

*Precise Biometrics AB (publ), company reg. no. 556545-6596
Year-end statement 2001*

Several major orders and new partners ensure continued increase in sales for Precise Biometrics

- Sales in 2001 totaled MSEK 14.1 (5.2). The net profit for the year amounted to MSEK -67.5 (-43.4). Sales for the fourth quarter were MSEK 5.6 (1.2). The net profit for the fourth quarter was MSEK -18.5 (-14.5).
- At the end of the year, the company had MSEK 38.7 in liquid assets. Subsequent to the end of the period, a new share issue was completed. The issue was targeted at Swedish institutional investors and valued at MSEK 30.5 before issue costs.
- Due to the favorable market conditions, the company chose to increase sales activities, which resulted in a rise in costs.
- New customers acquired by Precise Biometrics include NexWatch, a Honeywell subsidiary, the U.S. Department of Defense, other U.S. federal agencies, the Dutch Ministry of Justice and the Banque de Luxembourg.
- Partnerships have been established with companies including NexWatch, ActivCard and Utimaco Safeware.
- During 2001, Siemens Trusted Networks selected the Precise Match-on-Card™ for fingerprint authentication on smart cards.
- A number of new products have been launched, including the physical access control system, Precise BioAccess™, the Precise 100 BioKeyboard and Precise 100 MC, the new fingerprint reader for IT security. In addition, 2001 saw the introduction of Precise BioMatch™, the software for biometric matching on smart cards.

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Precise Biometrics is an innovative security company that supplies world-leading systems for authentication using fingerprints. The solutions supplied by the company replace keys, PIN codes and passwords. The company's products are cost effective and provide security and comfort combined with top-class protection of personal integrity. The range of products includes systems for access control to computers and networks and for building into mobile and terminals, such as mobile phones and portable computers. The company headquarters are in Lund, Sweden. The company also has offices in Stockholm and a U.S. subsidiary in Washington, D.C. Precise Biometrics is listed on the O-list of the Stockholm Stock Exchange (symbol: PREC A). For additional information, visit www.precisebiometrics.com

Comments on the past year by Christer Bergman, CEO:

“Developments over the past year show that Precise Biometrics is on the right track. A succession of major orders during the second half of the year helped us to cement our position as a global market leader in the field of biometric security solutions. It was pleasing to see sales increase, from MSEK 3.5 in the third quarter, to MSEK 5.6 in the fourth quarter. The new share issue completed after the end of the period provides us with the opportunity to finance our impending breakthrough in the market.

The increasing demand for security worldwide has triggered an appreciable rise in interest in the biometric security solutions that Precise Biometrics offers, particularly as regards the Precise Match-on-Card™ which features unique technology for fingerprint matching on smart cards. Our solutions are accommodating, cost-effective and scalable while simultaneously allowing users to maintain their personal integrity.

Increased initiatives aimed at winning new accounts in a buoyant market naturally result in higher costs. We remain committed to allocating primary emphasis to controlling costs and acquiring new customers. However, it is only logical to push through initiatives when market conditions are favorable. This approach has already produced positive results in the form of major customers and rising sales. I am convinced that with the support generated by the new share issue carried out at the start of 2002, we have excellent conditions for making even greater and more rapid progress on the market.”

The market

Demand is growing for security solutions involving biometrics. This trend has been confirmed not only through the flow of incoming orders that Precise Biometrics is receiving but also by a number of independent analyses. To increase security and to add new functions, today's normal ID cards, credit cards and cards for physical access control are being phased out and replaced with chip-based smart cards. A universal standard for biometric solutions involving smart cards will thus become a central issue, as this is a good way to increase security and the number of functions available. Precise Biometrics' Precise Match-on-Card technology may well become this universal standard.

The market is clearly showing increased interest in biometric solutions that can be used for both physical access control and IT security. Precise Biometrics is already in a position to supply solutions of this kind.

The terrible events of September 11, 2001, sharpened the focus on security issues and have thus sparked heightened interest in biometric security solutions.

Four factors in particular are crucial to satisfying market demands for biometric solutions. Security systems must assure personal integrity, and the solutions must be accommodating, cost-effective and scalable.

The business

During the past year, partnership agreements were signed with companies including ActivCard and Utimaco Safeware. During Q4, partnership agreements were signed with NexWatch, a subsidiary of Honeywell, and other customers.

In 2001, Precise Biometrics also restructured its organization to match market requirements even better. The intention behind these efforts was to increase the emphasis on customers and to accommodate the current trend in the market, by which IT security solutions and physical access control are becoming increasingly intertwined. The new organization comprises three product areas: IT Security, Physical Access and Embedded Solutions, as well as the business units for U.S. Government, Nordic Key Accounts, IT Security Partners, Security Industry, Mobile Security and Smart Cards.

Product area, IT Security:

During the fourth quarter:

- An order was received from the Dutch Ministry of Justice for 1,000 fingerprint readers. This order also includes software licenses for approximately 10,000 fingerprint readers. In the long term, the order could generate orders for that number of fingerprint readers.
- A new fingerprint reader for PC, the Precise 100 MC, was introduced. The product is an optimized version of the functions for Match-On-Card.

During the year as a whole:

- There has been considerable interest in complete solutions from the area of IT security, i.e. joining forces with partners to supply the precise solution required by the customer. The partnerships with Utimaco and ActivCard are two successful examples of this. In 2001, together with these partners, we produced customer-specific solutions for clients including the U.S. Department of Defense and a number of European banks.
- 350 fingerprint readers were delivered to GWK, the Dutch banking and tourist service company.
- Banque de Luxembourg purchased 600 fingerprint readers for its internal computer environment.
- We also introduced a new keyboard, the Precise 100 BioKeyboard. The advantage of this product is that the fingerprint reader is integrated in the keyboard.

Product area, Physical Access:

During the fourth quarter:

- A partnership agreement was concluded between Precise Biometrics and NexWatch, a subsidiary of Honeywell, which is one of the leading players in the security sector. An initial order valued at approximately MSEK 3 has been placed for the fingerprint reader for physical access control, Precise BioAccess. The agreement involves Precise Biometrics and NexWatch entering into a partnership agreement that gives NexWatch the right to sell and distribute Precise Biometrics products together with products and systems sold by different Honeywell companies throughout the world.
- Precise Biometrics launched a fingerprint reader for physical access control for the U.S. Department of Defense. Precise BioAccess SC is the first—and, at present, the only—fingerprint

reader in the world for physical access control that supports the Common Access Card, which is the U.S. Department of Defense's security standard for smart cards. With the introduction of this product, Precise Biometrics can offer the U.S. Department of Defense a complete solution for secure fingerprint authentication. To underline the strong links between Precise BioAccess SC and Match-On-Card, the product will be renamed Precise BioAccess MC.

Product area, Embedded Solutions:

During the fourth quarter:

– Two Precise BioMatch C development systems for Match-on-Card were delivered to the smart card manufacturer Siemens.

The integration of Precise BioMatch C into smart cards means that Precise Biometrics has succeeded in further strengthening its foothold in the fields of security solutions and electronic ID cards, where smart cards are used for biometric storage and matching. Precise Biometrics technology is used to replace PIN codes for the smart cards.

During the year as a whole:

– A partnership was initiated with Siemens Trusted Network. Over the course of the year, this business area produced the first ever Java-based solution for biometric identification on a smart card. This was carried out in collaboration with ActivCard.

Activities in the United States:

During the fourth quarter:

– A decisive breakthrough was made when the company secured contracts with various federal agencies and the U.S. Department of Defense worth a total of MSEK 1.4. These contracts took the form of a follow-on order for a federal agency with a value of MSEK 0.7 along with a new order for the Common Access Card project, which involves issuing new ID cards to 4.3 million users within the Department of Defense. Through this order, Precise Biometrics is well placed to capture a large market share in the biometric segment of the Common Access Card project.

During the year as a whole:

– A number of significant deals have been closed with our strategic partners in this important market. Following the events of September 11, security has become a higher priority in many ways in the United States. Interest in security in connection with air traffic has increased, and Precise Biometrics is one of the most important players in this field. This section of the market is showing increasing interest in our products

– In particular, Precise Biometrics has noted appreciable interest from federal agencies. This has already produced results in the form of enquiries from a large number of customers, and a number of smaller contracts have been agreed with important national organizations, along with key projects with major growth potential. Greater attention will be paid to this customer segment in the future via the new organization in which the U.S. Government business unit will play an important part.

– The U.S. market accounted for almost 30 percent of sales by Precise Biometrics.

– The organization in the United States has been appreciably reinforced.

Patents

During the fourth quarter, the company was granted yet another patent in Sweden. The patent is for an invention concerning the use of a small fingerprint sensor. This technology is expected to be important as regards the authentication of fingerprints in mobile units.

Another invention, which concerns the establishment of fingerprint images for efficient fingerprint matching in PCs, will not be protected in the United States, as the company has decided not to apply for a patent there. The reasons for this are that this patent is no longer considered to be important, and that no one else can apply for such a patent here.

Precise Biometrics now holds three patents, two of which were granted in 2001. In addition, four new patent applications were submitted in 2001. These related to two new inventions. Precise Biometrics now has 27 patent applications pending, referring to 13 different inventions.

Precise Biometrics has taken out patent insurance for 2002. This means a considerable reduction in the company's economic risk should the company become involved in a patent dispute.

Important events after the end of the period covered by this report

A new share issue targeted at Swedish institutional investors and valued at MSEK 30.5 million was completed in January 2002.

In February, a distribution agreement was signed with Securitas AS in Norway, which is a subsidiary of Securitas, the leading security company in the world. A small initial order for Precise Biometrics fingerprint reader for physical access control, Precise BioAccess, was placed in connection with the signing of the agreement.

Future prospects

The market for the company's products will continue to develop positively. Precise Biometrics' sales are expected to continue to increase rapidly.

Profit and position

The net loss was MSEK -67.5 million (-43.4). The company's total costs for the fourth quarter amounted to MSEK 21.9. Sales for the year increased to MSEK 14.1 (5.2), of which the fourth quarter accounted for MSEK 5.6 (1.2). Consolidated shareholders' equity totaled MSEK 91.3. The change in shareholders' equity during the year reflects the losses for the period as well as the payment of premiums on the establishment of an option program.

Financing and liquidity

At the end of the period covered by this report, the Group's liquid assets amounted to MSEK 38.7. After the period ended, the Board decided to implement a new share issue targeted at Swedish institutional investors and valued at MSEK 30.5 before issue costs. This issue has now been completed and was registered on January 29, 2002.

Investments

During the period, the Group acquired intellectual property rights from Veridicom Inc. for MSEK 8.7. MSEK 3.0 (1.6) was invested in fixed assets, primarily equipment and computers.

Expenses for research and development work amounting to MSEK 14.9 (15.9) have been capitalized. In addition, computing fees amounting MSEK 0.7 (0) have been capitalized.

Capitalized expenses for research and development were amortized according to plan in the amount of MSEK 7.5 (5.6) for the period. Patents and capitalized computing fees were also amortized according to plan and totaled MSEK 0.3 (0) and MSEK 0.1 million (0) for the period.

Shares and investor relations

The company's shares have been listed on the O-list of the Stockholm Stock Exchange since October 3, 2000. At the end of the period, there were 2,586 shareholders in the company.

At December 31, 2001, there were 3,526,700 outstanding shares. At the same time, there were 290,000 outstanding warrants, which corresponds to a maximum potential dilution of 7.6 percent. During the past year, the share price has traded in the interval SEK 22.60–206.00.

Following the new share issue in January 2002, 3,876,700 shares are outstanding.

Personnel

At December 31, 2001, the Group employed 66 people, of whom 53 are men. The company continues to recruit qualified personnel within all areas and offers employees the opportunity to participate in an option program as part of its strategy to ensure the supply of key expertise.

The parent company

The description of the Group's activities and development, as well as those concerning investments and changes in liquidity and financing, largely coincide with those of the parent company.

Accounting principles

This interim report has been drawn up in accordance with the recommendation of the Swedish Financial Accounting Standards Council (RR 20) concerning interim reports. The accounting principles applied follow the requirements of the Swedish Annual Accounts Act and recommendations and statements issued by the Swedish Financial Accounting Standards Council. The accounting principles applied are unchanged compared to those used for the annual report published last year. The company's interpretation of regulation RR9, Income Taxes, means that the question of capitalization of deferred tax claims for tax-loss carry-forwards will not be tested before the company accounts show one year of profit.

At December 31, 2001, accumulated tax-loss carry-forwards totaled MSEK 69.3, excluding the loss for 2001 of MSEK 67.5.

Consolidated income statement (KSEK) *

	Oct-Dec 2001	Oct-Dec 2000	Full year 2001	Full year 2000
Net sales	5,605	1,202	14,097	5,249
Cost of goods sold	<u>-4,111</u>	<u>-418</u>	<u>-10,410</u>	<u>-5,083</u>
Gross earnings	1,494	784	3,687	166
Selling costs	-11,383	-10,187	-36,247	-25,502
Administration costs	-5,222	-688	-18,350	-5,781
R&D costs	-4,454	-5,540	-19,491	-12,685
Items affecting comparability**	413	-	-825	-
Other operating income	-191	-87	560	-
Other operating costs	<u>-2</u>	<u>12</u>	<u>-78</u>	<u>-28</u>
Operating loss	-19,345	-15,706	-70,744	-43,830
<u>Income/Expense on financial investments</u>				
Other interest revenue and similar income	1,056	1,547	3,636	2,118
Interest costs and similar expenses	-274	-98	-465	-432
<u>Costs of new share issue</u>	:	<u>-250</u>	:	<u>-1,250</u>
Total income from financial investments	782	1,199	3,171	436
Loss after financial income/expense	-18,563	-14,507	-67,573	-43,394
Deferred taxes	<u>14</u>	:	<u>30</u>	:
Loss for the period	-18,549	-14,507	-67,543	-43,394

* The Group was formed in April 2000.

** Items affecting comparability refers to costs associated with management changes.

Consolidated balance sheet

	Dec. 31, 2001	Dec. 31, 2000
Assets		
Fixed assets		

Intangible fixed assets	45,707	29,294
Tangible fixed assets	2,694	2,648
Advances on tangible fixed assets	<u>1,425</u>	-
Total fixed assets	49,826	31,942

Current assets

Inventories

Inventories	10,522	3,452
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Current receivables

Accounts receivable	5,172	3,196
Other receivables	3,587	4,421

Short-term investments	-	125,000
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Cash and bank balances	<u>38,744</u>	<u>7,035</u>
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Total current assets	58,025	143,104
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Total assets	107,851	175,046
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Shareholders' equity and liabilities

Shareholders' equity

Restricted shareholders' equity

Capital stock	1,411	1,400
Share premium reserve	157,588	216,301
New issue in progress	-	<u>1,155</u>

Total restricted equity	158,999	218,856
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Accumulated deficit

Losses brought forward	-161	-17,148
Loss for the period	<u>-67,543</u>	<u>-43,393</u>
Total accumulated deficit	-67,704	-60,541

Total shareholders' equity	91,295	158,315
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Reserves

Warranty reserves	<u>381</u>	-
Total reserves	381	-

Long-term liabilities

Loans from credit institutions	<u>179</u>	<u>3,000</u>
Total long-term liabilities	179	3,000

Current liabilities

Loans from credit institutions	3,358	3,000
Accounts payable	5,479	6,102
Other liabilities	2,573	1,755
Accrued costs	<u>4,586</u>	<u>2,874</u>
Total current liabilities	15,996	13,731

Total shareholders' equity and liabilities	107,851	175,046
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Pledged assets

Chattel mortgages	1,715	1,000
Pledged liquid assets	<u>200</u>	:
	1,915	1,000

Contingent liabilities	None	None
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Changes in consolidated shareholders' equity

	<u>2001</u>	<u>2000</u>
Shareholders' equity in balance sheet, opening balance	158,315	21,891
New issue	-	165,467
New issue in progress	-	1,155
Premium during stock option distribution	523	848
Options redeemed and losses on sale of options	-	12,348
Loss for the period	<u>-67,543</u>	<u>-43,394</u>
Amount at end of period	91,295	158,315

Consolidated cash-flow statement

	Full year 2001	Full year 2000
Operating activities		
Loss after net financial income/expense	-67,573	-43,394
Adjustments for non-cash items	<u>9,874</u>	<u>6,722</u>
	-57,699	-36,672
Taxes paid	-98	-21
Cash flow from operating activities before changes in working capital	-57,797	-36,693
Cash flow from changes in working capital		
Change in inventories	-7,070	-2,221
Change in receivables	-1,043	-6,036
Change in current liabilities	<u>1,907</u>	<u>7,274</u>
Cash flow from operating activities	-64,003	-37,676
Investing activities		
Capitalization of development work	-14,868	-15,946
Capitalization of computing fees	-754	0
Acquisition of patents	-8,722	0
Acquisition of tangible fixed assets	<u>-3,003</u>	<u>-2,073</u>
Cash flow from investing activities	-27,347	-18,019
Financing activities		
New issue	523	178,662
New issue in progress	0	1,155
Loans taken	715	0
Loans repaid	<u>-3,179</u>	<u>0</u>
Cash flow from financing activities	-1,941	179,817
Cash flow for the year	-93,291	124,122
Liquid assets at start of year	<u>132,035</u>	<u>7,913</u>
Liquid assets at end of year	38,744	132,035

Key data and ratios

	31 Dec 2001	31 Dec 2000
Working capital (KSEK)	42,029	129,373
Liquid ratio	297%	1,017%
Equity/assets ratio	85%	90%
Loss per share after financial income/expense, before dilution (SEK)	Neg	Neg
Loss per share after financial income/expense, after dilution (SEK)	Neg	Neg
Shareholders' equity per share before dilution (SEK)	25.9	45.2
Shareholders' equity per share after dilution (SEK)	25.1	44.0
Number of shares before dilution	3,526,700	3,499,200
Number of shares after dilution	3,632,191	3,601,157

Definitions of key data and ratios

Working capital: Current assets less current liabilities.

Liquid ratio: Current assets less inventories, as a percentage of current liabilities.

Equity/assets ratio: Shareholders' equity at the closing date, as a percentage of total capital at the closing date.

Loss per share after financial income/expense: Loss after financial income/expense, divided by the number of shares at the closing date.

Shareholders' equity per share: Shareholders' equity at the closing date, divided by the number of shares at the closing date.

Upcoming reports and shareholders' meeting

The annual shareholders' meeting will be held in Stockholm on April 16, 2002 at 4:00 PM.

The report for the first quarter of 2002 will be published on April 16, 2002.

Lund, February 12, 2002

Christer Bergman
CEO, Precise Biometrics AB