGMENT REPORTING

Operating segments are identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker. The chief operating decision maker is the function responsible for allocating resources and assessing the performance of the segments. The group has identified this function as the management team, including the President, which makes strategic decisions.

The management team mainly assesses the activity from a geographical perspective but also from a product perspective. The geographic areas that are followed up are North America, Europe, Middle East and Africa, Asia, Latin America and Other. Types of products that are followed up are hardware, licenses and services.

From January 2011 a new sales organization will come into effect. The new organization consists of the business areas IAM, Access Solutions and Mobile. The types of products that still will be followed up are hardware, licenses and services.

The management team assesses the operating segments based on operating profit.

Translation of foreign currency

FUNCTIONAL CURRENCY AND REPORTING CURRENCY

Items included in the financial statements for the various group units are valued in the currency used in the financial environment where each company has its primary operations (functional currency). Swedish kronor (SEK) is used in the consolidated financial statements, which is the parent company's functional currency and reporting currency.

TRANSACTIONS AND BALANCE SHEET ITEMS

Transactions in foreign currency are translated to the functional currency according to the exchange rates applicable on the transaction date. Exchange rate gains and losses arising during the payment of such transactions and during the translation of monetary assets or liabilities in foreign currency to the year-end rate are reported in the income statement. Exceptions are when transactions act as guarantees that comply with the conditions for hedge accounting of cash flow or for net investments when gains/losses are recognized in equity.

GROUP COMPANIES

The results and financial position of all group companies (of which none have a high inflation currency) which have a functional currency other than the reporting currency are translated to the group's reporting currency as follows:

- Assets and liabilities for each of the balance sheets are converted to the rate on balance sheet date.
- Revenue and expenses for each of the income statements are translated to the average exchange rate (insofar as this average rate is not a reasonable approximation of the accumulated effect of the rates applicable on the transaction date, in which case income and costs are converted as per the transaction date).
- All foreign exchange differences arising are recognized as a separate part of equity.
- Foreign exchange differences on financial transactions seen as an extended net investment are also recognized directly in equity.

Tangible fixed assets

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

Additional charges are added to the recognized value of the asset or are recognized as a separate asset, depending on which is applicable, only when it is likely that the future financial benefits associated with the asset will benefit the group and the acquisition

value of the asset can be reliably measured. All other forms of repairs and maintenance are recognized as expenses in the income statement during the period in which they are incurred.

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

- Computers: 3 years
- Equipment: 5 years

Depreciation of tangible fixed assets is included in Selling expenses, Administration expenses and R & D expenses in the Income statement. Allocation of depreciation on the functions is carried out by a formula based on number of employees per function.

The residual values and service lives of assets are assessed on the balance sheet date, and adjusted when necessary.

In the event of the recognized value of an asset being assessed as exceeding its estimated recovery value, the asset is immediately written down to its recovery value.

Gains and losses on disposals are determined through a comparison between the proceeds of sale and the recognized value, and are recognized in the income statement.

Intangible assets

RESEARCH AND DEVELOPMENT

Research expenses are recognized as they arise. Development expenses consist of the cost of further development of equipment for biometric fingerprint identification. These are recognized as intangible assets when it is likely that the project will be successful in terms of its commercial and technical potential, and if the costs can be reliably measured. Other development expenses are recognized as they arise. Previously recognized development expenses are not carried forward to the subsequent period. Development expenses have a limited useful life and are depreciated on a straight line basis from the date when the commercial production of the product commences. The estimated useful period is between three and five years. Depreciation of capitalized development expenses is included in R & D expenses in the Income statement.

GOODWILL

Goodwill consists of the amount by which the acquisition value exceeds the fair value of the group's share of the acquired subsidiary's identifiable net assets on the date of acquisition. Goodwill on the acquisition of subsidiaries is recognized in intangible assets. Goodwill is tested annually to identify any impairment requirements and is reported as the acquisition value minus accumulated impairment write-downs. Gains or losses from the disposal of a unit include the residual recognized value of the goodwill pertaining to the disposed unit.

SOFTWARE

Acquired software licenses are capitalized on the basis of the costs incurred when the software in question is acquired and put into service. These costs are written off during the estimated useful life, which is a maximum of five years. Expenses for development and maintenance of software are reported when they are incurred.

PATENTS

Patents have a limited useful life and are therefore reported at the acquisition value minus depreciation. Depreciation is made linearly over ten years.

MARKET CONTACTS

Market contacts are considered to have a limited useful life and are therefore reported at the acquisition value minus accumulated depreciation.

IMPAIRMENT WRITE-DOWNS

Assets that have an indeterminable useful life are not written down, but are assessed annually in terms of any impairment requirements. Assets that are written down are assessed for impairment whenever events or changed conditions indicate that the recognized value is not recoverable. Write-downs are made to the amount by which the asset's recognized value exceeds its recovery value, which is the higher of the net sales value and the utility value. When calculating utility value, the future cash flow is discounted at an interest rate that takes into consideration the market assessment of risk-free interest and risk associated with the specific asset. The recovery value of assets that depend on other assets generating a cash flow is calculated for the cash generating unit to which the asset belongs, i.e. the lowest levels where there are identifiable cash flows.

Financial instruments

LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE

Loans receivable and accounts receivable are non-derivative financial assets with fixed or fixable payments that are not listed in an active market. It is a characteristic of them that they are incurred when the group supplies money, products or services directly to a customer without the intention of negotiating the receivable created. They are included in current assets, with the exception of items with due dates more than 12 months after the balance sheet date, which are classified as financial fixed assets. Loans receivable and accounts receivable are included in the item Accounts receivable and other receivables in the balance sheet.

INVENTORIES

Inventories are valued according to the first-in/first-out (FIFO) method at the lesser of the acquisition value and the net sales value.

ACCOUNTS RECEIVABLE

Accounts receivable are initially recognized at fair value and thereafter at the accrued acquisition value with the application of the effective interest method minus a possible reserve for value impairment. Reserves for the impairment of accounts receivable are made when there is objective evidence that the group will not be able to receive all the amounts due in accordance with original conditions for the receivable. The size of the reserve consists of the difference between the recognized value of the assets and the current value of assessed future cash flows, discounted at the effective rate.

LIQUID ASSETS

Liquid assets consist of cash and bank deposits, and other short-term investments with due dates within three months, including overdraft facilities. Overdrafts are reported in the balance sheet as borrowing under Current liabilities.

FINANCIAL FIXED ASSETS

Financial investments consist of financial fixed assets when the expected holding period is longer than one year or when the due date for loan receivables and accounts receivable is longer than one year. When valuing at fair value via the income statement, the change in value is recognized under net financials.

CAPITAL STOCK

Common stock is classified as equity. Costs incurred in conjunction with the new issue of stock and repurchasing of equity instruments are recognized directly as equity.

The exercise of subscription rights involves the new issue of shares. The proceeds for these shares are reported directly as equity.

INCOME TAXES

Recognized income tax only includes deferred taxes since the parent company does not report tax surpluses. The valuation of all tax liabilities/receivables is made at nominal amounts and in accordance with the stipulated tax regulations and tax rates, or those that have been advised and will in all probability be applied. Therefore, items recognized in the income statement also include related tax effects in the income statement. The tax effects of items recognized against equity are recognized in equity. Deferred tax refers to internal income on inventories and has been valued at the tax rates decided and advised on the balance sheet date. Deferred tax receivables relating to loss carryforwards are recognized to the extent that it is probable that deductions can be offset against future surpluses for tax purposes. Against the background of past evolution in group earnings, no deferred tax assets relating to loss carryforwards have been reported. Deferred tax on temporary differences for investments in subsidiaries are not recognized since the parent company can control the date for reversing temporary differences and it is not considered likely that reverses will be made in the foreseeable future.

Accumulated, tax loss carryforwards, excluding net income for the year, amounted to approx. SEK 430 million in the parent company and to approx. SEK 35 million in the American subsidiary.

Remuneration to employees

PENSIONS

The group has both defined contribution and defined benefit pension plans. Pension plans are financed through payments from respective group companies. The defined benefit pension plans refer to the ITP plans, which are insured by Alecta. They are reported as defined contribution plans, since Alecta cannot provide the requisite information which would allow the plans to be recognized as defined benefit plans.

In the case of defined contribution pension plans, the group pays contributions to publicly or privately managed pension insurance plans on a compulsory, contractual or voluntary basis. The group has no additional payment obligations after contributions have been paid. The contributions are recognized under personnel expenses when they are due for payment. Prepaid contributions are recognized as assets to the extent that cash repayments or the reduction of future payments benefit the group.

SEVERANCE PAY

Severance payments are made when employees are given notice to quit prior to the normal pension date, or when an employee accepts voluntary retirement in exchange for such payments. The group recognizes severance pay when it is demonstrably obliged either to terminate an employee's contract according to a detailed, formal and irrevocable plan, or to provide compensation as a result of an offer made to encourage voluntary retirement from the employment. Benefits due more than 12 months after the balance sheet date are discounted to the current value.

BONUS PLANS

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

OPTION PROGRAM

During 2007 and 2008 two option programs were initiated to the employees, of which the program from 2007 lapsed during 2010. For the programs, subscription options have been issued to the employees on ordinary market terms. The market value has been developed by an external assessor and the model used is Black-Scholes. Payments received by Precise Biometrics have been recognized in other paid-in capital.

ACCOUNTS PAYABLE

Accounts payable are recognized at fair value. Accounts payable are valued as current liabilities if they fall due within one year, otherwise accounted for as long-term liabilities.

PROVISIONS

Provisions are recognized when the group has an existing legal or informal obligation as a result of previous events whereby it is more likely than not that resources will be needed to settle a liability and the amount can be reliably measured.

Provisions are made for expected guarantee requirements relating to products that have been sold in the last fiscal year. Provisions are currently made at 2.3% of recognized income, reflecting estimates of amounts that will have to be settled. Expenses are estimated to be incurred in the subsequent fiscal year.

REVENUE

The group's revenue mainly stems from the sale of products and is recognized upon delivery of products to the customer in accordance with the terms and conditions of delivery. Sales are reported net of VAT, discounts and exchange rate differences for sales in foreign currency. Intragroup sales are eliminated in the consolidated financial statements. Intragroup sales are priced according to ordinary market terms.

License revenues are recognized when license agreements, without interruption clauses, have been signed and delivery has taken place, and when price and payment plans have been determined without any other commitments in addition to the provision of licenses. Licenses sold in combination with hardware, which are a prerequisite for the functioning of the software, are recognized when the hardware is delivered. Consultancy services performed on account are reported as work is completed. Revenue attributable to customer-financed development projects is recognized in accordance with IAS 18, under which project expenses are invoiced as work is completed instead of being carried forward in the financial statements until full completion and final delivery.

LEASING AGREEMENTS

Leasing where a substantial part of the risks and benefits of ownership are retained by the lessor is classified as operational leasing. Payments made during the leasing period (after deductions for any incentives from the lessor) are recognized in the income statement linearly over the leasing period. The group has no financial leasing contracts.

LOAN EXPENSES

Loan expenses are recognized in the period to which they relate.

GOVERNMENT SUBSIDIES

Subsidies from the government are reported at fair value when there is reasonable assurance that the subsidy will be received and that the group will satisfy the conditions associated with the subsidy. Government subsidies for expenses are accrued and recognized in the income statement over the same periods as the expenses which the subsidies are intended to cover.

Government subsidies for the purchase of fixed assets are recognized as a reduction of the acquisition value of the fixed asset.

IMPORTANT ESTIMATES AND ASSESSMENTS WHEN APPLYING THE GROUP'S ACCOUNTING POLICIES

In order to prepare the financial statements in accordance with generally accepted accounting principles, it is necessary to make estimates and assumptions that affect the income statement, balance sheet and other information. Actual outcomes may differ from the estimates made. The area where estimates and assumptions may involve the risk of adjustments having to be made to recognized values of assets and liabilities during the coming fiscal year is primarily related to goodwill. The group regularly assesses if there is a need for write-downs of goodwill in accordance with the accounting principles described under Intangible assets. Forecasts for future cash flows are based on the best possible estimates of future earnings and costs.

NEW IFRS AND ADDITIONS TO IAS AND IFRIC INTERPRETATIONS TAKING EFFECT IN 2011 OR LATER

Standards, changes and interpretations of existing standards which have not yet taken effect and which have not been prematurely applied by the group are:

Standard	Changed or new	Changed	Force dates specified by IASB/IFRIC
IFRS 9	New	Financial Instruments	January 1, 2013 or later
IAS 24	Revised	Related Party Disclosures	January 1, 2011
IAS 32	Amendment	Financial Instruments Presentation	January 1, 2011
IFRIC 19	New	Extinguishing Financial Liabilities with Equity Instruments	January 1, 2011
IFRIC 14	Amendment	The limit on a Defined Benefit Asset	January 1, 2011

IAS 24, IAS 32, IFRIC 19 and IFRIC 14 will not have a material effect on the consolidated financial statements. The effect of IFRS 9 will be evaluated when the standard is complete.



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NOTE 3

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to management, including the President.

The management team mainly assesses the business from a geographical perspective but also from a product perspective. The geographic markets areas that are followed up are North America, Europe, Middle East and Africa, Asia, Latin America and Other. Types of products that are followed up are hardware, services and licenses.

From January 2011 a new sales organization will come into effect. The new organization consists of the business areas IAM, Access Solutions and Mobile. The types of products that still will be followed up are hardware, services and licenses.

The management team assesses operating segments based on operating profit.

Transfer pricing between the parent company and foreign subsidiaries is based on the Transactional Net Margin Method and the level of profit as Return on Sales, which for 2010 amounted to 5%. Internal sales are mainly between Europe and North America. Internal sales in Sweden are subject to market conditions.

The segment information, concerning the segments for which information should be provided, submitted to management for 2010 is as follows:

	North America		Europe		MiddleEast-Africa		Asia		Latin America		Other		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Earnings														
External sales	21,414	38,075	12,316	14,121	8,458	11,265	1,678	1,038	1,078	4,156	-	-	44,944	68,655
Total profit/loss														
Profit/loss per area	77	11,882	3,229	783	452	4,838	1,345	-2,135	1,078	4,146	231	86	6,412	19,600
Unallocated earnings													-20,909	-39,876
Operating profit/loss													-14,497	-20,276
Interest revenue													37	58
Interest expenses													-172	-1,550
Tax expenses for the year													-16	-4
Net profit/loss for the year													-14,648	-21,772

Other information														
Assets	8,620	13,821	4,750	4,496	-	2,716	-	-	-	-	-	-	13,370	21,033
Undivided assets													34,721	52,060
Total assets													48,091	73,093
Liabilities	1,820	2,759	2,023	1,005	-	-	-	3	-	-	-	-	3,843	3,767
Undivided liabilities													13,004	23,918
Total liabilities													16,847	27,685
Investments													4,710	1,298
Depreciation													2,012	2,614

Unallocated earnings reconciled with operating profit/loss:

	Group	
	2010	2009
Profit/loss per area	6,412	19,600
Administration expenses	-4,701	-12,554
R & D expenses	-6,435	-12,092
Selling expenses	-8,588	-9,321
Write-down of goodwill in group companies	-	-4,932
Result from participations in associated companies	-	-
Other operating expenses	-1,185	-977
Operating profit/loss	-14,497	-20,276

Unallocated assets reconciled with total assets:

	Group	
	2010	2009
Assets per area	13,370	21,033
Liquid assets	24,544	40,884
Other accounts receivable	-	1,772
Other receivables	2,809	4,734
Fixed assets	7,368	4,670
Total assets	48,091	73,093

Unallocated liabilities reconciled with total liabilities:

	Group	
	2010	2009
Liabilities per area	3,843	3,767
Other accounts payable	-	6,474
Accrued payroll costs	4,456	5,282
Payroll overhead and other taxes	2,214	2,553
Other accrued expenses	2,561	3,318
Borrowing	3,000	4,490
Provisions	694	1,136
Other liabilities	79	665
Total liabilities	16,847	27,685

Breakdown of sales by product type as follows:

	Products		Licenses		Services		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Income								
External sales	33,708	50,102	6,742	13,121	4,494	5,432	44,944	68,655
Assets	11,842	17,909	688	3,106	840	1,790	13,370	22,805
Investments	-	-	-	-	-	-	-	-

The company's head office is situated in Lund. Sales to external customers in Sweden amount to SEK 7.0 million (7.3) and sales to external customers in other countries amount to SEK 37.8 million (61.4), of which sales in North America SEK 21.4 million (38.1). Parent revenues from customers in Sweden total SEK 3.9 million (3.2) and revenues from customers in other countries total SEK 34.9 million (54.2), of which revenues from North America SEK 24.1 million (32.7).

NOTE 4

Intangible fixed assets, group

	<i>Goodwill</i>	<i>Development brought forward</i>	<i>Patents</i>	<i>Other</i>	<i>Total</i>
As at January 1, 2009					
Acquisition value	5,610	57,898	11,563	4,214	79,285
Accumulated depreciation and write-downs	-679	-53,918	-10,917	-4,088	-69,602
Book value	4,931	3,980	646	126	9,683
January 1 - December 31, 2009					
Opening book value	4,931	3,980	646	126	9,683
Acquisition	-	1,252	-	-	1,252
Write-down	-4,931	-69	-	-	-5,000
Depreciation	-	-1,444	-646	-43	-2,133
Closing book value	0	3,719	0	83	3,802
As at December 31, 2009					
Acquisition value	5,610	59,150	11,563	4,214	80,537
Accumulated depreciation and write-downs	-5,610	-55,431	-11,563	-4,131	-76,735
Book value	0	3,719	0	83	3,802
1 januari - 31 december 2010					
Opening book value	0	3,719	0	83	3,802
Acquisition	-	4,466	-	-	4,466
Write-down	-	-271	-	-	-271
Depreciation	-	-1,290	-	-43	-1,333
Closing book value	0	6,624	0	40	6,664
As at December 31, 2010					
Acquisition value	5,610	63,616	11,563	4,214	85,003
Accumulated depreciation and write-downs	-5,610	-56,992	-11,563	-4,174	-78,339
Book value	0	6,624	0	40	6,664



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NOTE 5

Intangible fixed assets, parent company

	Goodwill	Development brought forward	Patents	Other	Total
As at January 1, 2009					
Acquisition value	-	55,652	8,721	972	65,345
Accumulated depreciation and write-downs	-	-51,674	-8,075	-845	-60,594
Book value	0	3,978	646	127	4,751
January 1 - December 31, 2009					
Opening book value	0	3,978	646	127	4,751
Acquisition	-	1,098	-	-	1,098
Write-down	-	-69	-	-	-69
Depreciation	-	-1,436	-646	-43	-2,125
Closing book value	0	3,571	0	84	3,655
As at December 31, 2009					
Acquisition value	-	56,750	8,721	972	66,443
Accumulated depreciation and write-downs	-	-53,179	-8,721	-888	-62,788
Book value	0	3,571	0	84	3,655
January 1 - December 31, 2010					
Opening book value	0	3,571	0	84	3,655
Acquisition	-	4,466	-	-	4,466
Write-down	-	-271	-	-	-271
Depreciation	-	-1,259	-	-43	-1,302
Closing book value	0	6,507	0	41	6,548
As at December 31, 2010					
Acquisition value	-	61,216	8,721	972	70,909
Accumulated depreciation and write-downs	-	-54,709	-8,721	-931	-64,361
Book value	0	6,507	0	41	6,548



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NOTE 6

Tangible fixed assets

	Equipment	
	Group	Parent Company
As at January 1, 2009		
Acquisition value	8,526	7,061
Accumulated depreciation and write-downs	-7,223	-6,237
Book value	1,303	824
January 1 - December 31, 2009		
Opening book value	1,303	824
Acquisition	46	46
Depreciation	-481	-391
Closing book value	868	479
As at December 31, 2009		
Acquisition value	8,572	7,107
Accumulated depreciation and write-downs	-7,704	-6,628
Book value	868	479
January 1 - December 31, 2010		
Opening book value	868	479
Acquisition	244	223
Depreciation	-408	-321
Closing book value	704	381
As at December 31, 2010		
Acquisition value	8,816	7,330
Accumulated depreciation and write-downs	-8,112	-6,949
Book value	704	381



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NOTE 7

Costs allocated per type

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Depreciation and write-downs (Note 4, Note 5 and Note 6)	2,012	2,683	1,894	2,586
Write-down of accounts receivable	-	209	-	10
Write-down of goodwill in group companies (Note 4)	-	4,932	-	-
Personnel expenses	29,460	38,243	24,072	27,250
Goods for resale	17,151	30,670	17,490	28,248
Travel expenses	1,760	2,682	1,513	2,091
Telephone costs	694	903	528	628
Insurance expenses	334	482	217	276
Consultancy costs	883	106	1,762	973
Premises costs	3,085	3,348	2,527	2,424
Development costs (net of subsidies received)	-1,070	-1,251	-1,070	-1,251
Other sales expenses	1,691	2,469	1,601	1,764
Management expenses	1,157	1,101	1,092	1,027
Exchange rate adjustments	1,191	1,468	2,831	3,629
Recovered accounts receivable	-	291	-	291
Write-down of receivables group companies	252	-	252	4,144
Other external income & costs	840	596	732	621
Total	59,440	88,931	55,441	74,711



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NOTE 8

Auditors' remuneration

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
PwC				
Audit assignment	283	327	242	253
Audit other	32	-	32	-
Consulting tax	-	120	-	120
Consulting other	11	58	11	58
Total	326	505	285	431
Other auditors				
Audit assignment	24	15	-	-
Audit other	-	-	-	-
Consulting tax	-	-	-	-
Consulting other	40	21	-	-
Total	64	36	0	0



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NOTE 9

Operational leasing agreements

Operational leasing agreements mainly refer to office rent.

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Leasing costs during the year	1,955	2,243	1,565	1,514
Other leasing	247	115	247	115
Total	2,202	2,358	1,812	1,629
Nominal value of agreed future leasing charges				
Due for payment in 1 year	1,963	2,003	1,589	1,618
Due for payment after 1 year, but within 5 years	3,932	4,961	2,872	4,576
Due for payment after 5 years	-	-	-	-
Total	5,895	6,964	4,461	6,194



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NOTE 10

Government support

Precise Biometrics has received SEK 5.0 million in development subsidies from the EU. The amount is included in R&D expenses.



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NOTE 11

Income tax

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Current tax	-16	-4	-	-
Deferred tax (Note 13)	-	-	-	-
Total	-16	-4	0	0

Tax on group profit before tax differs from the theoretical amount that would have resulted from a balanced average tax rate in the consolidated companies as follows:

	<i>Group</i>	
	<i>2010</i>	<i>2009</i>
Profit/loss before tax	-14,632	-21,768
Tax calculated as per national tax rates applicable for profit in respective countries	3,848	5,725
Tax effect on taxable income	-	-
Tax effect on non-deductable costs	56	1,158
Tax deficit for which no deferred tax claim can be reported	-3,904	-6,883
Tax expenses	0	0



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NOTE 12

Profit/loss per share

Before dilution

Earnings per share before dilution are calculated in that the earnings referable to parent company owners are divided by a balanced average number of outstanding common shares during the period, excluding repurchased shares of the parent company (see note 18 Capital stock).

	Group	
	2010	2009
Profit/loss referable to parent company owners (Thousand SEK)	-14,648	-21,772
Weighted average number of outstanding ordinary shares (thousands)	134,961	112,467
Profit/loss per share before dilution (SEK per share)	-0,11	-0,19

Profit/loss per share after dilution

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

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

The number of shares calculated as per the above is compared with the number of shares that would have been issued on the assumption that the stock options were utilized. If all outstanding subscription option programs were redeemed in their entirety, the maximum dilution would amount to 2,500,000 shares.

The share market price as at December 31, 2010 exceed the redemption price of the outstanding subscription options. However, outstanding subscription options have not been taken into consideration in the calculation below, since the Result attributable to parent company shareholders is negative.

	Group	
	2010	2009
Profit/loss attributable to parent company stockholders	-14,648	-21,772
Weighted average number of outstanding ordinary shares (thousands)	134,961	112,467
- adjustment for share options	-	-
Weighted average number of common stock for calculation of earnings per share after dilution (thousands)	134,961	112,467
Profit/loss per share after dilution (SEK per share)	-0,11	-0,19



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NOTE 13

Deferred tax

The parent company does not have any deferred tax assets.

Against the background of past evolution in group earnings, no deferred tax assets relating to loss carried forwards have been reported.

Deferred tax relating to temporary differences attributable to investments in subsidiaries is not reported, since the parent company does not have any deferred tax assets.

Accrued, taxed loss carried forwards excluding net profit/loss for the year in the parent company amounted to approx. SEK 448 million and in the American subsidiary to approx. SEK 33 million.



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NOTE 14

Inventories

	<i>Group</i>	
	<i>2010</i>	<i>2009</i>
Components	3,822	3,516
Goods for sales	4,580	2,531
Total	8,402	6,047

The costs reported for inventories are included in the Cost of goods sold item, and amounted to SEK 17,425 thousand (2009: 29,466).

NOTE 15

Accounts receivable and other receivables

	Group	
	2010	2009
Accounts receivable	4,968	16,758
Minus: reserve for impairment of receivables	-	-
Accounts receivable net	4,968	16,758
Other receivables	1,085	1,485
Prepaid expenses and accrued income	1,724	3,249
Total	7,777	21,492

There is not considered to be a write-down requirement for accounts receivable that have been due. As at December 31, 2010, accounts receivable amounting to SEK 186 thousand (2009: 677) were due without any write-down requirement being considered necessary. These refer to a number of independent customers which have not previously had payment difficulties. The age of these accounts receivable is analyzed in the below table.

As at December 31, 2010, the Group had not recognized any accounts receivable due for more than six months (2009: 0). The reserve for doubtful accounts receivable amounted to SEK 0 thousand as at December 31, 2010 (2009: 0). The age analysis of all accounts receivable is as follows:

	2010	2009
Less than 3 months	4,956	16,734
3 to 6 months	12	24
Of which written down	-	-
More than 6 months	-	-
Of which written down	-	-
Total	4,968	16,758

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

The maximum exposure to credit risk on balance sheet date is the fair value for each category of receivable. The group has no collateral as security.

The recognized amounts, per currency, for the group's accounts receivable and other receivables are as follows:

	2010	2009
SEK	1,380	1,274
USD	371	1,793
EUR	109	247

Sensitivity analysis

If the Swedish krona (SEK) increases/decreases 5% in value compared with the USD while all other variables remain constant, annual income as at December 31, 2010 would have been SEK 493 thousand (2009: 1,889) higher/lower, mainly as a result of gains/losses when translating internal and external receivables and loan receivables in USD.

Equity would have been approx. SEK 309 thousand (2009: 1,621) lower/higher, mainly as a result of exchange rate differences when translating the above items and translating subsidiaries.

Credit risk management

Credit risks are managed at group level. Credit risks are mainly incurred through receivables and agreed transactions. An external credit rating is made for large orders to new customers. An individual rating is made for orders from known customers. No new orders are delivered if customers have accounts receivable due for payment. Payment in advance is required if there are any doubts concerning a credit rating.

Risk capital management

The group's capital structure objective is to secure the group's capacity to continue its operations and generate returns in the future for its stockholders. Until now the Company has only run at a loss, and has therefore had to rely on financing from its stockholders.

There is no guarantee that the present capital will be sufficient until the Group achieves a positive cash flow, but this is an essential objective for the Company. The Company is strongly focused on reducing tied-up capital, primarily working capital, using a variety of measures.



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NOTE 16

Liquid assets

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Cash and bank balances	24,544	40,884	21,129	28,494
Total	24,544	40,884	21,129	28,494

	<i>Group</i>	
	<i>2010</i>	<i>2009</i>
Liquid assets in the cash flow statement include the following:		
Liquid assets	24,544	40,884
Overdrafts	-	-
Total	24,544	40,884



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NOTE 17

Financial fixed assets

	Group		Parent Company	
	2010	2009	2010	2009
Opening balance	-	-	1,058	6,540
Write-down of subsidiaries	-	-	-	-5,482
Total	0	0	1,058	1,058
Long-term payment	-	-	1,058	1,058

Participation in subsidiaries

	Parent Company	
	2010	2009
Precise Biometrics Services AB		
Corp ID 556582-9347, head office: County of Skåne, Lund		
No of shares	1,000	1,000
Stock share	100%	100%
Book value	100	100
Precise Biometrics Inc		
Company No: 544077-1, Vienna, Washington, USA		
No of shares	10	10
Stock share	100%	100%
Book value	958	958
Precise Biometrics Solutions AB		
Corp ID 556646-6529, head office: county of Värmland, Karlstad		
No of shares	1,000	1,000
Stock share	100%	100%
Book value	0	0
Loqware Sweden AB (liquidated during 2010)		
Corp ID 556579-9854, head office: Göteborg- & Bohuslän, Gothenburg		
No of shares	-	15,000,000
Stock share	-	100%
Book value	-	0

Precise Biometrics Ltd Company

Company No: 5551295, London, UK

No of shares	1	1
Stock share	100%	100%
Book value	0	0

Precise Biometrics Asia Ltd Company (closed down 2010)

Company No: 1159692, Hong Kong

No of shares	-	1
Stock share	-	100%
Book value	-	0



FINANCIAL REPORTS

NOTE 18

Capital stock

	<i>No. of shares</i>
As at January 1, 2009	101,220,600
New issues of shares	33,740,200
As at December 31, 2009	134,960,800
New issues of shares	-
As at December 31, 2010	134,960,800

Stock options

During 2008, an option program was initiated for the executive group under which a maximum of 2,500,000 options may be allocated as authorized by the annual stockholders' meeting in 2008. Through this acquisition of options by the executive group Precise Biometrics received additional liquid assets of SEK 458,300. Stock may be subscribed to through the exercise of subscription rights between January 1 and May 31, 2011 at a price of SEK 2.20. Full exercise of subscription rights will increase the capital stock to SEK 1,000,000, which corresponds to approx. 1.9 per cent of the Company's present capital stock.

During 2010 the 2007 option program lapsed.

The nominal value of a share is SEK 0.40.

The change in the number of outstanding stock options and their weighted average redemption price is as follows:

	<i>2010</i>		<i>2009</i>	
	<i>Redemption price SEK per share</i>	<i>Options (thousand)</i>	<i>Redemption price SEK per share</i>	<i>Options (thousand)</i>
As at January 1	3,66	4,415,000	3,34	4,865,000
Lapsed	3,50	-2,415,000	-	-
Repurchase	-	-	0,19	-300,000
Repurchase	-	-	0,13	-150,000
As at December 31	2,75	2,000,000	3,66	4,415,000



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NOTE 19

Reserves in equity

	<i>Conversion reserve</i>
Opening balance as at January 1, 2009	-466
Exchange rate differences:	
- The Group	621
Closing balance as at December 31, 2009	155
Exchange rate differences:	
- The Group	334
- The Group: Reverse of exchangerate difference in disposed subsidiary	150
Closing balance as at December 31, 2010	639



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NOTE 20

Accounts payable and other liabilities

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Accounts payable	3,843	10,241	3,443	9,833
Accrued payroll costs	4,456	5,282	3,334	4,090
Payroll overhead and other taxes	2,214	2,553	1,576	2,307
Accrued expenses	2,561	3,318	2,130	2,552
Other liabilities	79	665	-	1,946
Total	13,153	22,059	10,483	20,728



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NOTE 21

Borrowing

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Short-term				
Overdraft facility	1,250	1,248	-	-
Liabilities to credit institutes	-	1,492	-	1,492
Other liabilities	1,750	1,750	-	-
Total	3,000	4,490	0	1,492



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NOTE 22

Other provisions

	<i>Guarantee provisions</i>	
	<i>Group</i>	<i>Parent Company</i>
As at January 1, 2010	1,136	284
Reported in consolidated income statement	-442	-122
As at December 31, 2010	694	162



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NOTE 23

Pledged assets

Of the SEK 26,400 thousand amount as at December 31, 2010, SEK 24,000 thousand refers to the parent company.



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NOTE 24

Contingent liabilities

The amount refers to a solvency guarantee placed for Precise Biometrics Solutions AB.

NOTE 25

Employee and personnel expenses

Gender balance in group

	2010		2009	
	Men	Women	Men	Women
Precise Biometrics AB, Sweden	15	8	17	8
Precise Biometrics Inc, USA	2	0	1	0
Precise Biometrics Solutions AB	7	2	7	2
Loqware Sweden AB (bankrupt in 2010)	0	0	0	0
Precise Biometrics Asia Ltd. (closed in 2010)	0	0	1	0
	24	10	26	10

Gender balance in corporate management – Proportion of women

	Group		Parent Company	
	2010	2009	2010	2009
The board of directors	60%	60%	60%	60%
President and leading executives	20%	20%	20%	20%

Absence due to illness

	Sweden	
	2010	2009
Total absence due to illness as proportion of ordinary working hours	1,0%	1,7%
Proportion of total absence due to illness referring to consecutive period of 60 days or more	0%	0%
Sick leave by gender		
Men	0,8%	0,8%
Women	1,4%	4,0%
Sick leave by age category		
29 years old or younger (no. of employees in group less than 10)	iu	iu
30-49 years old	0,9%	1,7%
50 or older (no. of employees in group less than 10)	iu	iu

Salaries and remuneration are allocated as follows:

	Group		Parent Company	
	2010	2009	2010	2009
Board and President, Sweden				
Salaries and other remuneration	3,363	4,237	3,363	4,237
Pension expenses	13	17	13	17
Payroll overhead, incl. payroll tax	1,037	1,331	1,037	1,331
Total	4,413	5,585	4,413	5,585
Others, Sweden				
Salaries and other remuneration	17,685	21,803	13,564	15,967
Pension expenses	2,458	2,661	1,872	1,973
Payroll overhead, incl. payroll tax	6,219	7,287	4,759	5,276
Total	26,362	31,751	20,195	23,216
TOTAL, SWEDEN	30,775	37,336	24,608	28,801
Board and President, USA				
Salaries and other remuneration	-	-	-	-
Pension expenses	-	-	-	-
Payroll overhead, incl. payroll tax	-	-	-	-
Total	0	0	0	0
Others, USA				
Salaries and other remuneration	2,071	1,723	-	-
Pension expenses	57	40	-	-
Payroll overhead	67	93	-	-
Total	2,195	1,856	0	0
TOTAL, USA	2,195	1,856	0	0
Board and President, Hong Kong				
Salaries and other remuneration	-	-	-	-
Pension expenses	-	-	-	-
Payroll overhead, incl. payroll tax	-	-	-	-
Total	0	0	0	0
Other, Hong Kong				
Salaries and other remuneration	-	484	-	-
Pension expenses	-	12	-	-
Payroll overhead	-	-	-	-
Total	0	496	0	0
TOTAL HONG KONG	0	496	0	0
TOTAL	32,970	39,688	24,608	28,801

NOTE 26

Remuneration to leading executives

Principles

Remuneration is paid to the chairman and board members in accordance with the decision of the annual stockholders' meeting.

Remuneration to the President and other leading executives consists of their basic salary, flexible remuneration and pension benefits. The leading executives are the five persons who together with the President constitute the corporate management. For the composition of the corporate management, see The Board.

The division between basic salary and flexible remuneration must be proportional to leading executives' responsibilities and powers. For the President, the flexible remuneration is a maximum of 50% of the basic salary. For other leading executives, the flexible remuneration is a maximum of 30% of the basic salary. Pension benefits are included as part of the total remuneration.

Remuneration and other benefits in 2010

	<i>Basic Salary/Board remunerations</i>	<i>Flexible remunerations</i>	<i>Other benefits</i>	<i>Pension expenses</i>	<i>Other remuneration</i>	<i>Total</i>
Lisa Thorstedt, Chairwoman of the Board	210	0	0	0	0	210
Marc Chatel, member of the Board	105	0	0	0	0	105
Lena Klasén, member of the Board	105	0	0	0	0	105
Eva-Maria Matell, member of the Board	105	0	0	0	0	105
Torbjörn Clementz, member of the Board	105	0	0	0	0	105
President	2,290	242	169	13	33	2,747
Other leading executives 4 persons (see below)	3,486	232	58	587	31	4,394
Total	6,406	474	227	600	64	7,771

Notes on the table:

Board fees have been paid monthly from May 2003 at 1/12 of the remuneration decided by the stockholders' meeting. Fees paid have been recognized in the financial statements. The above remuneration refers to expenses that have affected net income/loss for the year.

The group has both fee defined and benefit defined pension plans. Both plans are accounted for under fee defined. Pension expenses refer to the expenses that have affected net income/loss for the year.

The Chairman of the Board has not received any remuneration in addition to the board fee.

Bonuses

The president's bonus is based on Group results and individual targets. The targets are established by the board of directors. The maximum bonus which may be paid to the president is 50% of the basic salary. The bonus for the 2010 calendar year was 11% of basic salary. In 2010, the bonuses of other leading executives were based both on individual targets and group sales and earnings. Leading executives responsible for sales also receive a commission on sales for their area of responsibility. In 2010, average bonuses for leading executives amounted to 7% of their basic salaries.

Other benefits

Other benefits consist of benefits for cars, petrol, travel and computers.

Financial instruments etc.

The company has one outstanding option program.

The option program is addressed to the executive group, launched in 2008 and expires in May 2011. The program includes a total of 2,500,000 options, of which 800,000 is subscribed by the CEO and 300,000 per person by the rest of the executive group.

For further information, see [Note 19](#).

Pensions

The retirement age for the President is 65. Pension premiums shall amount to a maximum of 25% of the fixed salary from the parent company. For other leading executives, the retirement age is 65. Under the pension agreement, pension premiums are calculated based on a scale relating to age and salary.

For the highest current age interval, the premium amounts to 7% of the pensionable salary up to 7.5 of the base amount, 42% of the pensionable salary between 7.5 and 20 of the base amount and with 22% of the pensionable salary for salaries over 20 of the base amount.

Severance pay

There is a mutual period of 6 month's notice for the Company and the President. In addition, severance pay equivalent to 12 month salary will also be paid if the President is given notice by the Company.

A notice period of 3-6 months applies between the Company and other leading executives. No severance pay will be paid for other leading executives.

Change in control

There are no agreements between the company and its employees, apart from employment contracts the main part of which have been commented on above, under which payments must be made to employees if their employment is terminated as a result of a public takeover bid.

Planning and decision-making process

The company has established a compensation committee which deals with salaries, pension terms and conditions, incentive programs and other terms and conditions of employment for the company executive. The compensation committee is made up of the entire board of directors. Remuneration to the President for the fiscal year 2010 has been decided by the board.

Remuneration to other leading executives has been decided by the President in consultation with the chairman. The stockholders' meeting on April 21, 2010 resolved to adopt the guidelines for deciding salaries and other remuneration for the president and other leading executives proposed by the Board.



FINANCIAL REPORTS

NOTE 27

Prepaid expenses and accrued income

	<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>
Prepaid rents	360	353
Prepaid insurance	292	360
Prepaid sales expenses	57	84
Accrued income	166	1,535
Prepaid patent charges	173	89
Other items	426	327
Total	1,474	2,748



FINANCIAL REPORTS

NOTE 28

Cash flow from operations

	<i>Group</i>		<i>Parent Company</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
Result for period before financial items	-14,497	-20,276	-16,615	-17,314
Adjusted for:				
- depreciation and write-downs of tangible and non-current assets	2,012	2,683	1,894	2,585
- other items with no influence on liquidity	468	5,549	-411	-4,775
Changes in working capital				
- inventories	-2,355	-3,429	-2,355	-3,429
- accounts receivable and other receivables	14,482	-11,687	25,427	-14,430
- accounts payable and other liabilities	-9,346	8,185	-8,874	7,123
Cash flow from operations	-9,236	-18,975	-934	-30,240



FINANCIAL REPORTS

NOTE 29

Purchases and sales between group companies and transactions with associates

Parent company sales to other group companies amounted to SEK 24.3 million (31.9). Purchases from group companies amounted to SEK 4.4 million (1.5).

Transfer pricing between the parent company and foreign subsidiaries is based on the Transactional Net Margin Method and the level of profit as Return on Sales, which for 2010 amounted to 5%. Internal sales in Sweden are subject to market conditions.



FINANCIAL REPORTS

NOTE 30

Risk factors

Investments in stocks are always associated with risk-taking and an investment in the Company can also be considered to be a risk, since the Company is relatively new and commercially still at an early stage. A number of factors beyond the control of the Company can influence its earnings and financial position, as is the case with several factors which the Company can influence through the measures it takes. Therefore, in addition to the information in this Annual Report, an assessment should be made of each risk factor and its importance for the future development of the Company.

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

Risks related to operations

TECHNOLOGICAL DEVELOPMENT

The market in which the Company operates is subject to rapid change. New technology and new players are constantly appearing. The Company's technology must therefore to a large extent be accepted by the leading players in the market, both suppliers and customers. The market must be mature enough to understand and accept the new technology supplied by the Company. This may require major investment in marketing and sales to achieve the expected sales volumes.

KEY PERSONS

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

PARTNERS

Today the Company cooperates with several different partners. They include smart card manufacturers, chip manufacturers and suppliers of applications. The Company relies on this cooperation in order to be able to offer end customers complete security solutions. There is a risk that one or more of these partners could end their cooperation or fail to achieve the expected results, which would result in a loss of expected future earnings.

TECHNOLOGICAL AND MARKET DEVELOPMENT AND PRODUCTION

As the market in which the Company operates grows and the number of players increases, there is a risk that alternative technologies will be developed and that the price of comparable products will thereby be reduced. The Company depends on external production capacity. If the demand for components and production capacity should increase, the manufacturing costs for the Company's products will also increase.

An increase in the demand for components could also lead to delayed deliveries, which could result in income displacement.

PATENTS AND INDUSTRIAL AND INTELLECTUAL PROPERTY RIGHTS

It is important for the Company to protect its technology through patents or other industrial and intellectual property rights, and thereby retain its technological lead and create the opportunity for license earnings in the future. The company therefore pursues an active patent strategy, which involves applying for patents for strategically important inventions in the countries where this is considered to be appropriate.

Nevertheless, it cannot be guaranteed that the Company will obtain patents in the countries where it has made applications, nor that it can protect patents that have been acquired. Over and above this, there is a risk that new technologies will be developed, which could circumvent or replace the Company's patents. The Company does not consider that its own technology encroaches on the industrial and intellectual property rights of another party at the present time. In spite of this, it cannot be guaranteed that the patents granted to the Company will not be considered to encroach on the patents of other parties.

COMPETITORS

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

Financial risks

FUTURE CAPITAL

There is no guarantee that the capital will be sufficient until the Company achieves a positive cash flow. Neither is there any guarantee that new capital can be acquired if the need should arise, or that such capital can be acquired on preferential terms.

FORECASTING PROBLEMS

The Company operates in a market that is in an early stage of growth and which is characterized by low initial sales levels, which implies considerable problems with accurate forecasts. Earlier or later submissions of orders can have a significant effect on annual sales and earnings.

CURRENCY EXPOSURE RISKS

A large part of the Company's expenses is in Swedish kronor (SEK), while a significant part of earnings and production costs are generated in foreign currency (mainly USD), which increases the Company's currency exposure risks. The Company has adopted a currency exposure risk policy for the purpose of minimizing the risks in operations.

CREDIT RISK

The Company has guidelines for awarding credit to its clients. The Company believes that there is no significant concentration of credit risks in relation to any individual client or other party.

INTEREST RISKS

The Company is not subject to any tangible interest risks.

CASH FLOW

The Company puts a lot of effort into minimizing the time capital is tied up, for example in inventory and accounts receivable. To reduce the risk involved in tied up capital, the Company works actively to improve the internal process for forecasting and production planning. The Company also endeavors to ensure that the long ID card projects are not an excessive burden in terms of the cash flow.

During the present financial crisis the Company has focused on cash flows and prevailing payment terms. This has resulted in Precise Biometrics increasing the stringency of its payment terms for customers.



ASSURANCE FROM BOARD

The Board and the CEO assure that the consolidated financial statements have been prepared according to the international accounting standards IFRS as such they have been adopted by the EU and give a fair representation of the group's financial position and result. The annual report has been prepared according to generally accepted accounting principles and gives a fair representation of the parent company's financial position and result.

The administration report for the group and the parent company gives a fair representation of the group's and the parent company's operations, financial positions and results. It also illustrates the major risks and uncertainties the parent company and the group companies face.

The balance sheet and income statement of the parent and of the group will be prescribed the Annual General Meeting April 27, 2011 for assessment.

Lund, March 25, 2011

Lisa Thorsted

Chairman of the Board

Eva Maria Matell

Board member

Marc Chatel

Board member

Torbjörn Clementz

Board member

Lena Klasén

Board member

Our audit report was submitted on March 25 2011.
Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Head Accountant
Authorised Public Accountant

Ola Bjärehäll

Authorised Public Accountant



AUDIT REPORT

To the Annual General Meeting of Precise Biometrics AB (publ), CIN 556545-6596

We have audited the annual accounts, the consolidated accounts and the accounting records, as well as the administration by the board of directors and the President of Precise Biometrics AB (publ) for 2010. The annual accounts includes the section from the Administration & Corporate Governance Report to the Notes. The board of directors and the President are responsible for the accounting documents and the administration, that the Annual Accounts Act is applied during the preparation of the Annual Report and also that international financial reporting standards (IFRS), as adopted by the EU, and the Annual Accounts Act are adopted during the preparation of the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles and their application by the board of directors and the President, as well as evaluating the essential estimates made by the board of directors and the President when preparing the annual accounts and the consolidated accounts, including the overall presentation of information in the annual accounts and consolidated accounts. As a basis for our opinion concerning discharge from liability, we have examined significant decisions, actions taken and the circumstances in the Company in order to be able to determine the liability, if any, to the Company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The Annual Report has been prepared in accordance with the Annual Accounts Act and gives a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with inter-national financial reporting standards (IFRS), as adopted by the EU, and the Annual Accounts Act, and give a true and fair view of the group's financial position and results of operations. A corporate governance report has been established. The Administration report and the corporate governance report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual general meeting of shareholders that the income statements and balance sheets of the parent company and the group's reports on the overall income statements and balance sheet for the group to be adopted, that the loss for the parent company be dealt with in accordance with the proposal in the Administration Report, and that the members of the board of directors and the President be discharged from liability for the fiscal year.

Lund, March 25, 2011

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

*Authorised Public Accountant
Auditor in charge*

Ola Bjärehäll

Authorised Public Accountant

BOARD OF DIRECTORS

As of December 31, 2010



LISA THORSTED

Chairman of the board

BORN: 1967

EDUCATION: Master of Science in Economics and Business Administration, Copenhagen Business School, Denmark

CURRENT POSITION: Group Vice President, Regional CFO Eastern Europe, ISS A/S

BOARD MEMBER SINCE: 2006

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Management assignments in different business areas within SAS, latest as CCO of SAS Danmark A/S

OTHER ASSIGNMENTS: –

SHARES IN PRECISE BIOMETRICS: 25,000



MARC CHATEL

Member of the board

BORN: 1955

EDUCATION: Mechanical Engineering at Federal Polytechnic School, Lausanne, Switzerland

CURRENT POSITION: CEO at Finakey S.A.

BOARD MEMBER SINCE: 2005

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: CEO at Finakey S.A.

OTHER ASSIGNMENTS: Board member in Alpsens SA, PGC, SA and Neocutis SA

SHARES IN PRECISE BIOMETRICS: 1,663,079



EVA MARIA MATELL

Board Member

BORN: 1958

EDUCATION: Graduate Engineer, Industrial Economics, International Marketing, Linköping University

CURRENT POSITION: Managing Director at Kaspersky Lab AB

BOARD MEMBER SINCE: 2007

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Sales and Marketing Director XponCard AB

OTHER ASSIGNMENTS: -

SHARES IN PRECISE BIOMETRICS: 13,333



LENA WIDIN KLASÉN

Board Member

BORN: 1960

EDUCATION: PhD in Image Coding at Linköping University, Sweden, Department of Electrical Engineering. MSc in Computer Science and Technology, Linköping University, Sweden

CURRENT POSITION: CEO & Founder of AVIUM AB; Owner of VindVector AB; Guest lecturer in Information Coding at The Department of Electrical Engineering, Linköping University.

BOARD MEMBER SINCE: 2007

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Vice President & Head of Portfolio Management at Security and Defense Solutions, Saab AB; Manager Airborne Products at Saab Microwave Systems, Saab AB; Director of Division of Sensor Systems at Swedish Defense Research Agency (FOI)

OTHER ASSIGNMENTS: Member of the board of the Institute of Technology at Linköping University

SHARES IN PRECISE BIOMETRICS: 0



TORBJÖRN CLEMENTZ

Board Member

BORN: 1961

EDUCATION: Bachelor of Science in Business Administration and Economics at University of Växjö

CURRENT POSITION: CFO and Deputy CEO, BE Group AB

BOARD MEMBER SINCE: 2009

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: -

OTHER ASSIGNMENTS: Board member in subsidiaries within BE Group; and in Sport and Rehabkliniken i Ängelholm AB, as well as in Pildammarna Invest AB

SHARES IN PRECISE BIOMETRICS: 100,000, Spouse: 10,000

MANAGEMENT

As of December 31, 2010



THOMAS MARSCHALL

President & CEO

BORN: 1967

EMPLOYED SINCE: 2006

EDUCATION: Maersk International Shipping Academy, Export Marketing, Henley Management School, Great Britain, International Management Program, Stanford

OTHER ASSIGNMENTS: Board member of Dralle A/S

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: General Manager A.P. Möller Maersk, and CEO Synkron A/S

SHARES/OPTIONS IN PRECISE BIOMETRICS: 604,333/800,000



JONAS ANDERSSON

Vice President, Business Development

BORN: 1957

EMPLOYED SINCE: 2002

EDUCATION/QUALIFICATIONS: Graduate Engineer, Lunds University and Enseeiht, France

OTHER ASSIGNMENTS: -

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Director National ID Card at Precise Biometrics AB

SHARES/OPTIONS IN PRECISE BIOMETRICS: 13,869/300,000



PATRIK LINDEBERG

Director Technical Department

BORN: 1973

EMPLOYED SINCE: 2007

EDUCATION/QUALIFICATIONS: Master of Science E.E. at Lund University, Sweden

OTHER ASSIGNMENTS: Board member in Precise Biometrics Solutions

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Manager for Technical Account Management at Teleca AB, Product Manager at Precise Biometrics AB.

SHARES/OPTIONS IN PRECISE BIOMETRICS: 0/300,000



PATRIK NORBERG

CFO

BORN: 1968

EMPLOYED SINCE: 2008

EDUCATION: Bachelor Degree in Business & Administration, School of Economics and Management at Lund University

OTHER ASSIGNMENTS: -

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: CFO at Travelstart Nordic AB, Finance Manager at Espresso House Sweden AB.

SHARES/OPTIONS IN PRECISE BIOMETRICS: 71,587/300,000

Karin Sveheim, Director of Markets, left Precise Biometrics during the year.



AUDITORS

Öhrlings PricewaterhouseCoopers AB, 556029-6740

Elected until the end of the General Annual Meeting 2012

Eva Carlsvi

Auditor in charge, born 1968

Authorised Public Accountant - Auditor of Precise Biometrics since April 2008

Ola Bjärehäll,

Accountant, born 1974

Authorised Public Accountant - Auditor of Precise Biometrics since April 2008



FINANCIAL GLOSSARY

Average number of outstanding shares during the year

Number of shares at the beginning of the year plus the number of shares at the end of the year divided by two.

Balance sheet total

Value of all assets on the balance sheet date.

Capital employed

Balance sheet total minus non interest-bearing liabilities and provisions. The average capital employed has been calculated as opening equity plus closing equity divided by two.

Debt/equity ratio

Interest bearing liabilities divided by equity.

Direct dividend

Proposed dividend divided by share price on balance sheet date.

Dividend

Dividend per share during the year.

EBITDA

Operating profit/loss before depreciation and net financials.

Equity

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

Equity/assets ratio

Equity as at balance sheet date divided by total assets as at balance sheet date.

Equity per share

Equity at the end of the year divided by the number of shares at the end of the year.

Equity ratio

Equity and latent tax liabilities divided by closing balance.

Gross margin

Gross profit/loss divided by net sales.

Interest cover ratio

Profit/loss after net financials plus financial costs divided by financial costs.

Liquid ratio

Current assets less inventories divided by current liabilities

Number of shares

Number of shares at year-end.

Operating margin

Operating profit/loss divided by net sales.

P/E ratio

Stock price at the end of the year divided by profit/loss per share.

Profit/loss per share

Profit/loss after net financials divided by average number of shares. The calculation has been made in accordance with IAS 33 Net profit/loss per share. Under IAS 33, recalculation after dilution may not produce a better profit/loss per share compared with before dilution.

Return on capital employed

Profit/loss after net financials plus financial costs divided by average capital employed.

Return on equity

Profit/loss for the year divided by average equity.

Share price

The last price paid during the period.

Working capital

Current assets less current liabilities.



ANNUAL GENERAL MEETING

The Annual Meeting for shareholders in Precise Biometrics AB (publ) will be held on Wednesday April 27, 2011 at 4 pm at the Precise Biometrics headquarters in Lund, Scheelevägen 30.

Shareholders wishing to participate in the annual shareholders' meeting must be registered in the share register kept by Euroclear Sweden AB by Monday April 19, 2011 at the latest, and also report their participation to Precise Biometrics AB no later than Monday April 19, 2011 at 4 pm.

Registration in the stock register

Shareholders who have their shares registered through a bank or in the name of an authorized agent shall temporarily register their stock in their own name in the stock register kept by Euroclear Sweden AB no later than Monday April 19, 2011 in order to participate in the meeting.

Stockholders must inform their agents with sufficient notice prior to this date.

Registering to attend the annual shareholders' meeting

Shareholders must notify their intention to attend the annual shareholders' meeting by Monday April 19, 2011 at the latest. Shareholders may submit applications by phone, fax, mail or email.

- Tel. + 46 46 31 11 34
- Fax: +46 46 31 11 01
- Email: investor@precisebiometrics.com
- Mail: "Precise Biometrics – Annual Shareholders' Meeting", Box 798, 220 07 Lund, Sweden

Applications must include:

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

Representatives

Shareholders who are represented by agents shall give such agents powers of attorney. If powers of attorney are issued by legal entities, a copy of the registration certificate (or if such a document does not exist, a similar document) for the legal entity must be enclosed. The document may not be older than one year.

These documents must be in the possession of Precise Biometrics no later than Monday April 19, 2011.

Shareholder contact

Patrik Norberg, CFO in Precise Biometrics
Telephone +46 46 31 11 47
Email patrik.norberg@precisebiometrics.com



SHAREHOLDER INFORMATION

DISTRIBUTION OF ANNUAL REPORT

The company's annual report will not be distributed to the shareholders, as there will be no hard copy of the report. The annual financial statements will be available in both Swedish and English on the company's website at www.precisebiometrics.com. The entire document can be printed out from the website.



SHAREHOLDER INFORMATION

FINANCIAL CALENDER

Interim Report January - March.....April 27, 2011

Interim Report January - June.....July 19, 2011

Interim Report January - September.....October 25, 2011

Year-end report January-December.....February 3, 2012

Financial reports are published in Swedish and English at www.precisebiometrics.com. The reports can also be requisitioned by calling +46 46 31 11 00.



CONTACT

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