



# COLLECT TRACE ANALYZE

Biosensor has developed and patented a detection system, BIOSENS, that with high precision and sensitivity can detect and discover narcotics and explosives at a molecular level. BIOSENS can collect, trace and analyse substances in air, on soft and hard surfaces and on skin.

## Year-end Report 2006





## YEAR-END REPORT FOR THE 2006 OPERATING YEAR

### PERIOD JANUARY–DECEMBER 2006

- REVENUE INCREASED BY 94 PERCENT TO MSEK 10.3 (MSEK 5.3)
- GROSS PROFIT INCREASED BY 96 PERCENT TO MSEK 5.3 (MSEK 2.7)
- OPERATING RESULT IMPROVED TO MSEK –26.6 (MSEK –32.9)
- RESULT BEFORE TAXES IMPROVED TO MSEK –26.5 (MSEK –36.0)
- EARNINGS PER SHARE WAS SEK –0.07 (SEK –0.58), AFTER DILUTION
- LIQUIDITY/CASH MSEK 23.0 (MSEK 7.5)

### Q4, OCTOBER–DECEMBER 2006

- REVENUE MSEK 2.2 (MSEK 2.2)
- GROSS PROFIT MSEK 1.0 (MSEK 1.0)
- OPERATING RESULT MSEK –7.0 (MSEK –8.4)
- RESULT BEFORE TAXES MSEK –6.7 (MSEK –8.9)
- EARNINGS PER SHARE SEK –0.02 (SEK –0.14), AFTER DILUTION

### GENERAL

Biosensor Applications Sweden AB, Biosensor, is a Swedish company that has developed a unique technology for detection of trace substances based on biotechnological sensors. This technology simultaneously detects both explosives and narcotics at a molecular level. The technology is distinguished by its very high probability of detection, with low false alarm rates outside laboratory environments. Biosensor's customers are found among police forces, security companies, border control, the armed forces, the criminal justice system and rehabilitation clinics on a world-wide basis.

INCOME STATEMENT, SUMMARY (Amounts in SEK thousand)	helår 2006	helår 2005	okt-dec 2006	okt-dec 2005	BALANCE SHEET, SUMMARY (Amounts in SEK thousand)	helår 2 006	helår 2 005
Net revenues	10 364	5 337	2 226	2 234	Fixed assets	34 495	36 726
Cost of Goods sold	-5 093	-2 599	-1 187	-1 197	Inventories	4 460	2 668
<b>Gross result</b>	<b>5 271</b>	<b>2 738</b>	<b>1 039</b>	<b>1 037</b>	Current assets	3 015	4 449
Other operating expenses/income	-31 901	-35 681	-8 065	-9 427	Cash	23 045	7 541
Finance net	153	-3 079	273	-505	<b>Total assets</b>	<b>65 015</b>	<b>51 384</b>
<b>NET RESULT FOR THE YEAR</b>	<b>-26 477</b>	<b>-36 022</b>	<b>-6 753</b>	<b>-8 895</b>	Equity	53 166	37 131
<b>Key Ratio</b>					Liabilities	11 849	14 253
Result per share, aft dilution	-0,07	-0,58	-0,02	-0,14	<b>Total equity and liabilities</b>	<b>65 015</b>	<b>51 384</b>
Gross margin	51%	51%	47%	46%	<b>Key Ratio</b>		
Operating margin	-257%	-617%	-316%	-376%	No of shares issued* (000's)	353 281	62 169
Net revenue per employee	518	222	111	93	No of shares** (000's)	355 747	229 495
					Solidity %	82%	72%

\* issued at reporting date

\*\* after full conversion



## Significant events during the period October–December 2006

- Biosensor achieved a breakthrough in the development of traceability of THC (cannabis) during the fourth quarter, which makes the Company one of the world leaders in drug detection.
- As a result of the breakthrough in THC detection, the Company received an order for five systems in new business areas and the order was placed by Medvet Science Pty, Australia. Medvet is a market-leader in narcotics control at workplaces in Australia. Intentions are that Medvet's parent company, IMVS, the owner of several well-reputed hospitals in Australia, will use the Company's detection technology in the two new areas. This is the Company's first order in these two new business areas, i.e. narcotics control at workplaces and hospital, and this constitutes a confirmation of the Company's potential.
- During the fourth quarter Biosensor Applications received an order for one system from China's security ministry. This is the first result of the Company's quest for obtaining local distributors in China.
- One of the Company's explosive substance patents was approved in the United States. The patent obtained protects a significant part of Biosensor's technology for detection of explosives.
- The new issue was finalised during the quarter and was fully subscribed. Approximately MSEK 29.2, less issuing costs, was added to the Company through the new issue. The number of shares outstanding increased by 32,502,465 class A shares and the number of shares outstanding stands at 353,281,266 after the issue.

## Significant events after the end of the period

- The Swedish National Prison and Probation Administration has ordered equipment for testing of Biosensor's system for narcotics detection using non-invasive skin swipes. Tests were started in January 2007.
- An independent clinical study in Nottingham, England was completed in January 2007. The study indicates very promising results for the Company's detection method. Results show excellent correlation between the drug intake of persons tested and a positive detection result with Biosensor's equipment.
- An option programme for the Company's employees was exercised after the end of the year and the number of shares outstanding increased by 2,465,850 class A shares. Proceeds to the Company were approximately KSEK 860.
- After the end of the operating year Verdane Capital AS has converted 10,426,350 class C shares to class A shares. After this conversion a total of 9, 808,650 class C shares remain outstanding.

## COMMENTS TO THE FINANCIAL STATEMENTS

Full-year sales almost doubled compared to the preceding year. The gross margin is still good for the full year at 51 percent and 47 percent for the quarter, compared to 51 percent and 46 percent for the preceding periods. The sales volume during the fourth quarter was on a par with the preceding year. The operating margin improved during the year compared to the year before and cost-cutting measures initiated in 2005, with action including personnel cutbacks, yielded positive effects during the entire year.

Cash flow in current operations amounted to MSEK -23.2 (MSEK -31.3). The new issue strengthened the Company's liquid position and liquid funds amounted to MSEK 23.0 as of 31 December 2006 (MSEK 75).



Cumulated capitalised development costs amounted to MSEK 31.9 (MSEK 32.3) at the end of the period after the changed accounting policies described under the heading *Change of accounting policy*. Expenditure in the amount of MSEK 2.8 (MSEK 5.0) was capitalised during the year.

As of 31 December 2006 the number of registered shares outstanding amounted to a total of 353,281,266, of which 333,046,266 are class A shares and 20,235,000 are class C shares (31 December 2005 the number of shares outstanding was a total of 62,168,942 shares, of which 41,933,942 were class A shares and 20,235,000 were class C shares).

## OTHER

### Change of accounting policy

The Company has previously applied the Swedish Annual Accounts Act (ÅRL) and the general recommendations of the Swedish Financial Accounting Standards Council. Starting 1 January 2007, recommendation RR 32 Accounting for legal entities and the Swedish Annual Accounts Act are applied. The Company has reviewed previously applied accounting principles with respect to capitalisation of intangible assets and amortisation thereof. From 1 January 2007 the Company applies changed accounting policies under which all expenditure for patents and development work is capitalised to the extent it meets the criteria for capitalisation as set forth in IAS 38 Intangible assets. According to previously applied principles all eligible expenditure was not capitalised. Capitalised expenditure for patents is amortised on a straight-line basis over 5 years and capitalised expenditure for development work is amortised on a straight-line basis over 5–10 years. Under previous principles the rate of amortisation was progressive. The Company has also changed its policy for capitalising expenditure for new proprietary patents from 1 January 2007. According to previous principles these were expensed on a current basis. Data for comparative periods have been recalculated in accordance with the new accounting policies. Restatements are specified in an appendix with complete income statements and balance sheets. In all other respects the policies applied for this year-end report correspond to the principles applied in the annual report for 2005.

### Annual Meeting and dividend

The Annual Meeting will be held at 1:00 p.m., Tuesday 29 May 2007. Information about location will be given in conjunction with the notice for the Annual Meeting. The annual report will be available at the Company's website [www.biosensor.se](http://www.biosensor.se) not later than two weeks before the annual meeting and can also be requested from the Company by e-mail to [info@biosensor.se](mailto:info@biosensor.se). The Board of Directors proposes that no dividend be paid for 2006.

### Number of employees

The average number of employees during the year was 20 (24).

For a complete year-end report reference is made to enclosed appendix. This year-end report has not been subject to review by the Company's auditors.

## REPORTING SCHEDULE

Interim report Q1:	23 April 2007
Interim report Q2:	August 2007
Interim report Q3:	October 2007

Sundbyberg, 5 March 2007.

Board of Directors

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**YEAR-END REPORT FOR THE 2006 OPERATING YEAR**

**-APPENDIX-**

**Org nr 556376-6814**

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## INCOME STATEMENT

(Amounts in SEK thousand)

INCOME STATEMENT (Amounts in SEK thousand)	Full year 2006	Full year 2005	Oct-Dec 2006	Oct-Dec 2005
Net revenues	10 364	5 337	2 226	2 234
Cost of Goods sold	-5 093	-2 599	-1 187	-1 197
<b>Gross result</b>	<b>5 271</b>	<b>2 738</b>	<b>1 039</b>	<b>1 037</b>
Selling expense	-6 020	-4 456	-1 693	-1 628
Administrative expenses	-11 729	-11 914	-3 181	-2 928
Research and development costs	-14 979	-19 839	-3 294	-5 242
Other operating income	1 130	758	156	389
Other operating expense	-303	-230	-53	-18
<b>Total operating expenses</b>	<b>-31 901</b>	<b>-35 681</b>	<b>-8 065</b>	<b>-9 427</b>
<b>Operating result</b>	<b>-26 630</b>	<b>-32 943</b>	<b>-7 026</b>	<b>-8 390</b>
<b>Result from financial investments</b>				
Interest income and similar items	1 398	827	435	197
Interest expense and similar items	-1 245	-3 906	-162	-702
<b>Result after financial items</b>	<b>-26 477</b>	<b>-36 022</b>	<b>-6 753</b>	<b>-8 895</b>
Taxes on the year's result	0	0	0	0
<b>NET RESULT FOR THE YEAR</b>	<b>-26 477</b>	<b>-36 022</b>	<b>-6 753</b>	<b>-8 895</b>



## BALANCE SHEET

(Amounts in SEK thousands)

<b>BALANCE SHEET</b> (Amounts in SEK thousands)	<b>31-dec-06</b>	<b>31-dec-05</b>
<b>Fixed assets</b>		
<b><i>Intangible fixed assets</i></b>		
Capitalized expenses for research and development work	31 943	32 345
Concessions, patents, licenses, trademark	1 045	3 554
<b>Total intangible fixed assets</b>	<b>32 988</b>	<b>35 899</b>
<b><i>Tangible fixed assets</i></b>		
Plant and machinery	1 367	670
Equipment, tools, fixtures and fittings	97	125
Leasehold improvement	2	14
<b>Total tangible fixed assets</b>	<b>1 466</b>	<b>809</b>
<b><i>Financial non-current assets</i></b>		
Deposits rendered	41	18
<b>Total financial non-current assets</b>	<b>41</b>	<b>18</b>
<b>Current assets</b>		
<b><i>Inventories</i></b>		
Raw material and components	1 889	1 530
Work in progress	966	106
Finished goods and goods for sale	1 605	1 032
<b>Total inventories</b>	<b>4 460</b>	<b>2 668</b>
<b><i>Short-term receivables</i></b>		
Accounts receivable	480	2 355
Other receivables	1 793	1 189
Prepaid expenses and accrued income	742	905
<b>Total short-term receivables</b>	<b>3 015</b>	<b>4 449</b>
<b>Cash and cash equivalents</b>	<b>23 045</b>	<b>7 541</b>
<b>TOTAL ASSETS</b>	<b>65 015</b>	<b>51 384</b>





## BALANCE SHEET

(Amounts in SEK thousands)

<b>BALANCE SHEET</b> (Amounts in SEK thousands)	<b>31-dec-06</b>	<b>31-dec-05</b>
<b>Shareholders' equity</b>		
<i><b>Restricted equity</b></i>		
Share capital	35 328	6 217
New issue in progress	0	6 210
Conversion in progress	0	21 000
Legal reserve	176 017	176 017
<b>Total restricted shareholders equity</b>	<b>211 345</b>	<b>209 444</b>
<i><b>Unrestricted equity</b></i>		
Loss brought forward	-173 014	-192 243
Reduction of share capital	0	55 952
Premium reserve	41 312	0
Net result for the year	-26 477	-36 022
<b>Total unrestricted shareholders equity</b>	<b>-158 179</b>	<b>-172 313</b>
<b>Total shareholders' equity</b>	<b>53 166</b>	<b>37 131</b>
<i><b>Provisions</b></i>		
Other provisions	508	265
<b>Total provisions</b>	<b>508</b>	<b>265</b>
<b>Liabilities</b>		
<i><b>Current liabilities</b></i>		
Accounts payable	2 877	2 078
Convertible debenture loan	3 454	3 994
Other liabilities	475	2 010
Accrued expenses and prepaid income	4 535	5 906
<b>Total current liabilities</b>	<b>11 341</b>	<b>13 988</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>65 015</b>	<b>51 384</b>



## CASH FLOW

(Amounts in SEK thousands)

<b>CASH FLOW STATEMENT</b> (Amounts in SEK thousands)	<b>Full year</b> <b>2006</b>	<b>Full year</b> <b>2005</b>
<b>CURRENT OPERATIONS</b>		
Result after financial items	-26 477	-36 022
Adjustment not included in cash flow	6 010	7 883
<b>Cash flow from operations before changes in working capital</b>	<b>-20 467</b>	<b>-28 139</b>
<b>Cash flow from changes in working capital</b>		
Increase (-)/decrease (+) in inventories	-1 792	-1 534
Increase (-)/decrease (+) in short-term receivables	1 434	619
Increase (+)/decrease (-) in current liabilities	-2 404	-2 244
<b>CASH FLOW FROM CURRENT OPERATIONS</b>	<b>-23 229</b>	<b>-31 298</b>
<b>INVESTMENT OPERATIONS</b>		
Acquisition of tangible fixed assets	-1 270	-92
Acquisition of financial non-current assets	-23	-11
Capitalized development costs	-2 777	-5 373
<b>CASH FLOW FROM INVESTMENT OPERATIONS</b>	<b>-4 070</b>	<b>-5 476</b>
<b>FINANCING OPERATIONS</b>		
Change in convertible debenture loan	0	5 774
New issue	42 803	28 346
<b>CASH FLOW FROM FINANCING OPERATIONS</b>	<b>42 803</b>	<b>34 120</b>
<b>CASH FLOW FOR THE YEAR</b>	<b>15 504</b>	<b>-2 654</b>
LIQUID FUNDS AT BEGINNING OF YEAR	7 541	10 195
<b>LIQUID FUNDS AT YEAR-END</b>	<b>23 045</b>	<b>7 541</b>



## KEY RATIO AND EQUITY

(Amounts in SEK thousands)

### KEY RATIO

	Full year 2006	Full year 2005	Oct-Dec 2006	Oct-Dec 2005
Net revenues, KSEK	10 364	5 337	2 226	2 234
Gross margin	51%	51%	47%	46%
Operating margin	-257%	-617%	-316%	-376%
Result per share, bef dilution, SEK	-0,07	-0,58	-0,02	-0,14
Result per share, aft dilution, SEK	-0,07	-0,58	-0,02	-0,14
Balance sheet total, KSEK	65 015	51 384	65 015	51 384
Solidity	82%	72%	82%	72%
Liquid funds, KSEK	23 045	7 541	23 045	7 541
Net revenue per employee, KSEK	518	222	111	93

### BASIS OF CALCULATION

Result for calculating result per share, KSEK	-26 477	-36 022	-6 753	-8 895
No of shares issued at reporting date*	353 281 266	62 168 942	353 281 266	62 168 942
No of shares issued aft full conversion and redemption of stock option program**	355 747 116	229 494 649	355 747 116	229 494 649
Convertible debenture loan, converted aft reporting date		164 859 857		164 859 857
** Stock option program at exercise price of SEK 0,35/share	2 465 850	2 465 850	2 465 850	2 465 850
* of which A-shares	333 046 266	41 933 942	333 046 266	41 933 942
* of which C-shares	20 235 000	20 235 000	20 235 000	20 235 000
Average no of employees	20	24	20	24

### CHANGES IN EQUITY

(Amount in SEK thousands)

	Share- capital	Increase in Equity, not registered	Reserve- fund	Excess fund	Unrestricted equity	Total
Opening balance*	6 217	27 210	176 017	0	-173 014	36 430
Convertible debt	9 375	410	0	0	0	9 785
New issue	19 736	-27 620	-	41 312	-	33 428
Result for the year	-	-	-	0	-26 477	-26 477
<b>ENDING BALANCE</b>	<b>35 328</b>	<b>0</b>	<b>176 017</b>	<b>41 312</b>	<b>-199 491</b>	<b>53 166</b>

\*as per audited report



## CHANGE OF ACCOUNTING POLICY

The Company has previously applied the Swedish Annual Accounts Act (ÅRL) and the general recommendations of the Swedish Financial Accounting Standards Council. Starting 1 January 2007, recommendation RR 32 Accounting for legal entities and the Swedish Annual Accounts Act are applied. The Company has reviewed previously applied accounting principles with respect to capitalisation of intangible assets and amortisation thereof. From 1 January 2007 the Company applies changed accounting policies under which all expenditure for patents and development work is capitalised to the extent it meets the criteria for capitalisation as set forth in IAS 38 Intangible assets. According to previously applied principles all eligible expenditure was not capitalised. Capitalised expenditure for patents is amortised on a straight-line basis over 5 years and capitalised expenditure for development work is amortised on a straight-line basis over 5–10 years. Under previous principles the rate of amortisation was progressive. The Company has also changed its policy for capitalising expenditure for new proprietary patents from 1 January 2007. According to previous principles these were expensed on a current basis. Data for comparative periods have been recalculated in accordance with the new accounting policies. Restatements are specified below. In all other respects the policies applied for this year-end report correspond to the principles applied in the annual report for 2005.

*Restatement of income statement 2005.*

	Audited report	Restated	After restatement
<b>INCOME STATEMENT</b> (Amounts in SEK thousand)	<b>2005</b>		<b>2005</b>
Net revenues	5 337		5 337
Cost of Goods sold	-2 599		-2 599
<b>Gross result</b>	<b>2 738</b>		<b>2 738</b>
Selling expense	-4 456		-4 456
Administrative expenses	-11 914		-11 914
Research and development costs	-20 540	701	-19 839
Other operating income	758		758
Other operating expense	-230		-230
<b>Total operating expenses</b>	<b>-36 382</b>	<b>701</b>	<b>-35 681</b>
<b>Operating result</b>	<b>-33 644</b>	<b>701</b>	<b>-32 943</b>
<b>Result from financial investments</b>			
Interest income and similar items	827		827
Interest expense and similar items	-3 906		-3 906
<b>Result after financial items</b>	<b>-36 723</b>	<b>701</b>	<b>-36 022</b>
Taxes on the year's result	0	0	0
<b>NET RESULT FOR THE YEAR</b>	<b>-36 723</b>	<b>701</b>	<b>-36 022</b>



## Restatement of balance sheet, 31 December 2005.

	Audited report	Restated	After restatement
	31-dec-05		31-dec-05
<b>BALANCE SHEET</b> (Amounts in SEK thousands)			
<b>Fixed assets</b>			
<b><i>Intangible fixed assets</i></b>			
Capitalized expenses for development work	31 645	701	32 345
Patents, licenses, trademark	3 554		3 554
<b>Total intangible fixed assets</b>	<b>35 199</b>	<b>701</b>	<b>35 899</b>
<b><i>Tangible fixed assets</i></b>			
Plant and machinery	670		670
Equipment, tools, fixtures and fittings	125		125
Leasehold improvement	14		14
<b>Total tangible fixed assets</b>	<b>809</b>		<b>809</b>
<b><i>Financial non-current assets</i></b>			
Deposits rendered	18		18
<b>Total financial non-current assets</b>	<b>18</b>		<b>18</b>
<b>Current assets</b>			
<b><i>Inventories</i></b>			
Raw material and components	1 530		1 530
Work in progress	106		106
Finished goods and goods for sale	1 032		1 032
<b>Total inventories</b>	<b>2 668</b>		<b>2 668</b>
<b><i>Short-term receivables</i></b>			
Accounts receivable	2 355		2 355
Other receivables	1 189		1 189
Prepaid expenses and accrued income	905		905
<b>Total short-term receivables</b>	<b>4 449</b>		<b>4 449</b>
<b>Cash and cash equivalents</b>	<b>7 540</b>		<b>7 541</b>
<b>TOTAL ASSETS</b>	<b>50 683</b>	<b>701</b>	<b>51 384</b>



Restatement of balance sheet, 31 December 2005.

	Audited report	Restated	After restatement
<b>BALANCE SHEET</b> (Amounts in SEK thousands)	<b>31-dec-05</b>		<b>31-dec-05</b>
<b>Shareholders' equity</b>			
<b>Restricted equity</b>			
Share capital	6 217		6 217
New issue in progress	6 210		6 210
Conversion in progress	21 000		21 000
Premium reserve	0		0
Legal reserve	176 017		176 017
<b>Total restricted shareholders equity</b>	<b>209 444</b>		<b>209 444</b>
<b>Unrestricted equity</b>			
Loss brought forward	-192 243		-192 243
Reduction of share capital	55 952		55 952
Net result for the year	-36 723	701	-36 022
<b>Total unrestricted shareholders equity</b>	<b>-173 014</b>	<b>701</b>	<b>-172 313</b>
<b>Total shareholders' equity</b>	<b>36 430</b>	<b>701</b>	<b>37 131</b>
<b>Provisions</b>			
Other provisions	265		265
<b>Total provisions</b>	<b>265</b>		<b>265</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Convertible debenture loan	0		0
<b>Total long-term liabilities</b>	<b>0</b>		<b>0</b>
<b>Current liabilities</b>			
Accounts payable	2 078		2 078
Other short term loan	3 994		3 994
Other liabilities	2 010		2 010
Accrued expenses and prepaid income	5 906		5 906
<b>Total current liabilities</b>	<b>13 988</b>		<b>13 988</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>50 683</b>	<b>701</b>	<b>51 384</b>