

*Precise Biometrics AB (publ), company reg. No. 556545-6596
Interim report, January–March 2002*

Continued market growth for Precise Biometrics

- **Net sales for the first quarter amounted to SEK 5.1 million (1.5), and net loss totaled SEK -17.3 million (-15.2). At the end of the first quarter, the company had SEK 47.7 million in liquid assets.**
- **Together with SchlumbergerSema, a leading supplier of smart cards, Precise Biometrics has entered into an agreement for the supply of smart cards with biometric authentication.**
- **The company entered into a partnership agreement with the Singapore-based security company Apro. This agreement covers the distribution and sale of fingerprint readers for physical access control systems in large areas of Asia. In the same product area, the company signed a distribution agreement with Securitas AS in Norway, and another with the German company Primion Technology AG.**
- **As a result of the application of the new recommendation RR15 from the Swedish Financial Accounting Standards Council, the capitalization of development work has been reduced by SEK 8.7 million. The effect of the change in principles has been booked directly against shareholders' equity.**
- **A new issue of shares was completed in January, generating SEK 30.5 million for the company before issue costs.**

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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 an 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

The market

The market for biometric security products continues to enjoy rapid growth. A number of major smart card projects, often involving biometrics, are now being launched all over the world. These include a common patient card system for the entire EU and a new biometric pass system in Great Britain. In the United States, work has been progressing for a long time now on a system called Common Access Card, which is intended for the US Department of Defense. The company considers that the market for biometrics is still very interesting, and that this area is becoming increasingly important in security concepts. As a result, sales projects are growing in both size and complexity. This, in turn, means that the sales processes themselves are becoming more protracted.

The business

Sales for the period totaled SEK 5.1 million. This is more than three times the figure for the same period last year (SEK 1.5 million). The increase in sales is satisfactory, but did not live up to internal expectations. The main reason for this is that a number of sub-orders from established customer projects have been put on hold and some new deals have had to be postponed. Nevertheless, no significant deals have been lost.

Product area, IT Security: At the RSA Security Conference in the United States, the company joined forces with SUN Microsystems to present a shared security solution for airports. SUN is now presenting this system to potential customers throughout the world.

Product area, Physical Access: In February, a distribution agreement was closed with Securitas AS in Norway. A small initial order was concluded in connection with the signing of this agreement.

In March, the company signed a three-year distribution contract with the German company Primion Technology AG, a leading international supplier of physical access control systems. A small initial order was placed in connection with the signing of this contract.

Also in March, a partnership agreement was closed with the Singapore-based security company Apro Asian Protection Pte Ltd. This agreement covers Precise Biometrics' fingerprint readers for physical access control systems. Apro has already placed its first order for this product. The agreement also means that Precise Biometrics is Apro's preferred partner and supplier of biometric access control systems in Singapore, Hong Kong, China, Malaysia, Thailand and Indonesia. The Securitas Group owns 49 percent of Apro.

Product area, Embedded Solutions: The past quarter saw the announcement of a working relationship with SchlumbergerSema concerning biometrics and Java-based smart cards. Java-cards form the basis for most of the major ID card projects in the world at the moment. Electronic ID cards are not only used as conventional ID cards – they also function as ID cards for logging onto computer systems and access to buildings. This requires several different applications – an area for which Java-cards are well suited as it is subsequently possible to download new applications onto the cards. Java-cards will also be integrated into the next generation of cellular phone systems, which will be launched this year.

Previously, the company has signed contracts with the smart card suppliers Miotec and Siemens Trusted Networks. The agreement with SchlumbergerSema is yet another step towards helping Precise Biometrics technology – in the form of the Precise Match-on-Card™ – to become the international standard for smart card fingerprint identification.

Patents

Precise Biometrics currently owns three patents and has 27 patent applications pending, referring to 13 different inventions.

Profit and position

The result for the period amounted to SEK -17.3 million (-15.2), while net sales totaled SEK 5.1 million (1.5). Shareholder's equity in the Group currently totals SEK 96.1 million. The change in shareholders' equity for the period is attributable to the profit generated, the new issue of shares that injected SEK 27.7 million after issue costs, and the redemption of warrants in the amount of SEK 3.2 million. During the quarter, the company has, in accordance with its plan, taken a restrained approach to major marketing projects and consultancy initiatives. All in all, these measures helped to keep costs at a lower level than in the previous quarter.

Financing and liquidity

At the end of the period covered by this report, the Group's liquid assets amounted to SEK 47.7 million.

Investments

During the period, SEK 0.2 million (0.4) has been invested in fixed assets, primarily computers. Expenses for research and development work have been capitalized in the amount of SEK 1.6 million (3.0).

Depreciation on capitalized expenses for research and development proceeded according to plan and totaled SEK 1.5 million (1.2) for the period. Depreciation on patents and capitalized data expenses also proceeded according to plan and amounted to SEK 218,000 (0) and SEK 38,000 (0) for the period.

Shares and investor relations

The company shares were listed on the O-list of the Stockholm Stock Exchange on 3 October 2000. At the end of the period, there were 2,682 shareholders in the company.

At the end of the period covered by this report, there were 3,956,700 outstanding shares. At the same time, there were 210,000 outstanding warrants, which corresponds to a maximum potential dilution of 5 percent. During the period, the share price has been quoted at between SEK 71.5 and SEK 117.

Personnel

At 31 March 2002, the Group employed 66 people, of whom 54 are men.

During the first quarter, Carter Marantette took over as director of the US Government business unit and joined the management team of the company at the same time. Carter Marantette has been employed by the United States branch of the company since 2001.

During the period, Gunilla Savring was appointed director Corporate Communications. Gunilla joins the company from a corresponding position at SwitchCore, a company that is active in the development of integrated circuits for data traffic and which is listed on the Stockholm Stock Exchange. Gunilla will be taking up her duties from May 1, when she also joins the management group.

Niclas Nellhag, CFO, has stepped down and Jesper Arvidsson, a controller with the company since 2000, is currently covering this position until a new CFO can be recruited.

The Parent Company

The statement of the Group's activities and development in profits, and that concerning investments and changes in liquidity and financing largely accord 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 same accounting principles and calculation methods have been used for this interim report as for the most recent annual report with the exception of the application of a new accounting principle concerning the capitalization of development work.

This change in the principles (from BFN R1 to RR15) has involved a total effect of SEK 8,679,000, which has been booked against the opening balance of shareholders' equity. This applied to both the Group and the Parent Company. In line with RR5, the comparison figures for 2001 have been adjusted to accord with the new accounting principle. This means that:

- R&D costs for the first quarter have increased by SEK 143,000.
- R&D costs for fiscal 2001 have increased by SEK 570,000.
- Losses for fiscal 2001 have increased by SEK 570,000.
- Accumulated losses at 31 December 2001 have increased by SEK 8,109,000.
- Capitalized costs for development work as of 31 December 2001 have been reduced by SEK 8,679,000.

Income statement

(amounts in SEK thousand)

| | The Group | | | The Parent Company | | |
|--|-----------------|-----------------|-------------------|--------------------|-----------------|-------------------|
| | Jan-Mar 2002 | Jan-Mar 2001 | Full year 2001 | Jan-Mar 2002 | Jan-Mar 2001 | Full year 2001 |
| Net sales | 5,076 | 1,483 | 14,097 | 4,861 | 1,583 | 14,821 |
| Costs of goods sold | -2,559 | -1,834 | -10,410 | -2,516 | -1,717 | -10,685 |
| Gross profit/loss | 2,517 | -351 | 3,687 | 2,345 | -134 | 4,136 |
| Sales costs* | -10,302 | -7,669 | -38,196 | -8,157 | -6,969 | -32,286 |
| Administration costs | -2,492 | -1,599 | -7,450 | -2,491 | -1,598 | -7,449 |
| R&D costs | -7,042 | -6,699 | -29,012 | -7,042 | -6,699 | -29,012 |
| Changes in the company management | - | - | -825 | - | - | -825 |
| Other operating income | 46 | 81 | 560 | 46 | 81 | 560 |
| Other operating expenses | -400 | - | -78 | -400 | - | -78 |
| Operating loss | -17,673 | -16,237 | -71,314 | -15,699 | -15,319 | -64,954 |
| <u>Result from financial investments</u> | | | | | | |
| Other interest revenue and similar items | 367 | 1,076 | 3,636 | 411 | 1,057 | 3,755 |
| Interest expenses and similar items | -36 | -83 | -465 | -34 | -84 | -468 |
| Total result from financial investments | 331 | 993 | 3,171 | 377 | 973 | 3,287 |
| Loss after financial items | -17,342 | -15,244 | -68,143 | -15,322 | -14,346 | -61,667 |
| Deferred tax | -3 | - | 30 | - | - | - |
| Net loss for the period | -17,345 | -15,244 | -68,113 | -15,322 | -14,346 | -61,667 |

* The division between the Sales, Administration and R&D Departments has been altered during 2002. The figures for the previous year have been adjusted in accordance with the new departmental division so as to become comparable.

Balance sheet statement

(amounts in SEK thousand)

| | The Group | | The Parent Company | |
|--|-------------------|-------------------|---------------------------|-------------------|
| | 2002-03-31 | 2001-12-31 | 2002-03-31 | 2001-12-31 |
| Assets | | | | |
| Fixed assets | | | | |
| Intangible fixed assets | 36,817 | 37,028 | 36,817 | 37,028 |
| Tangible fixed assets | 4,062 | 4,119 | 3,970 | 4,019 |
| Financial fixed assets | - | - | 1,058 | 1,058 |
| Total fixed assets | 40,879 | 41,147 | 41,845 | 42,105 |
| Current assets | | | | |
| Inventories | | | | |
| Inventories | 10,723 | 10,522 | 10,402 | 10,164 |
| Short-term receivables | | | | |
| Trade debtors | 5,376 | 5,172 | 4,204 | 3,417 |
| Other receivables | 1,176 | 2,198 | 11,678 | 11,886 |
| Prepaid expenses and accrued income | 2,403 | 1,270 | 2,346 | 1,211 |
| | 8,955 | 8,640 | 18,228 | 16,514 |
| Short-term investments | 19,945 | - | 19,945 | - |
| Cash and bank | 27,702 | 38,744 | 26,755 | 36,794 |
| Total current assets | 67,325 | 57,906 | 75,330 | 63,472 |
| Total assets | 108,204 | 99,053 | 117,175 | 105,577 |
| Shareholders' equity and liabilities | | | | |
| Shareholders' equity | | | | |
| Restricted shareholders' equity | | | | |
| Capital stock | 1,583 | 1,411 | 1,583 | 1,411 |
| Share premium reserve | 188,260 | 157,588 | 188,983 | 158,311 |
| (amounts in SEK thousand) | The Group | | The Parent Company | |
| | 2002-03-31 | 2001-12-31 | 2002-03-31 | 2001-12-31 |
| Total restricted shareholders' equity | 189,843 | 158,999 | 190,566 | 159,722 |
| Accumulated losses | | | | |
| Loss brought forward | -76,383 | -8,270 | -69,776 | -8,109 |
| Net loss for the period | -17,345 | -68,113 | -15,322 | -61,667 |
| Total accumulated losses | -93,728 | -76,383 | -85,098 | -69,776 |

| | | | | |
|---|----------------|---------------|----------------|----------------|
| Total shareholders' equity | 96 115 | 82 616 | 105 468 | 89 946 |
| Reserves | | | | |
| Warranty reserves | 503 | 381 | 503 | 381 |
| Total reserves | 503 | 381 | 503 | 381 |
| Long-term liabilities | | | | |
| Loans from credit institutions | 179 | 179 | 179 | 179 |
| Total long-term liabilities | 179 | 179 | 179 | 179 |
| Current liabilities | | | | |
| Loans from credit institutions | 179 | 3,358 | 179 | 3,357 |
| Accounts payable trade | 3,977 | 5,479 | 3,873 | 5,430 |
| Other liabilities | 1,475 | 2,454 | 1,475 | 1,698 |
| Accrued expenses and prepaid income | 5,776 | 4,586 | 5,498 | 4,586 |
| Total short-term liabilities | 11,407 | 15,877 | 11,025 | 15,071 |
| Total shareholders' equity and liabilities | 108,204 | 99,053 | 117,175 | 105,577 |
| Security posted | | | | |
| Company mortgages | 1,715 | 1,715 | 1715 | 1715 |
| Mortgaged liquid funds | 200 | 200 | 200 | 200 |
| | 1,915 | 1,915 | 1,915 | 1,915 |

Cash flow analysis

(amounts in SEK thousand)

| | The Group | | | The Parent Company | | |
|---|-----------------|-----------------|-------------------|--------------------|-----------------|-------------------|
| | Jan-Mar 2002 | Jan-Mar 2001 | Full year 2001 | Jan-Mar 2002 | Jan-Mar 2001 | Full year 2001 |
| Current operations | | | | | | |
| Loss after financial items | -17,342 | -15,244 | -68,143 | -15,322 | -14,346 | -61,667 |
| Adjustments for items not included in cash flow | 2,214 | 1,611 | 7,340 | 2,205 | 1,610 | 7,287 |
| | -15,128 | -13,633 | -60,803 | -13,117 | -12,736 | -54,380 |
| Tax paid | -282 | -119 | -197 | -282 | -119 | -197 |
| Cash flow for current operations before changes in working capital | -15,410 | -13,752 | -61,000 | -13,399 | -12,855 | -54,577 |
| Cash flow from changes in working capital | | | | | | |
| Change in inventories | -201 | -4,185 | -7,070 | -238 | -4,185 | -6,712 |
| Change in receivables | -317 | 970 | -1,043 | -1,713 | 1,028 | -7,765 |
| Change in current liabilities | -1,008 | -871 | 2,006 | -586 | -1,156 | 939 |
| Cash flow from current operations | -16,936 | -17,838 | -67,107 | -15,936 | -17,168 | -68,115 |
| Investment operations | | | | | | |
| Capitalization of development work | -1,589 | -2,950 | -11,764 | -1,589 | -2,950 | -11,764 |
| Capitalization of computing expenses | - | - | -754 | - | - | -754 |
| Acquisition of patents | - | - | -8,722 | - | - | -8,722 |
| Acquisition of tangible fixed assets | -237 | -433 | -3,003 | -234 | -428 | -2,880 |
| Cash flow from investment activities | -1,826 | -3,383 | -24,243 | -1,823 | -3,378 | -24,120 |

(amounts in SEK thousand)

| | The Group | | | The Parent Company | | |
|-----------------------------|-----------------|-----------------|-------------------|--------------------|-----------------|-------------------|
| | Jan-Mar 2002 | Jan-Mar 2001 | Full year 2001 | Jan-Mar 2002 | Jan-Mar 2001 | Full year 2001 |
| Financing operations | | | | | | |
| New share issue | 30,843 | - | 523 | 30,843 | - | 574 |
| Loans raised | - | - | 715 | - | - | 715 |



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| | | | | | | |
|--|---------------|----------------|----------------|---------------|----------------|----------------|
| Repayment of loans | -3,178 | - | -3,179 | -3178 | - | -3,179 |
| Cash flow from financing operations | 27,665 | - | -1,941 | 27,665 | - | -1,890 |
| Cash flow for the period | 8,903 | -21,221 | -93,291 | 9,906 | -20,546 | -94,125 |
| Liquid assets, opening balance | 38,744 | 132,035 | 132,035 | 36,794 | 130,919 | 130,919 |
| Liquid assets, closing balance | 47,647 | 110,814 | 38,744 | 46,700 | 110,373 | 36,794 |

Key ratios

| | The Group | | | The Parent Company | | |
|---|----------------|----------------|----------------|--------------------|----------------|----------------|
| | 31 Mar 2002 | 31 Mar 2001 | 31 Dec 2001 | 31 Mar 2002 | 31 Mar 2001 | 31 Dec 2001 |
| Working capital (SEK thousand) | 55,918 | 112,357 | 42,029 | 64,305 | 113,034 | 48,401 |
| Liquid ratio | 496% | 921% | 298% | 589% | 934% | 354% |
| Equity/assets ratio | 89% | 90% | 83% | 90% | 90% | 85% |
| Earnings after net financial items per share before dilution (SEK) | Neg | Neg | Neg | Neg | Neg | Neg |
| Earnings after net financial items per share after dilution (SEK) | Neg | Neg | Neg | Neg | Neg | Neg |
| Shareholders equity per share, before dilution (SEK) | 24 | 38 | 23 | 27 | 39 | 26 |
| Shareholders equity per share, after dilution (SEK) | 24 | 38 | 23 | 27 | 38 | 25 |
| Number of shares before dilution | 3,956,700 | 3,526,700 | 3,526,700 | 3,956,700 | 3,526,700 | 3,526,700 |
| Number of shares after dilution | 3,974,422 | 3,585,718 | 3,632,191 | 3,974,422 | 3,585,718 | 3,632,191 |

Changes in shareholders' equity

(amounts in SEK thousand)

| | The Group | | The Parent Company | |
|---|-----------------|-----------------|--------------------|-----------------|
| | Jan-Mar 2002 | Jan-Mar 2001 | Jan-Mar 2002 | Jan-Mar 2001 |
| Shareholders' equity, year start | 91,295 | 158,315 | 98,625 | 159,148 |
| Effect of change in accounting principles* | -8,679 | - | -8,679 | - |
| Shareholders' equity, year start in accordance with new accounting principle | 82,616 | 158,315 | 89,946 | 159,148 |
| New stock issue** | 27,650 | - | 27,650 | - |
| Redemption of warrants | 3,194 | - | 3,194 | - |
| Net loss for the period | -17,345 | -15,101 | -15,322 | -14,204 |
| Sum at end of period | 96,115 | 143,214 | 105,468 | 144,944 |

* The effect of the change in accounting principles has been booked against accumulated losses

** Subscription price: SEK 87 per share.

Definitions – Key ratios

Working capital: Current assets – current liabilities

Cash liquidity: Current assets excluding stocks as a percentage of current liabilities

Equity/asset ratio: Shareholders' equity at balance sheet date as a percentage of total capital at balance sheet date.

Earnings after net financial items per share: Profit/loss after net financial items divided by the number of shares at balance sheet date.

Shareholders' equity per share: Shareholders' equity at balance sheet date divided by the number of shares at balance sheet date.

Upcoming reports

Interim report, first six months, 15 August

Quarterly report, third quarter, 15 October

Lund, Sweden 16 April 2002.

Christer Bergman
CEO, Precise Biometrics AB

Audit report

We have briefly reviewed this interim report in compliance with the recommendation issued by FAR, the Swedish Institute of Authorized Public Accountants. A brief review of this kind is appreciably limited as compared to a full audit. However, nothing has emerged that would indicate that this interim report does not comply with the requirements of the Swedish Stock Exchange and Annual Accounts Acts.

Lund, Sweden 16 April 2002.

Öhrlings PricewaterhouseCoopers AB

Per Wardhammar
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Certified Public Auditor