

Important events during the year

Group's net sales...

...for the financial year was SEK 28.3 million (21.6).

Group's income...

...for the financial year was SEK -47.0 million (-33.2).

Earnings per share...

...for the year amounted to SEK -0.23 (-0.20).

Liquid assets...

...at the end of the financial year was SEK 37.6 million (28.9).

The strategically important product Tactivo™ was launched...

... globally for the iPhone and iPad, after being certified by Apple. Tactivo is a smart casing with a built-in smart card and fingerprint reader, meeting the increasing demands for network security and authentication.

In the beginning of the year...

... new partnerships were signed within the business area Mobile. Partnerships have been established with Thursby Software Systems, working with the development of secure surfing and with the U.S. system integrator and reseller FedSolve.

Agreement with HID Global secures BYOD trend ...

... within the public sector. The employees CAC (Common Access Card) and PIV cards (Personal Identity Verification) can now also be used via their own mobile devices (Bring-Your-Own-Device) to secure communication and access to sensitive information.

Mobile identity authentication offline ...

...with the app MyID@CardChecker™ developed by the Company's partner Intercede. The app that is compatible with Tactivo for iPhone and iPad makes it possible to verify and authenticate a smart card directly from a smartphone or tablet, without requiring internet connection.

Secure email solution for iOS devices...

... that uses Tactivo. Good Technology's app for e-mail, Good Vault™, provides strong two-factor authentication and S/MIME email signing and encryption for improved data security.

Positive developments in the mobile market form platform for prediction of satisfactory expansion in 2013

Precise Biometrics launched the product series Tactivo™ in 2012, the world's first mobile case with embedded fingerprint and smartcard readers for iPhones and iPads. These products enable a significant enhancement of security when using mobile units and have attracted a great deal of interest in the market.

This has resulted in initial orders from companies and government agencies in the international market. Several civil and military agencies in the US have also started pilot projects based on Tactivo, which are expected to lead to larger orders later on.

The first evidence of this is the order for 5000 Tactivo units for iPhones and iPads placed by one of the largest mobile operators in the US in the beginning of 2013. The products enable users to gain access via mobile units to sensitive information at government agencies with the same secure verification (Personal Identity Verification, PIV) currently available on traditional desktop and laptop computers.



Strategic breakthrough for algorithms

After the end of the financial year we have also signed a strategically important agreement concerning our fingerprint algorithms.

The agreement involves an important order from a market-leading global supplier of financial information services. The US based customer, who wishes to remain anonymous, has chosen Precise Biometrics as its new supplier of fingerprint algorithms after an exhaustive review of the market. The deciding factor was our solution for embedded systems with the algorithms that received the top ranking in the US government agency test MINEX II.

The markets for financial services have some of the most stringent requirements in the world in terms of usability and security and we are therefore extremely proud and satisfied with their approval of our solution for embedded systems where our algorithms are integrated in other hardware. The agreement will result in ongoing license earnings and will already have an effect on Precise Biometrics' financial results in the first quarter of 2013.

It opens the possibility of Precise Biometrics becoming the leading supplier of algorithms to manufacturers of sensors and smart devices, which means additional major potential for our technology over and above the technology that already exists for Tactivo.

Important milestones and first orders for Tactivo

An order from one of the largest mobile operators in the US and the agreement involving our algorithms followed on from a very eventful financial year. It began with our announcement of Tactivo, which encountered a great deal of interest in the market for mobile security. Tactivo also attracted the sharp attention of applications developers in Europe, the US and Asia working with apps for Apple's platforms. And we received a lot of positive publicity in the media.

We received our first order for Tactivo in June, from one of the world's largest vehicle manufacturers based in Europe. This order has since been followed by orders from companies and government agencies, not just in the US which is the most important market, but from various other companies, government agencies and organizations in several different countries. Several potential customers have started pilot projects based on Tactivo, which are expected to lead to larger orders in the time ahead.

Other important milestones in 2012

During the first quarter we completed the build-up of production with Flextronics in the US as the hardware supplier. During the second quarter we launched the first generation of Tactivo products for iPhone 4 and iPhone 4S, and the version for iPad came out in the autumn. Apple certified both products in their Made For iPhone program (MFi) and we were chosen to present the product at Apple's Worldwide Developers Conference 2012 in Cupertino, California. We have also launched several apps and tools that software developers can use to develop practically any conceivable function for the new smart case. By means of verification with fingerprints and or smartcards, users can only open protected apps after verification. Additional apps have been launched by our partners during the year. We have initiated cooperation with different partners, who now offer solutions and specific apps based on Tactivo. These include Thursby Software and HID Global.

National ID cards and other solutions

In the business area IAM (Identity and Authentication Management) we have continued to focus in 2012 on our solutions for national ID cards and for government agencies, banks and companies. We have also continued with sales of our solutions to one of the largest gym chains in Scandinavia and a government agency customer in the Middle East. We continue to follow the development of the federal ID card project in Nigeria that we became involved with through our partner, although political priorities in the country have delayed the roll out of the national ID card project.

During the fourth quarter we also initiated cooperation with the Inpeco Group with a view to introducing Precise Match-on-Card™ technology in their system for handling blood samples. This is a new application for Precise Biometrics' technology and is an indication of the higher level of maturity in the market for biometric security solutions.

Extensive market potential for Tactivo

With Tactivo we have achieved the strategically important target of creating a major new application with extensive potential for expansion.

The trend of switching from desktop and laptop computers to smart units is becoming much clearer, and this sets higher security requirements for users of smartphones or tablets to access information and cloud-based services. These requirements are also increasing as more and more employees are using their own equipment at work – the trend called "bring your own device" or BYOD.

It is also expected that the US government's greater focus on Cyber Security will lead to more stringent requirements for verification of ID cards so that authorized users can access information and applications from mobile units. There are currently 5.9 million employees and consultants at US government agencies, which signifies a very large market potential.

Tactivo provides a solution to these new authentication and security challenges with its biometric functionality. The volumes for mobile solutions will soon be far greater than for computers, and starting in 2013 we are now seeing the increased use of fingerprint technology in both companies and organizations when their employees use mobile units to access sensitive information.

Apple's acquisition of the sensor manufacturer AuthenTec during the year confirms the growing interest in biometric solutions in the market. We focus on government agency and corporate markets, where we have the advantage of being the first to introduce a professional product and where together with our partners we can already supply qualified solutions for specific requirements.

New issue of shares to secure growth

Precise Biometrics completed the issue of new shares with preferential rights for the Company's shareholders in 2012, which was oversubscribed and infused approximately SEK 55 million into the Company after issue costs. The objective was to reinforce our opportunities to vigorously run the launch of Tactivo and continue to develop security solutions for the mobile market.

The current order from one of the largest mobile operators in the US, and the many tests in progress at potential customers, confirm the extensive potential for Tactivo. To maintain the high tempo, secure further product development and have a enough working capital to promote the positive development, we have decided to propose a new issue of shares with preferential rights of refusal for shareholders in the Company in the spring of 2013.

Outlook for 2013

Precise Biometrics now has a very exciting product program that addresses the large and well-defined market for mobile security. During 2012 we built up an interesting pipeline of customers and partners and anticipate that in 2013 we will begin to harvest the fruits of our efforts in the mobile market.

This means that we will continue to follow the expansion of iPhone and iPad, with the objective of presenting new versions of Tactivo about four to six months after every new release from Apple. In addition, we will be releasing new versions of Tactivo for other operative systems, including Android, and launching additional apps and new products that support other biometrics.

Sales of Tactivo did not reach up to our expectations in 2012, partly because of lead times in getting solutions ready for the market. We are expecting sales, with the emphasis on Tactivo, to increase quarter by quarter and result in a better turnover in 2013.

In addition to this there is the market for our algorithms and the ID card segment in the business area IAM. At the same time we remain committed to our ambitions in the long-term financial plan, Plan 2015.

Important events during the year

Group's net sales...

...for the financial year was SEK 28.3 million (21.6).

Group's income...

...for the financial year was SEK -47.0 million (-33.2).

Earnings per share...

...for the year amounted to SEK -0.23 (-0.20).

Liquid assets...

...at the end of the financial year was SEK 37.6 million (28.9).

The strategically important product Tactivo™ was launched...

... globally for the iPhone and iPad, after being certified by Apple. Tactivo is a smart casing with a built-in smart card and fingerprint reader, meeting the increasing demands for network security and authentication.

In the beginning of the year...

... new partnerships were signed within the business area Mobile. Partnerships have been established with Thursby Software Systems, working with the development of secure surfing and with the U.S. system integrator and reseller FedSolve.

Agreement with HID Global secures BYOD trend ...

... within the public sector. The employees CAC (Common Access Card) and PIV cards (Personal Identity Verification) can now also be used via their own mobile devices (Bring-Your-Own-Device) to secure communication and access to sensitive information.

Mobile identity authentication offline ...

...with the app MyID@CardChecker™ developed by the Company's partner Intercede. The app that is compatible with Tactivo for iPhone and iPad makes it possible to verify and authenticate a smart card directly from a smartphone or tablet, without requiring internet connection.

Secure email solution for iOS devices ...

... that uses Tactivo. Good Technology's app for e-mail, Good Vault™, provides strong two-factor authentication and S/MIME email signing and encryption for improved data security.

Financial Highlights

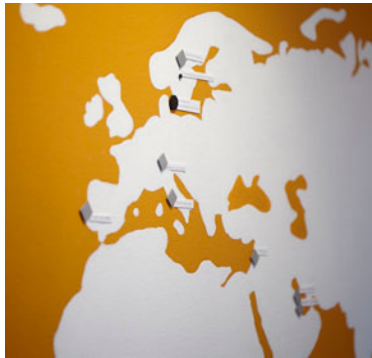
	2012	2011	2010
Net sales, Thousand SEK	28,281	21,615	44,944
Operating profit/loss, Thousand SEK	-42,902	-33,412	-14,497
Gross margin, %	56	56	61
Liquid assets, Thousand SEK	37,584	28,930	24,544
Cash flow from current operations before changes in working capital, Thousand SEK	-44,620	-31,851	-12,919
Working capital, Thousand SEK	28,008	33,140	23,876
Liquid ratio, %	145	235	192
Equity/assets ratio, %	56	73	65
Number of employees at year-end	37	35	34
Profit/loss per share, SEK	-0.23	-0.20	-0.11
Equity per share, SEK	0.18	0.25	0.23

Precise Biometrics in one minute

Precise Biometrics is an expert on security in biometrics and smart cards, with a focus on mobile users. Large investment in security solutions for mobile devices resulted in 2012 in the launch of Tactivo™. Tactivo is a series of smart case for mobile devices such as smartphones and tablets, with a built-in smart card and fingerprint reader. The business area Mobile is expected to account for a significant portion of Precise Biometrics' growth in coming years, as more companies, government agencies and organizations with high security needs see advantages in a mobile way of working.

The Company's offering

The primary focus for Precise Biometrics is within the business area Mobile. The Tactivo product line was launched in 2012, as the company's response to the rising demand for security solutions for mobile devices. Tactivo is a smart case with a built-in smart card and fingerprint reader and is based on the long-tested Precise Match-on-Card™ technology. Through a combination of smart card and fingerprint recognition, a high security level is created and the user can confidently take advantage of privileged information locally on the device or online. Tactivo was firstly launched on the iOS platform for the iPhone and iPad, but will in 2013 also be released in versions for Android.



Precise Biometrics' flagship in recent years has been Precise Match-on-Card™ – a technology that enables the matching and storage of fingerprints on smart cards. The Company is a world leader in the Match-on-Card market and has sold close to 160 million licenses. Precise Match-on-Card has received very positive test result from MINEX II, which was decisive for qualification to US government agency projects. MINEX II is the leading interoperability test for Match-on-Card and is conducted by NIST (U.S. National Institute of Standards and Technology). NIST has decided to include the Match-on-Card technology in the comprehensive PIV program.

Business areas

- **Mobile** – hardware, software and services focusing on the mobile sector (smartphones and tablets).
- **IAM** – solutions for national ID cards, government agencies, banks and companies. The business area also consists of embedded solutions, company's award-winning algorithms, and access solutions for physical access to different types of premises.

Read more under the section [business areas](#).

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 solutions and products are sold both directly and via partners to end customers. Our partners also have the opportunity, along with us, to develop their own applications to Tactivo. This strengthens both the Company's and the partner's business.

Through the years the Company has built up a strong network of partners, through which Precise Biometrics can reach out to the whole world. Major smart card manufacturers, global systems integrators and local resellers, as well as hardware and chip manufacturers are part of the partner network.

Read more under the section [business model](#).

Customers

Precise Biometrics' customers include global companies and government agencies, as well as countries and organizations. Examples of applications and customers:

- **Mobile security**
All large organizations with some form of security classified information are part of the target audience for Tactivo. So far Tactivo has been purchased, or are being evaluated, by the U.S. federal agencies, Swedish county councils, banks, companies related to the defense industry, national prescription registers, etc.
- **National ID cards**
The Company's technology is used in six national ID card projects, including Thailand, Portugal, Venezuela, Bahrain, Qatar and Nigeria.
- **Government agency and corporate ID cards**
The US Department of State's ID cards for employees at US embassies and consulates. Government agencies and

companies in the Middle East, the US and Europe also use the Company's technology.

- **Access and exit control systems to buildings**

Members of one of the largest gym in Scandinavia - Fitness24Seven use the technology for access to the gym around the clock.

- **Logon systems for computers and networks**

Employees at American embassies and consulates use secure smart cards in combination with fingerprint biometrics instead of passwords.

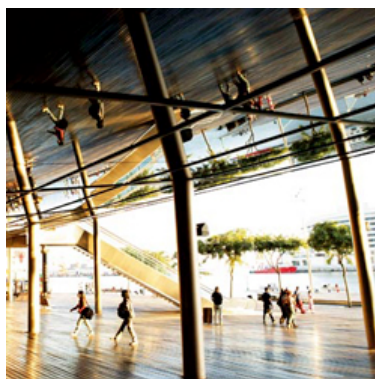
Business concept, mission, vision, objectives and strategies

Precise Biometrics is an innovative company that offers commercial solutions based on fingerprints to secure people's identities. With hardware and software solutions based on biometrics and smart cards, Precise Biometrics offers reliable and secure verification in mobile devices, ID cards, embedded systems and physical access.

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.



Mission

Precise Biometrics' mission is to advance the global usage of mobile security through well-designed, user-friendly and secure solutions for mobile access, communication and transactions.

Vision

Precise Biometrics wants to facilitate people to act and feel more secure when using smart mobile devices. This should be done through having the security being easy to use for the user.

Objectives

Precise Biometrics' main objective is that operations will generate long-term growth in value for company shareholders. Growth and profitability are key success criteria's. Long-term and strategic choices of profitable business based on commercial products with high customer value shall contribute towards the objective to be fulfilled. The strategies and operational objectives below shall guide the Company.

Operational objectives

The Company's operations are focused on the two business areas Mobile and IAM.

The Mobile business area focuses on reaching out to the extensive market for smart units, which according to the Gartner Group is expected to exceed one billion in 2014. The Company sees outstanding business opportunities for mobile security solutions. Stringent requirements for network security and verification can be met with smart cards and fingerprint readers in mobile units.

The Company offers solutions for national ID cards, algorithms for calculations fingerprint reading, and biometric security to governments, banks and companies in the business area IAM. Embedded solutions and biometric physical access are also included in this business area. Precise Biometrics' solutions ensure reliable security, while also contributing to enhanced efficiency and potential earnings or reduced costs for customers. The business areas shall reinforce the continued commercialization of Precise Biometrics' unique technology, in that each business area delivers explicit productive and custom-designed solutions. By combining the company's successful solutions for the ID card market with security solutions in the mobile market, Precise Biometrics is radically improving its prospects for greater profitability.

Business plan - Plan 2015

Precise Biometrics implemented at end of 2010 a strategic target for the future development of the Company based on growth and profitability. The business plan, Plan 2015, is based on growth and profitability with a clearly linked product roadmap.

Market strategy

Precise Biometrics aims to increase market shares and to develop the Company's prominent position, which to a large extent will be achieved through its extensive network of partners. The Company already has several partners in the global arena and new partnerships are continuously developed.

The mobile business area

A new commercial application area within the business area Mobile has been an important strategic goal. With the launch of Tactivo™ this is now achieved. The business area Mobile will be a major contributing factor that the Company's Plan

2015 can be achieved.

The company anticipates that the main part of earnings onwards will come from the smart casing –Tactivo, and future products within its family.

Precise Biometrics' solutions focus on the global market, but in an initial phase the company will be focusing on the U.S. market and primarily the U.S. Government.

The IAM business area

The Company will be developing its market position and increasing market shares in the ID card segment. The objectives set out for IAM will be achieved by further cooperation with already established partners and cooperation with new partners.

The national ID card market continues to expand in terms of volumes, but competition and pressure on prices is also increasing. The strategy is therefore to establish new partnerships to reach out with our technology on the broadest possible front.

The banking and government agency segments in the U.S. are another expanding market for biometrics, where there is a demand for hardware, Match-on-Card solutions and mobile solutions. The government agency market consequently interfaces with Precise Biometrics' Mobile and IAM business areas. Precise Biometrics' successful result in the MINEX II test means that the Company is now well-positioned in the US government agency market.

Precise Biometrics has received an order for the algorithms that form the basis for the calculations in fingerprint reading and the Company sees significant opportunities ahead to commercialize them.

The business area IAM includes the algorithms, that form the basis for the calculations at the fingerprint recognition, purchased by a market-leading and global provider of financial information.

Organization

Precise Biometrics' head office is situated in Lund, Sweden. The Group also has a subsidiary in Washington DC, U.S. The U.S. market is the largest for the Company, and to meet this growing market and strengthen its position new appointments have been made in the U.S. during the year.

Precise Biometrics AB

The parent company Precise Biometrics AB is situated in Lund, Sweden. The former subsidiary Precise Biometrics Solutions AB in Karlstad, Sweden has in 2012 been merged into the parent company.

Research and Development is run from Lund and Karlstad. Administration, Marketing, Sales, Logistics 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 30 as of December 31, 2012.

Precise Biometrics Inc.

The Company has a subsidiary in the USA since 2000. New appointments have been made in the U.S. during 2012. U.S. is the most important market for the Company. Primarily since the new products have a significant market potential in the U.S.

Precise Biometrics Inc. had 7 employees as of December 31, 2012.

Other

The dormant company Precise Biometrics Services AB is also included in the Group.



History

Precise Biometrics was founded in Lund, Sweden, on 1 July **1997**. The basic idea was to combine smart cards with advanced image analysis for automatic recognition. Precise Biometrics was initially run purely as a development company and only launched its first products in 1999. These included the world's smallest fingerprint reader and the world's first combined smart card and fingerprint reader.

Precise Biometrics was listed on the Stockholm Stock Exchange's O-list in **2000** at the same time as the Company's first patent for matching fingerprints on PCs was registered in the US. A series of new products and techniques were developed over the next ten years, including Precise Match-on-Card™ which led to the first major breakthrough in the US when both the US Department of Defense and the US Department of Treasury chose solutions from Precise Biometrics.



The Company received its first large order in **2004** when the US Department of State chose Precise Match-on-Card™, which today is used by all employees at US embassies and consulates. The Scandinavian gym chain Fitness24Seven started using Precise Biometrics' solutions the same year to give their members access to training centers 24 hours a day.

Precise Biometrics acquired the development company Fyrplus Teknik in Karlstad, Sweden in **2005**, which today is now called Precise Biometrics Solutions which has during 2012 been merged into Precise Biometrics AB. Thailand was the first country in the world to integrate Precise Match-on-Card on its new national ID cards the same year.

SAS started implementing biometric check-in systems from Precise Biometrics on all its domestic flights in Sweden in **2006**.

The analysis company Frost & Sullivan nominated Precise Biometrics in **2008** as the key player in the biometrics industry because of its strong market growth, innovation and exceptional customer services.

In **2009** the US Department of State placed a large order, Precise Biometrics' largest order so far, for fingerprint readers worth 6 million dollars.

Several new products were launched in **2010** focusing on standardized solutions, partly as a result of the success the company achieved in the US standardization test Ongoing Minex. There was also a breakthrough into the African market at the same time when the Nigerian Interswitch rolled out a federal state ID with biometric payment facilities from Precise Biometrics.

The business area Mobile has been in focus during **2011** with intensive development work for security solutions for smartphones and tablets. Established solutions such as Match-on-Card have also achieved major successes in the form of partnership agreements with G&D and NXP Semiconductors, and its top ranking in the US government agency test – MINEX II. The largest project so far in National ID cards was revealed this year when Nigeria chose Precise Biometrics' solution. The Company expects the first order from this project in 2013.

Tactivo™ was launched in **2012** for iPhone and iPad, within the confines of the large investment in security solutions for mobile devices. Tactivo attracted great interest from both authorities and large companies, and it launched a number of pilot projects. During the year agreements were signed with several partners, including Thursby and FedSolve. A brand new portal for apps to Tactivo, idApps, launched together with Tactivo. During the year the number of published apps have grown with the aim of increasing use of the Company's products and technology. During the fall, a new issue of shares of SEK 55 million before issue costs was implemented in order to enable further marketing, sales and development of Tactivo.

Business model

Precise Biometrics sells both fully packaged end-to-end-solutions as well as solutions developed in cooperation with its partners. The Company offers both hardware and software solutions. Solutions and products are sold both directly and via partners to end customers.

The Company has built up a network of partners through the years. The largest manufacturers of smart cards, global systems integrators and local dealers, as well as hardware and chip manufacturers can be found in the Company's network of partners. Company sales take place through indirect sales to end customers via three main sales channels: systems integrators, distributors/retailers and suppliers of smart cards. The business model also includes in addition to earnings from products developed by the Company and the licensing of these, income from consultancy services and customer financed development. The Company's suppliers include manufacturers of smart cards, hardware and chips.

The main part of Precise Biometrics' earnings consists of hardware. Some of the Company's earnings consist of licensed earnings from licensed for smart cards. Each card issued with Match-on-Card™ generates license earnings for Precise Biometrics. In many cases this is reported on a quarterly basis. Depending on the type of project the useful life of a card is normally three to five years for corporate ID cards and five to ten years for national ID cards. Because smart cards are renewed when their validity runs out, this means that Precise Biometrics has recurrent, annual earnings from licenses. License earnings are also reported for PC applications and circuits or third-party fingerprint readers, although on a smaller scope.



The Company's investments in mobile solutions emphasize the importance of cooperation with partners in the business area Mobile. Partners and end customers have since the beginning of 2012 had the opportunity of purchasing demos and development tools for testing and verification. The Company has initiated a partnership with Thursby Software Systems, who work with the development of secure browsing. In 2012 Precise Biometrics also acknowledged a partnership for mobile solutions with FedSolve – a US systems integrator and retailer. FedSolve has extensive experience as a retailer for both civil government agencies and the Department of Defence. Precise Biometrics is also expecting additional partner solutions, with apps based on the Company's products, to be released in 2012.

Customers

Precise Biometrics' customers include global companies and government agencies, as well as countries and organizations. Examples of applications and customers:

- **Mobile security**

All the larger organizations with some form of security classified information are included in the target group for Tactivo™. So far Tactivo has been purchased, or is under evaluation, by the US Department of State, Swedish county councils, banks, companies linked to the defence industry, and national prescription registers.

- **National ID cards**

The Company's technology is used in six national ID card projects: Thailand, Portugal, Venezuela, Bahrain, Qatar and Nigeria.

- **Government agency and corporate ID cards**

The US Department of State's ID cards for employees at US embassies and consulates. Government agencies and corporate ID cards in the Middle East, the US and Europe also use the Company's technology.

- **Access and exit control systems for buildings**

Members in one of the largest gyms in Scandinavia, Fitness24Seven, use the technology to gain access to the gym round the clock.

- **Logon for computers and networks**

Employees at US embassies and consulates use biometrics in combination with smart cards instead of passwords.

Business areas

During the year the Company has focused a lot of its attention on the business area Mobile, because this is the area that has been expanding very strongly and now forms the basis for a large part of Precise Biometrics' future potential for growth. The long-term commitment to the business area IAM, where the Company's other solutions are now located, continues in parallel with investments in Mobile. Algorithms have also been attracting the interest of the market in recent times, and these have begun to be sold as a separate product.

Mobile

This business area consists of security for mobile unit such as smartphones and tablets. Demand for the secure use of mobile units has dramatically increased from government agencies, large companies and organizations. TactivoTM was launched in 2012 in response to this – a smart case for mobile units with embedded smart card and fingerprint readers.



Tactivo protects both the information stored locally in the unit and communication online, e.g. to servers. This unique combination of smart card and fingerprint readers in mobile units guarantees a very high level of security to comply with escalating demands for network security and verification.

Tactivo solves problems in segments which demand a high level of security, such as in large companies with strict security requirements. The Company has identified a wide range of business opportunities where Tactivo is relevant in this area.

Read more in the section of [Tactivo](#).

OBJECTIVE

The objective is that Mobile will be a powerful contributory factor towards achieving Plan 2015. In the last year Precise Biometrics has concluded that the development of this business area has taken somewhat longer than expected, but that the original plan stands firm. The assessment of pilot projects in progress has been delayed, which has resulted in delayed sales.

STRATEGY

Precise Biometrics will continue with its investments in Tactivo in 2013. In addition to the existing product versions for Apple's iOS platform the Company is planning to launch versions for the competing mobile platform Android in 2013. The long term objective is to supply products and solutions for all the major mobile platforms in order to increase market coverage and meet the demand in the market.

IAM

The business area IAM (Identity and Authentication Management) is an integral part of the Company's traditional sales. It includes solutions for national ID cards and security solutions for government agencies, banks and companies. Embedded solutions, where biometrics are integrated in other hardware are also included in this business area, along with the Company's algorithms for calculations in fingerprint reading. As of 1 January 2012, the previously autonomous segment Access Solutions has also been included in IAM.



Activities primarily focus on sales of fingerprint readers, Precise Match-on-CardTM, and Precise BioMatchTM Embedded.

Precise Biometrics has excellent references in the market for Match-on-Card. Precise Match-on-CardTM has been licensed to some 160 million users and on the basis of the number of contracted cards and smart card partners the Company has made agreements with, Precise Biometrics is a world leader.

The algorithms that form the basis for calculation during fingerprint reading have been purchased by a market leading, global player in financial information.

OBJECTIVE

The business area has historically accounted for a large part of turnover. The objective is to increase market shares in the long term in national ID cards, even if this area is characterized by long decision-making periods which are difficult to influence.

STRATEGY

Together with its partners, the Company offers overall solutions to end customers. Precise Biometrics will continue to

cooperate with its established partners to achieve its objectives for IAM. During the year the Company established additional partnerships, one of which was with the Inpeco Group in a project to secure information and prevent unauthorized use of patient data.

Precise Biometrics in the world

Precise Biometrics markets its products in a global market, with sellers responsible for different regions. Conditions vary to a very considerable extent, mainly because of local factors, and this also influences the Company's marketing in the different regions. The US is a prioritized market in the mobile segment, where the conditions of a broad penetration for Tactivo™ are judged to be very favorable.

Precise Biometrics is active in five geographical areas through its business areas: Europe, North America, Asia, the Middle East & Africa, and Latin America. The North American market is managed via the US subsidiary, while Europe and the other parts of the world are managed by a sales organization at the head office in Lund, Sweden.

North America

In the US the market for biometrics is a mature market, with the widespread use of smart cards. There are an estimated 5.7 million smart cards in use at US government agencies. They are to a large extent covered by federal legislation, which defines smart cards as a security solution. A PIV (Personal Identity Verification) program was launched in 2012, which specified that Match-On-Card technology should be used to identify all government agency employees. A large number of companies, including suppliers to these government agencies, are also bound by law to use smart cards.

Tactivo therefore meets a direct demand when government agencies and large companies increase their mobile applications. This is the only mobile product that complies with the high level of security requirements set by government agencies and user preferences for simplicity of use. Over 30 pilot projects were initiated in the second half of 2012.

Precise Biometrics' excellent result in MINEX II implies a prominent position in future US government agency projects. MINEX II is an interoperability test for Match-on-Card™ arranged by NIST (US National Institute of Standards and Technology). The result from MINEX II has also generated business directly, and in January 2013 Precise Biometrics received a large order from a leading company in financial information.

Examples of completed projects and customers in the US include the Department of State, AXA Equitable, FAA, NASA, the largest police department in the US, and Northrop Grumman.

Europe

Europe is the next largest market in the world for biometrics and therefore together with the US accounts for a significant share of the total market. Precise Biometrics has established several partners in this region and the majority of the players in smart cards also have their head offices here. Europe is a mature mobile market with a high penetration of mobile units like smartphones and tablets.

The market is mainly motivated by the initiatives of different government agencies, where countries such as the UK, the Netherlands, Germany and Italy have implemented biometrics in different projects. Portugal is one of the markets that has chosen to place Precise Biometrics' technology in its national ID card.

Sweden has a common card system in health care, the so-called SITHS card, and is therefore a very interesting market for Tactivo. There are already about 470,000 SITHS cards, which in accordance with current legislation are necessary for access to patient journals and national prescription registers. When user behavior patterns become more mobile the integrated smart card reader in Tactivo gives it an advantage.

Several pilot projects commissioned by county councils for the purpose of integrating Tactivo into the health care system are already in progress.

Access Solutions is an interesting area in Precise Biometrics' traditional operations. The Company cooperates, for example, with Fitness24Seven, Scandinavia's largest unmanned gym chain, which is now expanding in Europe with Precise Biometrics' products.

The Middle East & Africa

Precise Biometrics' main focus in the Middle East and Africa is on the sale of products in the business area IAM. These markets are managed from the head office in Lund, together with several partners with a strong local presence. Important business has been conducted, above all with the combined smart card and fingerprint readers in the 200 series.

The Middle East is an active region in the procurement of national ID cards. Precise Biometrics has a good position in this segment because the Company has won two national procurements for ID cards with Match-on-Card in the region: Bahrain and Qatar. Active marketing with Precise Match-on-Card has resulted in several countries in the region now specifying Match-on-Card as a requirement during negotiations for ID cards.

Asia

Asia is an established market for biometric solutions and is expected to expand in the years to come. Japan, China and India are the most important economies driving the demand for biometrics, with the banking market and ID card projects as important areas. Asia is also the dominant market in the production of fingerprint readers and other biometric hardware, which makes the region very competitive.

Latin America

The biometrics market in Latin America can be considered to be relatively immature, but under development. There is a strong interest in fingerprint biometrics for ID cards for government agencies and national ID cards, where many countries specify Match-on-Card as a requirement in their procurements. Awareness and experience of biometric systems is good in the region, based on existing AFIS and civil AFIS (database systems). Venezuela, for example, chose to implement Precise Biometrics' technology in its national ID card. The business area IAM will be targeting Latin America, with special focus on national ID cards.

Large potential in mobile security

The use of mobile units is driven by the desire to be able to work more flexibly and without being tied to a specific place. The downside is that this increases security risks.

Apart from the fact that there is an inherent increase in security risks with mobile applications, recent reports of hacking have also contributed towards increasing awareness of the importance of a high level of security. André Smith-Nielsen, Global Sales Director Tactivo, tells us more about how Precise Biometrics works with Tactivo™ and with selected partners.



For Precise Biometrics the increased use of mobile applications means new and important opportunities. The product family Tactivo can accommodate the greater requirements for security now being set by both government agencies and companies. Tactivo is Precise Biometrics' smart case for iPhone and iPad, with embedded smartcard and fingerprint readers. After a period of intensive development the first Tactivo product was launched in May in 2012.

"Just now everyone is looking for solutions to the security risks that arise when professional users have access to sensitive data via a mobile unit. Because Precise Biometrics has remained focused on large companies and government agencies we chose a combination of smartcard and fingerprint readers at an early stage. Smartcards are statutory in many places and thereby also a requirement for a mobile security solution. Because Tactivo is the only product in the market that can meet the security requirements of the US government agencies, we are out there at the very front," says André Smith-Nielsen.

Focus on the USA

In a long-term perspective there will be a huge demand for mobile security solutions all over the world.

"But to quickly achieve results Precise Biometrics is focusing on the markets that are considered to be most interesting today. The most significant potential can initially be found in the US, where there is a homogeneous range of smartcards and where their use is obligatory in many federal agencies. With over 5 million active smartcards, the US market has been prioritized and Precise Biometrics has therefore built up a local organization here," says André Smith-Nielsen.



The European market is more fragmented. But there are already excellent business opportunities in countries such as Germany, France, the Netherlands and Sweden. The same applies to many countries in Asia, which are considered to have good potential in the long run, but where long business processes mean that these markets will not be prioritized initially.

The route to success is with partners

Success in the mobile sector largely depends on the opportunity of using applications, apps, in the units. For Precise Biometrics it is important to cooperate with selected partners who can deliver additional values in the form of specially adapted apps for secure mobile units.

"Precise Biometrics has entered into partnerships with several leading manufacturers of mobile security solutions. For example, Thursby has developed a secure mobile web browser and Good Technology has released a secure mobile email client. We are always looking for partners who can add value to Tactivo. The more the good apps that can be integrated with Tactivo, the more interesting the solution will be for our customers. We have developed an open tool, the iOS Toolkit, so that all our partners can produce apps for Tactivo," concludes André Smith-Nielsen.

Competition

Traditionally, the competitive environment in the biometric area has been complex and fragmented. A partner in one context can be a competitor in another. Competitors act in various fields, such as licensing of technology for smart cards, algorithm development and hardware. The new focus area of mobile security is lacking similar competition, Precise Biometrics is the first with a qualified security solution for businesses and governments - Tactivo™.

Competition within mobile security

What differs Tactivo from other products is that both the fingerprint and the smart card reader are integrated. The user needs no additional device beyond its iPhone or iPad for fingerprint authentication. Additionally the design is a key competitive advantage for the Company since aesthetics follow Apple's design and makes the original design in an iPhone or iPad is retained even if Tactivo is used. That the form factor in a biometric reader is a very important issue when it comes to the market for mobile devices is also addressed by Goode Intelligence in a report.



Competition from a broader perspective:

- Manufacturers of smart card readers for mobile devices, a category which is mainly represented by BAI and Thursby, the latter a partner to Precise Biometrics. The products are characterized by a low form factor, low security (Bluetooth), pricing (high price or low value), and lacks verification via fingerprints.
- Manufacturer of fingerprint readers for mobile devices, which today focuses solely on mobile payment solutions in the consumer market. In the future it is possible that manufacturers of mobile devices (Google, Samsung, Apple, etc) will integrate a fingerprint reader directly into their products. These manufacturers are, however, not a direct threat, since the solutions are not meeting the regulatory and corporate requirements on strong multifactor authentication (access to smart cards).
- Manufacturer of software for authentication, such as via passwords and certificates. This is a large and established market delivering an alternative solution, but not in direct competition with Precise Biometrics. Passwords and certificates are considered not to be sufficiently safe and is a complicated solution from a user perspective.

Competition in Match-on-Card™

On the basis of the number of contracted licenses and the partners Precise Biometrics has signed agreements with, Precise Biometrics is a world leader in the Match-on-Card area. One powerful argument for Precise Match-on-Card™ technology is that the Company's technology is independent of smart card and smart card suppliers – something that distinguishes Precise Biometrics from most of its competitors.

The Company's main competitor in the Match-on-Card market is the French Safran Group, which via the subsidiary Morpho offers biometric solutions. Match-on-Card is, however, only one of their products and their main focus is on AFIS systems (database solutions).

Siemens and ID3 are other competitors, but they offer less extensive Match-on-Card solutions and do not have the same wide dispersion of the technology as Precise Biometrics.

Competition in hardware

The Company is unique with its expertise in the combination of biometrics and smart cards. Precise Biometrics' fingerprint and smart card readers, Precise 200 MC and Precise 250 MC are well-established in the market. Precise Biometrics is one of the few companies that offer combined smart card and fingerprint readers.

The Company's hardware family – Precise Sense™ – is competitive on the basis of its price, design and functionality. The module design, which means that customers can easily adapt the reader to their own specific requirements, contributes to enhanced functionality.

Product portfolio

Precise Biometrics' products and solutions are based on the algorithms developed by the Company and designated Precise BioMatch[™], which enable matching of fingerprints on small platforms such as smart cards. These are packaged in different products, depending on the end solution. Precise Match-on-Card mainly focuses on the markets for national ID cards, ID cards for government agencies and companies, and in the banking sector. Development tools are offered to implement Precise Biometrics' technology, which enable customers to easily integrate the Company's solutions. The development tools are adapted for integration in smart cards, in PC applications or hardware.

Precise Biometrics' offering consists of hardware, software (license sales) and other applications, which sometimes include embedded solutions, support and other services. The Company's product portfolio has been expanded in 2012 with the launch of Tactivo[™] – Precise Biometrics' smart case for smartphones and tablets.

Tactivo

Precise Biometrics' technology and experience of security solutions for computers puts the Company in a good position to transfer this knowledge to mobile security solutions. Tactivo makes it possible to guarantee the same authentication associated with desktop and laptop computers.

Tactivo[™] is a product developed to protect information in smartphones and tablets. Smart card and fingerprint readers increase the level of security in mobile units. Tactivo offers enhanced security, without neglecting simplicity and user-friendliness. Precise Biometrics' smart case for smartphones or tablets enable the card's integrity and authenticity to be verified, allow the identity of the card holder to be verified, and control access to programs, email and files – both locally in the unit and via the web and cloud-based services.



Precise Biometrics sees several applications where Tactivo is predicted to solve security problems for customers. Secure access to information or cloud-based services via mobile units is what government agencies, healthcare, companies and banks are now demanding. The current focus for the products is the US market, especially US government agencies. Tactivo allows employees at US government agencies who have been given ID cards for network access or identification to access sensitive information and send messages in a secure way.

Tactivo is also used to protect access to apps. Because users are using fingerprints or smart cards for verification, it is only possible to open the protected apps after verification. Precise Biometrics has developed several mobile applications. With the help of the Company's development tools, third-party developers can also produce their own apps and solutions for different applications, and new apps are already under development.

Precise iOS Toolkit

The Company launched the development tool Precise iOS Toolkit at the end of 2011 as part of the Tactivo project. The objective was to enable developers to implement support for Tactivo in all types of mobile applications.

OTHER PRODUCTS

Hardware

Precise Biometrics offers, in addition to Tactivo, combined fingerprint and smart card readers: Precise 200 MC, Precise 250 MC and Precise Sense[™].

Customers are offered fingerprint readers that incorporate a modular design in order to meet the specific requirements and needs of different organizations and companies. The models include both combined smart card and fingerprint readers as well as readers just for fingerprints. Different types of

sensors, swipe or touch sensors, can also be chosen.

Hardware is an essential part of Precise Biometrics' sales. In order to broaden its offering to encompass new industries, and to remain competitive and offer volume sales, the Company has developed a new generation of fingerprint readers primarily intended for the banking and corporate segments. The product family, with the generic name.

Precise Sense, includes six different models focused on meeting different types of requirements. 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. Readers for contactless cards and NFC technology are also expected to be launched at a later stage. For biometric access control, Precise Biometrics is also offering Precise BioAccess 200. This is used together with contactless cards, where fingerprints are matched in the reader.

Embedded solutions and algorithms

Precise BioMatch Embedded enables a partner or customer to integrate Precise Biometrics' technology in hardware products. These products are targeting companies that work with payment terminals, access control systems, and banking services. The Precise Biometrics Embedded solution undergoes continuous development.

Precise Biometrics launched a new offer for embedded solutions in 2011 – Precise BioMatch Embedded 2.0. This product is based on the MINEX II test and the Company's new matching algorithm, which follows the ISO standard.

Embedding fingerprint biometrics in hardware products was previously a complex process, but the new and more customer-focused software product is much easier to adapt to manufacturers' hardware. The modularization of the product enables manufacturers to select the functionality and to optimize the biometric performance on the basis of the end product.

Examples of hardware products where biometrics can be embedded include sales terminals, computers, mobiles and other hardware.

Support and other services

Through its experiences in the biometrics market, Precise Biometrics has the know-how for the development and implementation of biometric projects. By utilizing Precise Biometrics' support and other services, both end customers and partners can gain biometric performance and achieve the launch of their product or solution. Precise Biometrics offers a number of different services to its partners and customers, including systems integration, integration support, testing & evaluation, systems design, upgrading support and training.

Tactivo™ – a new standard in mobile security

Tactivo was launched in 2012. It was the first product in the market that seriously met the greater threats to security in relation to mobile units like smartphones and tablets. Mobility means freedom and flexibility for users, but at the same time there is a greater risk of sensitive data and information getting into the wrong hands. For companies with very high security requirements that cannot afford to rely on fragile protection like passwords, Tactivo is welcome news.

Mobil security

Within the space of a few years the market for smartphones and tablets has exploded, and even marched into many companies, government agencies and organizations. According to the analysis company Gartner Group, the market for smart units will exceed 1 billion in 2015. A new problematic is now facing companies – how do they make sure their mobile units are not a security risk?

Sensitive information on servers and networks has traditionally been relatively secure behind walls. As we are becoming more and more mobile and information is being put into cloud-based services to an ever increasing extent, new security risks are a fact. How can companies prevent sensitive information getting into the wrong hands if, for example, a mobile unit is lost? Not providing mobile units is not a sustainable solution. Today there is a strong BYOD trend (Bring Your Own Device), where staff are using private mobile units at work on their own initiative. So it is better to utilize the flexibility in a mobile work mode and to make sure that the units have adequate protection. This is where Tactivo comes into the picture.



High level of security – user-friendly

Tactivo is a smart case for mobile units and has embedded fingerprint and smart card readers. Well-tested technology from Precise Biometrics enables multiple factor authentication that complies with the greater requirements for network security and verification. In combination with a stylistic design, compact format and simplicity – Tactivo is also very user-friendly. It is important to point out that Tactivo only secures selected apps, and that otherwise the mobile unit can be used just as usual without any restrictions.

Tactivo protects information in mobile units because users have to verify themselves with a smart card and, or via a fingerprint reader. The fingerprint is matched, the integrity and authenticity of the smart card is verified, the identity of the card holder is verified, access to programs, email and files is controlled, both locally in the unit and via the web and cloud-based services. Tactivo was initially offered for Apple's popular iPhone and iPad, but additional platforms will subsequently be supported. Android is one of these.

Tactivo for Android will be launched at the end of the second quarter in 2013, and prototypes will be available for selected partners in May.

Applications

Precise Biometrics sees several applications where Tactivo is expected to solve security problems for customers. Secure access to information or cloud-based services via mobile units is what government agencies, healthcare, companies and banks are now demanding. Examples of applications include secure access to journal systems and prescription registers in healthcare, secure browsing and communication in government agencies, and secure access to different company servers.

The current focus for Tactivo is the US market, especially US government agencies, where the potential in the market is judged to be most pronounced.

Tactivo for iPhone

Tactivo is a smart card and fingerprint reader designed for Apple's popular iPhone. In a stylistically designed case, Tactivo ensures a very high level of security through multiple factor authentication. At the same time Tactivo is very simple and easy to use, because all the buttons and connections function as normal, including charging and synchronization.

Tactivo for iPhone is the first version in Precise Biometrics' new series of smart shells for mobile units. The iPhone was

initially chosen as the first Tactivo product because of its wide distribution and standardized format.

Tactivo for iPad

The most recent addition to the Tactivo series is Tactivo for iPad. Just like the version for iPhone, Tactivo for iPad is a smart case with embedded smart card and fingerprint readers. Apart from the larger shape factor specially adapted for iPad, Tactivo for iPad has the same functions and same high level of security as Tactivo for iPhone.

Expansive range of apps

Smartphones and tablets can contain a variety of applications, intended for different purposes. Tactivo protects access to these apps, and the information they contain.

In conjunction with the launch of Tactivo, Precise Biometrics initiated the development of apps which are now available from the Apple App Store.



BioSecrets – together with Tactivo this app enables passwords and other sensitive information to be stored in a biometrically secured container in iPhone 4S, iPhone 4 and iPad.



My Tactivo – with this app a Tactivo user can upgrade the smartmobile case with the latest version of the Tactivo software. This app also allows the user to practice using the fingerprint sensor and get feedback, to achieve optimal performance



Tactivo RMA and Troubleshooter – with this app the user can test functionality in Tactivo and troubleshoot problems.

The Company also has apps that have been developed internally for testing and demo purposes, and which can also be made available for selected customers and partners. Partner apps are also now available at the App Store. New apps, both our own and those developed by our partners, will continue to be launched within the near future.

idApps

Precise Biometrics launched the web portal idApps.com at the end of 2011. idApps stands for Identity Applications and the objective was to create a portal precisely for these types of applications. The portal also functions as a sales channel for Tactivo and gives visitors the opportunity to visit the portal.

Apart from being a sales channel, the Company also wanted to create a community where developers who integrate Tactivo in apps can meet in the "Developers Forum" in the portal for the purpose of creating a greater focus on the different customer values that Tactivo enables.

iOS Toolkit

Precise iOS Toolkit is a tool that allows third-part developers to produce new apps for Tactivo, with embedded smart card and fingerprint recognition. There are already several general apps available today in the App Store, while at the same time an intensive development of customer-specific apps is in progress at Precise Biometrics' partners.

Technology & Tactivo™

The last few years have been intensive for Precise Biometrics' research and development department. Rutger Petersson is Program Manager for Tactivo and tells us more about the development, from the first generation of Tactivo for iPhone to how we are now focusing on developing follow-ups.

Modular structure

Working with the first generation of Tactivo for iPhone 4 established the foundation for what today is an entire product family. Precise Biometrics' development department chose at an early stage to work with a modular platform that could easily be adapted to new models and other platforms. Rutger Petersson is Program Manager for Tactivo:

"The advantages of a modular structure are very significant. For iPad 2 we could reuse the same software and the same circuit board and most of the mechanisms from Tactivo for iPhone 4. The biggest challenge was the larger format, to cast one large plastic product. We also had to adapt the Tactivo apps to the higher display resolution in iPad.

Next generation of Tactivo

When Apple presented iPhone 5 in the autumn of 2012, Precise Biometrics' developers faced a severe challenge. Apple had now changed the charger jack to the smaller Lightning version, and had also moved the headphone jack to the bottom edge of the phone.

"Because our technology is placed in the lower edge of iPhone we had to give it some more thought. The iPhone 5 was also even thinner than its predecessor. But the developers did a really good job and in the spring of 2013 we are ready to launch Tactivo for iPhone 5, as well as Tactivo for iPad 4," says Rutger Petersson.



The latest versions of Tactivo have been improved on several scores. On the one hand general mechanical improvements, and on the other the new Tactivo is more shock resistant.

"Tactivo is not a protective case," says Rutger Petersson. But at the same time a high degree of durability is important, because Tactivo and the mobile unit both represent a high value. We have therefore subjected Tactivo to rather nasty drop tests, and they have performed extremely well.

Tactivo for Android

Even if Apple's iOS products have a dominant position, they are far from being alone on the quickly expanding mobile market. Precise Biometrics has therefore initiated a development project focused on the competing Android platform. The launch is planned for the spring of 2013 and prototypes will be available for selected partners in May.

"Not even one year has gone by since we launched the first Tactivo product. We will now soon have five different variants in our product family. This has been possible thanks to the synergies created through our modular technology. Regardless of which direction the developing technology takes, we can quickly adapt Tactivo to the prevailing conditions," concludes Rutger Petersson.

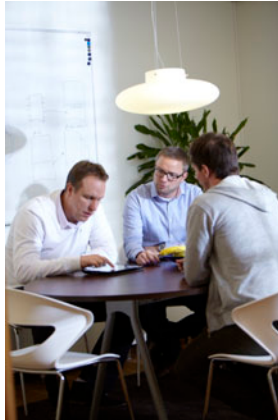
Meet the people behind the Company

As an employee at Precise Biometrics you are part of an international environment, where one day at work is never the same as the next. In a technology driven world you have to be agile and prepared for changeovers. As an example, Precise Biometrics' progress with the development of Tactivo is strongly linked to employees' knowledge and commitment.

The team that created Tactivo™

Recent years have been characterized by a strong common focus on the development of the mobile business area and the product Tactivo. This investment has affected all the staff at the Company in one way or another. It has demonstrated the great ability of the staff to cooperate and their enthusiasm. The efforts resulted in the launch of Tactivo in spring 2012.

Precise Biometrics is an international and exciting workplace, where activities are characterized by a high degree of responsibility and opportunities to develop. The Company encourages further education and also offers 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 37 (35), of which 7 (5) in the US, at the year end.
- Of the total number of employees at the end of the year, 25 (24) were men and 12 (11) were women.
- The Company has a low incidence of sick leave; in 2012 it was 0.6 per cent (1.3).
- Personnel turnover in the Group was 10.8 (8.9) per cent.
- Salaries and other remunerations, excluding payroll overheads, amounted to SEK 26.2 million (23.7) during the year.

Petter and Judi tell their stories

Please read the stories of some employees' jobs and living at Precise Biometrics.

- Petter programs high and low
- Judi keeps an eye on the market

Petter programs high and low

Petter Österlund is a program developer at Precise Biometrics in Karlstad. He works in a lot of different types of projects, but just now he is focused on Tactivo™.

What does a project developer do?

I work with all kinds of programming, from embedded systems in hardware to apps. From low level to high level. One example of the latter is that just now I'm writing codes for Tactivo's pending Android products.

What sort of a background do you have?

My interest in programming was awakened in school when I began programming on the classic Swedish computer ABC80. I am basically self-taught, but I have done several courses in computer technology.

What is your strength as a program developer?

To be a problem solver. I often have to jump in as an advisor in complex projects, where someone is needed to see the overall picture.

What's the best thing about your job?

Being part of developing new technology. What starts as a wild idea, can very easily become the product of tomorrow. At Precise Biometrics I have, for example, had the opportunity to take part in basic research round fingerprint readers, a technology that is just now breaking out on a wide front with Tactivo.

When you are not programming?

It's intensive at work, so when I get home I usually relax through training. I spend a lot of time in the gym, where I train both strength and fitness. Well balanced spare time that gets me away from the job is good for my creativity.



Judi keeps an eye on the market

Judi Campbell is Marketing Manager and works with the marketing of Tactivo™ and Precise Biometrics in the US market.

Tell us about your job.

As Marketing Manager a lot of the work I do is about updating Precise Biometrics' website, managing campaigns in social media, planning production of marketing materials and coordinating market activities and exhibitions.

It sounds like a creative job?

That's what I like about it. I get an outlet for my own creativity when I'm writing texts for the website. And then I have the advantage of cooperating with a lot of creative people at advertising agencies, partners and among our customers.

Do you work exclusively with the US?

The US is our single most important market, and there is an enormous potential especially for Tactivo. So obviously most of my work is about breaking ground in the US. But I also serve the marketing department for the whole company on a global basis, so I'm also in touch with our sellers all over the world and with the head office in Lund.



What did you do before you came to Precise Biometrics?

I've always worked with marketing and communication, with everything from PR in large companies to working in non-profit organizations.

What do you do in your free time?

A lot of it's about food and cooking. I love making food in both large and small contexts. And then I also like playing tennis and skiing, they also spice up my life.

A healthy organization for sustainability

Precise Biometrics has 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

Precise Biometrics offer user-friendly solutions, with the objective 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, and for the safe and convenient way to access specific information.

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.

Precise Biometrics' responsibility

The Company's sales are mainly directed to global and well-established partners, and only limited directly to end-customers and end-users. The Company has confidence in the processes and policies of its partners in terms of analyzing 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. 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' products consist of intangible assets such as software and algorithms, which are sold in the form of user licenses. The Company also supplies development tools and other user interfaces for fingerprint recognition. The company has, in 2012, launched a new hardware product under the trademark Tactivo™. The product is to be used in combination with smartphones and tablets. Use of the Company's software products has no, or negligible impact on the environment.

Precise Biometrics' products are manufactured or assembled with carefully selected and established partner manufacturers with which Precise Biometrics has agreements. These partner manufacturers buy the components for the products as specified by Precise Biometrics. The Company strives to manufacture products as close to the market as possible to avoid unnecessary movements. This is the case with the new hardware products that are manufactured in the U.S. and whose main market is U.S. To avoid long transports these products will therefore be manufactured in the U.S.

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 28, 2012, the Company had 264,523,168 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 2012, there was a total turnover of 212,437,903 PREC shares, i.e. an average turnover of 888,158 shares per day of trading. The closing price on December 28, 2012 was SEK 0.70. During the year the stock price varied between SEK 0.64 and 1.73.



Ownership

There were 7,674 (7,704) shareholders at the end of the year. Foreign shareholders accounted for 14.1 (13.2) per cent of the total number of shareholders.

[See table](#), for ownership structure as of December 28, 2012.

Option program

During 2011, an option program was initiated for the executive group and other key employees in Precise Biometrics. The program has issued options, on market terms basis, that have been transferred to the employees. A maximum of 7,100,000 options may be allocated as authorized by the annual shareholders' meeting in 2011.

The Market value has been established by an external valuer by the application of the Black & Scholes valuation method. At the time of valuation the share price was SEK 1.32, which is based on the volume weighted share price from May 2, 2011 to May 13, 2011

Subscription price was set at SEK 2.90. After the share issue in the fall 2012 the subscription price was re-calculated, by external valuers, to SEK 2.60 and for each option awarded 1.11 shares upon exercise of the program.

A total of 4,400,000 number of options was subscribed to and Precise Biometrics received additional liquid assets of SEK 440,000.

Shares may be subscribed to through the exercise of the options between January 1 and June 30, 2014.

See also [Note 18](#) for additional information.

Share issue 2012

In September 2012 Precise Biometrics conducted a rights issue to existing shareholders. The issue was oversubscribed to 139.6% and was conducted with main aim to enable continued marketing, sales and development of Tactivo™.

After the rights issue, the Company's share capital increased by SEK 30,231,219.20, from SEK 75,578,048 SEK to SEK 105,809,267.20. The number of shares increased by 75,578,048, from 188,945,120 shares to 264,523,168 shares. This leads to a dilution of 28.6%.

Through the rights issue, the Company has added approximately 55 million, with the main purpose to allow continued marketing, sales and development of Tactivo.

Share issue 2013

A new share issue with preferential rights for existing shareholders will be conducted during the spring of 2013 and is planned to bring Company approximately SEK 55.0 million before issue costs.

The order from one of the largest mobile operators and the many tests that currently carried out at potential customers

underscores the great potential for Tactivo. To maintain the high pace and ensure continued product development combined with having a strong working capital that promotes the positive development, we have decided to propose a rights issue to existing shareholders in the spring of 2013.

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.

Share capital 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
2011 - New issue ¹⁶	53,984,320	188,945,120	21,593,728	75,578,048	0.4
2012 - New issue ¹⁷	75,578,048	264,523,168	30,231,219	105,809,267	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 before deductions for issue costs.
- 16) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 1.00 and Precise Biometrics received an issue amount of SEK 54 million before deductions for issue costs.
- 17) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 0.72 and Precise Biometrics received an issue amount of SEK 54,4 million before deductions for issue costs.

Shareholder statistics

Shareholder register

	No of shares	No in % of share capital and votes
Avanza Pension Försäkring AB	19,922,038	7,5%
Swedbank Robur fonder	11,819,225	4,5%
Nordnet Pensionsförsäkring AB	5,400,821	2,0%
Gimmersta AB	4,479,825	1,7%
HJ Byggekonsulter AB	4,150,000	1,6%
Swedbank Försäkring AB	3,871,597	1,5%
Johnny Ludvigsson	2,250,000	0,9%
Skagen fonder	1,764,000	0,7%
Thomas Marschall	1,542,683	0,6%
Grothe Jensen Flemming	1,512,500	0,6%
Others	207,810,479	78,4%
Summa	264,523,168	100,0%

Allocation of shares

	No of shares	No in %
Foreign owners	37,346,103	14,1%
Swedish owners	227,177,065	85,9%
whereof institutions		12,9%
stock funds		5,3%
private investors		67,8%

Allocation of shareholders

	No in %
10 largest shareholders	23,5%
25 largest shareholders	29,5%
100 largest shareholders	42,7%

Shareholder statistic

	No of shareholders	No in %	No of shares	Proportions of votes in %
1-2 000	2570	33,5%	2,176,002	0,8%
2 001-10 000	2556	33,3%	13,132,207	5,0%
10 001-100 000	2141	27,9%	71,813,549	27,1%
100 001-1 000 000	383	5,0%	99,097,385	37,5%
1 000 001-50 000 000	24	0,3%	78,304,025	29,6%
Sum	7674	100,0%	264,523,168	100,0%

Geographic allocation of shares in %

	<i>No in %</i>
Sweden	85,8%
Denmark	3,3%
Switzerland	2,0%
Norway	1,7%
Great Britain	1,2%
Ireland	1,2%
Luxembourg	1,2%
United States	0,8%
Netherlands	0,6%
Finland	0,5%
Others	1,7%

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				
	2012	2011	2010	2009	2008
Net sales	28,281	21,615	44,944	68,655	45,868
Cost of goods and services sold	-12,495	-9,548	-17,425	-32,863	-23,324
Gross profit	15,786	12,067	27,519	35,792	22,544
Selling-, administration- and R&D expenses	-57,960	-45,189	-40,831	-55,091	-51,956
Other operating income/expenses	-728	-290	-1,185	-977	5,598
Results from holdings in associated companies	-	-	-	-	-30,738
Operating profit/loss	-42,902	-33,412	-14,497	-20,276	-54,552
Net financials	-4,050	208	-135	-1,492	403
Profit/loss after financial items	-46,952	-33,204	-14,632	-21,768	-54,149
Tax	-	-12	-16	-4	-31
Profit/loss for the year	-46,952	-33,216	-14,648	-21,772	-54,180

Balance sheet, Thousands SEK

	Year				
	2012	2011	2010	2009	2008
Assets					
Intangible fixed assets	18,358	12,778	6,664	3,802	9,683
Tangible fixed assets	1,829	1,070	704	868	1,303
Financial fixed assets	-	-	-	-	-
Current assets	65,464	50,557	40,723	68,423	23,026
of which liquid assets and current investments	37,584	28,930	24,544	40,884	11,343
Total assets	85,651	64,405	48,091	73,093	34,012
Equity and liabilities					
Equity	48,195	46,988	31,244	45,408	16,004
Current liabilities	37,456	17,417	16,847	27,685	18,008
Total equity and liabilities	85,651	64,405	48,091	73,093	34,012

Cash flow analysis, Thousands SEK

	Year				
	2012	2011	2010	2009	2008
Cash flow analysis, thousands SEK					
Cash flow from current operations					
before changes in working capital	-44,620	-32,147	-13,257	-14,276	-24,778
Changes in operating capital	-4,252	-4,099	2,781	-6,931	4,945
Cash flow from investment business	-9,143	-8,679	-4,710	-1,299	-1,794
Cash flow from financial business	66,669	49,015	-1,492	52,047	454
Change in liquid assets	8,654	4,090	-16,678	29,541	-21,173

Key ratios

	Year				
	2012	2011	2010	2009	2008
Gross margin	56%	56%	61%	52%	49%
Working capital, thousand SEK	28,008	33,140	23,876	40,738	5,018
Liquid ratio	145%	235%	192%	225%	113%
Equity/assets ratio	56%	73%	65%	62%	47%
Return on equity	neg	neg	neg	neg	neg
Capital employed, thousand SEK	58,297	40,447	39,575	31,839	44,111
Return on capital employed,	neg	neg	neg	neg	neg
Profit/loss per share SEK	-0.23	-0.20	-0.11	-0.19	-0.54
EBITDA, thousand SEK	-40,100	-31,213	-12,485	-12,662	-22,132
Equity per share, SEK	0.18	0.25	0.23	0.34	0.16
No of shares	264,523,168	188,945,120	134,960,800	134,960,800	101,220,600
Average number of outstanding shares	207,839,632	166,451,653	134,960,800	112,467,333	101,220,600
Operating cash flow per share, SEK	-0.18	-0.19	-0.07	-0.16	-0.20
Number of employees at the end of the year	37	35	34	36	44
Average number of employees	37	34	34	38	41

Administration report

The board of directors and the president of Precise Biometrics AB (publ), CIN 556545-6596, with headquarters in Lund, Sweden, hereby submit their Annual Report and consolidated financial statements for the fiscal year 2012.

Activities

Precise Biometrics develops, markets and sells solutions for fingerprint biometrics, which includes hardware, software and services. Precise Biometrics launched during the first half of 2012, the commercial product family Tactivo™, which includes a smart cover for smartphones with smart card and fingerprint identification. Precise Biometrics new products for the expanding mobile market leads to enhanced security when using smartphones and tablets.

Precise Biometrics has in recent years mainly been focusing on the Precise Match-on-Card™ - a technology that enables matching and storage of fingerprints on smart cards. Precise Biometrics is a global market leader for Match-on-Card with nearly 160 million licenses sold. The Company's biometric solutions replace keys, PIN codes and passwords, thus increasing the safety of for example national ID cards and employee ID. By the use of the Company's products can government agencies, businesses and organizations increase the reliability and usability of their systems.

Precise Biometrics' mission is to work with strong partners and through global networks offer countries, agencies, companies and organizations to user friendly and interoperable solutions to ensure the identity of individuals in a simple, cost effective and reliable manner.

These companies and agencies thereby save money by reducing the costs of identity and password management, identity theft and fraud. For the user, it is a simple and integrity protective way of identifying himself.

The Company's most important focus areas are:

- To establish Precise Biometrics' market profile as a reliable supplier with expertise and extensive experience in advanced fingerprint solutions. Precise Biometrics offers solutions that provide strong security while contributing to increased efficiency and sales opportunities or cost savings for the customer.
- To ensure long-term growth for shareholders and to ensure the ongoing short-term and long-term financing for the Company.
- The company's operations has been organized in two business units during 2012; IAM and Mobile. The business units should strengthen the continued commercialization of Precise Biometrics' unique technology by each business unit delivering value added and custom-designed solutions. By combining the Company's successful solutions for the ID-card market with security solutions in the mobile market Precise Biometrics' potential for improved profitability is good.
- The focus for the business area Mobile is to reach out to the large market for smart devices, which according to research firm Gartner Group is expected to exceed one billion units in 2015. The Company sees significant opportunities for mobile security solutions. With smart card and fingerprint reader on mobile devices, the high demands are met on network security and authentication.
- In the business area IAM the Company offers solutions for national ID cards and government, banks and companies. Even embedded solutions and biometric physical access products are included in the business area. Precise Biometrics' solutions provide strong security while contributing to increased efficiency and revenue opportunities or cost savings for the customer.
- In 2010 Precise Biometrics established a strategic platform for the company's future development based on growth and profitability. On the basis of this platform Precise Biometrics has prepared an ambitious business plan up to 2015 - Plan 2015. During 2012 the Company has launched the new mobile product family Tactivo™. The company expects that most of its future growth will come from the business area Mobile.

The sales organization

A new sales organization was created in January 2011 to meet the emergence of new business opportunities and to create more customer-oriented activities. The sales organization has in 2012 been conducted in two business areas: Mobile and IAM. Mobile is since 2011 a new and strategically important business area with the self-developed product Tactivo. Precise Biometrics will be focusing in this area on solutions for the smartphone and tablet markets. The company predicts that Mobile will account for the main parts of sales starting in 2013.

Further information about the business areas is available in [Note 3](#).

The most important business events during the year

- Precise Biometrics' products for mobile security for smartphones and tablets, Tactivo, was certified by Apple. Tactivo for iPhone and iPad launched globally.

- Precise Biometrics AB announced several Tactivo-related collaborations and partnerships (HID Global, Good Technology, Intercede and Sogeti). This means that Precise Biometrics, together with the partners can deliver secure mobile identity verification for government agencies and businesses worldwide.
- The company received its first Tactivo order from one of the world's largest vehicle manufacturer. Precise Biometrics also received a Tactivo order from two leading providers of mobile software, Thursby Software Systems plus an additional recognized company
- The company announced a collaboration with Inpeco Group, which develops solutions to track core processes in healthcare. Inpeco Group has decided to use Precise Match-on-Card™ to track the management of patient identification and blood samples and thereby eliminating human error that can occur in the process.
- The Company obtained a credit line of 30 million in the spring of 2012. The credit facility was repaid in January 2013.
- Precise Biometrics' rights issue with preferential rights for the shareholders of the Company was oversubscribed.

Significant events after the end of the year:

- One of the leading U.S. mobile operators will start selling Tactivo in the spring 2013. This will provide a strong exposure to major government and corporate clients.
- Precise Biometrics has been chosen by a leading provider of financial information. The US-based customer has chosen Precise Biometrics as its new provider of fingerprint algorithms. The customer has the intention to improve the performance of existing and future fingerprint supported devices using the Precise Biometrics technology.
- The Company announces partnership with Open Peak with aim to integrate Tactivo in Open Peaks Sector™-solution for increased security on mobile devices.
- The development of Tactivo for Android and other mobile platforms is underway. Tactivo for Android will be released at the end of the second quarter of 2013. Prototypes will be made available to selected partners in May.
- A new share issue with preferential rights for existing shareholders will be conducted during the spring of 2013 and is planned to supply the Company approximately 55.0 million SEK before issue costs.

Patents

The group's overall patent strategy is based on primarily applying for patents based on innovations in the company's Match-on-Card technology. This strategy has the objective of securing the rights to Precise Biometrics' own technology, creating value for future business, and enhancing the company's competitiveness.

Since 2001, the patent portfolio has been successively reinforced to include 62 registered patents and 16 patent applications within 18 different patent families at the end of 2012.

Brands

Precise Biometrics works actively and strategically with a trademark portfolio consisting of a small number of carefully selected trademarks:

- TACTIVO™ – the trademark for Precise Biometrics' new product. The trademark is registered in the EU and patents has been applied for in the US, China, Australia and Canada.
- PRECISE BIOMETRICS™ – registered as both a trade image and trade name in several countries.
- PRECISE BIOMATCH™ – the overall trademark for the core technology, which is used as the basis for the naming of software products. The trademark is registered in both the EU and the US.
- BIOMATCH™ – the overall trademark for Precise Biometrics' core technology. The trademark is registered in both the EU and the US.
- PRECISE MATCH-ON-CARD™ – the established and very well-known trademark for Precise Biometrics' technology to save and match a fingerprint on a smart card. The trademark is registered in the EU.
- PRECISE SENSE™ – the trademark for Precise Biometrics' biometric readers that were launched in 2011.

Sales and income

Sales during the fiscal year amounted to SEK 28.3 million (21.6). The gross margin was 56 per cent which is at the same level as previous year.

The group's net loss for the fiscal year amounted to SEK -47.0 million (-33.2).

Operating expenses for the fiscal year amounted to SEK -58.7 million (-45.5).

Earnings per share (average number of shares) for the period amounted to SEK -0.23 (-0.20).

Financing and liquidity

As of December 31, 2012 equity amounted to SEK 48.2 million (47.0) and equity per share to SEK 0.18 (0.25).

The cash flow from current operations during the year amounted to SEK -48.6 million (-36.0). Liquid assets amounted at the

end of the fiscal year to SEK 37.6 million (28.9). The credit facility that was obtained in spring 2012 was re-paid in January 2013. Within the framework of the credit facility agreement, and through the end of May 2013, the company can obtain order financing.

The company is continuously working to secure the short-term and long-term financial planning.

Capitalization and depreciation of development work

Development work costs of SEK 8.0 million (7.9) were capitalized during the fiscal year. The main part of development work has focused on the mobile segment. Depreciation and write-downs of capitalized costs for development work amounted in the fiscal year to SEK 1.7 million (1.7).

Research and development

Precise Biometrics' research is central to the company and allows for maintaining competitiveness in an industry that is constantly evolving. Research and development efforts are mainly aimed at developing fingerprint algorithms that the Company's products are based on. Work is conducted in both internal research projects and in external EU-funded projects. Precise Biometrics research and development department is working to develop existing products and patents and to develop new solutions. Support and consulting services are also included in the department's duties. The department works both in customer-specific projects and internal development projects related to the Company's products and offers.

Tactivo

The Tactivo project has accounted for the majority of all project hours in the last year. In the first phase, work has been focused on the development of Tactivo for smartphones, but the development has also added foundation for future Tactivo products. The development of mobile applications, known as apps, to Tactivo is underway continuously.

Organization and personnel

The subsidiary Precise Biometrics Solutions AB in Karlstad, Sweden has merged into the parent company Precise Biometrics AB. Consequently Precise Biometrics AB has its head office in Lund, Sweden and an office in Karlstad, Sweden. The organization also consists of the subsidiary Precise Biometrics Inc. in Washington DC, USA.

The number of employees in the group amounted to 37 (35) at the end of the year, 30 in Sweden and 7 in the US. Of the total number of employees at the end of the year, 25 (24) were men and 12 (11) were women.

Absence due to illness in the group continued to be low during the year, amounting to 0.6 per cent (1.3) overall. Staff turnover in the group was 10.8 per cent (8.9).

Salaries and other remunerations, excluding payroll overheads, amounted to SEK 26.2 million (23.7) during the year.

The share

Precise Biometrics had, per December 31 2012, 264,523,168 shares listed on Nasdaq OMX Nordic Small Cap list, Sector Industrial Goods & Services. A trading lot is 1 share. Short abbreviation is PREC and the ISIN code SE0001823303.

SHARE PRICE DEVELOPMENT

During 2012, a total of 212,437,903 PREC shares have been traded, representing an average annual turnover of 888,158 shares traded per day. The closing price on December 28 2012 was 0.70 SEK. The share price has during the year varied between 0.64 and 1.73 SEK.

SHAREHOLDER STRUCTURE

The number of shareholders at year-end were 7,674 (7,704). The foreign ownership was accounting for 14.1 percent (13.2) of total shares. See shareholder statistics in the segment "The share and shareholders", showing the ownership structure as of December 28, 2012.

TRANSFERABILITY OF SHARES

There are no restrictions on the transferability of shares. Nor are there any known to the company agreements between shareholders that may result in restrictions on the transfer of shares.

Proposed guidelines for the compensation of leading officials

The proposal of the board of directors concerning the establishment of guidelines for remuneration of leading executives implies that remuneration and terms and conditions of employment will be based on the market and be competitive, with predetermined caps on remuneration. Bonus remuneration will not exceed 50 percent of the fixed annual salary for the president, and 30 per cent for other executives. Bonus remuneration for US employees will not exceed 50 per cent of basic salary. Remuneration will also be provided in the form of options or other share-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 initiative of the company. Other executives are not entitled to severance pay.

The retirement age is 65 years and the pension premium is calculated as a base of age and salary and may amount to a maximum of 25% of the fixed salary. The decision means a level of remuneration that in general is in line with the previous year.

The Board's proposal for guidelines for remuneration to senior management

The Board of Directors proposes that the Annual General Meeting 2013 resolves on guidelines for remuneration to senior management consistent with the policies adopted by the 2012 Annual General Meeting, with the adjustment that the variable salary shall not exceed 50% of the fixed annual salary for all senior management.

Parent company

Parent company sales for the fiscal year amounted to SEK 24.5 million (15.5). Operating loss before tax for the fiscal year amounted to SEK -49.7 million (-35.6).

At the end of the fiscal year there were 30 persons employed in the parent company.

Liquid assets at the end of the year amounted to SEK 35.2 million (21.7).

Proposed treatment of accumulated loss

Parent company

The following assets remained at the disposal of the annual general meeting:

17,784,948

-49,621,754

-31,836,806

-31,836,806

-31,836,806

The Board proposes an appropriation of the company's accumulated loss, which amounts to SEK 49,621,754, through a reduction of the share premium fund by SEK 17,784,948. The remaining part of the accumulated loss of SEK 31,836,806 is suggested to be carried forward. The Board proposes that no dividend is declared for the financial year. Meanwhile, the Board proposes that the Annual General Meeting resolves to reduce the share capital to cover losses with SEK 31,742,780.16 and the reduction of the statutory reserve by SEK 94,026.

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 bylaws, the Swedish Companies Act and stock exchange rules, including the Code. Precise Biometrics' application of the Code differs for the following items:

- The company has decided not to establish a separate internal audit function. This is further explained in the section "The board of directors' report on internal control for the fiscal year 2012".
- The board of directors has chosen not to establish a separate audit committee, and will perform this function itself. See also the section on "Audit committee".
- The board of directors has chosen not to establish a separate compensation committee, and will perform this function itself. See also the section on "Compensation committee".

The corporate governance report provides a general description of how the company applies the Code.

The Annual General Meeting

The Swedish Companies Act and the company bylaws describe how general meetings are convened and who is entitled to participate in them and vote. 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 Tuesday, April 23, 2013 at 16.00 at Precise Biometrics' headquarters in Lund, Scheelevägen 30.

Under the company bylaws, the meeting is convened through announcements posted in the Swedish national newspapers. Shareholders wishing to attend the meeting must be entered in the company's share register no later than April 17. Applications to attend the meeting are to be made in the manner specified in the convening notice.

Nomination committee

Following a decision taken at the annual general meeting on April 24, 2012, a nomination committee is to be established. The nomination committee shall consist of one representative from the three largest shareholders as of August 31 2012, together with the chairman of the board.

The nomination committee consequently consists of Annika Andersson (Swedbank Robur fonder), Uno Johnsson (HJ Byggekonsulter AB) and Torgils Bonde Knutsson (Gimmersta AB).

These participants represents the three largest shareholders as of August 31 2012, that have accepted participation in the nomination committee. The chairman Lisa Thorsted also sits on the committee, and is the convener.

The nominating committee's proposals for the board of directors and remuneration to board members, proposals for auditors and auditors' fees, including the proposed chairman of the meeting, are contained in the notice convening the meeting.

The board of directors

The members of the board are elected at the annual general meeting. During the intervening period between annual general meetings, the board of directors of Precise Biometrics remains the highest executive body.

Under the bylaws, the board of directors shall consist of at least three and no more than seven members.

After the annual general meeting in April 2012, the board of directors has consisted of five directors: Lisa Thorsted (chairman), Torbjörn Clementz, Erwin Leichtle, Eva-Maria Matell och Lena Widin Klasén. All Board members are independent in relation to Precise Biometrics and the Company Management. The composition of the board of directors and their various duties is indicated under the headline "Board of directors" in the Annual Report.

The work of the board of directors

The work of the board of directors is regulated by rules of procedure prepared on an annual basis. The rules of procedure include instructions for the company's president and CEO, the assignments incumbent on the chairman, the agenda of board meetings and decision-making procedures. According to the rules of procedure, six ordinary Board meetings should be held apart from the statutory board meeting. In addition to these meetings, the Board meet whenever is needed. In 2012 the board of directors held 14 meetings at which the minutes were taken, of which 8 meetings were held by phone and 2 held per capsulum. The members of the board have been present at the board meetings as follows:

					Erwin Leichtle	Marc Chatel
--	--	--	--	--	----------------	-------------

	Lisa Thorsted	Torbjörn Clementz	Eva Maria Matell	Lena Widin Klasén	(elected at AGM April 2012)	(left the Board at the AGM April 2012)
2 feb	x	x	x	x	-----	
10 feb	x	x	x	x	-----	x
12 march	x		x	x	-----	
24 april	x	x	x	x	-----	
16 july	x	x	x	x	x	-----
8 aug	x	x	x	x	x	-----
30 aug	x	x		x	x	-----
6 sep	x	x	x	x	x	-----
8 oct	x	x	x		x	-----
23 oct	x		x	x	x	-----
29 nov	x	x	x	x	x	-----
19 dec	x	x	x	x	x	-----

The Chairman organizes and directs the work of the Board. Issues dealt with during the year included strategy and long-term focus, sales and product development, organization, corporate governance, risk assessment, long and short term financing, decision regarding share issue, interim and year-end reports.

The board of directors also conducted an evaluation of its work during the year and informed the nomination committee about the outcome of this.

The president keeps the board of directors up-to-date at all times. In addition to the ordinary meetings, the chairman and other directors have been in continuous contact with leading executives in the company, primarily the President and CFO. Besides meetings where minutes were taken, the board of directors has also received monthly updates on the company's financial results and position.

Group executive

Precise Biometrics has its headquarters in Lund, Sweden. The composition of the executive as of December 31, 2012 is indicated under the heading "Management Team" in the Annual Report. The composition of the group ensures short decision-making channels. The group held formal weekly meetings during the year and a strategy and budget meeting.

Compensation committee

The duties of the compensation committee include issues concerning salaries, pensions, incentive schemes and other terms and conditions for the employment of company executives. The guidelines for leading executives are described in the administration report in the Annual Report. Since the board of directors consists of five directors, it has been decided not to form a separate compensation committee, whereby the compensation committee will consist of the entire board of directors.

The Audit committee

Precise Biometrics' board of directors constitutes the audit committee. Separate meetings are held on two occasions every year. These meetings discuss among other things, reporting, business related risks and internal control. These issues are considered by the board in its entirety. The company's auditors report to the board of directors at least twice a year to ensure full disclosure. In addition, the chairman maintains regular contact with the head auditor.

See further below in the section "The Board of directors' report on internal control for the fiscal year 2012".

Auditors

The annual general meeting in 2008 chose Öhrlings PricewaterhouseCoopers AB, with Eva Carlsvi as head auditor, to be Precise Biometrics' auditor up to the annual general meeting in 2013. Öhrlings PricewaterhouseCoopers AB has been the company's auditor since the company was formed in 1998. They also perform assignments for other listed companies, but not to such an extent that this would interfere with the proper auditing of Precise Biometrics. None of the auditors have any assignments that would question their independence.

Information on auditor fees is indicated at Note 8 for both the group and the parent company.

Policies (within the framework of Corporate Governance)

Precise Biometrics has established several policies. All of these policies form the basis for the way in which the board of directors and the executive advocate that the organization should work. The policies established by the company are reported below. All policies are revised annually.

FINANCE POLICY

This policy is for the purpose of establishing guidelines concerning how the company manages financing, currency exposure, investments, insurance, and accounting and financial reporting.

INFORMATION POLICY

The information policy ensures that the company issues consistent and correct information on its operations and complies with the requirements of the stock exchange for information to the stock market.

INFORMATION SECURITY POLICY

The policy covers all information within the Group, ie, both in IT, mobile, email, telephone, physical access, archiving of paper documents, etc. This policy facilitates the Group's efforts to secure information and is binding for all employees.

INSIDER POLICY

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

IT POLICY

This policy is for the purpose of establishing guidelines for ownership rights and purchasing of computers. The IT policy also includes regulations concerning which programs are allowed and the procedures applicable for 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, staff, market and shareholders.

ENVIRONMENTAL POLICY

The purpose of the company's environmental policy is to ensure that its work, investments and other activities take into consideration their impact on the environment. To achieve this, the company uses recyclable materials in its production of hardware. Another aspect of this policy is that employees in the company shall as far as possible choose eco-friendly ways of travelling on business trips.

Risks

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.

MARKET DEVELOPMENT

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. This may require major investment in marketing and sales to achieve the expected sales volumes.

PRODUCTION CAPACITY

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.

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.

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 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.

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.

Change in 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 fiscal year 2012

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 ensures that the company has good internal control and remains continuously informed of, and evaluates how the Company's internal control functions. The board of directors' report has been limited to only include the internal control of the financial reporting.

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 for the financial reporting. These documents include the board of directors' rules of procedure and instructions for the president. The president is responsible to ensure that the guidelines drawn up by the board of directors are followed on a daily basis in their operative work. The president regularly reports to the board of directors on the basis of the established procedures, at board meetings and at more informal update meetings.

In addition, the company's auditors report to the board of directors at least twice during the fiscal year. It should also be noted that the review of internal control has been done within the framework of the external audit. The head auditor also maintains regular contact with chairman.

The most important parts of the control environment are the documents that govern the accounting and financial reporting. The company follows a well-defined 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 organization of the company and the way in which the business is run also form an important platform for the internal control. All areas of responsibility and employees have clearly defined roles. The policies of the company are an important platform to ensure that the control environment works.

Risk assessment and inspection activities

Precise Biometrics assesses on a regular basis the current risk situation in relation to financial reporting. The company pays special attention to risks in the financial reporting, i.e. whether there are any accounting errors, how assets and liabilities are valued, and their completeness. The management of internal transactions within the group can also be subject to risks. These risks are considered, however, to be of minor importance in that the company has a well-defined monthly financial reporting process and established follow-up procedures and policies. It should also be noted that the company continuously updates its finance handbook.

Manual inspections are carried out to prevent errors in the financial reporting. These inspections are also integrated in the accounting 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, development and projects in progress.

The company continuously informs the staff of updates to accounting principles, policies and other changes in reporting requirements.

All external information and communications are regulated by the company's information policy.

Follow-up

The board of directors and the audit committee continuously assess the information submitted by executives. The company's financial position is discussed at every board meeting, and at more informal monthly update meetings. Budget comparisons and forecasts, including analysis of any deviations, are described in the monthly reports.

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

The assignments of the external auditors also include auditing the internal control in the group.

In this context the board of directors has not found it necessary to establish a separate internal audit.



Financial Reports

Income statements

Group, figures in Thousands SEK

	not	2012	2011
Net sales	3	28,281	21,615
Cost of goods and services sold		-12,495	-9,548
Gross profit		15,786	12,067
Selling expenses		-25,812	-18,543
Administration expenses		-13,909	-11,489
R & D expenses	10	-18,239	-15,157
Other operating income		104	-
Other operating expenses		-832	-290
		-58,688	-45,479
Operating profit/loss	7, 8, 9, 30	-42,902	-33,412
Interest revenue		140	299
Interest expenses	32	-4,190	-91
		-4,050	208
Profit/loss before tax		-46,952	-33,204
Income tax	11	-	-12
NET PROFIT/LOSS FOR THE YEAR		-46,952	-33,216
Profit/loss attributable to:			
Owners of the parent		-46,952	-33,216
Profit/loss per share, attributable to owners of the parent (SEK per share)			
<i>Profit/loss per share, SEK (before/after dilution)</i>	12	-0.23	-0.20
Groups report concerning comprehensive income			
Profit/loss for the year		-46,952	-33,216
Comprehensive income:			
Change in accumulated exchange rate differences		143	-55
Comprehensive income for the year, net of tax		143	-55
Total comprehensive income for the year		-46,809	-33,271
Attributable to:			
Owners of the parent		-46,809	-33,271
Total comprehensive income for the year		-46,809	-33,271

Parent Company, figures in Thousands SEK

	not	2012	2011
Net sales	3	24,512	15,507
Cost of goods and services sold		-23,421	-19,846
Gross profit		1,091	-4,339
Selling expenses		-12,628	-12,274
Administration expenses		-13,908	-11,223
R & D expenses		-18,239	-8,692
Other operating income			290
Other operating expenses		-2,432	-

		-47,207	-31,899
Operating profit/loss	Z, 8, 9, 31	-46,116	-36,238
Interest revenue		557	688
Interest expenses		-4,187	-5
Result from holdings in subsidiaries	<u>17</u>	-	-
		-3,630	683
Profit/loss before tax		-49,746	-35,555
Income tax		-	-
NET PROFIT/LOSS FOR THE YEAR		-49,746	-35,555
Parent company's report concerning comprehensive income			
Profit/loss for the year		-49,746	-35,555
Comprehensive income:			
Result from merger		124	-
Group contributions		-	1,011
Comprehensive income for the year, net of tax		124	1,011
Total comprehensive income for the year		-49,622	-34,544
Total comprehensive income attributable to:			
Owners of the parent		-49,622	-34,544
Total comprehensive income for the year		-49,622	-34,544

Balance sheet

Group, figures in Thousands SEK

	<i>not</i>	2012	2011
ASSETS			
Fixed assets			
Intangible fixed assets	4	18,358	12,778
Tangible fixed assets	6	1,829	1,070
Total fixed assets		20,187	13,848
Current assets			
Inventories	14	10,985	9,673
Accounts receivable and other receivables	15	16,895	11,954
Liquid assets	16	37,584	28,930
Total current assets		65,464	50,557
TOTAL ASSETS		85,651	64,405
EQUITY & LIABILITIES			
EQUITY			
Capital stock	18	105,809	75,578
Other added capital		582,420	564,635
Reserves	19	727	584
Balanced loss and loss for the year		-640,761	-593,809
Total equity		48,195	46,988
Current liabilities			
Trade accounts payable and other liabilities	20	17,009	15,694
Borrowing	21	20,000	1,411
Other provisions	22	447	312
Total current liabilities		37,456	17,417
TOTAL EQUITY AND LIABILITIES		85,651	64,405

Balance sheet

Parent Company, figures in Thousands SEK

	<i>not</i>	2012	2011
ASSETS			
Fixed assets			
Intangible fixed assets	5, 31	18,358	12,692
Tangible fixed assets	6, 31	1,829	943
Financial fixed assets	17	1,058	1,058
Total fixed assets		21,245	14,693
Current assets			
Inventories		9,810	9,673
Accounts receivable	15	5,954	4,736
Receivables from group companies		32,742	33,406
Other receivables		3,867	3,050
Prepaid expenses and accrued income	27	2,107	2,019
Liquid assets	16	35,196	21,662
Total current assets		89,676	74,546

TOTAL ASSETS		110,921	89,239
---------------------	--	----------------	---------------

EQUITY AND LIABILITIES

EQUITY

Capital stock	<u>18</u>	105,809	75,578
Statutory reserve		1,539	9,513
Share premium reserve		17,785	26,980
Loss carried forward and loss for the year	<u>31</u>	-49,622	-34,954
Total equity		75,511	77,117

Provisions

Other provisions	<u>22</u>	117	76
------------------	-----------	-----	----

Current liabilities

Accounts payable		2,840	5,098
Other liabilities	<u>31</u>	21,847	1,953
Accrued expenses and prepaid income		10,606	4,995
Total current liabilities		35,293	12,046

TOTAL EQUITY AND LIABILITIES		110,921	89,239
-------------------------------------	--	----------------	---------------

MEMORANDUM ITEMS

Pledged assets	23	24,000	24,000
-----------------------	-----------	---------------	---------------

Contingents liabilities	24	NONE	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 loss and loss for the year	
Opening balance of January 1, 2011	53,984	537,214	639	-560,593	31,244
Comprehensive income					
Loss for the year	-	-	-	-33,216	-33,216
Other comprehensive income					
Exchangerate differences	-	-	-55	-	-55
Total other comprehensive income	0	0	-55	0	-55
Total comprehensive income	0	0	-55	-33,216	-33,271
Transactions with the shareholders					
Stock option program ¹⁾	-	440	-	-	440
New share issue ²⁾	21,594	26,981	-	-	48,575
Total transactions with the shareholders	21,594	27,421	0	0	49,015
Closing balance as of December 31, 2011	75,578	564,635	584	-593,809	46,988
Opening balance as of January 1, 2012	75,578	564,635	584	-593,809	46,988
Comprehensive income					
Loss for the year	-	-	-	-46,952	-46,952
Other comprehensive income					
Exchangerate differences	-	-	143	-	143
Total other comprehensive income	0	0	143	0	143
Total comprehensive income	0	0	143	-46,952	-46,809
Transactions with the shareholders					
New share issue ³⁾	30,231	17,785	-	-	48,016
Total transactions with the shareholders	30,231	17,785	0	0	48,016
Closing balance as at December 31, 2012	105,809	582,420	727	-640,761	48,195

1) Relates to 4,400,000 subscription options to all employees at a rate of SEK 0.10.

2) New share issue totalling 53,984,320 new shares at a rate of SEK 1.00 with deduction for issue costs SEK 5,409 thousand.

3) New share issue totalling 75,578,048 new shares at a rate of SEK 0.72 with deduction for issue costs SEK 6,400 thousand.

Parent company, figures in Thousands SEK

	Attributable to Parent company owners					Summa egget kapital
	Capital stock	Statutory reserve	Share premium reserve	Loss carried forward and loss for the year		
Opening balance as at January 1, 2011	53,984	12,464	13,315	-16,677	63,086	
Comprehensive income						
Loss for the year	-	-	-	-35,555	-35,555	
Other comprehensive income						
Transfer of annual profit/loss	-	-2,952	-13,315	16,267	0	
Group contributions	-	-	-	1,011	1,011	
Total other comprehensive income	0	-2,952	-13,315	17,278	1,011	
Total comprehensive income	0	-2,952	-13,315	-18,277	-34,544	
Transactions with shareholders						
New share issue ¹⁾	21,594	-	26,981	-	48,575	
Total transactions with shareholders	21,594	0	26,981	0	48,575	
Closing balance as of December 31, 2011	75,578	9,512	26,981	-34,954	77,117	
Opening balance as of January 2012	75,578	9,512	26,981	-34,954	77,117	
Comprehensive income						
Loss for the year	-	-	-	-49,746	-49,746	
Other comprehensive income						
Transfer of annual profit/loss	-	-7,973	-26,981	35,555	601	
Result from merger ²⁾	-	-	-	124	124	
Group contributions	-	-	-	-601	-601	
Total other comprehensive income	0	-7,973	-26,981	35,078	124	
Total comprehensive income	0	-7,973	-26,981	-14,668	-49,622	
Transactions with shareholders						
New share issue ³⁾	30,231	-	17,785	-	48,016	
Total transactions with shareholders	30,231	0	17,785	0	48,016	
Closing balance as of December 31, 2012	105,809	1,539	17,785	-49,622	75,511	

1) New share issue totalling 53,984,320 new shares at a rate of SEK 1.00 with deduction for issue costs SEK 5,409 thousand.

2) During the year the Subsidiary Precise Biometrics Solutions AB has merged into the Parent company Precise Biometrics AB.

For details see note 31.

3) New share issue totalling 75,578,048 new shares at a rate of SEK 0.72 with deduction for issue costs SEK 6,400 thousand.

Cash flow statement

Figures in Thousands SEK

	not	Group		Parent Company	
		2012	2011	2012	2011
Cash flow from current operations					
Cash flow from current operations	28	-43,939	-35,676	-40,928	-39,057
Interest income paid		141	299	557	297
Interest cost paid		-4,190	-91	-4,187	-5
Taxes paid		-615	-779	-615	-599
Cash flow from current operations		-48,603	-36,247	-45,173	-39,364
Cash flow from investment business					
Capitalized development work		-7,970	-7,891	-8,055	-7,891
Acquisition of tangible fixed assets		-1,173	-787	-1,254	-787
Cash flow from investment business		-9,143	-8,678	-9,309	-8,678
Cash flow from financial business					
Payment for issue of common stock		48,016	48,575	48,016	48,575
Loans raised		20,000	-	20,000	-
Amortization of loans		-1,347	-	-	-
Payment for issue of options			440	-	-
Cash flow from financial business		66,669	49,015	68,016	48,575
Decrease/increase in liquid assets		8,923	4,090	13,534	533
Opening liquid assets		28,930	24,544	21,662	21,129
Exchange rate differences		-269	296	-	-
Closing liquid assets		37,584	28,930	35,196	21,662

Notes

- Note 1** General information
- Note 2** Accounting policies
- Note 3** Segment information
- Note 4** Intangible fixed assets, group
- Note 5** Intangible fixed assets, parent company
- Note 6** Tangible fixed assets
- Note 7** Costs allocated per type
- Note 8** Auditors' remuneration
- Note 9** Operational leasing agreements
- Note 10** Government support
- Note 11** Income tax
- Note 12** Profit/loss per share
- Note 13** Deferred tax
- Note 14** Inventories
- Note 15** Accounts receivable and other receivables
- Note 16** Liquid assets
- Note 17** Financial fixed assets
- Note 18** Capital stock
- Note 19** Reserves in equity
- Note 20** Accounts payable and other liabilities
- Note 21** Borrowing
- Note 22** Other provisions
- Note 23** Pledged assets
- Note 24** Contingent liabilities
- Note 25** Employee and personnel expenses
- Note 26** Remuneration to leading executives
- Note 27** Prepaid expenses and accrued income
- Note 28** Cash flow from operations
- Note 29** Purchases and sales between group companies and transactions with associates
- Note 30** Risk factors
- Note 31** Merger of Subsidiary
- Note 32** Interest expenses



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. During 2012 the product series Tactivo for mobile security for smartphones and tablets was launched.

The Company's head office is in Lund. There is also a subsidiary in Washington DC, USA (Precise Biometrics Inc.). The subsidiary Precise Biometrics Solutions AB in Karlstad has merged into the Parent Company during the year.

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

Note 2

Accounting policies

General basis for preparation of the reports

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC adopted by the EU, the Swedish Annual Accounts Act, and RFR1, 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 policies as the group and RFR2, Supplementary Accounting Regulations for Legal Entities.

The board of directors approved these consolidated financial statements for publication on March 25, 2013.

New and amended standards applied by the group from January 1, 2012

None of the IFRS or IFRIC interpretations which for the first time are mandatory for the fiscal year that began on January 1, 2012 have had any essential impact on the group.

New IFRS, supplements to IAS and IFRIC interpretations taking effect in 2013, or later

IFRS 9 "Financial Instruments" concern the classification, valuation and recognition of financial liabilities and assets. IFRS 9 was issued in November 2009 for financial assets and in October 2010 for financial liabilities, and replaces the parts in IAS 39 related to classification and valuation of financial instruments. IFRS 9 specifies an acquisition value. Classification is determined on the first accounting occasion on the basis of the Company's business model and characteristic attributes in the contractual cash flows. No significant changes have occurred for financial liabilities in comparison with IAS 39. The main amendment refers to liabilities that are identified to fair value. For these, the part of the change in fair value attributable to the credit crisis will be recognized in other comprehensive income instead of income, in so far as this does not lead to an accounting mismatch. The group intends to apply the new standard by the fiscal year that starts on January 1, 2015 and has therefore not yet evaluated the effects. The standard has not been adopted by the EU up to date.

IAS 1 "Presentation of Financial Statements", which came into force on 1 July 2012, introduced changes concerning other comprehensive income. The most significant change in the revised IAS 1 is the requirement that the items recognized in "other comprehensive income" will be presented divided into two groups. The distribution is based on if the entries may be reclassified to the income statement (reclassification adjustments) or not. The amendment does not address the question of which records are included in "other comprehensive income".

None of the other IFRS or IFRIC interpretations that have so far not come into force are expected to have any essential impact on the Group.

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 shareholding of more than half of the voting rights.

The group also estimates if there is a controlling influence even if the shareholding does not amount to more than half of the voting rights, but where it still has the option to control financial and operative strategies through de facto control. De facto control can arise in circumstances where the proportion of the group's voting rights in relation to the size and distribution of other shareholder voting rights gives the group the opportunity to control financial and operative strategies etc.

Subsidiaries are included in the consolidated financial statements from the date the controlling influence is transferred to the group. They are excluded from the consolidated financial statements from the day the control no longer exists. The acquisition method is used to report the group's business acquisitions. The purchase price for acquisition of a subsidiary consists of the fair value of transferred assets, liabilities the group incurs from previous owners of the acquired company, and the shares issued by the group. The purchase price also includes the fair value of all assets or liabilities resulting from an agreement of a conditional purchase price. Identifiable acquired assets and transferred liabilities in a business acquisition are initially valued at the fair value on the date of acquisition. For each acquisition, i.e. acquisition for acquisition, the group determines if holdings without controlling influence in the acquired company will be recognized at the fair value, or to the proportional share of the holding in the recognized value of the acquired company's identifiable net assets

Acquisition-related expenses are recognized when they arise.

If the business acquisition is implemented in several stages, the previous equity in the acquired company will be re-valued to its fair value at the time of acquisition. Any arising profit or loss will be recognized in income.

Each conditional purchase amount that is to be transferred to the group is recognized at the fair value on the acquisition date. Subsequent amendments to the fair value of a conditional purchase amount classified as an asset or liability are recognized in accordance with IAS 39, either in the income statement or in other comprehensive income. Conditional purchase amounts classified as equity are not re-valued and any subsequent regulation is recognized in equity.

Goodwill is valued initially as the amount whereby the total purchase amount and fair value for holdings without controlling influence exceed the fair value of identifiable acquired assets and adopted liabilities. If the acquisition value is lower than the fair value of the acquired subsidiary's net assets, the difference is recognized directly in the income statement.

Intergroup transactions, balance sheet items, earnings and transaction expenses between group companies are eliminated. Profit and loss resulting from intergroup transactions, and which are reported in assets, are also eliminated.

The accounting policies for subsidiaries have, where appropriate, been amended to assure consistent application of group policy.

ASSOCIATED COMPANIES

Associated companies are all the companies where the group has a significant, but not controlling influence, which in general is applicable for shareholdings that include from 20 to 50 per cent of the votes. Holdings in associated companies are reported in accordance with the equity method. On application of the equity method, investments are valued initially to the acquisition value and the recognized value is increased or diminished thereafter to take into consideration the group's share of profit or loss in the associated company after the date of acquisition. The group's recognized value of the holdings in associated companies includes goodwill, as identified at the time of acquisition.

If the holding in an associated company is reduced, but the investment continues to be an associated company, only a proportional amount of the profit or loss previously recognized in other comprehensive income will be reclassified as income.

The group's share of income that has arisen after the acquisition is recognized in the income statement and its share of changes in other comprehensive income after the acquisition is recognized in other comprehensive income, with the corresponding share of the holding's recognized value. When the group's share in the losses of an associated company amounts to, or exceeds its holding in the associated company, including any unsecured receivables, the group does not recognize any additional losses, unless the group has incurred legal or informal obligations, or made payments on behalf of the associated company.

The group determines at the end of each reporting period whether there is objective evidence to indicate the need for a write-down of the investment in the associated company. If this should be the case, the group calculates the write-down amount as the difference between the recovery value of the associated company and the recognized value, and recognizes this amount in "Share of income in associated companies" in the income statement.

SEGMENT REPORTING

Operating segments are reported so as to correspond with the internal reporting submitted to the chief executive. The chief executive is the responsible function for allocation of resources and assessment of operating segment profits. In the group this function has been identified as the management group, in which the president is also included, and it is they who make strategic decisions.

Precise Biometrics' management group previous estimated operations mainly from a geographical perspective. Precise Biometrics initiated a reorganization of its sales organization in 2010. This reorganization was preceded by a deliberate strategy to improve the potential utilization of business opportunities to create more customer-oriented activities. The result was that operations were divided up by business areas, rather than geography. The group's business areas constitute the group's operating segments, which form the platform from which management runs and leads its business activities. From January 2012 the business area Access Solutions is included in IAM, which means the business areas now consist of IAM and Mobile.

The management group does, however, also follow up operations from a product perspective. The group has three types of products, these being Products (for general description see section "Technical and commercial solutions"), Licenses and Services. Also see [Note 3: Segments](#).

The management group evaluates the operating segments on the basis of results defined in [Note 3: Segments](#).

Translation of foreign currency

FUNCTIONAL CURRENCY

Items included in the financial reports for the different units in the group are valued in the currency used in the financial environment where respective companies are primarily active (functional currency). Swedish kronor (SEK) is used in the consolidated financial statements, which is the parent company's functional and recognition currency.

TRANSACTIONS AND BALANCE SHEET ITEMS

Transactions in foreign currency are converted to the functional currency according to the exchange rates applicable on the transaction date. Exchange rate profits and losses incurred during the payment of such transactions and during the conversion of monetary assets, or liabilities in foreign currency, to the balance sheet date rate are reported in the income statement. Exceptions are when transactions constitute an assurance that complies with the conditions for hedge accounting of cash flows, or for net investments when profits/losses are recognized in equity. All foreign exchange differences arising are recognized in other comprehensive income. Foreign exchange differences on financial transactions which are classified as net investment in foreign activities are recognized in other comprehensive income.

GROUP COMPANIES

The income and financial position for 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 the acquisition value, reduced by accumulated depreciation. The acquisition value includes charges that can 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 arise.

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. The allocation of functions is carried out with a formula based on the 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 the recognized value of an asset is considered to exceed 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 costs 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 extends from three to five years. Depreciation of capitalized development costs is included in R&D expenses in the income statement.

SOFTWARE

Expenses for maintenance of software are recognized as when they arise. Expenses for purchasing and development of software are capitalized if the criteria are met in accordance with IAS 38 and IFRS 3. The expenses are capitalized on basis of the costs incurred when the software in question is acquired and put into service and when the development costs incurred respectively.

These expenses are written off during the estimated useful life, which extends to five years.

PATENTS

Patents have a limited useful life and are therefore recognized at the acquisition value, minus accumulated depreciation.

Depreciation is made in a straight line over ten years.

WRITE-DOWNS

Assets that have an indeterminable useful life are not written down, but are estimated annually in terms of any write-down requirements. The Company does not at present have any assets with an indeterminable useful life. Assets that are written down are estimated in relation to the reduction in value whenever events, or changes in current 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 the 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. For an asset that depends on other assets generating a cash flow, the recovery value 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. One of their particular characteristics is 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 therefore included in current assets, with the exception of items with due dates more than 12 months after the balance sheet date, which are then classified as financial fixed assets. Loans receivable and accounts receivable are included in the item accounts receivable and other receivables in the balance sheet.

ACCOUNTS RECEIVABLE

Accounts receivable are initially recognized at the fair value and thereafter at the accrued acquisition value with application of the effective interest method, minus a possible reserve for value impairment. Reserves for the impairment of accounts receivable are built up when there is objective evidence that the group will not be able to receive all the amounts due in accordance with the original conditions for the receivable. The size of such reserves consists of the difference between the recognized value of the assets and the current value of estimated 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 recognized 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 to the fair value via the income statement, the change in value is recognized under net financials.

CAPITAL STOCK

Common stock is classified as equity. Transaction costs directly attributable to the issue of new common stock or options are recognized in equity as a deduction from issue liquidity. Repurchasing of stock is recognized in equity.

INCOME TAXES

Tax expenses for the period include current and deferred taxes. Tax is recognized in the income statement, except for when it refers to items recognized in other comprehensive income or directly in equity. In such cases the tax is also recognized in other comprehensive income and equity.

The valuation of all tax liabilities/receivables is made at nominal amounts and the actual tax cost is calculated on the basis of the tax regulations decided on the balance sheet date, or decided in practice in the countries where the parent company and its subsidiaries operate and generate taxable income. The management estimates on a regular basis the claims made in tax returns concerning situations where the applicable tax regulations are subject to interpretation. It allocates provisions, when this is considered appropriate, for amounts that will in all probability be paid to the tax authority.

Deferred tax is recognized, in accordance with the balance sheet method, as all the temporary differences arising between the taxable value of assets and liabilities, and their recognized values in the consolidated financial statements. Deferred tax liabilities are not recognized, however, if they have arisen as a result of the first reporting of goodwill. Nor is deferred tax recognized if it has arisen as a result of a transaction that constitutes the first reporting of an asset or liability that is not a business acquisition, and which at the time of the transaction neither affects recognized nor taxable income. Deferred income tax is calculated on application of tax rates (and laws), decided or advised on the balance sheet date, and which are expected to apply when the deferred tax receivable is realized or the deferred tax liability is regulated.

The deferred recognized tax for group tax refers to internal profits in inventories, and is valued at the tax rates decided and advised on the balance sheet date. Deferred tax receivables relating to loss carry forwards are recognized to the extent that it is probable that deductions can be offset against future surpluses for tax purposes. Against the backdrop of past evolution in group earnings, no deferred tax receivables relating to loss carry forwards 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 carry forwards, excluding net income for the year, amounted in the parent company to approximately SEK 499 million (2011: 465 and in the US subsidiary to approximately SEK 33 million (2011: 33).

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.

Remuneration to employees

PENSIONS

The group has both defined contribution and defined benefit pensions plans. The 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. Following a statement from Råder for financial reporting, UFR 3, this is a defined benefit pension plan that covers several employers. In the fiscal year of 2012, the group did not have access to such information that would enable this plan to be reported as a defined benefit pension plan. Pension plans which in accordance with ITP are insured by Alecta are therefore reported as defined contribution plans.

Expenses for pension insurances subscribed in Alecta amounted to SEK 2,418 thousand (2011: 1,698). Alecta's surplus can be distributed to insured parties. At the end of 2012, Alecta's surplus amounted in the form of the collective consolidation level to 129 per cent (2011: 113%). The collective consolidation level consists of the market value of Alecta's assets in per cent of the insurance undertakings calculated in accordance with Alecta's insurance undertakings, which did not correspond with IAS 19.

For 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 plan 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 for the year when an obligation exists.

OPTIONS PROGRAM

Precise Biometrics has an outstanding options program for employees in Sweden and the US. Subscription options have been issued to employees in Sweden and the US as part of the program on ordinary market terms. Payments received by Precise Biometrics have been recognized in other paid-in capital. On acquisition of subscription options by employees, the payments received are recognized in other paid-in capital. The capital stock is increased by each newly issued share's nominal value on the utilization of options, and the corresponding share premium is 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 they are 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 per cent of recognized income, reflecting the 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 on delivery of the 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 conditions.

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 the 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 a 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 for 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.

A) IMPORTANT ESTIMATES AND ASSUMPTIONS FOR ACCOUNTING POLICIES

CAPITALIZATION OF DEVELOPMENT EXPENSES

The area where estimates and assumptions could involve risks for adjustment of recognized values for assets and liabilities during the next fiscal year is mainly related to capitalized development expenses. The group regularly examines if there is a need for write-downs of capitalized development expenses in accordance with the accounting policies described under Intangible assets. This examination is made through an estimate of the project in relation to future cash flows. Projects that will not bring the Company any future financial benefits are written down. Forecasts for future cash flows are based on the best possible estimates of future revenues and expenses.

INCOME TAX

The group has to pay taxes in several different countries. Against the backdrop of past evolution in group earnings, the group's tax cost is assessed to be limited.

The group makes ongoing estimates related to opportunities to utilize loss carry forward in the future, based on the past and predicted evolution of earnings.

B) IMPORTANT ESTIMATES FOR APPLICATION OF GROUP ACCOUNTING POLICIES ESTIMATES OF THE SURVIVAL OF THE COMPANY

Precise Biometrics has in 2012 launched Tactivo, the world's first combined smart card and fingerprint readers. Meanwhile, the company has built up a worldwide collaboration with several established partners in both business and government.

The first Tactivo order came in the summer of 2012 with a couple of subsequent orders during autumn 2012. The real sales breakthrough has come first in the first quarter of 2013 with an order from one of the largest U.S. mobile operators. The company's expectation is that sales will now increase every quarter ahead.

Due to the later than expected, sales breakthrough and the ongoing product development for other mobile platforms such as Android, Precise Biometrics Board decided to conduct a rights issue of approximately SEK 55 million to existing shareholders. Given the rights issue, the company estimates that its working capital is sufficient for the next twelve months

Note 3

Segment information

Operating segments are reported in a way that is in accordance with the internal reporting that is submitted to the management group, including the president.

For the financial year 2011, the group changed the classification basis for segments. This was a natural link in that the management group, as of January 1, 2011, lead, assessed and followed-up the operations based on the group's three business areas, IAM, Access Solutions and Mobile, which also made up for the group's operating segments. From January 1 2012 the segment Access Solutions is included in IAM. Comparison information for 2011 has been recalculated accordingly.

The management group also assesses the operation from a product perspective. The types of products that are followed up are hardware (for a description see the section Technology and Commercial solutions), licenses and services.

The management group assesses the operating segments based on earnings per business area. For a definition of earnings, see the table below.

The segment information, regarding those segments for which information shall be submitted to the management group for the financial year 2012 is as follows:

	IAM		MOBILE		Sum	
	2012	2011	2012	2011	2012	2011
Earnings						
External sales	25,549	21,615	2,732	-	28,281	21,615
Total profit/loss						
Profit/loss per segment ¹⁾	-12,685	-12,914	-35,028	-25,950	-47,713	-38,864
Unallocated earnings					4,811	5,452
Operating profit/loss					-42,902	-33,412
Interest revenue					141	299
Interest expenses					-4,190	-91
Tax expenses for the year					-	-12
Net profit/loss for the year					-46,951	-33,216
Other information						
Assets ²⁾	28,129	23,022	12,016	5,695	40,145	28,717
Undivided assets ³⁾					45,506	35,689
Total assets					85,651	64,406
Liabilities	991	4,135	2,687	1,150	3,678	5,285
Undivided liabilities					33,778	12,133
Total liabilities					37,456	17,418
Investments	5,216	2,983	3,927	5,695	9,143	8,678
Depreciation	2,768	2,198	35	0	2,803	2,198

1) Profit/loss per segment consist of revenue minus cost for goods sold as well as direct, and a portion of indirect, costs. For a definition of unallocated earnings, see below.

2) All fixed assets are attributable to Sweden, where Precise Biometrics AB has its registered office. Consequently, information about fixed assets per individual country is not reported.

3) Unallocated assets consist of tangible fixed assets. Capitalized development work is from 2011 attributed by segment. Other unallocated fixed assets are assessed to be insignificant.

Unallocated earnings are balanced against operating profit/loss:

	Group	
	2012	2011
Profit/loss per area	-47,412	-38,864
Administration expenses	2,301	2,336
R & D expenses	1,240	1,447
Selling expenses	1,696	1,959
Other operating expenses	-728	-290
Operating profit/loss	-42,903	-33,412

Notes on the table:

Unallocated earnings include capitalization, depreciation and write down of tangible and intangible fixed assets as well as other operating expenses. Other operating expenses mainly include exchange rate differences.

Unallocated assets are balanced against total assets:

	Group	
	2,012	2,011
Assets per area	21,787	16,025
Liquid assets	37,584	28,930
Other receivables	6,093	5,602
Fixed assets	20,187	13,848
Total assets	85,651	64,405

Unallocated liabilities are balanced against total liabilities:

	Group	
	2012	2011
Liabilities per area	3,678	5,285
Accrued payroll costs	4,617	4,102
Payroll overhead and other taxes	2,067	2,405
Other accrued expenses	4,847	1,970
Borrowing	20,000	1,411
Provisions	446	312
Other liabilities	1,801	1,932
Total liabilities	37,456	17,417

An allocation of revenue per product is as follows:

	Products		Licenses		Services		Sum	
	2012	2011	2012	2011	2012	2011	2012	2011
Intäkter								
External sales	20,015	15,628	4,107	4,371	4,159	1,616	28,281	21,615
Assets	18,629	14,266	1,569	1,284	1,589	475	21,787	16,025
Investments	0	0	0	0	0	0	0	0

The Company has its registered office in Lund. The group's revenue from external customers in Sweden totals SEK 2.7 million (2011: 5.8) and the total revenue from external customers in other countries totals SEK 25.6 million (2011: 15.8), of which revenue from the US was SEK 5.1 million (2011: 2.9) and the Middle East SEK 12.8 million (2011: 8.3). Revenue from external customers, which makes up ten percent or more of the group's revenues, can be attributed to the segment Middle East and totals SEK 10.8 million (2011: IAM 8.2).

The parent company's revenue from customers in Sweden totals SEK 2.7 million (2011: 2.8) and revenues from customers in other countries total SEK 9.7 million (2011: 15.8), of which revenue from the US was SEK 0.0 million (2011: 0.0).

Note 4

Intangible fixed assets, group

	Capitalized Development work	Patent	Capitalized computer software	Total
As at January 1, 2011				
Acquisition value	63,616	11,563	4,214	79,393
Accumulated depreciation and write-downs	-56,992	-11,563	-4,174	-72,729
Book value	6,624	0	40	6,664
January 1 - December 31, 2011				
Opening book value	6,624	0	40	6,664
Purchasing for the year	7,891	-	-	7,891
Write-down	-337	-	-	-337
Depreciation	-1,400	-	-40	-1,440
Closing book value	12,778	0	0	12,778
As at December 31, 2011				
Acquisition value	71,507	11,563	4,214	87,284
Accumulated depreciation and write-downs	-58,729	-11,563	-4,214	-74,506
Book value	12,778	0	0	12,778
1 januari - 31 december 2012				
Opening book value	12,778	0	0	12,778
Purchasing for the year	7,970	-	-	7,970
Write-down	-641	-	-	-641
Depreciation	-1,748	-	-	-1,748
Closing book value	18,359	0	0	18,359
As at December 31, 2012				
Acquisition value	79,477	11,563	4,214	95,254
Accumulated depreciation and write-downs	-61,118	-11,563	-4,214	-76,895
Book value	18,359	0	0	18,359

Comment on the table:

Depreciation is included in Selling expenses, Administration expenses and R&D expenses in the income statement. Basis for the allocation is number of employees per function.

Note 5

Intangible fixed assets, parent company

	Capitalized Development work	Patent	Capitalized computer software	Total
As at January 1, 2011				
Acquisition value	61,216	8,721	972	70,909
Accumulated depreciation and write-downs	-54,709	-8,721	-931	-64,361
Book value	6,507	0	41	6,548
January 1 - December 31, 2011				
Opening book value	6,507	0	41	6,548
Purchasing for the year	7,891	-	-	7,891
Write-down	-337	-	-	-337
Depreciation	-1,369	-	-41	-1,410
Closing book value	12,692	0	0	12,692
As at December 31, 2011				
Acquisition value	69,107	8,721	972	78,800
Accumulated depreciation and write-downs	-56,415	-8,721	-972	-66,108
Book value	12,692	0	0	12,692
1 januari - 31 december 2012				
Opening book value	12,692	0	0	12,692
Purchasing for the year	8,055	-	-	8,055
Write-down	-641	-	-	-641
Depreciation	-1,748	-	-	-1,748
Closing book value	18,358	0	0	18,358
As at December 31, 2012				
Acquisition value	77,162	8,721	972	86,855
Accumulated depreciation and write-downs	-58,804	-8,721	-972	-68,497
Book value	18,358	0	0	18,358

Comment on the table:

Depreciation is included in Selling expenses, Administration expenses and R&D expenses in the income statement. Basis for the allocation is number of employees per function.

Note 6

Tangible fixed assets

	Equipment	
	Group	Parent Company
As at January 1, 2011		
Acquisition value	8,816	7,330
Accumulated depreciation and write-downs	-8,112	-6,949
Book value	704	381
January 1 - December 31, 2011		
Opening book value	704	381
Purchasing for the year	787	787
Write-down	-103	
Depreciation	-318	-225
Closing book value	1,070	943
As at December 31, 2011		
Acquisition value	9,603	8,117
Accumulated depreciation and write-downs	-8,533	-7,174
Book value	1,070	943
1 januari - 31 december 2012		
Opening book value	1,070	943
Purchasing for the year	1,173	1,254
Write-down	-9	-9
Depreciation	-405	-359
Closing book value	1,829	1,829
As at December 31, 2012		
Acquisition value	10,776	9,371
Accumulated depreciation and write-downs	-8,947	-7,542
Book value	1,829	1,829

Comment on the table:

Depreciation is included in Selling expenses, Administration expenses and R&D expenses in the income statement. Basis for the allocation is number of employees per function.

Note 7

Costs allocated per type

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Depreciation and write-downs (Note 4, Note 5 and Note 6)	2,803	2,198	2,803	1,972
Personnel expenses	29,681	26,949	23,760	17,464
Goods for resale	12,495	9,548	21,491	12,597
Travel expenses	2,771	2,054	1,639	1,545
Telephone costs	728	775	526	569
Insurance expenses	378	484	196	209
Consultancy costs	7,045	3,435	4,691	7,482
Premises costs	3,957	3,579	3,632	2,791
Development costs (net of subsidies received)	4,127	4,543	4,127	4,543
Other sales expenses ¹⁾	4,734	-295	3,703	1,348
Management expenses	977	863	977	810
Exchange rate adjustments	728	290	2,432	-290
Other external income & costs	759	604	651	706
Total	71,183	55,027	70,628	51,746

1) Include the effect of the liquidation of the subsidiary Loqware amounting SEK +1,759 thousand in 2011.

Note 8

Auditors' remuneration

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
PwC				
Audit assignment	300	341	300	293
Audit other	-	-	-	-
Consulting tax	63	-	63	-
Consulting other	96	160	96	160
Total	459	501	459	453

Note 9

Operational leasing agreements

Operational leasing agreements mainly refer to office rent.

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Leasing costs during the year	2,140	2,014	2,140	1,613
Other leasing	466	135	466	135
Total	2,606	2,149	2,606	1,748
Nominal value of agreed future leasing charges				
Due for payment in 1 year	2,252	1,834	2,252	1,421
Due for payment after 1 year, but within 5 years	3,799	1,347	3,799	624
Due for payment after 5 years	-	-	-	-
Total	6,051	3,181	6,051	2,045



Note 10

Government support

Precise Biometrics has received SEK 950 thousand in development subsidies from the EU. The amount is included in R&D expenses.

Note 11

Income tax

	Group		Parent Company	
	2012	2011	2012	2011
Current tax	-	-12	-	-
Deferred tax (Note 13)	-	-	-	-
Total	0	-12	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:

	Group	
	2012	2011
Profit/loss before tax	-46,952	-33,204
Tax calculated as per national tax rates applicable for profit in respective countries	12,348	8,733
Tax effect on taxable income	-	-
Tax effect on non-deductable costs	54	48
Tax deficit for which no deferred tax claim can be reported	-12,402	-8,781
Tax expenses	0	0

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	
	2012	2011
Profit/loss referable to parent company owners (Thousand SEK)	-46,809	-33,271
Weighted average number of outstanding ordinary shares (thousands)	207,840	161,953
Profit/loss per share before dilution (SEK per share)	-0.23	-0.20

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 7,100,000 shares.

However, outstanding subscription options have not been taken into consideration in the calculation below, since the redemption price was higher than the market price as at December 31, 2012 and also since the Result attributable to parent company shareholders is negative.

	Group	
	2012	2011
Profit/loss attributable to parent company stockholders	-46,809	-33,271
Weighted average number of outstanding ordinary shares (thousands)	207,840	161,953
- adjustment for share options	0	0
Weighted average number of common stock for calculation of earnings per share after dilution (thousands)	207,840	161,953
Profit/loss per share after dilution (SEK per share)	-0.23	-0.20

Note 13

Deferred tax

The parent company does not have any deferred tax assets or tax liabilities.

Against the background of past evolution in group earnings, no deferred tax assets relating to loss carried forwards have been reported. There is no time limit regarding the possibility to use future loss carry forwards.

Deferred tax relating to temporary differences attributable to investments in subsidiaries is not reported, 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.

Accrued, taxed loss carried forwards excluding net profit/loss for the year in the parent company amounted to approx. SEK 499 (2011: 465) million and in the American subsidiary to approx. SEK 33 million (2011: 33).

Note 14

Inventories

	Group	
	2012	2011
Components	5,772	1,562
Goods for sales	5,213	8,111
Total	10,985	9,673

The costs reported for inventories are included in the Cost of goods sold item, and amounted to SEK 12,495 thousand (2011: 9,485).

Note 15

Accounts receivable and other receivables

	Group	
	2012	2011
Accounts receivable ¹⁾	10,803	6,352
Minus: reserve for impairment of receivables	-	-
Accounts receivable net	10,803	6,352
Other receivables	3,867	3,264
Prepaid expenses and accrued income	2,225	2,338
Total	16,895	11,954

1) Include receivables concerning contract manufacturer totalling SEK 1.7 million for 2012 (2011: 3.6).

There is not considered to be a write-down requirement for accounts receivable that have been due. As at December 31, 2012, accounts receivable amounting to SEK 5,629 thousand (2011: 263) 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, 2012, the Group recognized accounts receivable due for more than six months amounting to SEK 11 thousand (2011: 0). The reserve for doubtful accounts receivable amounted to SEK 0 thousand as at December 31, 2012 (2011: 0). The age analysis of all accounts receivable is as follows:

	2012	2011
Less than 3 months	10,792	6,352
3 to 6 months	-	-
Of which written down	-	-
More than 6 months	11	-
Of which written down	-	-
Total	10,803	6,352

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:

	2012	2011
SEK	2,384	794
USD	1,028	665
EUR	199	107

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, 2012 would have been SEK 751 thousand (2011: 725) 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 601 thousand (2011: 565) lower/higher, mainly as a result of exchange rate differences when translating the above items and translating subsidiaries.

Financial risk management

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.

Note 16

Liquid assets

	Group		Parent Company	
	2012	2011	2012	2011
Cash and bank balances	37,584	28,930	35,196	21,662
Total	37,584	28,930	35,196	21,662

	Group	
	2012	2011
Liquid assets in the cash flow statement include the following:		
Liquid assets	37,584	28,930
Overdrafts	-	-
Total	37,584	28,930

Note 17

Financial fixed assets

	Parent Company	
	2012	2011
Opening balance	1,058	1,058
Total	1,058	1,058
Long-term payment	1,058	1,058

Participation in subsidiaries

	Parent Company	
	2012	2011
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
Stock share	-	100%
Book value	-	0

Note 18

Capital stock

	<i>No. of shares</i>
As at January 1, 2011	134,960,800
New issues of shares	53,984,320
As at December 31, 2011	188,945,120
New issues of shares	75,578,048
As at December 31, 2012	264,523,168

Rights issue

During 2012 Precise Biometrics has completed a rights issue with preferential rights, which supplied the company with SEK 48,016 thousands after related costs. Through this rights issue 75,578,048 number of shares was added to the share capital with an amount totalling SEK 21,594 thousands. The rest of the liquid assets received has been transferred to the share premium reserve.

Stock options

During 2011, an option program was initiated for all employees under which a maximum of 7,100,000 options may be allocated as authorized by the annual stockholders' meeting in 2011. A total of 4,400,000 number of options was subscribed to and Precise Biometrics received additional liquid assets of SEK 440,000. Stock may be subscribed to through the exercise of subscription rights between January 1 and June 30, 2014 at a price of SEK 2.60. The Market value has been established by PwC by the application of the Black & Scholes valuation method. At the time of valuation the share price was SEK 1.32, which is based on the volume weighted share price from May 2, 2011 to May 13, 2011. The subscription price equaled to 220% of the volume weighted average price at the time of valuation.

Full exercise of subscription rights will increase the capital stock with SEK 2,840,000, which corresponds to approx. 2.7 per cent of the company's present capital stock. The liquid assets received from the acquisition of options have been transferred to other paid in capital.

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:

	2012		2011	
	<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	2.90	4,400,000	2.75	2,000,000
Allocated	-	-	2.90	4,400,000
Lapsed	-	-	2.75	-2,000,000
Change of redemption price	-0.30	-	-	-
As at December 31	2.60	4,400,000	2.90	4,400,000

Note 19

Reserves in equity

	<i>Reserves</i>
Opening balance as at January 1, 2011	639
Exchange rate differences:	
- The Group	-55
Closing balance as at December 31, 2011	584
Exchange rate differences:	
- The Group	143
Closing balance as at December 31, 2012	727

Note 20

Accounts payable and other liabilities

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Accounts payable	3,675	5,285	2,840	5,098
Accrued payroll costs	4,617	4,102	3,998	2,756
Payroll overhead and other taxes	2,067	2,404	2,011	1,491
Accrued expenses	4,847	1,970	4,691	951
Other liabilities	1,803	1,933	1,753	1,750
Total	17,009	15,694	15,293	12,046

Note 21

Borrowing

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Short-term				
Overdraft facility	-	1,411	-	-
Liabilities to credit institutes	20,000	-	20,000	-
Other liabilities	-	-	-	-
Total	20,000	1,411	20,000	0

Liabilities to credit institutes concerns a credit facility that expires to 9% interest and is repaid in January 2013.

Note 22

Other provisions

	<i>Guarantee provisions</i>	
As at January 1, 2012	312	76
Reported in consolidated income statement	135	41
As at December 31, 2012	447	117

Note 23

Pledged assets

The amount SEK 24,000 thousand as at December 31, 2012, refers to floating charge.



Note 24

Contingent liabilities

The amount as at December 31, 2011 referred to a solvency guarantee placed for Precise Biometrics Solutions AB. During 2012 Precise Biometrics Solutions AB merged into the Parent Company which explains the change in contingent liabilities.

Note 25

Employee and personnel expenses

Gender balance in group

	2012		2011	
	Men	Women	Men	Women
Precise Biometrics AB, Sweden	21	9	13	8
Precise Biometrics Inc, USA	4	3	4	1
Precise Biometrics Solutions AB	-	-	7	2
	25	12	24	11

Gender balance in corporate management – Proportion of women

	Group		Parent Company	
	2012	2011	2012	2011
The board of directors	60%	60%	60%	60%
President and leading executives	0%	0%	0%	0%

Salaries and remuneration are allocated as follows:

	Group		Parent Company	
	2012	2011	2012	2011
Board and President, Sweden				
Salaries and other remuneration	3,546	3,339	3,546	3,339
Pension expenses	13	13	13	13
Payroll overhead, incl. payroll tax	1,114	1,050	1,114	1,050
Total	4,673	4,402	4,673	4,402
Others, Sweden				
Salaries and other remuneration	15,923	16,698	15,923	11,951
Pension expenses	2,405	2,452	2,405	1,685
Payroll overhead, incl. payroll tax	5,789	5,883	5,789	4,214
Total	24,117	25,033	24,117	17,850
TOTAL, SWEDEN	28,790	29,435	28,790	22,252
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	6,733	3,708	-	-
Pension expenses	208	158	-	-
Payroll overhead	662	203	-	-
Total	7,603	4,069	0	0
TOTAL, USA	7,603	4,069	0	0
TOTAL	36,393	33,504	28,790	22,252

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 three 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 per cent of the basic salary. For other leading executives, the flexible remuneration is a maximum of 30 per cent of the basic salary. Pension benefits are included as part of the total remuneration.

Remuneration and other benefits in 2012

	Basic salary/Board remunerations	Flexible remunerations	Other benefits	Pension expenses	Other remuneration	Total
Lisa Thorstedt, Chairwoman of the Board	210	0	0	0	0	210
Marc Chatel, member of the Board	35	0	0	0	0	35
Erwin Leichtle, member of the Board	70	0	0	0	0	70
Lena Klasén, member of the Board	105	0	0	0	9	114
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	2,255	310	174	13	167	2,919
Other leading executives 5 persons (see below)	5,075	655	76	414	88	6,308
Total	7,960	965	250	427	264	9,866

Comments to the table:

Payment of board fees has been made monthly since 2003 with 1/12 of the fee decided by the annual general meeting. Paid fees have been written off. The fees above refer to the cost that has affected the year's earnings.

The Group has both defined contribution defined benefit pension plans. Both of these are reported under defined contribution plan. The pension costs refer to the cost that has affected the year's earnings. The chairman of the board has not received any remuneration in addition to the board fee.

Bonuses

For the President, bonuses are based on the Group's earnings as well as individual goals. These goals are established by the Board. The maximum bonus amount that can be paid out to the president totals 50% of the basic salary. The bonus amount corresponded to 14% of salary for the calendar year for 2012. For other leading executives, the variable salary for 2012 is based on individual goals and the Group's sales and earnings. Leading executives that have sales responsibility also get commission on their own area of responsibility's sales. For 2012, the variable portion of basic salary for other leading executives totaled 13%.

Other benefits

Other benefits consist of company car, gas, travel and computers.

Share related compensation

In 2011 options were issued through an option program that included all employees and the allocated volume was within an authorization of a maximum of 7,100,000 options issued by the annual general meeting in 2011. In total, 4,400,000 options were subscribed for, of which the President subscribed to 1,600,000 and the rest of the management group subscribed to 1,000,000. Liquid funds were contributed to Precise Biometrics in the amount of SEK 440,000. Subscription of shares with utilization of subscription options can be made during the period January 1 - June 30, 2014 at the price of SEK 2.90. With full utilization of the subscription options, share capital will increase by SEK 2,840,000, which corresponds to approximately 2.7 percent of the Company's current share capital. The liquid funds that Precise Biometrics received through the transfers have been added to other paid-in capital.

In 2011 the option program from 2008 expired and no share subscription occurred. This means that Precise Biometrics currently has only one option program. Of the 4,400,000 outstanding options (2011: 4,400,000 options), no options were (2011: 0 options) able to be exercised during the year.

A share's implied book value totals SEK 0.40.

The weighted average actual value for options that were allocated in 2011 was established with the help of an external valuation and the Black&Scholes valuation model and totals SEK 0.10 per option. Important input data in the model are volume-weighted average share price during the period May 2, 2011 through May 13, 2011 of SEK 1.32, the above redemption price, volatility of approximately 40%, expected term of the options of 3 years and an annual risk-free interest rate of 2.63%. The volatility measured as a standard deviation for expected return on share price is based on a statistical analysis of daily share prices over the last 7 years.

No cost has been reported in the income statement since the allocated options have been paid for by employees.

The subscription price corresponded to 220% of the volume-weighted average price at the time of valuation.

Pensions

Retirement age for the President is 65. The pension premium shall total a maximum of 25% of the fixed salary from the parent Company. For other leading executives, the retirement age is also 65. According to the pension agreement, the pension premium is calculated based in accordance with a scale based on age and salary.

For the highest current age interval, the premium totals 7% of the pension-based salary up to 7.5 base amounts, 42% of the pension-based salary between 7.5 and 20 base amounts and by 22% of the pension-based salary for salaries over 20 base amounts.

For information about the ITP plan/Alecta see [Note 2](#) in the section "Pensions".

Severance pay

Between the Company and the President, a mutual notification of termination period of 6 months applies. In addition, severance pay is paid out consisting of salary for 12 months if the president is terminated by the Company.

Notification of termination period between the Company and other leading executives is 3-6 months. No severance pay is paid for other leading executives.

Change in control

There are no agreements, with the exception of employment contracts, whose content has been commented on in detail above, between the Company and its employees, which prescribes that compensation shall be paid if their termination is a result of a public purchase offer.

Preparation and decision-making process

The Company has a remuneration council that handles salaries, pension conditions, incentive programs and other employment conditions for management. The remuneration council is made up of the entire Board. Remuneration to the President for the financial year 2012 was decided by the remuneration council.

Remuneration to other executives has been decided on by the President in consultation with the chairman of the Board. At the annual general meeting held on April 24, 2012, it was decided to adopt the Board's proposal for guidelines for determining salaries and other compensation to the President and other leading executives.



Note 27

Prepaid expenses and accrued income

	Parent Company	
	2012	2011
Prepaid rents	492	370
Prepaid insurance	240	159
Prepaid sales expenses	430	42
Accrued income	664	943
Prepaid patent charges	123	194
Other items	158	311
Total	2,107	2,019

Note 28

Cash flow from operations

	<i>Group</i>		<i>Parent Company</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
Result for period before financial items	-42,902	-33,412	-46,116	-36,238
Adjusted for:				
- depreciation and write-downs of tangible and non-current assets	2,803	2,198	2,757	1,972
- other items with no influence on liquidity	412	-351	124	1,401
Changes in working capital				
- inventories	-1,312	-1,271	-137	-1,271
- accounts receivable and other receivables	-4,325	-3,411	-844	-6,398
- accounts payable and other liabilities	1,385	571	3,288	1,477
Cash flow from operations	-43,939	-35,676	-40,928	-39,057

Note 29

Purchases and sales between group companies and transactions with associates

Parent Company sales to other group companies amounted to SEK 10.2 million (6.3). Purchases from group companies amounted to SEK 10.2 million (10.8). For information on transactions with related persons see note 26 Remuneration to leading executives.

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 2012 amounted to 5%. Internal sales in Sweden are subject to market conditions.

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

MANAGEMENT OF CAPITAL

The Group's target concerning capital structure is to safeguard the Group's ability to continue its operations, so that it can provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

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. For sensitivity analysis concerning currency see note 15.

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.

Note 31

Merger of Subsidiary

The subsidiary Precise Biometrics Solutions AB, corporate 556646-6529, has per September 27, 2012, merged into the Parent company, Precise Biometrics AB. From a corporate perspective, this means there has been an internal group restructuring, which means assets and liabilities have been transferred between two legal entities within the group. The Group's total equity is not affected. In the the Parent company though, there has been a result from the merger amounting to SEK 124 thousand.

Net sales and Operating results of the Subsidiary for the period prior to registration of the merger amounted to SEK 98 thousand and SEK 797 thousand respectively and represent the amounts recognized in the income statement of the Parent company.

Subsidiary's assets and liabilities taken over by the Parent company of the Consolidated Value Method, are as follows:

	120630
ASSETS	
Intangible assets	151,049
Tangible fixed assets	2,373,180
TOTAL ASSETS	2,524,229
EQUITY AND LIABILITIES	
Equity	921,019
Current liabilities	1,603,210
TOTAL EQUITY AND LIABILITIES	2,524,229

Note 32

Interest expenses

	Group	
	2012	2011
Interest expenses Credit facility	4,090	-
Other interest expenses	100	91
Total	4,190	91

Board of Directors



LISA THORSTED

Chairman of the Board.

BORN: 1967

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

CURRENT POSITION: Managing Director Global Corporate Client, ISS World Services A/S.

BOARD MEMBER SINCE: 2006

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Group Vice President, Regional CFO Eastern Europe, ISS A/S. Management assignments in different business areas within SAS, latest as CCO of SAS Danmark A/S.

OTHER ASSIGNMENTS: Board Member of subsidiaries at ISS Global A/S and ISS World Services A/S.

SHARES IN PRECISE BIOMETRICS: 83,911

SPOUSE: 46,501



ERWIN LEICHTLE

Board Member.

BORN: 1949

EDUCATION: M.S.E.E. Royal Institute of Technology, Stockholm. Business administration, London Business School och Global Management, Thunderbird. The American Graduate School of International Management, Arizona, USA.

CURRENT POSITION: -

BOARD MEMBER SINCE: 2012

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: President and CEO of SwitchCore AB.

OTHER ASSIGNMENTS: Chairman of the Board at Imsys AB. Board Member of SwitchCore AB (publ) and Packet Architects AB. Chairman of the Board and Executive Vice President at Konfluencia AB.

SHARES IN PRECISE BIOMETRICS: -



EVA MARIA MATELL

Board Member.

BORN: 1958

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

CURRENT POSITION: Consultant at Sevenco Management Consultants. **BOARD MEMBER SINCE:** 2007

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: General Manager at Cintos Consulting. Managing Director at Kaspersky Lab AB, Sales and Marketing Director XponCard AB.

OTHER ASSIGNMENTS: -

SHARES IN PRECISE BIOMETRICS: 26,132



LENA WIDIN KLASÉN

Board Member.

BORN: 1960

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

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

BOARD MEMBER SINCE: 2007

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Board Member of Chalmers Antenna Systems WIN Excellence Centre (CHASE), of Scientific Council (TVR) at the Inspection of Strategic Products (ISP) and the Technical University of Linköping University. 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: Board Member of IMAGIC the Imaging Integrated Components institute center of excellence, led by Acreo.

SHARES IN PRECISE BIOMETRICS: -



TORBJÖRN CLEMENTZ

Board Member.

BORN: 1961

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

CURRENT POSITION: CFO and Vice President, BE Group AB.

BOARD MEMBER SINCE: 2009

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Board Member of Pildammarna Invest AB.

OTHER ASSIGNMENTS: Board Member in subsidiaries within BE Group. Board Member of Sports and Rehab Clinic at Ängelholm AB. Board Member of Euro Football Partners AB. Partner of Charmito Consulting Partnerships HB.

SHARES IN PRECISE BIOMETRICS: 196,000

SPOUSE: 19,600

Management



THOMAS MARSCHALL

President and CEO.

BORN: 1967

EMPLOYED SINCE: 2006

OTHER ASSIGNMENTS: --

PREVIOUS ASSIGNMENTS IN THE PAST FIVE YEARS:

Board member of Smart Unicorn Solutions (China), Board member of Dralle A/S.

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

International Management Program, Stanford, Management Education, Singapore National University.

HOLDINGS: 1,542,683 shares, 1,600,000 share warrants.



PATRIK LINDEBERG

CTO and Vice President, R&D.

BORN: 1973

EMPLOYED SINCE: 2007

OTHER ASSIGNMENTS: -

PREVIOUS ASSIGNMENTS IN THE PAST FIVE YEARS:

Board member in Precise Biometrics

Solutions. Board member in Smart Unicorn Solutions (China).

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

HOLDINGS: 400,000 share warrants.



PATRIK NORBERG

CFO.

BORN: 1968

EMPLOYED SINCE: 2008

OTHER ASSIGNMENTS: --

PREVIOUS ASSIGNMENTS IN THE PAST FIVE YEARS: CFO

at Travelstart Nordic AB, Finance Manager at Espresso House Sweden AB.

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

HOLDINGS: 190,221 shares, 300,000 share warrants.



ANDRÉ SMITH-NIELSEN

Global Sales Director Tactivo.

BORN: 1966

EMPLOYED SINCE: 2012

OTHER ASSIGNMENTS: -

PREVIOUS ASSIGNMENTS IN THE PAST FIVE YEARS: CEO

at TDC Sweden and Finland, Vice

President TDC A/S, CEO Comendo A/S. Board Member at TDC and at Comendo A/S.

EDUCATION: B.SC General Economics at University of Copenhagen, Business Leadership program with Insead and MLP program in cooperation with DIEU, Henley Business School and IMD

HOLDINGS: -

• MICHAEL HARRIS

Has been part of the management team in 2012. In 2013 he is responsible for sales North America.

• ETIENNE VEBER

Has left Precise Biometrics.

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 company and of the group will be prescribed the Annual General Meeting April 23, 2013 for assessment.

Lund, March 25, 2013

Lisa Thorsted

Chairman of the Board

Eva Maria Matell

Board member

Torbjörn Clementz

Board member

Lena Widin Klasén

Board member

Erwin Leichtle

Board member

Thomas Marschall

President and CEO

Our audit report was submitted on March 25, 2013.

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Head Accountant

Authorised Public Accountant

Audit report

To the annual meeting of the shareholders of Precise Biometrics AB (publ), corporate identity number 556545-6596

Responsibilities of the board of directors and the managing director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinion does not include the corporate governance statement. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Precise Biometrics AB (publ) for the year 2012. We have also conducted a statutory review of the corporate governance report.

Responsibilities of the board of directors and the managing director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act and that the corporate governance report has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we

examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In addition, we studied the corporate governance report and based on this and our knowledge of the company and the Group we believe that we have sufficient basis for our opinion. This means that our statutory review of corporate governance statement is different and substantially less in scope than the focus and scope than an audit conducted in accordance with International Standards on Auditing and auditing standards in Sweden.

Opinions

We recommend to the annual meeting of shareholders that the loss be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Lund, March 25, 2013

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Authorised Public Accountant

Auditor in charge

Auditors

Öhrlings PricewaterhouseCoopers AB, 556029-6740

Elected until the end of the General Annual Meeting 2013.

Eva Carlsvi

Auditor in charge, born 1968

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 Tuesday April 23, 2013 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 Wednesday April 17, 2013 at the latest, and also report their participation to Precise Biometrics AB no later than Wednesday April 17, 2013 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 Wednesday April 17, 2013 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 Wednesday April 17, 2013 at 4 pm at the latest. Shareholders may submit applications by phone, fax, mail or email.

- Tel. + 46 46 31 11 13
- 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 Wednesday April 17, 2013.

Shareholder contact

Patrik Norberg, CFO in Precise Biometrics

Telephone +46 46 31 11 47

Email patrik.norberg@precisebiometrics.com



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.



Financial calendar

Interim Report January - March.....April 23, 2013
Interim Report January - June.....July 18, 2013
Interim Report January - September.....October 23, 2013
Year-end report January-December.....February 7, 2014

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.

Contct

Precise Biometrics AB

Box 798
220 07 Lund
Sweden

Phone: + 46 46 31 11 00

Fax: + 46 46 31 11 01

E-mail: investor@precisebiometrics.com

Shareholder contact

Patrik Norberg, CFO

Phone: + 46 46 31 11 47

E-mail: patrik.norberg@precisebiometrics.com

