



2010

ANNUAL REPORT





FIVE-YEAR REVIEW

Income statements, Thousands SEK

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

Balance sheet, Thousands SEK

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

Cash flow analysis, Thousand SEK

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



KEY RATIOS

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



ADMINISTRATION & CORPORATE GOVERNANCE REPORT

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

Activities

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

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

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

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

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

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

The sales organization

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

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

The most important business events during the year

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

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

- Precise Biometrics has during 2010 reorganized its sales organization due to increase of new business opportunities in combination with developing a more customer oriented organization.
- The Board of Directors of Precise Biometrics has resolved, subject to approval of the AGM on April 27, to undertake an issue with preferential rights for Precise Biometrics' shareholders that will raise a maximum of SEK 54 million before deduction of issue related costs. The rights issue is carried out to realize the Company's business plan – Plan 2015

Patents

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

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

Brands

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

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

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

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

PRECISE SENSE™ - the trademark for the new biometric readers

Sales and income

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

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

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

Financing and liquidity

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

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

Capitalization and depreciation of development work

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

Research and development

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

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

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

Organization and personnel

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

Asia Ltd has been closed.

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

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

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

The share

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

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

Proposed guidelines for the compensation of leading officials

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

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

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

Parent company

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

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

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

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

Proposed treatment of accumulated loss

Parent company

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

The Annual General Meeting

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

The annual general meeting for Precise Biometrics AB (publ) will be held on Wednesday April 27, 2011 at 16.00 at Precise Biometrics headquarters in Lund, Scheelevägen 30.

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

The nomination committee

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

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

The board of directors

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

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

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

The work of the board of directors

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

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

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

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

Group executive

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

Compensation committee

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

The audit committee

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

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

Auditors

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

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

Policies (within Corporate Governance)

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

FINANCE POLICY

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

INFORMATION POLICY

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

INSIDER POLICY

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

IT POLICY

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

ETHICS POLICY

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

ENVIRONMENTAL POLICY

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

Risks

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

Change of control clause

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

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

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

THE CONTROL ENVIRONMENT

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

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

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

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

RISK ASSESSMENT AND INSPECTION ACTIVITIES

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

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

INFORMATION AND COMMUNICATIONS

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

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

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

FOLLOW-UP

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

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

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

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



FINANCIAL REPORTS

INCOME STATEMENTS

Group, figures in Thousands SEK

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

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

Parent Company, figures in Thousands SEK

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

Parent companies report concerning comprehensive income

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



FINANCIAL REPORTS

BALANCE SHEET

Group, figures in Thousands SEK

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

Parent Company, figures in Thousands SEK

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



FINANCIAL REPORTS

CHANGE IN EQUITY

Group, figures in Thousands SEK

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

Parent company, figures in Thousands SEK

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

1) Repurchase of 450,000 share options.

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



FINANCIAL REPORTS

CASH FLOW STATEMENT

Figures in Thousands SEK

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



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 D.C., USA (Precise Biometrics Inc.) and in Karlstad (Precise Biometrics Solutions AB). The subsidiary Precise Biometrics Solutions AB has its head office in Karlstad.

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



FINANCIAL REPORTS

NOTE 2

Accounting policies

General

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

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

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

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

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

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

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

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

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

Consolidated financial statements

SUBSIDIARIES

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

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

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

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

ASSOCIATED COMPANIES

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

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

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

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

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

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

SEGMENT REPORTING

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

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

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

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

Translation of foreign currency

FUNCTIONAL CURRENCY AND REPORTING CURRENCY

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

TRANSACTIONS AND BALANCE SHEET ITEMS

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

GROUP COMPANIES

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

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

Tangible fixed assets

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

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

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

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

- Computers: 3 years
- Equipment: 5 years

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

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

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

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

Intangible assets

RESEARCH AND DEVELOPMENT

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

GOODWILL

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

SOFTWARE

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

PATENTS

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

MARKET CONTACTS

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

IMPAIRMENT WRITE-DOWNS

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

Financial instruments

LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE

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

INVENTORIES

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

ACCOUNTS RECEIVABLE

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

LIQUID ASSETS

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

FINANCIAL FIXED ASSETS

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

CAPITAL STOCK

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

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

INCOME TAXES

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

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

Remuneration to employees

PENSIONS

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

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

SEVERANCE PAY

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

BONUS PLANS

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

OPTION PROGRAM

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

ACCOUNTS PAYABLE

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

PROVISIONS

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

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

REVENUE

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

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

LEASING AGREEMENTS

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

LOAN EXPENSES

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

GOVERNMENT SUBSIDIES

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

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

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

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

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

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

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

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



FINANCIAL REPORTS

NOTE 3

Segment information

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

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

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

The management team assesses operating segments based on operating profit.

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

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

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

Other information

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

Unallocated earnings reconciled with operating profit/loss:

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

Unallocated assets reconciled with total assets:

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

Unallocated liabilities reconciled with total liabilities:

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

Breakdown of sales by product type as follows:

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

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



FINANCIAL REPORTS

NOTE 4

Intangible fixed assets, group

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



FINANCIAL REPORTS

NOTE 5

Intangible fixed assets, parent company

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



FINANCIAL REPORTS

NOTE 6

Tangible fixed assets

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



FINANCIAL REPORTS

NOTE 7

Costs allocated per type

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



FINANCIAL REPORTS

NOTE 8

Auditors' remuneration

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



FINANCIAL REPORTS

NOTE 9

Operational leasing agreements

Operational leasing agreements mainly refer to office rent.

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



FINANCIAL REPORTS

NOTE 10

Government support

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



FINANCIAL REPORTS

NOTE 11

Income tax

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

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

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



FINANCIAL REPORTS

NOTE 12

Profit/loss per share

Before dilution

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

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

Profit/loss per share after dilution

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

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

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

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

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



FINANCIAL REPORTS

NOTE 13

Deferred tax

The parent company does not have any deferred tax assets.

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

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

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



FINANCIAL REPORTS

NOTE 14

Inventories

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

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



FINANCIAL REPORTS

NOTE 15

Accounts receivable and other receivables

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

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

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

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

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

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

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

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

Sensitivity analysis

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

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

Credit risk management

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

Risk capital management

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

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



FINANCIAL REPORTS

NOTE 16

Liquid assets

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

	<i>Group</i>	
	<i>2010</i>	<i>2009</i>

Liquid assets in the cash flow statement include the following:

Liquid assets	24,544	40,884
Overdrafts	-	-
Total	24,544	40,884



FINANCIAL REPORTS

NOTE 17

Financial fixed assets

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

Participation in subsidiaries

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

Precise Biometrics Ltd Company

Company No: 5551295, London, UK

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

Precise Biometrics Asia Ltd Company (closed down 2010)

Company No: 1159692, Hong Kong

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



FINANCIAL REPORTS

NOTE 18

Capital stock

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

Stock options

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

During 2010 the 2007 option program lapsed.

The nominal value of a share is SEK 0.40.

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

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



FINANCIAL REPORTS

NOTE 19

Reserves in equity

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



FINANCIAL REPORTS

NOTE 20

Accounts payable and other liabilities

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



FINANCIAL REPORTS

NOTE 21

Borrowing

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



FINANCIAL REPORTS

NOTE 22

Other provisions

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



FINANCIAL REPORTS

NOTE 23

Pledged assets

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



FINANCIAL REPORTS

NOTE 24

Contingent liabilities

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



FINANCIAL REPORTS

NOTE 25

Employee and personnel expenses

Gender balance in group

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

Gender balance in corporate management – Proportion of women

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

Absence due to illness

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

Salaries and remuneration are allocated as follows:

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

NOTE 26

Remuneration to leading executives

Principles

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

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

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

Remuneration and other benefits in 2010

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

Notes on the table:

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

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

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

Bonuses

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

Other benefits

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

Financial instruments etc.

The company has one outstanding option program.

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

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

Pensions

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

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

Severance pay

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

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

Change in control

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

Planning and decision-making process

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

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



FINANCIAL REPORTS

NOTE 27

Prepaid expenses and accrued income

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



FINANCIAL REPORTS

NOTE 28

Cash flow from operations

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



FINANCIAL REPORTS

NOTE 29

Purchases and sales between group companies and transactions with associates

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

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



FINANCIAL REPORTS

NOTE 30

Risk factors

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

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

Risks related to operations

TECHNOLOGICAL DEVELOPMENT

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

KEY PERSONS

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

PARTNERS

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

TECHNOLOGICAL AND MARKET DEVELOPMENT AND PRODUCTION

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

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

PATENTS AND INDUSTRIAL AND INTELLECTUAL PROPERTY RIGHTS

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

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

COMPETITORS

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

Financial risks

FUTURE CAPITAL

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

FORECASTING PROBLEMS

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

CURRENCY EXPOSURE RISKS

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

CREDIT RISK

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

INTEREST RISKS

The Company is not subject to any tangible interest risks.

CASH FLOW

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

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



ASSURANCE FROM BOARD

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

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

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

Lund, March 25, 2011

Lisa Thorsted

Chairman of the Board

Eva Maria Matell

Board member

Marc Chatel

Board member

Torbjörn Clementz

Board member

Lena Klasén

Board member

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

Eva Carlsvi

Head Accountant
Authorised Public Accountant

Ola Bjärehäll

Authorised Public Accountant



AUDIT REPORT

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

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

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

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

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

Lund, March 25, 2011

Öhrlings PricewaterhouseCoopers AB

Eva Carlsvi

*Authorised Public Accountant
Auditor in charge*

Ola Bjärehäll

Authorised Public Accountant



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.