



Annual Report **2011**

PRECiSE[™]
BIOMETRICS

ANNUAL REPORT 2011

CEO comments	4
Important events during the year	7
Financial Highlights	9
This is Precise Biometrics	10
Vision & Objectives	12
Organization	14
Partners & Competitors	15
History	17
Business areas	19
TactivoTM	21
US government agency market	23
National ID cards	24
Our salespeople	
Scandinavia	25
Europe and South America	26
USA	27
Middle East, Africa and Asia	28
Customers	29
Technology & Commercial Solutions	30
Product Portfolio	32
Employees	34
Meredith	35
Kevin	36
Henrik	37
Sustainability	38
The share and shareholders	40
Capital stock development	41
Share price movement and turnover	43
Shareholder statistics	44
Risks	46
Five-year review	47
Key ratios	49
Administration report	50
Corporate Governance report	56
Financial reports	
Income statements	62
Balance sheet	64
Change in equity	66
Cash flow statement	68

Notes	69
1. General information	70
2. Accounting policies	71
3. Segment information	79
4. Intangible fixed assets, group	83
5. Intangible fixed assets, parent company	84
6. Tangible fixed assets	85
7. Costs allocated per type	86
8. Auditors' remuneration	87
9. Operational leasing agreements	88
10. Government support	89
11. Income tax	90
12. Profit/loss per share	91
13. Deferred tax	92
14. Inventories	93
15. Accounts receivable and other receivables	94
16. Liquid assets	96
17. Financial fixed assets	97
18. Capital stock	98
19. Reserves in equity	99
20. Accounts payable and other liabilities	100
21. Borrowing	101
22. Other provisions	102
23. Pledged assets	103
24. Contingent liabilities	104
25. Employee and personnel expenses	105
26. Remuneration to leading executives	107
27. Prepaid expenses and accrued income	110
28. Cash flow from operations	111
29. Purchases and sales between group companies and transactions with associates	112
30. Risk factors	113
Assurance from Board	115
Audit report	116
Board of Directors	118
Management	120
Auditors	122
Financial glossary	123
Annual General Meeting	125
Distribution of annual report	126
Financial calendar	127
Contact	128

Precise Biometrics launches commercial products in the expansive mobile market

Precise Biometrics delivers biometric solutions to companies and public organizations throughout the world. Our market leading technology has currently been licensed to almost 160 million users. With new, unique commercial products for smartphones and surf tablets, we are now also taking a step in the much larger mobile market.

What made 2011 a strategically successful year is that Precise Biometrics, with the business area, Mobile, achieved the strategic goal of creating a new, large applications and commercial product area for our technology. During the first half of 2012 we will be able to offer new products, a smart casing with a built-in smart card reader and fingerprint sensor, for the large and expanding mobile market. We are applying our specialized expertise to ensure people's identities through fast and secure recognition of fingerprints in what is for us, a completely new market.



This is a milestone for Precise Biometrics and an important step in achieving our ambitious goals for growth and profitability and to realize Plan 2015. We are expecting that the business area, Mobile, will be able to account for the majority of our sales as early as the current year and will have vital significance for the Company's development in subsequent years.

Ambitious goals

When we started in 2011, we had identified the mobile market as an attractive growth market for the Company. Based on specific customer needs in existing markets and the mobile market, we established a strategic platform and an ambitious business plan, which will increase Precise Biometrics' growth and profitability during the period up through 2015.

The comprehensive goal for our business plan, Plan 2015, is to qualify Precise Biometrics for listing on the Nasdaq OMX MidCap-list in 2015. This requires that we grow and develop within our selected segment and reach a valuation of at least SEK 1.5 billion in accordance with current exchange-listing regulations.

Mobile – our new business area

In order to be able to work in a focused manner towards specific customer segments, as of 2011 we have organized the Company into three business areas that are built-up around the most interesting and expansive of the identified customer needs. The business area, Mobile, which is based on the expansive mobile market and the rapid development of smartphones and surf tablets is one of these. The mobile market is creating new business opportunities for biometrics and we are focusing on creating the next generation of mobile security solutions for all larger platforms in the mobile market.

The business area, IAM (Identity and Authentication Management) comprises our market leading solutions for national ID cards and authorities, banks and companies, but also different embedded solutions that create continuous licensing revenues. Here, the strategy is to develop our already world-leading position and increase market share within the ID card segment.

The third business area, Access Solutions, will be included as a part of IAM as of 2012. Within Access Solutions we are continuing to build on our successes with companies that offer customers and members access to services and spaces through biometric access, for example, for access to unmanned gyms.

The year has been characterized by our work with implementing Plan 2015, which shall promote Precise Biometrics' growth and profitability during the period through 2015. During this first year with the new business plan we didn't achieved the expected profitability, but we were, more than expected, successful in the work of building a business platform for long-term growth and profitability.

The ambition for the year was that the business area IAM would show a profit, but like many other companies, expected orders from the American government were delayed by the extremely drawn-out American budget process. However, it is now positive that the market is expecting that investments in secure identification of American authority personnel will increase in 2012. The business area, Access Solutions, also failed to achieve profitability due to a portion of non-realized gym projects.

Development during the year

The tempo has been fast and we can note several important successes during the year, despite poorer earnings, which were mainly affected by limited sales to American government.

The greatest success is undeniably the development of the new commercial product series, Tactivo™. The product increases mobile security and is the world's first smart casing with built-in smart card and fingerprint reader for smartphones and surf tablets.

The development during the year and the forthcoming launch of new, unique, commercial products for the mobile market and the establishment of the new business area, Mobile, are very important steps in Precise Biometrics links in ensuring Precise Biometrics' growth and profitability through 2015.

Another bit of positive news from 2011 was the top ranking of our Match-on-Card-technology in the American authority test, MINEX II. In addition, we succeeded in winning a part of the procurement for Nigeria's National ID card (NID), which is the largest NID project that we have participated in so far.

We have also entered into important partner agreements regarding Match-on-Card with Giesecke & Devrient (G&D) and NXP Semiconductors, which are global, leading suppliers of smart cards and smart chips. All this has strengthened our position for coming projects regarding national ID cards, including projects in South America, and in 2012 we expect to be able to sell more Match-on-Card-licenses than during any previous year.

We have continued to develop our organization, build-up our contact network and establish new functions in the US, which has been our most important market and where the potential for our new products is significant.

Next generation of mobile security

The new product series, Tactivo, is the world's first smart casing with a built-in fingerprint and smart card reader for smartphones and surf tablets. This new generation of mobile security offers the highest possible level of security for users who want to get access to information or cloud-based services through their smartphones or surf tablets but are hindered due to security reasons or lack of user-friendliness. By replacing difficult and risky passwords with ID cards or a fingerprint, the products solve those problems and risks that exist today with mobile units. This is especially important for governments, medical care, companies and banks.

Production and sales of Tactivo will begin during the first half of 2012. The solution has garnered major interest from application developers in Europe, the US and Asia.

The launch will also comprise a number of applications (apps) and tools that software developers can use to practically develop every imaginable function for the new smart casings. We have received a lot of positive reactions to the smart casings and our development tools and discussions are currently underway with different partners, which we expect will result in the release of a large number of applications (apps) based on our products during the current year.

Outlook

As illustrated above, we have great expectations on the Company's financial and strategic development during 2012. Our primary focus will be on the sale of new, unique products in the mobile market, which I am expecting will account for the majority of our sales during the year as a whole. In this context, it is worth noting that the leading analysis company, Gartner Group, expects the market for smart units to exceed one billion units by 2015.

What is most important is to reinforce our growth and profitability in line with Plan 2015. We have established ambitious goals, but in my opinion they are totally realistic considering the major opportunities in the biometrics area that we have identified and due to the fact that the new products for the mobile market will be launched during the first half of 2012. With our strengthened organization in the US, we will become even more active in this market; our largest and most important market. This applies within both Mobile and IAM, where we are also expecting good growth during the year.

2011 has been an intensive year and I would like to thank all employees for contributing to our achieving the development of products for the mobile market. I would also like to take this opportunity to thank the shareholders for continued confidence and patience. I am looking forward to Precise Biometrics' journey and hope that you will continue to participate in the Company when we take our products into the expansive mobile market in 2012.

Important events during the year

Group's net sales...

...for the financial year was SEK 21.6 million (44.9).

Group's income...

...for the financial year was SEK -33.2 million (-14.6).

Earnings per share...

...for the year amounted to SEK -0.20 (-0.11).

Liquid assets...

...at the end of the financial year was SEK 28.9 million (24.5).

A strategic crucial goal of Plan 2015 was achieved...

... when a new major application and product area for the Company's technology was created with the Mobile business area.

During the first half 2012 the Company's first product for the mobile market will be launched, Tactivo™. The launch is expected to be a strategic breakthrough for Precise Biometrics and is of critical importance to achieve the targets set within the framework of Plan 2015.

Tactivo is a product developed to protect information in smartphones and Tablet PCs. Smart card and fingerprint readers in mobile units guarantee a very high level of security to comply with escalating demands for network security and verification.

Top ranking of the Company's Match-on-Card technology...

...in the US government agency test MINEX II. This is the key standard to qualify for US government agency projects and further reinforces the position of the Company in the US government agency market.

Nigeria's National ID card...

...was won with the partner Interswitch. This is the biggest NID project that Precise Biometrics has participated in so far.

Important strategic partner agreements...

...signed for Match-on-Card with leading global suppliers of smart cards (G&D) and smart chips (NXP Semiconductors). GD Burti has been appointed exclusive seller of fingerprint and smart card readers in Brazil.

New software product launched...

...during the year. Precise BioMatch™ Embedded enables rapid integration of fingerprint biometrics for hardware manufacturers.

New product family with fingerprint readers...

...launched during the year. Precise Sense™ focuses on volume sales to the banking and corporate segments.

Continued expansion in the US...

...with development of the American organisation. US is the Company's largest market and the market with greatest potential for the Company's new products.

New issue of shares with preferential rights for existing shareholders implemented...

...during the year. SEK 48.6 million injected into the Company after issue costs. The new issue of shares was subscribed to 119 per cent and was implemented as part of Plan 2015.

After the end of the year...

...new partner agreements within the business area Mobile were signed. Partnership was initiated with Thursby Software Systems, which are working with the development of secure web surfing. A strategic partnership with FedSolve, an American systems integrator and reseller, was also initiated.

During the first quarter 2012 Precise Biometrics obtained...

... a credit facility for a total of up to SEK 30 million, which can be utilized when needed.

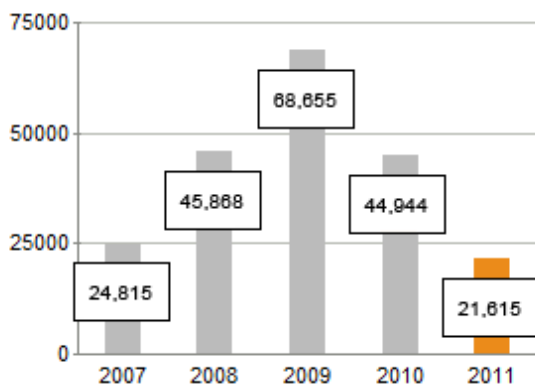
EVENTS DURING THE YEAR

Financial Highlights

	2011	2010	2009
Net sales, Thousand SEK	21,615	44,944	68,655
Operating profit/loss, Thousand SEK	-33,412	-14,497	-20,276
Gross margin, %	56	61	52
Liquid assets, Thousand SEK	28,930	24,544	40,884
Cash flow from current operations before changes in working capital, Thousand SEK	-31,851	-12,919	-14,276
Working capital, Thousand SEK	33,140	23,876	40,738
Liquid ratio, %	235	192	225
Equity/assets ratio, %	73	65	62
Number of employees at year-end	35	34	36
Profit/loss per share, SEK	-0.20	-0.11	-0.19
Equity per share, SEK	0.25	0.23	0.34

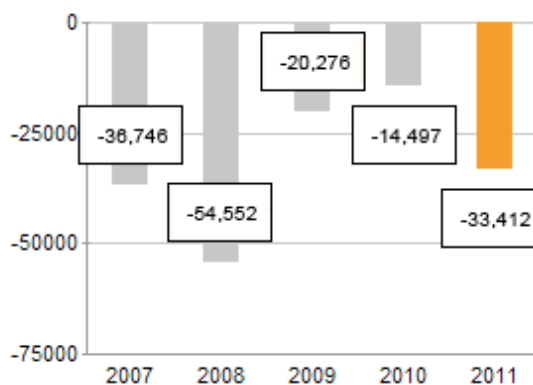
Sales

THOUSAND SEK



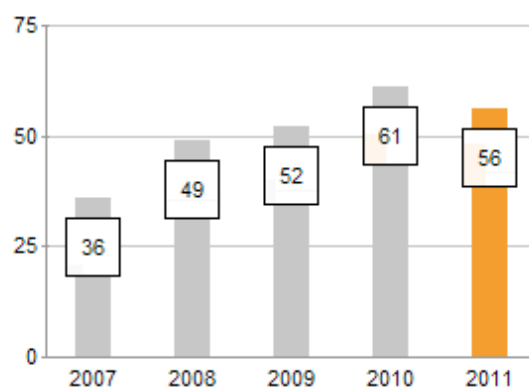
Operating profit/loss

THOUSAND SEK



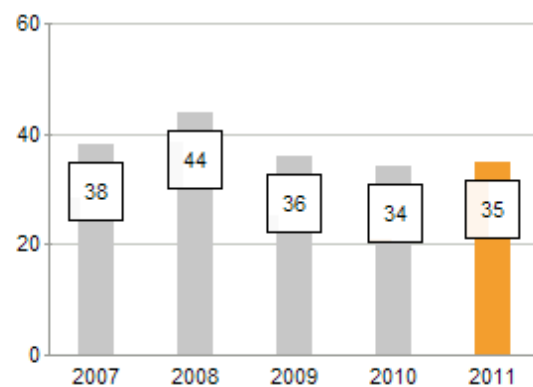
Gross margin

PERCENT



Employees

NUMBER



Precise Biometrics in one minute

Precise Biometrics is an expert in the Match-on-Card segment – the combination of biometrics and smart cards. In 2011 the Company has made extensive investments in the business area Mobile, that is, products focusing on the mobile sector. Here Precise Biometrics sees a significant potential for growth and profitability based on a strong commercialization of the Company's proven secure technology providing high value for current and future customers.

The Company's offering

Precise Biometrics offer biometric solutions and these include hardware, software and services. The solutions are packaged for different customer- and market segments.

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. The very positive test result from MINEX II, which was decisive for qualification in US government agency projects, further reinforced the successes the Company has experienced with Match-on-Card during the year.



The business area Mobile has been very much in focus for investment in 2011. It's expected to be a great breakthrough for the Company to in the first half 2012 launch the commercial product family Tactivo™ – a smart casing with a built-in smart card reader and fingerprint sensor. The smart casing will be available for the most popular smartphone and tablet computer brands in 2012 and 2013. Precise Biometrics' new products for the expansive mobile market will enhance security for the use of smartphones and Tablet PCs. This is something which is especially important for government agencies, hospitals, companies and banks.

Business areas

- **Mobile** – hardware, software and services focusing on the mobile sector – Smartphones and Tablet PCs.
- **IAM** – solutions for national ID cards, government agencies, banks and companies. Including also embedded solutions. As of 1 January 2012, Access Solutions is also included in this business area. It focuses on solution for physical access to different types of premises (for example gyms) with biometrics.

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.

During the year the Company has also 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 this partner network.

Precise Biometrics has established additional important partnerships with leading suppliers of smart cards and smart chips during the year.

Customers

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

Examples of applications and customers:

- **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 the largest budget 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.

THIS IS PRECISE BIOMETRICS

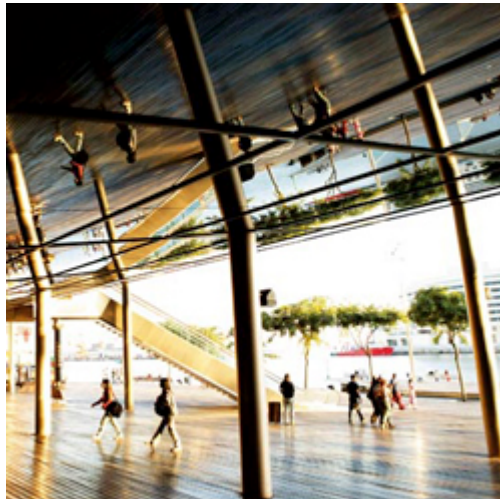
Vision & Objectives

Precise Biometrics is an innovative company that offers commercial solutions based on fingerprints to secure people's identities. With cutting-edge competence in fingerprint recognition, Precise Biometrics offers rapid, reliable and secure verification.

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.



Vision

Precise Biometrics' vision is to be the world-leading provider of secure authentication and access, leveraging smart cards and biometrics for multi-factor authentication optimized for desktop, mobile, and embedded consumer platforms.

By making strong authentication easy to implement and use, the Company help protect network resources and secure communications across the globally connected world.

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 and long-term and strategic choices of profitable business based on commercial products with high customer value shall contribute towards this end. 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 (as of 2012 the previous business area Access Solutions is included in 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 2015. 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, government agencies, 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.

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

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 overall objective is that the Company will qualify for quotation on the NASDAQ OMX Mid Cap list in 2015.

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, but new partnerships are continuously developed and during the year Precise Biometrics has recruited a member of staff to further develop these partnerships.

THE MOBILE BUSINESS AREA

Most important strategic target for Precise Biometrics during the year was that the Company within the business area Mobile created a new major applications and commercial product area. The objective is that Mobile will be a powerful contributory factor towards achieving Plan 2015.

The Company anticipates that the main part of earnings in 2012 and onwards will come from the smart casing –Tactivo™.

Precise Biometrics will in 2012 be offering packaged overall solutions focused on end customers, but also directed towards potential partners in this area and the smart casing will be available for the most popular smartphone and tablet computer brands in 2012 and 2013.

Precise Biometrics' solutions focus on the global market, but in an initial phase the Company will be focusing on the US market and the US 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. New partnerships were achieved in 2011, including agreements with leading global suppliers of smart cards and smart chips such as Giesecke & Devrient and NXP Semiconductors.

The banking and government agency segments in the US 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.

Read more under the section [US Government](#).

THIS IS PRECISE BIOMETRICS

Organization

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

Precise Biometrics AB

The parent Company Precise Biometrics AB is situated in Lund.

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

The Parent Company employed a staff of 21 as of December 31, 2011.

Precise Biometrics Inc.

The Company has a subsidiary in the USA since 2000. New appointments have been made in the US, the most important market for the Company. Not least because the new products is the U.S. market significant.

Precise Biometrics Inc. had 5 employees as of December 31, 2011.

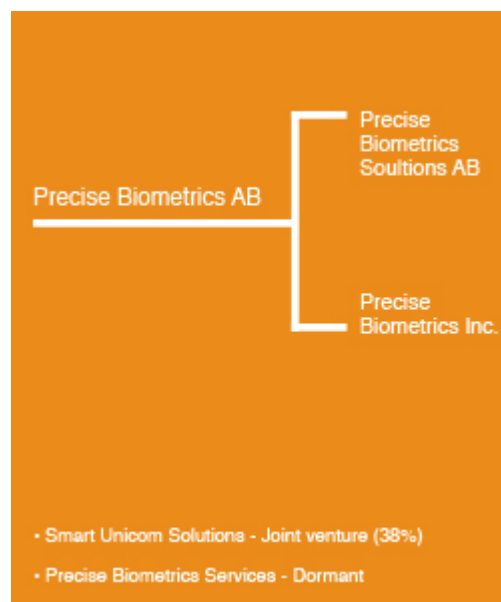
Precise Biometrics Solutions AB

The subsidiary Precise Biometrics Solutions AB, engaged in development work, has its office in Karlstad, Sweden, and is an integral part of the parent Company.

The Company had 9 employees as of December 31, 2011.

Other

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



THIS IS PRECISE BIOMETRICS

Partners & Competitors

Applications for biometrics can be found in a wide range of different sectors. This makes for a complex competitive arena – a partner in one context can be a competitor in another context. But when it comes to the Company's smart card and fingerprint readers for mobile units, Tactivo™, the Company stands alone in the market.

The biometrics market

The biometrics market is fragmented and the Company's competitors can be found in several different areas, such as the licensing of technology for smart cards and the development of algorithms and hardware. Because the Company works with partners in different projects, in some segments a partner in one project can be seen as a competitor in another.

One trend in recent years has been a consolidation of the biometrics industry, where several small biometrics suppliers have been acquired by larger players. No further consolidation has taken place in 2011 and the situation has remained unchanged. The major players in the market are the Safran Group and 3M.

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 flexibility of this technology was further demonstrated in 2011 in the successful test result from MINEX II. The test is essential for qualifying for US government projects and now Precise Biometrics is well positioned on this important market.

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 new 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.

Competition in mobile solutions with biometrics

Precise Biometrics' next generation of security for mobile units, Tactivo™, which will be launched in 2012, is the first smart casing of its kind on the market. The increase of mobile devices also means increased security risks. Tactivo solve problems in segments where high safety standards, such as in large corporations with substantial security requirements.

THIS IS PRECISE BIOMETRICS

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.

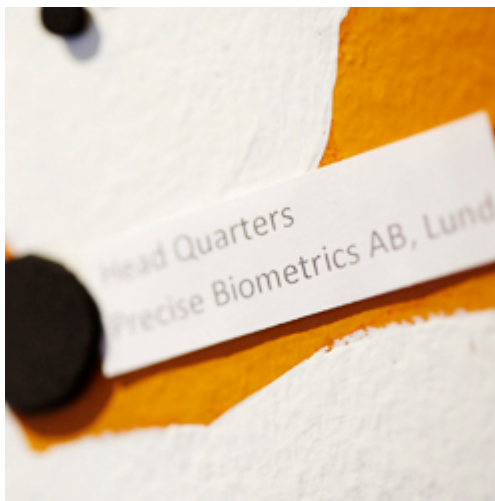
Precise Biometrics acquired the development company Fyrplus Teknik in Karlstad, Sweden in **2005**, which today is now called Precise Biometrics Solutions. Thailand was the first country in the world to integrate Precise Match-on-Card on its new national ID cards the same year.

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**. Intensive development work for security solutions for smartphones and tablets has resulted in new products that will be launched in **2012**. 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.

Business areas

The Company made important investments in all its business areas in 2011. Expectations are running high for the smart casings developed for mobile units during the year – TactivoTM. The Mobile business area will be a powerful contributory factor towards achieving Plan 2015.

Mobile

The Company made important investments in all its business areas in 2011. Expectations are running high for the smart casings developed for mobile units during the year – TactivoTM. The Mobile business area will be a powerful contributory factor towards achieving Plan 2015.



TACTIVO – PRECISE BIOMETRICS' NEW VENTURE

In 2011 the Company invested in the development of a new product to protect the information in smart phones and tablet PCs. Tactivo is a smart casing with a built-in fingerprint sensor and smart card reader. Smart card and fingerprint readers in mobile units guarantee 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. The Company has identified a wide range of business opportunities where Tactivo is an ideal solution.

Read more under the section [Tactivo](#).

OBJECTIVE

The objective is that Mobile will be a strong contributory factor in the realization of Plan 2015. Precise Biometrics can confirm that developments in this business area have mostly gone according to plan during the past year.

STRATEGY

The Company is launching solutions in 2012 that will be highly productive for Precise Biometrics' future. More products in the Tactivo family will be launched in the time ahead.

Precise Biometrics plans to further develop Tactivo so that it will capture an even larger share of the market and satisfy market demands. The objective is in the long term to supply products and solutions for all the major mobile platforms in the market.

IAM

The business area IAM (Identity and Authentication Management) is an integral part of the Company's traditional sales channels. It includes solutions for national ID cards, government agencies, banks and companies. Embedded solutions, where biometrics is integrated in other hardware, are also included in this business area.



As of 1 January 2012, the previously autonomous segment Access Solutions has been included in IAM. Activities will primarily focus on sales of fingerprint readers, Precise Match-on-CardTM, and Precise BioMatchTM Embedded.

MAJOR SUCCESSES DURING THE YEAR

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

The Company has also made further progress with Match-on-Card during the year. The successful result in MINEX II means that Precise Biometrics is very well-positioned in the US government agency market. This result was also instrumental in the signing of agreements with the world's largest chip manufacturers in the autumn of 2011, and these agreements are expected to lead to new developments in the next few years.

OBJECTIVE

The business area has historically accounted for a greater share of turnover. The objective is to expand market shares in the ID card segment. In spite of the successes in this business area, IAM will not achieve profitability in 2011. The long decision-making processes have had a negative impact on profits during the year.

STRATEGY

In spite of the successes in this business area, IAM will not achieve profitability in 2011. The long decision-making processes have had a negative impact on profits during the year.

During the year the Company established additional partnerships with NXP Semiconductors, GD Burti and Giesecke & Devrient (G&D).

Tactivo[™] – the next generation of mobile security

As mobile phones become ever more advanced, so do the security risks. Users of smartphones and tablets have got used to storing information in their mobile units, but what many of them fail to realize is that this information can easily get into the wrong hands. Precise Biometrics' smart casing, Tactivo[™], that will be launched during the first half 2012, is the first of its type in the market. With Tactivo, the Company is taking a major step into the rapidly expanding mobile market.

Tactivo secures outstanding authentication

Authentication with a high level of security is especially important for government agencies, banks and large companies. When the research company Gartner Group calculates that the market for smart units will exceed one billion in 2015, this means that companies and government agencies will be facing new challenges to meet requirements for secure authentication.

Mobile units are revolutionizing the way employees receive access to corporate information and data. The Company has initiated the transition from laptop computers to mobile units in combination with both traditional and cloud-based services.

To avoid risking sensitive information falling into the wrong hands, companies and government agencies now need to secure access with the same powerful authentication currently used on traditional desktop and laptop computers. Precise Biometrics' proven secure technology and experience of security solutions for computers put the Company in an ideal position to transfer this knowledge to mobile security solutions. Tactivo makes it possible to secure the same powerful authentication used on desktop and laptop computers.

Tactivo is a product developed to protect information in smartphones and tablets. Smart card and fingerprint readers in mobile units guarantee a very high level of security to comply with escalating demands for network security and verification. Tactivo offers a significantly enhanced level of security, without deflecting from simplicity and user-friendliness.

Many uses

Precise Biometrics' smart casings on smartphones or tablets will 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, mail and files – both locally in the unit and via the web and cloud-based services.

Precise Biometrics sees important applications where Tactivo is predicted to solve critical security problems for customers. Secure access to information or cloud-based services via mobile units is something that government agencies, healthcare, companies, banks and many others are demanding strongly.

The products are aimed at the global market, with a strong focus on the US market, but above all on the US Government. Employees at US government agencies that have received ID cards for network access or identification can with Tactivo obtain access to sensitive information and send messages in a simple and secure way.



Tactivo secures mobile applications

Tactivo makes it possible to protect access to apps. By means of verification with fingerprints or smart cards, users can only open protected apps after verification. There are no limits to which apps can be integrated in smart card or fingerprint functionality, which means that the range of applications is limitless.

Precise Biometrics has developed several basic mobile applications. With the help of development tools from Precise Biometrics, third-party developers can also produce their own apps and solutions for different applications, and new apps are already on their way.

US government agency market rapidly growing

The US market accounts for about one third of total sales in the biometrics market and is thereby the largest geographic market for biometric solutions in the world. The Company has great expectations for this market, especially concerning US government agencies.

Above all the banking and government agency segments are an expanding market in the US for biometrics, and this market is expected to have more than doubled by 2015.

Precise Biometrics has invested in the expanding market in the US during the year and new recruitments have been made on the sales side to focus on the government agency segment.

Read more about our sales drive in the US market under the section [Our Salespeople](#).



US Federal Government

The US Federal Government is one of the main issuers of logon information with smart cards. The government agency market includes desktop solutions, Match-on-Card solutions and mobile solution and it interfaces with Precise Biometrics' Mobile and IAM business areas.

All the 50,000 employees at US embassies and consulates have been supplied with ID cards over the years with Precise Biometrics' Match-on-Card technology. Employees have to identify themselves with fingerprints and smart cards in order to encrypt and access network data and to digitally sign documents or send encrypted e-mails.

The Company is well-positioned

One of the most important events for Precise Biometrics in 2011 was the successful result in the US government agency test MINEX II – the key standard to qualify for the government agency project.

According to NIST (US National Institute of Standards and Technology), who conducted the test, a decision has been made to include Match-on-Card technology in the program that specifies how all US government agency personnel will identify themselves (the so-called PIV program).

According to a presidential directive all government agencies will start to implement the program in 2012 – a market that includes 5.7 million users.

Mobile solutions

Through Precise Biometrics' upcoming product, Tactivo™, employees at government agencies can access information that requires smart card verification via mobile units.

Precise Biometrics is cooperating with several leading partners and apps have been developed where Tactivo can be used to enhance security in different applications. There are, for example, applications to make web surfing secure, to secure messages, and to access specific applications.

Strong position within national ID cards

Precise Biometrics is the leading global supplier of Match-on-Card. The Company has won six national ID card projects in the past. The national ID card market is a continuously expanding market. More and more countries are issuing new ID cards, while some are also adding additional applications to their national ID cards.

Nigeria – the largest order value so far

Precise Match-on-Card™ is used globally in major national ID card projects in countries such as Thailand, Portugal, Venezuela, Bahrain and Qatar.

Precise Biometrics, together with its partner Interswitch, also won half of the Nigerian national ID card project in 2011. The order value for this project is expected to be the largest order value Precise Biometrics has achieved so far for a national ID card project.

One of the reasons why Nigeria has chosen to use Match-on-Card on its ID cards is the problem the country has been experiencing with identity theft and fraud. Fingerprints are stored and matched on the card directly with Match-on-Card technology, and consequently the use of biometric verification subsequently prevents fraud. The card will also be used as a bank card in addition to being used as an ID card. Many Nigerian banks are also interested in using Match-on-Card in other projects.

The Nigerian order shows the development opportunities that exist with national ID cards, i.e. the opportunity to add additional applications to an ID card. A traditional ID card can, for example, be combined with a driver's license, a national health card, or a senior citizen card etc.

Global partner cooperation

One very important factor for the success of Precise Biometrics in the ID card market is the extensive network of partners the Company has. Precise Biometrics cooperates with local and global companies such as smart card and chip manufacturers, systems integrators, suppliers of solutions, applications and hardware, as well as directly with government agencies. The Precise Match-on-Card™ technology is available for the majority of the world-leading manufacturers of smart cards.

Tactivo™ in national ID card projects

Looking ahead, Precise Biometrics sees interesting applications for the smart casing with a built-in smart card reader and fingerprint sensors the Company is launching in 2012. The greater use of national ID cards during referendums, legal matters and fiscal declarations can be facilitated by using smartphones with smart shells.



Christina secures Scandinavia

Christina Behle is responsible for Precise Biometrics' sales in Scandinavia. She is based in Lund and is very enthusiastic about spreading awareness on the business opportunities provided by Precise Biometrics' solutions.

- My main task at the moment is introducing Tactivo™ in Sweden, Norway, Denmark and Finland. This is a traditional and mature mobile market with many early adopters. In other words there is a very high penetration of smartphones and Tablet PCs.

Like in the rest of Europe, large companies, government agencies, banks and healthcare are especially interesting groups of customers for Precise Biometrics. As working environments become increasingly mobile, there are greater demands for security. And this is a good starting point to introduce Tactivo in Scandinavia.



- I am also the global sales manager for our physical access solutions. Precise Biometrics has a long history of cooperation with Fitness24Seven, Scandinavia's largest unmanned gym chain. We have reinforced our cooperation as this company is now expanding in Europe. Our access solutions are used in all of Fitness24Seven's gyms and ensure that only paying members are let in. In Sweden as many as 20 per cent of the adult population are members of a gym and our cooperation with Fitness24Seven has helped to spread awareness of Precise Biometrics.

- In my job as a sales manager I meet many interesting companies in different fields. Precise Biometrics is admittedly a relatively small company, but we can develop solutions for large organizations that actually change the whole of their operations. I find that stimulating, concludes Christina.

OUR SALESPEOPLE

Per has Europe and South America as his workplace

Per Bahr is the Dane who is Precise Biometrics' Sales Manager in Europe, based in London. And as if that was not enough, he also keeps a watchful eye on South America, especially on the rapidly expanding Brazilian market.

- London is the perfect base from which to cover Europe, with its central location and fantastic connections. I don't have to wait very long for the next departure whether I'm flying to France or South America, says Per.

And Per does a fair bit of travelling. His customers and partners are spread out all over the European continent, as well as in South America. Just like as in the US, there is an enormous potential in mobile security in Europe. This region is well ahead in the use of mobile units and there is a huge market demanding Precise Biometrics' solutions.



- Tactivo™ will make its breakthrough in 2012, I'm convinced of it. It's a real "game changer". Tactivo will turn Precise Biometrics into a company focusing on ID authentication, not just biometrics. And this is a positive development, says Per.

Large companies, government agencies and the whole healthcare sector in Europe have all shown an interest in enhanced security for mobile units.

- As the person responsible for large parts of the European sales I obviously have a great responsibility for the results, but also the freedom and opportunity to influence my work myself. I am really looking forward to taking part in this journey with Tactivo, concludes Per.

OUR SALESPEOPLE

Matt is responsible for our most important market

Matt Shannon is Sales Manager for Precise Biometrics in the US. He joined the Company in 2011, although he had already been a partner for six years. Matt is based in the Washington DC region.

- My job involves educating the US market about how good Precise Biometrics' solutions and products really are. I also keep customers and partners updated on our technological progress and our new products, says Matt.

Precise Biometrics has been very successful in the US in the last few years. One reason for this is that the government agencies realized the importance of secure authentication at an early stage. Large US government agencies and departments like the US Department of State have been using several solutions from Precise Biometrics to guarantee a high level of security.



- The federal agencies in the US have played a pioneering role with their willingness to implement secure authentication. Precise Biometrics' Match-on-Card™ technology and biometric solutions have a good reputation and are used by several leading government agencies, which is paving the way for us in the US, says Matt.

While government agencies and large corporations are highly interesting groups of companies for us, mobile units have become the new product area in the US. Both large organizations and private persons continue to increase their use of mobile units and this is resulting in much greater demands for improved security.

In the US we are currently focusing on Tactivo™ – our solution to secure information in smartphones and Tablet PCs. The US government agencies have a huge number of mobile units and are now ensuring these devices do not pose a security risk. Tactivo can handle even the highest levels of security and has consequently attracted considerable interest in the US.

OUR SALESPEOPLE

Mads moves between Abuja and Beijing

Mads Rønnebro is Sales Manager and responsible for the Middle East, African and Asia. He is based in Denmark in Vejle, but with a season ticket he commutes between continents to meet customers in several expanding markets.

- I work in markets with widely different prospects and levels of maturity. As usual when sales are involved, it's mainly about understanding the needs of customers, but also understanding cultural differences and their ways of doing business, says Mads Rønnebro.



Precise Biometrics got its biggest ever National ID project in 2011 when Nigeria chose Precise Biometrics' solution. There is also a project in progress in this country between the universities and the banks.

- Students in Nigeria have to identify themselves every quarter and present a certificate to prove they have paid their course fees. Because this is a completely manual process at the present time, it is both complicated and time consuming. If instead we can use Match-on-Card to secure identities and confirm that payments have been made, we could save lots of time for everyone involved, the students, the banks and the universities.

A solution from Precise Biometrics can make a difference, as the above example from Nigeria shows. Mads spends his days spreading awareness of Precise Biometrics' unique products and the advantages they can contribute.

- In my job I meet all sorts of people, from technically oriented specialists to government officials. Most of them have heard about Precise Biometrics and our good reputation simplifies the rather long selling-in processes. There are a lot of exciting things happening just now in my markets, from additional National ID projects to the upcoming launch of Tactivo. Being able to take part in the development of the technology in these interesting parts of the world is a privilege, says Mads Rønnebro.

Customers & Partner Cooperation

Precise Biometrics' customers include global companies and government agencies, such as the US Department of State, the Nigerian authorities and Scandinavia's largest unmanned gym chain, Fitness24Seven. The Company's smart casing with a built-in smart card reader and fingerprint sensor, Tactivo™ will also lead to new partnerships, which are expected in turn to lead to meetings with new customer groups.

Global partnership network in Match-on-Card

Precise Biometrics reaches out to its customers around the world through a network of partnerships it has built up during the past. In 2011 the Company signed additional partner agreements with Giesecke & Devrient (G&D) and NXP Semiconductors, who are leading global suppliers of smart cards and smart chips. These agreements are important in the Match-on-Card market and for future national ID card projects.

The Company's sales mainly take place through partners, such as the major smart card manufacturers, global systems integrators, local retailers, and hardware and chip manufacturers.



Our customers are to be found in Europe, the Middle East, Africa and Asia, where national ID cards have been implemented. Nigeria chose to use Precise Match-on-Card™ for its national ID card program in 2011.

Partner cooperation in Mobile

The Company's new investments in mobile solutions emphasize the importance of partner cooperation in the Mobile business area. Partners and end customers have received the opportunity at beginning of 2012 to purchase demos and development tools for testing and verification.

The Company has initiated a partnership with Thursby Software Systems, which is working with the development of secure web surfing. During 2012 Precise Biometrics also announced partnership for mobile solutions with FedSolve, an American systems integrator and reseller. FedSolve have extensive experience as a Federal government VAR to both civilian and Department of Defense agencies.

Precise Biometrics is also expecting additional partner solutions, with apps based on the Company's products, to be released in 2012.

Technology & Commercial Solutions

2011 has been a very eventful year for Precise Biometrics' research and development department. Development work during the year has focused on the company's investment in mobile solutions – Tactivo[™] – along with the development of the new hardware suite Precise Sense[™].

Mobile solutions – Tactivo

The Tactivo project has accounted for the overwhelming part of all the development department's project hours during the year. In an initial stage the work has focused round the development of Tactivo for smartphones, but development work during the year has also laid the foundation for future Tactivo products.

The development of mobile applications, so called apps for Tactivo has also occupied the department during the year. Apps is a software application for mobile devices such as smartphones and tablets.



Read more about the product under the section [Tactivo](#).

New hardware suite

Another major project the department has been involved with is the development of Precise Sense[™] – the Company's new family of fingerprint readers. As a result of this, the department has also been working to adapt all the software to make it compatible with the new hardware.

Read more about this product family under the section [Product Portfolio](#).

Research – MINEX II

The research team continued during the year to further develop the fingerprint algorithms that Precise Biometrics' products are based on.

One major success for the Research and Development department, and for the whole company, in 2011 was the outstanding test result from MINEX II. This test is enormously important, because a successful result in MINEX II was critical for qualification for US government agency projects.

Precise Biometrics was the only supplier that managed the test with three different card suppliers and Precise Biometrics' standardized Match-on-Card technology had the fastest matching time. This confirms the flexibility of Precise Match-on-Card[™] – irrespective of the smart card and smart card supplier, the Company's Match-on-Card technology produced a superior performance.

In addition to the excellent test result, MINEX II also resulted in the new product offering for embedded solutions – Precise BioMatch[™] Embedded. This is also a component included in the Company's new product series for smartphones and Tablets – Tactivo.

Read more about Precise BioMatch™ Embedded under the section [Product Portfolio](#).

EU PROJECT

Two EU projects have been completed during the year, Turbine and BioPass. Turbine has been an important component in the department's research work and has enhanced the Company's core technology. The Company has been able to use a lot of what was developed in Turbine for MINEX II.

One EU project in progress is eGo, the objective of which is to develop technology for identification between objects and users entirely by means of touch.

Internal quality system

In order to ensure continual improvements and offer enhanced quality, the department has been working with the internal quality system. This is also part of the preparations for working with new customer groups in the future.

Patents

Precise Biometrics works actively to reinforce the protection around the Company's products. At the end of 2011 the patent portfolio included 81 registered patents and 21 patent applications in 20 different patent families. 11 patent families relate to Precise Match-on-Card™. Three new applications have been submitted during the year, of which one is related to Tactivo and one to the Company's core technology.

Plans for 2012

Tactivo will continue to remain the main focal point for the department in 2012. Continued development to expand the Tactivo family means that a series of new launches will take place during the year. Apps for Tactivo will also be expanded and improved during 2012.

Product Portfolio

Precise Biometrics supplies all the components required for biometric verification – software, fingerprint readers and smart card readers. The Match-on-Card technology and the Company's offer for embedded solutions have undergone development during the year. Not the least Tactivo™ has been developed during 2011.

Software

The Company's core technology, Precise BioMatch™, is the algorithms on which its products are based. Precise Biometrics has been creating a name for itself for many years with its Match-on-Card technology, which involves matching and storing fingerprints on a smart card.

Considering the number of licenses and smart card partners, Precise Biometrics is a world leader with its Match-on-Card technology.



The software for the ISO standardized Match-on-Card has also been developed by the Company.

Products for the mobile market

Tactivo has occupied a focal point on the product development side, just as in other large areas of the Company. Both the software and hardware for this product has been developed.

The platform from which product development has taken place was the creation of mobile accessories and smart casings with embedded smart card and fingerprint reader technology. User-friendliness and modern design have been critical factors during the product development, and in the initial phase the focus has been on US government agencies.

Read more under the section [Tactivo](#).

Fingerprint and smart card readers

The Company launched a new generation of fingerprint readers at the start of the year – Precise Sense™. This new product family has been developed for volume sales to the banking and corporate segments.

Customers are offered readers with a module 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.

The already established fingerprint and smart card readers, Precise 200 MC and Precise 250 MC, continue to form part of the Company's product portfolio.

Integration of biometrics in hardware – Precise BioMatch™ Embedded

During the year Precise Biometrics has launched a new and improved product for embedded solutions – Precise BioMatch™ Embedded 2.0. It has been based on the success achieved in the MINEX II test and the Company's new matching algorithm, which follows the ISO standard.

The integration of fingerprint biometrics in hardware products has previously been a complex process, but the new more customer-focused software product is much easier to adapt to the manufacturer's hardware. The modularization of the product enables the manufacturer 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 integrated include sales terminals, computers, mobiles and other hardware.

Support and other services

PRECISE IOS TOOLKIT

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

Precise iOS Toolkit was launched on the new web portal idApps.com at the end of the year.

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 visitors were given the opportunity at the end of December to pre-order Tactivo via the portal.

In addition to acting as a sales channel the intention is to also create a community where developers that integrate Tactivo in different apps can meet in the Developers Forum in the portal.

Plans for 2012

The Company's first product in the Tactivo family will be released during the first half 2012. More products in the Tactivo series will be released during the year. Continuous updating, so that the Company's products follow new versions of the most popular brands of smartphones and tablets, will also be implemented. It is important for product development to follow the demands in the market for functionality and then to adapt the Company's products to this. The objective is in the long term to supply products and solutions for all the major mobile platforms in the market.

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. The Company's successes are strongly linked to the skills and commitments of the staff.

New challenges with Tactivo™

In 2011 the development of the Company's new product series, Tactivo, has affected all the staff at the Company in one way or another. This new venture has demonstrated the great ability of the staff to cooperate and their enthusiasm. Precise Biometrics is an international and exciting workplace, where activities are characterized by a high degree of responsibility and opportunities to develop. All the staff has been working during the year for the common objective – to develop smart casings for smartphones and Tablet PCs. The sellers and marketing department now face the challenge of launching Tactivo in the market.



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 35 (34), of which 5 (2) in the US, at the year end.
- Of the total number of employees at the end of the year, 24 (24) were men and 11 (10) were women.
- The Company has a high proportion of employees with an academic education: 94 per cent.
- The Company has a low incidence of sick leave; in 2011 it was 1.27 per cent (1.0).
- Personnel turnover in the Group was 8.9 (11.7) per cent, and the average age was 39.5 (39).
- Salaries and other remunerations, excluding payroll overheads, amounted to SEK 23.7 million (23.1) during the year.

Meredith, Kevin and Henrik tell their stories

Read more about when three of our co-workers tell their stories about their tasks and everyday life at Precise Biometrics.

- **Meredith** has her finger on the pulse of the market
- **Kevin** creates solutions to our customers
- **Henrik** ensures quality

EMPLOYEES

Meredith has her finger on the pulse of the market

Meredith Esham is a relatively new face at Precise Biometrics. She stepped into the position of Director Marketing & Communications in summer 2011 and works from the US, since this is a high-priority market for us.

What exactly is your job, Meredith?

– I have global responsibility for ensuring that marketing and communications are in line with the strategies we have laid out for Precise Biometrics. It is important that communications are consistent, aimed at the right target groups and have the right message so that the Company and our products are perceived the way we want them to be perceived.

Why is it important how we are perceived?

– We are constantly being compared to competing solutions from other companies. By communicating the right aspects, we highlight the advantages and benefits that lead customers to choose our products over those of the competition.

Describe your average workday.

– My mornings are normally booked with a lot of meetings. I am based in Washington DC, so mornings are a good time to talk to people in Europe. For example, I am in regular contact with my colleagues in the marketing department in Lund, Sweden. My afternoons are filled with either more meetings, or preparatory work.

What do you like most about your job?

– Being part of technological progress. There is so much going on in our industry and Precise Biometrics is about to launch a number of exciting products. I cannot imagine anything more fun than working with communications and marketing in a growing industry.



EMPLOYEES

Kevin creates solutions for our customers

Kevin Steeprow joined Precise Biometrics in 2011. He is based in the US and works as Manager Partner Solutions.

What does a Manager Partner Solutions do?

– My job involves listening to our customers and partners and understanding their needs. Even though our technology is extremely well-developed, it often must be adapted to different application areas or requirements. In the end, we work together with the partner to develop solutions that work in the market.

What do you need to be able to do your job well?

– First, you need basic technical knowledge in order to understand problems and be able to find solutions. Then, you must have a talent for selling. You must be able to present the solutions so that our partners understand their benefits. You could say I act like a bridge between the partner, the sales team and the engineering department.



What is your background?

– I started off as an engineer. At previous jobs, I worked with hand-held units, such as ID readers and mobile card readers.

Describe a typical workday.

– I spend a great deal of my time with our partners, either on the phone or in meetings with them. I often work closely with our salespeople and engineers to find the best way to present our solutions and products. There are times when I travel quite a bit since I work in a global field.

What do you like most about your job?

– Being able to follow a concept from idea to implementation is incredibly exciting. Precise Biometrics operates in a dynamic and varied industry where no day is quite like another. Ten to fifteen years ago, biometrics was science fiction. Now it is a reality in which we have several exciting products about to make their way out onto the market.

EMPLOYEES

Henrik ensures quality

Henrik Josefsson is the Global Product Manager at Precise Biometrics. He works at the headquarters in Lund, Sweden, where he has been since 2008.

Describe what a product manager does?

– I am the Global Product Manager and responsible to make sure our products maintain the correct quality. This means that I follow our development projects very carefully and collect information on the products. Some of my time is spent writing specifications for new products.

It sounds like you have an extensive contact interface?

– Yes, I am continuously in contact with the CTO, development managers, development team, the logistics, and the market/sellers. I also have external contacts with partners and customers, and answer any queries. I am often the one who looks after both internal and external training for our products.



What is it like working at Precise Biometrics?

– We are a small high-tech company with a good atmosphere and a committed, competent staff. Because of the short internal decision channels, we can quickly produce the products in demand. This makes the work both interesting and stimulating.

What do you like most about your job?

– The fact that I can take part in designing which products we produce. I am involved in the whole process, from R&D to the market, and this means that I always feel part of the Company's development. As product manager I am at the very center of events, and I like that.

What do you make of the future?

– I see it positively. It feels as if we have made wise choices, and invested in the right products. Our new product Tactivo™, is an approach I am personally very much in favor of.

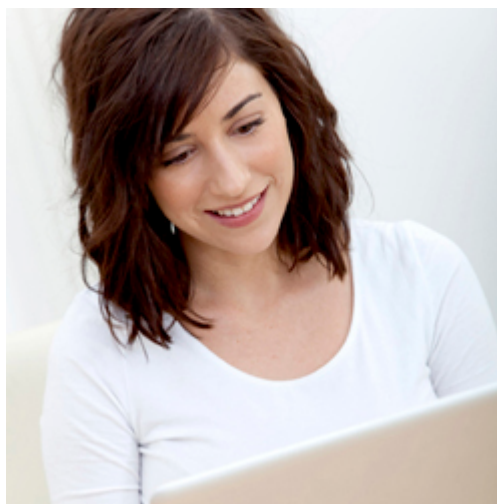
A healthy organization for sustainability

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

Code of Conduct

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

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



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

Ethics – Secure identity and preservation of integrity

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.

ADVANTAGES OF PRECISE BIOMETRICS' TECHNOLOGY FROM THE PERSPECTIVE OF INTEGRITY

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

RISKS WITH PRECISE BIOMETRICS' TECHNOLOGY FROM THE PERSPECTIVE OF INTEGRITY

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

Precise Biometrics' responsibility

The Company's sales are mainly directed to global and well-established partners, and 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. During 2011 a new biometric reader has been launched and during 2012 new hardware products to be used in combination with smartphones and tablet PCs will be launched. Use of the Company's software products has no, or negligible impact on the environment. The products can also be used to reduce the use of paper, since signatures can be made digitally by means of fingerprints instead of a physical signature on a printed document.

Precise Biometrics' 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.

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

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

Staff

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

The share and shareholders

History

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

As of December 31, 2011, the Company had 188,945,120 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 2011, there was a total turnover of 245,957,608 PREC shares, i.e. an average turnover of 1,024,083 shares per day of trading. The closing price on December 30, 2011 was SEK 1.51. During the year the stock price varied between SEK 0.90 and 2.48.

Ownership

There were 7,704 (7,897) stockholders at the end of the year. 13.2 (13.7) per cent of the shareholders were from outside Sweden. See table, for ownership structure as of December 31, 2011.

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 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

Subscription price is set at SEK 2.90.

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. Full exercise of the options (7,100,000 options) will increase the capital stock to SEK 2,840,000, which corresponds to approx. 3.8 per cent of the Company's present capital stock.

See also Note 18 for additional information.

Stockholder information

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

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

Capital stock development

	<i>Increase in no. of shares</i>	<i>Total no. shares</i>	<i>Increase in capital share, SEK</i>	<i>Total share capital, SEK</i>	<i>Nominal amount, SEK</i>
1997 - Company registered	1,000	1,000	100,000	100,000	100
1997 - New Issue	220	1,220	22,000	122,000	100
1998 - Split	1,218,780	1,220,000	-	122,000	0.1
1998 - New Issue	180,000	1,400,000	18,000	140,000	0.1
1998 - New Issue	223,700	1,623,700	22,370	162,370	0.1
1999 - Bonus issue	-	1,623,700	487,110	649,480	0.4
1999 - New issue	720,000	2,343,700	288,000	937,480	0.4
2000 - New issue ¹	250,000	2,593,700	100,000	1,037,480	0.4
2000 - Redemption of subs. options	74,000	2,667,700	29,600	1,067,080	0.4
2000 - New issue ²	600,000	3,267,700	240,000	1,307,080	0.4
2000 - Redemption of subs. options	204,500	3,472,200	81,800	1,388,880	0.4
2001 - Redemption of subs. options	54,500	3,526,700	21,800	1,410,680	0.4
2002 - New issue ³	350,000	3,876,700	140,000	1,550,680	0.4
2002 - Redemption of subs. options	80,000	3,956,700	32,000	1,582,680	0.4
2002 - New issue ⁴	7,913,400	11,870,100	3,165,360	4,748,040	0.4
2003 - New issue ⁵	23,740,200	35,610,300	9,496,080	14,244,120	0.4
2004 - New issue ⁶	5,000,000	40,610,300	2,000,000	16,244,120	0.4
2004 - New issue ⁷	20,305,150	60,915,450	8,122,060	24,366,180	0.4
2005 - New issue ⁸	105,000	61,965,450	420,000	24,786,180	0.4
2005 - New issue ⁹	1,053,750	63,019,200	421,500	25,207,680	0.4
2005 - New issue ¹⁰	8,700,000	71,719,200	3,480,000	28,687,680	0.4
2005 - New issue ¹¹	71,250	71,790,450	28,500	28,716,180	0.4
2006 - New issue ¹²	1,125,000	72,915,450	450,000	29,166,180	0.4
2006 - New issue ¹³	24,305,150	97,220,600	9,722,060	38,888,240	0.4
2007 - New issue ¹⁴	4,000,000	101,220,600	1,600,000	40,488,240	0.4
2009 - New issue ¹⁵	33,740,200	134,960,800	13,496,080	53,984,320	0.4
2011 - New issue ¹⁶	53,984,320	188,945,120	21,593,728	75,578,048	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.

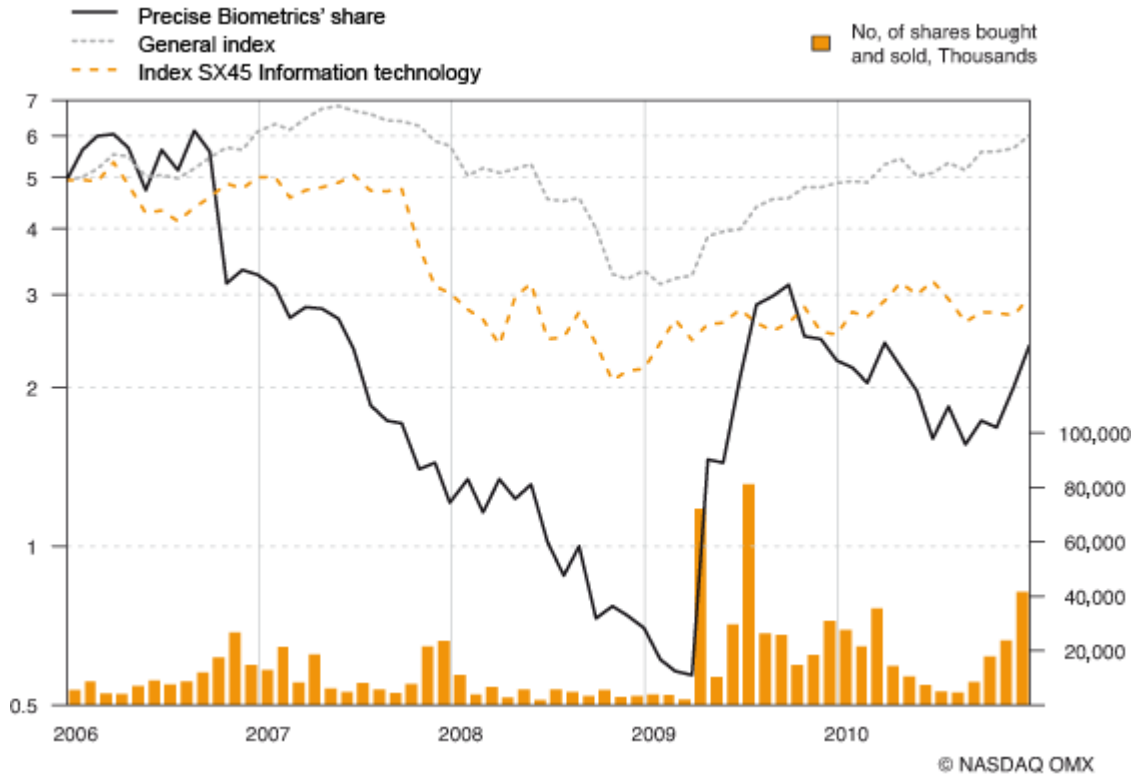
13) Issue with preferential rights to existing shareholders. The subscription rate amounted to SEK 3.50 and Precise Biometrics received an issue amount of SEK 85 million.

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.

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.

Share price movement and turnover



Shareholder statistics

Shareholder register

	<i>No. of shares</i>	<i>No. in % of share capital and votes</i>
Avanza Pension Försäkring AB	12,282,294	9.1%
Swedbank Robur fonder	5,315,932	3.9%
Stockpicker fonder	3,615,704	2.7%
Nordnet Pensionsförsäkring AB	2,925,252	2.2%
HJ Byggkonsulter AB	2,300,000	1.7%
Marc Chatel	1,663,079	1.2%
Swedbank Försäkring AB	1,557,643	1.2%
Skandia AB	1,328,067	1.0%
Johnny Ludvigsson	1,210,000	0.9%
Christer Jönsson	860,469	0.6%
Others	101,902,360	75.5%
Total	134,960,800	100.0%

Allocation of shares

	<i>No. of shares</i>	<i>No. in %</i>
Foreign owners	18,542,106	13.7%
Swedish owners	116,418,694	86.3%
whereof institutions		14.6%
Stock funds		6.8%
Private investors		64.9%

Allocation of shareholders

	<i>No. in %</i>
10 largest shareholders	24.5%
25 largest shareholders	30.4%
100 largest shareholders	42.1%

Geographic allocation of shares in %

	<i>No. in %</i>
Sweden	86.0%
Denmark	3.4%
Switzerland	2.5%
Luxembourg	1.2%
Great Britain	1.1%
Ireland	1.0%
United States	0.8%
Netherlands	0.8%
Norway	0.7%
Latvia	0.4%
France	0.4%
Others	1.7%

Shareholder statistics

	<i>No. of shareholders</i>	<i>No. in %</i>	<i>No. of shares</i>	<i>Proportion of votes in %</i>
1-2 000	3,444	43.6%	2,934,380	2.2%
2 001-10 000	2,707	34.3%	14,043,143	10.4%
10 001-100 000	1,579	20.0%	47,908,239	35.5%
100 001-1 000 000	156	2.0%	36,501,043	27.0%
1 000 001-15 000 000	10	0.1%	33,573,995	24.9%
Total	7,896	100%	134,960,800	100.0%



Risks

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

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

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

Five-year review

Income statements, Thousands SEK

	Year				
	2011	2010	2009	2008	2007
Net sales	21,615	44,944	68,655	45,868	24,815
Cost of goods and services sold	-9,548	-17,425	-32,863	-23,324	-15,928
Gross profit	12,067	27,519	35,792	22,544	8,887
Selling-, administration- and R&D expenses	-45,189	-40,831	-55,091	-51,956	-44,727
Other operating income/expenses	-290	-1,185	-977	5,598	542
Results from holdings in associated companies	-	-	-	-30,738	-1,448
Operating profit/loss	-33,412	-14,497	-20,276	-54,552	-36,746
Net financials	208	-135	-1,492	403	1,457
Profit/loss after financial items	-33,204	-14,632	-21,768	-54,149	-35,289
Tax	-12	-16	-4	-31	-
Profit/loss for the year	-33,216	-14,648	-21,772	-54,180	-35,289

Balance sheet, Thousands SEK

	Year				
	2011	2010	2009	2008	2007
Assets					
Intangible fixed assets	12,778	6,664	3,802	9,683	10,316
Tangible fixed assets	1,070	704	868	1,303	1,602
Deferred tax assets	-	-	-	-	-
Financial fixed assets	-	-	-	-	6,470
Holdings in associated companies	-	-	-	-	22,396
Current assets	50,557	40,723	68,423	23,026	45,367
<i>of which liquid assets and current investments</i>	<i>28,930</i>	<i>24,544</i>	<i>40,884</i>	<i>11,343</i>	<i>32,516</i>
Total assets	64,405	48,091	73,093	34,012	86,151
Equity and liabilities					
Equity	46,988	31,244	45,408	16,004	71,201
Current liabilities	17,417	16,847	27,685	18,008	14,950
Total equity and liabilities	64,405	48,091	73,093	34,012	86,151

Cash flow analysis, Thousands SEK

	Year				
	2011	2010	2009	2008	2007
Cash flow from current operations					
before changes in working capital	-32,147	-13,257	-14,276	-24,778	-29,224
Changes in operating capital	-4,099	2,781	-6,931	4,945	-7,549
Cash flow from investment business	-8,679	-4,710	-1,299	-1,794	-7,095
Cash flow from financial business	49,015	-1,492	52,047	454	82
Change in liquid assets	4,090	-16,678	29,541	-21,173	-43,786

Key ratios

	Year				
	2011	2010	2009	2008	2007
Gross margin	56%	61%	52%	49%	36%
Working capital, thousand SEK	33,140	23,876	40,738	5,018	30,417
Liquid ratio	235%	192%	225%	113%	291%
Equity/assets ratio	73%	65%	62%	47%	83%
Return on equity	neg	neg	neg	neg	neg
Capital employed, thousand SEK	40,447	39,575	31,839	44,111	84,702
Return on capital employed	neg	neg	neg	neg	neg
Profit/loss per share SEK	-0.20	-0.11	-0.19	-0.54	-0.35
EBITDA, thousand SEK	-31,213	-12,485	-12,662	-22,132	-31,679
Equity per share, SEK	0.25	0.23	0.34	0.16	0.70
No of shares	188,945,120	134,960,800	134,960,800	101,220,600	101,220,600
Average number of outstanding shares	166,451,653	134,960,800	112,467,333	101,220,600	99,553,933
Operating cash flow per share, SEK	-0.19	-0.07	-0.16	-0.20	-0.37
Number of employees at the end of the year	35	34	36	44	38
Average number of employees	34	34	38	41	45

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 2011.

Activities

Precise Biometrics is an innovative company that offers commercial solutions based on fingerprints to secure people's identities. With cutting-edge competence in fingerprint recognition, Precise Biometrics offers rapid, reliable and secure verification.

The Company's core technology Precise BioMatch™ can easily be integrated in systems for ID, SIM and bank cards, secure circuits, computer access, networks and physical access control. The Company operates on a global market and the technology is licensed to nearly 160 million users all over the world.

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

Precise Biometrics' vision is to be the world-leading provider of secure authentication and access, leveraging smart cards and biometrics for multi-factor authentication optimized for desktop, mobile, and embedded consumer platforms.

By making strong authentication easy to implement and use, the Company help protect network resources and secure communications across the globally connected world.

The most important operational objectives the group will continue to focus on in the future include:

- The Company's operations has been organized in three business units during 2011; IAM, Access Solutions and Mobile. As of 2012, the previous business area Access Solutions is also in IAM. The business areas will reinforce the continued commercialization of Precise Biometrics' unique technology in that each business area delivers well-defined productive and custom-designed solutions.
- 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. The Company continued to build on this platform in 2011, primarily through product development of 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. This sales organization has been implemented in three business areas in 2011: Mobile, IAM and Access Solutions. As of 2012, Access Solutions has also been included in IAM. Mobile is a completely new, strategically important business area. 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 and thereby play an essential role in the fulfillment of Plan 2015. Further information on the business areas is available in [Note 3](#).

The most important business events during the year

- In 2011 Precise Biometrics reached the strategic goal of creating a major new application and commercial product area for company's technology to ensure people's identity through a fast and reliable fingerprint recognition. With the new smart casing for smartphones with built-in smart card and fingerprint readers Precise Biometrics now apply the Company's specialized expertise in the large and expanding mobile market. During the first half of 2012, Precise Biometrics will launch the commercial smart shell for smartphones with built-in smart card and fingerprint reader - Tactivo™. In 2012 and 2013, the smart shells will be offered for the most popular brands of smartphones and tablets.
- Precise Biometrics achieved a top ranking in the US MINEX II, the most important interoperability test for standardized Match-on-Card. This has further reinforced Precise Biometrics' position on the important US government agency market.
- Precise MatchonCard™ was chosen for the Nigerian National ID card. Precise Biometrics won the ID card project together with the partner Interswitch. The card will be used both as an ID card and a bank card. The order value for this project is expected to be the largest order value Precise Biometrics has achieved so far for a national ID card project.
- Precise Biometrics has entered into several strategically important partnerships during the year, further strengthening the Company's market position:

Giesecke & Devrient (G&D) has been given the right to use Precise MatchonCard in its smart cards.

GD Burti has been appointed exclusive seller of fingerprint and smart card readers in Brazil.

NXP has been given the right to use Precise Biometrics' Match-on-Card technology in their chips for smart ID cards.

- Precise Biometrics released a new product family of fingerprint readers – Precise Sense™ – which focuses on volume sales to the banking and corporate segments.
- Precise Biometrics launched a new software product, Precise BioMatch™ Embedded, which enables hardware manufacturers to quickly integrate fingerprint biometrics in their products.
- During the year the Company has continued to build up and reinforce its organization, primarily focusing on recruitment of marketing and sales competence for the Company's largest market – the US.
- Precise Biometrics has implemented a new issue of shares with preferential rights for existing shareholders during the year, which has infused SEK 48.6 million into the Company after issue costs.

The share issue was subscribed to 119 per cent and was implemented as part of the Company's strategic plan – Plan 2015.

The most important business events after the year

- New partner agreements was initiated within the business area Mobile. Partnership was signed with Thursby Software Systems, working with the development of secure web surfing. A strategic partnership with FedSolve, an American systems integrator and reseller, was also initiated.
- In 2012, the Company expects that the majority of revenue comes from Tactivo while investments in production will kick-off during spring and summer of 2012. The Company has signed a credit facility with an outside lender Antech Invest Aps, for a total of up to SEK 30 million, to support Precise Biometrics available working capital during the spring and summer of 2012 when Tactivo production ramps up.

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 81 different patents and 21 patent applications within 20 different patent families at the end of 2011. Precise Biometrics has 11 different patent families just for the Match-on-Card technology.

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, smart casings. The trademark is registered in the EU and a patent has been applied for in the US.
- **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' new biometric readers.

Sales and income

Sales during the fiscal year amounted to SEK 21.6 million (44.9). The gross margin was 56 per cent compared with 61 per cent in the previous year. The group's net loss for the fiscal year amounted to SEK -33.2 million (-14.6). The lower result compared to 2010 is primarily caused by limited sales to the US Government. The result is also impacted by investments in the business unit Mobile.

Operating expenses for the fiscal year amounted to SEK -45.5 million (-42.0).

Earnings per share (average number of shares) for the period amounted to SEK -0.20 (-0.11).

Financing and liquidity

As of December 31, 2011 equity amounted to SEK 47.0 million (31.2) and equity per share to SEK 0.25 (0.23).

The cash flow from current operations during the year amounted to SEK -36.0 million (-10.1). Liquid assets amounted at the end of the fiscal year to SEK 28.9 million (24.5).

Cash flow in 2011 was negatively affected by lack of sales to the American Government. The majority of the product and development investment for Tactivo has been taken in 2011, which also has affected the cash flow. In 2012, the Company expects that the majority of revenue comes from Tactivo while investments in production will kick-off during spring and summer of 2012. The Company has signed a credit facility with an outside lender Antech Invest Aps, for a total of up to SEK 30 million, to support Precise Biometric's available working capital during the spring and summer of 2012 when Tactivo production ramps up.

Capitalization and depreciation of development work

Development work costs of SEK 7.9 million (4.5) 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 (1.6), of which write-downs accounted for SEK 0.3 million (0.3).

Research and development

The R&D function conducts product development and research for the purpose of creating, or further developing solutions, products and algorithms. By also participating in different standardization bodies, the Company works actively to influence the development of standardization in the group's core technology.

Precise Biometrics launched or developed the following products in 2011:

- **Tactivo™** – a new product series developed during the year. Tactivo is smart casings, which can be adapted to most platforms in the smartphone market. The smart casing has a built-in smart card and fingerprint reader and is designed to comply with network security and powerful demands for authentication for governments and healthcare, and the corporate and banking sectors.
- **Precise Sense™** – a new product family with fingerprint readers focusing on volume sales to the banking and corporate segments has been released during 2011.
- **Precise BioMatch™ Embedded** – a software product that enables hardware manufacturers to quickly integrate fingerprint biometrics in their products has been released during the year.

Organization and personnel

Precise Biometrics has its headquarters in Lund, Sweden. The organization also consists of Precise Biometrics Inc. in Washington DC in the US and Precise Biometrics Solutions AB with offices in Karlstad, Sweden. The group also includes the dormant company, Precise Biometrics Services AB.

The number of employees in the group amounted to 35 (34) at the end of the year, 30 in Sweden and 5 in the US. Of the total number of employees at the end of the year, 24 (24) were men and 11 (10) were women.

Absence due to illness in the group continued to be low during the year, amounting to 1.3 per cent (1.0) overall. Staff turnover in the group was 8.9 per cent (11.7).

Salaries and other remunerations, excluding payroll overheads, amounted to SEK 23.7 million (23.1) during the year.

The share

Precise Biometrics had, per December 31 2011, 188,945,120 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 2011, a total of 245,957,608 PREC shares have been traded, representing an average annual turnover of 1,024,083 shares traded per day. The closing price on December 30 2011 was 1.51 SEK. The share price has during the year varied between 0.90 and 2.48 SEK.

SHAREHOLDER STRUCTURE

The number of shareholders at year-end were 7,704 (7,897). The foreign ownership was accounting for 13.2 per cent (13.7) of total shares. See shareholder statistics in the segment "[The share and shareholders](#)", showing the ownership structure as of December 30, 2011.

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 per cent 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 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.

Parent company

Parent company sales for the fiscal year amounted to SEK 15.5 million (38.8). Operating loss before tax for the fiscal year amounted to SEK -35.6 million (-16.3).

At the end of the fiscal year there were 21 persons employed in the parent company.

Liquid assets at the end of the year amounted to SEK 21.7 million (21.1).

Costs for development work during the fiscal year have been capitalized to an amount of SEK 4.5 million (1.1).

Proposed treatment of accumulated loss

Parent company

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

Share premium reserve, SEK	26,981,347
Accumulated loss, SEK	-34,954,623
Total	-7,973,276

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

Reduction of statutory reserve, SEK	-7,973,276
Total	-7,973,276

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 2011".
- 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 24, 2012 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 18. 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 27, 2011, a nomination committee is to be established. The nomination committee shall consist of representatives from the three largest shareholders as of August 31 in the year prior to the general meeting, together with the chairman of the board. The nomination committee consists of Kerstin Stenberg (Swedbank Robur fonder), Torgils Bonde Knutsson (Gimmersta AB) and Uno Johnsson (HJ Byggkonsulter AB). The chairman Lisa Thorsted also sits on the committee, and is the convener. Torgils Bonde Knutsson, has after year-end, at his own request, resigned from the nomination committee.

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.

The Company bylaws contain no restrictions concerning the eligibility of the members of the board. Under the bylaws, the board of directors shall consist of at least three and no more than seven members, with no more than three deputy members.

After the annual general meeting in April 2008, the board of directors has consisted of five directors. None of the directors are employed in the Company. The composition of the board of directors and their various duties is indicated under the section [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. In 2011 the board of directors held 9 meetings at which the minutes were taken. Issues dealt with during the year included strategy and long-term focus, organization, corporate governance, interim and year-end reports, and financing.

The board of directors also conducted an evaluation of its work during the year.

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.

Remunerations to directors are indicated in [Note 26](#) in the Annual Report.

Group executive

Precise Biometrics has its headquarters in Lund, Sweden. The composition of the executive as of December 31, 2011 is indicated under the section [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.

See further below in the section "The board of directors' report on internal control for the fiscal year 2011"

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 2011".

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 2012. 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.

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

CREDIT RISK

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

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 2011

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 report has not been examined by the auditors.

The Control environment

In order to create and maintain an efficient control environment the board of directors has drawn up a number of documents of significance 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.

Income statements

Group, figures in Thousands SEK

	Note	2011	2010
Net sales	<u>3</u>	21,615	44,944
Cost of goods and services sold		-9,548	-17,425
Gross profit		12,067	27,519
Selling expenses		-18,543	-18,293
Administration expenses		-11,489	-10,012
R&D expenses	<u>10</u>	-15,157	-12,526
Other operating expenses		-290	-1,185
		-45,479	-42,016
Operating profit/loss	<u>7, 8, 9, 30</u>	-33,412	-14,497
Interest revenue		299	37
Interest expenses		-91	-172
		208	-135
Profit/loss before tax		-33,204	-14,632
Income tax	<u>11, 13</u>	-12	-16
NET PROFIT/LOSS FOR THE YEAR		-33,216	-14,648
Profit/loss attributable to:			
Owners of the parent		-33,216	-14,648
Profit/loss per share, attributable to owners of the parent (SEK per share)			
<i>Profit/loss per share, SEK (before dilution)</i>	<u>12</u>	-0.20	-0.11
<i>Profit/loss per share, SEK (after dilution)</i>	<u>12</u>	-0.20	-0.11

Groups report concerning comprehensive income

Profit/loss for the year	-33,216	-14,648
Comprehensive income:		
Change in accumulated exchange rate differences	-55	334
Reverse of accumulated exchange differences in disposed subsidiary	-	150
Comprehensive income for the year, net of tax	-55	484
Total comprehensive income for the year	-33,271	-14,164
Attributable to:		
Owners of the parent	-33,271	-14,164
Total comprehensive income for the year	-33,271	-14,164

Parent Company, figures in Thousands SEK

	Note	2011	2010
Net sales	<u>3</u>	15,507	38,825
Cost of goods and services sold		-19,846	-21,957
Gross profit		-4,339	16,868
Selling expenses		-12,274	-14,409
Administration expenses		-11,223	-9,012
R&D expenses		-8,692	-7,232
Other operating income		290	-
Other operating expenses		-	-2,831
		-31,899	-33,484
Operating profit/loss	<u>7, 8, 9</u>	-36,238	-16,616
Interest revenue		688	445
Interest expenses		-5	-96
Result from holdings in subsidiaries	<u>17</u>	-	-
		683	349
Profit/loss before tax		-35,555	-16,267
Income tax		-	-
NET PROFIT/LOSS FOR THE YEAR		-35,555	-16,267
Parent company's report concerning comprehensive income			
Profit/loss for the year		-35,555	-16,267
Comprehensive income:			
Comprehensive income for the year, net of tax		1,011	-410
Comprehensive income for the year, net of tax		1,011	-410
Total comprehensive income for the year		-34,544	-16,677
Attributable to:			
Owners of the parent		-34,544	-16,677
Total comprehensive income for the year		-34,544	-16,677

Balance sheet

Group, figures in Thousands SEK

	Note	2011	2010
ASSETS			
Fixed assets			
Intangible fixed assets	<u>4</u>	12,778	6,664
Tangible fixed assets	<u>6</u>	1,070	704
Total fixed assets		13,848	7,368
Current assets			
Inventories	<u>14</u>	9,673	8,402
Accounts receivable and other receivables	<u>15</u>	11,954	7,777
Liquid assets	<u>16</u>	28,930	24,544
Total current assets		50,557	40,723
TOTAL ASSETS		64,405	48,091
EQUITY & LIABILITIES			
EQUITY			
Capital stock	<u>18</u>	75,578	53,984
Other paid-in capital		564,635	537,214
Reserves	<u>19</u>	584	639
Balanced loss and loss for the year		-593,809	-560,593
Total equity		46,988	31,244
Current liabilities			
Trade accounts payable and other liabilities	<u>20</u>	15,694	13,153
Borrowing	<u>21</u>	1,411	3,000
Other provisions	<u>22</u>	312	694
Total current liabilities		17,417	16,847
TOTAL EQUITY AND LIABILITIES		64,405	48,091
MEMORANDUM ITEMS			
Pledged assets	<u>23</u>	26,400	26,400
Contingent liabilities		NONE	NONE

Balance sheet

Parent Company, figures in Thousands SEK

	Note	2011	2010
ASSETS			
Fixed assets			
Intangible fixed assets	5	12,692	6,548
Tangible fixed assets	6	943	381
Financial fixed assets	17	1,058	1,058
Total fixed assets		14,693	7,987
Current assets			
Inventories		9,673	8,402
Accounts receivable		4,736	2,810
Receivables from group companies		33,406	31,235
Other receivables		3,050	694
Prepaid expenses and accrued income	27	2,019	1,474
Liquid assets	16	21,662	21,129
Total current assets		74,546	65,744
TOTAL ASSETS		89,239	73,731
EQUITY AND LIABILITIES			
EQUITY			
Capital stock	18	75,578	53,984
Statutory reserve		9,513	12,464
Share premium reserve		26,980	13,315
Loss carried forward and loss for the year		-34,954	-16,677
Total equity		77,117	63,086
Provisions			
Other provisions	22	76	162
Current liabilities			
Accounts payable	20	5,098	3,443
Other liabilities		1,953	163
Accrued expenses and prepaid income		4,995	6,877
Total current liabilities		12,046	10,483
TOTAL EQUITY AND LIABILITIES		89,239	73,731
MEMORANDUM ITEMS			
Pledged assets	23	24,000	24,000
Contingents liabilities	24	2,000	2,000

Change in equity

Group, figures in Thousands SEK

	Attributable to parent company owners				
	Capital Stock	Other paid-in capital	Reserves	Balanced loss and loss for the year	Total equity
Opening balance of January 1, 2010	53,984	537,214	155	-545,945	45,408
Comprehensive income					
Loss for the year	-	-		-14,648	-14,648
Other comprehensive income					
Exchangerate differences	-	-	484	-	484
Total other comprehensive income	0	0	484	0	484
Total comprehensive income	0	0	484	-14,648	-14,164
Opening balance as of January 2, 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 at December 31, 2011	75,578	564,635	584	-593,809	46,988

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.

Parent company, figures in Thousands SEK

	Restricted equity		Unrestricted equity		Total equity
	Capital stock	Statutory reserve	Share premium reserve	Balanced loss and loss for the year	
Opening balance as at January 1, 2010	53,984	12,464	37,136	-23,821	79,763
Comprehensive income					
Loss for the year	-	-	-	-16,267	-16,267
Other comprehensive income					
Transfer of annual profit/loss	-	-	-23,821	23,821	0
Group contributions	-	-	-	-410	-410
Total other comprehensive income	0	0	-23,821	23,411	-410
Total comprehensive income	0	0	-23,821	7,144	-16,677
Opening balance as of 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	-	-2,951	-13,316	16,267	0
Group contributions	-	-	-	1,011	1,011
Total other comprehensive income	0	-2,951	-13,316	17,278	1,011
Total comprehensive income	0	-2,951	-13,316	-18,277	-34,544
Transactions with shareholders					
New share issue ²⁾	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	9,513	26,980	-34,954	77,117

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.

Cash flow statement

Figures in Thousands SEK

	Note	Group		Parent Company	
		2011	2010	2011	2010
Cash flow from current operations					
Cash flow from current operations	28	-35,676	-9,574	-39,057	-527
Interest income paid		299	37	297	38
Interest cost paid		-91	-172	-5	-96
Taxes paid		-779	-767	-599	-599
Cash flow from current operations		-36,247	-10,476	-39,364	-1,184
Cash flow from investment business					
Investments in intangible fixed assets		-7,891	-4,466	-7,891	-4,466
Aquisition of tangible fixed assets		-787	-244	-787	-223
Cash flow from investment business		-8,678	-4,710	-8,678	-4,689
Cash flow from financial business					
Payment for issue of common stock		48,575	-	48,575	-
Loans raised		-	-	-	-
Amortization of loans		-	-1,492	-	-1,492
Payment for issue of options		440	-	-	-
Cash flow from financial business		49,015	-1,492	48,575	-1,492
Decrease/Increase in liquid assets		4,090	-16,678	533	-7,365
Opening liquid assets		24,544	40,884	21,129	28,494
Exchange rate differences		296	338	-	-
Closing liquid assets		28,930	24,544	21,662	21,129

FINANCIAL REPORTS

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



FINANCIAL REPORTS

Note 1

General information

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

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

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

Note 2

Accounting policies

General basis for preparation of the reports

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), 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 26, 2012.

New and amended standards applied by the group from January 1, 2011

None of the IFRS or IFRIC interpretations which for the first time are mandatory for the fiscal year that began on January 1, 2011 have had any essential impact on the group.

New IFRS, supplements to IAS and IFRIC interpretations taking effect in 2012, 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.

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 estimated previous 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 three business areas - IAM, Access Solutions and Mobile - now constitute the group's three operating segments, which form the platform from which management runs and leads its business activities. 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. This new organization came into force on January 1, 2011, which was also when Precise Biometrics introduced its new segment divisions. Comparative information has been recalculated in accordance with the new segment divisions, see also [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 development and maintenance of software are recognized as and when they arise. Acquired software licenses are capitalized if the value of the expenses is of essential value to the Company. The expenses are capitalized on the basis of the costs incurred when the software in question is acquired and put into service. These expenses are written off during the estimated useful life, which extends to five years. Expenses for other acquired software are recognized as and when they arise.

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.

INVENTORIES

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

ACCOUNTS RECEIVABLE

Accounts receivable are initially recognized at 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 data, 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 465 million (2010: 448) and in the US subsidiary to approximately SEK 33 million (2010: 33).

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 2011, 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 1,698 thousand (2010: 1,885). Alecta's surplus can be distributed to insured parties. At the end of 2011, Alecta's surplus amounted in the form of the collective consolidation level to 113 per cent (2010: 146%). 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 prepared at the end of 2010 a strategic target for the future evolution of the Company on the basis of its growth and profitability. The overall objective is that Precise Biometrics will qualify for quotation on the NASDAQ OMX Mid Cap list in 2015.

The development of a new major application and commercial product area with the business area Mobile was the most important strategic target for the Company in 2011. Mobile will be a strongly contributory factor towards achieving Plan 2015.

The Company strongly anticipates that the main part of earnings in 2012 and onwards will come from the smart casing for mobile units - Tactivo™.

Most of the product and development investments for Tactivo have been implemented in 2011, which has also affected liquidity in 2011. In 2012 Precise Biometrics expects that most of its earnings will come from Tactivo and also that investments in production will be made in the spring and summer of 2012. Precise Biometrics has therefore signed a credit facility with an external lender for a total of SEK 30 million, to limit any potential strain on working capital that may arise in the spring and summer of 2012. This credit will be repaid by May 31, 2013. Through the agency of this credit facility, the Company estimates that it has sufficient working capital for the coming twelve month period.

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 is changing the classification basis for segments. This is a natural link in that the management group, as of January 1, 2011, leads, assesses and follow-up the operations based on the group's three business areas, IAM, Access Solutions and Mobile, which also makes up for the group's operating segments. In previous years, the operating segments have been based on geographic association. Comparison information for 2010 has been recalculated in accordance with the new segment classification.

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 2011 is as follows:

	IAM		Access Solutions		Mobile		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Earnings								
External sales	17,957	37,804	3,657	7,140	-	-	21,614	44,944
Total profit/loss								
Profit/loss per segment ¹⁾	-11,582	-12,419	-1,332	-2,404	-25,950	-678	-38,864	-15,501
Unallocated earnings							5,452	1,004
Operating profit/loss							-33,412	-14,497
Interest revenue							299	37
Interest expenses							-91	-172
Tax expenses for the year							-12	-16
Net profit/loss for the year							-33,216	-14,648
Other information								
Assets ²⁾	14,974	12,744	1,051	626	-		16,025	13,370

Undivided assets ³⁾							48,381	34,721
Total assets							64,406	48,091
Liabilities	4,085	3,031	50	159	1,150	653	5,285	3,843
Undivided liabilities							12,133	13,004
Total liabilities							17,418	16,847
Investments							8,678	4,710
Depreciation							2,198	2,012

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 capitalized development work, capitalized computer software and tangible fixed assets.

Capitalized development work cannot be attributed by segment, which is why no allocation has been made. Other unallocated fixed assets are assessed to be insignificant.

Unallocated earnings are balanced against operating profit/loss:

	Group	
	2011	2010
Profit/loss per area	-38,864	-15,501
Administration expenses	2,336	965
R&D expenses	1,447	528
Selling expenses	1,959	696
Other operating expenses	-290	-1,185
Operating profit/loss	-33,412	-14,497

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	
	2011	2010
Assets per area	16,025	13,370
Liquid assets	28,930	24,544
Other receivables	5,602	2,809
Fixed assets	13,848	7,368
Total assets	64,405	48,091

Unallocated liabilities are balanced against total liabilities:

	Group	
	2011	2010
Liabilities per area	5,285	3,843
Accrued payroll costs	4,102	4,456
Payroll overhead and other taxes	2,405	2,214
Other accrued expenses	1,970	2,561
Borrowing	1,411	3,000
Provisions	312	694
Other liabilities	1,932	79
Total liabilities	17,417	16,847

An allocation of revenue per product is as follows:

	Products		Licenses		Services		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Income								
External sales	15,628	33,708	4,371	6,742	1,616	4,494	21,615	44,944
Assets	14,266	11,842	1,284	688	475	840	16,025	13,370
Investments	-	-	-	-	-	-	-	-

The Company has its registered office in Lund. The group's revenue from external customers in Sweden totals SEK 5.8 million (2010: 7.0) and the total revenue from external customers in other countries totals SEK 15.8 million (2010: 37.8), of which revenue from the US was SEK 2.9 million (2010: 21.4) and the Middle East SEK 8.3 million (2010: 8.5). Revenue from external customers, which makes up ten percent or more of the group's revenues, can be attributed to the segment IAM and totals SEK 8.2 million (2010: 13.1).

The parent company's revenue from customers in Sweden totals SEK 2.8 million (2010: 3.9) and revenues from customers in other countries total SEK 15.8 million (2010: 34.9), of which revenue from the US was SEK 0.0 million (2010: 24.1).

Note 4

Intangible fixed assets, group

	Capitalized development work	Patent	Capitalized computer software	Total
As at January 1, 2010				
Acquisition value	59,150	11,563	4,214	80,537
Accumulated depreciation and write-downs	-55,431	-11,563	-4,131	-76,735
Book value	3,719	0	83	3,802
January 1 - December 31, 2010				
Opening book value	3,719	0	83	3,802
Acquisition	4,466	-	-	4,466
Write-down	-271	-	-	-271
Depreciation	-1,290	-	-43	-1,333
Closing book value	6,624	0	40	6,664
As at December 31, 2010				
Acquisition value	63,616	11,563	4,214	85,003
Accumulated depreciation and write-downs	-56,992	-11,563	-4,174	-78,339
Book value	6,624	0	40	6,664
1 januari - 31 december 2011				
Opening book value	6,624	0	40	6,664
Acquisition	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	92,894
Accumulated depreciation and write-downs	-58,729	-11,563	-4,214	-80,116
Book value	12,778	0	0	12,778

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, 2010				
Acquisition value	56,750	8,721	972	66,443
Accumulated depreciation and write-downs	-53,179	-8,721	-888	-62,788
Book value	3,571	0	84	3,655
January 1 - December 31, 2010				
Opening book value	3,571	0	84	3,655
Acquisition	4,466	-	-	4,466
Write-down	-271	-	-	-271
Depreciation	-1,259	-	-43	-1,302
Closing book value	6,507	0	41	6,548
As at December 31, 2010				
Acquisition value	61,216	8,721	972	70,909
Accumulated depreciation and write-downs	-54,709	-8,721	-931	-64,361
Book value	6,507	0	41	6,548
1 januari - 31 december 2011				
Opening book value	6,507	0	41	6,548
Acquisition	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

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, 2010		
Acquisition value	8,572	7,107
Accumulated depreciation and write-downs	-7,704	-6,628
Book value	868	479
January 1 - December 31, 2010		
Opening book value	868	479
Acquisition	244	223
Depreciation	-408	-321
Closing book value	704	381
As at December 31, 2010		
Acquisition value	8,816	7,330
Accumulated depreciation and write-downs	-8,112	-6,949
Book value	704	381
1 januari - 31 december 2011		
Opening book value	704	381
Acquisition	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

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>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Depreciation and write-downs (Note 4, Note 5 and Note 6)	2,198	2,012	1,972	1,894
Personnel expenses	26,949	29,460	17,464	24,072
Goods for resale	9,548	17,151	12,597	17,490
Travel expenses	2,054	1,760	1,545	1,513
Telephone costs	775	694	569	528
Insurance expenses	484	334	209	217
Consultancy costs	3,435	883	7,482	1,762
Premises costs	3,579	3,085	2,791	2,527
Development costs (net of subsidies received)	4,543	-1,070	4,543	-1,070
Other sales expenses ¹⁾	-295	1,691	1,348	1,601
Management expenses	863	1,157	810	1,092
Exchange rate adjustments	290	1,191	-290	2,831
Write-down of receivables group companies	-	252	-	252
Other external income & costs	604	840	706	732
Total	55,027	59,440	51,746	55,441

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>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
PwC				
Audit assignment	341	283	293	242
Audit other	111	32	111	32
Consulting tax	-	-	-	-
Consulting other	49	11	49	11
Total	501	326	453	285
Other auditors				
Audit assignment	-	24	-	-
Audit other	-	-	-	-
Consulting tax	-	-	-	-
Consulting other	13	40	-	-
Total	13	64	0	0

Note 9

Operational leasing agreements

Operational leasing agreements mainly refer to office rent.

	<i>Group</i>		<i>Parent Company</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Leasing costs during the year	2,014	1,955	1,613	1,565
Other leasing	135	247	135	247
Total	2,149	2,202	1,748	1,812
Nominal value of agreed future leasing charges				
Due for payment in 1 year	1,834	1,963	1,421	1,589
Due for payment after 1 year, but within 5 years	1,347	3,932	624	2,872
Due for payment after 5 years	-	-	-	-
Total	3,181	5,895	2,045	4,461



FINANCIAL REPORTS

Note 10

Government support

Precise Biometrics has received SEK 1.3 million in development subsidies from the EU. The amount is included in R&D expenses.

FINANCIAL REPORTS

Note 11

Income tax

	<i>Group</i>		<i>Parent Company</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Current tax	-12	-16	-	-
Deferred tax (Note 13)	-	-	-	-
Total	-12	-16	0	0

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

	<i>Group</i>	
	<i>2011</i>	<i>2010</i>
Profit/loss before tax	-33,204	-14,632
Tax calculated as per national tax rates applicable for profit in respective countries	8,733	3,848
Tax effect on taxable income	-	-
Tax effect on non-deductable costs	48	56
Tax deficit for which no deferred		
Tax claim can be reported	-8,781	-3,904
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	
	2011	2010
Profit/loss attributable to parent company stockholders	-33,216	-14,648
Weighted average number of outstanding ordinary shares (thousands)	161,953	134,961
- adjustment for share options	0	0
Weighted average number of common stock for calculation of earnings		
per share after dilution (thousands)	161,953	134,961
Profit/loss per share after dilution (SEK per share)	-0.20	-0.11

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, 2011 and also since the Result attributable to parent company shareholders is negative.

	Group	
	2011	2010
Profit/loss attributable to parent company stockholders	-33,216	-14,648
Weighted average number of outstanding ordinary shares (thousands)	161,953	134,961
- adjustment for share options	-	-
Weighted average number of common stock for calculation of earnings		
per share after dilution (thousands)	161,953	134,961
Profit/loss per share after dilution (SEK per share)	-0.20	-0.11

Note 13

Deferred tax

The parent company does not have any deferred tax assets.

Against the background of past evolution in group earnings, no deferred tax assets relating to loss carried forwards have been reported. 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 465 (2010: 448) million and in the American subsidiary to approx. SEK 33 million (2010: 33).

Note 14

Inventories

	Group	
	2011	2010
Components	1,562	3,822
Goods for sales	8,111	4,580
Total	9,673	8,402

The costs reported for inventories are included in the Cost of goods sold item, and amounted to SEK 9,485 thousand (2010: 17,425).

Note 15

Accounts receivable and other receivables

	Group	
	2011	2010
Accounts receivable	6,352	4,968
Minus: reserve for impairment of receivables	-	-
Accounts receivable net	6,352	4,968
Other receivables	3,264	1,085
Prepaid expenses and accrued income	2,338	1,724
Total	11,954	7,777

There is not considered to be a write-down requirement for accounts receivable that have been due. As at December 31, 2011, accounts receivable amounting to SEK 263 thousand (2010: 186) 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, 2011, the Group had not recognized any accounts receivable due for more than six months (2010: 0). The reserve for doubtful accounts receivable amounted to SEK 0 thousand as at December 31, 2011 (2010: 0). The age analysis of all accounts receivable is as follows:

	2011	2010
Less than 3 months	6,352	4,956
3 to 6 months	-	12
Of which written down	-	-
More than 6 months	-	-
Of which written down	-	-
Total	6,352	4,968

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:

	2011	2010
SEK	794	1,380
USD	665	371
EUR	107	109

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, 2011 would have been SEK 725 thousand (2010: 493) 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 565 thousand (2010: 309) 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	
	2011	2010	2011	2010
Cash and bank balances	28,930	24,544	21,662	21,129
Total	28,930	24,544	21,662	21,129

	Group	
	2011	2010
Liquid assets in the cash flow statement include the following:		
Liquid assets	28,930	24,544
Overdrafts	-	-
Total	28,930	24,544

Note 17

Financial fixed assets

	Group		Parent Company	
	2011	2010	2011	2010
Opening balance	-	-	1,058	1,058
Write-down of subsidiaries	-	-	-	-
Total	0	0	1,058	1,058
Long-term payment	-	-	1,058	1,058

Participation in subsidiaries

	Parent Company	
	2011	2010
Precise Biometrics Services AB		
Corp ID 556582-9347, head office: County of Skåne, Lund		
No of shares	1,000	1,000
Stock share	100%	100%
Book value	100	100
Precise Biometrics Inc		
Company No: 544077-1, Vienna, Washington, USA		
No of shares	10	10
Stock share	100%	100%
Book value	958	958
Precise Biometrics Solutions AB		
Corp ID 556646-6529, head office: county of Värmland, Karlstad		
No of shares	1,000	1,000
Stock share	100%	100%
Book value	0	0

Note 18

Capital stock

	No. of shares
As at January 1, 2010	134,960,800
New issues of shares	-
As at December 31, 2010	134,960,800
New issues of shares	53,984,320
As at December 31, 2011	188,945,120

Rights issue

During 2011 Precise Biometrics has completed a rights issue with preferential rights, which supplied the company with SEK 48,575 thousands after related costs. Through this rights issue 53,984,320 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 2.90. 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. 3.8 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.

During 2011 the 2008 option program lapsed.

The nominal value of a share is SEK 0.40.

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

	2011		2010	
	Redemption price SEK per share	Options (thousand)	Redemption price SEK per share	Options (thousand)
As at January 1	2.75	2,000,000	3.66	4,415,000
Allocated	2.90	4,400,000	-	-
Lapsed	2.75	-2,000,000	3.50	-2,415,000
As at December 31	2.90	4,400,000	2.75	2,000,000

Note 19

Reserves in equity

	<i>Reserves</i>
Opening balance as at January 1, 2010	155
Exchange rate differences:	
- The Group	334
- The Group: Reverse of exchangerate difference in disposed subsidiary	150
Closing balance as at December 31, 2010	639
Exchange rate differences:	
- The Group	-55
Closing balance as at December 31, 2011	584



FINANCIAL REPORTS

Note 20

Accounts payable and other liabilities

	<i>Group</i>		<i>Parent Company</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Accounts payable	5,285	3,843	5,098	3,443
Accrued payroll costs	4,102	4,456	2,756	3,334
Payroll overhead and other taxes	2,404	2,214	1,491	1,576
Accrued expenses	1,970	2,561	951	2,130
Other liabilities	1,933	79	1,750	-
Total	15,694	13,153	12,046	10,483

Note 21

Borrowing

	<i>Group</i>		<i>Parent Company</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Short-term				
Overdraft facility	1,411	1,250	-	-
Liabilities to credit institutes	-	-	-	-
Other liabilities	-	1,750	-	-
Total	1,411	3,000	0	0

Note 22

Other provisions

	<i>Guarantee provisions</i>	
	<i>Group</i>	<i>Parent Company</i>
As at January 1, 2011	694	1,136
Reported in consolidated income statement	-382	-1,060
As at December 31, 2011	312	76

Note 23

Pledged assets

Of the SEK 26,400 thousand amount as at December 31, 2011, SEK 24,000 thousand refers to the parent company.

Note 24

Contingent liabilities

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

Note 25

Employee and personnel expenses

Gender balance in group

	Group		Parent Company	
	Men	Women	Men	Women
Precise Biometrics AB, Sweden	13	8	15	8
Precise Biometrics Inc, USA	4	1	2	0
Precise Biometrics Solutions AB	7	2	7	2
	24	11	24	10

Gender balance in corporate management – Proportion of women

	Group		Parent Company	
	2011	2010	2011	2010
The board of directors	60%	60%	60%	60%
President and leading executives	0%	0%	0%	0%

Absence due to illness

	Sweden	
	2011	2010
Total absence due to illness as proportion of ordinary working hours	1.3%	1.0%
Proportion of total absence due to illness referring to consecutive period of 60 days or more	0%	0%
Sick leave by gender		
Men	0.2%	0.8%
Women	4.4%	1.4%
Sick leave by age category		
29 years old or younger (no. of employees in group less than 10)	iu	iu
30-49 years old	1.3%	0.9%
50 or older (no. of employees in group less than 10)	iu	iu

Salaries and remuneration are allocated as follows:

	Group		Parent Company	
	2011	2010	2011	2010
Board and President, Sweden				
Salaries and other remuneration	3,339	3,363	3,339	3,363
Pension expenses	13	13	13	13
Payroll overhead, incl. payroll tax	1,050	1,037	1,050	1,037
Total	4,402	4,413	4,402	4,413
Others, Sweden				
Salaries and other remuneration	16,698	17,685	11,951	13,564
Pension expenses	2,452	2,458	1,685	1,872
Payroll overhead, incl. payroll tax	5,883	6,219	4,214	4,759
Total	25,033	26,362	17,850	20,195
TOTAL, SWEDEN	29,435	30,775	22,252	24,608
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	3,708	2,071	-	-
Pension expenses	158	57	-	-
Payroll overhead	203	67	-	-
Total	4,069	2,195	0	0
TOTAL, USA	4,069	2,195	0	0
TOTAL	33,504	32,970	22,252	24,608

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 2011

	<i>Basic salary/Board remunerations</i>	<i>Flexible remunerations</i>	<i>Other benefits</i>	<i>Pension expenses</i>	<i>Other remuneration</i>	<i>Total</i>
Lisa Thorstedt, Chairwoman of the Board	210	0	0	0	0	210
Marc Chatel, member of the Board	105	0	0	0	0	105
Lena Klasén, member of the Board	105	0	0	0	0	105
Eva-Maria Matell, member of the Board	105	0	0	0	0	105
Torbjörn Clementz, member of the Board	105	0	0	0	0	105
President	2,272	206	177	13	54	2,722
Other leading executives 3 persons (see below)	3,013	292	57	354	217	3,933
Total	5,915	499	234	367	271	7,286

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 9% of salary for the calendar year for 2011. For other leading executives, the variable salary for 2011 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 2011, the variable portion of basic salary for other leading executives totaled 10%.

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 3.8 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 (2010: 2,000,000 options), no options were (2010: 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 2011 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 27, 2011, 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

	<i>Parent Company</i>	
	<i>2011</i>	<i>2010</i>
Prepaid rents	370	360
Prepaid insurance	159	292
Prepaid sales expenses	42	57
Accrued income	943	166
Prepaid patent charges	194	173
Other items	311	426
Total	2,019	1,474

Note 28

Cash flow from operations

	<i>Group</i>		<i>Parent Company</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
Result for period before financial items	-33,412	-14,497	-36,238	-16,616
Adjusted for:				
- depreciation and write-downs of tangible and non-current assets	2,198	2,012	1,972	1,894
- other items with no influence on liquidity	-351	130	1,401	-3
Changes in working capital				
- inventories	-1,271	-2,355	-1,271	-2,355
- accounts receivable and other receivables	-3,411	14,482	-6,398	25,427
- accounts payable and other liabilities	571	-9,346	1,477	-8,874
Cash flow from operations	-35,676	-9,574	-39,057	-527

Note 29

Purchases and sales between group companies and transactions with associates

Parent Company sales to other group companies amounted to SEK 6.3 million (24.3). Purchases from group companies amounted to SEK 10.8 million (4.4).

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 2011 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

FUTURE CAPITAL

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

FORECASTING PROBLEMS

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

CURRENCY EXPOSURE RISKS

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

CREDIT RISK

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

INTEREST RISKS

The Company is not subject to any tangible interest risks.

CASH FLOW

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

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

Assurance from Board

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

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

The balance sheet and income statement of the parent company and of the group will be prescribed the Annual General Meeting April 24, 2012 for assessment.

Lund, March 26, 2012

Lisa Thorsted

Chairman of the Board

Eva Maria Matell

Board member

Marc Chatel

Board member

Torbjörn Clementz

Board member

Lena Klasén

Board member

Our audit report was submitted on March 26 2012.

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Head Accountant

Authorised Public Accountant

Ola Bjärehäll

Authorised Public Accountant

Audit report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Precise Biometrics AB (publ) for the year 2011.

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 2011 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 2011 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. A corporate governance statement has been prepared. 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 2011.

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.

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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess 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.

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 26, 2012

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

Authorised Public Accountant

Auditor in charge

Ola Bjärehäll

Authorised Public Accountant

Board of Directors

As of 31 december 2011



LISA THORSTED

Chairman of the board.

BORN: 1967

EDUCATION: Master of Science in Economics and Business

Administration, Copenhagen Business School, Denmark.

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

BOARD MEMBER SINCE: 2006

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

OTHER ASSIGNMENTS: ---

SHARES IN PRECISE BIOMETRICS: 59,937

SPOUSE: 33,125



MARC CHATEL

Member of the board.

BORN: 1955

EDUCATION: Mechanical Engineering at Federal Polytechnic

School, Lausanne, Switzerland.

CURRENT POSITION: CEO at Finakey S.A.

BOARD MEMBER SINCE: 2005

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

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

SHARES IN PRECISE BIOMETRICS: 2,500,000



EVA MARIA MATELL

Board Member.

BORN: 1958

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

CURRENT POSITION: General Manager at Cintos Consulting.

BOARD MEMBER SINCE: 2007

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

OTHER ASSIGNMENTS: ---

SHARES IN PRECISE BIOMETRICS: 18,666



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

BOARD MEMBER SINCE: 2007

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: Member of the board of the Institute of Technology at 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: Member of the board of IMAGIC the Imaging Integrated Components institute center of excellence, led by Acreo.

SHARES IN PRECISE BIOMETRICS: 0



TORBJÖRN CLEMENTZ

Board Member.

BORN: 1961

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

CURRENT POSITION: CFO and Deputy CEO, BE Group AB.

BOARD MEMBER SINCE: 2009

PREVIOUS ASSIGNMENTS IN LAST FIVE YEARS: ---

OTHER ASSIGNMENTS: Board member in subsidiaries within BE Group.

SHARES IN PRECISE BIOMETRICS: 140,000

SPOUSE: 40,000

Management

As of 31 december 2011



THOMAS MARSCHALL

President and CEO.

BORN: 1967

EMPLOYED SINCE: 2006

OTHER ASSIGNMENTS: ---

PREVIOUS ASSIGNMENTS IN THE PAST FIVE YEARS: General Manager of A.P Møller Maersk. CEO of Sykron A/S. 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: 1,362,683 shares, 1,600,000 share warrants.



MICHAEL HARRIS

CTO.

BORN: 1967

EMPLOYED SINCE: 2002

OTHER ASSIGNMENTS: ---

PREVIOUS ASSIGNMENTS IN THE PAST FIVE YEARS: Director of Sales, IAM Global, Precise Biometrics. Regional Sales Director North America, Precise Biometrics.

EDUCATION: Computer Science and Biology, Moravian College. Executive Education, Wharton School, University of Pennsylvania.

HOLDINGS: 300,000 share warrants.



PATRIK LINDEBERG

Vice President, R&D.

BORN: 1973

EMPLOYED SINCE: 2007

OTHER ASSIGNMENTS: Board member in Precise Biometrics Solutions.

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

Auditors

Öhrlings PricewaterhouseCoopers AB, 556029-6740

Elected until the end of the General Annual Meeting 2012.

Eva Carlsvi

Auditor in charge, born 1968

Authorised Public Accountant - Auditor of Precise
Biometrics since April 2008

Ola Bjärehäll

Accountant, born 1974

Authorised Public Accountant - Auditor of Precise
Biometrics since April 2008

Financial glossary

Average number of outstanding shares during the year

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

Balance sheet total

Value of all assets on the balance sheet date.

Capital employed

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

Debt/equity ratio

Interest bearing liabilities divided by equity.

Direct dividend

Proposed dividend divided by share price on balance sheet date.

Dividend

Dividend per share during the year.

EBITDA

Operating profit/loss before depreciation and net financials.

Equity

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

Equity/assets ratio

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

Equity per share

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

Equity ratio

Equity and latent tax liabilities divided by closing balance.

Gross margin

Gross profit/loss divided by net sales.

Interest cover ratio

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

Liquid ratio

Current assets less inventories divided by current liabilities

Number of shares

Number of shares at year-end.

Operating margin

Operating profit/loss divided by net sales.

P/E ratio

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

Profit/loss per share

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

Return on capital employed

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

Return on equity

Profit/loss for the year divided by average equity.

Share price

The last price paid during the period.

Working capital

Current assets less current liabilities.

Annual General Meeting

The Annual Meeting for shareholders in Precise Biometrics AB (publ) will be held on Tuesday April 24, 2012 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 18, 2012 at the latest, and also report their participation to Precise Biometrics AB no later than Wednesday April 18, 2012 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 18, 2012 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 18, 2012 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 18, 2012.

Shareholder contact

Patrik Norberg, CFO in Precise Biometrics

Telephone +46 46 31 11 47

Email patrik.norberg@precisebiometrics.com

SHAREHOLDER INFORMATION

Distribution of annual report

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

SHAREHOLDER INFORMATION

Financial calender

Interim Report January - March.....April 24, 2012

Interim Report January - June.....July 17, 2012

Interim Report January - September.....October 24, 2012

Year-end resport January-December.....February 5, 2013

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

Contact

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-post: patrik.norberg@precisebiometrics.com

