

**PRESS RELEASE**  
**Gothenburg 27 October, 2006**

**Fingerprint Cards AB (publ), corporate identity no 556154-2381**  
**Interim report for the period January – September 2006**

*Highlights of the first nine months:*

- **The income for January to September totaled MSEK 8 (1.9)**
- **Net financial items amounted to MSEK 0.1 (0.4)**
- **The loss for January to September totaled MSEK –13.2 (-13.1)**
- **Liquid funds as at September 30 totaled MSEK 14.7 (22.1)**
- **Net earnings per share for January to September was SEK –1.41 (-2.06)**
- **Order worth MSEK 1 for access control systems in South Korea**
- **Order worth MSEK 7.3 for bank and automobile security applications in China**
- **Order worth MSEK 3.1 for access control systems in South Korea**
- **Order worth MSEK 9 from Japan for IT security**
- **Licence agreement with new US distributor**

*Late highlights after the end of the first nine months:*

- **Guaranteed new issue amounting to MSEK 70,1**

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**Fingerprint Cards** has developed electronic systems that determine personal identity by analysing the unique fingertip patterns of individuals. The systems comprise microchips with algorithms that scan, store and compare fingertip patterns without the help of any PC processor. Two types of capacitive sensors have been developed, an extremely small swipe sensor and a flatbed sensor. Processor ASICs and algorithms have been developed for each type of sensor. By virtue of its smallness, low power consumption and the possibility of very low production costs, the technology can be integrated in volume products such as smart cards and mobile (cell) phones, where the requirements for such features are extremely high. Other applications for the technology include access control systems for buildings and products for log on to computers and IT networks.

Fingerprint Cards has its head office in Gothenburg and is listed on the Nordic list of the Stockholm Stock Exchange (FING B)

## The market for biometrics

The first three quarters of 2006 have already excelled in their demonstration of the progress that biometric technologies are making. At the highest level the number of people coming into working contact with biometric technologies in some shape or form has increased massively, establishing a profound appreciation of the use of these technologies to protect against identity fraud and in favour of personal assets. Much of this has been through the burgeoning number of large ID programs, but the number of owners of biometric systems has also been increasing significantly if the growth of access control systems for buildings and the number of laptop computers and PC peripherals are to be believed. The uptake of biometrics, fingerprint biometrics in particular, for all of these sectors has become industry wide.

### Government projects

Projects driven by governments take longer to mature, but they have continued to multiply. This period has already seen the most dramatic endorsement and conversion to biometrics, with the date of October 26<sup>th</sup> being foremost in the mind of those in the industry as that for compliance to the US Visa Waiver Scheme. By this date countries wishing to participate in the scheme were expected to be issuing biometric e-Passports, and the timing of the scheme has done much to drive the speed of many larger projects and biometric initiatives. Within Europe the commitment to biometrics has been consolidated in a number of identity card programs getting underway – the UK, Spain, France, and Italy – in particular and as part of the wider EU commitment to include fingerprint biometrics to all new EU passports from mid-2009.

The early success of larger civil fingerprint systems has already moved projects into their later phases, as with the European asylum seekers identification programs, and the commitment was taken during the year by the European Commission to realise the next phase of fingerprint capture for the European Visa Identification System (VIS). This is expected to capture some twenty million sets of fingerprints each year from 2007 when it will coincide with the introduction of a new EU Residence Card standard.

There have been new national projects in the Middle East, Africa, and Asia. Such projects have got underway in Qatar, Morocco, UAE, Thailand, and Ghana with the wider aim of delivering integrated identification systems based on fingerprint biometrics.

### Widening roles and form factors

Complementing the resources being poured into these larger programs is a number of smaller government programs designed to bring biometrics into mainstream roles. Frequent traveller systems have been growing steadily in the US, Canada and elsewhere. In the UK an iris-based immigration program has spread to several airports and has been recruiting steadily. In the US the Transportation Security Administration has been testing a combination of radio frequency badges with fingerprint biometrics for airport personnel, as part of an access control program at Washington Dulles Airport. Government commitment to new form factors for biometric sensors and systems technology has spread beyond the transport sectors where numerous programs have been underway, and has reached departments such as the US Census Bureau which plans to use as many as half a million PDA computers equipped with fingerprint sensors as part of their secure mobile data gathering operation.

### Access control

Few vendors of access control systems are now without a biometric offering in their product lines. In many cases these are simply 'badged' alternatives to finished product elsewhere, but the number of products using OEM equipment is increasing as the value proposition becomes better understood and there is more time for informed selection. Asian manufacturers in particular have been effective at selecting and adopting biometric subsystems to their value-added products and they are seeing significant sales in their own markets. India too, with its large workforces, has begun to open up to biometrics for access control as well as for Time & Attendance.

### Secure computing

For laptop computers the evidence has been building for some time that biometrics, again dominated by the smaller, lower cost fingerprint sensors and algorithms, would work their way steadily into the IT product market. Peripherals such as sensor based keyboards and mouse technologies are still selling, but the widespread inclusion of fingerprint sensors to standard laptop computer models has really been in evidence this year. Sources suggest that by the end of the year as many as one in ten new laptop computers sold will include a fingerprint sensor security module. Most of these machines

include essential software for using the fingerprint as a convenient and secure replacement for login passwords, and this is often enhanced with a BIOS security option of securing the machine at boot up, and in some cases of using the fingerprint as a file encryption key for the protection of data. Leveraging of the fingerprint has been well underway on both counts: both as a standard feature in machines at all levels of product ranges (some costing as little as €500) and as part of the wider security system functionality. In the case of security the period has seen some significant additions by the leading computer brands of fingerprint machines that also feature Trusted Computing Platform security chips. These machines are provided with security hardware that is completely independent of the PC memory, processor, or operating system. This is able to perform a number of security checks on the PC system, including user verification, before any type of work or transaction can be undertaken. Following on from the broadening adoption of this we might expect to see stronger links between convenient biometric authentication and applications seeking support for digital rights management as well as the instillation of increasing confidence across business that mobile machines are finally reaching a fortress-like state.

Data has received fingerprint attention as well as machines, and the wider market now has a number of fingerprint USB or memory keys, many of which are capitalising on the fast decreasing cost of fingerprint and memory technologies. The versatility of these tiny devices is only at the beginning of their history; with some of these already being used as portable authentication systems and not only for data.

#### Advances in banking technology

Other sectors such as banking have been re-awakening to biometrics. The second quarter of the year saw a successful deployment in Japan to the use in Automated Teller Machines. Three of Japan's largest banks announced their plans for the introduction of these biometric cash machines using fingerprint technology. More than 2000 of a planned 6600 machines have been installed and the final number could exceed 30000. The reason for biometrics is to counter the rising cost of card misuse.

Banks have however also adopted biometrics for internal use. The motive is to secure the identity of individuals carrying out greater transactions within the bank or between banks. Following several announced frauds committed by employees the bigger banks in countries like China have introduced fingerprint technology to enhance security.

#### Company sales

Sales during the period January to September have developed very positively and the turnover amounted to MSEK 8 as against 1.9 for the corresponding period last year. It is mainly the Company's distributors in the Far East that generate orders and the technology being delivered is partly used in their own biometric end products although the majority of it goes to their customers in their respective regions. The categories of end products, in which the technology is used, represent a good spread and so do the number of different applications within the respective product fields. Through the network of distributors, built up during a six year period, the Company now has a good presence in important markets such as South Korea, Taiwan, China, Singapore and its surroundings, and Japan which was added on last year. All the distributors represent Fingerprint Cards on a non-exclusive basis. During the reporting period a strong distributor for the United States was included and this distributor, having a dozen strategically located branch offices, is well established on the US market. The Company's ambition for the near future is to establish a presence also in Canada, in some countries in South America and in India.

The market demand that the Company has experienced during the reporting period has by far exceeded, and is still exceeding the Company's ability to deliver. The bottleneck effect experienced has nothing to do with the actual silicon production; instead it is the supplementary work concerning the sensor component, the 'packaging' which includes mounting the chip on tiny circuit boards, the bonding, application of a protective layer on the silicon surface, and the final addition of the frame and the connection. The work on ramping up production, retaining quality assurance at subcontractors has gone on during the whole year and substantial results from this work were reached during the latter part of the third calendar quarter. The production rate is now rising rapidly for each month. By the turn of the year production will have reached a level that should be sufficient for next year's planned volumes. At the same time work has begun on designing a new and more cost efficient packaging solution and this new solution will during the course of next year replace the present solution. This measure is described in more detail under the sections "Background and motives for new issue" and "Technology development".

### **Key events January – June**

The Company's distributor in South Korea, Camos Tech Co., placed two orders during the period worth MSEK 4.1 for complete identification systems to be used in access control systems for hotels, office premises and banks. The products have been developed and are marketed by Camos Tech.

Hardware & Software Technologies Co., distributor for Taiwan and China, placed a supplementary order worth MSEK 7.3. Deliveries concern an IT security system for banks in China together with an automobile application also in China.

### **Key events July – September**

The Company's distributor in Japan, Secure Design, ordered complete fingerprint systems comprising sensor, algorithm and Processor ASIC, amounting to MSEK 9 for use in their IT product named *ITube*, a USB memory key designed for several applications besides storing and transportation of data.

A distributor licence agreement was signed with Component Distributors Inc. (CDI) for the US market. CDI, having a track record of more than three decades, covers the US market via a dozen strategically located branch offices.

The Company's collected order value at 30 September and where deliveries will be made during the rest of the year amounted to MSEK 16.

### **Background and motives for the new issue**

Following the authorization from the general meeting with the shareholders on May 23, 2006 the Board of Directors decided on October 4 to carry through a new issue with preferential rights for the Company's shareholders. The share capital will be increased by SEK 560 895 through a new issue of 2 804 475 B shares. For every ten old shares three new shares may be subscribed for at the price SEK 25 per share, implying that the new issue will bring MSEK 70,1 before issue expenses. The new issue is guaranteed to 44% by the present shareholders who have pledged to subscribe for 1 244 200 shares, and the remaining 56% of the new issue has been guaranteed by a consortium of guarantors (see press release from October 4).

The Company is experiencing a a strong increase in market demand and plans for a considerably higher business volume in the years ahead. This volume increase will require more working capital for which the main part of the new issue will be used. Beyond working capital part of the new issue will be used to make sensor packaging production at subcontractors more effective. The Company's objective is to reach a gross profit margin of 35% in sales and that will be achieved through the following measures:

A new processor ASIC is under development. The new chip is smaller, will have enhanced capacity and will be more power efficient than the present one. Production cost will be 80% lower using a more advanced production process. Design work started December 2005 and delivery to customers is planned to commence during the second calendar quarter 2007.

An investment amounting to approximately MSEK 5 in toolings and equipment for sensor packaging production will be carried out. With the new packaging solution the cost for packaging, which constitutes 50% of the total production cost for this component, will decrease by about 65% and lead time in production will go down from 8 to 4 weeks. Preparation for this investment has begun and delivery to customers is planned to commence during the second calendar quarter 2007.

As deliveries of the new components begin then the older versions will gradually be phased out and the Company's sales margins will start to improve correspondingly.

### **The Company's financial objectives**

#### **Sales**

Market demand for Fingerprint Cards' products has during the whole of 2006 exceeded the Company's delivery capacity. Beyond those measures undertaken this year to ramp up production the

Company will invest in production equipment that will remove present production bottlenecks. For 2007 Fingerprint Cards foresees a continued strong sales increase. Since the biometric market still is at an early stage then its future growth rate is hard to assess and the Board of Directors has chosen not to set any specific long term growth rate for the Company.

#### Operating profit/loss

The Board's objective is that Fingerprint Cards within 24 months will show a positive operating result calculated on an annual basis. A condition for this is that the positive market demand the Company now experiences will remain and that the planned measures for an increase of production volumes will have the desired effect.

#### Financing

The growth foreseen by the Board for the coming years will be equity financed. The Board's assessment is that the new issue now being carried through will cover the Company's capital requirements for at least the coming two years.

#### Dividend policy

The Company's cash flow for the coming years will be used for financing a continued business growth and therefore the Board cannot foresee any dividend for the next few years.

### **Technology development**

There was continuous work throughout the year in developing a new processor ASIC that will replace the present one. The project advances according to plan and the aim is that deliveries of this new chip to customers will commence during the second calendar quarter 2007. By exploiting a more advanced production process the silicon area will be reduced by 75%, production cost per chip will go down by 80% and at the same time the chip will be faster, have a greater capacity and it will be more power efficient.

A substantial part of the resources has been allocated to work concerning an increase of sensor packaging production. The chip is mounted on a tiny printed circuit board together with a number of very small 'passive' components before the bonding is done. After that the protective layer is applied to the silicon surface and thereafter final assembly attaching connections, applying the frame and testing the sensor is carried out. This production upramp has been very time consuming but is now showing substantial effects from the later part of the third calendar quarter in terms of rapidly rising monthly outputs. Production output in December as an example, will exceed by a factor twelve the monthly production at the beginning of this year.

A new and more production friendly packaging solution based on a coating method developed by the Company, will considerably simplify the packaging production process and at the same time halve production lead time. The investment in toolings and production equipment that the Company will undertake concerns both the area and the swipe sensor and it will lower the packaging cost considerably. The tooling work has begun and production is planned to commence during the second calendar quarter 2007.

### **Turnover and earnings**

Consolidated turnover during the period January – September amounted to MSEK 8.0 (1.9). Consolidated earnings for the period January – September amounted to -13.2 (-13.1).

### **Financial position**

Operations are essentially financed by new stock issues in 1998 and 2000 and 2005, totaling MSEK 227. The consolidated equity/assets ratio as at September 30, 2006 was 91.4 % (94.9). Consolidated available liquid assets including current investments as at September 30, 2006, totaled MSEK 14.7 (22.1). Other current receivables amounted to MSEK 7.8 (0.8). The consolidated working capital amounted as at September 30 to MSEK 31 (25.4).

## **Fixed assets, capital expenditure and depreciation**

During the first nine months investments in equipment amounted to MSEK 0.1 (0). Development cost has been set up as an asset during the period with MSEK 2.0 (0). Development costs were depreciated according to plan by 15 % and equipment is depreciated by 20% annually.

## **Personnel**

The number of employees as at September 30 was 11 (11), of whom none (none) were women.

## **Accounting principles**

This interim report was prepared in accordance with IAS 34, Interim Financial Reporting. The consolidated financial statements are made up in accordance with the International Financial Reporting Standards, IFRS. For further details see note 1 in the Fingerprint Cards AB's Annual Report 2005.

## **Important events after the end of the period**

The Board of Directors decided on October 4 to carry through a new issue with preferential rights for the Company's shareholders (see section "Background and motives for the new issue").

## **Other reporting dates**

Press release on annual accounts for 2006, February 2007  
Annual report for 2006

Gothenburg, October 27, 2006

## **Fingerprint Cards AB (publ)**

## **The Board**

## **Review Report**

### **Introduction**

We have reviewed the interim report of Fingerprint Cards AB (publ), corporate identity number 556154-2381 for the period 1 January 2006 – 30 September 2006. The board of directors and the managing director are responsible for preparing and presenting this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express an opinion on this interim report based on our review.

### **Scope of the review**

We have conducted our review in accordance with Standard for review SÖG 2410 – Review of financial interim report information performed by the auditor of the company – issued by FAR. A review consists of inquiries in the first place to persons responsible for financial and accounting issues, to perform an analytical review and take other review procedures. A review is significantly less in scope than an audit in accordance with generally accepted auditing standards and good auditing practice in Sweden. The review procedures made at a review do not secure that we are aware of all significant circumstances, which could have been identified if an audit has been performed. Therefore, the expressed conclusion based on a review does not have the security, which an expressed conclusion based on an audit has.

**Conclusion**

During our review we have not identified any circumstances, which indicate that the interim report is not in all in compliance with the requirements of IAS 34 and the Annual Accounts Act.

Gothenburg, October 27, 2006

**KPMG Bohlins AB**

**Jan Malm**

Authorized Public Accountant

<b>STATEMENTS OF INCOME, THE GROUP</b> (MSEK)	jul-sep <u>2006</u>	jul-sep <u>2005</u>	jan-sep <u>2006</u>	jan-sep <u>2005</u>	jan-dec <u>2005</u>
<b>Operating income</b>					
Net turnover	3.2	0.6	8.0	1.9	2.7
Cost of goods sold	<u>-2.9</u>	<u>-0.7</u>	<u>-6.7</u>	<u>-1.9</u>	<u>-2.7</u>
<b>Gross Margin</b>	0.3	-0.1	1.3	0.0	0.0
<b>Operating expenses</b>					
Administration	-1.5	-1.5	-4.7	-4.7	-6.5
Development costs	-2.0	-1.8	-6.4	-5.8	-7.4
<u>Market costs</u>	<u>-1.0</u>	<u>-0.9</u>	<u>-3.5</u>	<u>-2.9</u>	<u>-4.1</u>
<b>Operating profit/loss</b>	<b>-4.2</b>	<b>-4.4</b>	<b>-13.3</b>	<b>-13.5</b>	<b>-18.0</b>
Net financial items	0.1	0.1	0.1	0.4	0.5
<b>Net profit/loss for the period</b>	<b>-4.1</b>	<b>-4.3</b>	<b>-13.2</b>	<b>-13.1</b>	<b>-17.5</b>

<b>BALANCE SHEETS THE GROUP</b> (MSEK)	30 sep <u>2006</u>	30 sep <u>2005</u>	31 dec <u>2005</u>
<b>Assets</b>			
Intangible assets		14.2	14.7
<u>Tangible assets</u>		<u>0.3</u>	<u>0.5</u>
<i>Total fixed assets</i>		<i>14.5</i>	<i>15.2</i>
Inventory		12.8	4.7
Current receivables		7.8	0.8
Current investments		0.0	5.0
<u>Cash and bank deposits</u>		<u>14.7</u>	<u>17.1</u>
<i>Total current assets</i>		<i>35.3</i>	<i>27.6</i>
<b>Total assets</b>	<b>49.8</b>	<b>42.8</b>	<b>61.0</b>
<b>Equity and liabilities</b>			
Equity		45.5	40.6
Current liabilities, non-interest bearing		4.3	2.2
<b>Total equity and assets</b>	<b>49.8</b>	<b>42.8</b>	<b>61.0</b>

<b>CHANGE IN EQUITY, THE GROUP</b> (MSEK)	jan-sep <u>2006</u>	jan-sep <u>2005</u>	jan-dec <u>2005</u>
Opening equity	58.7	14.8	53.7
Option premiums received	0.0	0.0	22.5
<u>Net profit/loss for the period</u>	<u>-13.2</u>	<u>-13.1</u>	<u>-17.5</u>
<b>Closing equity</b>	<b>45.5</b>	<b>1.7</b>	<b>58.7</b>

<b>CASH FLOW ANALYSES, THE GROUP</b> (MSEK)	jan-sep <u>2006</u>	jan-sep <u>2005</u>	jan-dec <u>2005</u>
Earnings for the period	-13.3	-13.5	-18.0
Depreciation	2.1	2.2	2.8
Interest received	0.1	0.4	0.6
Other items	-0.6	-0.3	-0.5
<u>Change in working capital</u>	<u>-11.4</u>	<u>2.2</u>	<u>1.5</u>
<b>Cash flow from current operations</b>	<b>-23.1</b>	<b>-9.0</b>	<b>-13.6</b>
<b>Cash flow from investment operations</b>	<b>-2.1</b>	<b>0.0</b>	<b>0.0</b>
<b>Cash flow from financing operations</b>	<b>0.0</b>	<b>0.0</b>	<b>22.5</b>
<b>Change in liquid funds incl. curr. investments</b>	<b>-25.2</b>	<b>-9.0</b>	<b>8.9</b>

<b>KEY RATIOS, THE GROUP</b>	jul-sep <u>2006</u>	jul-sep <u>2005</u>	jan-sep <u>2006</u>	jan-sep <u>2005</u>	jan-dec <u>2005</u>
Net earnings per share (SEK)	-0.44	-0.68	-1.41	-2.06	-2.56
Net earnings per share after full conversion (SEK)	-0.44	-0.68	-1.41	-2.06	-2.56
Equity per share (SEK)			4.87	6.40	6.28
Equity per share after full conversion (SEK)			5.36	0.27	6.67
Equity/assets ratio (%)			91.4	94.9	96.2
No. of shares average (thousands)			9,348	6,348	6,348
No. of shares after full conversion average (thousands)			9,348	6,715	7,073
No. of shares (thousands)			9,348	6,348	9,348
No. of shares after full conversion (thousands)			9,348	6,348	9,498