

**ANNUAL REPORT**  
**For the period**  
**January 1 to December 31, 2003**



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

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

### **COMMENTS BY THE PRESIDENT**

Year 2003 was the year when BIOSENS-D, the narcotics detector, was launched in world markets.

Biosensor's technology, the BIOSENS technology, is based on advanced biochemical tracing. Global demand for efficient equipment for detection of narcotics and explosives continues to be huge. The BIOSENS system has been received with great appreciation around the world during the past year.

On three occasions during the year, television teams from Discovery Channel, SVT and CNBC have broadcast features specifically on the BIOSENS system. This has obviously made for positive exposure of Biosensor and the BIOSENS system.

The first BIOSENS system was sold and delivered to Japan, which is particularly gratifying in light of that market's demands for quality. Shipments were made to a distributor that has been courting Biosensor for several years. The system will be used for demonstrations and tests before various customer groups in Japan. An initial number of tests have already been performed to the customers' satisfaction. Japan will be a very important market for us since it is large, at the same time as our two largest competitors are experiencing difficulties because of the radioactive sources used by their products.

A massive number of tests have also been conducted in the United States, Europe and Asia. To sum up, one of our greatest strengths is that the BIOSENS system has low levels of false alarms, a phenomenon that can tire our customers if the levels are excessive. It is easy to see how false alarms mean that the customer unnecessarily must search a vehicle, container or individual where no illegal substances are present.

During 2003 the Company initiated negotiations with leading international distributors to represent Biosensor on the different markets. In March 2004 the Company concluded a distribution agreement with Chartered Electro Optics, which is a company in Singapore Technologies with its registered head office in Singapore. Biosensor has also concluded an agreement with Rapiscan in the United States in April 2004. This means that Biosensor is represented in North and South America, Europe, the Middle East, India and Asia via exclusive distributors.

The first level of the commercialization of the BIOSENS system has been achieved. All components of the system are designed with the aid of CAD software and stored electronically by Biosensor. A number of strategic suppliers have been contracted to assist us with delivery of mechanical and plastics parts, and electronic components. We now have suppliers in Sweden, the United States and China.

Our development work has been concentrated on stabilizing the chemistry and micro-fluidics of the BIOSENS system and on further development of detectors for explosives. A project financed by EU was finalized during 2003 and another will be completed during 2004.

New and existing strategic cooperation projects and agreements with authorities and companies at the cutting-edge in biotechnology and other disciplines secure Biosensor's market-leading position in advanced biochemical detection.

My heart-felt thanks go out to shareholders, Board of Directors and colleagues for excellent cooperation during 2003.

Carl Lundberg

President & CEO, Biosensor Applications Sweden AB

### **BUSINESS OPERATIONS 2003**

*SALES AND MARKETING*

**First system sold to Japan.** At the beginning of November, the first BIOSENS-system was delivered to Japan. The deal is a major step forward for Biosensor in the difficult Japanese market, where the introduction of detection systems has been restrained by the fact that most detectors in the market contain radioactive sources. The fact that the BIOSENS-system contains no radioactive components is in this context a great competitive advantage.



Picture: Product training in Japan

**Rental contract with new customer.** A rental agreement has been signed with a non-European customs authority. The contract is limited in time, but with the possibility of prolongation. For the Company this is an important step forward since the customer currently has agreement with a main competitor.

**New tests in the US.** During 2002, the Company carried out a successful test of its drug detection system BIOSENS-D in collaboration with the American and Canadian customs authorities. Department of Justice will carry out a study based on testing and evaluation of equipment for detecting and analyzing letters that could contain drugs. A first round of tests started during the summer and we are now jointly planning for a second round of tests. In addition the US Department of Justice has decided to test the BIOSENS system against explosives.



Picture: BIOSENS-D tests at a federal prison in the USA

**Successful tests in the UK and Germany.** An initial round of tests has taken place together with the British authorities. The outcome was very well appreciated, resulting in a request from the customs authorities for further testing during a longer period of time. The most important result of the tests in Britain is that we have been able to verify the remarkably low false alarm rate of the BIOSENS system. In Germany, laboratory as well as field tests have been performed in collaboration with the German authorities.

**Collaboration with Swedish Authorities.** Last spring the Company signed a co-operation agreement with its most long-standing co-operation partner, a Swedish law enforcement agency. According to the agreement Biosensor provided the authority with equipment and with training of personnel. Since July, the customer has operated the equipment on their own. Because of the agreement, the BIOSENS-system has got a lot of publicity in Swedish television and Discovery Channel. We are now discussing the activities for 2004.

**Distribution agreements in USA and Singapore.** During 2003 Biosensor has actively been scanning the market for distributors who can represent us on the markets. It is important that our distributors as far as possible fulfill criterias such as; existing sales within the security market; ability to sell and service technically advance products and potentially willing to extend the partnership in terms of R&D, manufacturing etc. In March 2004 Biosensor entered into an agreement with Chartered Electro Optics a subdivision of Singapore Technologies, who is leading international provider of equipment within the security market. The agreement covers the ASEAN region, China, Taiwan, Hong Kong and Macau. In April 2004 Biosensor entered into an exclusive agreement with Rapiscan who is a leading international provider of, among all, X-ray equipment and metal detectors, also to the security market. The agreement covers for North-, South America, Europe, the Middle East and India. We are very pleased that Biosensor now is represented on the major markets by competent distributors. The main challenge now is to support our distributors and more importantly our customers.

**Participation in fairs.** The Company has participated in a number of fairs in 2003, of which MILIPOL in Paris in November was the most important. MILIPOL, which is a biannual fair, comprises a vast supply of military and police equipment and for Biosensor it has proven to be a very useful event for meeting with new distributors. The Company also took part in the ASIS security fair in New Orleans.



Picture: Biosensor participates at the Milipol exhibition in Paris

#### *DEVELOPMENT*

**Improvements of the system.** On the technological side intense work has been devoted to the development of new techniques for protocols and the operation of the system. As a result, analysis time has been reduced and the reliability of the system has increased dramatically in recent months.

**Two EU projects on mine detection.** Two EU projects related to mine detection have been carried out in 2003. The purpose of the DEMAND project has been to develop a multi-sensor mine detection prototype where the Biosensor system has been used together with a metal detector and ground penetrating radar. The project was completed at the turn of the year and the parties are now compiling a final report to the EU. One of the objectives of the BIOSENS project is to expand the range of explosives detectable by the BIOSENS technology to include not only TNT but also RDX and PETN, explosives that have often been used in terrorist activities. The tests, which have been conducted in close cooperation with the Swedish Rescue Services Agency and Norwegian People's Aid, have already demonstrated that the system can be used to identify TNT and PETN. The project has been prolonged by another six months and will be end in June 2004.

**New patents.** Five patent applications that were filed in 2002 have now entered the PCT-phase. During 2003 two new applications were registered.

#### *INDUSTRIALIZATION AND PRODUCTION*

**The ground is laid for industrial production.** 2003 can be characterized as a year of intense technological development coupled with preparations for a changeover to industrial production, in order to be ready for incoming orders. A number of suppliers of mechanical components have been chosen and their production sites made ready for manufacturing. A new laboratory for production of the BioCell has been set up in our own facilities. The lab is equipped with a newly acquired robot, which will partly automatize the mounting of the BioCell. We have also secured deliveries of critical components with long lead-time, such as ready-mounted circuit boards. With help from external sources with assembling the systems, the company is well prepared to face an increased demand on capacity.

#### **STATUTORY MANAGEMENT REPORT**

The Board of Directors and the Managing Director of Biosensor Applications Sweden AB hereby present the Annual Financial Statement for the fiscal year ending 31 December 2003.

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 270 shareholders as of 31 December, 2003. The work of developing the Biosensor system was initiated by Bofors in

1995. In connection with a reorganization within Celsius (the owner of Bofors at the time), the entire project was acquired in the beginning of 1998 by a group of private investors. Ownership has subsequently been changed and expanded. Aside from a group of private individuals, main shareholders include Skandia Liv, MN Development, Förvaltnings AB Metallica, The Red Cross, RAB Capital, Gylling Capital AB and The Swedish Association of Municipal Workers.

### ***Significant events during the financial year and after its ending***

#### *New issues*

In May 2003 three of the holders of the Company's subordinated convertible debenture loan in the amount of MSEK 25 decided to convert their holdings, including accrued interest on the debentures, to shares in the Company. The effect of the conversion was that shareholders' equity increased by SEK 18 161 000; the share capital increased by SEK 1 816 000. Skandia Liv has subscribed for a new subordinated convertible debenture loan in the amount of MSEK 10.0 on the same terms and conditions as the previous loan. In December 2003 Skandia Liv converted one third of the subordinated convertible debenture loan in the amount of MSEK 10.0, including accrued interest to shares; the issue price was SEK 3.20 per share, which had the effect that the share capital increased by MSEK 1.0. The remaining portion of the subordinated convertible debenture loan amounts to MSEK 6.7 on the same terms and conditions as before.

In March 2003, an agreement was concluded by which MSEK 23.5 was infused in the Company as bridge financing to make a major new issue possible. The six lenders are Skandia Liv (MSEK 12.0), MN Development (MSEK 5.0), Gylling Capital (MSEK 2.0), RAB Capital (MSEK 2.0) and two private individuals, who together invested MSEK 2.5. The loans carry interest at a rate of 11 percent p.a. To secure the loan, the Company has granted a lien in the Company's wholly owned Swedish patents. The intention of the lenders is to participate in an upcoming new issue of shares in the Company and then convert their respective claims to shares. The financing agreement also means that the lenders receive options to subscribe for 2 170 000 new class A shares in the Company at a price of SEK 1.00 per share not later than December 31, 2004. In November 2003 all lenders utilized their options and subscribed for shares for MSEK 2.17, which increased the share capital by MSEK 2.17. In December 2003 a private placement of shares was made at the price of SEK 4.00 per share, for an infusion to the Company of MSEK 17.2; the share capital increased by MSEK 4.3. The shareholders who participated in the private placement were Skandia Liv (MSEK 4.4), MN Development (MSEK 5.0), Helleanna Ltd (MSEK 0.4) Gylling Capital (MSEK 4.0), RAB Capital (MSEK 0,8) and two private individuals (MSEK 2.6). In addition, a set-off issue was made at a price of SEK 4.00 per share under a bridge financing agreement that increased the share capital by MSEK 6.3. All six lenders converted their loans, including accrued interest, to shares.

In March 2004 a new issue was floated to existing shareholders at price of 4 kr per share, which increased the share capital by 261 kr.

Totally has the share capital increased by 15 702 kr and the owner's equity increased by 66 329 kr during 2003 through all the new share issues and converting of the debenture loans

Against the background of the well-advanced development of the Company's products and several successful tests with potential customers, the Board of Directors has come to the conclusion that the prospects for attracting new financing are good. There are no guaranties, however, that additional financing can be procured as planned.

#### *New articles of association*

Biosensor's regularly scheduled general meeting of shareholders held June 4, 2003 resolved to adopt new articles of association, according to which the share capital can be increased to a maximum of MSEK 96.0. Under the resolution, the Board of Directors is authorized to decide on new issues of shares, subordinated convertible debentures and debentures with warrants.

#### *Patent status*

During 2003 one of the most important patents emanating from the Israeli cooperation was approved in the United States. Two entirely new patent applications have been filed in Sweden and the United States. Five other patent applications have been entered in the Patent Cooperation Treaty.

*Control balance sheet*

In May 2003 the Company compiled a control balance sheet since more than half of the registered share capital had been consumed. In conjunction herewith the Company capitalized certain development costs and it was then established that the share capital was intact and that there was no critical capital shortage as defined in Chapter 13, Section 2 of the Swedish Companies Act.

*Organizational development*

Biosensor continued its development during the year from mainly being a research and development company to also becoming a production and sales entity. The number of employees increased from 19 to 21. Biosensor is now recruiting new talent for the marketing and sales organization.

*New Board of Directors*

A new Board of Directors of Biosensor was elected at the Annual General Meeting held June 4, 2003. Jan Persson remained as Chairman. Ulf Ericsson remained as a regular member of the Board of Directors. Bengt Hagander and Leif Engström were elected as new directors. Tomas Ericsson, Jonas Frick, Bo Rydbeck and Göran Lundberg resigned from the Board of Directors during the year. Temporarily, the Board of Directors consists of four members. Since the Board of Directors should have five members and no alternates, the Board of Directors is not complete. Since the Board of Directors forms a quorum with the remaining directors, according to Chapter 8, Section 12 of the Swedish Companies Act, the election of a new director is deferred until the next regularly scheduled Annual General Meeting.

*Ownership structure*

The total number of shares outstanding in Biosensor as of December 31, 2003 was 39 772 198, of which 13 885 540 are not yet registered with the Swedish Patent and Registration Office (PRV). The shares have a nominal value of SEK 1 and the share capital thus amounts to SEK 39 772 198. All outstanding shares give their holders the same rights with respect to Biosensor's assets and earnings.

The largest shareholders in Biosensor as of December 31, 2003 were as follows:

| Shareholders                       | Number of shares  | Proportion of share capital and votes |
|------------------------------------|-------------------|---------------------------------------|
| SKANDIA                            | 12 512 157        | 31.5 %                                |
| MN Development                     | 6 810 000         | 17.1 %                                |
| Jan Persson, Hellenna Ltd *        | 4 609 522         | 11.6 %                                |
| Gylling Capital AB                 | 2 718 138         | 6.8 %                                 |
| Hans Mellström                     | 2 286 708         | 5.7 %                                 |
| RAB Capital                        | 1 951 944         | 4.9 %                                 |
| Förvaltnings AB Metallica          | 1 776 762         | 4.5 %                                 |
| Röda Korset                        | 1 034 000         | 2.6 %                                 |
| Svenska Kommunalarb. Förbundet     | 929 291           | 2.3 %                                 |
| Yissum Research Development Co. ** | 850 000           | 2.1 %                                 |
| Servisen Private Equity Fund       | 604 190           | 1.5 %                                 |
| Arne Wennberg                      | 575 000           | 1.4 %                                 |
| Gesta Diagnostic AB                | 513 000           | 1.3 %                                 |
| Judy Bollinger                     | 361 361           | 0.9 %                                 |
| Trossamfundet Svenska Kyrkan       | 357 986           | 0.9 %                                 |
| Ficher Partners FK                 | 250 000           | 0.6 %                                 |
| Other shareholders                 | 1 631 639         | 4.1 %                                 |
| <b>Total</b>                       | <b>39 772 198</b> | <b>100 %</b>                          |



\* Companies controlled by Jan Persson.

\*\* Issued in connection with non-cash issue with payment in patents. 250 000 of the new shares are held by a third party since they are subject to approval of the patent being granted to Biosensor in the United States.

**Proposed treatment of accumulated losses**

(SEK)

To be decided upon by the general meeting of shareholders:

|                    |               |
|--------------------|---------------|
| Accumulated losses | (143,329,607) |
| Current year loss  | (27,617,629)  |

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**Total** (170,947,236)

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

|                       |               |
|-----------------------|---------------|
| To be carried forward | (170,947,236) |
|-----------------------|---------------|

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**Total** (170,947,236)

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

|  | Note    | 2003            | 2002            |
|--|---------|-----------------|-----------------|
| Net revenues   |         | 873             | 577             |
| Cost of sales  |         | (491)           | (270)           |
| <b>Gross profit</b>                                  |         | <b>382</b>      | <b>307</b>      |
| Administrative costs                                 | 1, 2, 3 | (12,294)        | (11,654)        |
| Research and development costs                       | 1, 2, 3 | (19,431)        | (29,123)        |
| Other operating income                               | 4       | 5,891           | 7,376           |
| Other operating costs                                |         | (86)            | (79)            |
| <b>Operating loss</b>                                |         | <b>(25,538)</b> | <b>(33,173)</b> |
| <i>Profits and losses from financial investments</i> |         |                 |                 |
| Interest and assimilated income                      | 5       | 1,345           | 1,449           |
| Interest and assimilated costs                       | 6       | (3,425)         | (2,521)         |
| <b>Loss after financial items</b>                    |         | <b>(27,618)</b> | <b>(34,245)</b> |
| Tax for the year                                     |         | -               | -               |
| <b>CURRENT YEAR LOSS</b>                             |         | <b>(27,618)</b> | <b>(34,245)</b> |

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

| ASSETS   | Note | 12-31-2003    | 12-31-2002    |
|--|------|---------------|---------------|
| <b>Fixed assets</b>  |      |               |               |
| <i>Intangible assets</i>                                       |      |               |               |
|  | 8    |               |               |
| Capitalized research and development costs                     |      | 24,242        | 21,070        |
| Concessions, patents, licenses, brand names and similar rights |      | 8,572         | 11,081        |
| <b>Total intangible assets</b>                                 |      | <b>32,814</b> | <b>32,151</b> |
| <i>Tangible assets</i>   |      |               |               |
|  | 9    |               |               |
| Machinery and other technical equipment                        |      | 1,055         | 1,053         |
| Equipment, tools and installations                             |      | 317           | 377           |
| Leasehold improvements   |      | 431           | 716           |
| <b>Total tangible assets</b>                                   |      | <b>1,803</b>  | <b>2,146</b>  |
| <i>Financial fixed assets</i>                                  |      |               |               |
| Deposit  |      | 9             | -             |
| <b>Total financial fixed assets</b>                            |      | <b>9</b>      | <b>-</b>      |
| <b>Current assets</b>  |      |               |               |
| <i>Inventories</i>   |      |               |               |
| Goods for resale   |      | 619           | 326           |
| <b>Inventories</b>   |      | <b>619</b>    | <b>326</b>    |
| <i>Short-term assets</i>                                       |      |               |               |
| Accounts receivable  |      | 265           | 316           |
| Other debtors  | 7    | 2,374         | 601           |
| Prepaid expenses and accrued income                            | 10   | 3,023         | 2,470         |
| <b>Total short-term assets</b>                                 |      | <b>5,662</b>  | <b>3,387</b>  |
| <b>Cash and cash equivalents</b>                               |      | <b>17,876</b> | <b>6,789</b>  |
| <b>TOTAL ASSETS</b>  |      | <b>58,783</b> | <b>44,799</b> |

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

| EQUITY AND LIABILITIES                               | Note | 12-31-2002       | 12-31-2002       |
|--|------|------------------|------------------|
| <b>Equity</b>  | 11   |                  |                  |
| <i>Restricted equity</i>                             |      |                  |                  |
| Share capital (25,886,658 shares at SEK 1)           |      | 25,887           | 24,071           |
| Non-registered share capital                         |      | 13,886           | -                |
| Share premium reserve                                |      | 175,032          | 124,405          |
| Statutory reserve                                    |      | 200              | 200              |
| <b>Total restricted equity</b>                       |      | <b>215,005</b>   | <b>148,676</b>   |
| <i>Unrestricted equity</i>                           |      |                  |                  |
| Accumulated losses                                   |      | (143,330)        | (109,085)        |
| Current year loss                                    |      | (27,618)         | (34,245)         |
| <b>Total unrestricted equity</b>                     |      | <b>(170,948)</b> | <b>(143,330)</b> |
| <b>Total equity</b>                                  |      | <b>44,057</b>    | <b>5,346</b>     |
| <b>Liabilities</b>                                   |      |                  |                  |
| <i>Long-term liabilities</i>                         |      |                  |                  |
| Convertible debenture loan                           | 12   | 3,346            | 5,933            |
| <b>Total long-term liabilities</b>                   |      | <b>3,346</b>     | <b>5,933</b>     |
| <i>Short-term liabilities</i>                        |      |                  |                  |
| Trade creditors                                      |      | 2,022            | 4,352            |
| Convertible debenture loan                           | 12   | 3,345            | 19,067           |
| Other short-term liabilities                         |      | 1,936            | 2,146            |
| Accrued expenses and prepaid income                  | 13   | 4,077            | 7,955            |
| <b>Total short-term liabilities</b>                  |      | <b>11,380</b>    | <b>33,520</b>    |
| <b>TOTAL EQUITY AND LIABILITIES</b>                  |      | <b>58,783</b>    | <b>44,799</b>    |
| <b>OTHER ITEMS REQUIRED FOR INFORMATION PURPOSES</b> |      |                  |                  |
| Pledged assets                                       | 14   | 2,310            | 2,336            |
| <b>TOTAL PLEDGED ASSETS</b>                          |      | <b>2,310</b>     | <b>2,336</b>     |

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

|  | Note | 2003            | 2002            |
|--|------|-----------------|-----------------|
| <b>SOURCES OF FUNDS FROM OPERATIONS</b>                        |      |                 |                 |
| Loss after financial items                                     |      | (27,618)        | (34,245)        |
| Adjustments for items not affecting cash flow                  |      | 823             | 4,364           |
| <b>Funds from operations before changes in working capital</b> |      | <b>(26,795)</b> | <b>(29,881)</b> |
| <i>Funds from changes in working capital</i>                   |      |                 |                 |
| Increase in inventories  |      | (293)           | (326)           |
| Increase in short-term assets                                  |      | (2,275)         | (225)           |
| Increase in short-term liabilities                             |      | (3,979)         | 4,693           |
| <b>FUNDS FROM OPERATIONS</b>                                   |      | <b>(33,342)</b> | <b>(25,739)</b> |
| <b>INVESTMENT ACTIVITIES</b>                                   |      |                 |                 |
| Acquisition of tangible assets                                 | 9    | (410)           | (626)           |
| Acquisition of intangible assets                               |      | -               | (12,545)        |
| Acquisition of financial assets                                |      | (9)             | -               |
| Capitalization of development costs                            | 8    | (3,172)         | (10,052)        |
| <b>FUNDS FROM INVESTMENT ACTIVITIES</b>                        |      | <b>(3,591)</b>  | <b>(23,223)</b> |
| <b>FINANCIAL OPERATIONS</b>                                    |      |                 |                 |
| Converting of debenture loan                                   |      | (18,309)        | -               |
| New share issue  | 13   | 66,329          | 33,500          |
| <b>FUNDS FROM FINANCIAL OPERATIONS</b>                         |      | <b>48,020</b>   | <b>33,500</b>   |
| <b>CURRENT YEAR CASH FLOW</b>                                  |      | <b>11,087</b>   | <b>(15,462)</b> |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR         |      | 6,789           | 22,251          |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>        |      | <b>17,876</b>   | <b>6,789</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. The 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.

### **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 Company 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.

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.

### **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 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    |

Capitalized development costs are going to be depreciated in 5 years according to a progressive model in order to be able to match the revenue income, that is to say, 2 % 2004, 13 % 2005, 25 % 2006, 30 % 2007 and 30 % 2008.

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

***Inventory***

Inventory is valued to the lower of acquisition value and actual value.

***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. Personnel

| AVERAGE NUMBER OF EMPLOYEES | 2003<br>Number of<br>employees | 2003<br>Of which,<br>men | 2002<br>Number of<br>employees | 2002<br>Of which,<br>men |
|-----------------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|
| <b>TOTAL</b>                | <b>21</b>                      | <b>15</b>                | <b>19</b>                      | <b>12</b>                |

| SALARIES AND OTHER<br>REMUNERATION | 2003<br>The board of<br>directors and<br>the<br>managing<br>director <sup>1)</sup> | 2003<br>Of which,<br>bonus pay-<br>ments and<br>other equiva-<br>lent<br>remuneration <sup>2)</sup> | 2003<br>Other<br>employees | 2002<br>The board of<br>directors and<br>the<br>managing<br>director <sup>1)</sup> | 2002<br>Of which,<br>bonus pay-<br>ments and<br>other equiva-<br>lent<br>remuneration <sup>2)</sup> | 2002<br>Other<br>employees |
|------------------------------------|--|---|----------------------------|--|---|----------------------------|
| <b>TOTAL</b>                       | <b>1,549</b>   | <b>75</b>   | <b>9,626</b>               | <b>2,182</b>   | <b>250</b>  | <b>8,990</b>               |

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

<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<br>REMUNERATION (CONTD.) | 2003<br>Salaries and<br>remunera-<br>tion | 2003<br>Social<br>security<br>expenses | 2003<br>Including,<br>pension<br>costs | 2002<br>Salaries and<br>remunera-<br>tions | 2002<br>Social<br>security<br>expenses | 2002<br>Including,<br>pension<br>costs |
|---|---|--|--|--|--|--|
| <b>TOTAL COMPANY</b>                        | <b>11,175</b>                             | <b>6,434</b>                           | <b>2,788</b>                           | <b>11,172</b>                              | <b>6,116</b>                           | <b>2,457</b>                           |

The Managing Director account for 357 (428) of the company's pension costs. All pension obligations are handled by insurance companies or secured through funding by an external insurance company.

In the beginning of 2003 the employees and the Board together owned 724,000 options with a right to acquire one share for each option to a price of SEK 13.5 SEK during the period up until December 31, 2003. During 2003 no options were exercised.

Absence for sick-leave

|                              | 2003   |
|------------------------------|--------|
| Total absence for sick-leave | 7,58%  |
| --longtime absence           | *      |
| --absence for men            | 6,61%  |
| --absence for women          | 10,23% |
| --employees -29 år           | *      |
| --employees 30-49 år         | 2,50%  |
| --employees 50 år-           | *      |

\* do not account for group that is equal or less then 10 employees.



**Note 2. Auditors' fees**

|  | 2003       | 2002       |
|--|------------|------------|
| Audit Deloitte & Touche AB             | 87         | 94         |
| Other assignments Deloitte & Touche AB | 100        | 43         |
| <b>Total</b>                           | <b>187</b> | <b>137</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.'

The Company has elected Deloitte & Touche AB with Kerstin Sundberg as principal auditor on the shareholders meeting 4 June 2003.

**Note 3. Depreciation and write-downs**

Depreciation is allocated for an amount of 188 (216) to administrative costs and with 3,074 (2,831) to research and development.

**Note 4. 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 17.4 million) for the projects, covering a three-year period. The company records contributions as revenue when the costs, which the contributions are meant to cover, have been incurred. In 2003 the company recorded 5,891 (7,376) as other operating income in respect of contributions from the EU.

**Note 5. Interest and assimilated income**

|                        | 2003         | 2002         |
|------------------------|--------------|--------------|
| Interest               | 203          | 524          |
| Exchange rate gains    | 1,138        | 909          |
| Other financial income | 4            | 16           |
| <b>Total</b>           | <b>1,345</b> | <b>1,449</b> |

**Note 6. Interest and assimilated costs**

|                       | 2003         | 2002         |
|-----------------------|--------------|--------------|
| Interest expense      | 2,644        | 1,254        |
| Exchange rate losses  | 781          | 1,240        |
| Other financial costs | -            | 27           |
| <b>Total</b>          | <b>3,425</b> | <b>2,521</b> |

**Note 7. Taxes**

|  | 2003 | 2002 |
|--|------|------|
| <b>Tax receivables</b>   |      |      |
| Tax receivables included in other receivables regarding special payroll tax amount to: | 222  | 208  |

**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 170,114 (142,462) that may be used indefinitely, corresponding to a deferred tax asset of 47,632 (39,889). The company has not recorded a deferred tax asset as the tax loss carry-forward can not be expected to be used within the foreseeable future.

**Note 8. Intangible assets**

|   | Patents        | Capitalized development costs |
|---|----------------|-------------------------------|
| Acquisition value brought forward                             | 16,145         | 21,070                        |
| Purchases / capitalized costs <sup>1)</sup>                   | -              | 3,172                         |
| <b>Accumulated acquisition values carried forward</b>         | <b>16,145</b>  | <b>24,242</b>                 |
| Depreciation brought forward                                  | (5,064)        | -                             |
| Depreciation for the year                                     | (2,509)        | -                             |
| <b>Accumulated depreciation carried forward</b>               | <b>(7,573)</b> | <b>-</b>                      |
| <b>BOOK VALUE CARRIED FORWARD</b>                             | <b>8,572</b>   | <b>24,242</b>                 |
| During the previous year the following amounts were recorded: |                |                               |
| Depreciation  | (2,184)        | -                             |

<sup>1)</sup> In 2002 internal personnel costs were capitalized for an amount of 2,596 (3,145).

**Note 9. Tangible assets**

|  | Machinery and other technical equipment <sup>1)</sup> | Equipment, tools and installations | Leasehold improvement | Total          |
|--|---|------------------------------------|-----------------------|----------------|
| Acquisition value brought forward                              | 1,371   | 1,675                              | 1,423                 | 4,469          |
| Purchases  | 340   | 70                                 | -                     | 410            |
| <b>Accumulated acquisition value carried forward</b>           | <b>1,711</b>  | <b>1,745</b>                       | <b>1,423</b>          | <b>4,879</b>   |
| Depreciation brought forward                                   | (318)   | (1,298)                            | (707)                 | (2,323)        |
| Depreciation for the year                                      | (338)   | (130)                              | (285)                 | (753)          |
| <b>Accumulated depreciation carried forward</b>                | <b>(656)</b>  | <b>(1,428)</b>                     | <b>(992)</b>          | <b>(3,076)</b> |
| <b>BOOK VALUE CARRIED FORWARD</b>                              | <b>1,055</b>  | <b>317</b>                         | <b>431</b>            | <b>1,803</b>   |
| During the preceding year the following amounts were recorded: |   |                                    |                       |                |
| Depreciation   | (264)   | (318)                              | (283)                 | (865)          |

**Note 10. Prepaid expenses and accrued income**

|  | 2003-12-31 | 2002-12-31 |
|--|------------|------------|
|--|------------|------------|

|   |              |              |
|---|--------------|--------------|
| Prepaid rent                              | 304          | 267          |
| Accrued EU-contributions                  | 2,444        | 1,856        |
| Other prepaid expenses and accrued income | 275          | 347          |
| <b>Total</b>                              | <b>3,023</b> | <b>2,470</b> |

### Note 11. Changes in equity

|                               | Share capital | Non-registered share capital <sup>1)</sup> | Share premium reserve | Statutory reserve | Unrestricted equity | Total         |
|-------------------------------|---------------|--|-----------------------|-------------------|---------------------|---------------|
| Amount brought forward        | 24,071        | -  | 124,405               | 200               | (143,330)           | 5,346         |
| New share issue               | 1,816         | 13,886                                     | 50,627                | -                 | -                   | 66,329        |
| Current year loss             | -             | -  | -                     | -                 | (27,618)            | (27,618)      |
| <b>AMOUNT CARRIED FORWARD</b> | <b>25,887</b> | <b>13,886</b>                              | <b>175,032</b>        | <b>200</b>        | <b>(170,948)</b>    | <b>44,057</b> |

<sup>1)</sup> As of December 31, 2003, 13,866 thousands subscribed share capital has not yet been registered at the Swedish Patent and Registration Office.

### Note 12. Convertible debenture loan

In May 2003 three of the holders of the Company's subordinated convertible debenture loan in the amount of MSEK 25 decided to convert their holdings, including accrued interest on the debentures, to shares in the Company. The effect of the conversion was that shareholders' equity increased by SEK 18 161 000; the share capital increased by SEK 1 816 000. Skandia Liv has subscribed for a new subordinated convertible debenture loan in the amount of MSEK 10.0 on the same terms and conditions as the previous loan. In December 2003 Skandia Liv converted one third of the subordinated convertible debenture loan in the amount of MSEK 10.0, including accrued interest to shares; the issue price was SEK 3.20 per share, which had the effect that the share capital increased by MSEK 1.0. The remaining portion of the subordinated convertible debenture loan amounts to MSEK 6.7 on the same terms and conditions as before.

In March 2003, an agreement was concluded by which MSEK 23.5 was infused in the Company as bridge financing to make a major new issue possible. The six lenders are Skandia Liv (MSEK 12.0), MN Development (MSEK 5.0), Gylling Capital (MSEK 2.0), RAB Capital (MSEK 2.0) and two private individuals, who together invested MSEK 2.5. The loans carry interest at a rate of 11 percent p.a. To secure the loan, the Company has granted a lien in the Company's wholly owned Swedish patents. The intention of the lenders is to participate in an upcoming new issue of shares in the Company and then convert their respective claims to shares. In December 2003 a set-off issue was made at a price of SEK 4.00 per share under a bridge financing agreement that increased the share capital by MSEK 6.3. All six lenders converted their loans, including accrued interest, to shares.

### Note 13. Accrued expenses and prepaid income

|                          | 2003-12-31   | 2002-12-31   |
|--------------------------|--------------|--------------|
| Vacation accrual         | 1,137        | 916          |
| Social charges           | 768          | 613          |
| Accrued interest expense | 223          | 2,662        |
| Other accrued expenses   | 1,949        | 3,764        |
| <b>Total</b>             | <b>4,077</b> | <b>7,955</b> |

**Note 14. Pledged assets**

|                             | 2003-12-31   | 2002-12-31   |
|-----------------------------|--------------|--------------|
| <i>Pledged assets</i>       |              |              |
| Prepayment warranty         | 1,826        | 1,846        |
| Agreement warranty          | 484          | 490          |
| <i>Total pledged assets</i> | <b>2,310</b> | <b>2,336</b> |
| <b>TOTAL PLEDGED ASSETS</b> | <b>2,310</b> | <b>2,336</b> |

The pledged assets of 2,3 MSEK refer to the prepayments from EU concerning the two projects, BIOSENS and DEMAND. Those prepayments were put in a frozen account in the bank, the amount of that account is about 2,5 MSEK at the end of 2003. When the final reports of the two projects are approved by EU, the EU funding in that account will be available to use and the pledged assets will no longer exist.

Stockholm 5 May 2004

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

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

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

\_\_\_\_\_  
Bengt Hagander

\_\_\_\_\_  
Leif Engström

Our auditor's report was submitted on 5 May 2004

Deloitte & Touche AB

\_\_\_\_\_  
Kerstin Sundberg  
Authorized Public Accountant