

Half-yearly interim report January - June 2003, Fingerprint Cards AB (publ)

Highlights of the second quarter:

- **First half-year income totalled MSEK 2.9 (4.0)**
- **Net financial items amounted to MSEK 1.8 (2.6)**
- **The loss for the first half-year MSEK -9.6 (-13.9)**
- **Liquid funds as at June 30 totalled MSEK 75.7 (106.6)**
- **Order for 2 MSEK received from Comex Electronics AB**

Late highlights after the end of the second quarter:

- **Fingerprint Cards' sensor and algorithm selected in Texas Instruments' first fingerprint development tool FADT based on their DSP processors**

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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)

General information on the market

Several important events have occurred during the first six months, indicating that the biometric method of guaranteeing the identity of individuals will now be used on a large scale around the world. In the US public authorities have legislated that all passengers travelling to the country from October 2004 must be provided with a biometric passport unless they hold a valid visa. Australia is making efforts as a result of the terrorist bombings in Bali last year to be the first to use biometric passports, and thereby hopes to set an international operating standard. A further example is Malaysia, which has already begun supplying its population with a biometric ID card in their dealings with public authorities. There are also far-reaching plans in several other countries for the introduction of driving licences with fingerprint verification.

The plausible conclusions that can be drawn from these is that biometrics has now reached a sufficient state of maturity for the market to accept the technology and start using it in large-scale programmes. Various types of authorities see themselves as forerunners in this process and wish to speed it up, not least in the terms of the requisite standardisation to achieve compatibility between the technologies of different developers. Another effect of these national programmes is that more and more private developers of electronic and IT products, where users can be identified in a wide range of applications, are now becoming engaged in more serious development projects for the product integration of biometrics. Volume products with fingerprint verification in the field of consumer electronics already exist on the market. Hewlett Packard introduced a PDA hand-held computer early on in the year and has since released another version. The telecommunications company DoCoMo has initiated sales in Japan of a mobile phone provided with fingerprint verification. These are the first examples of embedded systems for fingerprint verification in wireless products on a market where Fingerprint Cards has a strong focus. As previously reported the Company is involved in prototype projects in this product segment, and the first product may well be introduced next year.

Sales

The Company received an order worth MSEK 2 from Comex Electronics AB in Stockholm during the interim period. The order refers to a system for secure logon and access to data networks, where the system design consists of a card reader and a smart card from Oberthur Card Systems, in which the Company's algorithm is implemented. The Company's sensors and processors for the heavier calculations are integrated in the card reader, while the actual matching of fingerprint patterns and decisions concerning correct identity are made on the smart card. The system is therefore designated Match-on-Card and the method selected is completely covered by Fingerprint Cards' own algorithm patent. Deliveries commenced during the first six months of the year.

Technical development

Tests of the second generation swipe sensor prototypes – the FPC1031 – were completed during the interim period with satisfactory results. The industrialization process, with preparations for large-scale production of the sensor, has also been initiated, and the first deliveries are expected during the final quarter.

In co-operation with specialist subcontractors the Company has also been working on the further development and reduction in costs of package solutions for sensors. This work also covers the important protective layer on the sensors that allows them to withstand mechanical damage and ESD. The first prototypes of the newly developed swipe sensor package FPC1031B have been delivered and evaluated, and production was aligned during the period.

Turnover and earnings

Consolidated turnover for the period January-June amounted to MSEK 2.9 (4.0). The consolidated loss for the period January-June was MSEK -9.6 (-13.9).

Financial position

Operations are essentially financed by new stock issues in 1998 and 2000, totaling MSEK 205. The consolidated equity/assets ratio as at June 30, 2003 was 94.9% (96.5). Consolidated available liquid assets including current investments as at June 30, 2003, totalled MSEK 75.7 (106.6). Other current receivables amounted to MSEK 4.5 (3.0). The consolidated working capital amounted as at June 30 to MSEK 77.2 (106.7). The Company option program of 450,000 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, 150,000 options at SEK 31 in June 2005 and 150,000 options at SEK 31 in June 2006. The theoretical maximum dilution is 7% of the equity and 5% of the voting rights.

Fixed assets, capital expenditure and depreciation

During the first six months of the year, the investment in equipment totalled MSEK 0.2 (0.2). 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 3.4, 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 June 30, was twenty-one (eighteen) of whom three (three) 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 interim period

Texas Instruments (TI) introduced its own biometric development kit in July, where they implemented Fingerprint Cards' sensor and algorithm in their processor platforms TMS320C5000™ and TMS320C6000™. The objective is to simplify integration of biometrics in the end products of TI's processor customers. The tool, designated FADT (Fingerprint Authentication Development Tool), is the market's first multiple platform for the development of biometric products. A multiple platform means there is a great deal of flexibility built into the platform, which makes it possible to use it for the design and development of products with fingerprint verification in such wide ranging fields as physical access, mobile telephony and airline checkin. The FADT tool is sold via TI's home page and through TI's distributors. See also TI's press release <http://focus.ti.com/docs/pr/pressrelease.jhtml?preId=sc03155>

Other reporting dates

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

Press release on annual accounts for 2003, February 2004

2003 Annual report, April 2003

Gothenburg August 20, 2003

Fingerprint Cards AB (publ)

The Board

This interim report has been examined by the Company auditor.

STATEMENTS OF INCOME, THE GROUP (MSEK)	Apr-Jun <u>2003</u>	Apr-Jun <u>2002</u>	Jan-Jun <u>2003</u>	Jan-Jun <u>2002</u>	Jan-Dec <u>2002</u>
Operating income					
Net turnover	1.8	3.6	2.9	4.0	4.4
Cost of sold goods	<u>-0.8</u>	<u>0.0</u>	<u>-0.8</u>	<u>0.0</u>	<u>0.0</u>
Gross margin	1.0	3.6	2.1	4.0	4.4
Operating expenses					
Administration	-2.5	-2.3	-4.6	-4.8	-8.9
Development costs	-2.3	-5.4	-4.5	-9.5	-17.9
Market costs	<u>-2.2</u>	<u>-3.2</u>	<u>-4.4</u>	<u>-6.2</u>	<u>-11.7</u>
Operating profit/loss	-6.0	-7.3	-11.4	-16.5	-34.1
Net financial items	<u>0.3</u>	<u>1.2</u>	<u>1.8</u>	<u>2.6</u>	<u>5.4</u>
Net profit/loss for the period	-5.7	-6.1	-9.6	-13.9	-28.7

BALANCE SHEETS THE GROUP (MSEK)	30 Jun <u>2003</u>	30 Jun <u>2002</u>	31 Dec <u>2002</u>
Assets			
Intangible assets	8.9	3.5	6.7
<u>Tangible assets</u>	<u>0.9</u>	<u>1.1</u>	<u>1.0</u>
Total fixed assets	9.8	4.6	7.7
Inventory	1.7	1.1	1.1
Current receivables	4.5	3.0	3.6
Current investments	53.0	92.8	88.7
<u>Cash and bank deposits</u>	<u>22.7</u>	<u>13.8</u>	<u>2.9</u>
Total current assets	81.9	110.7	96.3
Total assets	91.7	115.3	104.0
Equity and liabilities			
Equity	87.0	111.3	96.5
Current liabilities, non-interest bearing	4.7	4.0	7.5
Total equity and assets	91.7	115.3	104.0

CHANGE IN EQUITY, THE GROUP (MSEK)	Jan-Jun <u>2003</u>	Jan-Jun <u>2002</u>	Jan-Dec <u>2002</u>
Opening equity	96.5	125.1	125.1
Option premiums received	0.1	0.1	0.1
<u>Net profit/loss for the period</u>	<u>-9.6</u>	<u>-13.9</u>	<u>-28.7</u>
Closing equity	87.0	111.3	96.5

CASH FLOW ANALYSES, THE GROUP (MSEK)	Jan-Jun <u>2003</u>	Jan-Jun <u>2002</u>	Jan-Dec <u>2002</u>
Earnings for the period	-11.4	-16.5	-34.1
Depreciation	1.5	1.8	3.6
Write-down	-0.7	-0.4	-0.4
Interest received	3.1	1.6	6.5
Other items	-0.3	-0.1	-0.5
Change in working capital	<u>-4.6</u>	<u>1.1</u>	<u>2.3</u>
Cash flow from current operations	-12.4	-12.5	-22.6
Cash flow from investment operations	-3.6	-0.2	-5.1
Cash flow from financing operations	0.1	0.1	0.1
Change in liquid funds incl. curr. investments	-15.9	-12.6	-27.6

KEY RATIOS, THE GROUP	Apr-Jun <u>2003</u>	Apr-Jun <u>2002</u>	Jan-Jun <u>2003</u>	Jan-Jun <u>2002</u>	Jan-Dec <u>2002</u>
Net earnings per share (SEK)	-0.90	-0.94	-1.51	-2.19	-4.52
Net earnings per share after full conversation (SEK)	-0.84	-0.88	-1.41	-2.04	-4.18
Equity per share (SEK)			13.71	17.53	15.20
Equity per share after full conversation (SEK)			15.64	23.58	21.39
Equity/assets ratio (%)			94.9	96.5	92.8
No. of shares average (thousands)			6,348	6,348	6,348
No. of shares after full conversation average (thousands)			6,773	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