

Annual Report 2002

PRECISE BIOMETRICS AB (publ.)

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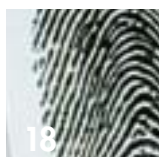
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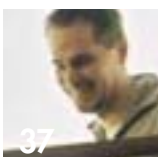
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ANNUAL GENERAL MEETING

The Annual General Shareholders' meeting for Precise Biometrics AB (publ) will be held on Wednesday, April 23, 2003, 16:00, at Scheelevägen 19 C, 1st floor, in Lund, Sweden.

Shareholders who wish to participate in the AGM must both register their holdings in the share register at the Securities Register Center (Swe. "VPC AB") by Friday, April 11, 2003 and notify the company of their intention to participate to the following address: Precise Biometrics AB (publ), Scheelevägen 19 C, 223 70 Lund, Sweden at tel +46-(0)-46-31 11 14, fax +46-(0)-46-31 11 01 or by e-mail to investor@precisebiometrics.com, no later than

April 15 at 16.00. Please include the shareholder's name, personal identity number, address and telephone number.

Nominee holders of shares must temporarily re-register their shares under their own name in the shareholders' register kept by VPC AB to gain the right to participate in the AGM. The re-registration should be requested of the trustee in good time and must be carried no later than Friday, April 11, 2003.

REPORTING DATES 2003

Interim report, January-March	April 23
Interim report, January-June	July 23
Interim report, January-September	October 22

2002 IN BRIEF

- Precise Biometrics had its greatest commercial success yet within the financial sector and US Government, with orders from a Fortune 100 company and US Treasury. Moreover, the company is working with an extensive public purchasing program within the US Department of Defense, which aims to evaluate the advantages of equipping all employees with biometric ID cards.
- On the Scandinavian market, customer projects have been initiated with SAS Airlines, the National Swedish Prison and Probation Administration (PPA) and Stockholm Stad (City of Stockholm) schools.
- The world's leading smart card manufacturers showed great interest in Precise Biometrics' technology for matching fingerprints on smart cards, Precise Match-on-Card™. During the year, the company signed partnership agreements with SchlumbergerSema, Orga and Keycorp.
- The patent portfolio grew by four patents. Two of the patents concern technology for matching fingerprints on smart cards, Precise Match-on-Card™, which increases the company's opportunities to establish the technology as a standard within the field.
- Sales for the year totaled SEK 22.5 million (14.1).
- Loss for the year totaled SEK -73.6 million (-68.1).
- Liquid assets at the end of the year was SEK 28.0 million (38.7).
- The new share issue, carried out during the fourth quarter, was over-subscribed and brought the company, after costs, SEK 28.0 million.

FINANCIAL OVERVIEW

	31-12-02	31-12-01	31-12-00	31-12-99	31-12-98
Number of employees at end of year	47	66	53	30	15
Average number of employees	60	62	48	22	9
Working capital	30,862	42,029	129,373	7,246	4,551
Liquid ratio	230%	297%	1 017%	274%	424%
Equity/assets ratio	77.1%	83.3%	90.0%	62.8%	87.4%
Profit/loss per share after net financial income/expenses (SEK), before dilution	-18.60	-19.32	-15.61	-10.20	-2.64
Profit/loss per share after net financial income/expenses (SEK), after dilution	-18.60	-19.32	-15.61	-10.20	-2.64
Shareholders' equity per share (SEK), before dilution	17.00	23.43	42.93	6.83	6.98
Shareholders' equity per share (SEK), after dilution	17.00	22.75	41.71	5.78	5.72
Net turnover (thousands SEK)	22,469	14,097	5,249	527	0
Operating profit/loss (thousands SEK)	-74,368	-71,314	-46,043	-16,714	-3,738

ALLOCATION OF COSTS



2002

- Administration 11%
- R&D 37%
- Sales 49%
- Other 3%



2001

- Administration 10%
- R&D 39%
- Sales 51%



2000

- Administration 12%
- R&D 32%
- Sales 55%
- Other 1%



PRESIDENT'S REPORT

In 2002, Precise Biometrics faced a year of both adversity and prosperity. During the year, like many of our colleagues in the security industry, we were forced to make decisions to reduce expenditures, in the form of downsizing and reprioritization of resources. Implementing such changes while maintaining the efficiency of the organization places great demands on the employees who must carry on with operations. At the same time as the cutbacks began to take effect on daily operations and everyone was working hard to find new working methods, the company also found itself in need of a capital injection. In other words, times were tight. During the second half of 2002, however, we achieved considerable sales growth in the US, and our owners yet again showed their confidence by subscribing in the new share issue in December. Thus, I'm not going to reserve my earnest gratitude to our owners and to Precise Biometrics' employees for the end of my Report, as is usually done, but rather say it now: Thank you all very much.

BREAKTHROUGH ON THE US MARKET

On the prosperity side, I wish to point out that during 2002 Precise Biometrics achieved a breakthrough on the US market. After our success, primarily within the US Government segment, both system integrators and competitors currently view Precise Biometrics as one of the foremost suppliers on the biometrics market. The sales growth during the year appeared primarily in our solutions within IT security, our biometrics expertise and our technology for storing and matching fingerprints on smart cards, Precise Match-on-Card™.

This combination has paved the way for two prestigious deals, namely the US Treasury and a Fortune 100 company in the financial sector. Precise Match-on-Card™ is also partly responsible for our participation in the US Department of Defense's Common Access Card project. At the point of writing we are involved in the third and final evaluation for the part of the project dealing with physical access control systems. All in all, we are participating in the largest biometrics projects on the market today. That's how strong our market position is.

My personal satisfaction, now that we have finished 2002 with an increased order intake and clearly visible success on the US market, is naturally dampened by not being able to show better profitability for the year. Despite the sales growth and a dedicated and goal-oriented commitment to reducing operating costs, including a proactive cost-savings program, the bottom line was not satisfactory. This is primarily because we have made adjustments to inventory, so that our stock now better corresponds to market needs and changes we see in demand for our products.


BROADER HORIZONS TO OUR MARKET VISION

Biometrics is a global market with differing degrees of maturity depending on the application area and geography. The US is far and above the market that has come furthest in biometric development, which may be due to a long history of using fingerprints as the most reliable means of identification. We see most activity on the US market, but we also face most of our competition here. This means more players on the market selling biometrics as an increasingly important component in security solutions. During 2003, we will continue to focus the majority of our sales resources on the US market. Because we are now established in the US Government segment, we are able to use this success to reinforce our presence in the banking and finance sector, healthcare industry and telecom sector on the US market. We will also intensify our collaboration with our partners both in the US and in Europe in order to enhance our exposure on the market.

WE UNDERSTAND WHAT IT TAKES

Our potential to succeed is influenced, naturally, by many factors around us. Examples of such factors include general economic trends, increasing security consciousness and a desire to invest in new technological infrastructure to achieve more secure and easy-to-administer security systems. These factors can pose difficult challenges, but at the same time we share this world with our competitors. And in my view we vastly improved our prospects and our market position in 2002. On this basis, we stand in good stead to play a major role in the large biometrics projects and to win further orders such that we can gradually increase revenues in 2003. Precise Biometrics has proved itself an organization that understands completely what it takes to run a business, both in the face of adversity and in times of prosperity.

Lund, Sweden in March, 2003



Christer Bergman
President and CEO, Precise Biometrics

PRECISE BIOMETRICS IN FIVE MINUTES

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MISSION

Together with a global network of partners, Precise Biometrics will provide people in selected companies and organizations with robust biometric security solutions, that are easy to use and preserve user integrity through powerful safeguards on private data.

VISION

Precise Biometrics will be one of the world's leading biometrics suppliers on the mass market for security products and security systems. Precise Biometrics will supply innovative, reliable and secure technology that protects user integrity.

GOALS FOR 2003

CREATING VALUE FOR SHAREHOLDERS

Precise Biometrics' overall objective is to increase the value of shareholders' investment capital. This can only be done by creating value for the company's customers, for employees and for other interested parties.

FINANCIAL OBJECTIVES

The company will increase its annual turnover at a rate at least equal to the growth rate for the biometric security product market i.e. 50% annually. (Source: IDC, 2001).





SECURE ACCESS

MARKET EXPANSION

Together with its partners, and on the basis of its success within the US Government segment, Precise Biometrics will expand into new market segments in the US and Europe.

The company will act to establish Precise Match-on-Card™, the company's unique technology for storing and matching fingerprints on smart cards, as a de facto standard. This will be accomplished through active participation in industry and standardization organizations and by demonstrating the strength of the technology in select customer projects.

EMPLOYEES

Precise Biometrics should be a company where skilled and motivated employees find job satisfaction and personal development. Employees should feel that, by taking initiative, they can work to help move operations towards posted goals and that there is an open dialogue throughout the company as a whole.

STRATEGIES

BUSINESS STRATEGY

The company markets and sells software and hardware directly to Scandinavian and US customer segments in demand of security solutions. Together with its partners, the company offers customers complete security solutions within IT security, physical access and embedded solutions.

PARTNERSHIP STRATEGY

Precise Biometrics collaborates with internationally active companies with strong distribution channels, good integration skills and customer-oriented solutions that complement Precise Biometrics' technology.

RESEARCH AND PRODUCT DEVELOPMENT STRATEGY

All technical and product development stems from customer needs. Together with partners, we create customer-specific solutions. The objective of research activities is to retain our position on the technological leading edge.

PATENT STRATEGY

The company's operations are based largely on patented technology, so the company is

on the offensive with its patent strategy.

The strategy aims to secure rights in proprietary technology, to build value for future business or transactions and to preserve the ability to obstruct competitors.

STRATEGY FOR STANDARDIZATION WORK

Precise Biometrics is a driving force in a number of standardization committees. An important intermediate goal in the standardization work is to establish Precise Match-on-Card™ as the standard in the smart card industry.

ORGANIZATION

The Precise Biometrics Group consists of Precise Biometrics AB, based in Lund, Sweden, a sales office in Stockholm, Sweden and the subsidiaries, Precise Biometrics Inc., in Washington, DC, and Precise Biometrics Services AB.

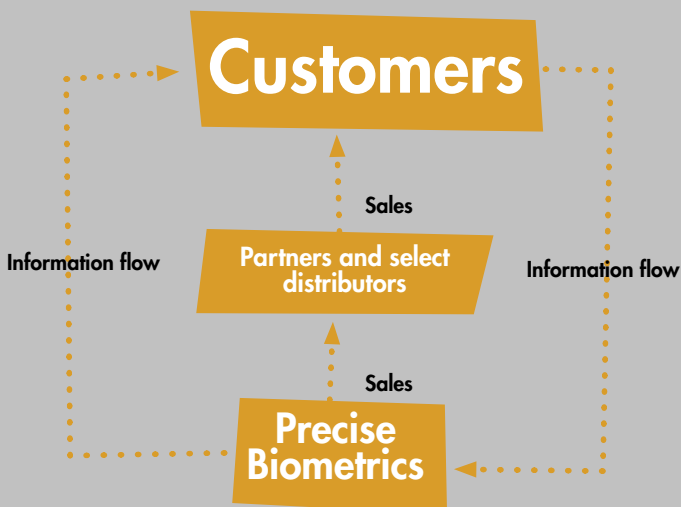
PRECISE BIOMETRICS AB

– LUND OFFICE

At Precise Biometrics' headquarters in Lund, the company has its R&D division and all of the joint Group functions, such as finance and administration, investor relations,

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Business strategy



marketing communications, network administration and IT security, and order management and logistics. The Lund Office has 41 employees.

– STOCKHOLM OFFICE

From Precise Biometrics' office in Stockholm, the company manages its sales to Scandinavian and European customers and sales of the company's products for embedded solutions. Two people work at the Stockholm Office.

PRECISE BIOMETRICS INC.

The wholly-owned subsidiary Precise Biometrics Inc. in Washington, D.C. manages sales and the company's relations with partners and distributors on the markets outside Europe. There are four people working here.

PRECISE BIOMETRICS SERVICES AB

The company, which is a wholly-owned subsidiary to Precise Biometrics AB, based in Lund, manages the Group's option program. This subsidiary has no employees.

CHANGED SALES AND MARKETING ORGANIZATION

Starting January 1, 2003, the company has a partly new, even more customer-oriented organization.

A new division for Product Marketing was formed. This includes product managers for each product group; IT security, physical access and embedded solutions. The sales division is divided geographically and consists of three units; US Sales, European Sales and Rest of the world (ROW) Sales. They work with end customer sales in collaboration with the company's partners and distributors. The sales division also includes two sales support groups. One is the Global Partner Group (which contains the resources for ROW Sales), which develops and maintains relations with the company's partners and distributors with a focus on application partners. The other sales support group is the Smart Card Licenses Group, which is responsible for license sales of Precise Biometrics' Precise Match-on-Card™ technology to leading smart card manufacturers.



Organization



SMART CARD LICENSES GROUP

SMART
CARD
LICENSES
GROUP

GLOBAL
PARTNER
GROUP/
ROW SALES

US
SALES

EUROPEAN
SALES

The Smart Card Licenses Group is responsible for license sales of the company's software for storage and matching of fingerprints on smart cards, Precise Match-on-Card™. Sales are made globally to smart card developers who are responsible for sales to the end customer.

CUSTOMERS

At present, the group's customers are the same as its partners. In order to drive market demand, Precise Biometrics is seeking out partnerships with leading smart card developers to sign license agreements with them. But also, together with the smart card developers, system integrators and other specialists in the area, the company hopes to participate in major smart card projects. The partnership with the smart card developers is a means for Precise Biometrics to reach the end customer. The sales process is often relatively long when many actors are involved in the projects.

The customer segment targeted by the smart card developers is primarily identification of employees in their places of work, so-called Corporate ID, and National ID cards, bank cards and credit cards. Today's customers demand new methods for smart card user identification. A common requirement is that the solutions must retain the advantages of the smart card, in combination with the PIN code, but simultaneously derive the benefits of fingerprint identification and increased user-friendliness.

PARTNERSHIPS

During the year, Precise Biometrics entered important partnerships with several of the world's leading smart card developers, such as SchlumbergerSema, Orga and Keycorp. The partnerships have resulted in integration of Precise Biometrics software for fingerprint functionality into smart cards from these suppliers. With the technical integration in

place, the foundation is laid for introductory sales to the customer. For some time, Precise Biometrics has also had partnerships with other smart card developers such as Gemplus and Siemens Trusted Networks and project-based partnerships with Philips and Datacard. These give the company a strong position on the smart card market.

A close partnership with the smart card developer is important for Precise Biometrics in several ways. Not only can Precise Biometrics contribute valuable knowledge, training and support in the sales process, the partnership also gives Precise Biometrics the chance to follow closely and to a certain extent even influence development in the smart card industry, for instance when it comes to designing the smart card of the future.

MARKET

Precise Biometrics' solutions for smart cards are targeted at the market for microprocessor cards within select segments.

Prioritized geographic markets are the US, Europe and parts of Asia.

Interest in fingerprint technology in combination with smart cards has grown dramatically in the last couple of years, primarily due to an increased awareness of the advantages biometrics can afford in security and user-friendliness. Other factors that drive the market include attempted breaches of banks' security systems, based on PIN codes, and the choice by large manufacturers of chips for smart cards to increase the chip capacity. This makes it easier to implement greater functionality,

such as biometrics, into smart cards.

An important milestone in the last year was that Precise Biometrics, together with its partner ActivCard, was awarded security certification FIPS 140-1 level 2, which is the world's first security certification for a biometrics-based solution issued by the American National Institute of Standards and Technology (NIST). The certification will be an important competitive advantage on the US market, where Government agencies normally require certification of all their suppliers.

COMPETITION

Precise Biometrics has the goal of positioning the company's Precise Match-on-Card™ technology as the standard for storing and matching fingerprints on smart cards. The work is being carried out, besides in partnership with the leading smart card developers, by active campaigning for open standards and through product adaptations based on the smart card manufacturers' requirements.

During the year the company has approached its goal, among other means, through the FIPS certification and through integration of the technology on smart cards by a series of leading developers.

Within the technology field match-on-card, there are presently only a few companies offering solutions similar to Precise Biometrics'.

The competition for Precise Biometrics, therefore, rather consists of suppliers of fingerprint solutions based on storing and/or matching fingerprints on a server or a terminal (match-on-server). These include companies such as Identix, Sagem and Bioscrypt. There is also a certain degree of competition from other types of security solutions, such as PIN codes, and other types of biometrics, such as iris scanning. Historically, however, fingerprint identification is the method that has been used longest and been demonstrated to work best for projects with many users, which is often the case in smart card projects.

TRENDS

The smart card market shows strong growth within the Corporate ID segment. Another positive trend is that biometrics is presently demanded in all new smart card projects. Potential obstacles to growth include the current economic slowdown, which affects customers' desire to invest, and a reorganization and consolidation that is currently ongoing in the industry. Precise Biometrics strives to collaborate with smart card developers, through which we see the potential to increase our license sales of Precise Match-on-Card™ and establish the technology as the standard for biometrics on smart cards.



JONAS ANDERSSON
MANAGER, SMART ID-CARDS

GLOBAL PARTNER GROUP

The Global Partner Group is responsible for establishing, maintaining and developing Precise Biometrics' relations with strategic partners and distributors all over the world. The Global Partner Group collaborates with business areas US Sales and European Sales, which take over the collaboration with the partner company when a defined customer project is created. The Global Partner Group also includes resources for the Rest of the world (ROW) Sales group.

SMART
CARD
LICENSES
GROUP

GLOBAL
PARTNER
GROUP/
ROW SALES

US
SALES

EUROPEAN
SALES

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INTEGRITY

PARTNERSHIP INTEGRAL TO THE BUSINESS MODEL

Precise Biometrics' partnership strategy involves establishing relations with carefully selected companies, who are leaders in their fields and which complement the company's own technology. In many cases, technical collaboration can also entail additional sales capacity. But the company is also expanding its sales resources through distributors and resellers.

Criteria for evaluation of a partner include whether the partner can:

- provide solutions with high and consistent quality
- generate sales volumes
- work as a reference

Precise Biometrics offers its partners cutting edge user-friendly products, technical expertise and a high level of service.





CUSTOMERS

The Global Partner Group does not work with direct sales to end customers but acts only together with distributors and/or partners to reach the end customer. End customers are primarily represented by government agencies, banking and finance, telecom and healthcare. A partner might specialize in one or more sectors. It depends on the market where the partner is located, particularly its composition and maturity. For Precise Biometrics, it is important to have a close relation with the partner and thereby create conditions for feedback from the end customer. This in turn contributes to continuous improvements to the company's products and service.

PARTNERSHIPS

Precise Biometrics' partnerships can be divided as follows:

System integrators: recommend and sell the company's biometrics solutions in larger complete security solutions and often work directly with Precise Biometrics' business areas for end customer sales.

Application partners: complement the company's products with application software that adds value for the customer.

Distributors/resellers: distribute and sell the company's products.

Smart card manufacturers: develop and manufacture smart cards which can be supplemented with biometrics and thereby achieve a higher security level.

During 2002, one of the company's goals within the partnership area has been to establish the Precise Match-on-Card™ technology on the market. This has been done by developing on existing partnerships, such as ActivCard, and entering new partnerships, such as SchlumbergerSema, Orga och Keycorp. During 2003, Precise Biometrics will continue to work actively with smart card companies to market and sell the Precise Match-on-Card™ concept.

MARKET

The market for the Global Partner Group is of course "global". The market is driven by amplified security consciousness and increasing numbers of organizations and companies using computers and servers to store sensitive information.

To prevent unauthorized access both to physical premises and digitally stored information, companies are developing expansive security policies that in turn increase the costs of administration for PIN codes and passwords, for example. By implementing biometrics in their security systems, organizations and companies see increasingly that they can simultaneously raise security levels and reduce administration.

The US market is the single largest market. The second largest is Scandinavia, where the company's distribution and reselling channels have been working very well. As with the company's direct sales, IT security products dominate sales.

COMPETITION

Players in the security industry are for the most part, like Precise Biometrics, global players. The company can therefore work with a single partner in several geographic markets, for example when it comes to application partners, sensor manufacturers and smart card manufacturers. In the distribution and reseller chain, however, there is a clearer geographic scope, and the company works here with both global and local partners.

The US market is where Precise Biometrics faces most competition. Also the competing companies such as Identix, BioScript, Targus and Secugen have several partners. There are a number of companies offering products similar to those of Precise Biometrics within IT security or physical access. However, Precise Biometrics is the only player having products for both IT security and physical access, in offering solutions for "match-on-card" and "match-on-server" and having technology for so-called hybrid matching, a combination of pattern matching and minutia matching. In other words, Precise Biometrics is a complete biometrics partner, which is a great competitive advantage and heightens attractiveness for potential partnership with other industry players.

Through being an attractive partner and working actively with other leading players in the security industry, Precise Biometrics can strengthen its product range and increase its market presence and service level, thereby improving its market position.

TRENDS

The market for smart ID cards is the most interesting one, in terms of future potential. Precise Biometrics is striving to continue to establish and develop partnerships that are focused on ID card projects within various market segments. With its involvement in the US Department of Defense's Common Access Card project, the company has gained a prominent position, and with its Precise Match-on-Card™ technology the company has what it takes to extend these successes into other segments such as the healthcare sector, EU government agencies and large security-conscious companies.

The fact that Precise Biometrics already has partnerships with several of the world's leading card companies sets the stage for the company to be an influential part of development within smart ID cards.

- SMART CARD LICENSES GROUP
- GLOBAL PARTNER GROUP / ROW SALES**
- US SALES
- EUROPEAN SALES



ROW SALES

REST OF THE WORLD



The Rest of the world (ROW) sales business area works through indirect sales channels to lead marketing and sales of the company's products on markets outside Europe and the US. Through a network of carefully selected resellers and distributors, the group works with project sales and provides the company's partners with sales, marketing and support activities.

Precise Biometrics only invests a small proportion of its resources in this business area. The assessment, however, is that it is important to participate alongside the distribution agencies in security projects outside the US and Europe, in order to get in early on the market.

MARKET

The most interesting markets for the business area are Canada and the

technologically mature countries in Asia, such as Japan, Singapore and parts of China and India. The company's products have even received significant attention in Central and South America, such as Mexico and Brazil, and the Middle East, with initial customer projects as a result.

COMPETITION

A relatively small number of the company's direct competitors, based in Europe and the US, are represented in other parts of the world. In addition to competition from suppliers of other fingerprint-based security solutions, Precise Biometrics also faces competition from companies offering traditional solutions for computer login by password and other types of biometrics solutions, such as iris or facial recognition.

US SALES

The US Sales business area is responsible for marketing the company's products for IT security and physical access control systems in the US. At the end of the year, sales on the US market, which have thus far been made primarily to high-security organizations such as Government agencies, accounted for the bulk of the company's sales.

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CLEARANCE

CARTER MARANTETTE
VICE PRESIDENT, US SALES

SMART
CARD
LICENSES
GROUPGLOBAL
PARTNER
GROUP/
ROW SALESUS
SALESEUROPEAN
SALES

CUSTOMERS

During the year, Precise Biometrics achieved a breakthrough on the US market with the company's biggest order yet from its customers the US Treasury and a Fortune 100 company in the financial sector. The company was also chosen to participate in important evaluations of biometrics in the US Department of Defense (DoD) Common Access Card ID card project and as such improved its relationship with the DoD.

Together with its partners, Precise Biometrics currently holds a strong position on the US market, primarily within the US Government segment and banking and financial sector. Furthermore, the US Sales division also works with segments such as state and local governments, healthcare providers, telecommunication organizations and retail trade.

Using Precise Biometrics' security solutions, the company's customers are seeking to achieve a high level of security while saving time and money on password administration issues. There is also great interest in this type of technology among organizations such as hospitals and pharmacies, which are subject to laws and regulations concerning the handling of confidential information.

Besides security, user-friendliness is at the top of customers' objectives. The company has also noted growing interest in so-called 2-factor authentication, where a user is authenticated through a combination of fingerprint and smart card.

PARTNERSHIPS

Within the American marketplace, Precise Biometrics works primarily with software application providers who supports the company's fingerprint readers for IT security. The company also works together with large and well-known system integrators who provide essential knowledge and experience of system integration, both in regard to IT security and physical access. This year, Precise Biometrics extended the scope of its established partnerships in the US with companies such as Safflink, Maximus and BearingPoint (previously KPMG Consulting). The company's products are also sold through a number of select distributors with strong local market presence in the US.

Although the US market is more mature when it comes to biometrics, the sales process for this type of security solution is relatively long. Winning an order or a public procurement contract can take up to a year from when discussions with the customer commence.

One of the reasons is that the projects are moving increasingly towards complex solutions involving several different suppliers. In the sales process, the sales representatives work in tandem with the company's partners to get a clear picture of what the customer wants and to be able to coordinate product selection, deployment, training and support activities.

MARKET

After the terror attacks on September 11, 2001, interest in security issues increased dramatically in the US, and security concerns remain high on the agenda of many organizations. Besides a desire to protect information in computers and office premises, various forms of identity theft pose one of the biggest problems facing the American law enforcement today.

The US has long used fingerprints to identify criminals, which may explain why the American market has come furthest in applying biometric solutions to other areas. It is also home to the bulk of active biometrics companies, at present about a hundred, a majority of which work with fingerprint technology. In order

to entrench the company's position on the US market, Precise Biometrics has successively increased its sales force and network of partnerships in the US.

One of the most important events that influenced growth in the US Sales business area during the past year was the company's participation in the Common Access Card project within the US Department of Defense. It is very likely that the technology chosen for this project will serve as a guiding principle for the many government agencies and companies in the US that are considering implementing biometrics. Other important events included formation of the Homeland Security Department, which is presently reviewing the possibility of more secure border controls using biometrics, and the ongoing healthcare industry regulation HIPAA, which entails a review of legislation within the healthcare industry with the aim of protecting confidential information, e.g. patient's medical records.

COMPETITION

With the majority of active biometrics suppliers, the US market is also where Precise Biometrics faces most competition. Of companies focused on fingerprint-based security solutions, Identix, BioScript, Targus, Secugen and Recognition Systems are the primary competitors. These companies offer products similar to those of Precise Biometrics within IT security or physical access. Unlike the majority of its competitors, however, Precise Biometrics offers products for both IT security and physical access as well as solutions combining the two, which is a great competitive advantage. Another advantage is that the company offers solutions that combine fingerprint and smart cards and that it has close partnerships with several of the world's biggest smart card suppliers.

In addition to fingerprint-based security solutions, there is also a certain degree of competition from suppliers of solutions based on other types of biometrics, such as iris or face geometry.

TRENDS

According to all forecasts, the US biometrics market will continue to grow in 2003, which is evident in the large number of ongoing projects and implementations. To date, the transition from traditional security solutions to biometrics has been made primarily in large companies and government agencies, but as product prices decrease, smaller organizations will probably also begin to become interested.



SMART
CARD
LICENSES
GROUP

GLOBAL
PARTNER
GROUP/
ROW SALES

US
SALES

EUROPEAN
SALES

EUROPEAN SALES



MAGNUS STENBERG
DIRECTOR, EUROPEAN SALES

The European Sales business area is responsible for marketing the company's security solutions for IT security and physical access control systems in Scandinavia and the rest of Europe. Sales are made through partners in the form of application providers, system integrators and distributors. Historically, the company's fingerprint readers for IT security have dominated sales on these markets. However, during the year, software sales for IT security and sales of fingerprint readers for physical access has grown and constitutes a larger proportion of the total sales than previously.

CUSTOMERS

The company's customers on the Scandinavian and European market comprise security-conscious organizations within the public sector, financial sector and airline industry. Additionally, the business area also works with segments such as healthcare providers and national defense.

Customers' priority is not only to reduce the costs of password administration but also to achieve a high

twelve months to win an order.

Important factors along the way, besides presenting an accurate cost estimate, include offering a complete security solution together with training, service and support.

PARTNERSHIPS

As security solutions involving biometrics, as part of the overall solution, become increasingly complex, it is extremely important to have close partnerships with

level of security in line with the company's IT security policy.

In addition to this, user-friendliness is also an important factor.

During 2002, several important customer partnerships have been initiated in Sweden. These include SAS Airlines, Stockholm Stad (City of Stockholm) schools and the National Swedish Prison and Probation Administration.

The number of test installations increased during the year, as did the number of test installations that became fixed installations. This applies both in Scandinavia and the rest of Europe. There is a growing interest among potential customers in evaluating the cost advantages that can be achieved with a biometric security solution.

The sales process for the type of products that Precise Biometrics offers is relatively drawn out – it can take up to

distributors and partners. Besides software solutions, the company's partners provide valuable knowledge and experience of system integration and distribution.

During the year, the business area has extended the scope of partnerships with established partners and distributors, including Data Construction in Sweden, Utimaco Safeware in the Netherlands and ISL Informer Systems Ltd in the UK. Precise Biometrics has also closed a deal with Securitas in Norway for distribution of the company's products for physical access control. The investment in 2002 to increase service to the company's distributors, in the form of training and support, has paid off. At the end of the year, the majority of Precise Biometrics' distributors on these markets had a sales growth of between 50-150% compared with the previous year.

MARKET

The issue of security has been moved up on agendas both within private industry and in the public sector. As a consequence of the economic downturn, however, many organizations have taken a restrictive stance on investments in new technology.

External factors causing growth within the business area include heightened security requirements within the airline industry and growing demands on cost control for IT administration and observance of IT policies within companies and public bodies.

As a supplier of fingerprint-based security solutions, Precise Biometrics has a strong position in Scandinavia. The domestic market, Sweden, is the market in Scandinavia where the company has invested most resources and had greatest success.

In the rest of Europe, the Netherlands, the UK, Germany, Spain and Italy are

COMPETITION

In Scandinavia there are only a few other biometrics companies with products similar to those Precise Biometrics is offering. A number of the competitors that are based in other parts of Europe and the US, are represented on the Scandinavian market through distributors and resellers. Precise Biometrics has a decisive advantage over these in its local market presence.

In the rest of Europe, the competition is greater and the relationship opposite. There are both domestic competitors and more representatives of foreign competitors. However, thanks to its active distributors, Precise Biometrics has a strong position and brand presence and keeps a close watch over current biometrics projects.

In addition to competition from other fingerprint-based security solutions, Precise Biometrics also faces competition from traditional solutions for computer login by password and other types of biometrics

ON REQUIRED

among the most important markets. These countries are most receptive to biometrics, and there is great interest in Precise Biometrics' products.

In Europe, the market for fingerprint-based security solutions can be divided into two primary groups. One group is interested in customized solutions that are best suited for smaller volumes, while the other group requires complete solutions for a defined business problem, in significantly larger volumes. These two groups naturally pose different demands on the business area sales force as regards technical expertise. Satisfying the volume customers' needs requires a close partnership with other companies, such as application providers and system integrators in the country in question.

solutions, such as iris or facial recognition. The competitors also include suppliers of security solutions such as firewalls, antivirus products, VPN and hard disk encryption.

TRENDS

Precise Biometrics' products are part of increasingly complex complete solutions where both separate fingerprint readers and combined fingerprint and smart card readers make up a part of the complete solution.

As the biometrics market matures, however, there is a simultaneous development where customers increasingly demand standard solutions and products requiring minimal adaptation for quick and easy installation in their existing security systems.

CHILD'S PLAY: FINGERPRINT LOGIN IN SCHOOLS

Safer, quicker, easier. That's what both students and teachers say about Precise Biometrics' fingerprint readers after an extensive test at the school Kvarnbysskolan in Rinkeby in Stockholm. The test went so well that Precise Biometrics has now been approved as a supplier for all schools in Stockholm Stad (City of Stockholm). At Kvarnbysskolan, 110 readers will be installed on all of the school's computers. And it's just a matter of time for the rest of Sweden's schools.

22

FORGOT YOUR



**TEACHER MATS NILSSON
AND HIS STUDENTS ARE
VERY PLEASED WITH THEIR
FINGERPRINT READERS.**

When Kvarnbysskolan was chosen two years ago by Stockholm Stad to test fingerprint readers in a pilot project it was because the school already had a very advanced IT program. There is a computer room with twelve computers and four more computers in each classroom. But network administrator Linus Gustafsson had his hands full.

“We had big problems with children forgetting their passwords. It’s hard enough for us adults to remember both our login names and passwords, but it’s even harder for children.”

On average, half of the lesson time would pass before the children, with their teacher’s help, could sort out their passwords. They frequently had to go to Linus to change their passwords. It went so far that the children’s passwords were written up on the blackboard in the classroom. And the older children sometimes bullied the younger ones into giving up their passwords and had unauthorized access to the computers.

“With the fingerprint readers all the problems disappeared. It was much better from a security perspective and we saved lots of teaching time,” explains Linus Gustafsson.

PASSWORD?

COMPATIBLE WITH TWO SYSTEMS

In parallel with Precise Biometrics’ fingerprint readers, three others were tested. Precise Biometrics was chosen not least because it was the only system where the readers worked on both USB ports* and parallel ports*, an important condition for the schools, which use all different operating systems.

It was considerably easier for the children. They sit down at the computers, type their login, which is based on their names, and put their left index finger on the reader beside the keyboard. Their fingerprint appears on the screen and they have access to the system.

The children’s fingerprints have been pre-registered by network administrator Linus, in an “enrollment”. All of the school’s 500 students aged 6-12 are registered. If they have a band-aid or a cut on their left index finger, they can simply register one of their other fingers.

* The port on the computer used to connect the fingerprint reader. The USB connection is supported interalia by operating systems Windows® Me, Windows® 98, Windows® 2000 and Windows® XP, while the parallel connection is supported interalia by operating systems Windows® 2000 and Windows NT.



**LINUS GUSTAFSSON,
NETWORK
ADMINISTRATOR
AT KVARNBYSSKOLAN
IN STOCKHOLM.**

FINGERPRINTS MAKE EVERYTHING EASIER

Hozan Tofik in grade 5 is a savvy Internet user. On her computer at home, she likes playing games on the TV 4 website and chatting on “Lunarstorm”. At school she searches for information and plays select games in math and Swedish.

“It was hard to remember our passwords before, and we often had to go ask Linus. It was fun registering your fingerprint!”

Saman Khanjar from the same class loves chatting in English with friends he made on the Internet through a school project. “Fingerprints make everything easier. Now nobody can find out my password and login to my account. It never happened to me, but it happened to some friends”.

Teacher Mats Nilsson is very pleased with the new system. He saves lots of lesson time and doesn't have to keep track of password lists. “The children figured out the readers really quickly. They got used to them right away and found it really easy to learn to place their fingers properly.”

FINGERPRINT READERS FOR SMALL FINGERS

At the beginning of the test, Precise Biometrics had problems because the children's fingers were too small for the readers. They simply didn't contain enough information. But after going back to the drawing board, Precise Biometrics came back with a matching method specially adapted for the children's fingers, which worked 100%.

Jeppe Gadd from Data Construction is a distributor for Precise Biometrics. He is very pleased with Precise Biometrics' ability to customize the readers and with developments in the schools.

“The next step is the schools in Spånga/Tensta. All eleven schools there have indicated their interest. I'm very hopeful for the future,” says Jeppe Gadd. “This is something we need to spread across the rest of Sweden. We are already working with several other municipalities.”

EASIER AND LESS EXPENSIVE

Because Stockholm Stad has approved the evaluation at Kvarnbyskolan, Precise Biometrics is an approved supplier to any school in Stockholm wishing to purchase the technology. This is a potential of 170 schools and about 80,000 users. The schools are receiving information about the opportunity to purchase fingerprint readers both on the Stockholm municipality website and through letters to the principals.

Hamza Bougmza is eagerly typing at the computer: “It's great. Nobody can crack my code and go in and wreck my work. The fingerprint reader is much better!”

The fact that Precise Biometrics readers also save the schools money is not an insignificant bonus. The average company counts on spending SEK 1,000 to 3,000 per user per year in helpdesk expenses and lost work. In school, they also lose lesson time for the children, rather an important factor in the balance sheet.





ENTER

PARTNERSHIPS

Precise Biometrics presently works with a number of companies in the security and biometrics industry. They can be divided into application partners, system integrators, distributor/resellers and smart card suppliers. *For a more complete list of the company's partners, please visit our website, www.precisebiometrics.com.*

The partnerships differ, to some extent in the formal partnership framework and partly in the value the parties bring. Precise Biometrics has several partnerships regulated by various types of agreement, often a so-called "Memorandum of Understanding". Other partnerships are built on verbal agreements that entail that a company will have the opportunity to test and demonstrate Precise Biometrics' products, with the intention of signing a formal partnership agreement as soon as a customer project commences. The latter type of partnership can thus be less active for some time, and then require vast resources and generate good returns. The following is an overview of some of the most active partnerships during 2002:

APPLICATION PARTNERS

ActivCard is an American company that supplies smart cards and software for fingerprint identification to the Common Access Card project within the US Department of Defense, among other customers. ActivCard licenses Precise Biometrics' software, Precise BioMatch™ Pro and Precise BioMatch™ J, and integrates it in its proprietary software, ActivCard Gold 2.2, intended for digital ID cards in Government agencies and companies in the US.

SAFLINK Corporation is an American application company that supplies biometric security solutions to companies and organizations. The company integrates Precise Biometrics' technology in its applications, offering the customer a complete solution, and thereby integrates and installs Precise Biometrics' IT security products onsite at customer. Three joint customers with SAFLINK thus far are Stockholm municipal schools, the US Department of Defense and an American Fortune 100 company within the financial sector.

Utimaco Safeware is an European IT security company. Together with Precise Biometrics, Utimaco has developed IT fingerprint-based security solutions and is also a reseller of such solutions. Common customers include the National Swedish Prisons and Probation Administration and the Dutch Ministry of Justice.

SYSTEM INTEGRATORS

BearingPoint (previously KPMG Consulting) is an American company in consulting services and system integration. Together with BearingPoint, Precise Biometrics has been given the task of evaluating biometrics for the US Department of Defense and its Common Access Card project.

MAXIMUS is one of the USA's largest suppliers of services to Government agencies. Together with Maximus, Precise Biometrics is delivering fingerprint and biometrics software for a smart card project within the US Treasury.



SMART CARD SUPPLIERS

Keycorp Limited, based in Australia, is one of the world's foremost suppliers of MULTOS, an operating system for smart cards. During the year, an agreement was signed which entails that Precise Biometrics' software Precise BioMatch™ C is being integrated in MULTOS.

Orga is an international system supplier within healthcare and ID cards. Orga licenses Precise Biometrics' software for fingerprint matching functionality, Precise BioMatch™ C, and integrates it into its MICARDO® smart cards.

SchlumbergerSema, a business unit within Schlumberger Limited and one of the major players on the global smart card market, has elected to integrate Precise Match-on-Card™ technology into some of its Java-based smart cards.

DISTRIBUTORS/RESELLERS

Data Construction i Norden AB is one of Precise Biometrics' Scandinavian distributors with a special focus on the public sector, municipalities and public administration. The partnership thus far has resulted in the customer project for the Stockholm municipal schools.

Tai-Hao Enterprise is one of the world's largest keyboard manufacturers for the PC industry. The company integrates Precise Biometrics' fingerprint readers into its keyboards and distributes Precise Biometrics' products on the Asian market.

TECHNOLOGY, PATENTS and standardization

TECHNOLOGY

The company's products build upon an in-house-developed technology for fingerprint identification, Precise BioMatch™. The technology is based on selecting and digitally storing the most information-dense portions of a fingerprint on a smart card, a PC or a server. When the same finger is placed on the fingerprint reader sensor, the fingerprint is compared (matched) with the stored fingerprint and an identification can be made. The core to the technology is an algorithm which has been refined and adapted to various market segments.

Even the company's technical platform has been further developed and optimized for solutions where fingerprint identification is combined with smart cards, i.e. a card on which large quantities of data can be stored using a microprocessor. The company's technology, Precise Match-on-Card™, further increases security by making it possible to store a fingerprint on a smart card and for the stored information to be compared with the cardholder's fingerprint without the fingerprint ever having to leave the card – the match is made on the card itself. The goal is to make Precise Match-on-Card™ a global standard by encouraging leading smart card manufacturers to integrate the technology in their cards and thereby include fingerprint identification in their overall product line.

PATENTS

The company's patent strategy aims to protect rights to proprietary technology. The patents also represent important structural capital for future business transactions and give the company the ability to obstruct competitors. Patent applications are made primarily in Europe,

the US and the larger countries in Asia. In 2001, Precise Biometrics acquired two patent applications within match-on-card from the US biometrics company Veridicom. One of the patents is considered to be an important complement to the company's own patents within the area, because the company's goal is to establish Precise Match-on-Card™ as the standard for matching fingerprints on smart cards.

The company presently has seven patents altogether, six of which are registered in Sweden and one in the US:

1. *Technology for effective matching of binary fingerprint images (approved in June 2000).*
2. *Method for utilization of small fingerprint sensors (approved in December 2001).*
3. *Technology for matching portions of a fingerprint – the company's core technology. Precise BioMatch™ (approved in the US in June 2001).*
4. *Method for fingerprint-matching based on data from a swipe sensor (approved in March 2002).*
5. *Method for generating reference data from a biometric imprint (approved in April 2002).*
6. *Method for basic division of the identification process, so-called match-on-card technology (approved in October 2002).*
7. *Technology for storing and matching fingerprints on smart cards, so-called match-on-card technology (approved in November 2002).*

As of December 31, 2002, patent applications have been submitted for nine further inventions.

Hence, four new patents were acquired during 2002 where of two are referring to storing and matching fingerprints on smartcards.

METHOD FOR FINGERPRINT-MATCHING BASED ON DATA FROM A SWIPE SENSOR

The patent for fingerprints-matching based on data from a swipe sensor is strategically very important for the company, because

the use of smaller sensors is expected to increase in the future. The patent concerns a method for matching a stored fingerprint against a finger as it is swiped across the sensor. The method enables quick and reliable fingerprint-matching with a swipe sensor as the match is made at the same time as the finger is drawn across the sensor and the system immediately recognizes whether the fingerprint is correct or not.

METHOD FOR GENERATING REFERENCE DATA FROM A BIOMETRIC IMPRINT

This patent describes a method for generating identical fingerprint data each time the finger is presented, even though our fingerprints change somewhat over time.

TECHNOLOGY FOR FINGERPRINT-MATCHING ON SMART CARDS

The first patent concerns the basic division of the identification process, where the preprocessing is done outside the smart card and the matching on the smart card itself. The second patent concerns the very core of the Precise Match-on-Card™ technology: the process that makes it possible to store and match fingerprints directly on a smart card.

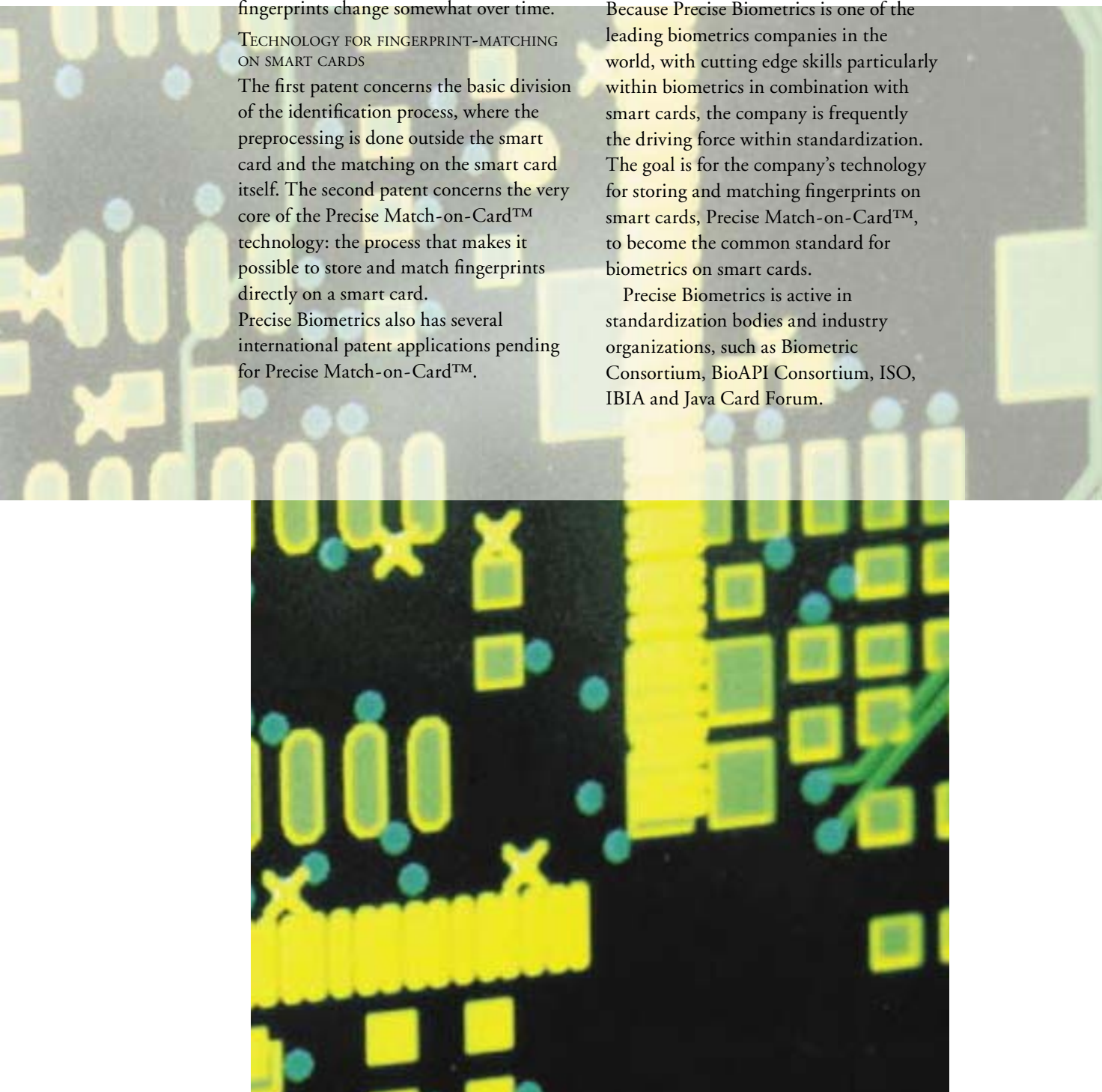
Precise Biometrics also has several international patent applications pending for Precise Match-on-Card™.

STANDARDIZATION

Standardization is extremely important for Precise Biometrics and for the industry as a whole. With a standard interface it will be easy to use biometric products from different suppliers and to combine them to make solutions using other technology, in the way it is currently possible to connect a printer from one manufacturer to a computer from another.

Precise Biometrics is working actively both with international and North American standardization organs within both biometrics and smart cards. The goal is to ensure that the company's technology harmonizes well with future standards. Because Precise Biometrics is one of the leading biometrics companies in the world, with cutting edge skills particularly within biometrics in combination with smart cards, the company is frequently the driving force within standardization. The goal is for the company's technology for storing and matching fingerprints on smart cards, Precise Match-on-Card™, to become the common standard for biometrics on smart cards.

Precise Biometrics is active in standardization bodies and industry organizations, such as Biometric Consortium, BioAPI Consortium, ISO, IBIA and Java Card Forum.



PRODUCTS

Precise Biometrics presently has three prioritized product areas, IT Security, Physical Access and Embedded Solutions. All product areas include both hardware and software. The IT Security product area has thus far generated the majority of company revenues, but interest in Physical Access products and the company's technology for storing and matching fingerprints on smart cards, Precise Match-on-Card™, indicates growth for these product areas too.

IT SECURITY

The products within the IT Security product area are used to identify computer or network users. Sales within this product area have thus far been made up primarily of hardware in the form of fingerprint readers, but the company's software and development tools are growing steadily as a proportion of overall sales. Potential customers include any company or organization in need of high security in combination with user-friendliness.

At present, the public and military sectors in the US constitute a significant growth area.

HARDWARE

The fingerprint readers in this product area are intended to replace passwords and PIN codes for PCs and networks. The fingerprint readers are sold in two versions: stand alone fingerprint readers, Precise 100 A, or combined fingerprint and smart card readers, Precise 100 SC and Precise 100 MC.



The version with the smart card reader is optimized for the company's Precise Match-on-Card™ technology, which makes it possible to store and match fingerprints on smart cards and further increases security and protects the user's personal integrity. In the other type of reader, without smart card reader, the fingerprint is stored and matched in a PC or on a server. Both versions are available as integrated readers in PC keyboards, Precise 100 A BioKeyboard or Precise 100 SC BioKeyboard, and in the form of a PC card for laptop computers, Precise 100 PC-Card and Precise 100 PC-Card MC.

SOFTWARE

Precise BioMatch™ Standard and Precise BioMatch Pro™ are software packages licensed to application developers and system integrators who integrate Precise Biometrics'

technology into their own applications. Precise BioMatch™ Standard is used for matching fingerprints on a PC or a server, while Precise BioMatch™ Pro, which utilizes Precise Match-on-Card™ technology, is used for fingerprint matching on smart cards. The software is sold as a part of a development tool.

Up until recently, Precise BioMatch™ Standard software has been based on just one of the two existing methods for matching fingerprints, so-called "pattern matching". At the end of the year, however, a new version of the software was introduced, which supplements "pattern matching" with "minutia matching", the second method of fingerprint matching. By combining these two methods, the quantity of fingerprint information can be maximized, thereby increasing security and user-friendliness.



PHYSICAL ACCESS

Precise Biometrics fingerprint readers for physical access control systems can replace traditional physical access systems based on magnetic cards and PIN codes. The software and development tools are sold to partners who want to integrate the technology into their own products.

The fingerprint reader for physical access, Precise BioAccess™, builds upon the company's proprietary circuit Precise BioCore™, and offers, like the fingerprint readers for IT security, both the opportunity to match on smart cards, Precise Match-on-Card™, as well as matching in the fingerprint readers. The solution also makes it possible to use the same card to access buildings and logon to computers.

Replacing traditional physical access control systems with Precise BioAccess™ in buildings and security-sensitive spaces is easy. Only the readers need to be replaced while other elements of the security system can be retained.

HARDWARE

Precise BioAccess™ Mifare is a fingerprint reader for physical access intended for contactless smart cards. The user's fingerprint is stored on the card and matched in the fingerprint reader.

Precise BioAccess™ MC is a fingerprint reader for physical access intended for contact

smart cards. The product functions in the same way as Precise BioAccess™ Mifare, differing in that the user's fingerprint is stored and matched directly on the smart card, employing Precise Match-on-Card™ technology.

SOFTWARE

Precise BioAccess™ Enrolment Station is a tool used to register users' fingerprints on the smart cards that are used in combination with the company's fingerprint readers. The development tool, Precise BioAccess™ Standard Toolkit, is sold to suppliers of physical access control systems and system integrators who integrate Precise Biometrics' technology for enrolment (fingerprint registration) into their own software.

EMBEDDED SOLUTIONS

Precise Biometrics' core technology, Precise BioMatch™, is designed for integration into a smart card. This is the so-called Precise Match-on-Card™ technology.

The application areas for smart cards with fingerprint functionality primarily include various types of ID cards, such as Corporate ID and national ID cards as well as bankcards and SIM cards in mobile telephones. Precise BioMatch™ is presently being integrated in smart cards by several of the largest smart card manufacturers.

BIOMETRIC COMPONENTS

Precise BioCore™ is the company's integrated circuit for embedded solutions in electronic products. The product is used in the company's fingerprint reader for physical access control systems, Precise BioAccess™.

SOFTWARE

Precise BioMatch™ C is a software package sold to smart card manufacturers, who integrate Precise Match-on-Card™ technology into their smart cards. Precise BioMatch™ J is a software package for Java-based smart cards, and Precise BioMatch™ M is the corresponding package for Multos-based smart cards.



With the products Precise BioMatch™ C, J and M, Precise Match-on-Card™ technology can be integrated directly into all of the market's leading smart cards. With Precise BioMatch™ J and M, Precise Match-on-Card™ technology can even be integrated into smart cards already in use.

PRODUCTION

Precise Biometrics has decided to outsource its production to various electronics companies and subcontractors. Companies that manufacture Precise Biometrics' products are also responsible for procurement of components for these products. The company's principle supplier since 2002 has been PartnerTech with production facilities in Vellinge, Sweden and Atlanta, USA.

Other suppliers include SCM Microsystems in the US and Tai-Hao Enterprise in Taiwan.

As the demand fingerprint for readers increases, prices for end-customers will be forced down paving the way for a mass

market. Precise Biometrics' aim is to use production channels that enable the manufacture of large volumes at a much lower unit price than today's, which is forecasted to improve margins for the company's fingerprint readers.

ENVIRONMENT AND QUALITY

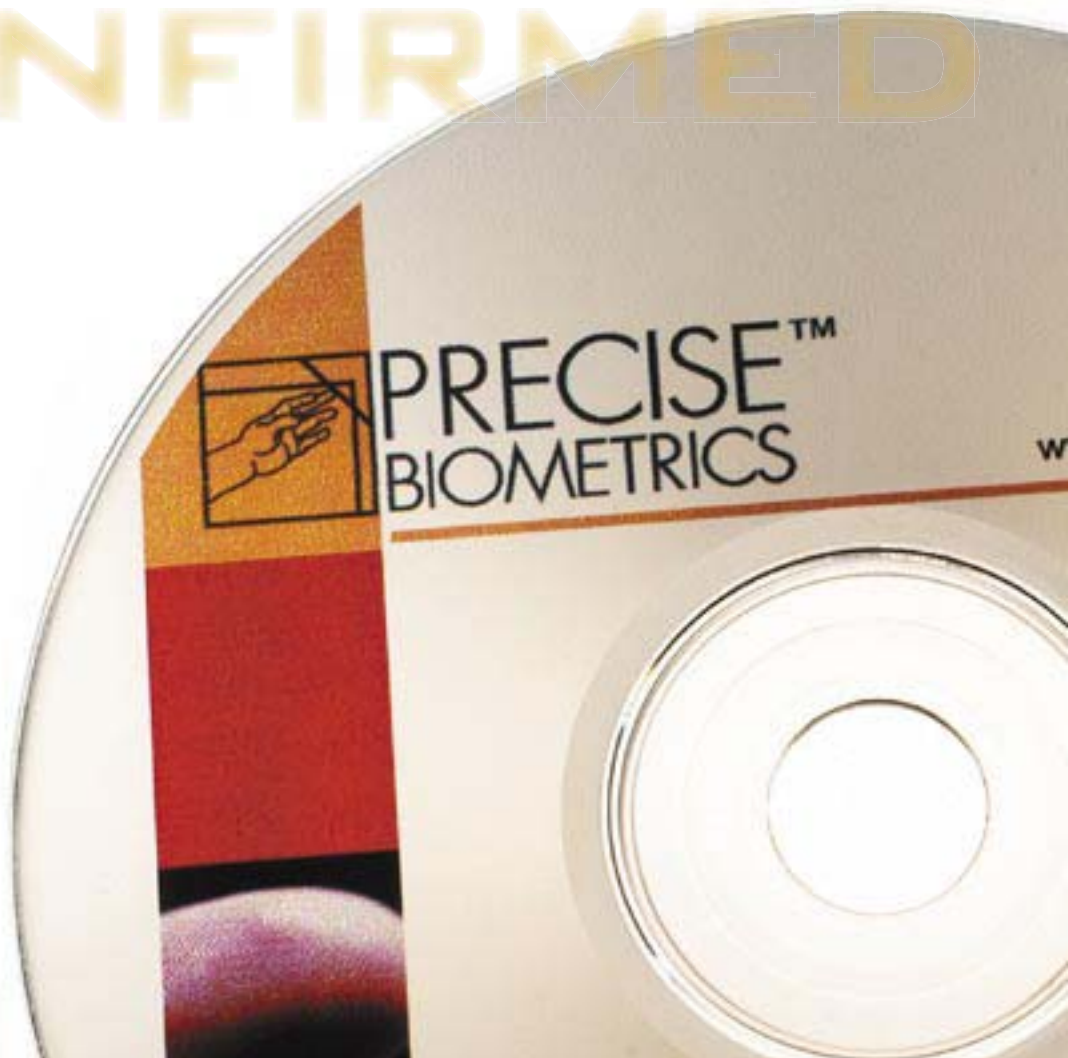
The choice of manufacturer is based on many factors. Cost effective production is of course of the utmost importance for pricing and meeting quick changes in demand.

All of the company's product suppliers have therefore ISO-9000 certification.

Despite the fact that Precise Biometrics does not manufacture in-house, it is nevertheless crucial that products sold by the company do not in any way have harmful effects on the user or the environment.

Precise Biometrics observes all applicable environmental legislation in the area, and selects suppliers based on environmental considerations.

IDENTITY CONFIRMED



THE PEOPLE

2002 has been an eventful, but at times difficult, year for employees at Precise Biometrics. For the first time in the company's history, staffing decreased as a consequence of a slightly altered focus and an offensive cost-reduction program. At the same time, order intake increased considerably and we saw further evidence of the competitiveness of our technology, not least within Precise Match-on-Card™.

Working with new technology in a young, fast-moving industry poses great demands on employees' flexibility and power of initiative – regardless whether they work with product development, sales or administration. Although Precise Biometrics has begun to grow out of its “start-up development company clothing”, the company is still characterized by an entrepreneurial spirit, short decision pathways and great employee engagement in company activities.

There were 47 employees at Precise Biometrics at the end of the year, 36 men and 11 women. As a consequence of the company's altered focus and the cost-reduction program implemented to reduce the company's general operating expenses, the number of company employees was reduced by 12 during the year, primarily among those working in research and development.

The education level among the company's employees is high, see figure below. Some of the employees have been recruited directly from university, while the majority have work experience from other, primarily technology-based, industries.

For Precise Biometrics to be able to maintain its position as one of the leading companies in the industry, it is important that the company is seen as an attractive employer with skilled employees.

Absence due to illness from Precise Biometrics during the year amounted to 1.7%. The staff turnover totaled 33%, of which about half is an effect of the cost-saving program implemented by the company during the year.

GOALS FOR 2003

One of the company's most important goals for 2003 is to motivate employees and ensure greater openness. The company should be permeated by a sense that initiative will be rewarded, where employees feel that they can help move operations towards posted goals and where there is an open dialogue throughout the company as a whole.

EMPLOYEES IN NUMBERS



SEX	
● Men	77%
● Women	23%



AGE	
● < 30 years	36%
● 30-40 years	43%
● > 40 years	21%



EDUCATION	
● Doctor of Engineering	4%
● Master of Engineering	51%
● Master of Business Administration	11%
● Other academic education	23%
● Other education	11%



FUNCTION	
● R & D	40%
● Sales and marketing	40%
● Finance and administration	20%

Patrik Fogelin, Technical Sales Engineer, European Sales, Lund, SWEDEN

What was the best thing about 2002 at Precise Biometrics?

The projects with the schools in Stockholm and SAS Airlines, both of which are good examples of what the collaboration between our R&D division and our partners and distributors should look like when it works well. This proves that an investment in customized products, where we see a larger market for the solution, is the right thing to do and that we are on the road from being a technology-oriented to becoming a commercial company.

What was the worst thing about 2002 at Precise Biometrics?

The layoffs during the autumn meant that many talented colleagues had to leave. Precise Biometrics is a company where everyone is very passionate, so we were all concerned until we saw a solution to the company's financial situation.



Karin Lannerheim, Partner Manager, European Sales, Lund, SWEDEN

What was the best thing about 2002 at Precise Biometrics?

We worked a great deal with relationships with our partners in Europe and increased our service level towards them during the year. We also put a new sales support system in place to facilitate our partnership and customer work. And last but not least, Precise Biometrics is a good team and we've had fun together.

What was the worst thing about 2002 at Precise Biometrics?

It was a disappointment that sales through our European partners didn't really take off as we'd hoped. It's also been stressful at times that we haven't yet achieved the real breakthrough that would make us "self-sufficient", rather we've had to lean on our shareholders and rely on their confidence.

INCENTIVE

In an effort to raise incentive among current staff and to improve the possibility of recruiting new staff, employees within Precise Biometrics have been given the opportunity on a number of occasions to acquire options in the company.

The company's investment in keep-fit activities includes an exercise allowance and health check-ups for all employees. Several employees with positions of responsibility have bonus-related salaries connected to specific targets.

Another means of motivating employees and ensuring openness includes employee seminars that commenced during the year and will continue during 2003, in an effort to clarify the company's focus and to increase participation among employees.

SKILLS DEVELOPMENT

During the year, the company applied for and received a grant within the framework for the EU's Goal 3 program. The grant has been used for employee skills development, in areas including leadership and communication. In 2003, the company plans a further investment in employees' personal development to ensure that employees can continue to develop as far as possible within the company.

EQUAL OPPORTUNITIES PLAN

Precise Biometrics' equal opportunities work and ethnic and cultural diversity goals are based on the principle that all employees are of equal value and that conditions for recruiting, employment and promotion shall be based on merit.

Henrik Wettin, Development Manager Software, Research & Development, Lund, SWEDEN

What was the best thing about 2002 at Precise Biometrics?

Good co-workers and the fact that at the end of the year we actually brought in new money, primarily from sales but also from the new share issue. That made the year.

What was the worst thing about 2002 at Precise Biometrics?

The staff layoffs, scarce resources and internal uncertainty before we clearly saw in what technical areas our main resources should be set.



ETHICS

Precise Biometrics is accountable to a number of interested parties. This accountability not only covers, employees, customers and partners but also shareholders, financial analysts, suppliers, the media, authorities and others. Precise Biometrics' approach to these issues has been defined internally in the company's personnel and equal opportunities policy. Externally, the company observes the listing agreement and the exchange regulations that apply for companies listed on the Stockholm exchange, and works actively for continual improvements to company relations with respect to customers, partners and suppliers



**Michael Harris, Senior Sales Engineer,
US Sales, Washington D.C., USA**

What was the best thing about 2002 at Precise Biometrics?
Certainly for me, joining Precise Biometrics in February of 2002 was a momentous occasion. From the outset, I was thrust into some very interesting government and commercial projects including the Department of Defense's Common Access Card and US Treasury. Each of these programs were significant to Precise Biometrics and the industry at large as they fully exercised various biometric concepts, through both realized enterprise deployments and multi-entity pilots.

What was the worst thing about 2002 at Precise Biometrics?
I believe one of the worst and also the best things to happen to Precise Biometrics in 2002, was the finalization of our corporate transition from an engineering and think-tank enterprise to a sustainable product and project marketing company. This is always a difficult process for a small, dynamic, and team-oriented company but I believe everyone has emerged with a more positive and homogenous focus for the years ahead.



THE SHARE

HISTORY

Precise Biometrics A-share has been listed on the Stockholm Stock Exchange O-list since October 3, 2000, under the PREC A ticker.

SHARE STRUCTURE

As of December 31, 2002, the total capital stock was SEK 1,582,680 divided among 3,956,700 series-A shares. In December 2002, the company carried out a new share issue. The new shares were registered after the end of the financial year, and trading with the new shares began January 21, 2003. The number of shares increased by 7,913,400, and the total number of shares thereby became 11,870,100.

The nominal value of each share is SEK 0.40. Each series-A share confers upon the holder the right to one vote in the Annual General Meeting and equal rights to a proportion of company's assets and profits.

Starting January 1, 2003, there will be a round lot consisting of 1,000 shares. The corporate by-laws also enable the company to issue series-B shares, but no such shares have been issued.

As of December 31, 2002 there were outstanding options, which on full redemption can dilute capital stock and votes by 0.92%.

SHARE PRICE DEVELOPMENT AND TURNOVER

During the year, like the market as a whole, the Precise Biometrics share declined in value. As appears in the graph, the share price development is well below the Affärsvärldens general index and it has also faced significant fluctuations. During 2002, the average turnover per day was SEK 298,113 thousand, and the listed share price has ranged between SEK 117.00 and SEK 6.00 (before adjustment for the new share issue in December 2002).

SHARE CAPITAL DEVELOPMENT

Year	Transaction	Increase in number of A-series	Increase in capital stock	Total capital stock	Total number A-series	Nominal sum
1997	Company registered	1,000	100,000	100,000	1,000	100
1997	New share issue	220	22,000	122,000	1,220	100
1998	Split	1,218,780	-	122,000	1,220,000	0.1
1998	New share issue	180,000	18,000	140,000	1,400,000	0.1
1998	New share issue	223,700	22,370	162,370	1,623,700	0.1
1999	Issue of bonus shares	-	487,110	649,480	1,623,700	0.4
1999	New share issue	720,000	288,000	937,480	2,343,700	0.4
2000	New share issue	250,000	100,000	1,037,480	2,593,700	0.4
2000	Redemption of options	74,000	29,600	1,067,080	2,667,700	0.4
2000	New share issue	600,000	240,000	1,307,080	3,267,700	0.4
2000	Redemption of options	204,500	81,800	1,388,880	3,472,200	0.4
2001	Redemption of options	54,500	21,800	1,410,680	3,526,700	0.4
2002	New share issue	350,000	140,000	1,550,680	3,876,700	0.4
2002	Redemption of options	80,000	32,000	1,582,680	3,956,700	0.4
2003	New share issue	7,913,400	3,165,360	4,748,040	11,870,100	0.4

OPTION PROGRAM

At the AGM 2001, it was decided to issue an IOU, of a nominal sum amounting to SEK 715,000, with 110,000 detachable options giving the right to subscribe the same number of shares in Precise Biometrics AB. The program is intended for employees in the Precise Biometrics Group. Subscription of new shares can take

place during the period February 27, 2003 - August 26, 2003 at a subscription price of SEK 34.80 per share. 102,700 options have been transferred to employees. On full redemption of all outstanding options, there will be a dilution of capital and votes corresponding to 1.8 percent (adjusted for the new share issue in December 2002).

SHAREHOLDING

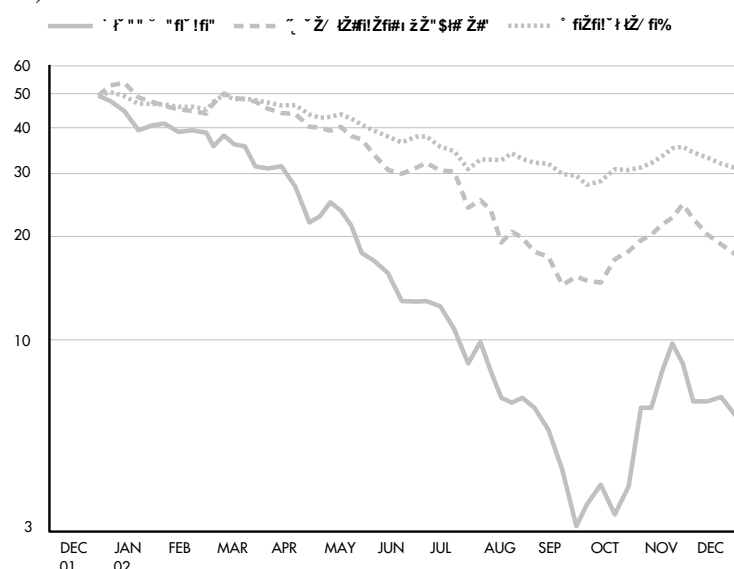
The largest shareholders as of January 31, 2003 (after the new share issue in December).

The ten largest holdings	Total shares	Proportion of capital and votes %	Categories	Proportion of capital and votes %
Fähræus Christer	1,150,881	9.7	Foreign owners	16.8
Nordea fonder	934,400	7.9	Swedish owners	83.2
Odin fonder	832,080	7.0	of which are	
Andante Investment Ltd.	755,950	6.4	Institutions	10.6
Fjärde AP-fonden	750,000	6.3	Mutual funds	17.9
Banco fonder	580,500	4.9	Private individuals	54.5
Pecunia fond	461,950	3.9		
Industrifonden	240,000	2.0		
Koben Investments Ltd	212,500	1.8		
Folksam fonder	147,000	1.2		

Source: SIS Ägarservice/VPC

SHARE PRICE DEVELOPMENT

Adjusted for the new share issue in december 2002.



Source: SIX

RISKS AND OPPORTUNITIES

Precise Biometrics' operations were affected by a number of global factors. The company is attempting variously to fore-see and guard against situations that can arise and has therefore identified a few areas that are particularly important.

OPERATIONAL RISKS

TECHNOLOGICAL AND MARKET DEVELOPMENT

The market on which Precise Biometrics is acting is characterized by rapid change. New technology and new players emerge constantly. Thus the company's technology must achieve broad-based acceptance from leading market players, both suppliers and customers. This, in turn, can entail that the costs of marketing and sales turn out to be greater than expected and anticipated sales volumes may not be attainable.

EMPLOYEES

Within the Precise Biometrics Group, there are several key figures who are important for operations. If any of these key persons leave the company it may, in the short term, have negative effects on operations.

PARTNERS

Precise Biometrics presently has partnerships with a number of technical partners. The company depends on these partnerships to be able to offer customers complete security solutions. There is a risk that one or more of these partnerships will be terminated or fail to achieve anticipated results, with a consequence that anticipated future revenues will be affected detrimentally.

PRICING AND PRODUCTION

As the market in which Precise Biometrics is active grows and the number of players increases, there is a risk that alternative technologies will be developed and that the price of comparable products thereby decreases.

The company depends on external production capacity. If demand for components and production capacity should increase, manufacturing costs for the company's products may rise. Another consequence might be delivery delays, which can lead to revenue deferral.

FINANCIAL RISKS

CURRENCIES

A large proportion of Precise Biometrics' overhead is tied to the Swedish crown (SEK), while invoicing is generated to a large extent in foreign currency, which increases the company's exposure to currency fluctuations.

Several of Precise Biometrics' competitors are foreign and, generally, have less exposure to currency fluctuations. The company therefore intends to apply an active foreign exchange policy in keeping with increases in exposure to currency fluctuations.

LIQUIDITY

Precise Biometrics' operations may in the future also need further financial resources for the company to be able to adapt its operations to meet increasing market demands. It is estimated that the capital the company brought in through the new issue in December 2002 will cover capital requirements for operational year 2003.

CASH FLOW

Precise Biometrics presently has capital tied up in inventory and trade receivables. To reduce the risks that such tied capital can entail, the company has worked during the latter part of 2002 with improving the internal processes for forecasting and production planning.

OTHER RISKS

INTELLECTUAL PROPERTY RIGHTS

It is important for Precise Biometrics to protect its technology through patents and other intellectual property rights. The company therefore works with a patent strategy that entails applying for patents on important inventions in any countries the company considers relevant. There is a risk that new technologies will be developed which circumvent or replace those covered by the Precise Biometrics' patents. However, the company has the advantage of being already well established on the market and having created confidence in its technology.

FIVE YEAR OVERVIEW (Economic glossary, page 59)

Income statement					
Figures in thousands SEK					
	2002	2001	2000	1999	1998
Net sales	22,469	14,097	5,249	527	0
Cost of goods sold	-19,334	-10,410	-5,083	-1,025	0
Gross margin	3,135	3,687	166	-498	0
Selling, administration and R&D costs	-74,832	-74,658	-46,181	-14,303	-3,938
Items affecting comparability	0	-825	0	0	0
Other operating income	299	560	0	0	200
Other operating costs	-2,970	-78	-28	-1,913	0
Operating loss	-74,368	-71,314	-46,043	-16,714	-3,738
Net financial income/expenses	761	3,171	436	-2,386	37
Loss after financial income/expenses	-73,607	-68,143	-45,607	-19,100	-3,701
Deferred tax	-4	30	0	0	0
Loss for the period	-73,611	-68,113	-45,607	-19,100	-3,701

Balance sheet					
Figures in thousands SEK					
	DEC 31, 2002	DEC 31, 2001	DEC 31, 2000	DEC 31, 1999	DEC 31, 1998
ASSETS					
Intangible fixed assets	34,730	37,028	21,186	13,039	4,369
Tangible fixed assets	3,105	4,119	2,648	1,711	854
Current assets	49,350	58,025	143,104	10,703	5,955
of which cash and bank and short term investments	28,004	38,744	132,035	1,913	5,559
TOTAL ASSETS	87,185	99,172	166,938	25,453	11,178
EQUITY AND LIABILITIES					
Equity	67,245	82,616	150,207	15,996	9,774
Provisions	1,452	381	0	0	0
Long-term liabilities	0	179	3,000	6,000	0
Current liabilities	18,488	15,996	13,731	3,457	1,404
TOTAL EQUITY AND LIABILITIES	87,185	99,172	166,938	25,453	11,178

Cash flow statement					
Figures in thousands SEK					
	2002	2001	2000	1999	1998
Cash flow from current operations					
before changes in working capital	-62,349	-60,803	-41,519	-17,871	-3,361
Tax paid	-253	-197	-21	0	0
Changes in working capital	3,858	-6,107	-983	-341	1,008
Cash flow from investments	-6,877	-24,243	-13,172	-10,756	-5,563
Cash flow from financing operations	54,881	-1,941	179,817	31,322	13,475
Change in liquid funds	-10,740	-93,291	124,122	2,354	5,559

KEY FIGURES

	2002	2001	2000	1999	1998
<i>Margins</i>					
Gross margin	14.0%	26.2%	3.2%	-94.5%	n.a.
Operating margin	neg.	neg.	neg.	neg.	n.a.
<i>Returns</i>					
Return average shareholders' equity	-98.2%	-58.5%	-54.9%	-148.2%	-75.7%
Return on average capital employed	-95.9%	-56.2%	-51.2%	-120.2%	-75.7%
<i>Capital structure</i>					
Capital employes, thousands SEK	67,424	86,153	156,207	21,996	9,774
Shareholders' equity, thousands SEK	67,245	82,616	150,207	15,996	9,774
Equity/assets ratio	77.1%	83.3%	90.0%	62.8%	87.4%
Debt/equity ratio	0.3%	4.3%	4.0%	37.5%	0.0%
Proportion of risk-bearing capital	77.1%	83.3%	90.0%	62.8%	87.4%
Interest coverage ratio	neg.	neg.	neg.	neg.	neg.
<i>Investments, thousands SEK</i>					
Tangible fixed assets	431	3,003	2,073	1,580	1,194
Capitalized expenditure for development	6,446	11,764	11,099	9,171	4,369
R&D costs, expensed	28,394	29,012	14,898	5,938	1,537
Other tangible assets	0	9,476	0	0	0
<i>Data per share</i>					
Stock market price	6.90	114.00	208.00	190.00	n.a.
Yield	n.a.	n.a.	n.a.	n.a.	n.a.
P/E Ratio	neg.	neg.	neg.	neg.	neg.
Average number of outstanding shares	3,741,700	3,512,950	2,921,450	1,871,850	1,400,000
Dividends	0	0	0	0	0
Number of shares before dilution	3,956,700	3,526,700	3,499,200	2,343,700	1,400,000
Number of shares after dilution	3,956,700	3,632,191	3,601,157	2,766,700	1,710,000
Shareholders' equity before dilution	17.00	23.43	42.93	6.83	6.98
Shareholders' equity after dilution	17.00	22.75	41.71	5.78	5.72
Profit/loss after net financial income/expenses before dilution	-18.60	-19.32	-15.61	-10.20	-2.64
Profit/loss after net financial income/expenses after dilution	-18.60	-19.32	-15.61	-10.20	-2.64
<i>Employees</i>					
Number of employees at end of year	47	66	53	30	15
Average number of employees	60	62	48	22	9

STATUTORY ADMINISTRATION REPORT

The board of directors and CEO for Precise Biometrics AB (publ), corporate identity number 556545-6596 based in Lund, Sweden, hereby submit the annual report and consolidated financial statement for the 2002 financial year.

OPERATIONS

Precise Biometrics develops and markets products for fingerprint-based authentication. Operations are based on in-house-developed technology for fingerprint identification, Precise BioMatch™. Precise Biometrics has products for IT security, physical access control systems and integrated solutions, and in concert with select partner companies, the company offers customers convenient, secure and cost-effective solutions that can replace keys, PIN codes, and passwords. Customers today include companies, organizations and authorities that put high demands on security, user-friendliness and the maintaining of personal integrity for the private individual.

The company's technical development has been focused on fingerprint identification combined with smart cards. This technology, Precise Match-on-Card™, further increases security by making it possible to store a fingerprint on a smart card and for the stored information to be compared (matched) with the cardholder's fingerprint without the fingerprint ever having to leave the card. Precise Biometrics' technology and products have achieved a leading position within this area, and the goal is to make Precise Match-on-Card™ a world standard by encouraging leading smart card manufacturers to integrate the technology into their cards.

PATENTS

With its patent strategy, the company aims to secure rights in proprietary technology, to build structural capital for future business or transactions and to preserve its ability to obstruct competitors. Patent applications are made primarily in Europe, in the US and, in some cases, in larger countries in Asia. In 2002, Precise Biometrics' newly acquired and registered patents included the world's first patent for match-on-card.

The company presently has seven patents, six of which are registered in Sweden and one in the US. Patent applications have been submitted for nine further inventions.

MARKETING AND SALES

Interest in security continues to be very strong, and biometrics is becoming increasingly important as a component in security solutions. Precise Biometrics' leading position within "match-on-card" has helped the company become involved in a number of projects where several different suppliers are collaborating to equip the customer with a single complete highly advanced security system. The company's IT security products made up the lion's share of sales for the year, and the predominant market in geographic terms was the US.

During the year, sales of the company's products for physical access control systems have been negatively affected, primarily because sales under a distribution agreement with NexWatch have not taken off as projected.

During the year, Precise Biometrics has received two particularly interesting orders. One came from an American Fortune 100 company within the financial sector, together with a partner company Safflink, and the other came from the US Treasury, together with American system integrator, MAXIMUS.

On the Scandinavian market, the year was notable for Precise Biometrics' collaboration with Scandinavian IT Group and the partners' joint customer project within SAS Airlines, where an evaluation of a check-in solution involving fingerprints is ongoing. A second customer project was that with Stockholm municipal schools, where a solution involving Precise Biometrics' fingerprint readers was selected to administer login to the schools' joint computer network.

Within the area of smart ID cards, the company extended its partnership with ActivCard™, one of the leading suppliers of software for identity administration. The extended partnership means that ActivCard will license and integrate Precise Biometrics' software Precise BioMatch™ Pro and Precise BioMatch™ J in its proprietary software ActivCard Gold 2.2.

SALES AND BOTTOM LINE

The bottom line for the Group during the financial was SEK -73.6 million (-68.1). Net sales for the financial year totaled SEK 22.5 million (14.1).

The bottom line for the financial year was negatively affected by a few established customer projects that have been postponed, delays that have arisen in certain new business dealings, and quality shortcomings in the production process suffered by the company's physical access products.

During the third quarter, the company carried out a cost reduction program, that has reduced the company's current costs by 30% compared with the average level during the first quarter of 2002. Among other remedial measures, there were staff cutbacks of twelve people altogether. The cost reduction program was fully implemented during the fourth quarter.

As an effect of the gradual cost adaptations during the autumn 2002, the company anticipates operating costs resting at SEK 4.5 million per month, starting the first quarter 2003.

Gross margins for the financial year totaled 32.5% before adjustments for depreciation of inventory.

FINANCING AND LIQUIDITY

Equity amounted, as of December 31, 2002, to SEK 67.2 million (82.6), and the equity/share ratio totaled SEK 17.00 (23.43) before dilution by new subscription carried out under subscription options. The company's liquid funds at the close of the financial year was SEK 28.0 million (38.7).

During 2002, two new share issues were carried out. In January, the company brought in SEK 27.7 million after issue costs and redemption of options of SEK 3.2 million. In December, the company brought in SEK 28.0 million after issue costs. The majority of the emission capital was brought in during December 2002 and the rest at the beginning of January 2003.

INVESTMENTS

During the financial year, the group made investments of SEK 0.4 million (3.0) in fixed capital assets, primarily computer equipment.

Capitalization of development work

During the financial year, expenses for development work have been capitalized in the order of SEK 6.4 million (11.8). Depreciation and write-down of capitalized development work are progressing according to plan and totaled, during the financial year, SEK 7.7 million (5.0).

Depreciation of patents and capitalized computing fees totaled, during the financial year, SEK 872 thousand (363) and SEK 151 thousand (63) respectively.

EMPLOYEES

The average number of employees in the group was 60 (48 men and 12 women).

As of December 31, 2002, the number of employees totaled 47 (66). The decrease is a consequence of the cost-savings program that was implemented during the year.

SHARES

The company stock has been listed on the Stockholm Stock Exchange O-list since October 3, 2000. The number of shareholders, as of December 31, totaled 3,185. The total number of shares at end of the financial year was 3,956,700. The number of outstanding subscription options at the same point in time was 110,000, which corresponds to a maximal potential dilution of 0.92% (before adjustment for the new share issue in December 2002). During the financial year, the average turnover per day was SEK 298 thousand, and the listed share price ranged between SEK 117.00 and SEK 6.00 (not adjusted for the new share issue in December 2002).

During the fourth quarter, the company issued new shares with preferential rights for existing shareholders. The new shares were registered after the end of the financial year, and trading with the new shares began January 21, 2003. The number of shares increased by 7,913,400 from 3,965,700 shares to 11,879,100.

WORK OF THE BOARD OF DIRECTORS

The board, which consisted during the year of six ordinary representatives, has held 22 meetings in 2002 at which minutes were kept. Issues dealt with during the year include strategy and long-

term focus, financing and interim and annual reports. In addition to these meetings, the chairman and other board representatives have maintained continual contact with officers in the company, primarily the CEO and CFO, but also with business area managers.

The board receives continual reports about the company's profitability and position. The board's rules of procedure contain rules and guidelines about the distribution of work between the board and the CEO and instructions regarding financial reporting.

Two of the company's largest private owners, Christer Fähræus and Nils Bernhard, have been commissioned to prepare nominations for the company's board of directors. This commission includes consulting major institutional shareholders of the company.

EVENTS OCCURRING SINCE THE END OF THE FINANCIAL YEAR

Precise Biometrics was chosen, together with the members in the BearingPoints project group, to participate in the third and final biometrics evaluation of the US Department of Defense's Common Access Card project. Common Access Card is the term used for the US DoD's universal ID card, which will comprise over four million cards over the next two years. The evaluation concerns so-called non-contact smart cards with biometrics for physical access control.

FUTURE DEVELOPMENT

Interest in security solutions based on biometrics continues to grow. Precise Biometrics' products are technically on the cutting edge and properly positioned to achieve sales growth in the market segments where the company is active – US and European government agencies, telecom, banking and finance, and healthcare. The company has smoothly functioning and well-established partnerships and a strong patent portfolio, primarily within the strategic Match-on-Card field. During 2003, Precise Biometrics will build upon its success in the customer segment "US Government" and increase its efforts in the American market to enter new customer segments.

The company estimates that the positive trend in order intake during the latter half of 2002 and a continued strict cost control philosophy will afford solid prospects for a profitable future.

As the company's core technology – Precise Match-on-Card™, Precise BioMatch™, and Precise BioCore™ – wins market acceptance, revenues from license sales will gradually constitute an increasing proportion of the total revenue.

PROPOSED DISPOSITION OF ACCUMULATED DEFICIT

Group

According to the consolidated balance sheet, the Group's unrestricted shareholders' equity was SEK -89.6 million. No transfer to restricted funds is proposed.

Parent company

The following is at the disposal of the shareholders' meeting:

Accumulated deficit, SEK	-8,679,000
Year's losses, SEK	-63,749,923
<hr/> Total accumulated deficit, SEK	<hr/> -72,428,923

The board and the CEO propose that the accumulated deficit be treated as follows:

Reduction of the share premium reserve, SEK	-72,428,923
Carried forward, SEK	0
<hr/>	<hr/>
	-72,428,923

INCOME STATEMENT

(Figures in thousands SEK)	Note	Group		Parent company	
		2002	2001	2002	2001
Net sales	2	22,469	14,097	24,693	14,821
Cost of goods sold	3	-19,334	-10,410	-18,875	-10,685
Gross profit		3,135	3,687	5,818	4,136
Selling expenses		-38,023	-38,196	-30,394	-32,286
Administrative expenses		-8,415	-7,450	-8,414	-7,449
R&D costs	8	-28,394	-29,012	-28,394	-29,012
Items affecting comparability		0	-825	0	-825
Other operating income		299	560	299	560
Other operating expenses	9	-2,970	-78	-2,970	-78
Operating profit/loss	4-8	-74,368	-71,314	-64,055	-64,954
<i>Result from financial investments</i>					
Interest income and similar profit/loss items	10	952	3,636	1,139	3,755
Result from participations in group companies	11	0	0	-692	0
Interest expense and similar profit/loss items	12	-191	-465	-142	-468
		761	3,171	305	3,287
Loss after financial items		-73,607	-68,143	-63,750	-61,667
Deferred tax	13	-4	30	0	0
Loss for the period		-73,611	-68,113	-63,750	-61,667
<i>Profit/loss per share</i>					
Before dilution (SEK)	24	-18.60	-19.32	-16.11	-17.49
After dilution (SEK)		-18.60	-19.32	-16.11	-17.49

BALANCE SHEET

(Figures in thousands SEK)	Note	Group		Parent company	
		Dec 31, 2002	Dec 31, 2001	Dec 31, 2002	Dec 31, 2001
ASSETS					
Fixed assets					
Intangible fixed assets					
	14				
Capitalized expenditure for development		26,703	27,978	26,703	27,978
Capitalized computing fees		541	692	541	692
Patents		7,486	8,358	7,486	8,358
		34,730	37,028	34,730	37,028
Tangible fixed assets					
	15				
Equipment		3,105	2,694	3,044	2,594
Advances on tangible fixed assets		0	1,425	0	1,425
		3,105	4,119	3,044	4,019
Financial assets					
Participations in group companies	16	0	0	1,058	1,058
		0	0	1,058	1,058
Total fixed assets		37,835	41,147	38,832	42,105
Current Assets					
Inventories					
Raw materials and consumables		173	2,914	173	2,914
Finished goods and goods for resale		6,617	7,608	6,311	7,250
		6,790	10,522	6,484	10,164
Current receivables					
Accounts receivable		11,142	5,172	2,956	3,417
Receivables from group companies		0	0	24,894	9,768
Other receivables		1,986	2,317	1,846	2,237
Prepaid expenses and accrued income	17	1,428	1,270	1,422	1,211
		14,556	8,759	31,118	16,633
Cash and bank balances		28,004	38,744	26,794	36,794
Total current assets		49,350	58,025	64,396	63,591
Total assets		87,185	99,172	103,228	105,696

(Figures in thousands SEK)	Note	Group		Parent company	
		Dec 31, 2002	Dec 31, 2001	Dec 31, 2002	Dec 31, 2001
EQUITY AND LIABILITIES					
Equity	18				
Restricted equity					
Share capital		1,583	1,411	1,583	1,411
Share premium reserve		127,884	157,588	127,915	158,311
New share issue in progress		27,367	0	27,367	0
Total restricted equity		156,834	158,999	156,865	159,722
Non-restricted equity					
Profit/loss brought forward		-15,978	-8,270	-8,679	-8,109
Loss for the period		-73,611	-68,113	-63,750	-61,667
Total non-restricted equity		-89,589	-76,383	-72,429	-69,776
Total equity		67,245	82,616	84,436	89,946
Provisions	19				
Other provisions		1,452	381	1,452	381
Total provisions		1,452	381	1,452	381
Long-term liabilities					
Liabilities to credit institutions		0	179	0	179
Total long-term liabilities		0	179	0	179
Current liabilities					
Liabilities to credit institutions	20, 23	179	3,358	179	3,357
Accounts payable – trade		7,285	5,479	6,869	5,430
Other liabilities		886	2,573	885	1,817
Accrued expenses and deferred income	21	10,138	4,586	9,407	4,586
Total current liabilities		18,488	15,996	17,340	15,190
Total equity and liabilities		87,185	99,172	103,228	105,696
Pledged assets	22				
Chattel mortgages		1,715	1,715	1,715	1,715
Pledged liquid funds		209	202	209	202
		1,924	1,915	1,924	1,917
Contingent liabilities		None	None	None	None

CASH FLOW STATEMENT

(Figures in thousands SEK)

	Note	Group		Parent company	
		2002	2001	2002	2001
Current operations	25, 26				
Profit/loss after financial income/expenses		-73,607	-68,143	-63,750	-61,667
Adjustments for non-cash items	27	11,258	7,340	11,223	7,287
		-62,349	-60,803	-52,527	-54,380
Tax paid		-253	-197	-253	-197
Cash flow for current operations before changes in working capital		-62,602	-61,000	-52,780	-54,577
Cash flow from changes in working capital					
Change in inventories		3,732	-7,070	3,680	-6,712
Change in receivables		-5,544	-1,043	-14,232	-7,765
Change in current liabilities		5,670	2,006	5,328	939
Cash flow from current operations		-58,744	-67,107	-58,004	-68,115
Investment operations					
Capitalization of expenses for development		-6,446	-11,764	-6,446	-11,764
Capitalization of computing fees		0	-754	0	-754
Acquisition of patents		0	-8,722	0	-8,722
Acquisition of tangible assets		-431	-3,003	-431	-2,880
Cash flow from investments		-6,877	-24,243	-6,877	-24,120
Financing operations					
New share issue		58,239	523	58,239	574
Loans raised		0	715	0	715
Repayment of loans		-3,358	-3,179	-3,358	-3,179
Cash flow from financing operations		54,881	-1,941	54,881	-1,890
Year's cash flow		-10,740	-93,291	-10,000	-94,125
Liquid funds at the beginning of the year		38,744	132,035	36,794	130,919
Liquid funds at the end of the year		28,004	38,744	26,794	36,794

NOTES

Note 1 Accounting and valuation principles

General

The annual accounts have been prepared in accordance with the Annual Accounts Act and the recommendations and pronouncements of the Swedish Financial Accounting Standards Council. Accounting principles are unchanged in comparison with the previous year besides provisions concerning capitalization of development expenditures, where the requirements for capitalization were raised in accordance with RR15; please see notes 14 and 18. Comparative figures for 2001 have been recalculated in accordance with RR15.

Consolidated accounts

The consolidated accounts are prepared in accordance with the acquisition method and include all subsidiaries in which the parent company holds more than 50% of the votes. The consolidated accounts have been prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council, which entails that the shareholders' equity of subsidiaries at the point of acquisition is eliminated in its entirety. For this reason, equity for the Group only includes the portion of the subsidiaries' equity that arose after the acquisition.

The foreign subsidiary, Precise Biometrics Inc., has been classified as an integrated foreign operation, which is why the monetary method is applied for exchange rates in the accounts. This means that the foreign subsidiary's monetary assets and liabilities are converted at the rate of exchange on the balance sheet date, while the non-monetary assets are converted at a historic exchange rate. All items in the profit and loss statement are converted at the average annual rate of exchange. Translation gains/losses are accounted for in the operating profit/loss. Internal items for the group have been eliminated in the consolidated accounts.

Revenues

The Group's revenues consist primarily of sales of goods and are accounted on delivery of the product to the customer in accordance with the terms of delivery. Sales are accounted as net values after VAT, discounts and exchange differences on sales in foreign currencies. In the consolidated accounts, sales within the Group are eliminated. Sales within the Group are priced in accordance with current market conditions.

Functional division of operating costs

The division between the functions Sales, Administration and Research and Development has changed during the first quarter of 2002. The previous year's figures have been adjusted in accordance with the new functional division, thereby becoming comparable. The change entails that certain divisions previously included among Administration are now considered part of Research and Development or Sales.

The division of common costs is made pro rata by the number of employees per function.

Income taxes

Evaluation of all tax liabilities/receivables is made at nominal sums and in accordance with taxation rules and tax rates fixed or announced and likely to be stipulated.

Deferred tax has not been accounted in the Group's tax-loss carry-forwards against the background of the Group's historic profitability development.

Fixed assets

Fixed assets are valued at the purchase value. Intangible and tangible fixed assets are depreciated according to plan over their estimated economic lifespan.

The group applies the following depreciation periods:

Patents	10 years
Capitalized expenditure for development	5 years
Capitalized computing fees	5 years
Computers	3 years
Equipment	5 years

Capitalization of expenditure for development

The capitalized expenditures consist of costs for continued development of equipment for biometric fingerprint identification. The company has capitalized direct and indirect payroll expenses and fixed costs that affect the development division. This development work aims to arrive at new products, new processes, new systems or significant improvements of existing products with the aim of generating finished products for market introduction and sale. The expenses for development work have been capitalized from 2002 in accordance with the recommendations of the Swedish Financial Accounting Standards Council (RR15). Please see above under General.

The capitalized expenditure for development is depreciated according to plan over five years, which corresponds to the estimated period of use, taking into consideration technical obsolescence and estimated product life cycles.

Leasing

The company has no financial leasing contracts. Operational leasing is expensed in the period to which the leasing fees are attributed.

Inventories

Inventories are valued in accordance with the lowest value principle, applying the first-in, first-out principle. Internal profits on sales between Group companies are eliminated.

Receivables and liabilities

Receivables have been adopted, after individual assessment, at the sums at which they are expected to reach when they are paid in. Other assets have been valued at the purchase value, unless otherwise specified in the following supplementary information.

Liabilities have been adopted at nominal sums.

Receivables and liabilities in foreign currency are converted at the rate of exchange on the balance sheet date. Exchange rate differences are shown in the income statement in the period when they arise.

Borrowing costs are shown in the period when they arise.

Exchange rate profits and losses

Exchange differences pertaining to revenues and costs of an operating character are accounted alongside other operating revenues and operating costs. Exchange differences that arise in revaluation in receivables and borrowing in foreign currencies are accounted as financial items.

Cash flow statement

The cash flow statement is drafted in accordance with the indirect method. The cash flow recorded only includes transactions that involve payments or expenditures.

Liquid funds include, besides cash and bank balances, short-term financial investments that face only an insignificant risk for value fluctuations and have a remainder period shorter than three months from the purchase date.

Note 2 Net sales

Group

Net sales during 2002 were SEK 22.5 million (14.1), of which SEK 24.7 million (14.8) is assignable to the parent company and SEK 13.0 million (3.8) to the subsidiary Precise Biometrics Inc.

Parent company

Net sales during 2002 was SEK 24.7 million (14.8), of which SEK 6.1 million (8.1) is assignable to sales within the business area IT Security, SEK 3.0 million (1.7) to the business area Physical Access, and SEK 0.3 million (0.5) to the business area Embedded Solutions. SEK 15.3 million (4.5) comprises invoicing to the subsidiary Precise Biometrics Inc.

Note 3 Cost of goods sold

During 2002, there has been depreciation of inventory to a total of SEK 4,161 thousand, which is included in the figure for cost of goods sold.

The depreciation primarily concerns components intended for products that have been phased out of the product line. Our subcontractors are now responsible for component supply.

Note 4 One-off costs

The operating costs for 2002 include one-off costs, such as costs arising in connection with moving the company's head office (SEK 1.2 million), conclusion of certain consulting agreements, and depreciation of development costs (SEK 0.9 million).

The costs noted above burden the fourth quarter of 2002.

Note 5 Operational leasing agreements

	Group		Parent company	
	2002	2001	2002	2001
Operational leasing agreements primarily concern rent for premises. Leases in Sweden have price indexing clauses. The agreements can be extended following the end of the agreement period. Additional sums for property taxes and heating, hot water, cooling, electricity, etc. are payable based on the landlord's cost for such items.				
Rent paid during the year (For 2002, this sum includes a provision for leasing obligation of SEK 754 thousand for parent company and group)	4,335	1,867	3,801	1,518
Nominal value of agreed future leasing fees:				
Due for payment within one year	2,701	3,945	2,558	3,801
Due for payment later than one year but within five years	6,725	9,283	6,725	9,283
Due for payment later than five years	0	0	0	0
Total	9,426	13,228	9,283	13,084

Note 6 Remuneration to accountants

	Group		Parent company	
	2002	2001	2002	2001
<i>Öhrlings PricewaterhouseCoopers</i>				
Accounting	348	212	348	212
Consultation	163	196	163	196

Note 7 Average number of employees and staffing costs

	2002		2001	
	M	Kv	M	Kv
Precise Biometrics AB, Sweden	45	11	46	11
Precise Biometrics Inc, USA	3	1	4	1
Total	48	12	50	12

Wages and remuneration are divided as follows:

	Group		Parent company	
	2002	2001	2002	2001
<i>Board and CEO, Sweden</i>				
Wages and other remuneration	2,611	2,829	2,611	2,829
Pension costs	354	369	354	369
Social costs, including special payroll tax	979	1,002	979	1,002
Total	3,944	4,200	3,944	4,200
<i>Others, Sweden</i>				
Wages and other remuneration	22,038	22,632	22,038	22,632
Pension costs	2,500	2,408	2,500	2,408
Social costs, including special payroll tax	8,266	8,016	8,266	8,016
Total	32,804	33,056	32,804	33,056
TOTAL SWEDEN	36,748	37,256	36,748	37,256
<i>Board and CEO, USA</i>				
Wages and other remuneration	1,303	517	-	-
Pension costs	0	0	-	-
Social costs	139	26	-	-
Total	1,442	543	-	-
<i>Others, USA</i>				
Wages and other remuneration	4,193	2,881	-	-
Pension costs	0	0	-	-
Social costs	447	146	-	-
Total	4,640	3,027	-	-
TOTAL USA	6,082	3,570	-	-
TOTAL	42,830	40,826	36,748	37,256
Executives	2002	2001		
Wages, remuneration and benefits to executives burden the year's profits by:	2,575	2,362		
Board member remuneration was paid to other representatives:	375	300		
Board of Directors				
Board of Directors, Chairman of the Board, fees for board work	150	120		
Other representatives, fees for board work	375	300		
Other representatives, fees for nomination work	60	-		
	585	420		

Fees for board work were resolved by the shareholders' general meeting. Remuneration for nomination work 2002 corresponds to one annual remuneration sum for board work.

Individual board representatives are not entitled to severance pay or pledges for future retirement.

No board representative holds options in the Company. There has been no acquisition of options during the year

CEO

Wages and remuneration in Sweden	1,062	1,725
Wages and remuneration in the USA	1,303	517
	2,365	2,242

Of the wages and remuneration to the CEO for 2002, SEK 338 thousand is a bonus. No bonus was paid during 2001.

Bonus is payable under contract agreement to a maximum of SEK 482 thousand annually.

The CEO's wages and remuneration are determined by the board. The CEO's contract is subject to a mutual period of notice of six months. No "golden handshake" is payable in case the contract is terminated. The CEO holds 20,000 options in the Company, which entitle the holder to purchase 39,600 shares. There has been no acquisition of options during the year. The CEO is entitled to pension benefits corresponding to about 20% of the fixed portion of his wages from the parent company and the subsidiary combined.

Other officers of the company

Wages and other remuneration	8,183
Total number of persons	9

Wages and remuneration to other officers in the company are determined by the CEO in consultation with the chairman of the board.

For other officers, standard occupational pension insurance policies have been taken out in accordance with the Company's pension plan.

Under certain conditions, severance pay may be payable to officers for a period of no more than one year.

Non-arm's-length transactions

No transactions have been made with board members or company officers during the financial year.

Note 8 Depreciation of tangible and intangible fixed assets

Depreciations are divided as follows:

Group	Sales	Administration	R&D	Total
Depreciation of intangible fixed assets	389	123	7,314	7,826
Depreciation of tangible fixed assets	485	141	588	1,214
	874	264	7,902	9,040

Parent company	Sales	Administration	R&D	Total
Depreciation of tangible fixed assets	389	123	7,314	7,826
Depreciation of tangible fixed assets	446	141	588	1,175
	835	264	7,902	9,001

Group and parent company:

Of the total SEK 28,394 thousand (29,012) spent on Research and Development, SEK 7,721 thousand (4,972) constitutes depreciation on capitalized expenditure for development.

Note 9 Exchange rate differences

The operating profit/loss includes currency exchange differences with respect to operating receivables and liabilities as follows:

	Group	
	2002	2001
Sales costs	2,124	-213
Other operating costs	-2,908	0
Other operating income	0	393
Total	-784	180

Note 10 Interest income and similar profit items

	Group		Parent company	
	2002	2001	2002	2001
Interest income from group companies	0	0	201	119
Other interest income	944	3,187	930	3,187
Exchange differences	8	449	8	449
Total	952	3,636	1,139	3,755

Note 11 Profit/loss from shares in group companies

The sum concerns write-down of shares in subsidiaries in connection with sale of options to employees.

Note 12 Interest costs and similar loss items

	Group		Parent company	
	2002	2001	2002	2001
Interest costs group companies	0	0	0	0
Others interest costs	191	423	142	423
Exchange differences	0	42	0	45
Total	191	465	142	468

Note 13 Income taxes

	Group		Parent company	
	2002	2001	2002	2001
Deferred tax regarding internal profit in warehoused goods	-4	30	0	0
Current tax	0	0	0	0
Total	-4	30	0	0

Deferred tax liability has not been accounted in the Group's tax-loss carry-forwards against the background of the Group's historic profitability development.

Accumulated, assessed, tax-loss carry-forwards excluding the year's profit/losses in both the parent company and the Group totals SEK 129,494 thousand.

Note 14 Intangible fixed assets

	Group		Parent company	
	2002	2001	2002	2001
Capitalized expenditure for development				
Initial purchase value	36,403	35,877	36,403	35,877
Effect on initial purchase value of capitalization per RR15	-	-11,238	-	-11,238
Capitalized expenditures for the year	6,446	11,764	6,446	11,764
Outgoing accumulated purchase value	42,849	36,403	42,849	36,403
Initial depreciation	-8,425	-6,583	-8,425	-6,583
Effect on initial depreciation value of capitalization per RR15	-	3,130	-	3,130
Year's depreciation	-7,721	-4,972	-7,721	-4,972
Outgoing accumulated depreciation	-16,146	-8,425	-16,146	-8,425
Outgoing residual value according to plan	26,703	27,978	26,703	27,978
Depreciation according to plan	20%	20%	20%	20%
Of the outgoing purchase values per 12-31-2002, SEK 24,231 thousand constitutes the purchase value for the foundational development of the company's technology. For this portion, the remaining depreciation time is an average of about 2 years.				
For other capitalized development projects, the remaining depreciation time is 3-5 years.				
Year's depreciation includes write-downs of SEK 918 thousand (0), Group and Parent company.				
Capitalized computing fees				
Initial purchase value	755	0	755	0
Capitalized expenditures for the year	0	755	0	755
Outgoing accumulated purchase value	755	755	755	755
Initial depreciation	-63	0	-63	0
Year's depreciation	-151	-63	-151	-63
Outgoing accumulated depreciation	-214	-63	-214	-63
Outgoing residual value according to plan	541	692	541	692
Depreciation according to plan	20%	20%	20%	20%
Remaining depreciation period is 3.5 years.				
Patents				
Initial purchase value	8,721	0	8,721	0
Capitalized expenditures for the year	0	8,721	0	8,721
Outgoing accumulated purchase value	8,721	8,721	8,721	8,721
Initial depreciation	-363	0	-363	0
Year's depreciation	-872	-363	-872	-363
Outgoing accumulated depreciation	-1,235	-363	-1,235	-363
Outgoing residual value according to plan	7,486	8,358	7,486	8,358
Depreciation according to plan	10%	10%	10%	10%
Remaining depreciation period is 8.5 years.				

Note 15 Tangible fixed assets

	Group		Parent company	
	2002	2001	2002	2001
Equipment				
Initial purchase value	6,226	4,847	6,104	4,847
Reclassification	1,425	0	1,425	0
Purchasing for the year	431	1,379	431	1,257
Disposals during the year	-231	0	-231	0
Outgoing accumulated purchase value	7,851	6,226	7,729	6,104
Initial depreciation	-3,532	-2,199	-3,510	-2,199
Year's depreciation	-1,214	-1,333	-1,175	-1,311
Outgoing accumulated depreciation	-4,746	-3,532	-4,685	-3,510
Outgoing residual value according to plan	3,105	2,694	3,044	2,594
Depreciation according to plan	20%	20%	20%	20%
Advances on tangible fixed assets				
Initial purchase value	1,425	0	1,425	0
Purchasing for the year	0	1,425	0	1,425
Reclassification	-1,425	0	-1,425	0
Outgoing accumulated purchase value	0	1,425	0	1,425

Note 16 Financial assets

	Parent company	
	2002	2001
Shares in subsidiaries		
<i>Precise Biometrics Services AB</i>		
<i>Corporate ID no. 556582-9347,</i>		
<i>registered office: Skåne län, Lund, Sweden</i>		
Total shares	1,000	1,000
Capital	100%	100%
Book value, thousands SEK	100	100
<i>Precise Biometrics Inc</i>		
<i>Vienna, Washington, USA</i>		
Total shares	10	10
Capital	100%	100%
Book value, thousands SEK	958	958

Note 17 Prepaid expenses and accrued income

	Group		Parent company	
	2002	2001	2002	2001
Prepaid rents	963	558	963	558
Prepaid insurance premiums	239	379	233	379
Accrued interest income	22	119	22	119
Other items	204	214	204	155
Total	1,428	1,270	1,422	1,211

Note 18 Equity

Group	Share capital	Share premium reserve	New share issue in progress	Profit/loss brought forward	Loss for the period
01/01/02	1,411	157,588		-161	-68,113
Adjustment initial, capitalization of development expenditures				-8,109	
Transfer of previous year's profit/losses		-61,097		-7,016	68,113
Transfer restricted to free capital		692		-692	
New issues registered during the year	140	27,510			
Redemption of options	32	3,168			
Sale of options		23			
New issue, not registered before end of the year			27,367		
Year's profit/loss					-73,611
31/12/02	1,583	127,884	27,367	-15,978	-73,611
Parent company	Share capital	Share premium reserve	New share issue in progress	Profit/loss brought forward	Loss for the period
01/01/02	1,411	158,311			-61,667
Adjustment initial, capitalization of development expenditures				-8,109	
Transfer of previous year's profit/losses		-61,097		-570	61,667
New issues registered during the year	140	27,510			
Redemption of options	32	3,168			
Sale of options		23			
New issue, not registered before end of the year			27,367		
Year's profit/loss					-63,750
31/12/02	1,583	127,915	27,367	-8,679	-63,750

Note 19 Provisions

	Group		Parent company	
	2002	2001	2002	2001
Provisions for warranty	698	381	698	381
Provision for rental cost undertaking	754	0	754	0
Total	1,452	381	1,452	381

Total obligation expenditures as of 12-31-2002 are anticipated in the order of SEK 1,226 thousand in 2003 and the remainder SEK 226 thousand in 2004.

Note 20 Liabilities to credit institutions**Group and parent company**

The total sum falls due for payment within five years.

Note 21 Accrued expenses and deferred income

	Group		Parent company	
	2002	2001	2002	2001
Accrued wages and vacation pay	2,288	2,361	2,001	2,361
Accrued social fees	1,720	1,151	1,720	1,151
Other items	6,130	1,074	5,686	1,074
Total	10,138	4,586	9,407	4,586

Note 22 Pledged assets

Pledge assets concern liabilities of the parent company.

Note 23 Loan combined with new issue subscription options

At the Extra General Meeting held on August 16, 2001, it was decided to issue an IOU of SEK 715,000 accompanied by with 110,000 detachable subscription options.

The IOU and the options have been acquired by Svenska Handelsbanken, and the options have thereupon been offered to employees in the Group. The warrant financing to Svenska Handelsbanken of SEK 715,000 runs from September 28, 2001 up to and including February 28, 2003. After recalculation in connection with the rights issue in December 2002, each option gives the right to subscribe for 1.98 series-A shares in the company for SEK 34.80 per share (nominally worth SEK 0.40 per), during the period from February 27, 2003 up to and including August 26, 2003. Within the ambit of the abovementioned program, 102,700 options have been transferred to employees of the Group. The subscription options are encumbered with a right of first refusal, which means that if the employee quits his or her employment within the Precise Biometrics Group or enters a contract with a third party to sell the options, the holder is obliged to offer the company the chance to acquire the options.

On full redemption of all 110,000 outstanding options, capital stock would increase by SEK 87,120, which corresponds to a maximum potential dilution effect of approximately 1.8 percent of capital stock and votes. The number of shares upon full dilution would be 12,087,900. The figures concern the state of affairs after registration of the ongoing new issue, as of the new financial year.

Note 24 Profit/loss per share

	Group		Parent company	
	2002	2001	2002	2001
Profit/loss for the period (MSEK)	-73.6	-68.1	-63.8	-61.7
Average number of shares				
Before dilution	3,956,700	3,526,700	3,956,700	3,526,700
After dilution	3,956,700	3,632,191	3,956,700	3,632,191

Note 25 Cash flow interest and dividends

	Group		Parent company	
	2002	2001	2002	2001
The item includes payments and expenditures concerning				
Interest earned (Current operations)	201	930	1,131	3,306
Interest paid (Current operations)	191	465	142	468

Note 26 Operational cash flow

	Group		Parent company	
	2002	2001	2002	2001
Operating profit/loss	-74,368	-71,314	-64,055	-64,954
Adjustments for non-cash items	11,258	7,340	11,223	7,287
Changes in operating capital	3,858	-6,107	-5,224	-13,538
Cash flow before investments	-59,252	-70,081	-58,056	-71,205
<i>Investments</i>	-6,877	-24,243	-6,877	-24,120
Operational cash flow	-66,129	-94,324	-64,933	-95,325

Note 27 Transactions not involving cash flow

Depreciation of tangible and intangible assets	9,958	6,853	9,919	6,830
Provisions	1,071	381	1,071	381
Others	229	106	233	76
	11,258	7,340	11,223	7,287

Lund March 26, 2003

Christer Lindberg
Chairman of the Board of Directors

Nils Bernhard

Lars Grönberg

Christer Fähræus

Nils Sandstedt

Henrik Holm

Christer Bergman
CEO

Our audit report was issued on March 28, 2003.

Öhrlings PricewaterhouseCoopers AB

Per Wardhammar
Authorized Public Accountant
(Chiefly responsible)

Dan Andersson
Authorized Public Accountant

AUDIT REPORT

To the general meeting of the shareholders of Precise Biometrics AB (publ.), corporate identity number 556545-6596.

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the CEO of Precise Biometrics AB for 2002. 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, the consolidated 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 and the consolidated accounts are free from 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 and the consolidated accounts. 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 the CEO. We have also examined whether any board member or the 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 and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, consequently, provide a fair picture of the company's and the group's profit/loss and financial position in accordance with generally accepted accounting principles in Sweden.

We recommend that the general meeting of the shareholders adopt the income statements and the balance sheets of the parent company and the group, deal with the losses in the parent company in accordance with the proposal in the administration report and discharge the board members and CEO from liability for the financial year.

Lund, Sweden March 28, 2003

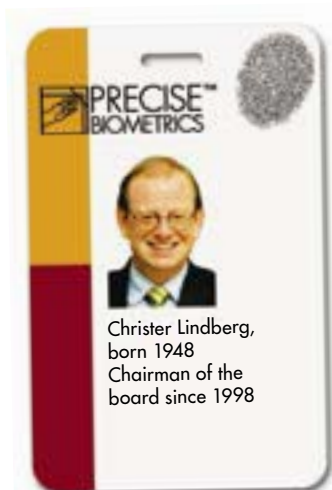
Öhrlings PricewaterhouseCoopers AB

Per Wardhammar
Authorized Public Accountant
(Chiefly responsible)

Dan Andersson
Authorized Public Accountant

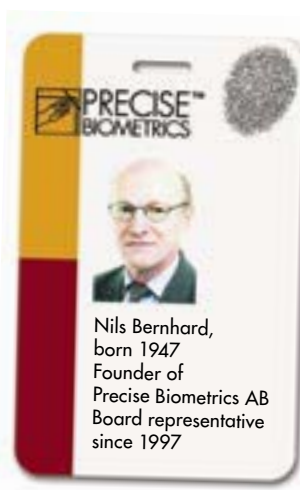
BOARD OF DIRECTORS AND ACCOUNTANTS

Share and option holdings, as of January 31, 2003 after the new share issue in December 2002.



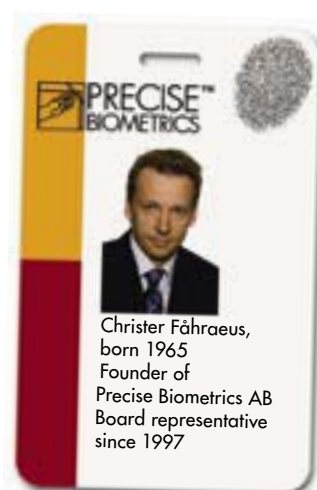
Christer Lindberg,
born 1948
Chairman of the
board since 1998

CEO of Almi Företagspartner Stockholm AB.
Other board positions: Chairman of Östergrens Elmotor AB. Board representative of Teknikhöjden AB and Array AB.
Education: Master of Business Administration
Shares in Precise Biometrics: 90,000
Options in Precise Biometrics: 0



Nils Bernhard,
born 1947
Founder of
Precise Biometrics AB
Board representative
since 1997

Other board positions: Chairman of Array AB and Pajeb Kvarts AB. Board representative of Imsys AB. Board representative and CEO of Mångubben AB. Deputy member of Array Controllers AB, Array Engineering AB and Thermo Signs AB.
Education: Master of Science in Civil Engineering and MBA
Shares in Precise Biometrics: 755,950
Options in Precise Biometrics: 0



Christer Fähræus,
born 1965
Founder of
Precise Biometrics AB
Board representative
since 1997

CEO and President of Anoto Group AB, CEO of Anoto AB.
Other board positions: Board representative of, among others, Cellavision AB and Anoto Group AB.
Education: Master of Science in Civil Engineering, Bachelor of Science in Mathematics, Studies in Medicine and Doctoral Candidate in Neurophysiology.
Shares in Precise Biometrics: 1,150,881
Options in Precise Biometrics: 0



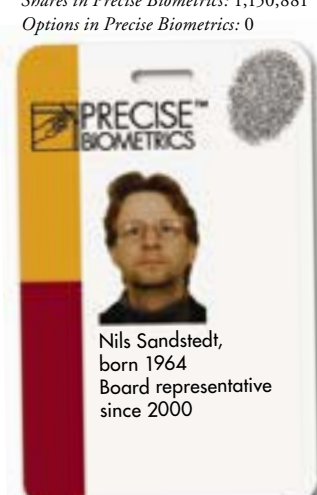
Lars Grönberg,
born 1949
Board representative
since 2000

Other board positions: Chairman of Cambio Healthcare Systems AB, Actit AB, Bindomatic AB, Song Networks AB, Matkompaniet AB and O.P.I.C AB. Board representative of, among others, PSI Group ASA, Finn Solvan A/S, XL Print Syd AB and ProAct IT Group AB.
Education: Master of Business Administration
Shares in Precise Biometrics: 0
Options in Precise Biometrics: 0



Henrik Holm,
born 1964
Board representative
since 2002

CEO of ProAct IT Group starting March 2003.
Other board positions: Chairman of ProAct IT Group AB, Cortina Fondbolag AB, Minq Software AB, Henrik Holm Mgmt AB and eXACT Permission Marketing AB.
Education: University studies in business economics and law.
Shares in Precise Biometrics: 5,200
Options in Precise Biometrics: 0



Nils Sandstedt,
born 1964
Board representative
since 2000

Working chair in Remium AB.
Other board positions: Chairman of Remium AB and Remium Holdings AB. Board representative of Array AB and Biolin AB. Representative of Riskkapitalrådet (NUTEK).
Education: Master of Business Administration
Shares in Precise Biometrics: 0
Options in Precise Biometrics: 0

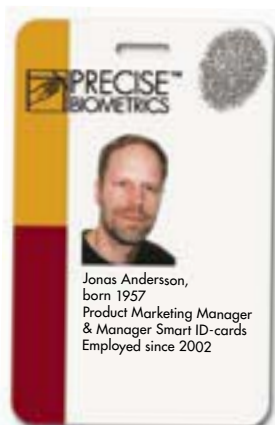
ACCOUNTANTS

Per Wardhammar, born 1951.
Authorized public accountant in charge.
Öhrlings PricewaterhouseCoopers AB, Stockholm, Sweden.
Accountant for Precise Biometrics since the fiscal year 1997/1998.

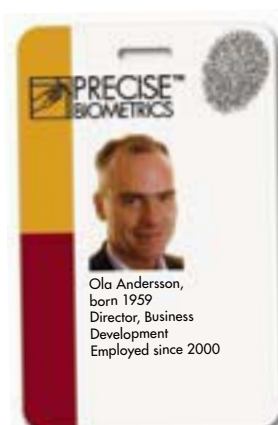
Dan Andersson, born 1956.
Authorized public accountant.
Öhrlings PricewaterhouseCoopers AB, Lund, Sweden.
Accountant for Precise Biometrics since the fiscal year 1999.

EXECUTIVE GROUP

Share and option holdings, as of January 31, 2003 after the new share issue in December 2002.



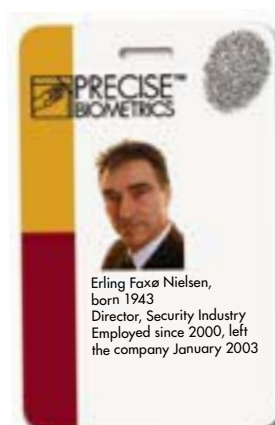
Education: Master of Science in Civil Engineering
Shares in Precise Biometrics: 0
Options in Precise Biometrics: corresponding to 2,376 shares.



Education: Master of Science in Civil Engineering
Shares in Precise Biometrics: 10,500
Options in Precise Biometrics: corresponding to 26,730 shares.



Education: Master of Science in Civil Engineering
Shares in Precise Biometrics: 21,900
Options in Precise Biometrics: corresponding to 39,600 shares.
*Associated with the company since 2000



Education: Master of Science in Civil Engineering
Shares in Precise Biometrics: 3,000
Options in Precise Biometrics: corresponding to 6,930 shares.



Education: Bachelor of Science in Mechanical Engineering and university certificate in Business Administration
Shares in Precise Biometrics: 300
Options in Precise Biometrics: 0



Education: Bachelor of Science in Finance
Shares in Precise Biometrics: 0
Options in Precise Biometrics: corresponding to 3,564 shares.



Education: Master of Business Administration
Shares in Precise Biometrics: 0
Options in Precise Biometrics: 0



Education: University studies in languages and media and communications.
Shares in Precise Biometrics: 600
Options in Precise Biometrics: 0



Education: Degree in Biochemistry
Shares in Precise Biometrics: 0
Options in Precise Biometrics: corresponding to 6,930 shares.



Education: Master of Science in Civil Engineering
Shares in Precise Biometrics: 28,500
Options in Precise Biometrics: corresponding to 6,930 shares.



Education: Master of Science in Business Administration
Shares in Precise Biometrics: 0
Options in Precise Biometrics: 0



Education: Master of Science in Civil Engineering
Shares in Precise Biometrics: 97,995*
Options in Precise Biometrics: corresponding to 9,900 shares.

* Including 97,995 shares on loan to Remium AB in connection to the new share issue in December 2002.

ECONOMIC GLOSSARY

AVERAGE NUMBER OF OUTSTANDING SHARES DURING THE YEAR

Number of shares at the beginning of year plus the number of shares at the end of the year divided by two.

BALANCE SHEET TOTAL

Value of all assets on the balance sheet date.

CAPITAL EMPLOYED

Balance sheet total minus non-interest-bearing liabilities and provisions. The average capital employed has been calculated as initial plus outgoing capital employed divided by two.

DEBT/EQUITY RATIO

Interest bearing liabilities divided by equity.

DIRECT DIVIDENDS

Proposed dividends divided by the share price on the balance sheet date.

DIVIDENDS

Dividends per share during the year.

EQUITY/ASSETS RATIO

Equity as of the balance sheet date divided by the total assets as of the balance sheet date.

GROSS MARGIN

Gross profit/loss divided by net sales.

INTEREST COVERAGE RATIO

Profit/loss after financial items plus financial costs divided by financial costs.

LIQUID RATIO

Current assets less inventories divided by current liabilities

OPERATING MARGIN

Operating profit/loss divided by net sales.

P/E RATIO

Share price at the end of year divided by profit/loss per share.

PROFIT/LOSS PER SHARE

Profit/loss after net financial income/expenses divided by the average number of shares. The calculation has been done in accordance with RR18 Profit/Loss per share. In accordance with RR18, recalculation after dilution may not produce a better profit/loss figure per share compared with that before dilution.

PROPORTION OF RISK-BEARING CAPITAL

Equity and deferred tax liability divided by the balance sheet total.

RETURN ON CAPITAL EMPLOYED

Profit/loss after net financial income/expenses plus financial costs divided by the average capital employed.

RETURN ON EQUITY

Profit/loss for the year divided by the average equity.

EQUITY

Equity at the end of year. The average equity has been calculated as initial equity plus outgoing equity divided by two.

EQUITY PER SHARE

Equity at the end of year divided by the number of shares at the end of the year.

SHARE PRICE

The last price paid during the period.

TOTAL SHARES

Number of shares at the end of year.

WORKING CAPITAL

Current assets less current liabilities.

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EXIT