



ANNUAL REPORT
for the year ended
31 December 2004



BIOSENSOR APPLICATIONS
SWEDEN AB

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ANNUAL REPORT FOR BIOSENSOR APPLICATIONS SWEDEN AB

President's statement

2004 became the year when we concluded a number of important agreements for global distribution of Biosensor's products. Thanks to the distribution agreements with CEO, Rapiscan and Altech we now have coverage with professional competence in virtually all parts of the world for marketing and sales of Biosensor's technology. We have also put a lot of effort into making our partners familiar with the BIOSENS system, through training of sales forces as well as service technicians.

During the year we have engaged in extensive demonstration and testing activity around the world. It is especially encouraging that we now have managed to sell a number of BIOSENS systems to some very prominent authorities in the USA and Japan. In Sweden, we have also sold systems to the customs and correctional authorities.

We have made additional strides ahead in making our analysis system even more reliable and easy to handle. This is true for detection of explosives as well as narcotics. We have also advanced our positions when it comes to adding new substances to those where we have already proven a sustainable detection capacity.

The new technology for narcotics detection with the aid of sweat samples from human skin has proved to be promising. The project conducted during the year at the Maria Beroendecentrum [Maria addiction centre], with support from the department for innovation systems, Vinnova, has been met with very positive response from personnel as well as clients.

We have made sure that we have the resources, both externally and internally, to meet increased demand, and hence also increased production. In that context we have completed training for potential suppliers and we have also formulated a strategy for how to assure quality and stability as more and more of the production is moved to our strategic partners.

Finally, contacts were established towards the end of the year with a number of new, potential investors. In my capacity of chief executive it is gratifying that there is obvious interest for the Company in the marketplace. This not only offers an exit opportunity for owners that have patiently followed us through the years through all our development stages. But above all it means that there is a potential for commercialisation of the Company and the technology that all of us working here believe so strongly in. We still have some way to go to reach profitability and production on an industrial scale, but so far we feel that we can say that we have done the right things at the right time, thereby laying a solid foundation for future growth.

A heart-felt thanks is extended to all engaged owners, the Board of Directors and employees for an exciting 2004.

Carl Lundberg, CEO

2004 OPERATIONS

MARKET AND CUSTOMERS

Biosensor's operations are focused on a growing global market for security products and systems. Events in recent years have led to increased awareness of the vulnerability of modern society to terrorism and for dealing in illicit drugs, weapons and explosives. As a result, demand for security equipment and services has increased sharply, which means that there is a significant market potential for Biosensor's products.

At least half of the world market is believed to be in the United States, where the American presence in Iraq constitutes a constant reminder of the need to maintain a high level of security. But also in Europe there is growing interest for innovative and reliable detection technology, for example to protect sensitive infrastructure and public buildings.

Biosensor's market potential is in the area of aviation security, defence, protection for sensitive infrastructure, customs and ports. For narcotics detection there is also a great market potential in areas such as prisons, police authorities and in the private sector.

International market study

An in-depth analysis of Biosensor's market potential for explosives and narcotics detection was performed during the year. This analysis showed a great potential for the BIOSENS system, especially in the field of aviation security, border security, the defence sector and the newly developed method for detecting narcotic substances via sweat samples from skin. The study indicated that there is great interest on the part of prisons and police authorities, but also in different parts of the private sector, such as at nuclear power facilities and in the transportation sector.

SALES AND MARKETING

Three new distribution agreements

In March 2004, a distribution agreement was concluded between Biosensor and Chartered Electro-Optics PTE Ltd (CEO), a company in the Singapore Technologies Group. Under this agreement CEO will market and distribute the BIOSENS-D system in Taiwan, Hong Kong, Macau and the ASEAN countries.

Biosensor and Los Angeles-based Rapiscan concluded a distribution agreement in May that gives Rapiscan exclusive distribution rights to the BIOSENS-D/E systems in North and South America, EU, the Middle East, India, Australia, New Zealand and Korea. Rapiscan is a leading manufacturer of high-quality X-ray equipment and systems for explosives detection. The company has delivered more than 8,000 such systems to airports, customs authorities, prisons, embassies and other public buildings all over the world. Rapiscan is a wholly owned subsidiary of NASDAQ-listed OSI Systems.

A formal distribution agreement was also concluded with Altech ADS Co., Ltd, a company with which Biosensor has co-operated for a long time. The agreement gives Altech the sole right to distribute Biosensor's products on the Japanese market.

Major efforts were expended during the year on developing the relations with the distributors, in part through extensive training of sales and service personnel.

Together with Rapiscan, work has started to establish local distribution channels, particularly in Europe and the Middle East. These activities have also involved extensive training and education efforts.

A large number of tests and demonstrations were carried out around the world during the year, in Japan, Mexico, Ireland, Canada, Thailand, China, Brunei and elsewhere. A number of demonstration systems have also been placed with potential customers in, for instance, Germany and the United Kingdom.

Two Japanese authorities have purchased Biosensor's equipment during the year and two BIOSENS systems were sold to the US Department of Defense. One system will be used for tests by the navy and the other system for use by the Coast Guard. The purpose has been to test the BIOSENS system's reliability in environments where other detection equipment often fails because the environments are contaminated by, for example, oil and other pollutants.

Within the framework of a leasing contract with a non-European customs authority, thousands of tests were performed over a three-month period in highly contaminated environments.

A constant experience in connection with all testing activities performed during the year is the BIOSENS system's reliability also in difficult environments and the low frequency of false alarms, particularly in comparison with competing systems.

Co-operation with the Swedish customs, which is of long standing, resulted in, among other things, that Biosensor's equipment was installed at the Öresund bridge in March. Trials were also initiated during the year with narcotics detection at the Hällby penitentiary, which has led to the sale of a system. Discussions are also in progress with the police authorities, which means that Biosensor now has established contact with all significant law enforcement authorities in Sweden.

Trade shows and exhibitions

Trade show activities were intense during the year and Biosensor's participation in such events included a security exhibition in Japan and an exhibition arranged by Police Scientific Development Branch, PSDB, under the British Ministry of the Interior. Together with Rapiscan, Biosensor was also represented at Customs World in London, ASIS in Dallas, Texas, Milipol in Qatar and Security in Essen, Germany.

A new post as director of sales was filled at Biosensor during the year.

DEVELOPMENT

Screening for new BioCells

The BIOSENS system is subject to improvements and simplifications. Sharp focus was placed during the year on developing new BioCells for explosives as well as for narcotics. Increased speed and reliability are also prioritised and new operative protocols, which make the systems easier to use, were developed for the BIOSENS system.

For analysis of explosive substances, the work has been focused on increasing the number of detectable substances and to raise sensitivity. Advances have been scored both as far as TNT, PETN and RDX is concerned.

Vinnova project started

Thanks to a grant from the department for innovation systems, Vinnova, a new development project has been initiated. The objective of the project, which has a term of one year, is to develop a protocol for drug detection via sweat samples from the skin. In this project Biosensor co-operates with Maria Beroendecentrum AB and the Karolinska university hospital in Huddinge. The system is already effective for pre-screening for drugs such as ecstasy, opiates (heroin, morphine, etc.), cocaine, as well as amphetamine and its derivatives. Under development are detectors for THC (marijuana, hash) and benzodiazepine (Rohypnol, Valium). The advantage with the new method is that it is fast compared to traditional urine samples. It is also less offensive from an integrity point of view for clients and easier for the personnel to handle.

EU projects finalised

The final report for the DEMAND project was submitted to the EU commission in February. The purpose of the project was to develop a multi-sensorial mine detector using Biosensor's system in interaction with a metal detector and a ground-penetrating radar. The commission's evaluation of the project was highly positive and the solution was characterised as "innovative and elegant."

The BIOSENS project, which was finalised during 2004, was aimed at expanding the number of detectable explosive substances in mine fields. A large number of field tests were conducted in Bosnia and Croatia during the year, together with the Swedish Rescue Service Agency and the Norwegian People's Aid. Good results were achieved when it comes to detecting TNT, Tetryl and PETN. Field tests have also shown that the collection as well as the analysis equipment perform well under active-service conditions.

INDUSTRIALISATION AND PRODUCTION

Stronger quality assurance

A strategy has been established for how the company should handle increased demand and a transition to production on an industrial scale, at the same time as strengthening the stability and quality of the production processes. One step on the way was to establish a product council, consisting of the CEO, the R&D and the

production managers. All modifications of the Company's products will henceforth be decided by the product council. The quality work will also be strengthened by new competence and with the sights set at eventual ISO certification.

Training of suppliers

With an expected increase in production also follows that a shrinking proportion of the assembly work will be performed within Biosensor. External partners are therefore sought for assembly of the collection as well as the analysis units. Towards the end of the year a training program was arranged for potential contractors. The next step will be to enter into agreements with selected contractors and adapt their production lines to Biosensor's products.

Automation of the BioCell production, which will continue to be handled by Biosensor, continued during the year and is expected to be completed during 2005–06.

ADMINISTRATION REPORT

The Board of Directors and the President of Biosensor Applications Sweden AB hereby submits its Annual Report for the operations during the 2004 financial year.

Until January 1998, the Company was a wholly owned subsidiary of Bofors AB, when the company was sold. Following additional sales of shares and stock offerings, the Company has 276 shareholders as of December 31, 2004. The work of developing the Biosensor system was initiated by Bofors in 1995. In connection with a reorganisation of 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, the large shareholders include Skandia Liv, MN Development, Förvaltnings AB Metallica, the Swedish Red Cross, RAB Capital, Gylling Capital AB, Yissum Research Development Co and the Swedish Municipal Workers' Union.

Significant events during the financial year and after its close

New issues

In an effort to enable the Company to float a major new issue, an investment agreement was concluded in November 2004 for bridge financing, through which MSEK 19.0 was raised during 2004. The investment agreement also provides for giving the lenders options to subscribe to new class A shares in the Company at a subscription price of SEK 1.00 from 15 April 2005 until 15 April 2008, inclusive. Biosensor's extra general meeting of shareholders held 2 February 2005 resolved to convert the bridge financing to a convertible debenture loan. The lenders exercised their options on 31 May 2005, which added SEK 1.9 million to the share capital. Under certain conditions the convertible debenture loan can be converted to up to 19 million shares of preferred stock in the Company during the period 15 April 2005 until 30 June 2007, inclusive.

The Board of Directors has delayed preparing the annual accounts until the liquid situation was assured. After the turn of the year, an additional bridge financing loan has been raised, adding MSEK 20.00 to the Company. In all, MSEK 1.9 has been infused in the Company in the form of share capital and MSEK 12.6 has been paid in to improve the liquid position. The remainder will be paid in during August.

Against the background of the advanced stage of the development of the Company's products, and a year's sales with positive response from customers, the Board of Directors makes the judgment that opportunities for raising additional financing are good. The annual accounts have thus been prepared with the assumption of continuing operations. There are no guaranties, however, that it will be possible to raise additional financing as planned.

Amendment of the Articles of Association and authorisation

The extra general meeting of shareholders held 2 February 2005 resolved to amend the Company's Articles of Association in such a way as to enable the Company to issue Class C preferred shares equivalent to a maximum of fifty (50) percent of the Company's share capital. The amendment of the Company's Articles of Association was made to allow the Company to fulfil its obligation under the investment agreement entered into on 18 November 2004. By reason of the amendment of the Company's Articles of Association, the extra general meeting of shareholders also resolved to renew the authorisation to the Board of Directors to decide on new issues of shares, issuance of convertible debentures with options, but not to issue preferred shares, or any instruments that entitle the holder to exchange or subscribe to preferred shares, such authorisation to remain valid until the next following regularly scheduled Annual General Meeting.

Patent status

The work with patent application, protection of designs and trademark protection is continuing according to plan. The Company's portfolio of patents today includes 13 patents and patent applications. Two wholly owned patent applications were submitted as PCT applications during 2004.

Balance sheet for liquidation purpose

In December 2004 the Company compiled a balance sheet for liquidation purpose since more than half of the registered share capital had been consumed. In conjunction herewith the Company capitalised certain development costs and it was then established that more than half of the share capital had not been consumed. There was no critical capital shortage as defined by Chapter 13, Section 12 of the Swedish Companies Act. The Board of Directors monitors the Company's position on an ongoing basis and as of 31 July 2005 the Board of Directors is of the opinion that there is no need to compile a balance sheet for liquidation purpose.

Organisational 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 21 to 26.

New Board of Directors

A new Board of Directors for Biosensor was elected by the Annual General Meeting held 15 June 2004. Jan Persson remained as Chairman, Ulf Ericsson, Bengt Hagander and Leif Engström remained as regular members of the Board of Directors. As new directors were elected John Wattin and Per-Olof Lööf. Per-Olof Lööf and John Wattin resigned from the Board of Directors during the spring of 2005.

Ownership structure

The number of shares outstanding in Biosensor as of 31 December 2004 was 40,033,942. The shares have a nominal value of SEK 1.00 and the share capital thus amounts to SEK 40,033,942. All outstanding shares give their holders the same rights with respect to Biosensor's assets and earnings.

The largest shareholders in Biosensor as of 31 December 2004 were as follows:

Shareholders	Number of shares	Proportion of share capital and votes
SKANDIA	12,512,157	31.3 %
MN Development	7,185,000	17.9 %
Jan Persson, Hellena Ltd *	4,609,522	11.5 %
Hans Mellström	2,286,708	5.7 %
RAB Capital	1,951,943	4.9 %
Gylling Capital AB	1,917,698	4.8 %
Förvaltnings AB Metallica	1,776,762	4.4 %
Yissum Research Development Co.	1,100,000	2.7 %
The Swedish Red Cross	1,034,000	2.6 %
The Swedish Municipal Workers' Union	929,291	2.3 %
Servisen Private Equity Fund	604,190	1.5 %
Gesta Diagnostic AB	513,000	1.3 %
Brunanden AB	400,220	1.0 %
Scanbridge AB	400,220	1.0 %
SIS Segaintersettle AG	361,360	0.9 %
Trossamfundet Svenska Kyrkan	357,986	0.9 %
Other shareholders	2,093,385	5.2 %
Total	40,033,942	100 %

* Company controlled by Jan Persson and family.

Changes in the ownership structure

After year-end Skandia Liv has sold the portfolio in which Biosensor Applications Sweden AB was included. Four Seasons Venture AS, Norway, has acquired all of Skandia Liv's shares in Biosensor Applications Sweden AB.

Proposed allocation of earnings (SEK)

The following amounts are available to the Annual General Meeting for allocation:

Loss carried forward from prior years	-170,947,236
Net loss for the year	-27,767,941

Total -198,715,177

The Board of Directors proposes that the loss be dealt with in the following manner:

To be carried forward	-198,715,177
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Total -198,715,177

INCOME STATEMENT
(Amounts in SEK thousand)

	Note	2004	2003
Net revenues		2,520	873
Cost of goods sold		-1,816	-491
Gross result		704	382
Administrative expenses	1, 2, 3	-12,031	-12,294
Research and development costs	1, 2, 3	-17,475	-19,431
Other operating income	4	1,328	5,891
Other operating expense		-79	-86
Operating result		-27,553	-25,538
<i>Result from financial investments</i>			
Interest income and similar items	5	963	1 345
Interest expense and similar items	6	-1,178	-3,425
Result after financial items		-27,768	-27,618
Taxes on the year's result		-	-
NET RESULT FOR THE YEAR		-27,768	-27,618

BALANCE SHEET
(Amounts in SEK thousand)

ASSETS	Note	12/31/2004	12/31/2003
Non-current assets			
<i>Intangible non-current assets</i>			
	8		
Capitalised expenses for research and development work		29,656	24,242
Concessions, patents, licences, trade marks and similar rights		6,063	8,572
Total intangible non-current assets		35,719	32,814
<i>Tangible non-current assets</i>			
	9		
Plant and machinery		1,069	1,055
Equipment, tools, fixtures and fittings		200	317
Leasehold improvements		147	431
Total tangible non-current assets		1,416	1,803
<i>Financial non-current assets</i>			
Deposits rendered		7	9
Total financial non-current assets		7	9
Current assets			
<i>Inventory</i>			
Goods for resale		1,135	619
Total inventory		1,135	619
<i>Short-term receivables</i>			
Accounts receivable		793	265
Other receivables	7	3,686	2,374
Prepaid expenses and accrued income	10	588	3,023
Total short-term receivables		5,067	5,662
Cash and cash equivalents		10,195	17,876
TOTAL ASSETS		53,539	58,783

BALANCE SHEET
(Amounts in SEK thousand)

SHAREHOLDERS' EQUITY AND LIABILITIES	Note	12/31/2004	12/31/2003
Shareholders' equity	11		
<i>Restricted equity</i>			
Share capital (40,033,942 shares, SEK 1.00 nominal value each)		40,034	25,887
Share capital not yet registered		–	13,886
Premium reserve		175,817	175,032
Legal reserve		200	200
Total restricted shareholders' equity		216,051	215,005
<i>Unrestricted shareholders' equity</i>			
Loss brought forward		–170,948	–143,330
Net result for the year		–27,768	–27,618
Total unrestricted shareholders' equity		–198,716	–170,948
Total shareholders' equity		17,335	44,057
Provisions		135	21
Liabilities			
<i>Long-term liabilities</i>			
Convertible debenture loan	12	19,000	3,346
Total long-term liabilities		19,000	3,346
<i>Current liabilities</i>			
Accounts payable		3,304	2,022
Convertible debenture loan	12	6,691	3,345
Other liabilities		1,861	1,936
Accrued expenses and prepaid income	13	5,213	4,056
Total current liabilities		17,069	11,359
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		53,539	58,783
MEMORANDUM ITEMS			
Total pledged assets	14	933	2,310
TOTAL PLEDGED ASSETS		933	2,310

CASH FLOW STATEMENT
(Amounts in SEK thousand)

	Note	2004	2003
CURRENT OPERATIONS			
Result after financial items		-27,768	-27,618
Adjustments not included in cash flow		4,564	823
Cash flow from current operations before changes in working capital		-23,204	-26,795
<i>Cash flow from changes in working capital</i>			
Increase in inventories		-516	-293
Decrease/Increase in short-term receivables		595	-2,275
Increase/Decrease in current liabilities		1,743	-3,979
CASH FLOW FROM CURRENT OPERATIONS		-21,382	-33,342
INVESTMENT OPERATIONS			
Acquisition of tangible non-current assets	9	-466	-410
Increase/Decrease in financial non-current assets		2	-9
Capitalised development costs	8	-5,881	-3,172
CASH FLOW FROM INVESTMENT OPERATIONS		-6,345	-3,591
FINANCING OPERATIONS			
Increase/Decrease in subordinated loan		19,000	-18,309
New issue	11	1,046	66,329
CASH FLOW FROM FINANCING OPERATIONS		20,046	48,020
CASH FLOW FOR THE YEAR		-7,681	11,087
LIQUID FUNDS AT BEGINNING OF YEAR		17,876	6,789
LIQUID FUNDS AT YEAR-END		10,195	17,876

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

The accounting and valuation principles applied conform with the Swedish Annual Accounts Act and the general advice of the Swedish Financial Accounting Standards Council. Unless otherwise specifically stated, the principles are unchanged in comparison with the preceding year.

The Company's assets and liabilities are carried at cost and nominal value, respectively, unless otherwise specifically stated in a note below.

Revenue recognition

Net revenues includes sales of detectors and sensors and service in conjunction therewith. Revenue is reported when essentially all risks and rights associated with the ownership have been transferred to the buyer, which normally takes place in connection with delivery.

Grants for research and development

Grants for research and development are recognised as revenue when, in accordance with agreement, it can be estimated to be based on accrued expenditure. Expenditure for research and development for which grants are received are reported as cost as incurred.

Taxes

The Company's total taxes consist of current taxes and deferred taxes. Deferred taxes consist mainly of estimated taxes on the year's change in untaxed reserves and taxes on unutilised tax loss carryforwards, to the extent these can be met by reversal of untaxed reserves, or otherwise with great certainty can be utilised within the foreseeable future. Deferred taxes are calculated based on the current tax rate for each respective country.

Tax legislation in Sweden and certain other countries allow provisions to special reserves and funds. This allows companies to retain and use, within certain limits, reported operating profits without immediate tax effects. The untaxed reserves become subject to tax only when they are reversed.

Intangible non-current assets

The Company reports intangible assets in accordance with BFN R1, which is accordance with recommendation No. 15 of the Swedish Financial Accounting Standards Council. The Company applies a conservative interpretation of BFN R1 and only capitalises approximately 50 percent of accrued expenses. Intangible non-current assets consists primarily of patents and capitalised development expenses.

Patents which are of significant value for the business are carried as intangible assets.

Expenditure for development aimed at completing an asset so that it can be used or sold, is carried as an intangible asset. Development refers in the first instance to design and testing of prototypes and includes external as well as internal expenditure in order to develop the asset.

Tangible non-current assets

Tangible non-current assets, consisting mainly of plant & equipment and leasehold improvements, are reported at acquisition cost less accumulated depreciation.

Depreciation and amortisation according to plan

Depreciation and amortisation according to plan is based on the acquisition value of the assets and their estimated economic life. Leasehold improvements are capitalised and amortised taking the content of the rental agreement into consideration. Capitalised development costs are amortised from the period when commercial sales of the intended product begins.

Capitalised expenditure for research and development work	5 years
Patents	5 years
Plant and equipment	5-10 years
Equipment, tools, fixtures and fittings	5 years
Leasehold improvements	5 years

Capitalised development expenses are amortised over 5 years according to a progressive rate of amortisation in order to better meet revenue, i.e. 2 percent 2004, 13 percent 2005, 25 percent 2006, 30percent % 2007 and 30 percent 2008.

Depreciation and amortisation for tax purposes are calculated in accordance with rules and regulations in force. Depreciation and amortisation for tax purposes are treated as supplementary depreciation and amortisation, which are classified as untaxed reserves.

Inventories

Inventories are valued at the lower of cost and market.

Receivables

Receivables are carried at the amount which after individual assessment is expected to be collected.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the year-end rate of exchange. Gains and losses on receivables and liabilities of an operating character are reported net among other operating income or operating expenses, respectively.

Advance payments from customers are carried at the rates of exchange prevailing when each respective advance payment was received, since no obligation to repay is expected to occur.

NOTES – ALL AMOUNTS IN SEK THOUSAND, UNLESS OTHERWISE SPECIFICALLY STATED

Note 1. Personnel

AVERAGE NUMBER OF EMPLOYEES	2004 Number of employees	2004 Of whom men	2003 Number of employees	2003 Of whom men
TOTAL	23	16	21	15

SALARIES AND OTHER COMPENSATION	2004 Board of Directors and CEO ¹⁾	2004 Of which bonus and similar compensation ²⁾	2004 Other employees	2003 Board of Directors and CEO ¹⁾	2003 Of which bonus and similar compensation ²⁾	2003 Other employees
TOTAL	1,788	175	10,156	1,549	75	9,626

¹⁾ Includes present and current directors and their alternates and CEO.

²⁾ Refers only to the group defined under ¹⁾ above.

³⁾ Upon termination, the CEO has the right to compensation equivalent to 12 monthly salaries.

SALARIES AND OTHER COMPENSATION (CONT'D)	2004 Salaries and other compensation	2004 Social benefits	2004 Of which pension costs	2003 Salaries and other compensation	2003 Social benefits	2003 Of which pension costs
TOTAL	11,944	6,467	2,846	11,175	6,434	2,788

Of the Company's pension costs, 364 (357) refer to the CEO. All pension commitments have been taken over by insurance companies or are secured in other ways through funding with an external party.

At the end of the financial year the employees and the Board of Directors collectively held 1,930,000 options with the right to acquire one share per option at a price of SEK 7.00 with an expiry date of 12/31/2006. No options were exercised during 2004.

Absence due to illness

	2004	2003
Total absence due to illness	2.46%	7.58%
– long-term absence due to illness	*	*
– absence due to illness for men	2.42%	6.61%
– absence due to illness for women	2.57%	10.23%
– employees –29 years	*	*
– employees 30–49 years	1.16%	2.50%
– employees 50 years–	*	*

* Not reported due to the rule of exception in the legislation when the number of employees is no more than 10.

Note 2. Information about auditors' fees

	2004	2003
Auditing assignment Deloitte & Touche AB	78	87
Other assignments Deloitte & Touche AB	74	100
Total	152	187

By auditing assignment is meant examination of the annual accounts and financial statements and the management by the President and the Board Directors, other tasks the Company's auditor is obliged to perform and advice and counsel prompted by the observations in the course of such examination, or carrying out such other tasks. Everything else is defined as other assignments.

The Company elected Deloitte & Touche AB with Kerstin Sundberg as chief auditor at the Annual General Meeting held 15 June 2004.

Note 3. Amortisation and write-down

The distribution of amortisation is 206 (188) on administrative expenses and 3,595 (3,074) on research and development.

Note 4. Other operating income

On December 28 2000 EU approved two applications for support for further development of the mine sensor and development of a multi-sensor for the Company, together with, among other, the Swedish *Svenska Räddningsverket* and the Norwegian *Norsk Folkhjelp*. EU has approved total grants in an amount of EUR 1.9 million (approximately SEK 17.4 million) and the projects run over 3 years. The Company reports grants when the cost that the grant is intended to cover has been incurred. During 2004 the Company reported 873 (5,891) as other operating income relating to support from EU.

On September 1 2004, Vinnova approved the application relating to support for further development of a perspiration detector. Vinnova has approved total grants of SEK 700 and the projects runs over 1 year. During 2004 the Company reported SEK 382 as other operating income relating to support from Vinnova.

Note 5. Interest income and similar items

	2004	2003
Interest income	150	203
Translation differences	698	1,138
Other financial income	115	4
Total	963	1,345

Note 6. Interest income and similar items

	2004	2003
Interest expense	647	2,644
Translation differences	531	781
Total	1,178	3,425

Note 7. Taxes

	2004	2003
Tax claims		
Tax claims relating to special payroll tax are included among claims	484	222
Total	484	222

Deferred tax claim

The Company reports in accordance with recommendation No. 9 of the Swedish Financial Accounting Standards Council. The Company has accumulated tax loss carryforwards that can be utilised without limit as to time amounting to 197,416 (169,904), equivalent to a deferred tax claim of 55,276 (47,573).

The Company applies a conservative approach and does not report any deferred tax asset despite the fact that the Company expects to generate profits in the future.

Note 8. Intangible non-current assets

	Patents	Capitalised development expenses
Opening acquisition cost	16,145	24,242
Purchases / capitalised expenses ¹⁾	–	5,881
Closing accumulated acquisition cost	16,145	30,123
Opening amortisation	–7,573	–
Amortisation for the year	–2,509	–467
Closing accumulated amortisation	–10,082	–467
CLOSING BOOK VALUE	6,063	29,656

During the preceding financial year the following amount was reported with respect to:
Amortisation

–2,509	–
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- 1) During 2004 internal expenditure relating to payroll expenses amounting to 4,863 (2,596) were capitalised.

Note 9. Tangible non-current assets

	Plant and equipment	Equipment, tools, fixtures and fittings	Leasehold improvements	Total
Opening acquisition values	1,711	1,745	1,423	4,879
Purchases	447	19	–	466
Closing accumulated acquisition values	2,158	1,764	1,423	5,345
Opening depreciation	–656	–1 428	–992	–3 076
Depreciation for the year	–433	–136	–284	–853
Closing accumulated depreciation	–1,089	–1,564	–1,276	–3,929
CLOSING BOOK VALUE	1,069	200	147	1,416

During the preceding financial year the following amount was reported with respect to:
Depreciation

–338	–130	–285	–753
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Note 10. Prepaid expenses and accrued income

	12/31/2004	12/31/2003
Prepaid rent	245	304
Accrued EU grants	–	2,444
Other prepaid expenses and accrued income	343	275
Total	588	3,023

Note 11. Change in shareholders' equity

	Share Capital	Share capital not registered	Premium reserve	Legal reserve	Unrestricted equity	Total
Opening balance	25,887	13,886	175,032	200	-170,948	44,057
New issue	14,147	-13,886	785	–	–	1,046
Net result for the year	–	–	–	–	-27,768	-27,768
CLOSING BALANCE	40,034	0	175,817	200	-198,716	17,335

Note 12. Subordinated convertible debenture loan

In December 2003 Skandia Liv converted to shares one third of the subordinated convertible debenture loan in the amount of MSEK 10.0, including accrued interest. The issue price was SEK 3.20 per share which meant that the share capital increased by MSEK 1.0. The remainder of the subordinated debenture convertible loan amounts to MSEK 6.7 on the same terms and conditions as before. In December 2004, Skandia Liv extended its loan to 31 December 2005 on the same terms and conditions as before.

For the purpose of enabling the Company to float a major new issue, an investment agreement was concluded in November 2004 for bridge financing that raised a total of MSEK 19 for the Company. The loan carries interest at a rate of 12% p.a. The investment agreement also means that the lenders receive options giving them the right to subscribe for new class A shares in the Company at a subscription price of SEK 1.00 per share from 15 April 2005 until 15 April 2008, inclusive. The lenders exercised their option on 31 May 2005 and subscribed for 1,900,000 new shares. The share capital was thus increased by MSEK 1.9.

Biosensor's extra general meeting of shareholders held 2 February 2005 resolved to convert this bridge financing into a convertible debenture loan. The convertible debenture can be converted to up to 19 million shares of preferred stock on certain conditions during the period 15 April 2005 until 30 June 2007, inclusive.

Note 13. Accrued expenses and prepaid income

	12/31/2004	12/31/2003
Vacation pay liability	1,253	1,137
Social benefits	857	768
Accrued interest	844	223
Other accrued expenses	2,259	1,928
Total	5,213	4,056

Note 14. Pledged assets

	12/31/2004	12/31/2003
<i>Pledged assets</i>		
Advance payment guarantee	383	1,846
Contract guarantee	480	484
Tender guarantee	70	–
Total pledged assets	933	2,310
TOTAL PLEDGED ASSETS	933	2,310

Pledged assets in an amount of SEK 933,000 refer to a tender guarantee and the advance payments received by the Company from EU relating to projects BIOSENS and DEMAND, for which EU grants are given. The Company has received an advance payment for this and there are thus restricted funds held by a bank in the amount of SEK 933,000 as of year-end 2004. When the projects are finally settled with EU, EU will release these funds, the funds held by the bank are released and the pledged assets will be released.

Stockholm, 31 July 2005

Jan Persson
Chairman

Carl Lundberg
President & CEO

Leif Engström

Bengt Hagander

Ulf Ericsson

Our audit report differs from the standard wording and was submitted 31 July 2005.

Deloitte & Touche AB

Kerstin Sundberg
Authorised Public Accountant