



N E X T B I O M E T R I C S G R O U P A S A

Q U A R T E R L Y R E P O R T - Q 2 2 0 2 0

One Touch.
One You.
NEXT Biometrics

NEXT Biometrics Group ASA

Quarterly report – Q2 2020

Highlights

- NOK 50 million private placement completed in June; NOK 10.8 million subsequent offering completed in July
- Cost reduction program substantially completed and reached target headcount at end of June 2020
- Improved sales pipeline; working on multiple client business opportunities with revenue potential in 2020 and beyond; Increased revenues expected in Q3
- Revenue of NOK 13.6 million in Q2 2020
- Quarterly revenues up 48% relative to Q4 2019
- Gross margin of 13% in Q2 2020
- EBITDA ex options¹ of NOK -23.0 million in Q2 2020
- Non-recurring costs of NOK 8.3 million mainly related to non-cash impairment losses
- Cash position of NOK 97.8 million per 30 June 2020

CEO comment

It has been a challenging quarter for many societies, businesses and people around the world as a result of the Covid-19 pandemic. During this period, I believe one of the most important events for NEXT was the successful private placement of NOK 50 million. We appreciate all existing and new shareholders who supported NEXT in completing this transaction - thank you.

Even though NEXT was also affected during the quarter by the ramifications related to Covid-19, mostly through delays and slower sales cycles as customers work through their own issues, we still managed to deliver an increased revenue of 48 % compared to our low-point in Q4 2019, when the reset and ongoing transformation of the Group was initiated. We see that earlier communicated cost savings and optimization of the Group clearly yields effect and now clearly runs towards our Q4 OPEX target of NOK 5 million per month.

We have completed the steps needed to reach our target cost levels, reorganized and established a more customer focused sales force and engineering team, improved internal process and simplified our product portfolio. We now have a platform that allows us to deliver revenue growth at better margins. As cost reductions and other changes flow through to the income statement, we intend to push on to achieve growth and improved margins.

NEXT Biometrics is now leaner and fitter than ever before and we will do everything in our power to succeed.

Peter Heuman, CEO of NEXT Biometrics Group ASA

(amounts in NOK million)	Q2 2020	Q1 2020	Q4 2019	Full year 2019
Operating revenues	13.6	20.5	9.2	84.4
Gross margin (%)	13 %	17 %	-2 %	24 %
EBITDA ex options ¹⁾	-23.0	-33.6	-44.3	-144.9
Cash and cash equivalents - closing balance	97.8	54.1	88.5	88.5

1) See definition on page 14

Operational review

Revenue for Q2 2020 was NOK 13.6 million, up 48% relative to the earlier communicated low-point Q4 2019 and down 55% compared to Q2 2019. PC laptop sensors product demand during the quarter was strong and in line with Q1 2020. The Group shipped its first FAP20 order to LLC NF Technology (LLC NF) during the quarter. Still, shipments of products to India in Q2 was lower than Q1 2020 mainly due to COVID-19 restrictions and related customer order and tender delays.

NEXT completed its Personal Identity Verification (PIV) certification of the FAP20 sensor late 2019 which has unlocked new higher gross margin opportunities. NEXT has generated substantial interest in the FAP20 sensor and has several customer and project leads at advanced level. In June 2020, NEXT shipped 5,000 FAP20 sensors to LLC NF. The sensors will be used in a Citizen ID project in Russia. The Group expects to receive additional orders for FAP20 sensors in the remaining part of 2020. NEXT continues its dialogue with current and prospective customers to introduce the FAP20 sensor technology for Point of Sales (POS), Government ID and Access control in Africa and other developing countries.

Under the initiated Aadhaar national ID registration program in India, NEXT is LO certified and is a qualified vendor for Aadhaar products and solutions. During the quarter, the Group delivered one medium sized and two smaller orders for UIDAI and STQC certified fingerprint biometric readers.

NEXT's has completed the development phase of its dual interface smart card solution, which is ready to be deployed to new potential customers. The Group has a long-term focus on the broader smart card market which is expected to have growth potential with higher gross margins compared to pure biometric payments cards.

NEXT's gross margin was 13% for Q2 2020, up from -2% in Q4 2019. The gross margin is still not satisfactory due to low production volume in the quarter (relative to installed capacity with fixed production costs) and India orders with relatively low gross margin. The FAP20 sensor and several of the Group's newer products have relatively high gross margin potential, but the share of revenues for these products is still at a relative low level.

On 28 May 2020, NEXT announced that its successfully completed a private placement of 25 million new shares at a subscription price of NOK 2.00 per share. The private placement was over-subscribed and raised gross proceeds of NOK 50 million. Subsequent to quarter end, the Group also completed a repair share issue raising NOK 10.8 million in gross proceeds. The equity raising, combined with the implementation of the Group's turnaround plan, is expected to substantially lengthen NEXT's financial runway.

During the quarter, NEXT Biometrics Inc. was granted a loan amounting to USD 1.0 million. The loan is granted as part of the Covid-19 USA government sponsored loan program. The loan is to cover payroll and help cover overhead expenses in NEXT's US operation, and NEXT may qualify for loan forgiveness for a sizable portion of the loan.

NEXT booked NOK 8.3 million in non-recurring costs in Q2. They were mainly related to NOK 6.6 million in impairment losses of office leases and property, plant and equipment, as a result of the organizational downsizing and review of office costs/space during Q2. Moreover, the Group booked NOK 1.8 million in employee severance pay as a part of the headcount reductions during the quarter.

At the annual general meeting held on 12 May 2020, the new board consisting of Petter Fjellstad (re-elected, new position as chairman), Emine Lundkvist (re-elected), Odd Harald Hauge (new board member) and Live Haukvik (new board member) were elected.

The Quarter - Status of the Turnaround

NEXT continued to address the Group's revenue challenge, improve cost effectiveness as well as to implement the Group's turnaround strategy during the quarter. NEXT is also investing selectively in new products to ensure that the Group is positioned to meet customer demands and increase revenues with a focus on capturing current market opportunities for biometric solutions.

NEXT has accelerated its cost reduction program relating to both headcount and indirect costs. As earlier communicated, the plan is to reach an operating expense run rate of approximately 5 MNOK/month during Q4 2020 compared to 16 MNOK/month in Q4 2019, which corresponds to almost 70% saving relative to Q4 2019.

NEXT has reduced its number of employees in line with its plan and has reached an improved balance between internal and outsourced resources. The percentage of employees in low cost countries is 55% as per 30 June 2020 compared to 26% as per 31 December 2019. As per end of June 2020, NEXT has 33 employees, which is a 57% reduction compared to the average number of employees during Q4 2020.

NEXT has reduced indirect office related costs, business services costs as well as research and development cost. The cost reduction can be explained by cancellation, reduction of scope/volume and improved pricing of external research and development, business services, software, subscriptions, insurances, consultants, travel and marketing costs. Towards the end of Q2 2020, NEXT implemented its planned outsourcing of IT development and closed its Prague office. The effort to streamline and lower office, administration and vendor cost is substantially completed. Other key elements initiated and under implementation are outsourcing parts of the operation to low-cost countries and simplify product offerings.

The turnaround plan will reset the Group, conserve cash, and enable NEXT to become a more commercially focused technology company.

Interim condensed financial statements as of 30 June 2020 (unaudited)

Statement of comprehensive income

Operating revenues for Q2 2020 was NOK 13.6 million compared to NOK 30.0 million in Q2 2019. Operating revenues were NOK 34.1 million in the first half of 2020 compared to NOK 57.6 million in the same period in 2019. The decrease was mainly related to reduced notebook module shipments partially offset by increased shipments to India.

Gross margin was 13% in Q2 2020 compared to 32% in Q2 2019. Gross margin was 15% in first half of 2020 compared to 33% for first half of 2019. The reduced gross margin reflects product mix and higher costs per unit associated with the lower volume produced.

Payroll expenses were NOK 15.1 million in Q2 2020 compared to NOK 28.5 million in Q2 2019. Payroll expenses in first half of 2020 were NOK 38.9 million compared to NOK 64.1 million in first half of 2019. The reduction was mainly related to reduction in number of employees.

Other operating expenses were NOK 8.6 million in Q2 2020 compared to NOK 13.9 million in Q2 2019. Operating expenses were NOK 21.9 million in first half year of 2020 compared to NOK 26.2 million in the same period in 2019. The reduction is mainly related to reduced R&D activities, partly offset by increased other expenses. Other expenses included NOK 1.7 million in allowance for expected credit loss on accounts receivables in Q2 2020. Total R&D expenses, included in both payroll and other operating expenses, were NOK 9.9 million in Q2

2020, decreased from NOK 23.4 million in Q2 2019. Total R&D expenses were NOK 27.1 million in first half of 2020 compared to NOK 50.3 million for first half of 2019.

Depreciation and amortization were NOK 4.9 million in Q2 2020 compared to NOK 4.1 million in Q2 2019. Depreciation and amortization for the first half of 2020 were NOK 9.1 million compared to NOK 8.3 million in first half of 2019. Impairment losses were NOK 6.6 million in Q2 2020 and half year 2020 compared to NOK 0.0 million in Q2 2019 and half year 2019. See note 5 for further information regarding impairment losses.

Income tax expenses were NOK 0.1 million related to foreign subsidiaries in the first half of 2020 compared to NOK 0.0 million in first half of 2019.

Loss after taxes for Q2 2020 were NOK 34.6 million compared to NOK 37.1 for Q2 2019. Loss after taxes for the first half of 2020 was NOK 69.9 million compared to NOK 81.1 million in the first half of 2019.

Statement of financial position and cash flow

Cash and cash equivalents amounted to NOK 97.8 million per 30 June 2020, compared to NOK 88.5 million per year-end 2019.

Cash flow from operating activities was negative NOK 10.8 million in Q2 2020, compared to a negative NOK 23.8 million in Q2 2019. In the first half of 2020, cash flow from operating activities was negative with NOK 44.3 million compared to negative NOK 59.0 million in the same period of 2019. The improvement in cash flow is mainly related to lowered loss in the period, positive cash flow effect from working capital as well as positive impact of adjusting for non-cash items such as impairment losses.

Purchase of property, plant and equipment and intangible assets were NOK 0.0 million in the first half year of 2020, compared to NOK 0.0 million in the same period in 2019.

Net cash flow from financing activities was positive by NOK 54.8 million in Q2 2020 compared to negative NOK 1.5 million in Q2 2019. Net cash flow from financing activities was positive by NOK 53.7 million in the first half of 2020 compared to positive NOK 176.4 million in the first half of 2019. The positive cash effect in 2020 was related to net proceeds from share issues of NOK 45.8 million and proceeds received for granted US loan of NOK 10.2 million during Q2 2020.

Going concern

The Group's financial statements for Q2 2020 have been prepared on the basis of a going concern assumption.

Outlook

The Group's turn-around plan has largely been implemented. The Group expects to reach an operating expense run rate of approximately NOK 5 million/month during Q4 2020 compared to NOK 16 million/month in Q4 2019.

The Group is continuing the work of increasing long-term revenues. The current focus is client business opportunities around FAP20, India Aadhaar program and Notebook products. We still believe that Q4 2019 revenues was the low point in terms of quarterly revenues for NEXT. Improved sales management and strengthening of the sales force, with focus on sale of existing and already developed products, will continue to yield improved results in 2020. The gross margin is expected to increase towards the Group's targeted 35-40% gradually during 2021, by improving its product mix and increasing production and sales volumes.

The Group's sales funnel has improved during the quarter as a result of Q2 2020 sales opportunities were postponed into Q3/Q4 2020 and additional customer purchase orders received in the current quarter with targeted delivery date in Q3 2020. The Group is expecting increased revenues in Q3 2020 compared to Q2 2020 as result of strong demand for notebook sensors and multiple sales opportunities at advance stage. The sales team is currently also working on multiple of client business opportunities with significant revenue potential in Q4 2020 and 2021. This includes introduction of new products with existing and new Notebook partners as well as FAP20 business opportunities. The fingerprint sensor market in India continues to be subject to tender and order delays due to the COVID-19 situation as well as a general economic slowdown, and it is uncertain when this market will recover and return to growth mode. Overall, we believe fingerprint solutions market and our thermal technology-based products have potential to grow significantly in the longer term.

Responsibility statement

We confirm that, to the best of our knowledge, the condensed consolidated interim financial statements for the first half year of 2020, which have been prepared in accordance with IAS 34 "Interim Financial Reporting", give a true and fair view of the company's consolidated assets, liabilities, financial position and results of operations. We also confirm that, to the best of our knowledge, the interim report for the first half year of 2020 includes a fair review of important events that have occurred during the period and their impact on the condensed financial statements, a description of the principal risks and uncertainties for the remaining half year of 2020, and major related party transactions.

Oslo, 17 August 2020

Board of Directors

NEXT Biometrics Group ASA

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of comprehensive income (unaudited)

(amounts in NOK 1 000)	Notes	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
Operating revenues	2	13 628	30 082	34 112	57 580	84 436
Cost of goods sold		-11 812	-20 492	-28 877	-38 668	-63 865
Gross margin		1 815	9 590	5 235	18 912	20 570
Payroll expenses	3,4	-15 094	-28 495	-38 902	-64 139	-121 929
Other operating expenses	3	-8 641	-13 849	-21 860	-26 233	-46 419
EBITDA		-21 919	-32 754	-55 528	-71 460	-147 777
Depreciation and amortization		-4 869	-4 133	-9 058	-8 279	-16 805
Impairment losses	5	-6 577	-	-6 577	-	-
Operating profit (loss)		-33 365	-36 887	-71 163	-79 738	-164 582
Net financial items		-1 529	-221	1 313	-1 397	266
Profit (loss) before taxes		-34 894	-37 108	-69 849	-81 136	-164 316
Income tax expenses		287	1	-56	1	-2 131
Profit (loss) after taxes		-34 607	-37 107	-69 905	-81 135	-166 447
<i>Other comprehensive income (loss) that may be reclassified subsequently to profit and loss:</i>						
Translation differences on net investments in foreign operations		-659	-122	2 994	-249	315
Other comprehensive income (loss)		-659	-122	2 994	-249	315
Total comprehensive income (loss)		-35 267	-37 229	-66 912	-81 384	-166 132
Profit (loss) after taxes attributable to:						
Owners of the parent company		-34 607	-37 107	-69 905	-81 135	-166 447
Total comprehensive income (loss) attributable to:						
Owners of the parent company		-35 267	-37 229	-66 912	-81 384	-166 132
Earnings per share (in NOK):						
Basic and diluted ¹⁾	4	-0.64	-0.72	-1.33	-1.69	-3.34

1) Earnings per share in 2019 has been adjusted retrospectively as a result of share issues in 2020

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of financial position (unaudited)

(amounts in NOK 1 000)	Notes	30 Jun 2020	30 Jun 2019	31 Dec 2019
Deferred tax assets		14	347	9
Intangible assets		8 498	15 460	11 969
Property, plant and equipment	5	21 202	33 509	31 212
Total non-current assets		29 714	49 316	43 189
Inventories		21 459	24 346	25 961
Accounts receivables	3	8 223	10 496	3 481
Other current assets		11 829	12 659	11 724
Cash and cash equivalents		97 775	163 479	88 541
Total current assets		139 286	210 980	129 706
Total assets		169 000	260 295	172 896
Share capital	4	70 193	42 931	42 931
Share premium	4	71 796	624 451	53 278
Other reserves	4	57 118	61 052	58 261
Accumulated losses		-86 580	-506 110	-19 668
Total equity		112 527	222 325	134 801
Non-current interest-bearing loans	6	5 305	-	-
Other non-current liabilities		1 139	4 313	3 344
Total non-current liabilities		6 444	4 313	3 344
Current interest-bearing loans	6	4 331	-	-
Accounts payables		17 293	15 214	11 786
Income tax payables		51	-	188
Other current liabilities		28 354	18 444	22 777
Total current liabilities		50 029	33 657	34 751
Total equity and liabilities		169 000	260 295	172 896

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of cash flow (unaudited)

(amounts in NOK 1 000)	Notes	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
Profit (loss) before taxes		-34 894	-37 108	-69 849	-81 136	-164 316
Share based remuneration (equity part)	4	-1 115	2 228	-1 143	5 684	2 893
Income taxes paid		-29	1	-207	1	-2 141
Depreciation and amortization		4 869	4 133	9 058	8 279	16 805
Impairment losses	5	6 577	-	6 577	-	-
Change in working capital items and other		13 796	6 988	11 314	8 183	15 365
Net cash flow from operating activities		-10 797	-23 757	-44 251	-58 989	-131 394
Proceeds from disposal of property, plant and equipment and intangible assets		6	-	6	-	-
Purchases of property, plant and equipment and intangible assets		-	-	-	-	-1 199
Net cash flow from investing activities		6	-	6	-	-1 199
Net proceeds from issue of shares	4	45 780	-321	45 780	178 752	178 752
Proceeds from interest-bearing loans	6	10 152	-	10 152	-	-
Payments of lease liabilities		-1 102	-1 176	-2 205	-2 334	-4 233
Net cash flow from financing activities		54 830	-1 497	53 727	176 418	174 519
Effects of exchange rate changes on cash and cash equivalents		-337	-122	-249	-249	315
Net change in cash flow		43 702	-25 378	9 234	117 179	42 242
Cash balance at beginning of period		54 072	188 857	88 541	46 299	46 299
Cash balance at end of period		97 775	163 479	97 775	163 479	88 541
Comprising of:						
Cash and cash equivalents		97 775	163 479	97 775	163 479	88 541

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of changes in equity (unaudited)

(amounts in NOK 1 000)	Notes	Share capital	Share premium	Other reserves	Accumulated losses	Total equity
As of 1 January 2020		42 931	53 278	58 261	-19 668	134 801
Profit (loss) after taxes					-69 905	-69 905
Other comprehensive income (loss)					2 994	2 994
Total comprehensive income (loss)		-	-	-	-66 912	-66 912
Share issues net	4	27 262	18 518			45 780
Share based remuneration	4			-1 143		-1 143
As of 30 June 2020		70 193	71 796	57 118	-86 580	112 527
As of 1 January 2019		19 431	469 200	55 369	-424 710	119 289
Profit (loss) after taxes					-81 135	-81 135
Other comprehensive income (loss)					-249	-249
Total comprehensive income (loss)		-	-	-	-81 384	-81 384
Share issues net	4	23 500	155 252			178 752
Share based remuneration	4			5 684		5 684
As of 30 June 2019		42 931	624 451	61 052	-506 110	222 325

Notes to the interim consolidated financial statements

Note 1 – General information and accounting principles

NEXT (the Group) consist of NEXT Biometric Group ASA (the parent company) and its subsidiaries. NEXT Biometrics Group ASA is a public limited liability company incorporated and domiciled in Norway and is listed at Oslo Stock Exchange under the ticker NEXT.

The Group's operations are carried out by the operating subsidiaries. The Group has six wholly owned operating subsidiaries: NEXT Biometrics AS (Oslo, Norway), NEXT Biometrics Inc. (Seattle, USA), NEXT Biometrics China Ltd. (Shanghai, China), NEXT Biometrics Taiwan Ltd. (Taipei, Taiwan) and NEXT Biometrics Solutions India Pvt. Ltd. (Bengaluru, India).

The Group provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets.

This report contains forward-looking statements that are based on, among other things, the management current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for the Group. All such forward-looking statements are subject to inherent risks and uncertainties, and many factors can cause substantially deviations from what has been expressed or implied in such statements.

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim financial reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for 2019 (Annual Report for 2019). The Annual Report for 2019 are available at www.nextbiometrics.com.

The accounting policies applied in preparation of the interim financial statements are consistent with those applied in the preparation of Annual Report for 2019. There are no new standards and interpretations effective from 1 January 2020 that had a significant impact on the Group's consolidated interim financial statements. In the statement of cash flow, first half year of 2019 and Q2 2019 figures have been adjusted to properly reflect lease payments. Line-items "Payment of lease liabilities" have decreased from 0 (reported) to -2,334 (updated) and "Change in working capital items and other" have increased from 5,849 (reported) to 8,183 (updated) for the first half year of 2019. The sub-totals "Net cash flow from operating activities" and "Net cash flow from financing activities" have also been adjusted accordingly. The adjustments had no effect on "Net change in cash flow".

As a result of rounding differences, numbers or percentages may not add up to the total.

The Group's interim financial statements for Q2 2020 have been prepared on the basis of a going concern assumption.

This interim financial report has not been subject to audit.

The Board of Directors approved the report on 17 August 2020.

Note 2 – Revenue and segment reporting

(amounts in NOK 1 000)	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
Fingerprint sensor technology	13 628	30 082	34 112	57 580	84 436
Total operating revenues	13 628	30 082	34 112	57 580	84 436

NEXT targets four markets for the technology;

- (i) Smart cards
- (ii) Government ID
- (iii) Access control
- (iv) Notebooks

The available technology is generic into the four markets. Most of NEXT's key IP, including our *NEXT Active Thermal™* is shared and used in all four markets.

Note 3 – Operating expenses

(amounts in NOK 1 000)	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
R&D related payroll expenses	-7 400	-15 169	-19 758	-33 069	-65 841
Other payroll expenses	-8 809	-11 076	-20 287	-24 817	-52 585
Share based remuneration (salary part)	1 115	-2 249	1 143	-6 359	-3 609
Share based remuneration (employer's tax)	-	-	-	107	106
Total payroll expenses	-15 094	-28 495	-38 902	-64 139	-121 929

(amounts in NOK 1 000)	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
R&D related operating expenses	-2 483	-8 273	-7 345	-17 279	-24 889
Other expenses	-6 158	-5 575	-14 515	-9 609	-22 186
Share based remuneration (operating part)	-	-	-	656	656
Total other operating expenses	-8 641	-13 849	-21 860	-26 233	-46 419
Total R&D expenses	-9 883	-23 443	-27 103	-50 349	-90 730

Allowance for expected credit losses on accounts receivables increased by MNOK 1.7 in Q2 2020 and MNOK 2.3 in first half of 2020 (MNOK 0.0 in same periods in 2019). The increase is mainly related to individual assessment of certain customers.

Note 4 – Shares and incentive options

Numbers of shares outstanding

As of 1 January 2020	42 930 575
Share issue(s)	27 262 027
Exercised incentive options	-
As of 30 June 2020	70 192 602

	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
Earnings per share					
Profit (loss) after taxes (in NOK 1,000)	-34 607	-37 107	-69 905	-81 135	-166 447
Weighted average number of shares for the period ¹⁾	53 820 370	51 359 630	52 590 000	48 135 452	49 760 791
Effect of dilution option programmes	-	-	-	-	-
Weighted average number of shares adjusted for effect of dilution	53 820 370	51 359 630	52 590 000	48 135 452	49 760 791
Earnings per share (in NOK), basic and diluted	-0.64	-0.72	-1.33	-1.69	-3.34

1) Weighted average number of shares for 2019 has been adjusted retrospectively as a result of share issues in 2020

In June 2020, NEXT successfully completed a private placement issuing 25,000,000 new shares at a subscription price of NOK 2.00 per share, corresponding to a total gross amount of NOK 50.0 million. Direct expenses and underwriting commission in relation to the private placement was NOK 8.7 million, of which NOK 4.5 million for the underwriting commission was settled by issuing 2,262,027 new shares at NOK 2.00 per share. A subsequent share offering was completed in July, see section “7. Subsequent events”. The share issues were approved at the extraordinary general meeting held at 19 June 2020.

The following shares were issued to primary insiders:

	Number of shares issued	Number of shares owned at 30 June 2020	Held through
Petter Fjellstad, chairman	822 779	832 779	Aponia AS
Odd Harald Hauge, board member	548 907	548 907	
Live Haukvik, board member	100 000	100 000	Spurv Invest AS
Emine Lundkvist, board member	50 000	79 738	
	1 521 686	1 561 424	

Share options:

The Company has entered into, and plans to continue to enter into stock option agreements in order to attract talented and experienced employees and board members.

During the first half of 2020, the number of outstanding options was increased reduced by net 5.2 million options. The increase is mainly due to the issuance of 5,872,000 options to board, management and employees approved in the general meeting and board of directors meeting, and the negative adjustment of 713,363 options that will not vest since employees holding the option grants has left the Group. The Group had 6,890,714 options outstanding at 30 June 2020.

The following share options were granted to board of directors and executive management:

	Granted share options	Accumulated granted options at 30 June 2020
Board of Directors:		
Petter Fjellstad, chairman	1 000 000	1 030 000
Odd Harald Hauge, board member	200 000	200 000
Live Haukvik, board member	200 000	200 000
Emine Lundkvist, board member	200 000	230 000
Executive Management:		
Peter Heuman, CEO	2 500 000	2 720 000
Eirik Underthun, CFO	1 000 000	1 000 000
	5 100 000	5 380 000

The vesting of the board members' options is conditional upon the person being a member of the board of directors at the date of vesting. Any resigning board members will not lose their vested options. Vested options must be exercised within six months from the date of the end of term. Board members that are dismissed upon a resolution by the general meeting or who are not re-elected, will keep their vested options, while any unvested options will elapse.

With regard to the option program for board members, management and employees, in total 50% of the options vest in the third calendar quarter of 2020. The remaining 50% vest in the third calendar quarter of 2021. The date of expiry for all vested options is the date falling 36 months after the date of grant. Any options that are not exercised at, or prior to, this date will elapse. The exercise price of the share options shall be equal to the average volume weighted market price of the Company's shares over the last five trading days prior to the date of grant, being NOK 2.49.

Note 5 – Impairment losses

As a result of the organizational downsizing, review of office costs/space and general review of assets during Q2 2020, NEXT booked NOK 3.2 million in impairment losses of right-of-use assets related to office leases and NOK 3.3 million on property, plant and equipment.

Note 6 – Interest-bearing loans

In April 2020, NEXT Biometrics Inc. was granted a loan amounting to USD 1.0 million under the COVID-19 USA government sponsored loan program. The loan is to cover payroll and help cover overhead expenses in NEXT's US operation and NEXT may qualify for loan forgiveness for a sizable portion of the loan. The loan has an interest rate of 1%, a two-year term and is unsecured. The loan is presented as "non-current interest-bearing loans" and "current interest-bearing loans" as of 30 June 2020.

Note 7 – Subsequent events

In July 2020, NEXT agreed to issue 369,000 shares in the Company at a subscription price of NOK 2.59 per share to executive CTO/COO Dan Cronin to settle an agreed bonus payment. Following completion of the issuance of the shares, Dan Cronin will hold 422,643 shares in the Company.

NEXT's subsequent offering was completed in July 2020. 5,382,887 new shares were issued at a subscription price of NOK 2.00 per share raising NOK 10.8 million in gross proceeds. Following the issuance of the new shares, the NEXT's share capital will be NOK 75,944,489, divided into 75,944,489 shares, each with a par value of NOK 1.00.

Alternative performance measures

NEXT's financial information has been prepared in accordance with International Financial Reporting Standards (IFRS). In addition, it is management's intent to provide alternative performance measures that are regularly reviewed by management to enhance the understanding of NEXT's performance, but not instead of, the financial statements prepared in accordance with IFRS. The alternative performance measures presented may be determined or calculated differently by other companies.

Definitions

Most of these key figures are alternative performance measures according to ESMA's definition. How these key figures are used is described below, as is how they are calculated. The alternative performance measures are used to provide a more comprehensive description of how the operational activities are developing, such as gross margin and EBITDA ex options.

Gross margin / gross margin (%)

Gross margin is defined as operating revenue less cost of goods sold.

Gross margin (%) is expressed as a percentage of operating revenue.

(amounts in NOK 1 000)	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
Operating revenue	13 628	30 082	34 112	57 580	84 436
Cost of goods sold	-11 812	-20 492	-28 877	-38 668	-63 865
Gross margin	1 815	9 590	5 235	18 912	20 570
Gross margin	1 815	9 590	5 235	18 912	20 570
Divided by operating revenue	13 628	30 082	34 112	57 580	84 436
Gross margin (%)	13 %	32 %	15 %	33 %	24 %

EBITDA / EBITDA ex options

EBITDA is earnings before interest, taxes, depreciation, amortization and impairment losses.

EBITDA ex options is equal to EBITDA excluding "share based remuneration" (salary part, employer's part and operating part).

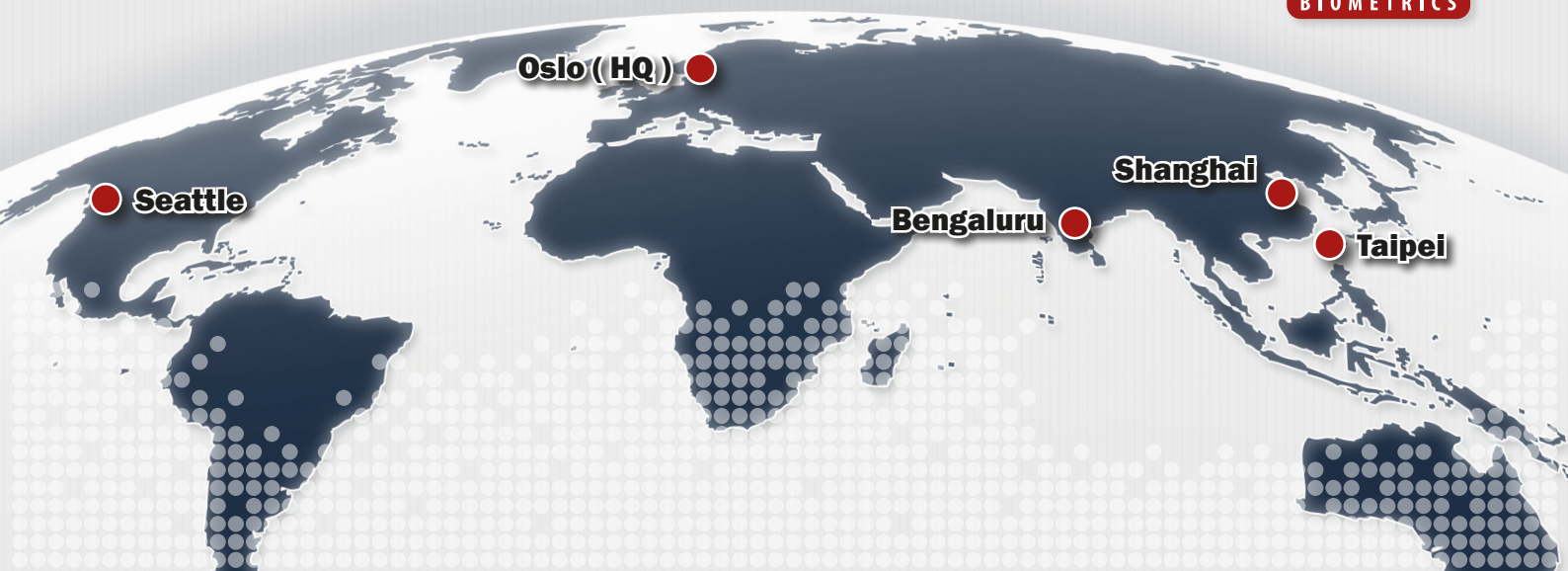
(amounts in NOK 1 000)	Q2 2020	Q2 2019	First half year 2020	First half year 2019	Full year 2019
Operating profit (loss)	-33 365	-36 887	-71 163	-79 738	-164 582
Added back depreciation and amortization	4 869	4 133	9 058	8 279	16 805
Added back impairment losses	6 577	-	6 577	-	0
EBITDA	-21 919	-32 754	-55 528	-71 460	-147 777
Added back share based remuneration (salary part)	-1 115	2 249	-1 143	6 359	3 609
Added back share based remuneration (employer's tax)	-	-	-	-107	-106
Added back share based remuneration (operating part)	-	-	-	-656	-656
EBITDA ex. options	-23 034	-30 505	-56 670	-65 864	-144 931

Cost of goods sold (COGS)

Cost of goods sold (COGS) is cost of materials and production service expenses.

Operating expenses (OPEX)

Operating expenses (OPEX) consist of salaries and personnel cost and other operating expenses.



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ABOUT NEXT BIOMETRICS:

NEXT provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets. The company's patented *NEXT Active Thermal™* principle allows the development of large, high quality fingerprint sensors in both rigid and flexible formats. NEXT Biometrics Group ASA (www.nextbiometrics.com) is headquartered in Oslo, with sales, support and development operations in Seattle, Taipei, Bengaluru and Shanghai.

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