



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 1 9

One Touch.
One You.
NEXT Biometrics



HIGHLIGHTS

- Revenue of NOK 30.1 million in Q2-2019, up 18% from Q2-2018 and up 10% vs Q1-2019
- Gross margin of 32% in Q2-2019, compared with 26% in Q2-2018 and 34% in Q1-2019
- Cost reduction program on track with positive impact in Q2-2019
- EBITDA ex options¹ improved to NOK -30.5 million
- Increased market activity and continued customer progress in India
- All time high revenue for notebooks, US tier-1 customer to start reducing number of platforms in Q3
- Signed agreement with ABCorp for commercialization of biometric smart cards

Post Q2-2019 events

- Entered into design-in contracts with TROIKA and Wiseasy for Aadhaar POS-based payment solutions
- Signed first commercial agreements for the new FAP20 sensor
- COO Dan Cronin assumed the position as interim CEO from end-July

CEO comment

"We offer an unrivalled combination of secure, large-size, cost effective and easy to use fingerprint sensors which position us for long-term growth. Our customer base in our target markets of smart card, government ID, access control and notebook is expanding. We continue to sign new design-in contracts for our existing products and the government grade FAP 20 sensor which will be available later this year, and in India are converting our strong lead pipeline for our Aadhaar-certified products. These developments are expected to impact positively on our revenue from the second half of 2019, while we progress according to plan with the commercialization of our Dual Interface solution which will position us for the emerging hypergrowth payment smart card market."

Dan Cronin, interim CEO of NEXT Biometrics Group ASA



AMOUNTS IN NOK MILLION (EXCEPT GROSS MARGIN)	Q2-2019	Q1-2019	Q4-2018	Q3-2018	Q2-2018	Q1-2018	FY 2018
Total revenue	30.1	27.5	29.3	30.2	25.6	23.3	108.4
Gross margin (%)	32 %	34 %	36 %	30 %	26 %	19 %	28 %
EBITDA ex. Options ¹	-30.5	-35.4	-35.0	-35.7	-41.0	-37.8	-149.5
Closing cash balance	163.5	188.9	46.3	70.8	112.9	108.6	46.3

¹ EBITDA ex. Options = "Profit (loss) before tax, depreciation and amortization" excluding "share based remuneration" (Salary part, employer's part and operating part)



> OPERATIONAL REVIEW:

Second-quarter revenue was NOK 30.1 million, compared to NOK 27.5 million in the previous quarter. Revenue for the second quarter and first half of 2019 both increased by 18% when compared to same periods of 2018.

Revenue growth reflected all-time-high sensor shipments to notebook customers in the second quarter and increased sales in government ID markets as NEXT Biometrics' continued to diversify in accordance with its "multi-product, multi-market" business model. The relative share of revenue from the government ID, access control and smart card segments is expected to grow going forward as the Company's customer base expands.

NEXT's fingerprint unique sensor technology based on the thermal principle offers unmatched cost and size advantages across a complete product portfolio including: rigid fingerprint modules, readers, flexible smart card modules and related software. NEXT is a proven supplier to global tier 1 customers with more than 6 million sensors and modules shipped to date. The sensors can be scaled in size without compromising on security or the user experience. The ability to deliver a higher level of security, convenient enrollment and a better user experience are all key enablers for mass adoption of fingerprint technology.

The new FAP20 sensor technology continues to generate substantial interest and NEXT has recently signed the first customer agreements. Target markets for the FAP20 sensor are government ID, access control and the commercial high security notebook market. Sampling of the FAP20 sensor to customers and prospective clients continued throughout the first quarter and the One Touch ID FAP20 sensor is on track for volume production later this year.

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

As of 28 July 2019, NEXT's Chief Operating Officer Dan Cronin assumed the position as interim CEO following the resignation of the former CEO, Ritu Favre, who left the company in best mutual consent to pursue another professional opportunity. NEXT is in process of identifying qualified candidates for the position as permanent CEO. The program initiated earlier this year aimed at reducing operating expenses (OPEX) by 20% continued as planned through the second quarter.

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. NEXT's smart card product development activities are focused on commercializing the Dual Interface solution. Development is progressing according to plan combined with high customer activity across NEXT's expanding smart card ecosystem.

NEXT announced an agreement with ABCorp for development and commercialization of biometric smart cards. ABCorp is a leading global provider of credentials (IDs), payment and secure access applications with extensive experience within the design, manufacture, packaging and distribution of dual-interface cards. In the second quarter, NEXT delivered sample cards and enrolment solutions to smart card eco-system partners as they engage with end-users.

Government ID

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

Market activity in India has improved after the general election was completed in May and has led to increased demand and interest from existing and prospective clients in India. NEXT continues to serve purchase orders for fingerprint readers and sensor modules received through its distribution partner to end-users for a range of projects and applications. In January, NEXT disclosed 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 customers. All of these customers have now signed either design-in agreements or purchase orders with NEXT. Revenue from these contracts will to a large extent be recognized in the second half of the year.

In the third quarter, NEXT has signed design-in contracts with TROIKA Transsolutions Pvt. Ltd and Beijing Wiseasy Technology Co for Aadhaar POS-based payment solutions, as well as a new distribution agreement with Foxbase for the Indian market.

NEXT sell finished products such as readers and modules to be integrated in partner solutions. A highly promising application is POS (point of sales) solutions and several use cases are developed using NEXT sensors and hardware from POS manufacturers both in China and India. NEXT's partner MobiOcean, which was announced 13 February 2019, has to date deployed a pilot of 1000 POS units to the Delhi traffic police used for ID verification.

Outside of India, NEXT targets several markets with government-mandated fingerprint authentication applications. In August, NEXT signed a design-in agreement with Shanghai Sunmi Technology Co., Ltd., a Chinese provider of mobile, smart payment, desktop and self-service devices. The agreement includes both solutions for Aadhaar Enabled Payment System (AEPS) and POS terminals globally. NEXT also signed agreements with WizarPOS in China and Copernic in France for applications based on the One Touch ID FAP 20 sensor.

Separately, the design-in process with Fujian Newland Payment Technology Co., Ltd. (Newland) has started following signing of the agreement in May. Newland is the leading POS manufacturer in China and number two worldwide (The Nielson Report).

Access Control

The access control segment is a highly fragmented and regional business. NEXT's strategy is to drive market penetration through regional distributors and by leveraging its existing product portfolio and the new FAP20 sensor for physical access control and time & attendance applications. The Company expects to finalize two additional distribution agreements for South Korea and Japan in 2019.

To date in the third quarter, the Company has signed three letters of intent design-in of One Touch ID FAP20. One of the agreements is with an undisclosed leading global access control solution provider. The two others are with Miaxis Biometrics CO., LTD, a Chinese manufacturer of Biometric devices, and Digent Co. Ltd, one of the leading IT companies in South Korea. In April, NEXT signed a reader distribution and sensor design-in agreement with Key Source International (KSI). Revenue from the new agreements is expected to materialize from the second half of 2019.

Notebook

Revenue from notebook customers was at a record level in the second quarter as shipments to the US tier-1 customer continued at a high level and as Fujitsu ramped according to plan as more platforms with NEXT sensors are launched in the market.

Technology evaluation with additional notebook manufacturers based on the existing sensor portfolio and on the new FAP20 sensor continued through the quarter.

NEXT expects Shipments to the US tier-1 customer to continue, but the number of platforms using NEXT sensors will decline as announced over the course of 2019. The Company expects to see the initial impact from this development during Q3-19.

> INTERIM CONDENSED FINANCIAL STATEMENTS AS OF 30 JUNE 2019 (UNAUDITED)

PROFIT & LOSS STATEMENT

(NEXT implemented IFRS 16 - Leases effective 1 January 2019. NEXT 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 leads to decreased office rental expenses offset by increased depreciation and financial costs. For the first half of 2019, the impact amounted to NOK 2.3 million of depreciation, offset by NOK 2.4 million of reduced rent and NOK 0.4 million of financial cost. See note 2 and 6 for more information.)

Operating revenue for the second quarter of 2019 was NOK 30.1 million, compared to NOK 27.5 million in the previous quarter and NOK 25.6 million in the second quarter of 2018. For the first half of 2019, operating revenue amounted to NOK 57.6 million, compared to NOK 48.9 million in the first half of 2018.

Cost of goods sold were NOK 20.5 million in the second quarter of 2019, compared to NOK 18.2 million in the previous quarter and NOK 18.9 million in the second quarter of 2018. In the first half of 2019, cost of goods sold amounted to NOK 38.7 million, compared to NOK 37.7 million in the first half of 2018.

Second-quarter gross margin was 32% (NOK 9.6 million), compared to 34% (NOK 9.3 million) in the previous quarter and 26% (NOK 6.7 million) in the second quarter of 2018. In the first half of 2019, the gross margin was 33% (NOK 18.9 million), compared to 23% (NOK 11.2 million) in the same period of 2018. The gross margin will fluctuate over time based on the mix of products sold.

Payroll expenses were NOK 28.5 million in the second quarter of 2019, compared to NOK 35.6 million in the previous quarter and NOK 28.2 million in the second quarter of 2018. In the first half of 2019 payroll expenses amounted to NOK 64,1 million, compared NOK 53.9 million in the first half 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 program to reduce OPEX by 20% from the second-quarter 2018 level. In the second quarter of 2019 only minor additional amounts in severance pay was booked. We see more or less in Q2 the full impact of the strategic decision to optimize the organization. The decrease from the previous quarter of NOK 7.1 million was mainly to severance pay in the first quarter of 2019 and the initial impact of the cost reduction program.

Other operating expenses were NOK 13.8 million in the second quarter of 2019, compared to NOK 12.4 million in the previous quarter and NOK 22.9 million in the second quarter of 2018. The decrease of NOK 9.1 million from the second quarter of 2018 reflects lower external R&D costs and other efficiencies. Additionally, the implementation of IFRS 16 led to a NOK 2.4 million reduction of operating cost. Other operating expenses for first quarter of 2019 included NOK 1.0 million related to severance pay to contractors. In the first half of 2019, other operating expenses amounted to NOK 26.2 million, compared NOK 40.4 million in the first half of 2018. The total R&D related costs included in payroll and other operating expenses decreased to NOK 50.3 million in the first half of 2019 from NOK 58.0 million in the first half of 2018.

Depreciation and amortization amounted to NOK 4.1 million in the second quarter of 2019, in line with the previous quarter and NOK 2.6 million in the second quarter of 2018. In the first half of 2019, depreciation and amortization amounted to NOK 8.3 million compared to NOK 4.6 million in the first half of 2018. The implementation of IFRS 16 and depreciation of right-of-use assets accounted for NOK 2.3 million of the increase.

There were no investments in the second quarter of 2019. This is in line with the previous quarter and compares to NOK 3.3 million invested in the second quarter of 2018, mainly related to the source code license acquisition.

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 0.2 million in the second quarter of 2019, compared to a net financial cost of NOK 1.2 million in the previous quarter and a net financial cost of NOK 0.1 million in the second quarter of 2018. The decrease from the previous quarter was mainly related foreign exchange effects. In the first half of 2019, net financial cost amounted to NOK 1.4 million, compared to a net financial cost of NOK 1.7 million in the first half of 2018. Included in the first half of 2019 was NOK 0.4 million of IFRS 16 (Leases) related costs.

Net loss for the second quarter of 2019 was NOK 37.1 million, compared to a loss of NOK 44.0 million in the previous quarter and a loss of NOK 47.1 million in the second quarter of 2018. The loss reduction from the previous quarter was mainly related to the initial impact of the cost reductions and the non-recurring severance pay in the first quarter of 2019. Net loss for the first half of 2019 amounted to NOK 81.1 million, compared to a loss of NOK 89.4 million for the first half of 2018.

NEXT operated at a loss and did not incur deferred or payable income tax in the first half 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 163.5 million at the end of the first half of 2019, compared to NOK 46.3 million at the end of 2018.

Cash flow from operating activities was negative with NOK 24.9 million in the second quarter of 2019, compared to a negative NOK 36.4 million in the previous quarter and a negative NOK 41.2 million in the second quarter of 2018. In the first half of 2019, cash flow from operations was negative with NOK 61.3 million, compared to negative NOK 77.8 million in the first half of 2018.

Net cash flow from financing activities was NOK 178.8 million in the first half of 2019, compared to NOK 114.3 in the first half of 2018. The positive cash effect in the first half of 2019 came from the private placement of 23,500,000 new shares. The net positive effect in the first half of 2018 came from a private placement of 2,860,855 new shares.

At the end of June 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 222.3 million as at 30 June 2019, compared to NOK 119.3 million at the end of 2018. The increase of NOK 103.0 million was mainly related to the net proceeds of NOK 178.8 million from the private placement of new shares, less the net loss of NOK 81.1 million.

OUTLOOK (3-9 MONTHS)

- Ramp India sales and capitalize contracts and order backlog
- Global commercialization and volume production start of FAP20 sensor
- Continued increase of sensor module shipments to Fujitsu
- Further expand smart card ecosystem partnerships and network
- Demonstration and sampling of Dual Interface solution

Oslo, August 19, 2019
Board of directors
NEXT Biometrics Group ASA



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CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
30 JUNE 2019

AMOUNTS IN NOK 1,000 PROFIT AND LOSS	NOTES	Q2-2019	Q2-2018	YTD-2019	YTD-2018	2018
Revenue						
Operating revenue	3	30 082	25 598	57 580	48 886	108 392
Total revenue		30 082	25 598	57 580	48 886	108 392
Cost of goods sold		20 492	18 879	38 668	37 702	77 612
Gross margin		9 590	6 719	18 912	11 184	30 780
Operating expenses						
Payroll expenses	4	28 495	28 216	64 139	53 914	116 077
Other operating expenses	4	13 849	22 882	26 233	40 447	75 569
Total operating expenses		42 343	51 098	90 372	94 362	191 647
Profit (loss) before tax, depreciation and amortization		-32 754	-44 379	-71 460	-83 177	-160 867
Amortization of intangible assets	5	1 745	1 655	3 491	2 668	6 204
Depreciation right-of-use-assets	6	1 133		2 270		
Depreciation of tangible assets	7	1 255	958	2 517	1 904	3 823
Operating profit (loss)		-36 887	-46 992	-79 738	-87 749	-170 894
Net financial items		-221	-120	-1 397	-1 659	-425
Net profit (loss) before tax		-37 108	-47 112	-81 136	-89 408	-171 319
Taxes		1	2	1	2	-1 582
Net profit (loss) for the period		-37 107	-47 109	-81 135	-89 405	-172 901
Earnings per share - basic and diluted	9	-0.86	-2.47	-2.23	-5.02	-9.30
Other comprehensive income						
Items that may be reclassified to profit and loss						
Exchange rates differences		-132	222	-249	10	708
Total other comprehensive income		-132	222	-249	10	708
Total comprehensive income for the period		-37 239	-46 887	-81 384	-89 396	-172 194
Total comprehensive income for the period attributable from:						
Owners of the parent company		-37 239	-46 887	-81 384	-89 396	-172 194
Total		-37 239	-46 887	-81 384	-89 396	-172 194

NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
30 JUNE 2019

AMOUNTS IN NOK 1,000				
ASSETS	NOTES	30 JUN 2019	30 JUN 2018	31 DEC 2018
Non-current assets				
Deferred tax assets		347		354
Patens and other intangible assets	5	15 460	21 920	18 951
Right-of-use assets	6	9 483		
Machinery and office equipment	7	24 025	27 757	27 125
Total non-current assets		49 316	49 677	46 430
Current assets				
Inventory		24 346	28 726	29 373
Receivables				
Accounts receivable		10 496	11 750	12 797
Other receivables		12 659	18 634	15 147
Prepayments		0	3 081	0
Total receivables		23 155	33 466	27 945
Cash and cash equivalents		163 479	112 893	46 299
Total current assets		210 980	175 085	103 617
Total assets		260 295	224 761	150 046
EQUITY AND LIABILITIES				
Equity				
Share capital	8	42 931	19 243	19 431
Share premium		624 451	799 592	469 200
Other paid in capital		61 052	48 298	55 369
Accumulated losses		-506 110	-672 199	-424 710
Total equity		222 325	194 934	119 289
Liabilities				
Non-current liabilities				
Non-current lease liabilities	6	4 313		
Total current liabilities		4 313	0	0
Current liabilities				
Current lease liabilities	6	5 351		
Accounts payable		15 214	23 039	19 096
Public duties payable		1 299	764	1 330
Other current liabilities		11 793	6 024	10 331
Total current liabilities		33 657	29 827	30 757
Total liabilities		37 970	29 827	30 757
Total equity and liabilities		260 295	224 761	150 046

NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF CASH FLOW (UNAUDITED)
30 JUNE 2019

AMOUNTS IN NOK 1,000

CASH FLOWS FROM OPERATING ACTIVITIES	NOTES	Q2-2019	Q2-2018	YTD-2019	YTD-2018	2018
Profit (loss) before taxes		-37 108	-47 112	-81 136	-89 408	-171 319
Taxes payable		1	2	1	2	-1 936
Share based remuneration (equity part)		2 228	3 421	5 684	4 862	11 933
Amortization of intangible assets	5	1 745	1 655	3 491	2 668	6 204
Depreciation right-of-use-assets	6	1 133	0	2 270	0	0
Depreciation of tangible assets	7	1 255	958	2 517	1 904	3 823
Change in prepayments		0	0	0	-11	3 070
Change in working capital items		5 822	-136	5 849	2 161	3 810
Net cash flows from operating activities		-24 925	-41 211	-61 323	-77 822	-144 416
Cash flows from investing activities						
Purchase of intangible assets	5	0	-3 133	0	-3 133	-3 701
Purchase of tangible assets	7	0	-198	0	-226	-438
Net cash flows from investing activities		0	-3 331	0	-3 359	-4 138
Cash flows from financing activities						
Change in non-current debt		0	0	0	0	0
Share issue net of expenses		-321	48 631	178 752	114 342	114 424
Net cash flows from financing activities		-321	48 631	178 752	114 342	114 424
Translation differences		-132	222	-249	10	708
Net change in cash flows		-25 378	4 311	117 179	33 170	-33 423
Opening cash balance		188 857	108 582	46 299	79 722	79 722
Closing cash balance		163 479	112 893	163 479	112 893	46 299



NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
30 JUNE 2019

AMOUNTS IN NOK 1,000	NOTES	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
Balance 1 April 2019		42 931	624 773	58 825	-468 869	257 659
Shares issue	8		-321			-321
Share based compensation				2 228		2 228
Translation differences					-132	-132
Net profit (loss)					-37 107	-37 107
Balance 30 June 2019		42 931	624 451	61 052	-506 110	222 325
Balance 1 April 2018		18 020	752 184	44 876	-625 312	189 769
Shares issue	8	1 223	47 408			48 631
Share based compensation				3 421		3 421
Translation differences					222	222
Net profit (loss)					-47 109	-47 109
Balance 30 June 2018		19 243	799 592	48 298	-672 199	194 934
Balance 1 January 2019		19 431	469 200	55 369	-424 710	119 289
Shares issue	8	23 500	155 252			178 752
Share based compensation				5 684		5 684
Translation differences					-249	-249
Net profit (loss)					-81 135	-81 135
Balance 30 June 2019		42 931	624 451	61 052	-506 110	222 325
Balance 1 January 2018		16 382	688 111	43 436	-582 804	165 126
Shares issue	8	2 861	111 481			114 342
Share based compensation				4 862		4 862
Translation differences					10	10
Net profit (loss)					-89 405	-89 405
Balance 30 June 2018		19 243	799 592	48 298	-672 199	194 934
Balance 1 January 2018		16 382	688 111	43 436	-582 804	165 126
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
Balance 31 December 2018		19 431	469 200	55 369	-424 710	119 289

> NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS 30 JUNE 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 half 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 Biometrics India (Bengaluru, India) will be included from the third quarter of 2019.

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 half 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 half 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 178.8 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 19 August 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 are the same amount and did 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 the first half of 2019 impact from IFRS 16 are summarized in note 6.

3. Revenue and segment reporting

OPERATING REVENUE - PER BUSINESS SEGMENT (AMOUNTS IN NOK 1,000)	2019 YTD-Q2	2018 YTD-Q2	2018
Fingerprint sensor technology	57 580	48 886	108 392
Total	57 580	48 886	108 392

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-Q2	2018 YTD-Q2	2018
R&D related payroll expenses	33 069	33 182	69 591
Other payroll expenses	24 817	16 207	35 445
Share based remuneration (salary part)	6 359	4 995	11 562
Share based remuneration (employer's tax)	-107	-471	-520
Total	64 139	53 914	116 077

OTHER OPERATING EXPENSES (AMOUNTS IN NOK 1,000)	2019 YTD-Q2	2018 YTD-Q2	2018
R&D related operating expenses	17 279	24 835	45 143
Other expenses	9 609	15 762	30 086
Share based remuneration (operating part)	-656	-150	340
Total	26 233	40 447	75 569

Total - Operating expenses	90 372	94 362	191 647
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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-Q2	2018 YTD-Q2	2018
Cost - Opening balance	26 996	23 295	23 295
Additions	0	3 133	3 701
Disposals at cost	0	0	0
Currency adjustments	0	0	0
Cost - Closing balance	26 996	26 429	26 996
Accumulated depreciation - Opening balance	8 045	1 841	1 841
Depreciation	3 491	2 668	6 204
Accumulated depreciation of disposed items	0	0	0
Currency adjustments	0	0	0
Accumulated depreciation - Closing balance	11 536	4 509	8 045
Book value - Closing balance	15 460	21 920	18 951
Depreciation period (straight line) years	3-12	3-12	3-12

Of the book value of NOK 15.5 million by the end of the first half of 2019, NOK 8.3 million is related to internally generated assets and NOK 7.2 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-Q2
Other operating expense	-2 425
Profit (loss) before tax, depreciation and amortization	2 425
Depreciation of right-to-use assets	2 270
Operating profit (loss)	155
Interest expenses on lease liabilities	354
Net profit (loss) before tax	-199

LEASES IN THE STATEMENTS OF FINANCIAL POSITION (AMOUNTS IN NOK 1,000)	2019 YTD-Q2	2019 JAN. 01
Assets		
Right-of-use assets - Office buildings	9 483	11 998
Total lease assets	9 483	11 998
Liabilities		
Current lease liabilities	5 351	5 508
Non-current lease liabilities	4 313	6 490
Total lease liabilities	9 664	11 998

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
Gross lease liabilities at 1 January 2019	13 110
Effect of discounting using incremental borrowing rate	-1 112
Total lease liabilities	11 998

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

MACHINERY AND EQUIPMENT (AMOUNTS IN NOK 1,000)	2019 YTD-Q2	2018 YTD-Q2	2018
Cost - Opening balance	53 410	52 080	52 080
Additions	0	226	437
Disposals at cost	0	0	-27
Currency adjustments	-847	-713	920
Cost - Closing balance	52 563	51 594	53 410
Accumulated depreciation - Opening balance	26 285	21 994	21 994
Depreciation	2 517	1 904	3 823
Accumulated depreciation of disposed items	0	0	-27
Currency adjustments	-265	-62	495
Accumulated depreciation - Closing balance	28 537	23 837	26 285
Book value - Closing balance	24 025	23 837	27 125
Depreciation period (straight line) years	3-10	3-10	3-10

Of the book value of NOK 24.0 million by the end of the first half of 2019, NOK 22.4 million is related to machinery and NOK 1.6 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

NUMBER OF SHARES OUTSTANDING	2019 YTD-Q2	2018 YTD-Q2	2018
Opening balance	19 430 575	16 382 480	16 382 480
Share issue(s)	23 500 000	2 860 855	2 860 855
Exercised incentive options	0	0	187 240
Closing balance	42 930 575	19 243 335	19 430 575

In the first half of 2019, NEXT raised NOK 178.8 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 2.0 million and net proceeds were NOK 26.0 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.

The following primary insider was allotted conditional share options:

- Magnus Mandersson (Chairman) was allotted 50,000 options at a strike price NOK 8.44. After grant, Magnus Mandersson holds total of 50,000 options and 0 shares.

- Brita Eilertsen (Board member) was allotted 30,000 options at a strike price NOK 8.44. After grant, Brita Eilertsen holds total 50,000 options and 0 shares.

- Emanuel Lang (Board member) was allotted 30,000 options at a strike price NOK 8.44. After grant, Emanuel Lang total 50,000 options and 0 shares. In addition, Greenbridge Investment LP, which is represented on the board of directors of NEXT by Emanuel Lang holds 7,413,614 shares in the company.

- Petter Fjellstad (Board member) was allotted 30,000 options at a strike price NOK 8.44. After grant, Petter Fjellstad holds total 50,000 options and 0 shares.

- Emine Lundkvist (Board member) was allotted 30,000 options at a strike price NOK 8.44. After grant, Emine Lundkvist holds total 50,000 options and 29,738 shares.

In the second quarter of 2019, a total of 777,650 new share options were granted.

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
OPTIONS	YTD-Q2 2019		YTD-Q2 2018		2018	
Outstanding - Beginning period	1 325 331	52.04	1 504 717	63.08	1 504 717	63.08
Granted	777 650	7.83	285 000	43.64	334 500	44.04
Exercised	-	-	-	-	-187 240	1.00
Cancelled	-	-	-7 244	1.00	-7 244	1.00
Forfeited	-105 505	59.82	-103 002	129.06	-122 669	78.11
Expired	-	-	-	-	-103 590	46.47
Modification	-	-	-	-	-44 750	42.04
Adjusted quantity ¹	233 238	70.11	-134 994	40.00	-48 394	0.89
Outstanding - End of period	2 230 714	37.44	1 499 727	43.89	1 325 331	52.04
Vested options - End of period	1 034 552	48.59	1 061 435	35.73	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	777 650	3.49	285 000	19.95	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	-	-	456 760	11 499 545	260 930	2 809 891
Vested options - End of the period	-	-	456 760	11 499 545	260 930	2 809 891

¹Adjusted quantity of 233,238 in the first half 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 half of 2019 was 75,000 and therefore the maximum closing balance, if all conditions are met, are 2,305,713 options outstanding.



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-Q2	2018 YTD-Q2	2018
Profit (loss) attributable to the shareholders (NOK 1,000)	-81 135	-89 405	-172 901
Number of ordinary shares issued at 31 March/31 Dec.	42 930 575	19 243 335	19 430 575
Weighted average basic number of shares	36 340 255	17 812 993	18 594 061
Weighted average diluted number of shares	38 043 244	19 531 592	20 383 160
Profit (loss) per share, basic and diluted (NOK)	-2.23	-5.02	-9.30

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 30 June 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 half of 2019 or the value of the Company's assets and liabilities at 30 June 2019.

> RESPONSIBILITY STATEMENT 30 JUNE 2019 (UNAUDITED)

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We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2019 has been prepared in accordance with IAS 34 – Interim financial Reporting and gives a true and fair view of the NEXT's assets, liabilities, financial position and profit or loss as a whole.

We also confirm, to the best of our knowledge, that the interim management report includes a fair review of the events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties' transactions.

Oslo, August 19, 2019
Board of directors
NEXT Biometrics Group ASA

Magnus Mandersson
 Chairman

Brita Eilertsen
 Board member

Petter Fjellstad
 Board member

Emine Lundkvist
 Board member

Emanuel Lang
 Board member

Dan Cronin
 Interim CEO



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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, Silicon Valley, Taipei, Prague, Bengaluru and Shanghai.

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