

Third-quarter interim report, January to September 2001, Fingerprint Cards AB (publ)

Highlights of the third quarter:

- Greater interest in biometrics after the terrorist attacks in the USA
- The Company is now offering a complete fingertip verification system for ten dollars.
- Losses for the third quarter total MSEK 5.9
- Liquid funds as at September 30, amount to MSEK 128.3

Late highlights after the end of the third quarter:

- Fingerprint Cards has received a million – kronor order for smartcard components

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

Market

During the autumn, operations have expanded on the North American market, where a special consultant has been engaged. The latter has a wide network of contacts and an insight into continuing government procurement of biometrically secure smartcards for its employees. His role will be to intensify contacts with the five suppliers appointed by the Federal government.

The terrorist attacks on the USA on September 11 have stimulated considerably greater interest in security technology in general and attention there has now focused on the feasibility of biometrics for identity checks on

both airport employees and passengers. There has also been great interest in fingertip pattern verification technology thanks to the fact that it provides a high level of security while observing the need for personal integrity. Citing an independent consumer poll held in September, the company Harris Interactive reports that more than 80% of the public views the use of fingertip verification technology as of major or extreme value to security at North American airports.

The third quarter saw a start on the marketing of the Company's swipe sensor concept, which allows the provision of a complete fingertip pattern verification system, comprising sensor, processor and algorithm, at a cost of under ten dollars in volume deliveries. An initial marketing effort has been directed at the eighty largest brands in the fields of mobile telephony and IT applications such as laptops, handheld computers and keyboards. The cost of the technology is crucial to this kind of mass-volume product, once other technical considerations have been met. Fingerprint Cards is alone in having developed a capacitive swipe sensor, which, in combination with the most compact algorithm on the market, makes it possible to offer a complete biometric system at such a low cost.

The Company has supplied a number of systems intended for small-arms security equipment used to lock a gun into its holster. Fingertip pattern verification is used to open the lock on the holster, allowing the legitimate owner access to the weapon. A small-scale pilot study is being undertaken and may be expanded later this autumn.

At the m-commerce show in London the Company demonstrated its embedded technology, which is especially suitable for mobile solutions. The embedded system with its swipe sensors offers a range of benefits and apart from its low cost and current consumption, the Company's unique algorithm for matching fingertip patterns can be implemented in the existing processor of a mobile telephone or handheld computer. This reduces the need for components for the biometric function to a single sensor for scanning fingertip patterns, which offers an unbeatable advantage in terms of costs.

Technical status

During the third quarter the Company initiated an in-house ergonomics project that aims to study various methods of applying the sensor in different products and finding a design that guides the finger naturally to the correct position. This facilitates excellent scanning of the fingertip pattern, thereby safeguarding system performance.

A considerable quantity of fingertip pattern data was collated during the summer in a database for further development of the verification algorithm. Here, great importance was attached to ensuring the widest possible diversity of individuals with regard to age, gender, profession and ethnic origin.

The swipe sensor algorithm performs well in database runs and has now been implemented in a program language (VHDL) that allows the function to take the form of an IP module. The latter can be integrated into a processor ASIC, thus reducing the number of components for the biometric system to a single sensor.

Turnover and earnings

Consolidated turnover during the second quarter amounted to MSEK 0.1 (0.5) and for the period January-June, to MSEK 0.4 (1.5). The consolidated loss for the third quarter amounted to MSEK -5.9 (-4.2) and for the period January-June, the loss was MSEK -27.8 (-12.9). The 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 September 30 was 96,9% (97.0%). Consolidated available liquid assets including current investments as at September 30, 2001, totalled MSEK 128.3 (162.9). Other current receivables amounted to MSEK 2.7 (2.1). The consolidated working capital amounted as at September 30 to MSEK 126.8 (159.6). 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 third 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

As at September 30, the number of employees totalled seventeen (fourteen) and during the third quarter a further two engineering graduates were engaged on a project basis with effect from October 1.

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.

Significant events after the end of the accounting period

At the Paris-based trade show, Cartes 2001, which opens today, the Company and its partner Biometrics Associates Inc., will be demonstrating smart cards incorporating its entire biometrics system, which are now as thin as standard credit cards. Licensed by Fingerprint Cards, Biometric Associates Inc. has noted a definite rise in the interest in biometrically secured cards, primarily in the USA, and has now placed an order with the Company for several thousand more components for card production.

At this show, the Company is arranging a seminar on the topic "The Future of Biometrics and Its Use in Smartcards". Representatives of Sharp Laboratories will also attend this seminar.

Future reporting dates

Press release on unaudited figures for 2001, February 27, 2002
2001 Annual Report, April 2002

Gothenburg, October 23, 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, October 23 2001

Ernst & Young AB

Jonas Cullberg

Authorised Public Accountant

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STATEMENTS OF INCOME, (Group) (MSEK)	Jul-Sep <u>2001</u>	Jul-Sep <u>2000</u>	Jan-Sep <u>2001</u>	Jan-Sep <u>2000</u>	Jan-Dec <u>2000</u>
Operating income					
Net turnover	0,1	0,5	0,4	1,5	3,6
Operating expenses					
Development costs	-1,8	-3,4	-15,3	-7,5	-14,0
Personnel costs	-3,0	-1,9	-9,6	-4,0	-6,4
Other external costs	-2,1	-1,1	-6,2	-4,3	-6,0
Depreciation	<u>-0,7</u>	<u>-0,7</u>	<u>-2,0</u>	<u>-1,9</u>	<u>-2,7</u>
Operating loss	-7,5	-6,6	-32,7	-16,2	-25,5
Net financial items	1,6	2,4	4,9	3,3	4,8
Net loss for the period	-5,9	-4,2	-27,8	-12,9	-20,7
Number of shares (000s)	6 348	6 348	6 348	6 348	6 348
Number of shares after full conversion (000s)	6 648	6 648	6 948	6 648	6 648
Earnings per share, in SEK	-0,92	-0,65	-4,39	-2,02	-3,27
Earnings per share after full conversion, in SEK	-0,88	-0,62	-4,01	-1,93	-3,12
BALANCE SHEETS (Group) (MSEK)			Sep <u>2001</u>	Sep <u>2000</u>	Dec <u>2000</u>
Assets					
Intangible assets			5,6	7,9	7,3
<u>Tangible assets</u>			<u>1,2</u>	<u>1,0</u>	<u>1,2</u>
Financial assets			0,0	0,0	0,0
<i>Total fixed assets</i>			6,8	8,9	8,5
Current receivables			2,7	2,1	4,6
Current investments			125,3	157,4	152,2
<u>Cash and bank deposits</u>			<u>3,0</u>	<u>5,5</u>	<u>2,2</u>
<i>Total current assets</i>			131,0	165,1	159,0
Total assets			137,8	174,0	167,5
Equity and liabilities					
Equity			133,6	168,6	161,2
<u>Short term liabilities, non-interesting bearing</u>			<u>4,2</u>	<u>5,4</u>	<u>6,3</u>
Total equity and assets			137,8	174,0	167,5
CHANGE IN SHAREHOLDERS' EQUITY (Group) (MSEK)			Jan-Sep <u>2001</u>	Jan-Sep <u>2000</u>	Jan-Dec <u>2000</u>
Opening shareholders' equity			161,2	32,6	32,6
New issue			0,0	148,8	149,0
Received from option scheme			0,2	0,0	0,3
Net loss for the period			-27,8	-12,9	-20,7
Closing shareholders equity			133,6	168,6	161,2
CASH FLOW ANALYSES (Group) (MSEK)			Jan-Sep <u>2001</u>	Jan-Sep <u>2000</u>	Jan-Dec <u>2000</u>
Cash flow from current operations					
Before changes in operating capital			-26,7	-11,0	-20,4
Increase/decrease in current receivables			3,2	-1,2	-1,0
Increase/decrease in current liabilities			-2,1	2,4	3,4
Increase/decrease in current investments			26,5	-137,1	-132,3
Cash flow from current operations			0,9	-146,9	-150,3
Investment operations			-0,2	-2,2	-2,7
<u>Financial operations</u>			<u>0,2</u>	<u>148,8</u>	<u>149,3</u>
Change in liquid assets			0,9	-0,3	-3,7
KEY RATIOS (Group)			Sep <u>2001</u>	Sep <u>2000</u>	Dec <u>2000</u>
Equity per share, in SEK			21,04	26,7	25,40
Equity-assets ratio (%)			96,9	97,0	96,3