PRECISE™ BIOMETRICS

Annual Report 2000

Precise Biometrics develops, markets and sells systems and products for biometric identification using fingerprints.

In a world becoming increasingly more digitalised and Internet operated, from government contacts with citizens, to our most important financial transactions, real IT security is an absolute must.

Biometrics is in this world already identified as giving the most reliable and convenient security solutions.

We are convinced that biometric-based security is on the verge of an impressive market break-through.

Peter Höjerback

CEO Precise Biometrics

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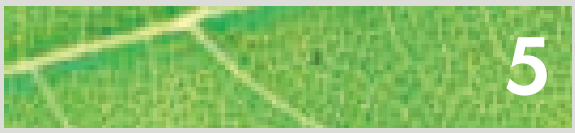

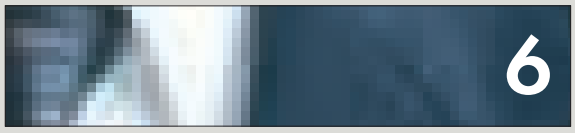

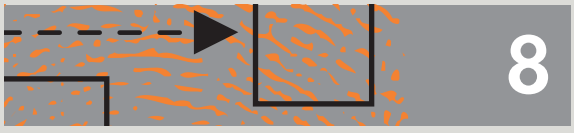

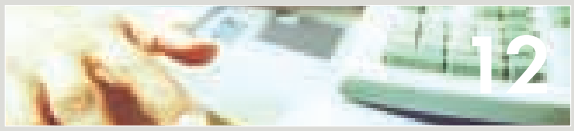

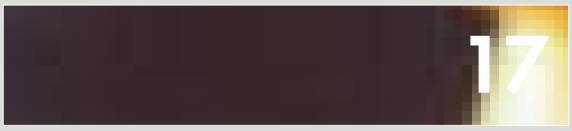

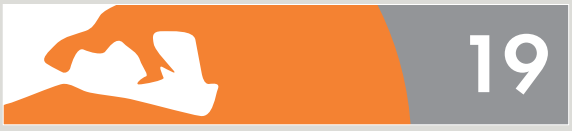

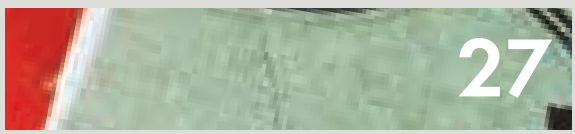

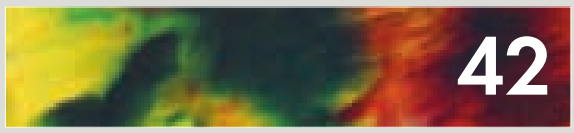

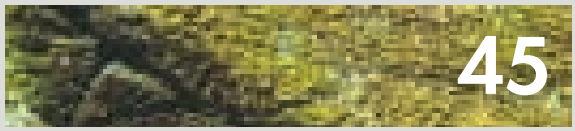

The unique pattern created by a finger-print's curvatures identifies you.

Vision, business concept and goals

VISION

We stand on the threshold of a break-through for embedded, finger-based biometrics within the fields of IT and mobile products. Precise Biometrics shall be one of the leading international suppliers in this field. This means that the world's leading security companies and manufacturers of computers, mobile phones and physical access systems shall see Precise Biometrics as a natural partner.

PKI (Public Key Infrastructure) is being established as the generally accepted method for secure communication and transactions via open networks such as the Internet. Precise Biometrics heightens PKI security and elevates authentication to the personal level. Personal identity is guaranteed by combining the user's fingerprint with a digital signature.

BUSINESS CONCEPT

Precise Biometrics AB develops and sells products and system solutions based on fingerprint identification technology, that enhance our customers' security and convenience while reducing their cost of using computers, mobile products and physical access systems.

GOALS

Precise Biometrics AB shall be the leading supplier of biometric security solutions in Europe and one of the leading international suppliers. The Company shall offer innovative products designed to enhance IT security and physical access systems and embedded solutions in high-volume electronic products, such as telecommunication.

Annual General Meeting

The shareholders of Precise Biometrics AB are hereby invited to attend the Annual General Meeting on Friday, 27 April 2001 at 3.00 p.m. at the Finn-Inn restaurant, Dag Hammarskjölds väg 2, Lund, Sweden.

Right of participation at the meeting

Any shareholder has the right to participate at the meeting provided

– that they are registered in the stockholders' register kept by Värdepapperscentralen VPC AB (the Swedish Central Securities Depository) on Tuesday, 17 April 2001, and

– that they have given notice of their intention to participate by letter to Precise Biometrics AB (publ), Dag Hammarskjölds väg 2, 224 64 Lund, or by telephone on +(46) 46 31 11 00 or by fax on +(46) 46 31 11 01, by 4 p.m. Monday 23 April 2001. The notification should state the name, social security or company registration number, address and telephone number. Representatives, as well as proxy voters for legal entities, will not be subject to authorisation before the Meeting.

Welcome!

Financial reports for 2001

Q1 report and AGM, 27 April

Interim report, 16 August
Q3 report, 31 October

Ordering financial information

Please contact Precise Biometrics AB via telephone +46 46 31 11 00 or via fax +46 46 31 11 01 or via our web site: www.precisebiometrics.com.

For further information, please contact the following people directly:

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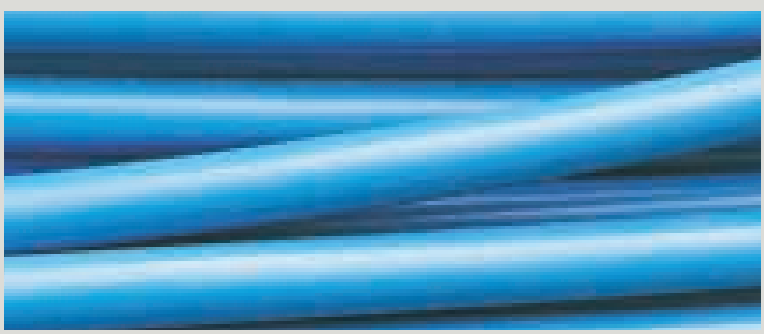


2000 in brief

Precise Biometrics has a strong position on the global growth market through its important reference customers and the integration of biometrics with smart cards and the security standard PKI.

• Sales amounted to SEK 5.2 million (0.5 m) and the loss after financial items was SEK –43.4 million (–14.7 m).

• New share issues have been completed raising together SEK 164.5 million. The company is satisfactorily financed. Liquid funds totalled SEK 132 million at the end of the financial year.

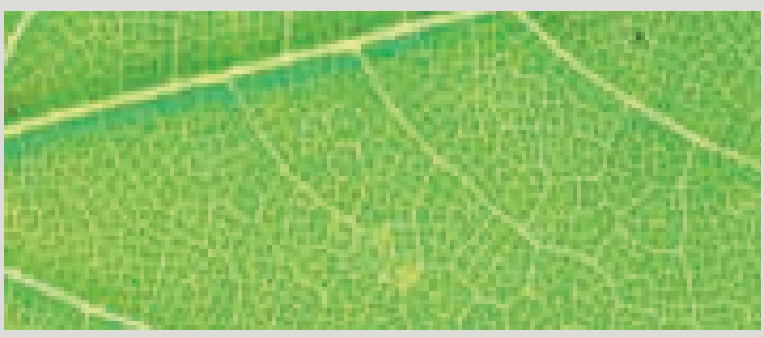
• Initial deliveries were made during the year, to more than 300 customers, including the US Pentagon and the French company Gemplus, the world's leading smart card solutions provider.

• The company was organised into three business units during the year: IT Security, Physical Access and Embedded Solutions. New managers with extensive industry experience within sales have been recruited for all of them.

• Precise BioCORE™, a product for miniaturization of biometric identification using fingerprints, for cost effective integration in cell phones and hand-held computers, was launched.

• A new product was introduced called Precise Match-on-Card™, for matching fingerprints on a smart card. It allows legally binding digital signatures and secures e-business in PKI solutions.

• The Company's shares have been quoted on the Stockholm Exchange's O list since October 3, 2000.



CEO's statement

Peter Höjerback

The past year took Precise Biometrics on a fast and successful journey. We have spent a lot of time getting to know our customers and understanding their needs. We know which our selected customers are, we constantly analyse their needs and develop the security solutions they want to buy.

We are convinced that biometric-based IT security is on the verge of an impressive market break-through. But the market is still hesitant. It is still getting to know the technology and planning for its introduction, but without placing any major orders so far.

Why do we believe that the break-through for biometrics is just around the corner? One explanation is the growing amount of e-business between companies and, as a result, the rapidly growing need for IT security. In a world becoming increasingly more digitalised and Internet operated, from government contacts with citizens, to our most important financial transactions, IT security is an absolute must. Biometrics is already identified as giving the most reliable and convenient security solutions. We can see today how the large IT players like Microsoft and Intel build in biometric support in their products. The Massachusetts Institute of Technology, MIT, in the US says, "biometrics is one of the ten most important technologies that will change the future of peoples' every day life".

Precise Biometrics is a key player in this forceful process. We participate in establishing standards for the biometric industry and our engineers work intensely to constantly offer cutting-edge solutions. In this phase, it is also extremely important that Precise Biometrics strengthens its strategic alliances and signs agreements with more reference customers. This is exactly what we have done over the past year with the US Defense Department of Pentagon and with the leader in the smart card industry, Gemplus.

Many have testified to the fact that it is a difficult transition for an entrepreneur, engineer and inventor to work with traditional business activities. As customer awareness grows within a little company and begins to mark its behaviour, the company undergoes a crucial metamorphosis. We underwent this process last year.

At the beginning of the year we were newcomers on the Stockholm Exchange's SBI list with 30 employees. By year-end the headcount had doubled and we were listed on the Stockholm Exchange's O-list. And above all, our business activities had become more professional, structured and conscious. We also developed a new customer-oriented organisation during the year. We have recruited business unit managers with extensive experience from each respective industry, which has contributed to strengthening our senior management.

We have also set up offices near our major customers, in Kista, Sweden and in Washington D.C. Our head office will remain in Lund, adjacent to the research village, Ideon, and other fast-growing companies in the area.

Growth, a listing on the stock exchange, growing customer orientation and our new organisation are all essential milestones throughout the year's journey. Other milestones were the technical break-through

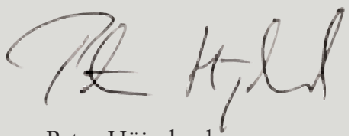
for Precise Match-on-Card™ and matching in our own processors, Precise BioCORE™, which opens opportunities for integration in mobile phones, etc. We are also the first in the world to tie a digital signature to one individual.

What will be happen next at Precise Biometrics? A number of important reference customers are underway. We are also gaining customers that use biometric solutions to create security and convenience in the area of physical access systems. We will see revenue from our third business unit, Embedded Solutions. We look forward to the new mobile phones that have biometric security built in.

The combination of our cutting-edge technology and our customer focus gives us a good foundation for the coming year's business activities. It is our conviction that Precise Biometrics will bring modern biometrics to the mass market. Our goal that Precise Biometrics shall be the leading biometric company on the market remains intact.

I would like to take this opportunity and thank the company's employees for their fantastic efforts over the past year. They run fast and steady in the right direction. They are of the utmost importance for our success.

Lund, 27 April 2001



Peter Höjerback
CEO, Precise Biometrics

Research and development

Precise Biometrics' unique core technology

Precise Biometrics' technology is based on biometric identification of a fingerprint. The Company is not dependent on any method for capturing an image, which provides flexibility in adapting the capturing method to the application area and then choosing the components that are currently cheapest and best. This flexibility means that it will be possible in the future to adapt the technology for use with the iris, for example.

The method commonly used for capturing and matching fingerprints is called feature extraction, which is based on the identification of start and end points in the fingerprint. The method was first developed by the FBI in the US in the 1970s and is mainly suited to finding similar prints among a large number of prints stored in a database.

Precise Biometrics' method for capturing and matching fingerprints is different. It reads the entire fingerprint, including the curvature of the fingertip, in three dimensions. It searches for unique information, especially in the information dense areas of the fingerprint. The amount of unique information that is entered is many times greater than was previously possible with other methods. In addition to significantly raising security, the company's method also works if the finger has been injured.

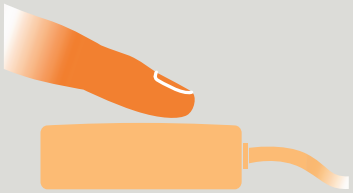
The reading is performed by a silicon or optic sensor, and mathematical analysis is performed using Precise Biometrics' unique algorithms. Irrelevant information is discarded. A reading with such a high level of accuracy would not have been possible three to five years ago. It is possible today, partly because of the fast development of electronics. The captured image is matched with a template – roughly defined as a print – that can be stored on a smart card or hard disc.

Secure information

Security comes first at every stage of product development at Precise Biometrics. All information is encrypted before it is stored or

The technology for identifying a fingerprint is divided into four steps: scanning an image, reading the most characteristic features for digital storage, matching the image and decision for approval or not.

1. Scanning



2.Reading

distributed. Information about a fingerprint can be stored locally on a hard disc or server. If an extra layer of security is required, the encrypted information can be stored on a smart card. In this case, the user inserts the smart card into the reader prior to verification.

To ensure that the Company's products are guaranteed to work with both current and future systems, all existing standards and guidelines have been followed very carefully. Together with Intel and over 20 other biometric companies, Precise Biometrics is developing a standardised interface for biometric products and version 1.1 has just been released. A majority of new software, including MS Windows, will have a special interface for biometric products in future versions. This means that existing PKI solutions (see Definitions, page 45) in combination with biometrics can be used more effectively and conveniently than today. The biometric solution is applied like a convenient layer of security on top of the existing PKI solution.

In addition, the development of standard interfaces will make it as easy to connect biometric products such as a mouse or a CD-ROM player.

Technology platform

The Company's technology platform is the basis for all the products the company has developed and it has been designed so that the Company's technology can be integrated with other products. The technology platform consists of the following main components:

Pattern recognition and fingerprint matching

Advances are constantly being made in improving the company's technology for pattern recognition in increasing the relevance of the amount of information read. This increases security and reduces the amount of saved information.

The Company has applied for a patent for its advanced algorithms for real-time pattern recognition. These algorithms can be used to compare images of fingerprints. The first patent was granted in the summer of 2000.

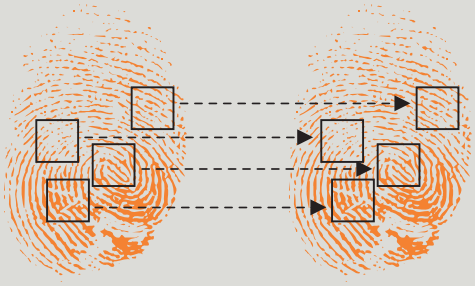
Sensors

In several applications Precise Biometrics uses silicon sensors to read a fingerprint. Silicon sensors are becoming standardised components and are purchased from different suppliers who themselves often are large international companies. The advantages of a silicon sensor are that it is small, convenient and cost-effective.

Optical sensors are bigger, but also more robust than silicon sensors and they are normally used in applications that are outdoors and

3. Matching

4. Decision for approval



exposed to wear and tear. Optical sensors are not developed by the Company but are instead purchased from various suppliers.

ASIC (Application Specific Integrated Circuit)

The development of ASIC, application-unique integrated circuits, is a strategically important investment. Precise Biometric´s ASIC is called BioCORE™ and has been developed primarily for solutions built into electronic products, such as mobile phones. This is a long-term investment and the company has formed a high-competence ASIC group to develop the next generation of cost-effective products.

Application software

Using the Precise Biometrics log-on software it is possible to log into a workstation and network using just a fingerprint. This software, combined with the BioManager administration tool means that all passwords can be replaced with fingerprints to obtain high security and user-friendliness. Precise Biometrics works with software supplied by its partners. The company is most actively promoting standardisation and is an active participant in BioAPI. Microsoft is also developing an Application Programming Interface (API) for biometric products, which will further facilitate integration in future versions of MS Windows.

Communication protocol

The Precise 100 series is connected to a PC's parallel or USB port. To achieve the desired transmission speeds, Precise Biometrics has developed its own drivers for all modern versions of the MS Windows operating system (95, 98, NT, 2000). The company has also developed drivers for reading smart cards via the PC/SC standard. Development of additional protocols is taking place to extend functionality even further, adapted for implementation in mobile phones, SHDs (see Definitions, page 45) and physical access systems.

Smart cards

Precise Biometrics was the first company in the world to present a secure digital transaction based on the matching of a fingerprint on a smart card (Precise Match-on-Card™). The method was presented in May 2000 in association with Miotec and Sonera SmartTrust and is now being developed for integration in PKI and other solutions. Development within the smart card sector is being performed to a large extent in association with partners.

Stockbrokers, among others, use Precise Biometrics' products.

Next generation technology platform: Precise Match-on-Card™

To retain its position as an innovative leader within biometrics and smart cards, the company is now developing the next generation platform for computer security products. Within the framework of this platform, the PKI structure and smart card solution will be tied in more closely to the biometric system. Matching currently performed in a PC will be moved to the processor on a smart card.

This apparently small change will significantly enhance the security of the system and will mean that Precise Biometrics' fingerprint reader will fit into standardised PKI systems. The current Precise 100 SC can be upgraded to include this new method. It will not be necessary to change reader. Products based on Precise Match-on-Card technology will be made available on the market in 2001.

The trend of focusing on the smart card is something that Precise Biometrics shares with both current and future mobile phone systems. Furthermore, there is plenty of evidence that ID cards, credit and bankcards will become smart cards in the future. The most recent examples are the electronic ID cards in Finland and American Express' new "Blue card", both of which are smart cards. A patent has been sought for the method for transferring matching to a smart card.

Patent

Precise Biometrics adopts an aggressive patent strategy. The company has had its first patent approved. The patent refers to the company's unique core technology, the matching of fingerprints, and is valid until 2017. The company has submitted 24 patents, concerning 12 different inventions, for approval.

The purpose of patenting is:

- to secure rights to the company's own products.
- to create the structural capital for future business and agreements.
- to maintain a robust defence against competitors.

Precise Biometrics' products can be used to perform secure transactions via the Internet. An individual's identity is verified through biometric products instead of through a given code.

The products

Precise Biometrics is divided into three business units

- **IT security**
- **Physical access**
- **Embedded solutions**

The business logic and strategies for each business unit differ but the synergies in technical development are great. The division is therefore a natural structure as we embark on the task of effectively reaching out to a very wide market.

IT security

Precise Biometrics has developed products for biometric identification that can be connected to, or integrated in, stationary or portable computers. Log-in takes place via the company's own log-in system, which ensures secure and easy log-in, with lower administration costs than current password-based solutions.

Precise Biometrics' products can also be used to ensure secure transactions on the Internet. The company's solutions differ from traditional solutions in that they ensure verification of a person's identity, rather than just a check that a person knows a code. User-friendliness is increased significantly because the user does not need to use pre-programmed devices or single-use passwords, as many banks do today with their Internet bank solutions.

The target group is everyone who uses a computer with a log-in code or anyone who performs financial transactions via the Internet. This includes organisations, businesses and private individuals.

The Company's technology is marketed under the Company's own name and is also licensed for sale under other names. Various distribution channels in the form of system integrators and retailers are used for the company's own products. Some sales are made directly to high-priority end customers. Licensed sales are made to global players with well-established sales organisations and a large customer base.

The first generation of products – Precise 100 A, Precise 100 SC and Precise 100 SC SDK – was launched in 1999. These are different vari-

The Precise 100 series is the world's first identification system to combine a smart card and silicon sensor for fingerprint identification, a combination that yields very high security. Presented in the product series is the world's smallest fingerprint reader, the Precise 100 A.

ations of a logging-in system for an MS Windows NT network. Support for all modern versions of Windows has been developed.

The Precise 100 series is the world's first system to combine a smart card and silicon sensor for fingerprint identification, a combination that yields very high security.

The system consists of a fingerprint reader connected to a PC running Precise Biometrics' software for fingerprint matching plus an easy-to-use program for user administration. The software is installed on the computer and the fingerprint is stored in encrypted form on the computer's hard disc or on a smart card – everything to make it impossible to recreate the fingerprint.

The system also includes a program that makes administration of user authorisation easier and more efficient. Because traditional administration of passwords disappears, great savings are made possible. Matching is performed in the computer or on the network server. Data processing is done in real time, which guarantees a response in less than one second.

The reader and the software can be integrated into other applications. Precise 100 SDK contains software that is demanded by system integrators and OEM customers. In certain cases Precise Biometrics will also license applications from software providers and sell these together with its readers.

Precise Biometrics sells products, OEM integration kits (Definitions, page 45) and licenses for the Company's identification software. The Company is currently focusing on establishing contacts and signing agreements with international businesses marketing products that require electronic personal identification. Precise Biometrics is also seeking IT businesses with reliable distribution channels, good knowledge of integration or powerful software that can improve the company's technology. In addition to sales and storage, distributors help to market products and offer service to end-users.

Physical access

Precise Biometrics' technology is used to identify people entering or leaving a room or a building. It means that access is linked to an individual rather than to a card or a key. Security is significantly enhanced because unauthorised people cannot gain access with someone else's pass or code. Control over who uses the system is increased, while administration costs are reduced, because there are no codes to forget or keys to lose.

The Company's technology is well suited for integration in various physical access systems. Integration requires little adaptation of the existing security system and can be applied to all of or just parts of the system.

The system can consist of a fingerprint reader combined with a smart card – with verification taking place on the smart card – or fingerprint reader alone, with identification confirmed via a database on the system. When the system is integrated to include smart card verification, it is only the card reader that needs to be replaced in the existing system – no other alterations are required. The company's technology can be used to unlock a car door, switch on an ignition, or open a door into an apartment, etc. Silicon sensors are used for indoor applications, and more robust optical sensors are used for outdoor applications.

The company's products are suited to suppliers of physical access or time and attendance systems whose customers are primarily organisations that today use card systems or need to control who passes in or out of a building. Examples of end-users are mid-sized to large businesses in most sectors but especially banks and hotels, military sites, prisons and hospitals.

Precise Biometrics reaches its end customers in partnership primarily with suppliers of security systems and manufacturers of time and attendance systems and smart cards. Partnership agreements have already been signed with Solid (Assa Abloy) and Gemplus (see partners, page 23). Precise Biometrics markets its technology to other leading suppliers within the above-named groups.

Embedded solutions

Using the company's patented technology, sensors for reading fingerprints with associated components can be made suitably small and low on energy so that they can be integrated in mobile phones or other mobile products. Precise Biometrics develops its own integrated circuits, ASIC, which makes it possible to match fingerprints directly via the mobile products, without an external computer. A new product in the form of a technical platform, the Precise BioCORE™, was

If small enough, and cost-efficient enough, biometric technology can be integrated in mobile phones.

Precise Biometrics' technology ensures secure individual identification when entering or leaving a building or room, without pass cards and keys.


Security and Convenience
Security and Convenience
Security and Convenience

completed and launched during the year and is currently being offered to potential leading customers throughout the world. The target group is mobile people who use their mobile phones and/or SHDs daily at work or in the home. The customer group is the same one that is expected to use the new services that will be offered via the next generation of mobile phone systems. The strategy for reaching a mass market is through license agreements with large businesses that develop and manufacture mobile phones, SHDs and PCs. Through these partners the company expects to sell its technology through OEM and license agreements.

Manufacturing

Precise Biometrics' products are manufactured by specially selected sub-contractors. Rational and cost-effective production is important for competitive pricing, for maintaining high quality and for meeting rapid changes in demand. Manufacturers engaged by Precise Biometrics must be ISO 9000 certified.

Electronic production is today performed by a Swedish company, Vellinge Electronics. Other sub-contractors work on the mechanical aspects and design of the products. The fingerprint sensors that are used for fingerprint capture are purchased from a variety of leading, international sensor manufacturers.

Markets

Secure ways of storing and transporting important documents and valuables have been developed and improved over many centuries, as individuals and groups have sought to protect their important assets. In the past decades, computerised systems with electronic documents and digital transactions have been introduced. These technological developments have led to a need and demand for new types of security solutions.

The driving forces in the security market are increasing prosperity, growing awareness of crime committed by individuals and organisations, and technological advances. The evidence shows increasing investment in IT security, in surveillance and alarm systems, especially among businesses and government authorities. Within IT security, growing use of the Internet and increased mobility throughout society are the main driving forces.

An individual wanting to enter an office or a home, or make a bank transaction via the Internet, must verify that he/she has the necessary authorisation. There are three ways of doing so, via something a person:

- has, e.g. a key or pass card
- knows, e.g. a password.
- is, e.g. via a fingerprint or via face or voice recognition.

Depending on high component prices and the fact that the technology has not previously been able to meet requirements, the use of biometrics in security solutions is not yet particularly widespread. By 2001, however, the market for biometric solutions is expected to be worth approximately USD 1 billion.

Biometrics proves who you are

Interest in the opportunities presented by biometrics has grown over the years. The fingerprint is presently the most recognised and accepted basis for biometric security solutions. In 1999 fingerprint readers accounted for 34% of revenues in the biometric industry.

An important reason for the increase is a growing need for secure and easy-to-use solutions and the fact that the technology for fingerprint recognition has improved considerably in just the past few years.

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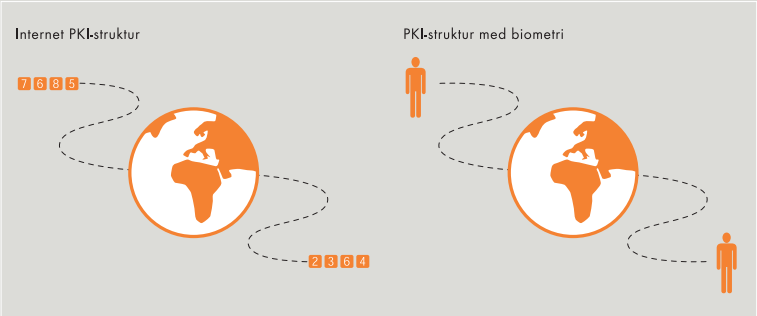
PKI solutions without biometrics can only guarantee one party in a dialogue that someone on the other side has the correct code for authorisation. But only a biometric solution can guarantee that that person is in fact the authorised person.



Furthermore, fingerprint recognition has become cheaper and user-friendlier as the price of components has fallen and computer processors and memory have improved in performance. The solutions that are on offer today are therefore very attractive for a broad market. Both Microsoft and Intel are adding support for biometrics in their products, evidence that biometrics is gaining ground.

Biometrics is an attractive complement to, and in many cases, a substitute for, traditional security solutions for embedded solutions within electronic products, IT security and physical access systems. The main reasons for the progress made by biometrics is:

- biometrics is simpler and easier to use than PIN codes, keys and passwords.
- biometrics is more secure, because a person's identity is confirmed.
- biometrics is cheaper to operate, because administrative costs are reduced when there are no keys to lose or passwords to forget.

Access to computers

We live in an information society where vital information is largely stored in digital form. Correspondence nowadays is often via e-mail and a break-in into a company's data system could have catastrophic consequences. Nowadays, information is protected by log-in systems that require user names and passwords. Passwords, however, are not always kept secret and are often forgotten, so they are by no means foolproof. Computer departments at large companies spend between 20% and 50% of their time solving password-related problems.

Biometric log-in solutions in the form of fingerprint readers linked to desktop and portable computers are being tested by an increasing number of organisations and businesses in order to improve security and reduce the administrative cost of IT helpdesks. External fingerprint readers are already being sold on the market and this technology will be integrated in portable computers, computer screens and keyboards during 2001. In 2000 the market for personal computers was estimated at over 120 million units.

Mobility

In recent years the concept of the mobile society has become widely accepted. New applications and services are being launched continually to meet increasing demands for mobility. The working environment of key people in an organisation is becoming less and less office-based. As more and more employees use portable computers with

external hardware linking them to their colleagues, there is an increasing demand for greater security when the user connects up and logs on.

Mobile phones are gaining larger screens in order to display more information and offer more services via an Internet connection. The expected flourishing of services will intensify demands for higher levels of security than those currently available for products and services within the mobile segment. Sales of mobile phones and so-called smartphones are expected to reach around 900 million units by 2003.

The Internet and e-business

In just a few years the Internet has developed from being a simple means of communication into being a global market platform. Individuals and businesses use the Internet daily for activities such as financial transactions or purchase of production materials.

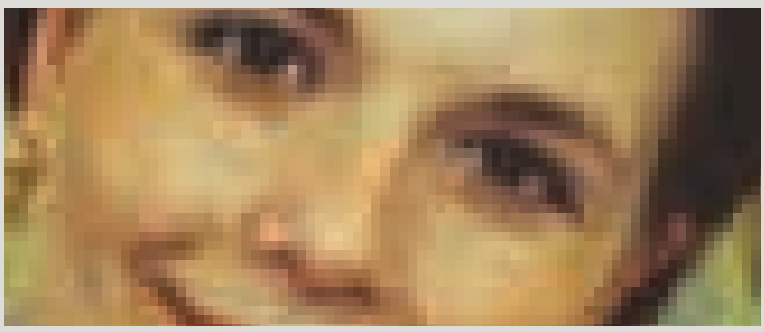
Security for information transactions has thus become a matter of central importance. The market for software-based security products for the Internet is expected to grow from USD 3.1 billion to USD 8.5 billion between 1999 and 2003.

In these systems users are most commonly identified via passwords and PIN codes. In practice this means that it is possible to check that a person on an Internet site knows a code, but it is not possible to identify who the person is. With a biometric solution, however, it is possible to confirm personal identity. Anonymity can still be maintained if required by allowing a third party to guarantee the transaction.

In Sweden today there are around 1.8 million users of Internet banking services and by 2003, 34 million users are forecast in Europe and 26 million in the US.

Within e-business too, there is a great need for user identification. An increasing part of a company's purchasing is performed via e-business and there is therefore a growing need for protection against fraud. Security is usually mentioned as the greatest concern regarding e-business. These fears are driving the development of specialist security applications.

Trading between businesses, or B2B, is expected to be worth over USD 7,000 billion on a global scale by 2004. Within B2C, or e-tailing, there is currently a proposal being discussed in the US whereby identification via a biometric application would be a requirement for purchase of sensitive items, such as prescription drugs.



Traditional locks replaced by electronic physical access systems

The traditional lock market follows local standards, so very strong local businesses tend to dominate along with a large number of relatively small niche companies. New players find it difficult to enter the market without linking up with partners. Products on the market often have a long life span and sales are to more than 50% further development of and extensions to existing systems. The lock market is expected to reach a higher level of security than is currently the case today.

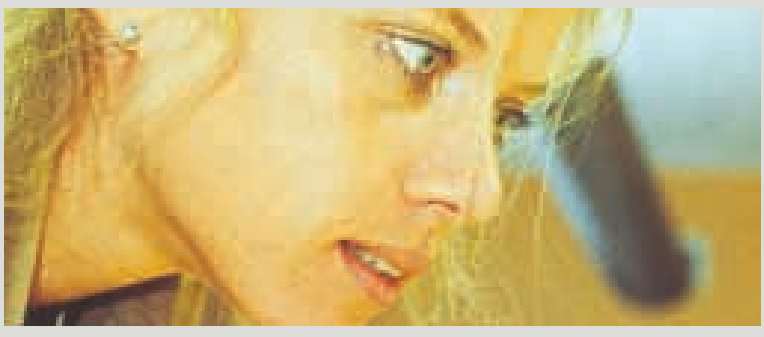
The lock and physical access systems that are being used and developed today are primarily controlled electronically and are centralised, in order to limit administration costs. Most larger organisations use pass card systems instead of traditional keys to control entry to a building. Pass card readers can be exchanged for fingerprint and smart card readers without having to modify the existing system in any significant way. Security is enhanced and the cost of lost cards and forgotten codes would be reduced considerably.

The market for security products and systems is expected to exceed USD 9 billion by 2004 in the US alone. The traditional lock market is also well suited for biometric security products considering the special functions and advantages that these products offer.

Market players

The growing interest in biometrics is expressed in the form of start-ups and major companies that are adapting their systems in order to integrate biometric solutions. This is a key development for Precise Biometrics. Awareness of biometrics and its opportunities is increasing, while the company's competitors and potential partners are helping to raise demand for biometric solutions.

There are today an estimated 100 companies active in the biometric field, of which most are relatively small and new. Most are in the US and around 70 of them use fingerprint technology. These companies are more like complements to and potential partners of Precise Biometrics rather than direct competitors. Among sensor manufacturers, some players have indicated that they are partly competitors, such as Veridicom (US) and Fingerprint Cards (Sweden), while others have openly declared that they intend to be solely component suppliers. Several sensor manufacturers are currently suppliers to Precise Biometrics. The number of direct competitors, therefore, is much smaller than the total number of players in the industry.



There are competing companies within most applications and potential business units. In addition to using different methods, different suppliers use different parts of the biometric security system. This factor, combined with rapid technological advances and the fact that the market is young, makes it difficult to compare players in the market.

Other major competitors include Identix/Identicator (US), Ankari (formerly American Biometric Corporation) (US), Sony (Japan) and Mytec/Biometric Identification, which focuses on physical access products.

Partnerships

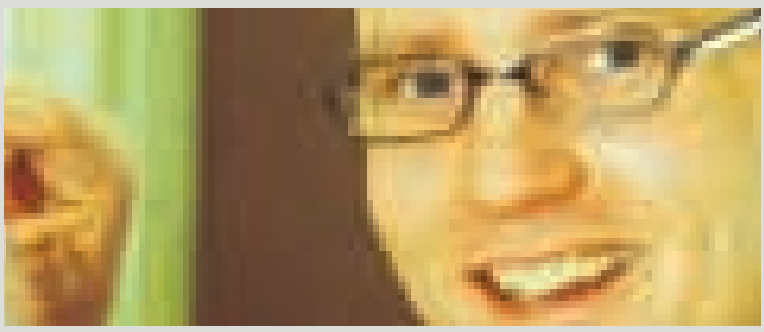
• A partnership agreement was signed in 1999 with iD2 Technologies, a company that develops software for secure Internet identification based on Public Key Infrastructure (PKI) and smart cards. The purpose of the venture is to replace traditional PIN codes with fingerprints and thus enhance security levels and user-friendliness for e-commerce. iD2 was during 2000 acquired by Sonera, the Finnish telecom operator.

• In December 1999 Precise Biometrics announced an agreement with the security company, Solid, a subsidiary of the Swedish company, Assa Abloy, concerning a physical access system combined with biometrics. The venture resulted in a new physical access system solution, consisting of an electronic lock system supplemented with biometrics. The product provides increased security combined with convenience for the user. A series of prototype installations have been made. The system was officially launched by Solid at the Skydd 2000 exhibition held in September 2000.

• BioNetrix formed the BioSEC alliance during 1999 and Precise Biometrics became a member in May 2000. The alliance consists of developers and producers of identification solutions who support the development of an open platform for solutions that contain, for example, readers for smart cards and biometrics.

• In May 2000 together with Miotec Oy, Precise Biometrics presented a combined fingerprint and smart card reader in which fingerprint verification takes place directly on the smart card's operating system. Miotec is a Finnish company that develops and produces smart cards. The company also provides PKI solutions.

• Spyrus and Precise Biometrics have together developed a system for access to networks and computers that combines Precise Biometrics' fingerprint reader with Spyrus' reader for smart cards. The system is



certified with the US Federal Information Publication Standard (FIPS). Spyrus develops readers for smart cards and PKI solutions.

• Tai Hao Enterprise is the world's third largest manufacturer of keyboards for PCs. During CeBIT 2000 in Hanover, Tai Hao and Precise Biometrics demonstrated a keyboard with an embedded fingerprint reader. Tai Hao also acts as our distributor in Asia.

• Telia will develop, market and sell Precise Biometrics' fingerprint reader as a key component of its Telia SmartTouch security concept, which provides simple and secure personal identification.

• In February 2001, Precise Biometrics signed an agreement with Utimaco Safeware, one of Europe's leading IT security companies. Together, the companies will offer the market comprehensive services within the area of information security.

Strategies

Precise Biometrics will sell its technology in the form of its own products, as components that can be built into other companies' products, as systems and as licensed technology.

Precise Biometrics' products and technology shall have the best performance on the market in terms of security and ease-of-use for fingerprint identification while never intruding on the user's personal integrity. It must be possible to adapt the level of security to the application. The Company will also develop technology so products can be made smaller and produced at even lower cost.

The company's development work focuses on the company's core competencies in order to maintain the technological advantage. Core competencies consist of methods for describing and comparing fingerprints, hardware integration and the development of silicon circuits (ASIC). Precise Biometrics aims to provide a stimulating environment for the development of cutting-edge technology. The company operates various reward schemes such as share options in order to recruit and maintain staff with core competence. The company also wishes to foster a good working environment with a good mix of young and old, men and women.

The Company seeks optimum cost efficiency in order to serve high-volume international markets.

The Company's matching software can be licensed to international businesses that market products and systems that require electronic personal identification. Precise Biometrics can create complete software solutions for customers and ensure full integration. Through technical co-operation regarding hardware, combinations can be created that mean greater added value. Partnerships with suppliers of sensors are especially important.


PRECISE
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Human Resources

Precise Biometrics' single most important asset is competent and motivated employees, because activities place high demands on technical skills and the commercialisation of the company's products is taking place very rapidly.

The company will continue to expand at the currently fast pace. As a result, investment in support systems, training, administration and recruitment processes has received, and will continue to receive, high priority within Precise Biometrics, in order to ensure continuing rapid yet controlled growth that can be maintained at a profitable level.

The challenge for future success is to continue to attract, recruit and keep employees with specialist knowledge and managers with solid experience, both in Sweden and abroad. However, there is a shortage of people with specialist skills in the biometric field. Precise Biometrics continues to successfully recruit employees with high levels of competence, including recently qualified engineers, doctoral candidates with cutting-edge knowledge and people with extensive experience of the IT and electronics industries. In the future, operations will be conducted at several locations within Sweden and abroad, so the recruitment base will be extended.

The sales and marketing department has been strengthened with the recruitment of several highly qualified employees as the pace of commercialisation intensifies. The finance department, too, has expanded its team to meet increased demands from shareholders and financial market in connection with the quotation of the company's shares.

The Company continually assesses its recruitment needs and adapts its recruitment process accordingly. The main recruitment requirement the coming years focuses on experienced sales and marketing staff. Ongoing technical development will also require new engineers with specialist skills. Recruitment is mainly done through personal contacts and networks, but recruitment agencies, Internet and traditional advertisements are also used.

Precise Biometrics had 53 employees at the close of the year, of which 12 are women.

The company's new premises next to the Lund Institute of Technology, Lund University and the Ideon research village facilitate recruitment of highly qualified employees. Well-being at work is an important factor when recruiting and retaining employees. The company's business culture is characterised by creativity and competence, a decentralised organisation with short paths for decision-making, speed, and flexibility.

Precise Biometrics employs new graduates and people with proven experience of technology, finance, sales and marketing within the IT industry. We have recruited business area managers with solid experience from the respective industries, which has contributed to significantly enhancing the management team. In 1999 Precise Biometrics doubled its workforce, from 15 to 30. Recruitment has continued during 2000, mainly of sales staff, and the total number of employees as per December 31, 2000 was 53, of which 12 are women.

Different types of incentive are an important part of Precise Biometrics' human resources policy. In addition to market-based salaries, Precise Biometrics intends to implement various incentive schemes in order to attract, recruit and keep the best people on the market. Via an options scheme, employees are offered indirect ownership in the company. Several key people who are responsible for the company's technical progress and product development are among the company's larger owners. Several senior managers and key staff within sales and marketing have an ownership interest in Precise Biometrics, either directly in the form of shares or indirectly in the form of warrants. Employee turnover is low.

Shares

The company's shares were quoted on the OM Stockholm Exchange's O-list on 3 October 2000.

The company has created a lot of attention and attracted new private and institutional shareholders following the introduction, which corresponds to the effect sought. The number of shareholders at year-end was 2028.

During 2000 two directed share issues were carried out towards institutional investors. These issues consisted of a total 850,000 shares and provided the company with SEK 164.5 million after issue costs. Shares have also been issued during the year in connection with warrant redemption, which provided a further SEK 14.1 million.

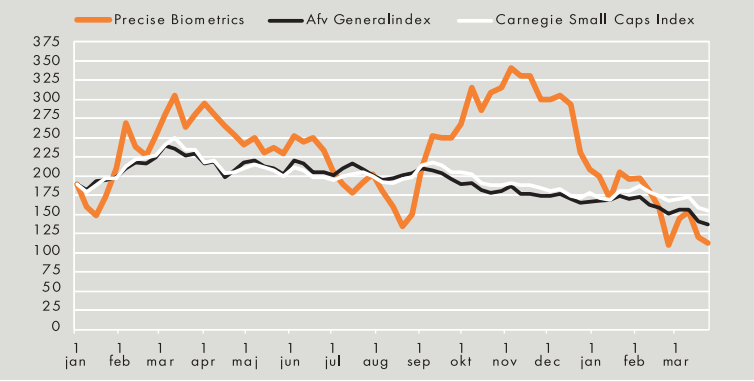
As of 31 December 2000, the major shareholders were as follows (share of capital and voting rights):

Christer Fåhraeus	10.6%
Nils Bernhard and companies	9.3%
SEB funds	6.7%
Banco funds	5.1%
4th AP pension fund	4.3%
Merita Bank Ltd	4.0%
Nordea funds	3.1%
Mårten Öbrink	2.9%
Länsförsäkringar Skåne	2.9%

The number of outstanding shares on 31 December 2000 was 3,499,200.

Share performance during the period is shown in the table below.

The company's shares were quoted on the OM Stockholm Exchange's O-list on 3 October 2000.



Annual Report 2000

The Board of Directors and CEO of Precise Biometrics AB (publ), company registration number 556545-6596, located in Lund, Sweden, hereby present the Annual Report for the 2000 financial year.

Directors' report

Activities in general

Precise Biometrics AB develops and sells products and system solutions based on fingerprint identification, which give the Company's customers security and convenience when using computers, hand-held products and physical access systems. The products and solutions are sold partly through a distribution network and partly through direct sales and through OEM and licence sales.

During the year the Company was reorganised into three business units: IT-Security, Physical Access and Embedded Solutions.

Product development occurs in-house, while production occurs at the individual subcontractors. The strategy gives the Company high flexibility and the ability to rapidly adapt operations according to changes in demand.

Precise Biometrics' products differ from its competitors' in the method used to verify the fingerprint. This enables high security and smaller, cheaper solutions. The Company's technology identifies an individual from the curvatures, pattern and depth of their fingerprint unlike traditional methods in which identification is confirmed from specific points in the fingerprint.

This technology securely and conveniently replaces passwords, PIN codes and keys in areas such as IT-security, physical access systems and embedded solutions e.g. in telecommunications.

Key events during 2000

Stock exchange quotation

The Company's shares were quoted on the OM Stockholm Exchange's O-list on 3 October 2000.

Launch of new products

Precise Biometrics launched a new product platform, Precice BioCore™ that allows the integration of biometric identification by fingerprints in mobile telephones and hand-held computers for higher personal security. This product platform is currently being offered to potential customers globally.

A new product, Precise Match-on-Card™, allows electronic transactions to be signed biometrically by matching a fingerprint with the processor on the smart card and thereby significantly increasing security. The company is the first in the world with linking a digital signature with an individual person.

Developments continued during the year of the Precise Biometrics biometric products for physical access systems. It is estimated the products will be available for sale during Q3 2001.

Financing

During the year two directed share issues were carried out for institutional investors. These issues totalled 850,000 shares and provided the company with SEK 164.5 million after issue costs. The year has also seen shares being issued in connection with warrant redemptions, which provided the company with a further SEK 14.1 million.

The Company's liquid assets at the end of the reporting period stood at SEK 132 million.

Partnership agreement

Important agreements were entered during the year with partners working with smart cards and PKI for the joint supply of complete security services in the Company's three business units.

Important orders

During Q4 an important order was received from a government authority in Taiwan. The order is a result of Precise Biometrics' increased involvement in Asia and an important reference for continued activities in the region.

The US Defense Department in the Pentagon chose a biometric security solution from Precise Biometrics following a careful evaluation phase. The order was a pilot installation, which is still under evaluation, and is for the use of mobile computers in the Department of Defense.

Gemplus, the world's leading provider of smart card solutions signed an agreement with Precise Biometrics which means that Gemplus will purchase biometric fingerprint readers for at least SEK 17 million. Product deliveries during the year amounted to SEK 2 million.

Business units

To concentrate activities and improve business opportunities, the company reorganised into three business units: IT Security, Physical Access and Embedded Solutions.

All business units have recruited new managers with extensive experience of the industry and international networks within their respective units. The sales organisation in the IT Security business unit was also significantly strengthened.

Subsidiaries

The Parent company, Precise Biometrics AB, has started to wholly-owned subsidiaries – Precise Biometrics Services AB, which handles the Parent company's warrant scheme, and Precise Biometrics Inc., which is the Company's sales and marketing Company in North America. The establishing of a subsidiary in the US means that the company can maintain closer contacts with customers, partners and the biometric industry.

Important events after the end of the year

In February 2001 a partnership agreement was signed with one of the leading European IT-Security companies, Utimaco Safeware, and together the companies will supply the market with complete services in the area of information security.

Procedures for Board of Directors and instructions to CEO

The Precise Biometrics Board of Directors has established procedures regarding its division of responsibilities and financial reporting in accordance with the Swedish Companies Act and the Company's articles of association. Procedures govern Board meetings, division of responsibility within the Board, and the nature of matters to be decided by the Board. The Board has also set up instructions to the CEO regarding the CEO's responsibilities and obligations regarding what is reported to the Board, in accordance with the law.

The Board met a total of 14 times during the year.

Financial overview

	2000-12-31	**1999-12-31**	**1998-12-31**
Number of employees at year-end	53	30	15
Working capital, SEK 000	132,423	7,246	4,551
Liquidity ratio %	1,310	274	424
Equity/assets ratio %	88	70	89
Loss after financial items per share (SEK)	–12	–6	–1.3
Shareholder's equity per share	50	9	7
Net sales, SEK 000	**5,249**	**527**	**0**
Operating loss, SEK 000	**–43,830**	**–12,356**	**–2,201**

For definitions see note 17

The sales and results are according to the company's plan for the year.

Investments

During the period SEK 2.1 million (1.6 m) was invested in tangible assets, mainly computers. Research and development costs have been capitalized at SEK 15.9 million (14.0 m). Investments last year in financial fixed assets for shares in two subsidiaries amounted to SEK 1.1 million.

Research and development

Research and development activities during the year have mainly focused on developments in product areas such as the Precise 100-series, Precise Match-on-Card™ and the Precise BioCORE™ platform. Besides which, considerable resources have been invested in the development of future product generations in all the Company's business units.

Future developments

PKI, Public Key Infrastructure, is the leading standardised form for secure information transfer over open networks, such as the Internet. More companies are beginning to ask for IT solutions built on PKI. Precise Biometrics considers that biometrics is the component necessary for PKI to receive a great breakthrough for secure information transfer and business across open networks. Precise Biometrics has products for PKI solutions and has already signed several strategic partnership agreements with leading PKI companies and is planning to start further strategic partnerships during 2001.

In 2001, Precise Biometrics will establish a strong market position in the IT Security business unit. This will be reached by continuing to develop direct and indirect sales channels, a wider product range and focusing on chosen markets and segments in the US, Europe and Asia.

Within the Physical Access and Embedded Solutions business units, the company intends to launch new products and expects to sign OEM and licensing agreements to attract sales during the coming year.

Precise Biometrics provides leading-edge products, based on patented biometric technology at very competitive prices. The prerequisites to be one of the world's leading biometric companies are judged to be good. The company expects the total sales growth during 2001 to be very good.

Proposed allocation of accumulated deficit

At the disposal of the AGM

Accumulated deficit, SEK	–16,506,107
Loss for the year, SEK	–43,873,928
Total, accumulated deficit, SEK	**–60,380,035**

The Board and CEO propose that the accumulated deficit for the year be dealt with so that the share premium reserve be reduced against the accumulated deficit by SEK 60,380,035.

Of the Group's accumulated deficit of SEK 60,541,000, SEK 0 has been allocated for restricted equity.

Income statement

Amounts in SEK 000	Note	The Group* 2000	Parent Company 2000	Parent Company 1999	Parent Company 1997/1998
Net sales	2	5,249	5,249	527	0
Cost of goods sold		–5,083	–5,083	–1,025	0
Gross profit/loss		**166**	**166**	**–498**	**0**
Sales costs		–25,502	–25,351	–6,249	–397
Administrative costs		–5,781	–5,771	–2,116	–2,004
R&D costs	5	–12,685	–12,685	–1,580	0
Other operating income		0	0	0	200
Other operating expenses		–28	–28	–1,913	0
Operating loss	**3,4,6**	**–43,830**	**–43,669**	**–12,356**	**–2,201**
Results from financial investments					
Write-downs of shares in subsidiaries	7	0	–642	0	0
Other interest income and similar profit items	8	2,118	2,117	248	41
Interest expenses and similar loss items		–432	–430	–134	–4
Costs of new share issue		–1,250	–1,250	–2,500	0
Total results from financial investments		436	–205	–2,386	37
Net loss after financial items		**–43,394**	**–43,874**	**–14,742**	**–2,164**
NET LOSS FOR THE YEAR		**–43,394**	**–43,874**	**–14,742**	**–2,164**

*The Group started in 2000.

Balance Sheet

Amounts in SEK 000	Note	The Group* 2000	Parent Company 2000	Parent Company 1999	Parent Company 1997/1998
ASSETS					
Fixed assets					
Intangible fixed assets	9	29,294	29,294	18,934	5,906
Tangible fixed assets	10	2,648	2,648	1,711	854
Financial fixed assets	11	0	1,058	0	0
Total fixed assets		**31,942**	**33,000**	**20,645**	**6,760**
Current assets					
Inventories etc					
Goods for resale		3,452	3,452	1,231	0
Current receivables					
Accounts receivable – trade		3,196	3,195	454	0
Receivables from Group companies		0	1,132	0	0
Other receivables	12	4,421	4,421	1,105	396
Current investments		125,000	125,000	6,000	0
Cash and bank balances		7,035	5,919	1,913	5,559
Total current assets		**143,104**	**143,119**	**10,703**	**5,955**
Total assets		**175,046**	**176,119**	**31,348**	**12,715**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	13				
Restricted equity					
Share capital		1,400	1,400	937	140
Share premium reserve		216,301	216,973	37,460	6,224
Current new share issue		1,155	1,155	0	6,711
Total restricted equity		**218,856**	**219,528**	**38,397**	**13,075**
Accumulated deficit					
Unconditional shareholders contribution received		0	0	400	400
Loss brought forward		–17,548	–16,906	–2,164	0
Net loss for the year		–43,393	–43,874	–14,742	–2,164
Total accumulated deficit		**–60,541**	**–60,380**	**–16,506**	**–1,764**
Total shareholders' equity		**158,315**	**159,148**	**21,891**	**11,311**
Liabilities					
Long-term liabilities					
Loan from Industrifonden	14	3,000	3,000	6,000	0
Total long-term liabilities		**3,000**	**3,000**	**6,000**	**0**
Current liabilities					
Accounts payable – trade		6,102	6,099	1,320	753
Liabilities to Group company		0	243	0	0
Other liabilities	15	1,755	1,755	775	266
Accrued expenses	16	2,874	2,874	1,362	385
Loan from Industrifonden		3,000	3,000	0	0
Total current liabilities		**13,731**	**13,971**	**3,457**	**1,404**
Total equity and liabilities		**175,046**	**176,119**	**31,348**	**12,715**
Pledged assets					
Floating charges		1,000	1,000	1,000	0
AContingent liabilities		**None**	**None**	**None**	**None**

*The Group started in 2000.

Cash flow statement

Amounts in SEK 000	Note	The Group* 2000	Parent Company 2000	Parent Company 1999	Parent Company 1997/1998
Current activities					
Loss after financial items		–43,394	–43,874	–14,742	–2,164
Adjustments for items not included in cash flow		6,722	6,722	1,725	340
		–36,672	**–37,152**	**–13,017**	**–1,824**
Paid taxes		–21	–21	0	0
Cash flow from current activities before changes in working capital		**–36,693**	**–37,173**	**–13,017**	**–1,824**
Cash flow from changes in working capital					
Change in inventories		–2,221	–2,221	–1,231	0
Change in receivables		–6,036	–7,169	–1,163	–396
Change in current liabilities		7,274	7,514	2,053	1,404
Cash flow from current activities		**–37,676**	**–39,049**	**–13,358**	**–816**
Investment activities					
Capitalised development work		–15,946	–15,946	–14,025	–5,906
Acquisitions of tangible fixed assets		–2,073	–2,073	–1,585	–1,194
Investments in subsidiaries		0	–1,058	0	0
Cash flow from investing activities		–18,019	–19,077	–15,610	–7,100
Financing activities					
New share issue		178,662	179,977	25,322	13,075
Unconditional shareholders contributiont		0	0	0	400
Current new share issue		1,155	1,155	0	0
Loans raised		0	0	6 000	0
Cash flow from financing activities		**179,817**	**181,132**	**31,322**	**13,475**
Cash flow for the year		**124,122**	**123,006**	**2,354**	**5,559**
Liquid funds at the beginning of the year		**7,913**	**7,913**	**5,559**	**0**
Liquid funds at the end of the year		**132,035**	**130,919**	**7,913**	**5,559**

* The Group started in 2000

Liquid funds means cash balances and bank balances as well as current investments.
Interest paid during the year amounted to KSEK 432.

NOTE 1 ACCOUNTING AND VALUATION PRINCIPLES

The Annual Report has been prepared in line with the Annual Accounts Act and the Swedish Financial Accounting Standards Council and the Swedish Financial Accounting

Standards Council recommendations and opinions. The accounting of capitalised information for Research and Development is consistent with the provisions of the Swedish Accounting Standards Board's recommendation No.1.

Unless otherwise stated, the principles are unchanged in comparison with the previous year.

Income statement classified according to function

The income statement has, as per 31 Dec 2000, been prepared according to function instead of previously according to type of cost. A translation has been made for previous years and the cash flow statement also reflects this change.

Consolidated accounts

The consolidated accounts include the Parent company and those companies where the Parent company has direct or indirect ownership of more than 50% of the voting rights at year-end. The consolidated accounts for the year also include newly formed companies from the time of newly being formed.

The consolidated accounts have been drawn up according to the acquisition method, meaning that the acquisition value of shares in a subsidiary is eliminated against the respective subsidiaries' equity at the time of being formed.

Foreign subsidiary

The foreign subsidiary in the Precise Biometrics Group has been classified as an integrated foreign business, which is why monetary methods have been applied for translating its annual accounts. This means that the foreign subsidiary's monetary assets and liabilities are translated according to the closing day rate, while non-monetary assets are translated at a historical rate. All items in the income statement are translated at the average rate for the year. Translation differences are reported under "results from financial investments".

Depreciation according to plan

Depreciation according to plan is charged against income for capitalised development work, computers and equipment. The depreciation according to plan is based on the acquisition value of the assets and is calculated on their expected economic lifetime.

The following assumptions regarding economic lifetimes have been applied:

Capitalised development work:	5 years
Computers:	3 years
Equipment:	5 years

Capitalisation of development work

The capitalised expenses consist of costs for the continued development of equipment for biometric fingerprint identification. The Company has directly and indirectly capitalised salary expenses as fixed expenses relating to the development department. These development projects are focused on producing new products, new processes, new systems or important improvements to existing products with the aim of generating end products to be introduced on to and sold in the market. Expenses for development work are charged as they occur, but are later directly capitalised in accordance with the conditions in BFN R1.

The capitalised development work is depreciated according to plan over five years, which is equivalent to the estimated utilisation period, with reference to the ageing of the technology and estimated product life cycle.

Inventories

Goods for resale are valued at the lowest of acquisition value and realisable value as at closing day date.

Receivables

Receivables have been reported at the amount at which they are expected to be received, on the basis of individual assessment.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are translated at the closing day rate in the balance sheet. Translation differences are reported in the income statement during the period of their occurrence.

NOTE 2 NET SALES

The Group and Parent company

During 2000, net sales amounted to SEK 5.2 million (0.5 m), which is totally attributable to sales in the IT-Security business unit.

NOTE 3 REMUNERATION TO AUDITORS

The Group and Parent company	2000	1999
Öhrlings PricewaterhouseCoopers		
Audit services	130	65
Consulting	313	39

NOTE 4 SALARIES, OTHER REMUNERATION AND PAYROLL

Salaries, emoluments and social security contributions amount to:

The Group and Parent company	2000	1999	1997/1998
Salaries and emoluments	16,281	7,604	2,768
CEO	790	642	486
Other employees	15,491	6,962	2,282
Social security contributions	6,777	2,957	996
(of which pension costs)	1,040	419	122

Pension premiums equivalent to those of the ITP plan have been paid to the CEO. Compensation to the members of the Board of Directors, who are not employed at the Company, amounted to SEK 60,000 per person and to the Chairman, SEK 120,000.

The average number of employees during 2000 stood at 42.

	2000	1999	1997/1998
Total number of employees	42	22	9
(of which men)	34	21	8

For the executive management, including the CEO, the following rules apply regarding severance pay.

The CEO receives 6, or alternatively 9 months' salary if the termination of employment is from the CEO or from the Company, respectively. The other members of the executive management receive 2 to 6 months' salaries upon termination of employment, regardless if the employee or the company instigates such termination.

NOTE 5 RESEARCH AND DEVELOPMENT EXPENSES

The Group and Parent company

Of the total cost of KSEK 12,685 for R&D, KSEK 5,586 is made up of depreciation of capitalised development work.

NOTE 6 LEASING

The Group and Parent company

The Company has no financial leasing contracts and only a few smaller operational leasing contracts.

NOTE 7 WRITE-DOWN OF SHARES

Parent company

The write-down of shares in subsidiaries is in connection with the sale of warrants to employees.

NOTE 8 INTEREST INCOME

The Group and Parent company
Interest income originates from current investments.

NOTE 9 INTANGIBLE FIXED ASSETS

The Group and Parent company
Intangible fixed assets consist only of capitalised development work.

Capitalised development work	**2000**	**1999**	**1997/1998**
Opening acquisition value	19,931	5,906	0
The year 's acquisitions	15,946	14,025	2,267
Closing acquisition value	*35,877*	*19,931*	*2,267*
Opening depreciation according to plan	–997	0	0
The year 's depreciation	–5,586	–997	0
Closing depreciation according to plan	*–6,583*	*–997*	*0*
Closing residual value according to plan	**29,294**	**18,934**	**5,906**

NOTE 10 TANGIBLE FIXED ASSETS

The Group and Parent company	**2000**	**1999**	**1997/1998**
Opening acquisition value	2,774	1,194	0
The year 's acquisitions	2,073	1,580	1,194
Closing acquisition value	*4,847*	*2 774*	*1,194*
Opening depreciation	–1,063	–340	0
The year 's acquisitions	–1,136	–723	–340
Closing acquisitions	*–2,199*	*–1,063*	*–340*
Closing residual value according to plan	**2,648**	**1,711**	**854**

NOTE 11 FINANCIAL FIXED ASSETS

Parent company	**2000**	**1999**	**1997/1998**
Shares in Group companies			
Opening acquisition value	0	0	0
Shares in subsidiaries	1,058	0	0
Booked value shares in Group companies	1,058	0	0

Shares in Group companies	**Capital share**	**Share of voting rights**	**Booked value, KSEK**	**Co. Reg. No**
Precise Biometrics Services AB	100%	100%	100	556545-6596
Precise Biometrics Inc., Vienna, Washington D.C.	100%	100%	958	

NOTE 12 OTHER RECEIVABLES

The Group and Parent company	**2000**	**1999**	**1997/1998**
Prepaid expenses and accrued revenue	3,091	240	65
Other receivables	1,330	865	331
Total other receivables	**4,421**	**1,105**	**396**

Included in receivables is a VAT receivable of KSEK 1,131 (last year KSEK 825 and 1998 KSEK 291).

NOTE 13 SHAREHOLDERS' EQUITY

The Group	Share capital	Share premium reserve	Current new share issue	Shareholder contribution	Loss brought forward	Net loss for the year
1 Jan. 2000	937	37,460	0	400	–16,906	
New share issue registered during the year	340	165,127				
Warrants redeemed	123	12,866				
Current new share issue			1,155			
Premium in connection with the issue of option scheme		848				
Loss in connection with sale of options					–642	
Transfer to loss brought forward				–400	400	
Loss for the year						–43,393
31 Dec. 2000	**1,400**	**216,301**	**1,155**	**0**	**–17,148**	**–43,393**

Parent company	Share capital	Share premium reserve	Current new share issue	Shareholder contribution	Loss brought forward	Net loss for the year
1 Jan. 2000	937	37,460	0	400	–16,906	
New share issue registered during the year	340	165,127				
Warrants redeemed	123	12,866				
Current new share issue			1,155			
Premium in connection with the issue of option scheme		1,520				
Transfer to loss brought forward				–400	400	
Loss for the year						–43,874
31 Dec. 2000	**1,400**	**216,973**	**1,155**	**0**	**–16,506**	**–43,874**

During the year 1,155,500 new shares have been issued at a premium of KSEK 177,993.

The share capital at year -end comprised 3,499,200 class A shares at a nominal SEK 0.40 per share (previous year 2,343,700 shares at a nominal SEK 0.40 per share). Issue costs for the new share issues carried out during the year amounted to KSEK 10,745. Of these costs, KSEK 9,495 is carried directly against shareholders' equity as a reduction of funds received.

NOTE 14 LOAN FROM INDUSTRIFONDEN

The Group and Parent company

The entire amount matures within five years.

NOTE 15 LOAN WITH ATTACHED WARRANTS FOR NEW SUBSCRIPTION

At a Board meeting on 30 May 1999, it was decided, following authorization from the AGM, to raise a subordinated loan of SEK 100,000 by issuing two promissory notes to Industrifonden. Each promissory note has detachable warrants giving the right to subscribe no earlier than 30 January 2001 and no later than 28 February 2002 for 40,000 class A shares in the Company at a nominal SEK 0.40, at a subscription rate of SEK 40 per share. The options agreement with Industrifonden is part of the financing totalling SEK 6 million that Industrifonden provided to the Company in 1999. In total Industrifonden's options give the right to subscribe for 80,000 shares. (See not14)

At a board meeting on 7 September 1999, it was decided, with authorization from the AGM, to issue a promissory note, combined with 33,000 warrants giving the right to subscribe for an equivalent amount of class A shares. The subscription rate has been set at SEK 55 per share. The subscription period is from 1 October 1999 until 1 October 2001. The employees at Precise Biometrics AB have subscribed for all the warrants.

At the AGM on 27 April 2000, it was decided, and deviating from shareholders' preferential rights, to issue a promissory note with 100,000 detachable warrants for subscription purposes, to the wholly-owned subsidiary Precise Biometrics Services AB. Each option gives the holder the right to subscribe for 1 class A share in the Company for SEK 656 per share between 28 October 2001 and 27 October 2002. Within the framework of an incentive scheme, Precise Biometrics Services AB will detach and transfer the warrants at market rates to people who are employed by the Company or future Board members of the Company. Within the framework of the above scheme, 54,600 warrants have been transferred to employees and Board members of the Company.

In total the company has issued warrants corresponding to 213,000 shares. Of the above issued options a total of 22,000 have been redeemed. When all the 191,000 remaining options have been utilised, the share capital will increase by SEK76,400, which corresponds to a dilution effect of about 5.1% of the capital and voting rights. The number of shares at full dilution will be 3,717,700

NOTE 16 ACCRUED EXPENSES

Included in this item are personnel-related expenses totalling

KSEK 2,146 (last year KSEK 631 and 1998 KSEK 271).

NOTE 17 DEFINITIONS

Operating capital: Current assets less current liabilities

Liquid ratio: Current assets excluding stock as a percentage of current liabilities

Equity/assets ratio: Shareholders' equity on the closing day as a percentage of the total capital on the closing day

Profits/loss after financial items per share: Profits/loss after financial items per share divided over the number of shares on the closing day

Shareholders' equity per share: Shareholders' equity on the closing day divided by the number of shares on the closing day

Lund, 22 March 2001

Christer Lindberg
Chairman of the Board

Nils Bernhard

Christer Fåhraeus

Lars Grönberg

Nils Ljung

Nils Sandstedt

Peter Höjerback
Chief Executive Officer

Our audit report was presented on 28 March 2001
Öhrlings PricewaterhouseCoopers AB

Per Wardhammar
Authorised Public Accountant

Dan Andersson
Authorised Public Accountant

Auditor´s Report

To the Annual General Meeting of shareholders of Precise Biometrics AB. Co.reg.no.556545-6596

We have audited the annual accounts, the accounting records and the administration of the board of directors and the managing director of Precise Biometrics AB for the year 2000. These accounts and the administration of the Company are the responsibility of the Board of Directors and the CEO. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

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

The annual accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the Annual General Meeting of shareholders that the income statement and balance sheet be adopted, that the loss be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Lund, 28 March 2001

Öhrlings PricewaterhouseCoopers AB

Per Wardhammar
Authorised Public Accountant
(Senior Auditor)

Dan Andersson
Authorised Public Accountant

Board of Directors

Christer Lindberg, born 1948.
Chairman of the Board
Managing Director of ALMI Företagspartner Stockholm AB.
Other Board positions: Chairman of Östergrens Elmotor AB. Board member of Teknikhöjden AB.
Chairman since 1998.
No. of shares held in Precise Biometrics: 30,000.
No. of options held in Precise Biometrics: 0.

Nils Ljung, born 1948.
Member of the Board
Other Board positions: Chairman of ABNW AB, Jensen Elektronik AB, C Technologies AB and ComMet AB. Board member of Centrecourt AB and Remium AB.
Board member since1998.
No. of shares held in Precise Biometrics: 33,000.
No. of options held in Precise Biometrics: 0.

Christer Fåhraeus, born 1965.
Member of the Board
Managing Director of Anoto AB.
Deputy CEO of C Technologies AB.
Founder.
Other Board positions: Board member of Cellavision AB, C Technologies AB, Netmage AB, Centrecourt AB and WeSpot AB.
Board member since1998.
No. of shares held in Precise Biometrics: 368,127.
No. of options held in Precise Biometrics: 0.

Nils Bernhard, born 1947.
Member of the Board
Other Board positions: Chairman of Pajeb Kvarts AB and Schweden Splitt AB. Board member of Array AB, Imsys AB, Paynora AB and RivieraLink S.A.R.L.
Board member since1998.
No. of shares held in Precise Biometrics: 323,000*.
No. of options held in Precise Biometrics:0.
* On the basis of an endowment insurance 320,500 (Andante Investment Ltd).

Nils Sandstedt, born 1964.
Member of the Board
Other Board positions: Board member of Netmage AB and Remium AB.
Board member since 2000.
No. of shares held in Precise Biometrics: 0.
No. of options held in Precise Biometrics: 10,000.

Lars Grönberg, born 1949.
Member of the Board
Other Board positions: Chairman of Cambio Healthcare Systems AB, New Media Distribution AB, Limt AB, Remako AB, Matkompaniet AB, Actit AB, Bindomatic AB and Mobilsys AB and Inmobia AB. Board member of Smarteq AB, Wireless Maingate AB, Right position AB, Tele1 Europe Holding AB, XL Print Syd AB, Sonox AB, Core Ventures AB and PLN Planning Networks AB.
Board member since 2000.
No. of shares held in Precise Biometrics: 0.
No. of options held in Precise Biometrics: 10,000.

Executive management

Peter Höjerback, born 1966.

CEO

Employed since 1999.

No. of shares held in Precise Biometrics: 22,000.

No. of options held in Precise Biometrics: 0.

Jonas Källmén, born 1965.

CFO

Employed since 1999.

No. of shares held in Precise Biometrics: 10 000.

No. of options held in Precise Biometrics: 2,500.

Mårten Öbrink, born 1968.

Deputy CEO , Technical Director.

Employed since 1997.

No. of shares held in Precise Biometrics: 100,070

No. of options held in Precise Biometrics: 0.

Ola Andersson, born 1959.

Business Unit Manager, Embedded Solutions.

Employed since 2000.

No. of shares held in Precise Biometrics: 2,950.

No. of options held in Precise Biometrics: 10,000.

Ola Svedin, born 1965.

R&D Manager.

Employed since 1998.

No. of shares held in Precise Biometrics: 8,250.

No. of options held in Precise Biometrics: 0.

Susanne Dahlman, born 1964.

Marketing and Communications Manager.

Employed since 1999.

No. of shares held in Precise Biometrics: 0.

No. of options held in Precise Biometrics: 2,500.

Erling Faxoe Nielsen, born 1943.

Business Unit Manager, Physical Access.

Employed since 2000.

No. of shares held in Precise Biometrics: 0.

No. of options held in Precise Biometrics: 5,000.

Thomas Norrby, born 1957.

Business Unit Manager, IT Security.

Employed since 2001.

No. of shares held in Precise Biometrics: 0.

No. of options held in Precise Biometrics: 0.

Auditors

Öhrlings Pricewaterhouse Coopers AB

Per Wardhammar, born 1951.
Authorized Public Accountant.

Precise Biometrics' Auditor since the 1997/1998 financial year.

Dan Andersson, born 1956.
Authorized Public Accountant.

Precise Biometrics' Auditor since the 1999 financial year.

Glossary

Algorithm
Mathematical calculation model.

API (Application Programming Interface)
A specification defining an interface between programs.

ASIC (Application Specific Integrated Circuit)
An integrated microchip specially designed for a specific application.

Biometrics
The technical analysis of biometric data, e.g. a fingerprint or voice pattern, used to confirm a person's identity.

Bluetooth
A system for high-speed wireless communication across short distances.

Digital
A method for handling, storing and transmitting information based on the use of distinct electronic or optical pulses that represent the binary code, 0 and 1.

Digital certificate
A data file that acts as a certificate for a connection between a physical person's identity and their identity on the Internet.

Encryption
Coding to protect information.

FPGA (Field Programmable Gate Array)
Programmable board that handles calculations and flows.

GPRS (General Packet Radio Services)
European packet distribution standard that manages Internet, email, traffic information and other services. Taken originally from GSM network.

IP (Internet protocol)
The standard that defines the information units passed between the host computer and the packet distribution network that the Internet consists of. The Internet Protocol forms the basis for packet distribution via the Internet.

OEM (Original Equipment Manufacturing)
Manufacturing a product that is then sold under another name. An OEM company may sell other products under its name.

OS (Operating System)
The system in the background that controls other programs and takes care of the computer's internal operation.

PIN-code (Personal Identity Number)
Personal, numerical code. Usually four digits.

PKI (Public Key Infrastructure)
Security solution based on a public and a private key, where identification of a user is performed locally. The private key is protected either with a PIN code or a fingerprint.

Platform
A number of free-standing components that are connected to form the base for a company's product development.

Processor
The component in a computer that performs all calculations.

Protocol
A list of rules and conventions for how messages are to be formatted prior to transmission between two communication points within a computer system or a data communication network.

SHD (Smart Handheld device)
Collective term for small computers.

Smart card
A card the size of a credit card containing microelectronics and memory. Can store data and, with the help of a built -in microprocessor, communicate and execute transactions.

Smartphones
The next generation of mobile phones with larger screens and extended functions.

UMTS
(Universal Mobile TelecommunicationSystem)
The third generation mobile phone system.

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