



PRESS RELEASE
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Third-quarter interim report January - September 2003, Fingerprint Cards AB (publ)

Highlights of the third quarter:

- **The income for January to September totalled MSEK 4.1 (4.1)**
- **Net financial items amounted to MSEK 2.4 (4.0)**
- **The loss for January to September totalled MSEK -14.3 (-22.3)**
- **Liquid funds as at September 30 totalled MSEK 71.0 (98.5)**
- **Fingerprint Cards' sensor and algorithm selected in Texas Instruments fingerprint development tool**
- **Comex Electronics AB, Sweden, widens licence to new defence and non-military markets**

Late highlights after the end of the second quarter:

- **Fingerprint Cards signs first distributor in fast-growing Korean market**

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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 nine months to show that biometric technologies and biometric identifiers (e.g. fingerprints, faces, iris patterns) have moved from an emergent to a globally accepted position. Earlier in the year the United States Dept. of Homeland Security announced formal plans for the US VISIT program, putting biometric technology at the forefront of national border control and visitor identity inspection for several million people each year. Biometric technologies also figured prominently in a number of government programs in countries as different as Australia, Bahrain and Malaysia.

The largest announcement ever to address the world of biometrics was made at the end of the third quarter when the Council of European Ministers and the European Parliament stated in Thessalonica, Greece, that it would legislate for the introduction of face and fingerprint biometrics to a standardised European visa and residence permit system, to include the involvement of all 25 member countries in the future, extended European Union. This is the strongest endorsement yet that biometric technology will become truly universal and ubiquitous in people's lives.

During the period it became clear that efforts to bridge the integration gap between new technology and existing applications or products were not limited to government agencies: biometrics became a stated high priority for industry leaders. Microsoft's Bill Gates said, in a very public memo to his company's personnel, that security is now an over-riding priority for the company in the ongoing development of its new products. Presentation of a biometric roadmap is now a key theme in the business development strategies of some of the world's largest companies such as Motorola, Intel, and Texas Instruments, all of whom have spelled out the structural relevance and requirements upon biometrics for their products and partners.

Texas Instruments (TI) introduced its own biometric development kit in July, where it implemented Fingerprint Cards' sensor and algorithm in its processor platforms TMS320C5000™ and TMS320C6000™. The objective is to simplify integration of biometrics in the end products of its processor customers. The tool designated FADT (Fingerprint Authentication Development Tool), is the market's first multiple platform for the development of biometric products.

The greater degree of involvement in biometrics by the wider semiconductor community indicated the growing importance of embedded and secure processing environments for biometrics. Embedded solutions access to the mass markets also began to open up, and some wireless market adopters began to experiment with early-stage biometric product in their home markets. In Japan DoCoMo introduced a cell phone with an integrated fingerprint sensor.

Sales

During the period the Company reported a new, extended licence agreement with a successfully established customer, Comex Electronics AB, Stockholm. The extended licence now enables Comex Electronics to market its systems product for network security featuring Fingerprint Cards' technology to defence authorities in NATO countries. To this end a UK company has also been incorporated to the agreement: Cominvest System (UK) Ltd, a close co-operations partner with Comex Electronics. An order already received by Comex Electronics from the Swedish defence authority (FMV) will serve as a good reference for the ongoing sales and marketing process. The new agreement moreover extends to a non-military version of Comex's PC and network access system.

Fingerprint Cards' technology is now deployed in some ten commercially available products in the European, US and Asian markets. These are to be found in the segments for physical access, IT security and PC peripherals. In addition there are around fifteen products being prepared by FPC customers for market introduction during the next twelve months. These new products will address market segments beyond the established biometric areas of physical access and IT security. A notable development, particularly in relation to the Asian marketplace, which has reached a greater level of maturity in the product development of biometrics, is that the size of the orders now being discussed (for 2004) is much larger than in the third quarter of last year. While an order level of a few thousand systems was most common in 2002 it is not uncommon now to be discussing orders of twenty or one hundred thousand systems. This growth in the level of demand is explicitly related to the availability of the lower cost swipe sensor solution.

In the first nine months of 2003 the Company has established and matured its contacts with a larger number of volume product suppliers. For these categories of products; laptops, cell phones, or other types of wireless products as well as different kinds of cards where the complete biometric system will be integrated, then the price of the biometrics is decisive. It follows that only a system based on a small and cost efficient swipe sensor can meet the requirements of the growing market segments. Fingerprint Cards has a very strong position on this market led by its low power and low cost swipe sensor system. As more developers of widely familiar volume products plan for integration of fingerprint technology in their products then new and interesting business opportunities will become available to the Company.

Technical development

Industrialisation work with the packaging solution for the new swipe sensor FPC1031 has continued during the period in co-operation with subcontractors. This sensor will replace the first swipe sensor FPC1030. Completion of the solution to allow deliveries of the sensor in the fourth quarter of this year has been delayed and delivery is now scheduled for the first quarter of next year.

Based on the same sensor platform as FPC1031 a new flatbed sensor FPC1011 has been developed during this year. The new sensor is fully compatible with its forerunner, the FPC1010, and has benefits from the same increased functionality as the Company's new swipe sensor. A complementary parallel communications interface has been added enabling simple communication with a standard processor or DSP. An internal test function has been implemented giving a more cost efficient production test and also allowing for functionality testing when embedded to the application. The first flatbed prototypes have been evaluated with positive results. When assembled in its new FPC1011D packaging solution then the first deliveries are expected at the beginning of 2004.

Turnover and earnings

Consolidated turnover for the period January to September amounted to MSEK 4.1 (4.1). The consolidated loss for the period January to September was MSEK -14.3 (-22.3).

Financial position

Operations are essentially financed by new stock issues in 1998 and 2000, totaling MSEK 205. The consolidated equity/assets ratio as at September 30, 2003 was 96.1% (97.2). Consolidated available liquid assets including current investments as at September 30, 2003, totalled MSEK 71.0 (98.5). Other current receivables amounted to MSEK 2.7 (2.7). The consolidated working capital amounted as at September 30 to MSEK 72.3 (99.3). 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 nine months of the year, the investment in equipment totalled MSEK 0.2 (0.0). 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 4.9, and development cost set up as an asset during the period, MSEK 4.0, 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 September 30, was twenty-two (twenty-one) of whom three (four) 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

Shortly after the end of the third quarter the Company signed a licence agreement with Camos Tech Co. Ltd (Camos Tech), for the distribution and resale of Fingerprint Cards' technology within the fast growing Korean market. With an established turnover of USD 50 million Camos Tech already has substantial in-house experience of biometric technology and it also plans to integrate the Fingerprint Cards' technology to the Camos Tech product portfolio, sold worldwide and developed by Camos Tech's associated companies.

Other reporting dates

Press release on annual accounts for 2003, February 2004

2003 Annual report, April 2003

Gothenburg October 22, 2003

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

This interim report has been examined by the Company auditor.

STATEMENTS OF INCOME, THE GROUP (MSEK)	Jul-Sep <u>2003</u>	Jul-Sep <u>2002</u>	Jan-Sep <u>2003</u>	Jan-Sep <u>2002</u>	Jan-Dec <u>2002</u>
Operating income					
Net turnover	1.1	0.1	4.1	4.1	4.4
Cost of sold goods	<u>-0.6</u>	<u>0.0</u>	<u>-1.4</u>	<u>0.0</u>	<u>0.0</u>
Gross margin	0.5	0.1	2.7	4.1	4.4
Operating expenses					
Administration	-1.8	-1.8	-6.4	-6.5	-8.9
Development costs	-2.1	-5.9	-6.6	-15.5	-17.9
Market costs	<u>-2.0</u>	<u>-2.2</u>	<u>-6.4</u>	<u>-8.4</u>	<u>-11.7</u>
Operating profit/loss	-5.4	-9.8	-16.7	-26.3	-34.1
Net financial items	<u>0.7</u>	<u>1.4</u>	<u>2.4</u>	<u>4.0</u>	<u>5.4</u>
Net profit/loss for the period	-4.7	-8.4	-14.3	-22.3	-28.7

BALANCE SHEETS THE GROUP (MSEK)	30 Sep <u>2003</u>	30 Sep <u>2002</u>	31 Dec <u>2002</u>
Assets			
Intangible assets	9.1	2.7	6.7
<u>Tangible assets</u>	<u>0.9</u>	<u>1.0</u>	<u>1.0</u>
Total fixed assets	10.0	3.7	7.7
Inventory	1.9	1.1	1.1
Current receivables	2.7	2.7	3.6
Current investments	66.9	95.7	88.7
<u>Cash and bank deposits</u>	<u>4.1</u>	<u>2.8</u>	<u>2.9</u>
Total current assets	75.6	102.3	96.3
Total assets	85.6	106.0	104.0
Equity and liabilities			
Equity	82.3	103.0	96.5
Current liabilities, non-interest bearing	3.3	3.0	7.5
Total equity and assets	85.6	106.0	104.0

CHANGE IN EQUITY, THE GROUP (MSEK)	Jan-Sep <u>2003</u>	Jan-Sep <u>2002</u>	Jan-Dec <u>2002</u>
Opening equity	96.5	125.1	125.1
Option premiums received	0.1	0.2	0.1
<u>Net profit/loss for the period</u>	<u>-14.3</u>	<u>-22.3</u>	<u>-28.7</u>
Closing equity	82.3	103.0	96.5

CASH FLOW ANALYSES, THE GROUP (MSEK)	Jan-Sep <u>2003</u>	Jan-Sep <u>2002</u>	Jan-Dec <u>2002</u>
Earnings for the period	-16.7	-26.3	-34.1
Depreciation	2.0	2.7	3.6
Write-down	-0.6	-0.4	-0.4
Interest received	1.8	2.7	6.5
Other items	-0.4	-0.1	-0.5
Change in working capital	<u>-2.6</u>	<u>0.9</u>	<u>2.3</u>
Cash flow from current operations	-16.5	-20.5	-22.6
Cash flow from investment operations	-4.2	-0.2	-5.1
Cash flow from financing operations	0.1	0.1	0.1
Change in liquid funds incl. curr. investments	-20.6	-20.6	-27.6

KEY RATIOS, THE GROUP	Jul-Sep <u>2003</u>	Jul-Sep <u>2002</u>	Jan-Sep <u>2003</u>	Jan-Sep <u>2002</u>	Jan-Dec <u>2002</u>
Net earnings per share (SEK)	-0.74	-0.94	-2.25	-3.51	-4.52
Net earnings per share after full conversation (SEK)	-0.69	-0.88	-2.10	-3.28	-4.18
Equity per share (SEK)			12.96	16.23	15.20
Equity per share after full conversation (SEK)			14.95	22.34	21.39
Equity/assets ratio (%)			96.1	97.2	92.8
No of shares average (thousands)			6,348	6,348	6,348
No. of shares after full conversation average (thousands)			6,781	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