

## **First-quarter interim report January - March 2003, Fingerprint Cards AB (publ)**

*Highlights of the first quarter:*

- **Reseller agreement signed for Asian market with Autostar Technologies Ltd**
- **Marketing co-operation agreement signed with Motorola Semiconductor Division**
- **The Company joined Texas Instrument´s Third Party Network**
- **First-quarter operating income totalled MSEK 1.1 (0.3)**
- **Net financial items amounted to MSEK 1.5 (1.4)**
- **The loss for the first quarter totalled MSEK 3.8 (7.9)**
- **Liquid funds as at March 31 totalled MSEK 82.5 (109.5)**

*Late highlights after the end of the first quarter:*

- **Gunnebo AB buys 10.3% of the capital in Fingerprint Cards over the stock exchange**

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**Fingerprint Cards** has developed electronic systems that determine personal identity by analyzing the unique fingertip patterns of individuals. The systems comprise in-house developed 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. Thanks to the small size of these devices, the low power consumption of the systems and the possibility of very low production costs, this technology can be implemented in very small electronic consumer products such as smart cards and cell phones, where the requirements for such features are extremely high.

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

## **Market and sales**

Deliveries were initiated during the quarter for orders the Company received last year. The products for which the deliveries are targeted have recently been introduced on respective markets and therefore the volumes will successively increase during the year. The Company assesses that at least ten commercial products containing the Company's technology will be available on the market by the end of the year. The batch deliveries that have now been initiated concern in each case systems based on the Company's flatbed sensor, where contracted production units are now successively increasing production rates. Production refers here not to manufacturing of the actual chips but packaging, i.e. mounting of the sensors on substrates with passive components as resistors and capacitors, connectors for external communication, and mounting of a frame round the sensor. The Company still has only a small number of customers who can accept or prefer deliveries of naked, unpackaged sensor chips.

The network of distributors the Company began to build up in 2002 has proved to be a successful approach. Dealers have continuously established new customer contacts in their respective regions, several of which have made sufficient progress in the process of building products for them to be able to place orders for delivery of the Company's components this year. A new distributor was found during the first quarter, Autostar Technologies in Singapore, which in addition to using Fingerprint Cards' technology in their own products also distributes in the markets of Indonesia and Malaysia as well as in Singapore. The number of distributors will be increased in Europe, the US and Asia.

Two important co-operative projects for the Company concerning both technology and marketing were formalised during the first quarter with two leading suppliers of processors. In co-operation with Motorola Semiconductor the Company has adapted its DAD algorithm to Motorola's Dragonball processor, which is the prime choice of processor for manufacturers of handheld computers such as PDAs. This allows Motorola's customers to more easily embed the Company's biometric systems in their products by executing the algorithms in the product's own processor and with an interface to Fingerprint Cards' sensor. A similar evaluation of the Company's software has been made by Texas Instruments and resulted in The Company's algorithm being implemented in two of their processor platforms, C5000 and C6000, which are targeted at manufacturers of mobile and wireless products. Fingerprint Cards is now included in Texas Instruments' network for third-party suppliers. The initiation of co-operation with two such powerful brands as Motorola and Texas Instruments constitutes an endorsement of the Company's technology and has generated contacts with customers of these companies.

On the whole the Company now finds itself in an interesting situation. Several tangible products containing the Company's technology are now available on the market, and even more will be gradually introduced at ever increasing rates. This should mean an increase in deliveries and invoicing. New products produced by the Company's customers that are beginning to mature for introduction of the market can be found in such a wide range of product areas as safes, access systems for buildings, time & attendance, USB keys, smart card readers, and in one application, for vehicles. The technological success of the Company with a low-cost system based on its swipe sensor which uses extremely low levels of power has also made an impact on the market. This system is a result of several years of pioneering research, and was developed with the objective of achieving the really large volumes available in the consumer electronics market. Projects to integrate the Company's system with swipe sensors in these types of products have been in progress for some time in Europe and Asia with major brands.

## **Technological development**

### *New sensor platform*

An essential technological parameter in future battery-operated, portable products such as mobile phones and handheld computers is the power consumption. Every manufacturer wants to be able to offer the longest possible period of use from replacing or charging the batteries in their products, and developments in the electronics industry are moving towards a reduction of both the supply voltage and the power consumption. With this in mind the Company has developed a new sensor platform that can be used in applications down to 2.5 volts. On the basis of this platform a new swipe sensor, the FPC1031, has been produced and the first prototypes have now been delivered. Preliminary tests show a positive result with power consumption below the set specification of 22mA in active mode.

In addition to the low power consumption a number of other improvements have been incorporated in the design, including an expanded communication interface: a parallel communication interface that permits simpler communication with standard processors or digital signal processors (DSPs). The new swipe sensor FPC1031 is expected to be ready for delivery in volumes during the fourth quarter.

### *Packaging of sensors*

An important part of the price for a sensor component is the cost of the packaging. Few customers can use the plain silicon chip in their products, and some form of substrate is required to mount the chip on, as well as effective electrical and mechanical interfaces. The Company has intensified its work in this field, leading to expanded co-operation with specialist subcontractors focused on large-scale production.

### **Turnover and earnings**

Consolidated turnover during the first quarter amounted to MSEK 1.1 (0.3). No "cost of goods sold" has been accounted for as the units sold were taken from stock that has been written off. Consolidated earnings for the period amounted to MSEK -3.8 (-7.9).

### **Financial position**

Operations are essentially financed by new stock issues in 1998 and 2000, totaling MSEK 205. The consolidated equity/assets ratio as at March 31, 2003 was 96.2% (96.2%). Consolidated available liquid assets including current investments as at March 31, 2003, totalled MSEK 82.5 (109.5). Other current receivables amounted to MSEK 4.8 (5.5). The consolidated working capital amounted as at March 31 to MSEK 85.2 (112.0). The Company option program of 150,000 option certificates gives the bearers the right to purchase an equivalent number of shares on the following terms: 150,000 options at SEK 67 in April 2004. The theoretical maximum dilution is 2.3% of the equity and 1.6% of the voting rights.

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

During the first quarter, no investments were made in equipment (0.1). Previous development costs of MSEK 9.2 that have been set up as an asset was depreciated according to plan by 15% annually. Development cost set up as an asset during 2002, MSEK 5.5, and development cost set up as an asset during the period, MSEK 0.6, is depreciated when commercialization starts. Patent rights for MSEK 5.9 were depreciated according to plan by 30% annually and is estimated to be equivalent to the expected service life. The intangible assets have been valued in accordance with Recommendation RR 15, issued by the Swedish Financial Accounting Standards Council. Equipment is depreciated by 20% annually.

### **Personnel**

The number of employees as at March 31, was twenty-one (twenty) of whom three (five) are women.

### **Accounting principles**

This interim report has been prepared in accordance with the recommendations and statements of the Swedish Financial Accounting Standards Council.

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

Gunnebo AB buys 10.3% of the capital in Fingerprint Cards over the stock exchange.

### **Other reporting dates**

Annual report for 2002, April 2003

First-quarter interim report January-March, May 27, 2003

Second-quarter interim report April-June, August 20, 2003

Third-quarter interim report July-September, October 22, 2003

Gothenburg 27 May, 2003

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

### **The Board**

*This interim report has not been examined by the Company auditor.*

<b>STATEMENTS OF INCOME, THE GROUP</b>	Jan-Mar	Jan-Mar	Jan-Dec
(MSEK)	<u>2003</u>	<u>2002</u>	<u>2002</u>
<b>Operating income</b>			
Net turnover	1.1	0.3	4.4
<b>Operating expenses</b>			
Administration	-2.0	-3.2	-8.9
Development costs	-2.2	-3.5	-17.9
<u>Market costs</u>	<u>-2.2</u>	<u>-2.9</u>	<u>-11.7</u>
<b>Operating profit/loss</b>	<b>-5.3</b>	<b>-9.3</b>	<b>-34.1</b>
<u>Net financial items</u>	<u>1.5</u>	<u>1.4</u>	<u>5.4</u>
<b>Net profit/loss for the period</b>	<b>-3.8</b>	<b>-7.9</b>	<b>-28.7</b>

<b>BALANCE SHEETS THE GROUP</b>	31 March	31 March	31 March
(MSEK)	<u>2003</u>	<u>2002</u>	<u>2002</u>
<b>Assets</b>			
Intangible assets	6.6	4.2	6.7
Tangible assets	0.9	1.2	1.0
<i>Total fixed assets</i>	<i>7.5</i>	<i>5.4</i>	<i>7.7</i>
Inventory	1.6	1.2	1.1
Current receivables	4.8	5.5	3.6
Current investments	80.8	106.2	88.7
<u>Cash and bank deposits</u>	<u>1.7</u>	<u>3.3</u>	<u>2.9</u>
<i>Total current assets</i>	<i>88.9</i>	<i>116.2</i>	<i>96.3</i>
<b>Total assets</b>	<b>96.4</b>	<b>121.6</b>	<b>104.0</b>
<b>Equity and liabilities</b>			
Equity	92.7	117.4	96.5
<u>Current liabilities, non-interest bearing</u>	<u>3.7</u>	<u>4.2</u>	<u>7.5</u>
<b>Total equity and assets</b>	<b>96.4</b>	<b>121.6</b>	<b>104.0</b>

<b>CHANGE IN EQUITY, THE GROUP</b>	Jan-Mar	Jan-Mar	Jan-Dec
(MSEK)	<u>2003</u>	<u>2002</u>	<u>2002</u>
Opening equity	96.5	125.1	125.1
Option premiums received	0.0	0.2	0.1
<u>Net profit/loss for the period</u>	<u>-3.8</u>	<u>-7.9</u>	<u>-28.7</u>
<b>Closing equity</b>	<b>92.7</b>	<b>117.4</b>	<b>96.5</b>

<b>CASH FLOW ANALYSES, THE GROUP</b>	Jan-Mar	Jan-Mar	Jan-Dec
(MSEK)	<u>2003</u>	<u>2002</u>	<u>2002</u>
Operating profit/loss	-5.3	-9.3	-34.1
Depreciation	0.9	0.9	3.6
Write-down	0.0	-0.1	-0.4
Interest received	0.5	1.4	6.5
Other items not included in cash flow	-0.2	0.0	-0.5
Change in working capital	-4.3	-2.7	2.3
<b>Cash flow from current operations</b>	<b>-8.4</b>	<b>-9.8</b>	<b>-22.6</b>
<b>Cash flow from investment operations</b>	<b>-0.7</b>	<b>-0.1</b>	<b>-5.1</b>
<b>Cash flow from financing operations</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>
<b>Change in liquid funds incl. curr. investments</b>	<b>-9.1</b>	<b>-9.7</b>	<b>-27.6</b>

<b>KEY RATIOS, THE GROUP</b>	Jan-Mar	Jan-Mar	Jan-Dec
	2003	2002	2002
Net earnings per share (SEK)	-0.60	-1.24	-4.52
Net earnings per share after full conversation (SEK)	-0.56	-1.14	-4.18
Equity per share (SEK)	14.60	18.49	15.20
Equity per share after full conversation (SEK)	13.64	28.08	21.39
Equity/assets ratio (%)	96.2	96.6	92.8
No. of shares average (thousands)	6,348	6,348	6,348
No. of shares after full conversation average (thousar)	6,798	6,948	6,861
No. of shares (thousands)	6,348	6,348	6,348
No. of shares after full conversation (thousands)	6,798	6,948	6,798