

## **Half-yearly interim report, January-June 2001, Fingerprint Cards AB (publ)**

Comments on the first half-year:

- Fingerprint Cards technology to be tested in data security system for Swedish Defence Forces
- Great interest in the new swipe sensor
- Company technology adapted to the BioAPI standardised interface
- Losses for the half-year total MSEK 21.9
- Liquid funds as at June 30, total MSEK 137

### **General remarks on operations**

The Company is developing a technology for scanning and matching fingertip patterns for determination of individuals' identity, which replaces PIN codes and passwords in security applications. The technical solutions developed are to be licensed to companies in the fields of mobile telephony, data security, building access control and card-based solutions for e-commerce and other electronic transactions.

### **The market**

During the second quarter, company technology received major recognition. FMV, Sweden's Defence Materiel Administration, decided to test technology for a new defence organisation data security system, from Comex Electronics, Fingerprint Cards and Oberthur Card Systems. Oberthur supplies the smartcards on which the Fingerprint Cards algorithm has been implemented. Comex, who are the system suppliers, are supplying card readers, which incorporate Fingerprint Cards sensor- and processor components. A first prototype system is to be completed and delivered before the end of the year and FMV's decision as to possible series deliveries is expected next year. A licence agreement has been signed with Comex.

In May, the Company demonstrated its technology at the major technology trade fair, CardTech/SecurTech, in Las Vegas, a world-leading forum for the most advanced technologies in the fields of smartcards and biometrics. Biometric Associates Inc. demonstrated a self-identifying smartcard, where the entire Fingerprint Card system has been incorporated, i.e., both hard- and software. Great interest was aroused by the new sensor developed by the Company, the only capacitive swipe sensor on the market that thanks to its small size (2.5 mm x 11 mm) will be both cheaper to develop and easier to integrate into small applications such as mobile telephones. When volume manufacturers have undertaken their evaluations of the quality and performance of this biometric technology, price will be the sole determining factor, in the judgement of the Company.

### **Technical status**

The reinforcement of the technical organisation continues to yield positive results with regard to efforts to industrialise components, refine algorithms and design a new ASIC process for the new swipe sensor.

Several sensor developers have had major problems in devising a surface layer that makes the components resistant to electrostatic discharges. For its sensors, Fingerprint Cards has developed a surface coating that resists repeated 15 kV discharges and hence meets the requirements of the highest EU standard, class 4. The surface developed is production matched and also improves sensor performance for finger pattern scanning.

The potential of the new swipe sensor developed by the Company lies in its compact size and very low production costs. For applications such as mobile telephones and handheld computers (PDAs), which have their own processor of adequate capacity, it can be used for the swipe sensor, for which reason the algorithm can be supplied as an IP-module. This reduces the number of components required by finger verification to one, i.e., the sensor. For other applications, a specially adapted ASIC processor is required for the swipe sensor. The design work on this process chip has been in progress all this year and is now in its closing stages. Prototype production is planned for the end of this year and efforts to adapt the algorithm have been undertaken in parallel. In anticipation of the new processor, the entire system with the swipe sensor is now being operated in a PC environment, with an insert card developed by the Company that simulates the function of an ASIC processor.



During the period the Company has further adapted a sensor and algorithm as a standardised interface for biometric technology, BioAPI (Biometric Application Programming Interface). The benefits of this adaptation are that Company technology becomes more accessible to application developers and that this facilitates large-scale tests and evaluations.

### **Turnover and earnings**

Consolidated turnover during the second quarter amounted to MSEK 0.2 (0.6) and for the period January-June, to MSEK 0.3 (1.0). The consolidated loss for the second quarter amounted to MSEK -12.1 (-3.1) and for the period January-June, the loss was MSEK -21.9 (-8.7). All development costs including component purchases have been charged to the earnings. The inventory build-up, relating to sensors and processors purchased during the period for delivery to customers, has been written off in its entirety as expenses item of MSEK 4.7. This deterioration in earnings in comparison with the previous year is a result of the Company's more offensive commitment to technological development and marketing.

### **Financial position**

Operations are essentially financed by both a new issue of MSEK 55.5, floated in the spring of 1998, and a preferential and a directed new issue, respectively, of MSEK 149 net, floated in April 2000. The consolidated equity/assets ratio as at June 30, was 94.9% (97.6%). Consolidated available liquid assets including current investments as at June 30, 2001, totalled MSEK 136.8 (165.0). Other current receivables amounted to MSEK 2.8 (3.0). The consolidated working capital amounted as at June 30 to MSEK 132.1 (163.7). The two equally large Company option programs with redemption rates of SEK 192 and SEK 67, respectively, for a total of 600,000 shares can result in a maximum dilution of 9.4%.

### **Fixed assets, investments and depreciation**

During the second quarter, MSEK 0.1 (0.1) was invested in equipment. During the first six months, the investment in equipment totalled MSEK 0.2 (0.2). Previous development costs of MSEK 9.2 set up as an asset and patent rights for MSEK 5.9 were depreciated according to plan by 15% annually, equivalent to the expected economic life. Equipment is depreciated by 20% annually and PCs by 30% annually.

### **Personnel**

During the second quarter, one further employee was taken on. The number of employees as at the last day of June thus totalled seventeen (twelve).

### **Accounting principles**

This interim report has been prepared in accordance with Recommendation RR 20 on interim reporting, issued by the Swedish Financial Accounting Standards Council. The report has been prepared in accordance with the same principles of accounting and calculation as applied to the 2000 Annual Report. Recording of deferred taxation attributable to a loss carry forward totalling MSEK 17.8 has not been recorded as an asset on grounds of principle. This is a reversion to the principles of accounting that were applied during the establishment of the Annual Report for the 2000 fiscal year.

### **Significant events after the end of the accounting period**

Fingerprint Cards licensee Biometric Associates Inc. has initiated a transatlantic collaboration with the German smartcard manufacturer Novacard GmbH. According to a press statement, both companies will this autumn manufacture the world's first smartcard with integrated finger verification from Fingerprint Cards, which complies with the requirements for thinness in accordance with ISO 7816.

**Future reporting dates**

Nine-month interim report, January-September, October 23, 2001  
Press release on unaudited figures for 2001, February 2002  
2001 Annual Report, April 2002

Gothenburg, August 28, 2001

**Fingerprint Cards AB (publ)****The Board**

*The interim report has been summarily examined by the Company auditor.*

**EXAMINATION REPORT**

I have summarily examined this interim report in accordance with the recommendations published by the Swedish Institute of Authorised Public Accountants (FAR). A summary examination is considerably restricted in comparison with an audit. No findings indicate that the interim report does not comply with the stipulations of the Annual Accounts Act or of the Stock Exchange.

Gothenburg, August 28 2001

**Ernst & Young AB****Jonas Cullberg**

Authorised Public Accountant

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STATEMENTS OF INCOME (Group)	Q2	Q2	Six	Six	Full
(SEK M)	2001	2000	months	months	year
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2000</u>
<b>Operating income</b>					
Net turnover	0.2	0.6	0.3	1.0	3.6
<b>Operating expenses</b>					
Development costs	-4.5	-1.6	-10.7	-4.1	-14.0
Personnel costs	-3.8	-0.9	-6.6	-2.1	-6.4
Other external costs	-2.2	-1.2	-4.1	-3.2	-6.0
Depreciation	-0.6	-0.6	-1.3	-1.2	2.7
<b>Operating loss</b>	<b>-10.9</b>	<b>-3.7</b>	<b>-22.4</b>	<b>-9.6</b>	<b>-25.5</b>
Net financial items	1.6	0.6	3.3	0.9	4.8
<b>Net loss after financial items</b>	<b>-9.3</b>	<b>-3.1</b>	<b>-19.1</b>	<b>-8.7</b>	<b>-20.7</b>
Deferred tax	2.5	0.9	5.2	2.4	5.6
<b>Net loss for the period</b>	<b>-6.8</b>	<b>-2.2</b>	<b>-13.9</b>	<b>-6.3</b>	<b>-15.1</b>
Number of shares (000s)	6,348	6,348	6,348	6,348	6,348
Number of shares after full conversion (000s)	6,948	6,648	6,948	6,648	6,648
Earnings per share, in SEK	-1.07	-0.34	-2.19	-0.98	-2.38
Earnings per share after full conversion, in SEK	-0.98	-0.32	-2.00	-0.94	-2.27

BALANCE SHEETS (Group)	Jun	Jun	Dec
(SEK M)	2001	2000	2000
<b>Assets</b>			
Intangible assets	6.2	8.4	7.3
Tangible assets	1.2	0.6	1.2
<u>Financial assets</u>	<u>17.8</u>	<u>9.4</u>	<u>12.6</u>
<i>Total fixed assets</i>	<i>25.2</i>	<i>18.4</i>	<i>21.1</i>
Inventory	2.8	0.0	0.0
Current receivables	2.8	3.0	4.6
Current investments	131.3	144.0	152.2
<u>Cash and bank deposits</u>	<u>5.5</u>	<u>21.0</u>	<u>2.2</u>
<i>Total current assets</i>	<i>142.4</i>	<i>168.0</i>	<i>159.0</i>
<b>Total assets</b>	<b>167.6</b>	<b>186.4</b>	<b>180.1</b>
<b>Equity and liabilities</b>			
Equity	160.1	182.2	173.8
Short-term liabilities, non- interest bearing	7.5	4.2	6.3
<b>Total equity and assets</b>	<b>167.6</b>	<b>186.4</b>	<b>180.1</b>

CHANGE IN SHAREHOLDERS' EQUITY (Group)	Six	Six	Full
(SEK M)	months	months	year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
Opening shareholders' equity	173.8	39.6	39.6
New issue	0.0	148.8	149.0
Received from option scheme	0.2	0.0	0.3
Net loss for the period	-13.9	-6.3	-15.1
<b>Closing shareholders equity</b>	<b>160.1</b>	<b>182.2</b>	<b>173.8</b>

CASH FLOW ANALYSES (Group)	Six	Six	Full
(SEK M)	months	months	year
	<u>2001</u>	<u>2000</u>	<u>2000</u>
Cash flow from current operations			
Before changes in operating capital	-19.2	-7.5	-20.4
Increase/decrease in current receivables	0.7	-2.7	-1.0
Increase in current liabilities	1.2	1.9	3.4
<u>Increase/decrease in current investments</u>	<u>20.6</u>	<u>-123.8</u>	<u>-132.3</u>
<b>Cash flow from current operations</b>	<b>3.3</b>	<b>-132.1</b>	<b>-150.3</b>
Investment operations	-0.2	-1.5	-2.7
<u>Financial operations</u>	<u>0.2</u>	<u>148.8</u>	<u>149.3</u>
<b>Change in liquid assets</b>	<b>3,3</b>	<b>15,2</b>	<b>-3,7</b>

KEY RATIOS (Group)	Jun	Jun	Dec
	<u>2001</u>	<u>2000</u>	<u>2000</u>
Equity per share, in SEK	25.23	28.71	27.38
Equity-assets ratio (%)	95.5	97.8	96.5