

**PRESS RELEASE**  
**Gothenburg, August 17, 2005**

## **Fingerprint Cards AB (publ)** **Half-yearly interim report January - June 2005**

*Highlights of the first half-year:*

- **First half-year income totalled MSEK 1.3 (0.7)**
- **Net financial items amounted to MSEK 0.2 (0.7)**
- **The loss for the first half-year totalled MSEK -8.9 (-12.7)**
- **Liquid funds as at June 30 totalled MSEK 25.2 (39.0)**
- **Net earnings per share was SEK -1.40 (-2.00)**
- **Extraordinary General Meeting called for 28 July**

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

- **Extraordinary General Meeting of shareholders gives the Board an extensive authorisation**

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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 progressive growth of biometric applications in the governmental sector continued during the first half of 2005, confirming the reality of the technology. Results made public from one significant trial of biometrics by the United Kingdom Passport Agency scored fingerprint technology higher than iris technology on the basis of the enrolment success rate, and higher than face recognition technology on the basis of their identity verification rates. Though not an exhaustive trial of technology performance, this gives significant support to the view that fingerprint technologies will perform most effectively in large or volume product applications.

There were clear indications during the quarter that large scale adoptions of biometric technologies cannot be rushed. Pressure exerted on the USA by many of the European states for it to relax its requirement for biometric passports by October of 2005 led to a clarification of US policy stating a new deadline for biometric chip-enabled passports by October of the following year, 2006. The motivating reason was that after nearly three years of development of biometric passports many European states were still not ready with integrated biometric identity document solutions. Underlying this process has been the agreement and adoption of an adequate standard for biometric images in such identity document systems. There is little doubt of the serious intent here, at the end of the quarter the European Council of Ministers stated that it saw the need for such biometric identity document provisions to be applied across the European Community in respect of identity cards as well as passports.

In the computing sector more manufacturers were adding fingerprint sensors to their notebook computer ranges. HP and Toshiba joined IBM with the deployment of fingerprint security that operates independently of the computer's operating system to deliver a more secure solution, particularly when the machine is switched on. Within the same sector there was a gradual increase in the use of biometrics to secure a greater part of the environment, moving from log-in and password replacement, to hardware boot-up and file encryption.

## **Fingerprint Cards' Present Business situation**

During the period the Board of Directors, with a view to having greater freedom of action, called for an extraordinary meeting with the shareholders, asking for an authorisation to sell the Company's present business operation or in case that would not be feasible, to wind it up. The meeting was announced for at 28 June but was the postponed to 28 July for technical reasons.

The reason for this measure is not least the slow market development for the biometric technologies. The volumes being delivered to the market are still too small to cover costs for the technology developers and this forces biometrics companies to frequent new stock issues in order to bring in more money. Events during the latest 12 to 18 months however indicate a possible break in this trend. Within the public sector, as an example, several large scale programs for biometric enabled national ID cards have been launched and deliveries have commenced and in addition political decisions have been taken on introduction of biometric passports for both the EU, the United States and a number of other countries. Deliveries of fingerprint technology have also begun to volume products like laptops and cell phones although market penetration is still low. To sum up, the conclusion must be that it will still take a few years before the industry as a whole will be able to cover its costs.

In its technology development work the Company has focused on developing so called embedded systems by means of which systems need not depend on external processor support for storing and matching of fingerprints. Hence a special chip, a so called ASIC, has been developed serving the sole purpose of executing the algorithm for finger matching. An embedded system is a presumption for high security systems but the market for such solutions has so far been weak. The fingerprint technology now being delivered to the volume markets is generally made up of just a swipe sensor and an algorithm where matching is done in the laptop computer's processor or in the phone's processor. Consequently the fingerprint technology is not used to enhance security but more as a technical feature making it more convenient to log on to the device.

In the Company's opinion the fingerprint technology will not get its commercial breakthrough until it is used as a security enhancing technology. Secure applications solutions require embedded biometric systems which, in battery driven products are, above all, low power consuming. There are signs in the market of an emerging demand for the technology that the Company is specialised in. It concerns not only portable computers and cell phones but also the card market has shown a recent interest for the possibility of integrating the complete fingerprint system into a standard plastic card, consequently the sensor for reading images as well as algorithm and processor where all storing and matching of finger patterns takes place on the card itself. After the cardholder's identity has been verified the card is activated for the time that is needed to read the card by a card reader. Such cards may be powered by embedded leaf thin batteries. The big advantage with such a technical

solution is that it minimizes requirements for changes to the established infrastructure and existing card readers can be used.

Accordingly there is a market interest in the Company's technology aimed for high volume products. The problem the Company is facing is the long industrial lead times involved implying that the Company cannot expect any substantial revenues until a year or two after that a bigger deal has been landed. If the Company should wait for the market to come then additional financial resources would be necessary in the form of additional risk capital. Considering the low sales the Company has shown so far it is the Board's conclusion that the conditions for the Company to attract new risk capital are unfavourable.

### **Freedom of action**

The Board needs access to alternative solutions in case nothing new would occur that would radically change the Company's business situation. Should that not happen within a very short time then the alternative to sell the business operation is necessary or, in the worst case, even the alternative to wind up the business operation. The overall purpose is to avoid that the Company would end up in a situation of financial stress. These were the motives to call for an extraordinary meeting with the shareholders asking for an extensive authorization.

### **Sales**

Given the Company's present situation, having halved its size one year ago, together with the announcement that the business operation is for sale this naturally has a negative impact on sales work. During the period the Company delivered technology for MSEK 1.3 (MSEK 0.7). Old customers are holding back new orders and new clients postpone placing orders until it becomes clear what is going to happen with the Company and in which hands the business will end up.

### **Turnover and earnings**

Consolidated turnover during the period January – June amounted to MSEK 1.3 (0.7). Consolidated earnings for the period January – June amounted to MSEK -8.9 (-12.7).

### **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, 2005 was 94.7 % (94.4). Consolidated available liquid assets including current investments as at June 30, 2005, totalled MSEK 25.2 (39.0). Other current receivables amounted to MSEK 1.0 (2.3). The consolidated working capital amounted as at June 30 to MSEK 29.0 (45.4). 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 31 in June 2006. The theoretical maximum dilution is 2 % of the equity and 2 % of the voting rights.

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

During the first six months no investments were done in equipment (0.2). Furthermore no development cost has been set up as an asset during the period (3.4). Development costs were depreciated according to plan by 15 % and equipment is depreciated by 20% annually.

### **Personnel**

The number of employees as at 30 June was twelve (nineteen), of whom none (three) were women.

## **Accounting principles**

From the 1st of January 2005 Fingerprint Cards prepares the consolidated financial statements in full compliance with IFRS (International Financial Reporting Standards). The regulation adopted by the EU's Council of Ministers requires that all exchange-listed companies within the union apply the regulation from the fiscal year 2005. The transition from national accounting standards to IFRS places special demands on the first report submitted in accordance with the new standards. The rules specify the comparison year 2004 shall also be reported in accordance with IFRS. The effect of the transition has shown to be limited for the Company, and that Swedish GAAP corresponds well to IFRS regulations.

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

At an extraordinary general meeting with the shareholders on 28 July the Board of Directors was authorized to sell the Company's business operation including its material and intellectual property rights. The authorization includes also a winding up of the business should a sale not be brought about within a short time. This authorization is in force until the next annual general meeting.

Due to the decision taken on the extraordinary meeting with the shareholders to authorise the Board to sell the Company's business operation or wind up the business, the Stockholm Stock Exchange has decided that from 1 August the Company's shares will be traded on the observation section of the O-list (the OBS-list).

## **Other reporting dates**

Third-quarter interim report July-September, October 28, 2005  
Press release on annual accounts for 2005, February 2006  
Annual report for 2005, April 2006

Gothenburg, August 17, 2005

## **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>2005</u>	Apr-Jun <u>2004</u>	Jan-Jun <u>2005</u>	Jan-Jun <u>2004</u>	Jan-Dec <u>2004</u>
<b>Operating income</b>					
Net turnover	0.5	0.5	1.3	0.7	2.9
Cost of goods sold	<u>-0.5</u>	<u>-0.3</u>	<u>-1.2</u>	<u>-0.4</u>	<u>-2.3</u>
<b>Gross margin</b>	0.0	0.2	0.1	0.3	0.6
<b>Operating expenses</b>					
Administration	-1.5	-1.6	-3.3	-3.5	-6.6
Development costs	-2.1	-2.9	-4.1	-5.0	-8.1
<u>Market costs</u>	<u>-1.0</u>	<u>-2.6</u>	<u>-1.9</u>	<u>-5.2</u>	<u>-9.3</u>
<b>Operating profit/loss</b>	<b>-4.5</b>	<b>-6.9</b>	<b>-9.1</b>	<b>-13.4</b>	<b>-23.5</b>
Net financial items	<u>0.1</u>	<u>0.3</u>	<u>0.2</u>	<u>0.7</u>	<u>1.9</u>
<b>Net profit/loss for the period</b>	<b>-4.4</b>	<b>-6.6</b>	<b>-8.9</b>	<b>-12.7</b>	<b>-21.6</b>

BALANCE SHEETS THE GROUP (MSEK)	30 Jun <u>2005</u>	30 Jun <u>2004</u>	31 Dec <u>2004</u>
<b>Assets</b>			
Intangible assets	15.3	16.3	16.6
<u>Tangible assets</u>	<u>0.6</u>	<u>1.0</u>	<u>0.7</u>
<i>Total fixed assets</i>	15.9	17.3	17.3
Inventory	5.3	7.8	5.8
Current receivables	1.0	2.3	2.3
Current investments	22.9	38.1	28.8
<u>Cash and bank deposits</u>	<u>2.3</u>	<u>0.9</u>	<u>2.2</u>
<i>Total current assets</i>	31.5	49.1	39.1
<b>Total assets</b>	<b>47.4</b>	<b>66.4</b>	<b>56.4</b>
<b>Equity and liabilities</b>			
Equity	44.9	62.7	53.8
<u>Current liabilities, non-interest bearing</u>	<u>2.5</u>	<u>3.7</u>	<u>2.6</u>
<b>Total equity and assets</b>	<b>47.4</b>	<b>66.4</b>	<b>56.4</b>

CHANGE IN EQUITY, THE GROUP (MSEK)	Jan-Jun <u>2005</u>	Jan-Jun <u>2004</u>	Jan-Dec <u>2004</u>
Opening equity	53.8	75.4	75.4
<u>Net profit/loss for the period</u>	<u>-8.9</u>	<u>-12.7</u>	<u>-21.6</u>
<b>Closing equity</b>	<b>44.9</b>	<b>62.7</b>	<b>53.8</b>

CASH FLOW ANALYSES, THE GROUP (MSEK)	Jan-Jun <u>2005</u>	Jan-Jun <u>2004</u>	Jan-Dec <u>2004</u>
Earnings for the period	-9.1	-13.4	-23.5
Depreciation	1.4	0.4	1.2
Interest received	0.3	0.6	2.2
Other items	-0.2	-0.2	-0.4
<u>Change in working capital</u>	<u>1.7</u>	<u>-5.3</u>	<u>-4.5</u>
<b>Cash flow from current operations</b>	<b>-5.9</b>	<b>-17.9</b>	<b>-25.0</b>
<b>Cash flow from investment operations</b>	<b>0.0</b>	<b>-3.6</b>	<b>-4.4</b>
<b>Cash flow from financing operations</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Change in liquid funds incl. curr. investments</b>	<b>-5.9</b>	<b>-21.5</b>	<b>-29.4</b>

KEY RATIOS, THE GROUP	Apr-Jun <u>2005</u>	Apr-Jun <u>2004</u>	Jan-Jun <u>2005</u>	Jan-Jun <u>2004</u>	Jan-Dec <u>2004</u>
Net earnings per share (SEK)	-0.69	-1.04	-1.40	-2.00	-3.40
Net earnings per share after full dilution (SEK)	-0.69	-1.04	-1.40	-2.00	-3.40
Equity per share (SEK)			7.07	9.88	8.48
Equity per share after full dilution (SEK)			8.15	10.83	9.49
Equity/assets ratio (%)			94.7	94.4	95.4
No of shares average (thousands)			6,348	6,348	6,348
No. of shares after full dilution average (thousands)			6,648	6,748	6,698
No. of shares (thousands)			6,348	6,348	6,348
No. of shares after full dilution (thousands)			6,648	6,648	6,648