

**ANNUAL REPORT**  
**for the period**  
**January 1 - December 31, 2001**

**BIOSENSOR APPLICATIONS**  
**SWEDEN AB**

<b>Content</b>	<b>Page</b>
<b>COMMENTS BY THE PRESIDENT</b>	<b>3</b>
<b>BUSINESS OPERATIONS 2001</b>	<b>4</b>
<b>STATUTORY MANAGEMENT REPORT</b>	<b>7</b>
<b>INCOME STATEMENT</b>	<b>10</b>
<b>BALANCE SHEET</b>	<b>11</b>
<b>CASH FLOW STATEMENT</b>	<b>13</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>14</b>

## **ANNUAL REPORT OF BIOSENSOR APPLICATIONS SWEDEN AB**

### **COMMENTS BY THE PRESIDENT**

It has been an eventful year for Biosensor Applications Sweden AB ("Biosensor"). We have achieved technological breakthroughs, secured further financing and there has been a significant increase in interest in our company and our products.

Drug abuse is a growing problem all over the world. Children and adults are maimed by buried landmines every day and large agricultural areas lie fallow because of the danger posed by these landmines. Threats from extremists and terrorist groups have increased.

It is therefore highly gratifying to work for a company that develops products that detect narcotics, landmines and terrorist explosives.

Biosensor's technology is internationally renowned. We have invested heavily in further development of the technology for detecting explosives and an effective air sample collection system. By combining these technologies the Company has developed a biosensor system, often called the "artificial dog's nose," with unique abilities and properties.

During the past year we have cooperated extensively with the Swedish customs authority with respect to BIOSENS-D, the Company's narcotics detector. The first narcotic substance tested is amphetamines, which are often used to produce the drug ecstasy. The results of field tests show that the Company's collection system developed in house works well. Our biochemistry also indicates that we can detect amphetamines, cocaine and heroin. Work relating to cannabis also began during the year.

During 2001–2003 the EU will invest over MSEK 25 (euro 2.95 million) in the development and testing of the landmine detection system, MSEK 16 of which will accrue directly to Biosensor. The remainder will be paid to the Company's suppliers and landmine clearing organizations who will test the system. The EU's experts evaluated 48 applications for grants for landmine clearing technology and our system was the only one deemed "very good" with respect to the two most important criteria – its innovative and scientific quality and its chances of becoming commercially profitable. The EU's evaluation staff described the technology as "excellent."

This enthusiasm is also shared by one of the world's largest humanitarian landmine clearing organizations. In the summer of 2001, Per Nergaard, the head of Norsk Folkehjelp's landmine clearing unit, wrote that our biosensor system is "the most promising of all new technologies in the area of landmine clearing." He continued: "We hope and believe that the biosensor system will revolutionize landmine clearing work throughout the world."

In part financed by the EU grant mentioned above, we have also initiated development of an application for detecting explosives found in certain modern landmines, which are used in terrorist attacks.

The first narcotics detectors should be launched to the market in 2002.

Carl Lundberg  
President

Biosensor Applications Sweden AB

## BUSINESS OPERATIONS 2001

### *Research and product development, BIOSENS*

During the year Biosensor built a new generation of the biosensor system, called BIOSENS. The system was displayed at the Milipol security trade show in Paris at the end of November. It consists of an analysis unit and a collection unit.

The Company has improved the sample collection unit: from having been powered by a diesel engine and weighing 19 kg to being a small battery-powered system of 2.5 kg. The customs authority has tested the unit.



**Picture:** Biosensor. Sample collection unit

The Company has gradually developed the analysis unit. During the spring of 2001 components and modules were tested and during fall the units were combined into a functioning instrument.



**Picture:** Biosensor. Analysis unit

The year began with an important research breakthrough with respect to the biochemistry for trinitrotoluene (TNT). The same technology was then used to complete the biochemistry for amphetamines and cocaine. The work with heroin and cannabis was begun during the fall and is intended to be completed during the spring and summer of 2002, respectively. Work also began to develop antibodies for the most common explosives.

The Company has also designed an entirely new and standardized filter to be used for all applications. It has been adapted to the analysis unit as well as the collection unit. Discussions have been initiated to outsource manufacturing the filter.



**Picture:** Biosensor. Filter

*The narcotics detector, BIOSENS-D (Drugs)*

Biosensor continued development work on BIOSENS-D during the year. At its own laboratory, the Company has developed detectors for amphetamine and cocaine. The work on heroin and cannabis continues according to plan.

At the end of January the customs authority decided to initiate a feasibility study of BIOSENS-D together with Biosensor. The system was to be evaluated with respect to its technical, economic and operational merits in order to provide an idea of how it could function within the framework of the customs authority's operations. The feasibility study was evaluated and completed in April, and the customs authority decided to continue to work with Biosensor.

Biosensor and the Swedish customs authority have jointly tested the collection system. During the fall, personnel from Biosensor trained one of the customs border protection groups in the use of BIOSENS-D. During December, the customs authority borrowed a complete collection system for its own sampling activities.

In November, Biosensor presented BIOSENS-D at the Milipol 2001 security trade show in Paris. In the course of an introductory meeting at the Swedish Club in Paris, the system was presented by Biosensor and the Swedish customs authority also made a presentation relating to our joint experience of the collection system. Representatives of the Swedish Embassy and the Export Council also made statements. The meeting was attended by specially invited guests, including distributors, potential customers and journalists.

*The landmine detector, BIOSENS-M (Mines), and EU projects*

In the beginning of 2001 the Company concluded a contract with the EU in respect of a three-year participation in the EU BIOSENS and DEMAND projects. The EU allocated over MSEK 25 to development of Biosensor's explosives detector, which will be able to detect landmines as well as so-called terrorist explosives. More than 16 MSEK will be paid directly to Biosensor and the remainder will be paid to the Company's suppliers and to landmine clearing organizations who will test the system.

"We hope and believe that the "artificial dog's nose" will revolutionize landmine clearing work in the world," said Conny Åkerblom, landmine clearing expert at Räddningsverket, in an article in Dagens Industri about the EU support.

The Table below describes the structure for the EU contribution.

	<b>Description</b>	<b>Value (€) to the Company</b>	<b>Value (€) to the Company's supplier/test organizations</b>	<b>Total Value (€)</b>
<b>BIOSENS projects</b>	To develop a prototype for a collection unit able to detect different explosives, and a portable system.	1.424 million	0.926 million	2.350 million
<b>DEMAND project</b>	To develop a TNT detector with improved detection ability.	0.531 million	0.067 million	0.598 million
<b>Total</b>		<b>1.955 million</b>	<b>0.993 million</b>	<b>2.948 million</b>

During the first six months of 2001 the Company incurred costs, which resulted in a first part payment of MSEK 2.5 from the EU at the beginning of 2002. The work is continuing according to plan.

In September, Biosensor conducted tests on the collection unit of the system together with personnel from Norsk Folkehjelp in Bosnia.

During the fall, Biosensor also tested the system's collection unit together with personnel at the Swedish landmine clearing competence center, SWEDEC in Eksjö. Testing operations were conducted with Räddningsverket at Grindsjön during the entire year.

*The explosives detector, BIOSENS-E (Explosives)*

During the fall, Biosensor started working on further development of the biosensor system for landmine detection and also on the detection of RDX and PETN – together also known as Semtex – two explosives, both of which are used in modern landmines and also in terrorist attacks.

The system, BIOSENS-E, is intended to be used for increased airport security, but may also be used in the protection of important buildings. The earlier decision regarding support from the EU and the terrorist attack on September 11 in the United States have contributed to the Company's rescheduling of this development work

*Sharper focus on the global fight against terrorism*

During the fall of 2001, the Company's products and technology were affected by the world focus on terrorism in several ways.

- Biosensor's explosives detector will be developed for use in aviation security and to protect important buildings and major installations.
- The rebuilding of Afghanistan, which has been laid to waste by war and landmines, increased interest in landmine clearing. Testing of the Company's landmine detector is continuing.
- Terrorist groups finance their operations in part by drug trafficking. Testing of the Company's narcotics detector is continuing.
- Society needs better protection against biological terror attacks, an area where the Company's biosensor system may have great future potential.

## STATUTORY MANAGEMENT REPORT

The Board of Directors and the Managing Director of Biosensor Applications Sweden AB hereby present the Annual Financial Statement and Group Financial Statements for the fiscal year ending 31 December 2001. The Company was, until January 1998, a wholly owned subsidiary of Bofors AB. It was then sold to private investors. Following subsequent share transfers and new share issues, the Company has approximately 200 shareholders as of 31 December, 2001.

The work to develop the biosensor system began in 1995 and has cost just over MSEK 150 to date. Bofors invested MSEK 38 in development work between 1995 and 1997. In connection with reorganization within Celsius (the then owner of Bofors), the entire project was purchased by a group of private investors in the beginning of 1998. The company's shareholder structure has since changed and become more broadly based. Apart from a number of private individuals, the main owners include Skandia, Förvaltnings AB Metallica, The Red Cross, The Church of Sweden and The Swedish Association of Municipal Workers.

Statens Räddningsverk has acquired a prototype of BIOSENS-M, the Company's landmine detector, valued at MSEK 1.15. The prototype was delivered in October 2000 and tests are ongoing.

### Corporate status

The Group includes Biosensor Applications Sweden AB and two wholly-owned subsidiaries: Biosensor Aviation Security Ltd., with its registered office in London, and Biosensor Mine Detection A/S, with its registered office in Oslo.

Both subsidiaries were dormant during the year and are in liquidation.

### Significant events during 2001 and thereafter

#### *Private placements*

In order to provide Biosensor with cashflow, the Company borrowed a total of MSEK 5 from MN Development and Skandia in May. At the same time, a private placement took place with these two entities. MN Development purchased 260,000 shares and Skandia purchased 150,000 shares at a par value of SEK 1.00 per share.

Based on a resolution of the Annual General Meeting held on May 16, the first tranche of a major equity offering was floated. Existing shareholders had preferential rights to the offering, of which 5,811,984 shares were subscribed to at a price of SEK 3.50 per share. MSEK 20.3 out of a possible MSEK 25 were thus subscribed to.

In November, the second tranche of the offering was floated. This was fully subscribed to. A total of 5,796,984 shares were subscribed to at SEK 3.50 per share, equivalent to a total of MSEK 20.3.

A third tranche of equity was offered for sale in March 2002 and may generate proceeds of an additional amount of MSEK 20.3. Only participants in the equity offering of July 2001 will have an option to subscribe to the third tranche. The subscription price will be SEK 5.20 for existing shareholders with preferential rights.

#### *Raising of additional capital*

After the tragic events of September 11, 2001, interest in security-related companies has increased. Consequently, Biosensor has been in contact with financial experts in the USA to investigate the possibility of raising additional capital. The result of these investigations revealed that several investors are interested in becoming shareholders in Biosensor.

During Fall 2001 Biosensor appointed a New York venture capital company to assist it in raising new capital.

#### *Balance sheet for liquidation purposes*

As of September 30, 2001 it was established that more than half of the registered share capital had been consumed. In accordance with the Swedish Companies Act, Chapter 13, Section 2, the Board of Directors compiled a balance sheet for liquidation purposes. This demonstrated that the share capital was intact.

#### *Organizational development*

During the year Biosensor developed from being essentially a research company into a development company. The number of employees increased from 12 to 18.

Biosensor hired a CFO and is actively recruiting new employees for its marketing and sales organization, as well as a person who will be the link to the manufacturing activity. The Company is also seeking external partners for manufacturing. Several alternative manufacturers are being considered.

The Company has begun building support functions for its operations, with a focus on administrative procedures and systems. The Company has a new logotype, the Website has been radically revised and the domain address has been changed ([www.biosensor.se](http://www.biosensor.se)).

#### *Patents*

The Company initiated negotiations with a research institute in Israel to take over parts of the patents, which Biosensor uses for its products. During the year a university in Israel and Biosensor had different opinions as to how the license could be used. The disagreement primarily concerns Biosensors' right to continue research, that the Israelis began, with other research partners. Biosensor's joint ownership of the patents will allow them to obtain greater control over the intangible property. The risks of disputes should decrease and Biosensor will be able to use the applications in other areas apart from landmines: e.g., narcotics and explosives detection. Other areas of use include biological warfare and the detection of bacteria within the food and beverage industry as well as in hospitals.

Apart from prior patents and patent applications, a patent protecting parts of the BIOSENS system was applied for during the year. Preparations for additional patents and protection of designs were also initiated during the fall.

#### *Communication with shareholders*

Four quarterly information letters were sent to the Company's shareholders during the year.

On May 16 Biosensor held its Annual General Meeting.

#### *New Board of Directors*

At the Annual General Meeting held May 16, 2001 a new Board of Directors was elected. Jan Persson remained Chairman, Göran Lundberg and Bo Rybeck remained as directors and Roland Källenfors were elected as alternate members of the new Board of Directors.

Hans Karlsson, Jonas Frick, Tomas Ericsson and Ulf Ericsson were appointed as new directors. Bo Wictorin was elected as a new alternate member. Hans Karlsson and Bo Wictorin resigned from the Board of Directors in August.



### Ownership structure

Biosensor's share capital consisted of 13,431,984 as of December 31, 2001. The shares have a nominal or par value of SEK 1.00 and the share capital thus amounts to SEK 13,431,984. All shares entitle their holders to the same share of Biosensor's assets and profits.

The largest shareholders of Biosensor were as follows as of December 31, 2001:

Shareholder	Number of shares	Share of capital and voting right
Whitebeam, Hellena Ltd., Allegro Ltd. *	4,186,134	31.2%
SKANDIA	2,658,096	19.8%
MN Development	1,671,132	12.4%
Förvaltnings AB Metallica	773,048	5.8%
Viamare Invest AB	400,000	3.0%
Svenska Kommunalarb. Förbundet	318,333	2.4%
Cellfabriken AB	250,000	1.9%
Röda Korset	228,000	1.7%
The Arctic Hedge Fund	218,730	1.6%
Svenska Kyrkan	156,571	1.2%
Other shareholders	2,571,940	19.1%
<b>Total</b>	<b>13,431,984</b>	<b>100.0%</b>

\* Companies controlled by Jan Persson and his family.

### Proposed treatment of accumulated losses

#### Parent company

(SEK)

To be decided upon by the general meeting of shareholders:

Accumulated losses	-80 671 490
Current year loss	-28 413 729

<b>Total</b>	<b>-109 085 219</b>
--------------	---------------------

The Board of Directors proposes that losses be dealt with as follows:

To be carried forward	-109 085 219
-----------------------	--------------

#### Group

Non-restricted equity in the group amounted to SEK 0 as of December 31, 2001. Transfers to restricted reserves are not required.

**INCOME STATEMENT**  
**(Amounts in SEK '000)**

	Note	2001 Group	2000 Group	2001 Parent	2000 Parent
Net revenues	1	894	1 379	894	1 379
Cost of sales		-	-611	-	-611
<b>Gross profit</b>		<b>894</b>	<b>768</b>	<b>894</b>	<b>768</b>
Administrative costs	2, 3, 4	-9 731	-13 062	-9 689	-12 774
Research and development costs	2, 3, 4	-23 054	-13 349	-23 056	-13 349
Other operating income	5	4 234	276	4 234	276
Other operating costs		-282	-	-282	-
<b>Operating loss</b>		<b>-27 939</b>	<b>-25 367</b>	<b>-27 899</b>	<b>-25 079</b>
<i>Profits and losses from financial investments</i>					
Interest and assimilated income	6	857	318	856	316
Interest and assimilated costs	7	-1 371	-600	-1 371	-600
<b>Loss after financial items</b>		<b>-28 453</b>	<b>-25 649</b>	<b>-28 414</b>	<b>-25 363</b>
Tax for the year	8	53	4	-	-
<b>CURRENT YEAR LOSS</b>		<b>-28 400</b>	<b>-25 645</b>	<b>-28 414</b>	<b>-25 363</b>

**BALANCE SHEET**  
(Amounts in SEK '000)

ASSETS	Note	12-31-2001 Group	12-31-2000 Group	12-31-2001 Parent	12-31-2000 Parent
<b>Subscribed capital unpaid</b>	13	<b>4 465</b>	-	<b>4 465</b>	-
<b>Fixed assets</b>					
<i>Intangible assets</i>	9				
Capitalized research and development costs		11 018	4 151	11 018	4 151
Concessions, patents, licenses, brand names and similar rights		720	1 440	720	1 440
<b>Total intangible assets</b>		<b>11 738</b>	<b>5 591</b>	<b>11 738</b>	<b>5 591</b>
<i>Tangible assets</i>	10				
Machinery and other technical equipment		1 125	160	1 125	160
Equipment, tools and installations		292	593	292	568
Leasehold improvements		968	1 009	968	1 009
<b>Total tangible assets</b>		<b>2 385</b>	<b>1 762</b>	<b>2 385</b>	<b>1 737</b>
<i>Financial fixed assets</i>					
Shares and investments in subsidiaries	11	-	-	66	66
<b>Total financial fixed assets</b>		<b>-</b>	<b>-</b>	<b>66</b>	<b>66</b>
<b>Current assets</b>					
<i>Short-term assets</i>					
Inter-company receivables		-	-	81	47
Other debtors		1 489	827	1 404	799
Prepaid expenses and accrued income	12	1 677	221	1 677	221
<b>Total short-term assets</b>		<b>3 166</b>	<b>1 048</b>	<b>3 162</b>	<b>1 067</b>
<b>Cash and cash equivalents</b>	16	<b>22 295</b>	<b>30 773</b>	<b>22 251</b>	<b>30 734</b>
<b>TOTAL ASSETS</b>		<b>44 049</b>	<b>39 174</b>	<b>44 067</b>	<b>39 195</b>

**BALANCE SHEET**  
**(Amounts in SEK '000)**

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>2001-12-31 Group</b>	<b>2000-12-31 Group</b>	<b>2001-12-31 Parent</b>	<b>2000-12-31 Parent</b>
<b>Equity</b>	13				
<i>Restricted equity</i>					
Share capital (13,431,984 shares at SEK 1)		13 432	7 190	13 432	7 190
Non-registered share capital		5 797	20	5 797	20
Share premium reserve		100 212	71 190	100 212	71 190
Statutory reserve		200	200	200	200
<b>Total restricted equity</b>		<b>119 641</b>	<b>78 600</b>	<b>119 641</b>	<b>78 600</b>
<i>Unrestricted equity</i>					
Accumulated losses		-80 687	-54 945	-80 671	-55 308
Translation difference		-39	-105	-	-
Current year loss		-28 400	-25 645	-28 414	-25 363
<b>Total unrestricted equity</b>		<b>-109 126</b>	<b>-80 695</b>	<b>-109 085</b>	<b>-80 671</b>
<b>Total equity</b>		<b>10 515</b>	<b>-2 095</b>	<b>10 556</b>	<b>-2 071</b>
<b>Liabilities</b>					
<i>Long-term liabilities</i>					
Convertible debenture loan	14	-	25 000	-	25 000
<b>Total long-term liabilities</b>		<b>-</b>	<b>25 000</b>	<b>-</b>	<b>25 000</b>
<i>Short-term liabilities</i>					
Trade creditors		2 961	3 792	2 954	3 789
Tax liabilities		-	77	-	77
Other short-term liabilities	14	26 154	10 281	26 154	10 281
Accrued expenses and prepaid income	15	4 419	2 119	4 403	2 119
<b>Total short-term liabilities</b>		<b>33 534</b>	<b>16 269</b>	<b>33 511</b>	<b>16 266</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>44 049</b>	<b>39 174</b>	<b>44 067</b>	<b>39 195</b>
<b>OTHER ITEMS REQUIRED FOR INFORMATION PURPOSES</b>					
Pledged assets	16	7 733	7 098	7 733	7 098
Contingent liabilities		-	-	-	-
<b>TOTAL PLEDGED ASSETS AND CONTINGENT LIABILITIES</b>		<b>7 733</b>	<b>7 098</b>	<b>7 733</b>	<b>7 098</b>

**CASH FLOW STATEMENT**  
(Amounts in SEK '000)

	Note	2001 Koncern	2000 Koncern	2001 Moderbolag	2000 Moderbolag
<b>SOURCES OF FUNDS FROM OPERATIONS</b>					
Loss after financial items		-28 400	-25 649	-28 414	-25 363
Adjustments for items not affecting cash flow		6 234	1 906	6 266	2 004
Paid taxes	8	-163	4	-163	-
<b>Funds from operations before changes in working capital</b>		<b>-22 329</b>	<b>-23 739</b>	<b>-22 311</b>	<b>-23 359</b>
<i>Funds from changes in working capital</i>					
Increase/decrease in short-term assets		-1 954	-315	-1 932	-384
Increase/decrease in short-term liabilities		-9 148	14 031	-9 168	13 904
<b>FUNDS FROM OPERATIONS</b>		<b>-33 431</b>	<b>-10 023</b>	<b>-33 411</b>	<b>-9 839</b>
<b>INVESTMENT ACTIVITIES</b>					
Acquisition of tangible assets	10	-1 236	-1 525	-1 261	-1 503
Capitalization of development costs	9	-10 387	-4 151	-10 387	-4 151
<b>FUNDS FROM INVESTMENT ACTIVITIES</b>		<b>-11 623</b>	<b>-5 676</b>	<b>-11 648</b>	<b>-5 654</b>
<b>FINANCIAL OPERATIONS</b>					
New share issue	13	36 576	10 270	36 576	10 270
Issue of convertible debenture loan	14	-	25 000	-	25 000
<b>FUNDS FROM FINANCIAL OPERATIONS</b>		<b>36 576</b>	<b>35 270</b>	<b>36 576</b>	<b>35 270</b>
<b>CURRENT YEAR CASH FLOW</b>		<b>-8 478</b>	<b>19 571</b>	<b>-8 483</b>	<b>19 777</b>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		30 773	11 202	30 734	10 957
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>22 295</b>	<b>30 773</b>	<b>22 251</b>	<b>30 734</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Accounting principles**

The Swedish Annual Accounts Act governing the presentation of income statements, balance sheets and the evaluation of assets in annual reports has been applied. In 2001 the company changed its accounting principles with respect to deferred tax in accordance with recommendation no. 9 from the Swedish Financial Accounting Standards Council. Remaining accounting principles are unchanged from the previous year.

The company's assets and liabilities have been accounted for at their acquisition cost or nominal value unless otherwise stated in the notes below.

### ***Group financial statements***

Subsidiaries are included in the Group financial statements where the parent company has direct or indirect control of more than 50% of the voting rights.

### ***Acquisition method***

The final Group financial statements were prepared according to the acquisition method, which means that a subsidiary's equity on acquisition, calculated as the difference between the actual value of the assets and liabilities, is completely eliminated. In this way, only the subsidiary's equity after acquisition is included in Group equity.

If the Group's cost of shares exceeds the value reported in the company's net assets, the difference is accounted for as Group goodwill. However, if the cost of shares is less than the value reported in the company's net assets, the difference is eliminated by reducing the value of non-monetary assets. If reducing the value of non-monetary assets does not eliminate the difference, the remaining amount is reported as negative goodwill under 'other provisions.' The provision is then reversed on the basis of expectations of future profits.

The tax effect of the various valuations of assets and liabilities at Group and company level is recorded as deferred tax assets and deferred tax liabilities.

Internal profits and balances are eliminated in the Group financial statements.

### ***Translation of the results of foreign subsidiaries***

The company uses the current method for translating foreign subsidiaries' results; i.e., the foreign subsidiary's assets and liabilities are translated at the year-end exchange rate. All items in the income statement are translated at the average exchange rate for the year. Items included in equity are translated at the rates as at the acquisition date. Translation differences are recorded directly in Group equity.

### ***Revenue recognition***

Invoiced sales consist of sales of detectors and sensors along with related services. Revenue is recognized when all the primary risks and rights associated with the ownership have been transferred to the buyer, which normally occurs at the time of delivery.

### ***Contributions for research and development***

Contributions for research and development are recognized as income based on the relevant agreements. Research and development expenses covered by contributions are expensed as they occur.

### ***Taxes***

The total tax expense for the group consists of current and deferred taxes. Deferred tax primarily consists of the estimated tax on changes in untaxed reserves for the year as well as tax relating to tax loss carry-forwards. Tax losses are evaluated with respect to the possibility of reversing untaxed reserves or other uses within the foreseeable future. The deferred tax position is calculated using the current tax rate for each country.

In the consolidated income statement taxes are reported as if the group companies were separate taxable legal entities in accordance with current taxation legislation for all periods reported.

The taxation legislation in Sweden and in some other countries allows provisions to be set aside for special reserves and funds. Consequently companies can, within certain limits, dispose of or retain reported profits within the business without their being subject to immediate taxation. The untaxed reserves are subjected to taxation when they are dissolved. In cases when the business incurs a loss, the untaxed reserves may be used to cover the loss without any tax becoming payable.

In the consolidated balance sheet the individual companies' untaxed reserves are divided into equity and a deferred tax liability. In the income statement the tax relating to the change of untaxed reserves for the year is reported as deferred tax expense.

### ***Intangible fixed assets***

Intangible assets, consisting of patents and capitalized development costs are recorded in accordance with recommendation no. 15 from The Swedish Financial Accounting Standards Council.

Patents considered to have a significant value for operations in forthcoming years are recorded as an intangible assets.

Development costs with the objective of preparing an asset for use or sale are recorded as an intangible asset. Development consisting of design, construction and testing of prototypes includes external as well as internal costs for developing the asset.

### ***Tangible fixed assets***

Tangible fixed assets, consisting of machinery, equipment, other technical equipment and leasehold improvements are recorded at their acquisition cost less accumulated depreciation.

### ***Depreciation according to plan***

Depreciation according to plan is based on the assets' acquisition value and calculated economic life. Leasehold improvements are depreciated with respect to the lease period. Capitalized development costs are depreciated from the period when commercial sales of the product have commenced.

Capitalized development	5 years
Patents	5 years
Machinery and other technical equipment	5-10 years
Equipment, tools and installations	5 years
Leasehold improvements	5 years

Tax depreciation is calculated in accordance with current regulations for each country. Tax depreciation in excess of depreciation according to plan is considered an untaxed reserve.

***Receivables***

Receivables are accounted for in accordance with expected recoverable amounts, based on individual assessments.

***Receivables and liabilities in foreign currency***

Receivables and payables in foreign currency are translated at the year-end exchange rate. Profits and losses on operating receivables, debts and liabilities are recorded at their net amount in 'Other operating income' or 'Other operating expenses.'

Prepayments from customers are translated at the exchange rate as of the date on which they are received.



**NOTES – ALL AMOUNTS IN SEK '000, UNLESS OTHERWISE STATED**

**Note 1. Intra-group purchases and sales**

Sales to Biosensor Aviation Security Ltd. amount to 0 (0). Purchases from Biosensor Aviation Security Ltd. amount to 0 (203). There were no sales or purchases between Biosensor Application Sweden AB and Biosensor Mine Detection A/S during the year.

**Note 2. Personnel**

AVERAGE NUMBER OF EMPLOYEES	2001 Number of employees	2001 Of which, men	2000 Number of employees	2000 Of which, men
Parent Sweden	18	12	12	8
<b>Total in parent</b>	<b>18</b>	<b>12</b>	<b>12</b>	<b>8</b>
Total in subsidiaries	-	-	-	-
<b>TOTAL GROUP</b>	<b>18</b>	<b>12</b>	<b>12</b>	<b>8</b>

SALARIES AND OTHER REMUNERATION	2001 The board of directors and the managing director <sup>1)</sup>	2001 Of which, bonus pay- ments and other equiva- lent remuneration <sup>2)</sup>	2001 Other employees	2000 The board of directors and the managing director <sup>1)</sup>	2000 Of which, bonus pay- ments and other equiva- lent remuneration <sup>2)</sup>	2000 Other employees
Parent Sweden <sup>3)</sup>	1 639	-	5 747	1 693	-	3 706
<b>Total in parent</b>	<b>1 639</b>	<b>-</b>	<b>5 747</b>	<b>1 693</b>	<b>-</b>	<b>3 706</b>
<b>Subsidiaries abroad</b>						
Great Britain	-	-	-	184	-	-
Norway	-	-	-	-	-	-
<b>Total in subsidiaries</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>184</b>	<b>-</b>	<b>-</b>
<b>TOTAL GROUP</b>	<b>1 639</b>	<b>-</b>	<b>5 747</b>	<b>1 877</b>	<b>-</b>	<b>3 706</b>

<sup>1)</sup> Includes current and previous board members and alternate members as well as current and previous managing directors.

<sup>2)</sup> Only refers to the group defined above under <sup>1)</sup> above.

<sup>3)</sup> The Managing Director is entitled to the equivalent of 12 months salary upon termination of his contract.

SALARIES AND OTHER REMUNERATION (CONTD.)	2001 Salaries and remunera- tion	2001 Social security expenses	2001 Including, pension costs	2000 Salaries and remunera- tions	2000 Social security expenses	2000 Including, pension costs
Parent	7 386	2 485	746	5 399	2 839	849
Subsidiaries	-	-	-	184	15	-
<b>TOTAL GROUP</b>	<b>7 386</b>	<b>2 485</b>	<b>746</b>	<b>5 583</b>	<b>2 854</b>	<b>849</b>

The Board of Directors and the Managing Director account for 340 (433) of the parent company's pension costs. All pension obligations are handled by insurance companies or secured through funding by an external insurance company.

### Note 3. Auditors' fees

	2001 Group	2000 Group	2001 Parent	2000 Parent
Audit Ernst & Young	-	90	-	90
Audit Arthur Andersen	86	-	86	-
Other assignments Ernst & Young	-	116	-	116
Other assignments Arthur Andersen	46	-	46	-
<b>Total</b>	<b>132</b>	<b>206</b>	<b>132</b>	<b>206</b>

The audit includes a review of the annual report and financial statements and the management of the company by the Board of Directors and Managing Director. The audit also includes assignments, advice and other services arising from the audit of the financial statements. Any other services provided are 'Other assignments.'

### Note 4. Depreciation and write-downs

Depreciation is allocated for an amount of 88 (1,140) to administrative costs and 1,256 (0) to research and development. Write-downs of 3,520 have been allocated to research and development. Write-downs consist of capitalized development costs relating to assets that will not be developed further or completed.

### Note 5. Other operating income

On 28 December 2000 the EU approved two applications for contributions to further development of the landmine sensor and the development of a multi sensor from Biosensor, together with amongst others Svenska Räddningsverket and Norsk Folkehjelp. The EU has granted total funds of EUR 1.9 million (SEK 16.5 million) for the projects, covering a three-year period. The company records contributions as revenue based on the agreements. In 2001 the company recorded 4,175 as other operating income in respect of contributions from the EU.

### Note 6. Interest and assimilated income

	2001 Group	2000 Group	2001 Parent	2000 Parent
Interest	489	318	488	316
Exchange rate gains	310	-	310	-
Other financial income	58	-	58	-
<b>Total</b>	<b>857</b>	<b>318</b>	<b>856</b>	<b>316</b>

### Note 7. Interest and assimilated costs

	2001 Group	2000 Group	2001 Parent	2000 Parent
Interest expense	1 329	600	1 329	600
Other financial costs	42	-	42	-
<b>Total</b>	<b>1 371</b>	<b>600</b>	<b>1 371</b>	<b>600</b>

**Note 8. Taxes**

	<b>2001 Group</b>	<b>2000 Group</b>	<b>2001 Parent</b>	<b>2000 Parent</b>
<b>Current year tax</b>				
Corporate income tax	53	4	-	-
<b>Total current year tax</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>
<b>Tax receivables</b>				
Tax receivables included in other receivables amount to:	216	-	163	-

**Deferred tax assets**

The company records deferred tax in accordance with recommendation no. 9 from The Swedish Financial Accounting Standards Council. The company has tax loss carry-forwards of 108,586 that may be used indefinitely, corresponding to a deferred tax asset of 30,404. The company has not recorded a deferred tax asset as the tax loss carry-forward is not expected to be used within the foreseeable future. Thus, the change in accounting principles has not had any impact on equity.

**Note 9. Intangible assets**

	<b>Patents Group</b>	<b>Capitalized development costs Group<sup>1)</sup></b>	<b>Patents Parent</b>	<b>Capitalized development costs Parent</b>
Acquisition value brought forward	3 600	4 151	3 600	4 151
Purchases / capitalized costs <sup>1)</sup>	-	10 386	-	10 386
Write-downs <sup>2)</sup>	-	-3 519	-	-3 519
<b>Accumulated acquisition values carried forward</b>	<b>3 600</b>	<b>11 018</b>	<b>3 600</b>	<b>11 018</b>
Depreciation brought forward	-2 160	-	-2 160	-
Depreciation for the year	-720	-	-720	-
<b>Accumulated depreciation carried forward</b>	<b>-2 880</b>	<b>-</b>	<b>-2 880</b>	<b>-</b>
<b>BOOK VALUE CARRIED FORWARD</b>	<b>720</b>	<b>11 018</b>	<b>720</b>	<b>11 018</b>
During the previous year the following amounts were recorded:				
Depreciation	-720	-	-720	-

<sup>1)</sup> Internal development costs have not been capitalized in prior years. In 2001 internal personnel costs were capitalized for an amount of 2,287.

<sup>2)</sup> Write-downs consist of capitalized development costs relating to assets that will not be developed further or completed.

**Note 10. Tangible assets**

PARENT AND GROUP	Leasehold improvement	Machinery and other technical equipment <sup>1)</sup>	Equipment, tools and installations	Total
Acquisition value brought forward	1 158	1 023	400	2 581
Purchases	234	808	220	1 262
<b>Accumulated acquisition value carried forward</b>	<b>1 392</b>	<b>1 831</b>	<b>620</b>	<b>3 843</b>
Depreciation brought forward	-149	-455	-240	-844
Depreciation for the year	-275	-251	-88	-614
<b>Accumulated depreciation carried forward</b>	<b>-424</b>	<b>-706</b>	<b>-328</b>	<b>-1 458</b>
<b>BOOK VALUE CARRIED FORWARD</b>	<b>968</b>	<b>1 125</b>	<b>292</b>	<b>2 385</b>
During the preceding year the following amounts were recorded:				
Depreciation	-149	-191	-80	-420
Write-downs	-871	-	-	-871

<sup>1)</sup> The Group leases plant and machinery with an estimated purchase value of 750 under operating lease agreements. Expensed leasing charges for the period amount to 269 (309). Contractual lease payments under existing leases are due for payment as follows:

During	2002	269
	2003	269
	2004	-
	<b>Total</b>	<b>538</b>

**Note 11. Shares and holdings in subsidiaries**

	Company registration number	Registered office	SIZE OF HOLDING		VALUE OF HOLDING	
			Number of shares	Share of equity %	Book value	Value on stock exchange or equivalent
Biosensor Mine Detection A/S <sup>1)</sup>	30781504	Oslo	-	100% (100%)	53	-
Biosensor Aviation Security Ltd. <sup>1)</sup>	3611900	London	-	100% (100%)	13	-
<b>Total</b>					<b>66</b>	

<sup>1)</sup> Both subsidiaries were dormant during the year and are in liquidation.

**Note 12. Prepaid expenses and accrued income**

	2001-12-31 Group	2000-12-31 Group	2001-12-31 Parent	2000-12-31 Parent
Prepaid rent	9	82	9	82
Accrued EU-contributions	1 292	-	1 292	-
Other prepaid expenses and accrued income	376	139	376	139
<b>Total</b>	<b>1 677</b>	<b>221</b>	<b>1 677</b>	<b>221</b>

**Note 13. Changes in equity**

<b>GROUP</b>	<b>Share capital</b>	<b>Non-registered share capital <sup>1)</sup></b>	<b>Share premium reserve</b>	<b>Statutory reserve</b>	<b>Unrestricted equity</b>	<b>Total</b>
Amount brought forward	7 190	20	71 190	200	-80 695	<b>-2 095</b>
New share issue	6 242	5 777	29 022			<b>41 041</b>
Translation difference					-31	<b>-31</b>
Current year loss					-28 400	<b>-28 400</b>
<b>AMOUNT CARRIED FORWARD</b>	<b>13 432</b>	<b>5 797</b>	<b>100 212</b>	<b>200</b>	<b>-109 126</b>	<b>10 515</b>

  

<b>PARENT</b>	<b>Share capital</b>	<b>Non-registered share capital <sup>1)</sup></b>	<b>Share premium reserve</b>	<b>Statutory reserve</b>	<b>Unrestricted equity</b>	<b>Total</b>
Amount brought forward	<b>7 190</b>	20	71 190	200	-80 671	<b>- 2 071</b>
New share issue	<b>6 242</b>	5 777	29 022			<b>41 041</b>
Current year loss					-28 414	<b>-28 414</b>
<b>AMOUNT CARRIED FORWARD</b>	<b>13 432</b>	<b>5 797</b>	<b>100 212</b>	<b>200</b>	<b>-109 085</b>	<b>10 556</b>

<sup>1)</sup> Subscribed capital not paid up amounted to 4,465. As of January 30, 2002, subscribed unpaid capital had been paid to the company and registered at the Swedish Patent and Registration Office.

**Note 14. Convertible debenture loan**

The convertible debenture loan is for an amount of SEK 25 million at an interest rate of 5%, and covers the period from November 14, 2000 to November 1, 2002. The subscribers to the convertible debenture loan are Förvaltnings AB Metallica, Skandia, Red Cross, The Church of Sweden and The Swedish association of Municipal workers. The convertible debenture loan may be converted to category A shares in the Company at a conversion rate of thirty (30) Kronor per share. On full conversion the Company's share capital will increase by no more than SEK 833,334 by means of the conversion of no more than 833,334 category A shares.

**Note 15. Accrued expenses and prepaid income**

	<b>2001-12-31 Group</b>	<b>2000-12-31 Group</b>	<b>2001-12-31 Parent</b>	<b>2000-12-31 Parent</b>
Vacation accrual	495	355	495	355
Social charges	163	330	163	330
Other accrued expenses	3 761	1 434	3 745	1 434
<b>Total</b>	<b>4 419</b>	<b>2 119</b>	<b>4 403</b>	<b>2 119</b>

**Note 16. Pledged assets and contingent liabilities**

	2001-12-31 Group	2000-12-31 Group	2001-12-31 Parent	2000-12-31 Parent
<i>Pledged assets</i>				
Blocked cash and cash equivalents:				
Funds for future royalty payments	5 343	4 767	5 343	4 767
Prepayment warranty	1 889	2 246	1 889	2 246
Agreement warranty	501	-	501	-
Other blocked cash and cash equivalents	-	85	-	85
<b>Total pledged assets</b>	<b>7 733</b>	<b>7 098</b>	<b>7 733</b>	<b>7 098</b>
Of which, for group companies	-	-	-	-
<i>Contingent liabilities</i>	-	-	-	-
<b>TOTAL PLEDGED ASSETS AND CONTINGENT LIABILITIES</b>	<b>7 733</b>	<b>7 098</b>	<b>7 733</b>	<b>7 098</b>

Stockholm March 13, 2002

\_\_\_\_\_  
Jan Persson  
Chairman of the Board of Directors

\_\_\_\_\_  
Carl Lundberg  
Managing Director

\_\_\_\_\_  
Tomas Ericsson

\_\_\_\_\_  
Ulf Ericsson

\_\_\_\_\_  
Jonas Frick

\_\_\_\_\_  
Göran Lundberg

\_\_\_\_\_  
Bo Rybeck

\_\_\_\_\_  
Roland Källenfors

Our auditor's report was submitted on March 13, 2002

ARTHUR ANDERSEN AB

\_\_\_\_\_  
Kerstin Sundberg