



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 1 2 0 1 9

One Touch.  
**One You.**  
NEXT Biometrics



## HIGHLIGHTS

- Revenue of NOK 27.5 million vs. NOK 29.3 million in Q4-2018 and up 18% YoY
- Increased diversification of business and revenue streams
- Gross margin of 34%, versus 19% in Q1-2018 and 36% in Q4-2018
- Announced cost reduction program on track
- EBITDA ex options of NOK 35.4 million, includes NOK 4.8 million of severance pay and one-offs
- Continued customer progress in India as sales pipeline converts to contracts
- Expanding smart card ecosystem in Asia
- Raised NOK 179 million in net proceeds from private placement and subsequent offering

### Post Q1-2019 events

- Provided card specification for payment network
- Design-in and first shipments to KSI
- Partnership with Newland on Biometric POS

### CEO comment

"We are underway with our shift from product development to revenue generation. The progress is reflected in revenue from a widening customer base and the signing of new design-in contracts which are expected to increase revenues from the second half of 2019. Our efforts in India are starting to show results with a strong lead pipeline for our Aadhaar-certified products. We will build on the strong momentum in adjacent government ID markets for our new large-size, government-grade and cost-effective FAP20 sensor. This product is on track for volume production later this year. Progress is also made with commercialization of our Dual Interface solution which will position us to tap into the emerging hypergrowth payment smart card market."

**Ritu Favre**, CEO of NEXT Biometrics Group ASA



AMOUNTS IN NOK MILLION (EXCEPT GROSS MARGIN)	Q1-2019	Q4-2018	Q3-2018	Q2-2018	Q1-2018	FY 2018
Total revenue	<b>27.5</b>	29.3	30.2	25.6	23.3	<b>108.4</b>
Gross margin (%)	<b>34 %</b>	36 %	30 %	26 %	19 %	<b>28 %</b>
EBITDA ex. Options *	<b>-35.4</b>	-35.0	-35.7	-41.0	-37.8	<b>-149.5</b>
Closing cash balance	<b>188.9</b>	46.3	70.8	112.9	108.6	<b>46.3</b>

\* EBITDA ex. Options = "Profit (loss) before tax, depreciation and amortization" excluding "share based remuneration" (Salary part, employer's part and operating part)





## > OPERATIONAL REVIEW:

First-quarter revenue was NOK 27.5 million, compared to NOK 29.3 million in the previous quarter. The decline resulted from seasonality in the notebook business caused by lower production volumes during Chinese New Year. Revenue increased by 18% when compared to the first quarter of 2018.

Revenue for the quarter reflected NEXT Biometrics' successful diversification in accordance with its "multi-product, multi-market" business model. This share of revenue is expected to grow further going forward as NEXT solutions are shipped to an expanding customer base in the government ID, access control, smart card and notebook markets.

The new FAP20 sensor technology supports this expectation and has been received with great interest from potential customers. Target markets for the FAP20 sensor are government ID and access control with significant interest from customers in the commercial high security notebook market. Sampling of the FAP20 sensor to customers and prospective clients continued throughout the first quarter and the sensor is on track for volume production later this year.

NEXT's unique sensor technology is founded on a large cost-effective sensor which provides customers and end users with a higher level of security, convenient enrollment and a better user experience, all of which are key enablers for mass adoption of fingerprint technology. The increased recognition of NEXT's sensor technology is reflected in a growing number of use cases, such as ongoing smart card pilots for a United Nation's agency and a World Bank sponsored government ID program for farmers in India.

NEXT will typically sign three main types of agreements with customer and partners; 1) Purchase orders, which normally lead to a near immediate shipment of sensors and modules with associated revenue recognition; 2) Design-in contracts, which trigger initial volume shipments to the customer for testing and integration. The design-in period may last from three to nine months before the end-product incorporating NEXT's sensor is ready for mass production. At this point in time NEXT will commence volume shipments under the design-in agreement.; 3) Partner agreements in the smart card market. These are critical to developing the smart-card ecosystem, advancing end-customer relationships and positioning the Company for the coming growth in the payment smart card market.

High customer activity in 2019 to date is reflected in new design-in contracts and purchase orders. These will mainly start to impact revenue from the second half of 2019 due to the industry-typical lead-time from contract signing to start of volume shipments.

NEXT has initiated a program to reduce operating expenses (OPEX) by 20% with the full impact expected from the third quarter of 2019. The company booked NOK 4.8 million of severance pay and non-recurring costs related to optimizing the organization. Also, in the first quarter, NEXT raised net proceeds of NOK 179 million in a private placement and subsequent offering. The cash will be used to further scale the company's activities within smart card and government ID solutions.

### **Smart Card**

Smart cards can be categorized into three main technologies: contact cards, contactless cards and Dual Interface cards. NEXT offers a range of high-quality, large-area and flexible sensor solutions. The key focus for NEXT's smart card product development activities is related to commercializing of the Dual Interface solution, which is progressing according to schedule. The United Nations smart card pilot projects supported by NEXT through a cooperation with its customer Tactilis, are contact-based smart cards. In the first quarter of 2019, NEXT shipped 30,000 fingerprint sensors to Tactilis under a previously announced open purchase order.

The Dual Interface solution has triggered additional interest across NEXT's expanding smart card ecosystem. NEXT announced an agreement with M-Tech Innovations Ltd. to develop and deploy contact-based and Dual Interface biometric smart card solutions. M-Tech is an accredited and certified RuPay, MasterCard and VISA card manufacturer and one of the largest smart card producers in India. NEXT has expanded its network over the last months which now includes partnerships with tier-2 card manufacturers that cover India, Taiwan and Vietnam. Furthermore, the Company has completed phase-1 card specification work for a payment network and is currently preparing the next steps.

### **Government ID**

NEXT has established a market-leading product portfolio for the multi-million-unit government ID market. The certification of its fingerprint readers and sensor modules for India's Aadhaar program in 2018 has enabled NEXT to increase its customer base and market share in 2019. The new FAP20 sensor offers additional growth potential from 2020 onwards.

NEXT experienced increased customer demand and interest from prospective clients in India in the first quarter. The Company served purchase orders for fingerprint readers and sensor modules received through its distribution partner AqTronics for a range of projects and applications. Among them the World Bank-funded Project on Climate Resilient Agriculture (POCRA). This beacon project in the state of Maharashtra is expected to serve as a best practice model for other states in India. The fingerprint readers are used to authenticate farmers participating in POCRA for direct transfer of benefit payments to their bank accounts.

Additionally, mobility solutions specialist MobiOcean selected NEXT's sensor technology for integration into Aadhaar authentication and payment mobile Point-of-Sale (POS) terminals. Furthermore, Shanghai Basewin Technology Co., Ltd., a leading Personal Digital Assistant (PDA) Original Design Manufacturer (ODM) has started to integrate NEXT sensor modules into its POS terminals. Basewin produces a range of high-end handheld and POS terminal solutions for administrative law enforcement, finance, traffic and other applications.

In January, NEXT disclosed it had built a pipeline of a total volume of approximately 140,000 sensors for the Indian market in 2019 based on firm contracts and advanced talks with potential customers. Conversion of the pipeline to firm contracts has progressed as planned and three out of the four customers mentioned in January have signed either design-in agreements or purchase orders with NEXT. The revenue from these contracts will to a large extent be recognized in the second half of the year.

In the government ID market outside of India, NEXT is building a presence in government-mandated fingerprint authentication applications in Brazil, South Africa and other countries. In May, NEXT entered into a design-in and supply agreement with Fujian Newland Payment Technology Co., Ltd. (Newland). Newland is the market-leading Point-of-Sale (POS) terminal manufacturer in China and ranks number two in the global POS sector according to The Nielson Report.

### Access Control

The access control segment is a highly fragmented and regional business. In March, NEXT announced that LLP UniComm was appointed as its authorized distributor for access control solutions in Russia and the Company is in advanced negotiations for two additional regional distribution agreements.

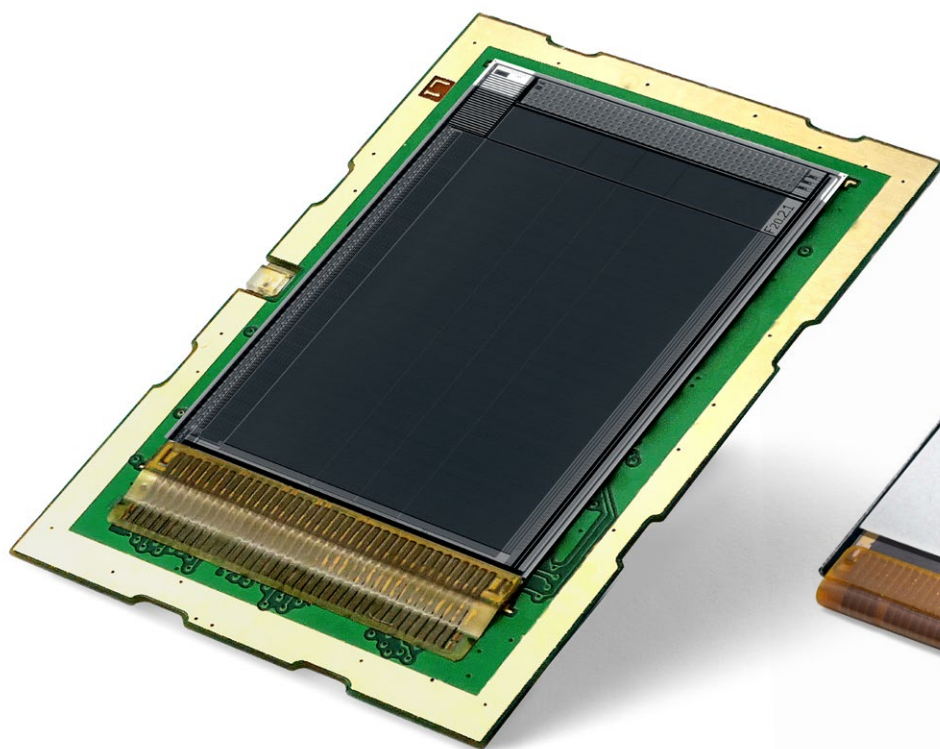
In February, NEXT's One Touch Access 100 fingerprint sensor was selected by Prima Technology Inc. for integration into display panel solutions for the educational market in North America and in April, NEXT signed a reader distribution and sensor design-in agreement with Key Source International (KSI).

NEXT targets increased market penetration based on the existing product portfolio as well as from leveraging the new FAP 20 sensor for physical access control and time & attendance applications. Revenue from the new agreements is expected to materialize from the second half of 2019.

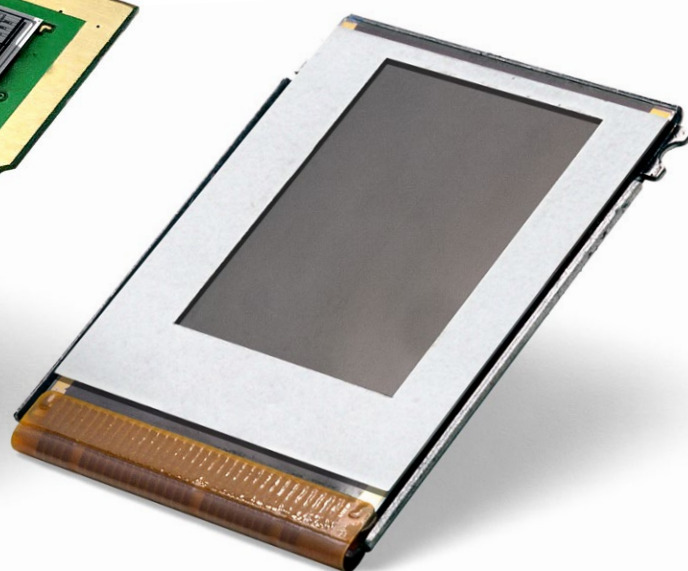
### Notebook

Revenue from notebook customers remained at a high level in the first quarter, although reflecting usual seasonality in the notebook business caused by lower production volumes during Chinese New Year.

Technology evaluation with additional notebook manufacturers based on the existing sensor portfolio continued in the first three months of the year as did sampling of the new FAP20 sensor. Shipments to the US tier-1 customer continues, but the number of platforms using NEXT sensors will decline as announced. Shipments to Fujitsu are increasing as more platforms with NEXT sensors are launched in the market. The Company has good visibility for shipments through the first half of the year.



**One Touch FAP20 Module**  
**15.24 x 20.32 mm**



**One Touch Access 100 Module**  
**11.9 x 16.9 mm**



## > INTERIM CONDENSED FINANCIAL STATEMENTS AS OF 31 MARCH 2018 (UNAUDITED)

### PROFIT & LOSS STATEMENT

NEXT implemented IFRS 16 - Leases effective 1 January 2019. NEXT has identified office buildings to be the only material lease agreements. Total right-of-use asset recognized for the Group was NOK 12.0 million. The corresponding liability was NOK 6.5 million long-term and NOK 5.5 million short-term. In line with IFRS 16, the implementation will lead to decreased rental costs offset by increased depreciation and financial costs. For the first quarter of 2019, these are NOK 1.1 million in depreciation, NOK 1.2 million in rent offset and NOK 0.2 million financial cost. See note 2 and 6 for more information.

Operating revenue in the first quarter of 2019 was NOK 27.5 million, compared to NOK 29.3 million in the previous quarter and NOK 23.3 million in the first quarter of 2018.

Cost of goods sold were NOK 18.2 million in the first quarter of 2019, compared to NOK 18.8 million in the previous quarter and NOK 18.8 million in the first quarter of 2018. The gross margin in the first quarter of 2019 was 34% (NOK 9.3 million), compared to 36% (NOK 10.5 million) in the previous quarter and 19% (NOK 4.5 million) in the first quarter of 2018.

Payroll expenses were NOK 35.6 million in the first quarter of 2019, compared to NOK 31.5 million in the previous quarter and NOK 25.7 million in the first quarter of 2018. In the first quarter of 2019, NEXT booked NOK 4.8 million of severance pay and other non-recurring costs as part of its plan to reduce OPEX by 20% from the second-quarter 2018 level. The full impact of the strategic decision to optimize the organization and product development investments is expected from the third quarter of 2019. The increase from the previous quarter of NOK 4.1 million was mainly due to severance pay from the cost-down initiatives presented at the business update in January.

Other operating expenses were NOK 12.4 million in the first quarter of 2019, compared to NOK 17.6 million in the previous quarter and NOK 17.6 million in the first quarter of 2018. The decrease by NOK 5.2 million from the previous quarter was mainly related to reduced cost. The implementation of IFRS 16 led to a reduction of operating cost by NOK 1.2 million. This was partly offset by NOK 1.0 million related to severance pay to contractors.

The R&D costs included in other operating expenses decreased to NOK 9.0 million in the first quarter of 2019, compared to NOK 9.9 million in the previous quarter and NOK 11.2 million in the first quarter of 2018. The decrease from the previous quarter was in fact NOK 5.9 million when adjusting for the NOK 5.0 million grant of public subsidies in connection with a Norwegian tax deduction scheme (SkatteFUNN) in the fourth quarter of 2018.

Depreciation and amortization amounted to NOK 4.1 million in the first quarter of 2019 compared to NOK 2.7 million in the previous quarter and NOK 2.0 million in the first quarter of 2018. NOK 1.1 million of the increase was related to depreciation of right-of-use assets as a consequence of the implementation of IFRS 16.

There were no investments in the first quarter of 2019, compared to NOK 0.3 million in the previous quarter and NOK 0.03 million in the first quarter of 2018. The main investment in 2018 was the source code license acquisition in the second quarter.

Due to the implementation of IFRS 16 (Leases) right-of-use assets was capitalized with NOK 12.0 million in the opening balance as of 1 January 2019.

Net financial cost was NOK 1.2 million in the first quarter of 2019, compared to a net financial cost of NOK 2.0 million in the previous quarter and a net financial cost of NOK 1.5 million in the first quarter of 2018. The decrease from the previous quarter was mainly related to reduced foreign exchange gains and losses. NOK 0.2 million of the increase was related to the implementation of IFRS 16 (Leases).

Net loss for the first quarter of 2019 was NOK 44.0 million, compared to a loss of NOK 40.9 million in the previous quarter and a loss of NOK 42.3 million in the first quarter of 2018. The increased loss compared to the previous quarter was mainly related to non-recurring severance pay in the first quarter of 2019 and the cost reduction of NOK 5.0 million (SkatteFUNN) booked in the fourth quarter of last year.

NEXT operated at a loss and did not incur deferred or payable income tax in the first quarter of 2019.

In 2018, payable taxes of NOK 1.9 million related to foreign subsidiaries and were expensed in the fourth quarter. At the same time, deferred taxes related to foreign subsidiaries reduced the tax expenses by NOK 0.4 million.

## CASH FLOW AND BALANCE SHEET

Cash and cash equivalents amounted to NOK 188.9 million at the end of the first quarter of 2019, compared to NOK 46.3 million at the end of 2018.

Cash flow from operating activities was negative with NOK 36.4 million in the first quarter of 2019, compared to a negative NOK 24.9 million in the previous quarter and a negative NOK 36.6 million in the first quarter of 2018.

Net cash flow from financing activities was NOK 179.1 million in the first quarter of 2019 following the private placement of 20,000,000 new shares. In the previous quarter net cash flow from financing activities was NOK 0 and in the first quarter of 2018 it was NOK 65.7 million following a private placement of 1,638,000 new shares.

At the end of the first quarter of 2019, the Company's share capital was NOK 42,930,575, divided into 42,930,575 shares with a par value of NOK 1 per share.

Equity amounted to NOK 257.7 million at the end of the first quarter of 2019, compared to NOK 119.3 million at the end of 2018. The increase of NOK 138.4 million was mainly related to the net proceeds of NOK 179.1 million from the private placement of new shares, less the net loss of NOK 44.0 million.

NEXT has adequate equity and liquidity for being a going concern longer than 12 months from the date of this report

## OUTLOOK (3-9 MONTHS)

- Increase design wins and revenue across product range
- Ramp India sales and capitalize contracts and order backlog
- Further expand smart card ecosystem partnerships and network
- Demonstration and sampling of Dual Interface solution
- Volume production start of FAP20 sensor
- Significant increase of sensor module shipments to Fujitsu expected
- OPEX to decline in H2-2019

**Oslo, May 20, 2019**  
**Board of directors**  
**NEXT Biometrics Group ASA**

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**NEXT Biometrics**



## NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
31 MARCH 2019

AMOUNTS IN NOK 1,000 PROFIT AND LOSS	NOTES	Q1-2019	Q1-2018	2018
<b>Revenue</b>				
Operating revenue	3	27 498	23 288	108 392
<b>Total revenue</b>		<b>27 498</b>	<b>23 288</b>	<b>108 392</b>
<b>Cost of goods sold</b>		<b>18 176</b>	<b>18 823</b>	<b>77 612</b>
<b>Gross margin</b>		<b>9 323</b>	<b>4 465</b>	<b>30 780</b>
<b>Operating expenses</b>				
Payroll expenses	4	35 644	25 698	116 077
Other operating expenses	4	12 384	17 566	75 569
<b>Total operating expenses</b>		<b>48 029</b>	<b>43 264</b>	<b>191 647</b>
<b>Profit (loss) before tax, depreciation and amortization</b>		<b>-38 706</b>	<b>-38 798</b>	<b>-160 867</b>
Amortization of intangible assets	5	1 745	1 013	6 204
Depreciation right-of-use-assets	6	1 138		
Depreciation of tangible assets	7	1 263	946	3 823
<b>Operating profit (loss)</b>		<b>-42 852</b>	<b>-40 757</b>	<b>-170 894</b>
Net financial items		-1 175	-1 539	-425
<b>Net profit (loss) before tax</b>		<b>-44 028</b>	<b>-42 296</b>	<b>-171 319</b>
Taxes		0	0	-1 582
<b>Net profit (loss) for the period</b>		<b>-44 028</b>	<b>-42 296</b>	<b>-172 901</b>
<b>Earnings per share - basic and diluted</b>	9	<b>-1.48</b>	<b>-2.56</b>	<b>-9.30</b>
<b>Other comprehensive income</b>				
<b>Items that may be reclassified to profit and loss</b>				
Exchange rates differences		-127	-212	708
<b>Total other comprehensive income</b>		<b>-127</b>	<b>-212</b>	<b>708</b>
<b>Total comprehensive income for the period</b>		<b>-44 155</b>	<b>-42 508</b>	<b>-172 194</b>
<b>Total comprehensive income for the period attributable from:</b>				
Owners of the parent company		<b>-44 155</b>	<b>-42 508</b>	<b>-172 194</b>
<b>Total</b>		<b>-44 155</b>	<b>-42 508</b>	<b>-172 194</b>



## NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)  
31 MARCH 2019

AMOUNTS IN NOK 1,000				
ASSETS	NOTES	31 MAR 2019	31 MAR 2018	31 DEC 2018
<b>Non-current assets</b>				
Deferred tax assets	5	350		354
Patens and other intangible assets	5	17 205	20 441	18 951
Right-of-use assets	6	10 730		
Machinery and office equipment	7	25 527	28 354	27 125
<b>Total non-current assets</b>		<b>53 813</b>	<b>48 795</b>	<b>46 430</b>
<b>Current assets</b>				
<b>Inventory</b>		<b>27 595</b>	<b>26 674</b>	<b>29 373</b>
<b>Receivables</b>				
Accounts receivable		11 524	10 768	12 797
Other receivables		14 180	15 824	15 147
Prepayments		0	3 081	0
<b>Total receivables</b>		<b>25 704</b>	<b>29 673</b>	<b>27 945</b>
<b>Cash and cash equivalents</b>		<b>188 857</b>	<b>108 582</b>	<b>46 299</b>
<b>Total current assets</b>		<b>242 155</b>	<b>164 928</b>	<b>103 617</b>
<b>Total assets</b>		<b>295 968</b>	<b>213 723</b>	<b>150 046</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	8	42 931	18 020	19 431
Share premium		624 773	752 184	469 200
Other paid in capital		58 825	44 876	55 369
Accumulated losses		-468 868	-625 312	-424 710
<b>Total equity</b>		<b>257 659</b>	<b>189 769</b>	<b>119 289</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Non-current lease liabilities		5 388		
<b>Total current liabilities</b>		<b>5 388</b>	<b>0</b>	<b>0</b>
<b>Current liabilities</b>				
Current lease liabilities		5 443		
Accounts payable		15 045	16 251	19 096
Public duties payable		1 161	731	1 330
Other current liabilities		11 272	6 973	10 331
<b>Total current liabilities</b>		<b>32 921</b>	<b>23 954</b>	<b>30 757</b>
<b>Total liabilities</b>		<b>38 309</b>	<b>23 954</b>	<b>30 757</b>
<b>Total equity and liabilities</b>		<b>295 968</b>	<b>213 723</b>	<b>150 046</b>

## NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF CASH FLOW (UNAUDITED)  
31 MARCH 2019

## AMOUNTS IN NOK 1,000

CASH FLOWS FROM OPERATING ACTIVITIES	NOTES	Q1-2019	Q1-2018	2018
Profit (loss) before taxes		-44 028	-42 296	-171 319
Taxes payable		0	0	-1 936
Share based remuneration (equity part)		3 456	1 440	11 933
Amortization of intangible assets	5	1 745	1 013	6 204
Depreciation right-of-use-assets	6	1 138	0	0
Depreciation of tangible assets	7	1 263	946	3 823
Write-down on tangible assets	7	0	0	0
Change in prepayments		0	-11	3 070
Change in working capital items		37	2 297	3 810
<b>Net cash flows from operating activities</b>		<b>-36 388</b>	<b>-36 611</b>	<b>-144 416</b>
<b>Cash flows from investing activities</b>				
Purchase of intangible assets	5	0	0	-3 701
Purchase of tangible assets	7	0	-28	-438
<b>Net cash flows from investing activities</b>		<b>0</b>	<b>-28</b>	<b>-4 138</b>
<b>Cash flows from financing activities</b>				
Change in non-current debt		0	0	0
Share issue net of expenses		179 073	65 711	114 424
<b>Net cash flows from financing activities</b>		<b>179 073</b>	<b>65 711</b>	<b>114 424</b>
Translation differences		-127	-212	708
<b>Net change in cash flows</b>		<b>142 557</b>	<b>28 859</b>	<b>-33 423</b>
Opening cash balance		46 299	79 722	79 722
Closing cash balance		188 857	108 582	46 299



## NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)  
31 MARCH 2019

AMOUNTS IN NOK 1,000	NOTES	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
<b>Balance 1 January 2019</b>		<b>19 431</b>	<b>469 200</b>	<b>55 369</b>	<b>-424 710</b>	<b>119 289</b>
Shares issue	8	23 500	155 573			179 073
Share based compensation				3 456		3 456
Translation differences					-127	-127
Net profit (loss)					-44 028	-44 028
<b>Balance 31 March 2019</b>		<b>42 931</b>	<b>624 773</b>	<b>58 825</b>	<b>-468 865</b>	<b>257 659</b>
<b>Balance 1 January 2018</b>		<b>16 382</b>	<b>688 111</b>	<b>43 436</b>	<b>-582 804</b>	<b>165 126</b>
Shares issue	8	1 638	64 073			65 711
Share based compensation				1 440		1 440
Translation differences					-212	-212
Net profit (loss)					-42 296	-42 296
<b>Balance 31 March 2018</b>		<b>18 020</b>	<b>752 184</b>	<b>44 876</b>	<b>-625 312</b>	<b>189 769</b>
<b>Balance 1 January 2018</b>		<b>16 382</b>	<b>688 111</b>	<b>43 436</b>	<b>-582 804</b>	<b>165 126</b>
Shares issue	8	3 048	111 376			114 424
Share based compensation				11 933		11 933
Translation differences					708	708
Net profit (loss)			-330 288		157 387	-172 901
<b>Balance 31 December 2018</b>		<b>19 431</b>	<b>469 200</b>	<b>55 369</b>	<b>-424 710</b>	<b>119 289</b>





**> NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS 31 MARCH 2019 (UNAUDITED)****1. General information**

NEXT Biometrics Group ASA ("NEXT") is a public limited liability company incorporated and domiciled in Norway. NEXT Biometrics Group ASA is the parent company of the Group with headquarter in Oslo, Norway.

Group operations are carried out by the operating subsidiaries. As per the end of the first quarter of 2019, the Group had five wholly owned operating subsidiaries: NEXT Biometrics AS (Norway) and its subsidiaries NEXT Biometrics, Inc. (Seattle, USA), NEXT Biometrics China, Ltd. (Shanghai, China), NEXT Biometrics Taiwan, Ltd. (Taipei, Taiwan) and NEXT Biometrics s.r.o (Prague, Czech Republic).

NEXT's shares are listed at Oslo Stock Exchange and is traded on the exchange's main list as part of the OSEBX index.

The purpose of the company as stated in the articles of association is to conduct research, development and commercialization of security products, as well as other activities that will naturally fall under this.

**2. Basis of preparation, accounting policies**

This condensed interim financial report for first quarter of 2019 has been prepared in accordance with IAS 34 "Interim financial reporting". The condensed interim financial report should be read in conjunction with the annual financial statements for 2018.

The IFRS accounting policies applied in this condensed interim financial report are consistent with those applied and described in the annual financial statements for 2018.

The going concern assumption has been applied when preparing this financial report. By the end of the first quarter of 2019, NEXT earned revenue from commercial volumes with positive gross margins, but still at rather modest levels. In the first quarter of 2019, NEXT raised NOK 179.1 million in net proceeds in a private placement.

NEXT has adequate equity and liquidity for being a going concern longer than 12 months from the date of this report.

This interim financial report has not been subject to audit.

The Board of Directors approved the report on 20 May 2019.

The accounting policies applied are consistent with those applied in the previous financial year, except for the implementation of IFRS 16 - Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The group has, with effect from 1 January 2019, adopted IFRS 16 using the modified retrospective approach. Accordingly, comparable information has not been restated, and the effect is entered in the statement of financial position in the implementation year 2019. Upon implementation, the right-of-use asset and lease liability will be the same amount and will not impact on equity.

At the commencement date of a lease, a lessee will recognize a liability at the present value of lease payments with a corresponding asset representing the right to use the underlying asset during the lease term (right-of-use asset). The recognized asset is amortized over the lease period and the depreciation expense is recognized as an operating expense on an ongoing basis. The lease liabilities will be discounted at the incremental borrowing rate, and the interest expense on the lease commitment is recognized as a financial expense.

NEXT has identified office buildings to be the only material lease agreements. The group has used the relief option for leases with a duration of less than 12 months as at 1 January 2019 and leases with low value, and these leases will not be recognized in the statement of financial position but recognized as an operating expense over the lease period. This approach will be applied consistently to all lease contracts.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The impacts of IFRS 16 adoption per 1 January 2019 and first quarter 2019 impact of IFRS 16 are summarized in note 6.

### 3. Revenue and segment reporting

OPERATING REVENUE - PER BUSINESS SEGMENT (AMOUNTS IN NOK 1,000)	2019 YTD-Q1	2018 YTD-Q1	2018
Fingerprint sensor technology	27 498	23 288	108 392
<b>Total</b>	<b>27 498</b>	<b>23 288</b>	<b>108 392</b>

NEXT targets four markets for the technology;

- (i) Smart Card
- (ii) Government ID
- (iii) Access Control
- (iv) Notebook

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.

Most NEXT employees also work broad, adding value to all our markets and technologies. Our R&D personnel are focused on technology, such as sensor or ASIC, rather than markets such as Smart cards or Notebook. More than 90 % of our revenues comes from the Notebook market. Based on this, NEXT consider that we only operate within one business segment, and therefore also report only within one business segment, "Fingerprint sensor technology".

### 4. Operating expenses

PAYROLL EXPENSES (AMOUNTS IN NOK 1,000)	2019 YTD-Q1	2018 YTD-Q1	2018
R&D related payroll expenses	17 900	15 493	69 591
Other payroll expenses	13 741	8 341	35 445
Share based remuneration (salary part)	4 110	2 320	11 562
Share based remuneration (employer's tax)	-107	-456	-520
<b>Total</b>	<b>35 644</b>	<b>25 698</b>	<b>116 077</b>

OTHER OPERATING EXPENSES (AMOUNTS IN NOK 1,000)	2019 YTD-Q1	2018 YTD-Q1	2018
R&D related operating expenses	9 006	11 205	45 143
Other expenses	4 094	7 245	30 086
Share based remuneration (operating part)	-656	-884	340
<b>Total</b>	<b>12 444</b>	<b>17 566</b>	<b>75 569</b>

<b>Total - Operating expenses</b>	<b>48 088</b>	<b>43 264</b>	<b>191 647</b>
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## 5. Intangible assets

Intangible assets consist of acquisition of right to use the patent and know-how (IP) described as the *NEXT Active Thermal™* Sensing principle and the internally generated ASIC designs.

The additions in 2018 relates to the source code license acquisition.

INTANGIBLE ASSETS (AMOUNTS IN NOK 1,000)	2019 YTD-Q1	2018 YTD-Q1	2018
Cost - Opening balance	26 996	23 295	23 295
Additions	0	0	3 701
Disposals at cost	0	0	0
Currency adjustments	0	0	0
Cost - Closing balance	26 996	23 295	26 996
Accumulated depreciation - Opening balance	8 045	1 841	1 841
Depreciation	1 745	1 013	6 204
Accumulated depreciation of disposed items	0	0	0
Currency adjustments	0	0	0
Accumulated depreciation - Closing balance	9 791	2 854	8 045
<b>Book value - Closing balance</b>	<b>17 205</b>	<b>20 441</b>	<b>18 951</b>
Depreciation period (straight line) years	3-12	3-12	3-12

Of the book value of NOK 17.2 million by the end of the first quarter of 2019, NOK 9.7 million is related to internally generated assets and NOK 7.5 million is related to separately acquired assets.

The patent and know-how (IP) are amortised over 12 years, equal to the patent life from the recognition in the opening balance 1 January 2012. The investments in ASIC are amortized over 3 years, starting from the completion of the different projects. The source code license is amortised over 5 years.



## 6. Leases

LEASES IN THE STATEMENTS OF INCOME (AMOUNTS IN NOK 1,000)	2019 YTD-Q1
Other operating expense	-1 221
<b>Profit (loss) before tax, depreciation and amortization</b>	<b>1 221</b>
Depreciation of right-to-use assets	1 138
<b>Operating profit (loss)</b>	<b>82</b>
Interest expenses on lease liabilities	185
<b>Net profit (loss) before tax</b>	<b>-101</b>

LEASES IN THE STATEMENTS OF FINANCIAL POSITION (AMOUNTS IN NOK 1,000)	2019 YTD-Q1	2019 JAN. 01
<b>Assets</b>		
Right-of-use assets - Office buildings	10 730	11 989
<b>Total lease assets</b>	<b>10 730</b>	<b>11 989</b>
<b>Liabilities</b>		
Current lease liabilities	5 443	5 509
Non-current lease liabilities	5 388	6 480
<b>Total lease liabilities</b>	<b>10 831</b>	<b>11 989</b>

At the implementation date 1 January 2019, the right-of-use assets and lease liabilities were at the same amount and equity was not impacted.

RECONCILIATION OF LEASE COMMITMENTS TO LEASE LIABILITIES (AMOUNTS IN NOK 1,000)	2019 JAN. 01
Operating lease obligation at 31 December 2018	14 347
New contract and currency adjustments identified per 1 January 2019	-1 237
<b>Gross lease liabilities at 1 January 2019</b>	<b>13 110</b>
Effect of discounting using incremental borrowing rate	-1 121
<b>Total lease liabilities</b>	<b>11 989</b>

Leases with a lease term of 12 months or shorter, and low value leases, are not capitalized. As at 1 January 2019, this is mainly leased office equipment with a total value of NOK 152 thousand.

Some of the leasing contracts includes an option for renewal. At implementation date, management has assessed that the probability for execution of these options are low, and they are not reflected in total lease liabilities.

The weighted average incremental borrowing rate applied to lease liabilities recognized in the statement of financial positions at 1 January 2019 was 6.5%.

## 7. Tangible assets

<b>MACHINERY AND EQUIPMENT (AMOUNTS IN NOK 1,000)</b>	<b>2019 YTD-Q1</b>	<b>2018 YTD-Q1</b>	<b>2018</b>
Cost - Opening balance	53 410	52 080	52 080
Additions	0	28	437
Disposals at cost	0	0	-27
Currency adjustments	-467	-1 101	920
<b>Cost - Closing balance</b>	<b>52 943</b>	<b>51 007</b>	<b>53 410</b>
Accumulated depreciation - Opening balance	26 285	21 994	21 994
Depreciation	1 263	946	3 823
Accumulated depreciation of disposed items	0	0	-27
Write-downs	0	0	0
Currency adjustments	-132	-286	495
<b>Accumulated depreciation - Closing balance</b>	<b>27 416</b>	<b>22 654</b>	<b>26 285</b>
<b>Book value - Closing balance</b>	<b>25 527</b>	<b>28 354</b>	<b>27 125</b>
Depreciation period (straight line) years	3-10	3-10	3-10

Of the book value of NOK 25.5 million by the end of the first quarter of 2019, NOK 23.8 million is related to machinery and NOK 1.8 million is related to office equipment.

In 2018 there were no investments related to machinery and only NOK 0.4 million investments in office equipment.

## 8. Shares and incentive options

<b>NUMBER OF SHARES OUTSTANDING</b>	<b>2019 YTD-Q1</b>	<b>2018 YTD-Q1</b>	<b>2018</b>
Opening balance	19 430 575	16 382 480	16 382 480
Share issue(s)	23 500 000	1 638 000	2 860 855
Exercised incentive options	0	0	187 240
<b>Closing balance</b>	<b>42 930 575</b>	<b>18 020 480</b>	<b>19 430 575</b>

In the first quarter of 2019, NEXT raised NOK 179.1 million in net proceeds in a private placement. The private placement was divided into two tranches, followed by a repair issue.

Tranche 1, finalized under the current board authorization, consisted of 1,923,000 new shares at a subscription price of NOK 8. This corresponded to a total gross amount of NOK 15.4 million. Expenses and commission fee connected with tranche 1 of the placement amounted to NOK 1.1 million and net proceeds were NOK 14.3 million.

Tranche 2 consisted of 18,077,000 new shares at a subscription price of NOK 8, corresponding to a total gross amount of NOK 144.6 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting on 15 February 2019. Expenses and commission fee connected with tranche 2 of the placement amounted to NOK 6.1 million and net proceeds were NOK 138.5 million.

The repair issue was performed in March and 3,500,000 new shares were subscribed at a subscription price of NOK 8, corresponding to a total gross amount of NOK 28.0 million. Expenses and commission fee connected with the repair issue amounted to NOK 1.7 million and net proceeds were NOK 26.3 million.



### Share options

The Company has entered into, and plan to continue to enter into, stock option agreements in order to attract talented, experienced and high value networked human resources. NEXT has three different option programs; unconditional long-term share options, milestone-based share options and conditional long-term share options.

In the first quarter of 2019, a total of 61,400 new share options were granted. In addition, a total of 10,000 new share options under the 2017 program was granted.

In March 2019, the following primary insider was allotted conditional share options:

- Dan Cronin (Chief Operating Officer) was allotted 6,500 conditional options at a strike price NOK 9.90. After grant, Dan Cronin holds total 106,500 conditional options and 53,643 shares.

- Alain Faburel (Chief of sales and Marketing Officer) was allotted 6,500 conditional options at a strike price NOK 9.90. After grant, Alain Faburel holds total 51,500 conditional options and 3,658 shares.

- Knut Stålen (Chief Financial Officer) was allotted 6,500 conditional options at a strike price NOK 9.90. After grant, Knut Stålen holds total 112,750 conditional options and 25,900 shares.

OPTIONS	2019 YTD-Q1	2018 YTD-Q1	2018
Opening balance	1 325 330	1 504 717	1 504 717
Grant of incentive options	71 400	0	334 500
Exercised incentive options	0	0	-187 240
Cancelled	0	0	-7 244
Forfeited incentive options	-105 505	-52 668	-122 669
Expired incentive options	0	0	-103 590
Modifications	0	0	-44 750
Adjusted quantity <sup>1</sup>	233 238	0	-48 394
<b>Closing balance</b>	<b>1 524 463</b>	<b>1 452 966</b>	<b>1 325 330</b>

<sup>1</sup> Adjusted quantity of 233.238 in the first quarter of 2019 represents the adjustment for the probability of all conditions related to the granted share options being met. Total adjusted quantity at the end of the first quarter of 2019 was 75,000 and therefore the maximum closing balance, if all conditions are met, are 1,599,463 number of options.



	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
OPTIONS	YTD-Q1 2019		YTD-Q1 2018		2018	
Outstanding - Beginning period	1 325 331	52.04	1 504 717	63.08	1 504 717	63.08
Granted	71 400	15.87	-	-	334 500	44.04
Exercised	-	-	-	-	-187 240	1.00
Cancelled	-	-	-	-	-7 244	1.00
Forfeited	-105 505	59.82	-2 668	187.00	-122 669	78.11
Expired	-	-	-	-	-103 590	46.47
Modification	-	-	-	-	-44 750	42.04
Adjusted quantity	233 238	70.11	-50 000	40.00	-48 394	0.89
<b>Outstanding - End of period</b>	<b>1 524 464</b>	<b>51.54</b>	<b>1 452 049</b>	<b>63.65</b>	<b>1 325 331</b>	<b>52.04</b>
Vested options - End of period	883 133	46.94	981 811	42.66	845 305	44.56
	NUMBER OF OPTIONS	WEIGHTED AVERAGE FAIR VALUE	NUMBER OF OPTIONS	WEIGHTED AVERAGE FAIR VALUE	NUMBER OF OPTIONS	WEIGHTED AVERAGE FAIR VALUE
Granted Options - During the period	71 400	6.55	-	-	334 500	40.54
	NUMBER OF OPTIONS	INTRINSIC VALUE	NUMBER OF OPTIONS	INTRINSIC VALUE	NUMBER OF OPTIONS	INTRINSIC VALUE
Outstanding options - End of the period	-	-	474 004	12 856 769	260 930	2 809 891
Vested options - End of the period	-	-	474 004	12 856 769	260 930	2 809 891

## 9. Profit (loss) per share

When the period result is a loss, the loss per diluted number of shares shall not be reduced by the higher diluted number of shares but equals the result per basic number of shares.

The diluted number of shares has been calculated by the treasury stock method. If the exercise price of incentive options exceeds the average price per share in the period, the incentive options are not counted as being dilutive.

BASIS FOR CALCULATION - EARNINGS PER SHARE	2019 YTD-Q1	2018 YTD-Q1	2018
Profit (loss) attributable to the shareholders (NOK 1,000)	-44 028	-42 296	-172 901
Number of ordinary shares issued at 31 March/31 Dec.	42 930 575	18 020 480	19 430 575
Weighted average basic number of shares	29 676 708	16 546 280	18 594 061
Weighted average diluted number of shares	31 259 861	18 263 912	20 383 160
<b>Profit (loss) per share, basic and diluted (NOK)</b>	<b>-1.48</b>	<b>-2.56</b>	<b>-9.30</b>

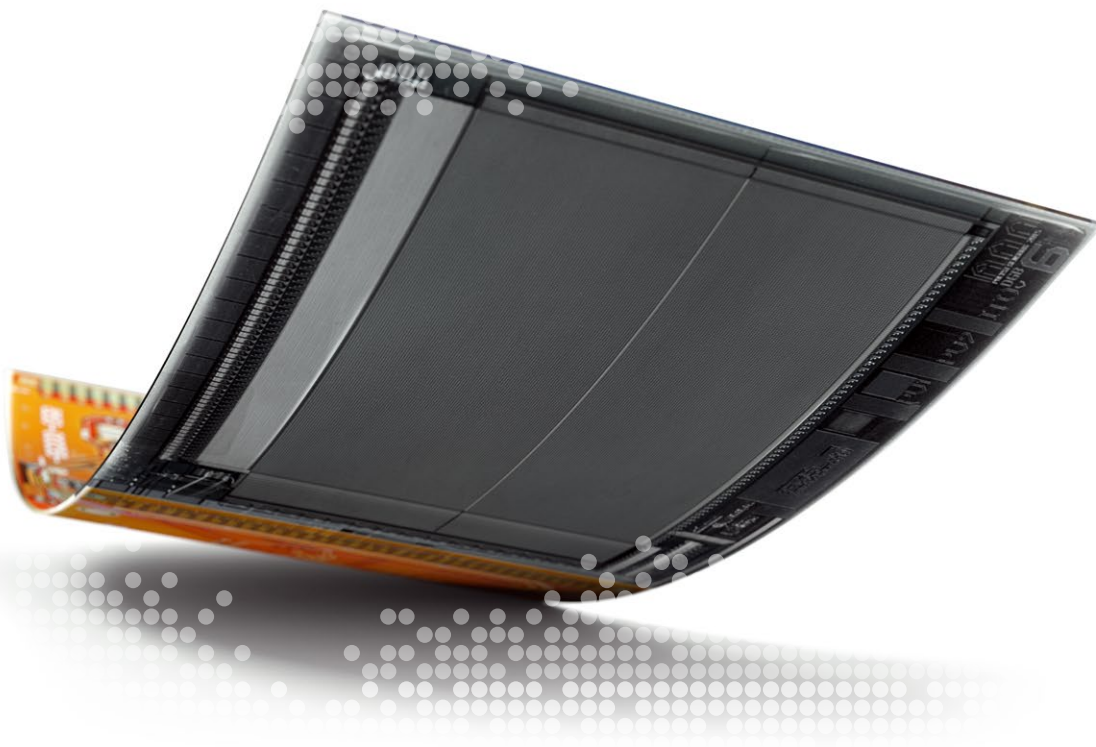
## 10. Risk management

A description of risk factors can be found in Note 2 of NEXT Biometrics Group ASA's 2018 annual report.

**11. Events occurring after the balance sheet date**

Between 31 March 2019 and the resolution of these condensed consolidated interim financial statements, there has not been any other event which have had any noticeable impact on NEXT's result in the first quarter of 2019 or the value of the Company's assets and liabilities at 31 March 2019.

**Oslo, May 20 2019**  
**Board of directors**  
**NEXT Biometrics Group ASA**





Visit **[www.nextbiometrics.com](http://www.nextbiometrics.com)** or contact us:

**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](http://www.nextbiometrics.com)) is headquartered in Oslo, with sales, support and development operations in Seattle, Silicon Valley, Taipei, Prague, Bengaluru and Shanghai.

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