

PRESS RELEASE
Gothenburg, August 18, 2004

Fingerprint Cards AB (publ) **Half-yearly interim report January - June 2004**

Highlights of the first half-year:

- **First half-year income totalled MSEK 0.7 (2.9)**
- **Net financial items amounted to MSEK 0.7 (1.8)**
- **The loss for the first half-year totalled MSEK -12.7 (-9.6)**
- **Liquid funds as at June 30 totalled MSEK 39.0 (75.7)**
- **Net earnings per share was SEK -2.00 (-1.51)**
- **Concentration on the swipe sensor technology**
- **Reduction of the operational costs**

Late highlights after the end of the second quarter:

- **Licence agreement in USA for biometric time & attendance control**
- **Expansion of co-operation with Texas Instruments**

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Fingerprint Cards has developed electronic systems that determine personal identity by analysing the unique fingertip patterns of individuals. The systems comprise 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. By virtue of its smallness, low power consumption and the possibility of very low production costs, the technology can be integrated in volume products such as smart cards and mobile (cell) phones, where the requirements for such features are extremely high. Other applications for the technology include access control systems for buildings and products for log on to computers and IT networks.

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

Refining of business emphasis

For the seven years that Fingerprint Cards has been active it has been guided by a high level of aspiration in its technical development work, establishing good patent protection for its pioneering technical solutions in sensor hardware and algorithm software. More recently, in the last three years the Company has also directed substantial effort to introduce silicon fingerprint technology onto the market.

While most developers of the core technology for fingerprint verification have concentrated on some part of the system, such as a sensor or algorithms, Fingerprint Cards has instead undertaken to develop complete systems, i.e. sensors, processors and algorithms. The Company has two of these, where one is based on an area sensor and the other on a swipe sensor. The area sensor, which was the first to be developed, has a relatively large surface where the finger is held motionless while the fingerprint pattern is read. This approach is used predominantly in products for physical access, attendance control, and in desktop accessories for PC access. At an early stage the Company also had expectations of future demand for fingerprint verification in volume products such as laptops, mobile phones and personal tokens such as smart cards. The increasingly stringent requirements on component cost and size for such mass market electronic products led the Company to develop an extremely small swipe sensor which reads the fingerprint pattern while the fingertip is moved over the smaller sensor area.

Although based on the same electro-capacitive measuring technique, the matching software developed for each type of sensor is different. Packaging solutions developed also differ: those small circuit cards holding the passive components that act as carriers for the sensor chip, could not be the same for both sensors. Attainment of this advanced systems development level means that the Company has used extensive resources for the development of the technology not only in its technical work but in the build-up of associated production at subcontractor level, and for the marketing of the developed, packaged solutions. The use of these resources cannot be said to correspond to any reasonable extent to how the market for fingerprint technology has developed, and above all to how sales have developed for Fingerprint Cards.

The conclusion the Company has drawn from the course of events described is that the business emphasis must be refined and focused, and that the operational costs must be reduced to a level that will better meet future operational and market timing.

Concentration on swipe sensor technology

From the sensor hardware point of view the great potential for fingerprint verification technology is that this will be used in products manufactured in very large volumes; These include handheld small computers, laptops, smart cards and mobile phones, and there is already a growing market for fingerprint technology in these market segments, even if it is still in its infancy. Only the swipe sensor technology can be of interest for these products and the Company will now concentrate its future operations on this business area.

The end-customers for fingerprint technology are the developers of products in which the technology will be used. For the swipe sensor market these are in general very large companies, and they set stringent requirements for performance, cost and supplier credibility. Fingerprint Cards is too small a company to be seen as a major supplier, and the Company will therefore licence its sensor technology and matching algorithms to larger companies who can supply fully manufactured technology to the companies developing the end products. A specific sensor design will be developed in co-operation with the customer/licensee, including customer-specified features such as encryption and communication interfaces for a greater addition of value. The architecture in the sensor design will be based on FPC IP-blocks, IP-rights and proven technical know-how.

The Company will in the design work embed its technical solutions in different IP-blocks, in which the sensor technology, or algorithm, is integrated. Each IP-block is in itself embedded and provided with a well-defined interface to the customer's application, which simplifies the integration work, and by embedding the design this protects the technology and it will be very difficult for the customer to understand how each block functions in its internal detail. It will therefore not be possible for the customer to copy and further develop the design without FPC involvement

The customers the Company will be working with are those who develop other types of integrated circuits and have their own, or have access to, production of both the silicon and sensor packaging. This guarantees both competitive prices and continuity in the production, and Fingerprint Cards will cease to be involved in the production of the hardware.

The Company will request a licence fee for a licence, and also royalties on all future production of sensors. The algorithm software will be included in the royalty that is to be paid. There is an interest on the market for this type of licensing, above all from companies who have already been working for some time with biometric solutions. These companies often have their own ideas about how the biometry should be integrated in high-security modules for delivery to developers of the end products. They also prefer to have control over the technology, and not least over the production, but realise that the task of developing their own biometric technology is both expensive and takes a long time, and is also associated with large risks for failure in the development work. It is therefore a practical shortcut to obtain access via a licence arrangement to an already developed and demonstrably functioning technology. Fingerprint Cards is holding discussions with a number of prospective licensees in the USA and Asia, and in two of these cases the discussions are relatively well advanced including one described in the Company's last quarterly report, where a possible part ownership also is under discussion.

The technology with the area sensor will be licensed

A number of licence agreements have been entered into with companies that build products incorporating the Company's technology with the area sensor. The production of components for this system will continue for delivery to the customers the Company already has, but work to promote new sales will in principle come to an end. The Company intends instead to find licensees for the concept with the area sensor, where the licensee takes care of the production concerning the packaging of the sensor and then produces for their own requirements and for possible further external sales. Fingerprint Cards will deliver to the licensee unpackaged sensor chips and processor chips, including algorithms, and receive its margins in the pricing of these components.

Lower operational costs with a smaller organisation

The more refined business emphasis and concentration on the technology with the swipe sensor, where the Company will also be much less engaged in the production and delivery of hardware, will also enable a smaller organisation. The Company will in future work with a significantly smaller number of customers and concentrate instead on larger customers, which above all means that the marketing and sales work can be carried out with fewer people, and also that certain reductions can also be made on the technical side. This adaptation of the organisation has already been initiated and at the end of the second quarter was reduced by four persons, and in conjunction with the publication of this report an additional three persons have been given notice. Since the sales activities will in future consist of direct contacts with larger prospective customers there is also no longer the same need to participate in trade fairs and other more general market activities, for which reason measures have already been taken to significantly reduce these costs. The measures that have now been initiated will have a cumulative effect during the remainder of the present year, with the implication that there will be a reduction in the operational costs of approximately MSEK 5 on an annual basis.

Turnover and earnings

Consolidated turnover during the period January – June amounted to MSEK 0.7 (2.9). Consolidated earnings for the period January – June amounted to MSEK -12.7 (-9.6).

Financial position

Operations are essentially financed by new stock issues in 1998 and 2000, totaling MSEK 205. The consolidated equity/assets ratio was 94.4 % (94.9). Consolidated available liquid assets including current investments as at June 30, 2004, totalled MSEK 39.0 (75.7). Other current receivables amounted to MSEK 2.3 (4.5). The consolidated working capital amounted as at June 30 to MSEK 45.4 (77.2). The Company option program of 300,000 option certificates gives the bearers the right to purchase an equivalent number of shares on the following terms: 150,000 options at SEK 31 in June 2005 and 150,000 options at SEK 31 in June 2006. The theoretical maximum dilution is 5 % of the equity and 3 % 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 and 2003, MSEK 12.9, and development cost set up as an asset during the period, MSEK 3.4, is depreciated when commercialization starts. 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

At year-end the number of employees totalled nineteen (twenty-one), of whom three (three) were women and sixteen (eighteen) were men.

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

A licence agreement was signed in July with a USA based company that is a market leader for products for biometric time & attendance control. The agreement gives the customer exclusive rights to Fingerprint Cards' technology in this product area for the American market, and also non-exclusive rights for products concerned with physical access.

An expanded co-operation was announced during the same month with Texas Instruments (TI). The Company has implemented its algorithm for the swipe sensor in Texas Instruments' new DSP processor TMS320C55X™ and TI has built a new development tool FADT (Fingerprint Authentication Development Tool), based on its new DSP processor and the FPC swipe sensor and algorithm. TI will market this tool to its processor customers.

Other reporting dates

Third-quarter interim report July-September, October 20, 2004

Press release on annual accounts for 2004, February 2005

Annual report for 2004, April 2005

Gothenburg, August 18, 2004

Fingerprint Cards AB (publ)

The Board

This press statement on the unaudited figures has been summarily examined by the Company auditor.

STATEMENTS OF INCOME, THE GROUP (MSEK)	Apr-Jun <u>2004</u>	Apr-Jun <u>2003</u>	Jan-Jun <u>2004</u>	Jan-Jun <u>2003</u>	Jan-Dec <u>2003</u>
Operating income					
Net turnover	0.5	1.8	0.7	2.9	5.2
Cost of sold goods	<u>-0.3</u>	<u>-0.8</u>	<u>-0.4</u>	<u>-0.8</u>	<u>-2.1</u>
Gross margin	0.2	1.0	0.3	2.1	3.1
Operating expenses					
Administration	-1.6	-2.5	-3.5	-4.6	-8.3
Development costs	-2.9	-2.3	-5.0	-4.5	-9.7
Market costs	<u>-2.6</u>	<u>-2.2</u>	<u>-5.2</u>	<u>-4.4</u>	<u>-9.4</u>
Operating profit/loss	-6.9	-6.0	-13.4	-11.4	-24.3
Net financial items	0.3	0.3	0.7	1.8	3.1
Net profit/loss for the period	-6.6	-5.7	-12.7	-9.6	-21.2

BALANCE SHEETS THE GROUP (MSEK)	30 Jun <u>2004</u>	30 Jun <u>2003</u>	31 Dec <u>2003</u>
Assets			
Intangible assets	16.3	8.9	13.1
<u>Tangible assets</u>	<u>1.0</u>	<u>0.9</u>	<u>1.0</u>
<i>Total fixed assets</i>	17.3	9.8	14.1
Inventory	7.8	1.7	4.6
Current receivables	2.3	4.5	2.7
Current investments	38.1	53.0	58.1
<u>Cash and bank deposits</u>	<u>0.9</u>	<u>22.7</u>	<u>2.4</u>
<i>Total current assets</i>	49.1	81.9	67.8
Total assets	66.4	91.7	81.9
Equity and liabilities			
Equity	62.7	87.0	75.4
<u>Current liabilities, non-interest bearing</u>	<u>3.7</u>	<u>4.7</u>	<u>6.5</u>
Total equity and assets	66.4	91.7	81.9

CHANGE IN EQUITY, THE GROUP (MSEK)	Jan-Jun <u>2004</u>	Jan-Jun <u>2003</u>	Jan-Dec <u>2003</u>
Opening equity	75.4	96.5	96.5
Option premiums received	0.0	0.1	0.1
<u>Net profit/loss for the period</u>	<u>-12.7</u>	<u>-9.6</u>	<u>-21.2</u>
Closing equity	62.7	87.0	75.4

CASH FLOW ANALYSES, THE GROUP (MSEK)	Jan-Jun <u>2004</u>	Jan-Jun <u>2003</u>	Jan-Dec <u>2003</u>
Earnings for the period	-13.4	-11.4	-24.3
Depreciation	0.4	1.5	2.1
Write-down	0.0	-0.7	-0.6
Intrest received	0.6	3.1	5.4
Other items	-0.2	-0.3	-0.6
<u>Other items not included in cash flow</u>	<u>-5.3</u>	<u>-4.6</u>	<u>-4.7</u>
Cash flow from current operations	-17.9	-12.4	-22.7
Cash flow from investment operations	-3.6	-3.6	-8.5
Cash flow from financing operations	0.0	0.1	0.1
Change in liquid funds incl. curr. investments	-21.5	-15.9	-31.1

KEY RATIOS, THE GROUP	Apr-Jun <u>2004</u>	Apr-Jun <u>2003</u>	Jan-Jun <u>2004</u>	Jan-Jun <u>2003</u>	Jan-Dec <u>2003</u>
Net earnings per share (SEK)	-1.04	-0.90	-2.00	-1.51	-3.34
Net earnings per share after full conversation (SEK)	-1.04	-0.90	-2.00	-1.51	-3.34
Equity per share (SEK)			9.88	13.71	11.88
Equity per share after full conversation (SEK)			10.83	15.64	11.09
Equity/assets ratio (%)			94.4	94.9	92.1
No of shares avarage (thousands)			6,348	6,348	6,348
No. of shares after full conversation average (thousands)			6,748	6,773	6,786
No. of shares (thousands)			6,348	6,348	6,348
No. of shares after full conversation (thousands)			6,648	6,798	6,798