

PRESS RELEASE
Gothenburg, October 20, 2004

**Third-quarter interim report January – September 2004,
Fingerprint Cards AB (publ)**

Highlights of the third quarter:

- **The income for January to September totalled MSEK 1.0 (4.1)**
- **Net financial items amounted to MSEK 1.7 (4.0)**
- **The loss for January to September totalled MSEK -16.5 (-14.3)**
- **Liquid funds as at September 30 totalled MSEK 35.1 (71.0)**
- **Net earnings per share for January to September was SEK -2.60 (-2.25)**
- **Wide profile of FPC technology at Scandinavian security show**
- **Flexible automotive security solution from Easy Access Inc.**

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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).

Market

The demand for biometric technology solutions is heading towards two major landmarks in growth by the end of 2004. First comes the increasing circulation of government issued biometric credentials – the USA, UK, Denmark, New Zealand, Australia, and Japan – all of which supports an open choice of biometric technologies and solutions. This is complemented by a new phase in the implementation of biometric hardware to portable electronic products – phone and computers – that identifies more clearly where biometrics add value to the paying user.

At a governmental level the drive towards international standards of interoperability has made significant improvements in the first nine months of this year through the activities of the International Standards Organisation (ISO). This includes wide-ranging developments such as those sponsored by the International Civil Aviation Organisation (ICAO) and the International Labour Organisation (ILO), both of whom are driving the storage of vendor-independent fingerprint data in high volume secure documents such as integrated-chip passports and machine readable identity documents. The first examples of these secure biometric documents will come into circulation in the fourth quarter of 2004, with growth passing as many as twenty million issued by the end of 2005¹ and continuing thereafter. These standards represent the first concrete links between the mass-market deployment of biometric credentials and an important competitive market for the verification technologies themselves because the stored biometric data are a platform for the development of verification solutions using different vendors' hardware and algorithms.

The third quarter showed increasing commitment to biometrics from Microsoft, which released Microsoft branded versions of a keyboard, mouse, and standalone readers all using fingerprint technology. The industry software leader was reportedly viewing these mainly as convenience tools as it has still to release an operating system with a multi-vendor biometric interface support.

In the market for consumer electronics the steady adoption and experimentation with smaller sensor technologies has moved from initial experimentation using large and small types of capacitive area sensor in laptop computers and mobile phones, to a more clearly stated preference for swipe sensors. In Japan one market leader, DoCoMo has shown its preference for swipe sensor technology in the iMode type of phone produced by Fujitsu on their behalf. At the end of the third quarter IBM announced its preferred use of swipe sensor technology in its T42 Thinkpad series of laptop computers. Referring to the critical cost difference between the swipe sensor and its larger alternatives IBM indicated that swipe sensors would be integrated to the form factor of more than ten product variants in this popular line of business computers.

Laptops have already overtaken desktop computers in numbers sold, and the IBM development goes a step further by demonstrating how it plans to integrate fingerprint technology to its computer products. This will use an open industry standard for computer security devised by the Trusted Computing Group². Products developed in accordance with this standard will protect personal computers from attack by malicious software and un-registered users. This new level of total platform security for the client computer platform brings much greater clarity as to how biometric verification fits into the wider picture of secure computing and network access control. At the value-adding level it also ensures that security gains from choosing biometric verification are not lost to other weaknesses in computer security.

New products with FPC technology

At the security show in Stockholm 21 – 24 September new products developed with the Company's fingerprint technology were shown to the market. Bewator AB, market leader in Europe within Access Security, showed its door lock Fingerprint Codoor FP5000. The lock is a stand alone unit meaning that all storage and matching of fingerprints is done locally in the unit where up to 32 templates can be stored via a simple to use programme. Even installing the lock is simple as no wiring is necessary, and the product is designed to fit into office as well as shop and industry environments. Bewator has placed a first order of components for delivery during the next calendar quarter.

Rosengrens AB, a developer of safes, bank vaults, alarm systems and locks, showed at the same exhibition an access system built with Fingerprint Cards' swipe sensor technology. Rosengrens is a part of the international security group Gunnebo with a product range including several where fingerprint technology could be used. The access system shown at the exhibition was a prototype and is not yet ready for the market.

¹ Source: Int'l Biometric & Authentication Consulting Ltd., UK

² Source: <http://www.trustedcomputinggroup.org>

Another security company, Habeco Protection AB, featured a solution with FPC area sensor technology at the same exhibition; this was a safe with fingerprint identification for unlocking and simultaneous recording of the individuals accessing the safe. The use of the FPC identification algorithm means that no additional cards or codes are required for the product.

Easy Access Inc. in North Carolina, USA, has developed a promising automobile application with Fingerprint Cards' area sensor system. A compact and robust module containing the entire biometric system is applied to the lower border of the outside windscreen. Several types of electronic system connections are offered. The simplest of these is a connection to the central locking system, to lock and unlock the doors with a fingerprint, but connection to the ignition system is also possible where the automobile can only be started after a successful finger verification. The unit can also control switching on and off the car alarm. All communication between the biometric unit and the automobile's locking-, alarm-, and ignition systems is encrypted. Fingerprint Cards and Easy Access have jointly developed a new packaging solution for the sensor that can withstand the harsh requirements of outdoor use. The first five hundred fingerprint systems have now been delivered to Easy Access for integration into modules and for field tests. Following positive response from these tests, sales of the module will be made by car dealers where the dealer agency will install the system for the customer.

Strategic Direction

The market's aggressive pace of cost reduction, together with the need to satisfy anticipated volume demands in terms of supplier weight and manufacturing capability have reshaped the strategic direction of the Company. It was announced that Fingerprint Cards, regarding its swipe sensor technology, will resume a business model better suited to future operational timing and the emerging development of the mass market opportunities for biometrics.

Customers will predominantly be those who develop other types of integrated circuits and have their own, or with favourable access to, production of both the silicon and sensor packaging. The aim of this is to guarantee competitive end pricing of FPC technology as well as continuity of production. Rather than the Company produce and deliver components, this will lead to a more favourable IP licensing situation for FPC, and offer commercial project development opportunities capitalising on the Company's design expertise in embedded biometric security design.

The discussions that the Company has been holding for some time with larger enterprises concerning a strategic partnership have been time consuming; however these have now progressed to more concrete negotiations. The Company has several strong cards here in terms of its recognised technology, its good patent cover, and also in the consideration that as far as the Company understands, no other market leading sensor developer can offer such a farreaching licence arrangement, including exclusivity, as Fingerprint Cards is offering to its prospective partner. The Company's ambition is to carry one of these negotiations to a deal as soon as possible.

Turnover and earnings

Consolidated turnover during the period January – September amounted to MSEK 1.0 (4.1). Consolidated earnings for the period January – September amounted to -16,5 (-14.3).

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, 2004 was 96.1 % (97.2). Consolidated available liquid assets including current investments as at September 30, 2004, totalled MSEK 35.1 (71.0). Other current receivables amounted to MSEK 1.1 (2.7). The consolidated working capital amounted as at September 30 to MSEK 41.3 (72.3). 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 nine 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 4.0 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

The number of employees as at 30 September was seventeen (twenty-two), of whom three (three) were women and fourteen (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.

Other reporting dates

Press release on annual accounts for 2004, February 2005

Annual report for 2004, April 2005

Gothenburg, October 20, 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)	Jul-Sep <u>2004</u>	Jul-Sep <u>2003</u>	Jan-Sep <u>2004</u>	Jan-Sep <u>2003</u>	Jan-Dec <u>2003</u>
Operating income					
Net turnover	0.3	1.1	1.0	4.1	5.2
Cost of sold goods	<u>-0.2</u>	<u>-0.6</u>	<u>-0.6</u>	<u>-1.4</u>	<u>-2.1</u>
Gross Margin	0.1	0.5	0.4	2.7	3.1
Operating expenses					
Administration	-1.4	-1.8	-4.9	-6.4	-8.3
Development costs	-1.8	-2.1	-7.0	-6.6	-9.7
<u>Market costs</u>	<u>-1.7</u>	<u>-2.0</u>	<u>-6.6</u>	<u>-6.4</u>	<u>-9.4</u>
Operating profit/loss	-4.8	-5.4	-18.2	-16.7	-24.3
Net financial items	<u>1.0</u>	<u>0.7</u>	<u>1.7</u>	<u>2.4</u>	<u>3.1</u>
Net profit/loss for the period	-3.8	-4.7	-16.5	-14.3	-21.2

BALANCE SHEETS THE GROUP (MSEK)	30 Sep <u>2004</u>	30 Jun <u>2003</u>	31 Dec <u>2003</u>
Assets			
Intangible assets	16.8	9.1	13.1
<u>Tangible assets</u>	<u>0.8</u>	<u>0.9</u>	<u>1.0</u>
<i>Total fixed assets</i>	<i>17.6</i>	<i>10.0</i>	<i>14.1</i>
Inventory	7.5	1.9	4.6
Current receivables	1.1	2.7	2.7
Current investments	33.8	66.9	58.1
<u>Cash and bank deposits</u>	<u>1.3</u>	<u>4.1</u>	<u>2.4</u>
<i>Total current assets</i>	<i>43.7</i>	<i>75.6</i>	<i>67.8</i>
Total assets	61.3	85.6	81.9
Equity and liabilities			
Equity	58.9	82.3	75.4
Current liabilities, non-interest bearing	<u>2.4</u>	<u>3.3</u>	<u>6.5</u>
Total equity and assets	61.3	85.6	81.9

CHANGE IN EQUITY, THE GROUP (MSEK)	Jan-Sep <u>2004</u>	Jan-Sep <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>-16.5</u>	<u>-14.3</u>	<u>-21.2</u>
Closing equity	58.9	82.3	75.4

CASH FLOW ANALYSES, THE GROUP (MSEK)	Jan-Sep <u>2004</u>	Jan-Sep <u>2003</u>	Jan-Dec <u>2003</u>
Earnings for the period	-18.2	-16.7	-24.3
Depreciation	0.7	2.0	2.1
Write-down	0.0	-0.6	-0.6
Intrest received	2.1	1.8	5.4
Other items	-0.3	-0.4	-0.6
Change in working capital	<u>-2.2</u>	<u>-2.6</u>	<u>-4.7</u>
Cash flow from current operations	-17.9	-16.5	-22.7
Cash flow from investment operations	-3.6	-4.2	-8.5
Cash flow from financing operations	0.0	0.1	0.1
Change in liquid funds incl. curr. investments	-21.5	-20.6	-31.1

KEY RATIOS, THE GROUP	Jul-Sep <u>2004</u>	Jul-Sep <u>2003</u>	Jan-Sep <u>2004</u>	Jan-Sep <u>2003</u>	Jan-Dec <u>2003</u>
Net earnings per share (SEK)	-0.60	-0.74	-2.60	-2.25	-3.34
Net earnings per share after full conversation (SEK)	-0.60	-0.74	-2.60	-2.25	-3.34
Equity per share (SEK)			9.28	12.96	11.88
Equity per share after full conversation (SEK)			10.26	14.95	11.09
Equity/assets ratio (%)			96.1	96.1	92.1
No. of shares average (thousands)			6,348	6,348	6,348
No. of shares after full conversation average (thousands)			6,715	6,781	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