

STRONG MOMENTUM IN ALL BUSINESS AREAS

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

- The group's net sales for the interim period amounted to SEK 9.4 million (26.4) and for the second quarter SEK 5.9 million (7.1).
- The group's income for the interim period amounted to SEK -18.6 million (-5.1) and for the second quarter SEK -8.9 million (-4.7).
- Earnings per share for the interim period amounted to SEK -0.13 (-0.04) and for the second quarter SEK -0.06 (-0.04).
- Available cash at the end of the interim period amounted to SEK 49.6 million (34.8). Available cash includes SEK 48.6 million from the share issue (after related costs).

Important events during the quarter

- Precise Biometrics' rights issue, with preferential rights for Precise Biometrics' shareholders, was oversubscribed. The rights issue was subscribed to 118.9% and is carried out as a part of the company's strategic plan – Plan 2015.
- The company was top ranked in the MINEX II test, the most important US government test for standardized Match-on-Card. Since new directives states that all US federal government agencies must implement PIV (Personal Identification Verification) and as PIV will include Match-on-Card, Precise Biometrics will be very well positioned on the US federal government market.
- Precise Biometrics launched a new software product, Precise BioMatch™ Embedded, which enables hardware companies to quickly integrate fingerprint verification in their products.

For further information

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

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

For more information, please visit www.precisebiometrics.com



Strong momentum in all business areas

Interview with the President & CEO, Thomas Marschall

How would you sum up the first half of this year?

Precise Biometrics has made several important advances during this period. What stands out most are the very strong results for our Match-on-Card technology in the US government agency test, MINEX II. This achievement enables great sales opportunities in the US and global market. We have also introduced our Plan 2015, a strategic platform for the development of the company up to 2015. The oversubscription of our new issue of shares in May was also important, and enables us to take strong initiatives to achieve the objectives in our ambitious business plan.



Nevertheless, I can also confirm that sales and profits remained unsatisfactory and did not reach up to our expectations. This was mainly a result of time lags in the US following a significant delay in the adoption of the US budget to April. Even though the budget has now been approved there is still some uncertainty concerning the allocation of funds to different areas, which has delayed expected orders from US government agencies. We have no reason not to believe that security remains a top priority for the US administration, as their strong focus remains on Cyber Security and aims to reinforce protection from cyber attacks. This continues to give Precise Biometrics a strong growth potential in the US.

How is the market developing?

Three months after the publication of the positive results from MINEX II we are seeing major international interest in our world-leading Match-on-Card technology. It has not only been coming from public ID programs, we are also encountering much greater interest from several of the leading companies in the markets for smart cards and chips. We are expecting to specify and publish new partnerships with several of these players in the coming six months.

We are also expecting increased sales to the US in the business area IAM as government agencies recover from the delays in the budget process.

What does the successful issue of the new shares actually mean?

Our new issue of shares was oversubscribed, which demonstrates that our future plans according to our strategic plan, Plan 2015, have achieved great support from our shareholders. The new issue of capital enables strong initiatives in all the business areas – IAM, Access Solutions and Mobile – and is one of the prerequisites for us to achieve the objectives in Plan 2015. The main implication is the ability to carry through greater and necessary investments in sales and marketing and in the product development of biometric solutions for Smartphones and TabletPCs.

We have recruited new staff within the framework of our new organization and Plan 2015, where the main emphasis has been on sales and marketing in the US, but we will also be looking for additional recruits.

Our investments in Mobile are proceeding according to plan and we expect to be able to launch new products and solutions for the Smartphone market at the end of the year.

What can you say about your future development?

As I have said before, I am expecting 2011 to be the most successful year ever for Precise Biometrics. There are three main reasons for my confidence in this.

Right from the very start, Precise Biometrics has been involved in creating a strong base for our Match-on-Card technology in the international market. We are now facing what is a manifest interest in the technology as a standard component from several of the major players in the smart card market, not least after the top result in the US government agency test MINEX II.

It is important to reach profitability and with our current level of investments we are expecting the business area IAM to reach profitability in 2011. It is also possible that Access Solutions will reach profitability this year.

We have been working for a long time on the development of our technology to enable it to meet the new demands in other major markets over and above the market for national ID cards. With our business area Mobile we have now identified the mobile market as a major and well-developed area that offers significant potential for our biometric solutions. We are initially focusing on the Apple platform, including solutions for iPhone and iPad, but our goal is to supply products and solutions for all the larger Smartphone platforms in the market.

These are all important milestones that we have been moving towards for a long time, and now that more pieces of Precise Biometrics' future business model and platform are starting to fall into place I'm still confident that this year will be a very successful year for Precise Biometrics.

Sales and result

Interim period; January to June 2011

Sales for the interim period amounted to SEK 9.4 million (26.4). The gross profit was SEK 6.2 million (16.4). The gross margin amounted to 66% compared to 62 % during the same period the previous year. The group's net loss for the interim period amounted to SEK -18.6 million (-5.1). Operating expenses (see Key Figures for definition) for the interim period amounted to SEK 24.8 million (21.4). Losses per share (average number of shares) for the interim period amounted to SEK -0.13 (-0.04).

Second quarter; April to June 2011

Sales for the second quarter were SEK 5.9 million (7.1). The gross margin amounted to 60% (69%). The Group's net loss for the second quarter amounted to SEK -8.9 million (-4.7). Operating costs (see Key Figures for definition) amounted to SEK 12.4 million (9.6). Losses per share (average number of shares) for the second quarter amounted to SEK -0.06 (-0.04).

Financing and liquidity

Equity amounted as of June 30, 2011 to SEK 61.5 million (39.8) and equity/share to SEK 0.33 (0.29).

Precise Biometrics AB completed, during the quarter, a share issue with preferential rights which has supplied the Company with SEK 48.6 million after issue costs. The share issue is carried out as a part of the Company's business plan – Plan 2015 – which mainly includes further investments in sales, marketing and product development targeted towards biometrics solutions for the SmartPhone and Tablet PC markets. The guaranteed share issue was subscribed to 118.9%.

Cash flow from current operations amounted to SEK -7.8 million (0.2). Available cash at the end of the interim period amounted to SEK 49.6 million (34.8).

Market and sales

The main part of Precise Biometrics' sales during the first six months of 2011 consisted of a mix of fingerprint readers and licenses to existing customers in the business areas IAM and Access Solutions.

The company continues to build up and reinforce its organization, following the new organizational structure that came into force in January 2011 to support Plan 2015. Main focus lies on recruiting marketing and sales competence in our largest market - the US. Some important recruitments have already been done during the first half of this year.

Sales during the second quarter consisted of both licenses and sales of hardware. Within the business area IAM the main part of sales consisted of sales of fingerprint readers to customers in the Middle East. Sales to the US have, however, been limited during the year. This is a direct consequence of the failure of expected orders from US government agencies to materialize because of the delayed US budget process. This in turn resulted in delays in the allocation of budgeted funds.

Within the business area Access Solutions the main part of sales consisted of follow-up orders from the largest customer in this area – Scandinavia's largest budget gym chain.

Significant investments have been made according to Plan 2015 in the business area Mobile. The focus here is on product development for the Smartphone and TabletPCs markets, initially the Apple platform.

Reinforcements in the sales and marketing organization, along with targeted investments in all three business areas, follow the strategic platform the company has established for its development up to year 2015 – Plan 2015.

Parent company

Parent company sales for the interim period amounted to SEK 6.4 million (22.5). Operating loss before tax for the interim period amounted to SEK -21.3 million (-3.1).

At the end of the interim period 20 persons were employed in the parent company.

Available cash at the end of the second quarter amounted to SEK 49.1 million (32.3). Available cash includes SEK 48.6 million from the share issue (after related costs).

Organization and staff

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

As of June 30, 2011 the group had 32 (33) employees, 29 in Sweden and 3 in the US. Of these employees, 23 (23) were men and 9 (10) were women.

Investments in tangible fixed assets

During the interim period, the group invested SEK 0.06 million (0.04) in tangible fixed assets.

In the second quarter the group invested SEK 0.04 million (0) in tangible fixed assets.

Capitalization and depreciation of development work

Development work costs of SEK 4.5 million (1.5) were capitalized during the interim period with main impact from new investments within the Mobile segment. Depreciation of capitalized costs for development work amounted to SEK 0.5 million (0.8) during the interim period.

During the second quarter development costs of SEK 2.8 million (0.9) were capitalized. Depreciation of capitalized development costs amounted to SEK 0.3 million (0.4) during the quarter.

Patents

The patents portfolio has been successively improved since 2001 and at the end of the second quarter in 2011 included 82 registered patents and 26 applications for patents in 19 different product families. Precise Biometrics has 11 different patent families just for the Match-on-Card technology.

Annual General Meeting

Precise Biometrics' Annual General Meeting was held on April 27 2011 at the company's headquarters in Lund.

The General Meeting approved the Board of Directors decision, in regards to the new issue of shares with preferred rights for the existing shareholders, to increase the company's registered share capital by a maximum of SEK 21,593,728 through issuance of a maximum of 53,984,320 new shares.

The General Meeting approved The Board of Directors proposal for amendments of the articles of association in regards to the company's share capital limits and minimum and maximum number of shares.

The meeting also resolved to adopt the board of directors' recommendation to implement an incentive scheme for all employees in the group through the issue of a maximum of 7.1 million warrants with the right to subscribe to an equivalent number of shares in the Company in the period from January 1 to June 30, 2014. The price of the new issue will be SEK 2.90.

In accordance with the recommendations of the board of directors, the General Meeting resolved to authorize a new issue to a maximum of SEK 5.4 million, or 13.5 million shares. The purpose of the authorization was to enable the company to effect payment of company acquisitions by the company's own shares and/or convertibles.

Marc Chatel, Torbjörn Clementz, Eva Maria Matell, Lisa Thorsted and Lena Widin Klasén were re-elected as members of the board and Lisa Thorsted was re-elected as chairman of the Board.

For more details regarding the above resolutions taken at the General Meeting see Precise Biometrics website under Corporate Governance.

Shares

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

The total number of registered shares at the end of the quarter was 188,945,120. During the interim period the average turnover per day was SEK 1,838 thousand and the list price ranged from SEK 1.03 to 2.48. During the second quarter the average turnover per day was SEK 2,338 thousand and the list price ranged from SEK 1.03 to 2.09.

The main shareholders as of June 30, 2011

Name	Percentage of share capital	No. of shares
Avanza Pension Försäkring	7.2%	13,538,043
Swedbank Robur fonder	4.5%	8,442,304
Nordnet Pensionsförsäkring	1.7%	3,203,421
HJ Byggkonsulter AB	1.7%	3,198,249

Source: SIS Ägarservice

Risk factors

Precise Biometrics is exposed to both commercial and financial risks, which to a large extent lie outside the reach and influence of the company. For a full account of identified risks, please refer to the Annual Report for 2010, which was submitted April 4, 2011. No further essential risks or uncertainties have arisen after the submission of the Annual Report.

Future report dates

Interim Report Q3 October 25, 2011

Year-end Report February 3, 2012

Accounting principles

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

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

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

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

Lund, July 18, 2011

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

The board of directors

Lisa Thorsted, chairman

Marc Chatel

Lena Widin Klasén

Eva Maria Matell Torbjörn Clementz

Thomas Marschall, President and CEO

Income statement, Group

(Figures in thousands SEK)

	Q2 2011	Q2 2010	Q1-Q2 2011	Q1-Q2 2010	Full year 2010
Net sales	5,889	7,149	9,443	26,429	44,944
Cost of goods sold	-2,409	-2,238	-3,225	-10,005	-17,425
Gross profit/loss	3,480	4,911	6,218	16,424	27,519
Selling expenses	-5,223	-5,050	-8,809	-9,236	-18,293
Administrative expenses	-3,144	-2,266	-6,277	-5,267	-10,012
R&D costs	-3,846	-3,995	-8,226	-8,665	-12,526
Other operating income and changes in value	-170	1,668	-1,515	1,780	-1,185
	-12,383	-9,643	-24,827	-21,388	-42,016
Operating result	-8,903	-4,732	-18,609	-4,964	-14,497
Financial costs	50	-16	27	-114	-135
Result after financial items	-8,853	-4,748	-18,582	-5,078	-14,632
Tax	-	-	-	-	-16
Result for the period	-8,853	-4,748	-18,582	-5,078	-14,648
Result attributable to:					
Owners of the parent	-8,853	-4,748	-18,582	-5,078	-14,648
<i>Results per share, SEK</i>	<i>-0.06</i>	<i>-0.04</i>	<i>-0.13</i>	<i>-0.04</i>	<i>-0.11</i>

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

(Figures in thousands SEK)

	Q1 2011	Q1 2010	Q1-Q2 2011	Q1-Q2 2010	Full year 2010
Change in accumulated exchange rate differences	8	-584	226	-580	334
Reverse of accumulated exchange rate differences in disposed subsidiary	-	-	-	-	150
Comprehensive income for the period, net of tax	8	-584	226	-580	484
Profit/loss for the period	-8,853	-4,748	-18,582	-5,078	-14,648
Total comprehensive income for the period	-8,845	-5,332	-18,356	-5,658	-14,164
Total comprehensive income attributable to:					
Owners of the parent	-8,845	-5,332	-18,356	-5,658	-14,164

Balance Sheet, Group

(Figures in thousands SEK)

	6/30/2011	6/30/2010	12/31/2010
Assets			
Intangible fixed assets	10,665	4,562	6,664
Tangible fixed assets	583	701	704
Inventories	9,250	4,578	8,402
Accounts receivable - trade	6,479	6,909	4,968
Other current receivables	4,045	4,699	2,809
Cash and bank balances	49,555	34,780	24,544
Total assets	80,577	56,229	48,091
Equity and liabilities			
Equity	61,482	39,750	31,244
Current liabilities	19,095	16,479	16,847
Total equity and liabilities	80,577	56,229	48,091
Pledged assets	26,400	26,400	26,400
Contingent liabilities	-	-	-

Cash Flow Statement, Group

(Figures in thousands SEK)

	Q1 2011	Q1 2010	Q1-Q2 2011	Q1-Q2 2010	Full year 2010
Cash flow from operating activities before changes in working capital	-8,696	-5,026	-18,059	-5,076	-12,919
Cash flow from changes in working capital	852	5,177	-955	528	2,781
Cash flow from operating activities	-7,844	151	-19,014	-4,548	-10,138
Cash flow from investing activities	-2,809	-868	-4,569	-1,556	-4,710
Cash flow from financing activities	48,594	-	48,594	-	-1,492
Cash flow for the period	37,941	-717	25,011	-6,104	-16,340
Liquid funds at the beginning of the period	11,614	35,497	24,544	40,884	40,884
Liquid funds at the end of the period	49,555	34,780	49,555	34,780	24,544

Key Figures, Group

	6/30/2011	6/30/2010	12/31/2010
Working capital (thousands SEK)	50,234	34,487	23,876
Liquid ratio	315%	281%	192%
Equity/assets ratio	76%	71%	65%
Return on average equity	-	-	neg
Capital employed (thousands SEK)	62,600	41,149	32,494
Return on capital employed	-	-	neg
Profit/loss per share (SEK)	-0.06	-0.04	-0.11
EBITDA (thousands SEK)	-17,921	-4,001	-12,485
Equity per share (SEK)	0.33	0.29	0.23
Number of shares	188,945,120	134,960,800	134,960,800
Number of employees at the end of the period	32	33	34
Average number of employees during the period	33	34	34

Definitions - Key Figures

Working capital: Current assets less current liabilities

Liquid ratio: Current assets less inventories divided by current liabilities

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

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

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

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

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

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

Equity per share: Equity at the end of the period divided by the number of shares at the end of the period

Quarterly earnings ratios are not disclosed

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

Changes in equity, Group

(Figures in thousands SEK)

	Capital stock	Other paid in capital	Reserves	Balanced profit/ year's profit	Total equity
Opening balance as at January 1, 2010	53,984	537,214	155	-545,945	45,408
Comprehensive income for the period	-	-	-580	-5,078	-5,658
Closing balance as at June 30, 2010	53,984	537,214	-425	-551,023	39,750
Opening balance as at January 1, 2011	53,984	537,214	639	-560,593	31,244
Comprehensive income for the period	-	-	226	-18,582	-18,356
Transactions with the shareholders					
New share issue ¹⁾	21,594	27,000	-	-	48,594
Closing balance as at June 30, 2011	75,578	564,214	865	-579,175	61,482

¹⁾ New share issue totaling 53 984 320 new shares at a rate of SEK 1.00 with deductions for issue costs SEK 5,391 thousand.

Turnover and profitability by segments Q2 2011¹⁾

(Figures in thousands SEK)

	IAM		ACCESS SOLUTIONS		MOBILE	
	2011	2010	2011	2010	2011	2010
Net sales	4,780	6,415	1,110	734	-	-
Expenses ²⁾	<u>-7,917</u>	<u>-13,347</u>	<u>-1,561</u>	<u>-562</u>	<u>-7,571</u>	-
Result	-3,137	-6,932	-451	172	-7,571	-
	TOTAL					
	2011	2010				
Net sales	5,890	7,149				
Expenses ²⁾	<u>-17,049</u>	<u>-13,909</u>				
Result	-11,159	-6,760				

Turnover and profitability by segments Q1-Q2 2011¹⁾

(Figures in thousands SEK)

	IAM		ACCESS SOLUTIONS		MOBILE	
	2011	2010	2011	2010	2011	2010
Net sales	6,634	24,510	2,809	1,919	0	-
Expenses ²⁾	<u>-13,609</u>	<u>-31,555</u>	<u>-3,319</u>	<u>-2,137</u>	<u>-13,461</u>	-
Result	-6,975	-7,045	-510	-218	-13,461	-
	TOTAL					
	2011	2010				
Net sales	9,443	26,429				
Expenses ²⁾	<u>-30,389</u>	<u>-33,692</u>				
Result	-20,946	-7,263				

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

2) The above expenses in the segments include Cost of goods sold as well as direct and share of indirect operation expenses.

Direct operation expenses also include capitalized development work allocated per segment.

Income statement, Parent company

(Figures in thousands SEK)

	Q1-Q2	Q1-Q2	Full year
	2011	2010	2010
Net sales	6,414	22,544	38,825
Cost of goods sold	-7,468	-11,891	-21,957
Gross profit/loss	-1,054	10,653	16,868
Selling expenses	-6,457	-7,353	-14,409
Administrative expenses	-5,822	-4,820	-9,012
R&D costs	-4,755	-5,776	-7,232
Other operating income and changes in value	-3,478	4,020	-2,831
	-20,512	-13,929	-33,484
Operating result	-21,566	-3,276	-16,616
Financial costs ¹⁾	264	136	349
Result after financial items	-21,302	-3,140	-16,267
Tax	-	-	-
Result for the period	-21,302	-3,140	-16,267

Balance Sheet, Parent company

(Figures in thousands SEK)

	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>12/31/2010</u>
Assets			
Intangible fixed assets	10,564	4,430	6,548
Tangible fixed assets	306	355	381
Participations in group companies	1,058	1,058	1,058
Inventories	9,250	4,578	8,402
Accounts receivable - trade	2,431	1,742	2,810
Other current receivables	30,498	41,857	33,403
Cash and bank balances	49,050	32,331	21,129
Total assets	103,157	86,351	73,731
Equity and liabilities			
Equity	90,378	76,623	63,086
Other provisions	107	203	162
Current liabilities	12,672	9,525	10,483
Total equity and liabilities	103,157	86,351	73,731
Pledged assets	24,000	24,000	24,000
Contingent liabilities	2,000	2,000	2,000

Telephone conference

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

- The conference starts at 11:00 (CET)
- To participate, please call +46 (0)8 50559877

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

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

Participating on behalf of Precise Biometrics

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

A recording from the conference will be available for three days after the telephone meeting. To listen to the conference afterwards dial +46 (0)8 506 269 49. When asked to state a reference number please dial 260207 and finish with (#).

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

For further information

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

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

For more information, please visit www.precisebiometrics.com

