



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 3 2 0 1 8

One Touch.
One You.
NEXT Biometrics



HIGHLIGHTS

- Revenue of NOK 30.2 million, up from NOK 25.6 million in Q2-18
- Gross margin of 30%, up from 26% in Q2-18
- Strengthened sales and marketing team
- NEXT sensors selected for three smart card pilots through Tactilis (Q4-18)
- Smart card market position strengthened with Infineon agreement, accelerating time-to-market in payment smart cards (Q4-18)
- Received Android and BIS certification for Aadhar in India and began shipping first orders (Q4-18)
- Orders for biometric enabled point-of-sale (POS) terminals confirm significant opportunity (Q4-18)

CEO comment

"We delivered on our ambition of gross margin improvement and revenue growth in the third quarter while further developing our smart card and government ID products and market positions. The agreement with Infineon represents a significant extension to our Smart Card eco-system as it enables us to offer a complete solution and faster time-to-market for new payment cards. We also experience growing demand for our large, secure sensors for use in point-of-sales terminals, which together with increased activity in India, are expected to accelerate momentum in our core market segments."

Ritu Favre, the CEO of NEXT Biometrics Group ASA.



AMOUNTS IN NOK MILLION (EXCEPT GROSS MARGIN)

	Q3-2018	Q2-2018	Q1-2018	YTD-2018	YTD-2017	2017
Total revenue	30.2	25.6	23.3	79.1	73.5	98.2
Gross margin %	30 %	26 %	19 %	26 %	-7 %	-6%
EBITDA ex. Options	-35.7	-41.0	-37.8	-114.5	-113.2	-150.1
Closing cash balance	70.8	112.9	108.6	70.8	123.1	79.7

**From PINs and passwords to
secure and convenient identification
- at one touch of your finger.**

One Touch.
One You.
NEXT Biometrics



OPERATIONAL REVIEW:

NEXT Biometrics (NEXT) reported its third consecutive quarter of improved gross margin growth for the three months ending 30 September 2018.

Gross margin increased to 30% on revenue of NOK 30.2 million, compared to 26% margin on revenue of NOK 25.6 million in the second quarter of 2018

Government ID NEXT continued to increase sales activities in India through the third quarter and expects to recognize initial revenue from India in the fourth-quarter as previously announced. However, a recent ruling by the Supreme Court on the Aadhaar program has introduced uncertainty and delayed customer projects. The general election in India in 2019 may also affect the market. The timing of conversion from Level 0-specified products to the Level 1-specified product is also being decided by the Indian standards bodies and could delay deployments of the current Level 0 certified products. These factors will have a short-term impact on NEXT revenues and cash flow from India.

While the ruling provides constitutional support for the Aadhaar program and approved its use for various public programs, it limits private companies' access to identify individuals via Aadhaar. In addition, various regulatory bodies in India have initially expressed a conservative interpretation of the ruling with regards to private companies' access to tap into Aadhaar data base, delaying decision-making processes at potential NEXT customers.

India has registered fingerprints of 1.2 billion citizens under the Aadhaar program and is a global leader in recognizing the benefits of using fingerprint ID for both existing and new applications. NEXT's market assessments for India included public and governmental applications such as social benefits payments. For private sector applications, activating customer accounts through Aadhaar takes only a few minutes from anywhere in the country, compared to a legacy paper-based system that takes two to three days, or even more, to activate an account in rural areas. The apparent convenience and security benefits of Aadhaar are expected to overcome the current hesitation and drive adoption of fingerprint ID going forward. Still, with reduced private sector access to use Aadhaar, NEXT has revised its total available market estimate for 2018 and 2019 to between 1 and 2 million units annually (previously 3 to 4 million). The long-term estimate for the potential total available market is maintained at 5 to 10 million units annually.

On 1 November, NEXT announced an initial order for its One Touch ID fingerprint sensor module from China-based Telpo (a division of Tianbo Information Technology Co., Ltd.). The sensor modules will be incorporated in point-of-sale terminals (POS) for retail sales transactions in India. Initial shipments of the sensor modules are expected in the fourth quarter. Potential volumes for the application could be several hundred thousand units in the coming quarters.

¹ Level 0, modules and readers with software signing / encryption

² Level 1, modules and readers with digital signing / encryption in hardware to enable secure payments

NEXT has now also completed the Android software certification for the Aadhaar program. Additionally, products sold in India are now Bureau of India Standards (BIS) certified, which provides customers a third-party guarantee of quality, safety and reliability.



Smart Cards On 31 October, NEXT announced that its large-area biometric sensor has been selected for three new smart card pilot projects in Asia by its customer Tactilis Pte. Ltd., Singapore. A global organization has signed a letter-of-intent for the pilot projects with Tactilis with the purpose of validating the concepts of biometric system-on-card technology when deployed for three different applications, all of which have potential global impact. The projects require smart card systems offering government grade biometric performance, multifunction capabilities and advanced management of user data and credentials. The pilots are expected to start in the first quarter of 2019 and require performance similar to the mandatory requirements of the Aadhaar program in India. NEXT expects to provide additional information related to the pilot projects and the global organization in the coming months.

NEXT has made further progress in developing its position in the smart card market and recently announced a partnership which will simplify design, manufacturing and deployment of biometric smart cards and help drive commercialization of NEXTs biometric sensor technology. On 8 November, NEXT and Infineon Technologies AG announced they jointly develop a reference platform with all the elements necessary to design and manufacture a biometric contact-based payment smart card. The reference platform will be available to card issuers, governments, system integrators and card makers and includes the technologies needed to create a secure and convenient biometric smart card with less than 1% false rejection rate (FRR). The reference platform will enable NEXT to target smart card makers with a complete offering and shorter time-to-market.

Access control NEXT sees increased market potential for the access control segment and is working to target the applications that provide the best combination of value and volume. This has led to the discovery of several new attractive use-cases within access control. The ramp of shipments through previously announced distribution agreements has been slower-than-anticipated. However, the improved market segmentation and new niches, combined with product adjustments, are expected to increase the long-term access control revenue potential. The recent code license acquisition has provided NEXT with a more flexible algorithm and a complete solution that addresses another source for delays. NEXT is strengthening the partnerships to accelerate growth in the access control market and now expects to see shipments ramp in 2019.

On 6 November, NEXT announced a new purchase order for fingerprint sensors used in POS terminals built by Taiwan-based TYSSO (Famotech, Inc.). Initial shipments are expected in the first quarter of 2019. NEXT was chosen to provide its sensor technology due to sensor performance and the proven record as a volume supplier to top-tier customers. TYSSO will use NEXT's sensor modules in POS terminals for the U.S. market.

NEXT experiences increased interest from makers of POS systems as its large-area sensors meet security and quality requirements for high-end solutions. This interest has started to convert into firm contracts as announced with Telpo and TYSSO. The POS market represents significant volume and margin opportunity for NEXT, and it is one of the drivers for the reassessment of the access control segment's market potential. POS systems have tangents to the smart card and government ID segments as it is a key enabler for secure transactions.

Notebooks Shipments to notebook customers reached an all-time-high in the third-quarter with a gross margin exceeding 30%. NEXT has previously communicated that it will prioritize investments in the smart card and government ID segments with higher growth and margin potential and minimize notebook investments due to an expected decline in the available market. The company will continue to supply notebook customers seeking the benefits of secure, large-area sensors in this segment.

Shipments to the US Tier 1 customer are expected to continue over the next 12 months, but the number of platforms using NEXT sensors will likely decline. Shipments to Fujitsu are expected to increase in 2019 as more platforms with NEXT sensors are launched in the market.

Other Recent results of a new study by Carlos III University of Madrid (UC3M) showed that NEXT fingerprint sensors outperform top of line sensors from three leading capacitive sensor competitors. NEXT sensors produced significantly lower biometric error rates during extensive testing. The study supports prior research which revealed direct dependency between sensor size and biometric performance.

NEXT maintains its focus on R&D related to developing its smart card and government ID offering, and further strengthen its market position. Developing the eco-system with strong partnerships is an integral part of the strategy. The company is also committed to develop its position in the government ID segment and access control markets, which both offer significant revenue and margin potential over time. NEXT maintains its target of reducing the cash burn rate on the back of improved gross margin and operating expenses flattening out. Short-term, revenue is likely to be impacted by the uncertainty in India, delayed ramp of access control shipments and slower-than-expected ramp at Tactilis. Based on current projections the group cash position might cover less than 12 months operations. The Board is prepared to initiate activities to ensure relevant company financing.



INTERIM CONDENSED FINANCIAL STATEMENTS AS OF 30 SEPTEMBER 2018 (UNAUDITED)

PROFIT & LOSS STATEMENT

Revenues

Operating revenue in the third quarter of 2018 was NOK 30.2 million, compared to NOK 25.6 million in the previous quarter and NOK 25.4 million in the third quarter of 2017. For the first three quarters of 2018, operating revenue amounted to NOK 79.1 million, compared NOK 73.5 million for the first three quarters of 2017.

Cost of goods sold and gross margin

Cost of goods sold were NOK 21.1 million in the third quarter of 2018, compared to NOK 18.9 million in the previous quarter and NOK 26.4 million in the third quarter of 2017. For the first three quarters of 2018, cost of goods sold amounted to NOK 58.8 million, compared to NOK 78.4 million for the first three quarters of 2017.

The gross margin in the third quarter of 2018 was 30% (NOK 9.1 million), compared to 26% (NOK 6.7 million) in the previous quarter and negative 4% (NOK -1.0 million) in the third quarter of 2017. For the first three quarters of 2018, the gross margin was 26% (NOK 20.3 million), compared to negative 7% (NOK 4.9 million) in the same period of 2017.

Operating expenses

Payroll expenses amounted to NOK 30.6 million in the third quarter of 2018, compared to NOK 28.2 million in the previous quarter and NOK 22.6 million in the third quarter of 2017. For the first three quarters of 2018 payroll expenses amounted to NOK 84.6 million, compared NOK 63.3 million for the first three quarters of 2017.

Other operating expenses were NOK 17.6 million in the third quarter of 2018, compared to NOK 22.9 million in the previous quarter and NOK 15.0 million in the third quarter of 2017. The decrease from previous quarter of NOK 5.3 million was mainly related to decreased R&D related operating expenses. For the first three quarters of 2018 other operating expenses amounted to NOK 58.0 million, compared NOK 53.3 million for the first three quarters of 2017.

The R&D costs included in other operating expenses increased to NOK 35.2 million for the first three quarters of 2018, compared to NOK 28.9 million for the first three quarters of 2017. The number of R&D projects are at a historic high level. It is over time anticipated that these costs will represent a significantly reduced percentage of revenues.

Depreciation, amortisation and investments

Depreciation and amortization amounted to NOK 2.7 million in the third quarter of 2018 compared to NOK 2.6 million in previous quarter and NOK 1.5 million in the third quarter of 2017. In the fourth quarter of 2017 NEXT wrote down the value of its first coating machine from 2014 by NOK 11.4 million to zero. For the first three quarters of 2018 depreciation and amortization amounted to NOK 7.3 million compared to NOK 3.1 million for the first three quarters of 2017.

Investments were NOK 0.4 million in the third quarter of 2018, compared to NOK 3.3 million in the previous quarter and NOK 0.0 million in the third quarter of 2017. For the first three quarters of 2018, investments amounted to a NOK 3.8 million compared NOK 22.7 million for the first three quarters of 2017. The main investments in 2017 were the coating machine in the second quarter and the cutting machine for flexible sensor production in the fourth quarter.

Net financial items

Net financial cost was NOK 0.8 million in the third quarter of 2018, compared to a net financial cost of NOK 0.1 million in the previous quarter and a cost of NOK 1.6 million in the third quarter of 2017. The increased cost from the previous quarter of NOK 0.7 million was mainly related to foreign exchange gains and losses.

Net profit (loss) for the period

Net loss for the third quarter of 2018 was NOK 42.6 million, compared to a loss of NOK 47.1 million in the previous quarter and a loss of NOK 41.6 million in the third quarter of 2017.

NEXT operated at a loss and did not incur deferred or payable income tax for the first three quarters of 2018. In 2017, payable taxes of NOK 1.2 million related to foreign subsidiaries, were expensed in the fourth quarter.

CASH FLOW AND BALANCE SHEET

Cash and cash equivalents

Cash and cash equivalents amounted to NOK 70.8 million at the end of the third quarter of 2018, compared to NOK 79.7 million at the end of 2017.

Cash flow from operating activities was negative with NOK 41.7 million in the third quarter of 2018, compared to a negative amount of NOK 41.2 million in the previous quarter and a negative amount of NOK 36.8 million in the third quarter of 2017.

Net cash flow from financing activities was NOK 0.1 million in the third quarter of 2018. In the second quarter it was NOK 48.6 following a private placement of 1,219,142 new shares as part of “tranche 2” of the private placement announced in March, and 3,713 new shares from the repair issue. This was compared to NOK 65.7 million in the first quarter following the private placement of 1,638,000 new shares as part of “tranche 1” of the placement. For the first three quarters of 2018, net cash flow from financing activities amounted to NOK 114.4 million, compared to NOK 153.1 million for the first three quarters of 2017 when the company issued 1,167,000 new shares in a private placement.

As at 30 September 2018, the Company’s share capital was NOK 19,430,575, divided into 19,430,575 shares with a par value of NOK 1 per share.

Equity

Equity amounted to NOK 155.2 million at the end of September 2018, compared to NOK 165.1 million at the end of December 2017. The decrease of NOK 9.9 million was mainly related to the net proceeds of NOK 114.4 million from the private placement of new shares, less the net loss of NOK 132.0 million for the first three quarters.

Outlook (3-9 months)

- Volume shipments of high-end Smart Cards
- Entry in payment Smart Card market
- Ramp India sales
- Establish strong position in growing POS market
- Sample FAP20, new high-end government sensor, in Q4-18
- Focus on Smart Card related R&D
- Gross Margins to increase and OPEX to flatten out

Oslo, November 12, 2018
Board of directors
NEXT Biometrics Group ASA

NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
30 SEPTEMBER 2018AMOUNTS IN NOK 1,000
PROFIT AND LOSS

	NOTES	Q3-2018	Q3-2017	YTD-2018	YTD-2017	2017
Revenue						
Operating revenue	3	30 227	25 403	79 114	73 481	98 159
Total revenue		30 227	25 403	79 114	73 481	98 159
Cost of goods sold		21 113	26 405	58 815	78 397	104 014
Gross margin		9 114	-1 002	20 298	-4 916	-5 855
Operating expenses						
Payroll expenses	4	30 647	22 597	84 561	63 306	89 343
Other operating expenses	4	17 569	14 955	58 016	53 272	68 063
Total operating expenses		48 216	37 551	142 578	116 579	157 406
Profit (loss) before tax, depreciation and amortization		-39 102	-38 553	-122 279	-121 495	-163 260
Amortization of intangible assets	5	1 797	141	4 465	424	751
Depreciation of tangible assets	6	949	1 307	2 853	2 667	4 012
Write-downs on tangible assets	6	0	0	0	0	11 397
Operating profit (loss)		-41 849	-40 001	-129 597	-124 586	-179 421
Net financial items		-768	-1 642	-2 426	-3 264	-190
Net profit (loss) before tax		-42 616	-41 643	-132 024	-127 850	-179 611
Taxes		0	0	2	0	-1 209
Net profit (loss) for the period		-42 616	-41 643	-132 021	-127 850	-180 820
Earnings per share - basic and diluted	8	-2.21	-2.54	-7.21	-7.88	-11.11
Other comprehensive income						
Items that will be reclassified to profit and loss						
Exchange rates differences		-3	-227	7	-242	-7
Total other comprehensive income		-3	-227	7	-242	-7
Total comprehensive income for the period		-42 619	-41 870	-132 015	-128 092	-180 827
Total comprehensive income for the period attributable from:						
Owners of the parent company		-42 619	-41 870	-132 015	-128 092	-180 027
Total		-42 619	-41 870	-132 015	-128 092	-180 027

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CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)
30 SEPTEMBER 2018

AMOUNTS IN NOK 1,000				
ASSETS	NOTES	30 SEP 2018	30 SEP 2017	31 DEC 2017
Non-current assets				
Patens and other intangible assets	5	20 352	20 130	21 454
Machinery and office equipment	6	27 034	33 861	30 086
Total non-current assets		47 386	53 992	51 540
Current assets				
Inventory		27 515	19 308	28 014
Receivables				
Accounts receivable		12 311	8 227	16 570
Other receivables		17 360	22 310	16 464
Prepayments other investments		3 081	10 295	3 070
Total receivables		32 752	40 832	36 103
Cash and cash equivalents		70 791	123 087	79 722
Total current assets		131 057	183 227	143 839
Total assets		178 444	237 219	195 379
EQUITY AND LIABILITIES				
Equity				
Share capital	7	19 431	16 382	16 382
Share premium		799 487	706 939	688 111
Other paid in capital		51 128	38 919	43 436
Retained earnings		-714 818	-548 896	-582 804
Total equity		155 228	213 344	165 126
Liabilities				
Current liabilities				
Accounts payable		15 790	18 945	21 631
Public duties payable		928	629	807
Other current liabilities		6 497	4 301	7 815
Total current liabilities		23 216	23 875	30 253
Total liabilities		23 216	23 875	30 253
Total equity and liabilities		178 444	237 219	195 379

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CONDENSED INTERIM STATEMENTS OF CASH FLOW (UNAUDITED)
30 SEPTEMBER 2018

AMOUNTS IN NOK 1,000						
CASH FLOWS FROM OPERATING ACTIVITIES	NOTES	Q3-2018	Q3-2017	YTD-2018	YTD-2017	2017
Profit (loss) before taxes		-42 616	-41 643	-132 024	-127 850	-179 611
Taxes payable		0	0	2	0	-1 209
Share based remuneration (equity part)		2 831	3 930	7 692	11 138	15 655
Amortization of intangible assets	5	1 797	141	4 465	424	751
Depreciation of tangible assets	6	949	1 307	2 853	2 667	4 012
Write-down on tangible assets	6	0	0	0	0	11 397
Change in prepayments		0	-2 183	-11	3 267	10 492
Change in working capital items		-4 694	1 629	-2 533	-3 103	-9 076
Net cash flows from operating activities		-41 733	-36 820	-119 555	-113 457	-147 588
Cash flows from investing activities						
Purchase of intangible assets	5	-230	0	-3 363	-1 249	-2 900
Purchase of tangible assets	6	-218	0	-444	-21 438	-29 256
Net cash flows from investing activities		-448	0	-3 807	-22 688	-32 157
Cash flows from financing activities						
Share issue net of expenses		82	0	114 424	153 132	153 132
Net cash flows from financing activities		82	0	114 424	153 132	153 132
Translation differences		-3	-227	7	-242	-7
Net change in cash flows		-42 102	-37 046	-8 931	16 746	-26 619
Opening cash balance		112 893	160 134	79 722	106 342	106 342
Closing cash balance		70 791	123 087	70 791	123 087	79 722

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CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
30 SEPTEMBER 2018

AMOUNTS IN NOK 1,000	NOTES	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
Balance 1 July 2018		19 243	799 592	48 298	-672 199	194 934
Shares issue	7	187	-105			82
Share based compensation				2 831		2 831
Translation differences					-3	-3
Net profit (loss)					-42 616	-42 616
Balance 30 September 2018		19 431	799 487	51 128	-714 818	155 228
Balance 1 July 2017		16 382	706 939	34 989	-507 027	251 283
Shares issue	7	-	-			-
Share based compensation				3 930		3 930
Translation differences					-227	-227
Net profit (loss)					-41 643	-41 643
Balance 30 September 2017		16 382	706 939	38 919	-548 896	213 344
Balance 1 January 2018		16 382	688 111	43 436	-582 804	165 126
Shares issue	7	3 048	111 376			114 424
Share based compensation				7 692		7 692
Translation differences					7	7
Net profit (loss)					-132 021	-132 021
Balance 30 September 2018		19 431	799 487	51 128	-714 818	155 228
Balance 1 January 2017		15 159	555 030	27 781	-420 804	177 165
Shares issue	7	1 224	151 909			153 132
Share based compensation				11 138		11 138
Translation differences					-242	-242
Net profit (loss)					-127 850	-127 850
Balance 30 September 2017		16 382	706 939	38 919	-548 896	213 344
Balance 1 January 2017		15 159	555 030	27 781	-420 804	177 165
Shares issue	7	1 224	151 909			153 132
Share based compensation				15 655		15 655
Translation differences					-7	-7
Net profit (loss)			-18 828		-161 992	-180 820
Balance 31 December 2017		16 382	688 111	43 436	-582 804	165 126

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS 30 SEPTEMBER 2018 (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 at the end of the first three quarters of 2018, 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 three quarters of 2018 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 2017.

The IFRS accounting policies applied in this condensed interim financial report are consistent with those applied and described in the annual financial statements for 2017.

The going concern assumption has been applied when preparing this financial report. By the end of the first three quarters of 2018, NEXT earned revenue from commercial volumes with positive gross margins, but still at rather modest levels. Based on current projections the group cash position might cover less than 12 months operations. The Board is prepared to initiate activities to ensure relevant company financing.

This interim financial report has not been subject to audit.

The Board of Directors approved the report on 12 November 2018.

3. Revenue and segment reporting

OPERATING REVENUE - PER BUSINESS SEGMENT (AMOUNTS IN NOK)	2018 YTD-Q3	2017 YTD-Q3	2017
Fingerprint sensor technology	79 113 782	73 481 239	98 159 357
Total	79 113 782	73 481 239	98 159 357

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 market segments. Since NEXT has limited revenues it is operating and reporting only in one business segment; *Fingerprint sensor technology*.

4. Operating expenses

PAYROLL EXPENSES (AMOUNTS IN NOK)	2018 YTD-Q3	2017 YTD-Q3	2017
R&D related payroll expenses	51 670 874	32 550 540	46 067 673
Other payroll expenses	25 144 836	23 172 863	31 273 787
Share based remuneration (salary part)	7 641 020	10 375 100	14 459 405
Share based remuneration (employer's tax)	104 705	-2 792 029	-2 457 668
Total	84 561 435	63 306 474	89 343 197

OTHER OPERATING EXPENSES (AMOUNTS IN NOK)	2018 YTD-Q3	2017 YTD-Q3	2017
R&D related operating expenses	35 222 571	28 929 776	36 022 782
Other expenses	22 738 861	23 631 549	30 866 069
Share based remuneration (operating part)	54 919	710 729	1 173 779
Total	58 016 351	53 272 054	68 062 630

5. Intangible assets

Intangible assets consist of acquisition of right to use the patent and know-how (IP) described as the Active Thermal Sensing principle. The acquisition was recognized at net present value and included in the opening balance as of 1 January 2012.

In addition, intangible assets consist of the investments in new ASIC from 2016, with additional investments in 2017. In 2018, the investments includes source code license acquisition.

INTANGIBLE ASSETS (AMOUNTS IN NOK)	2018 YTD-Q3	2017 YTD-Q3	2017
Cost - Opening balance	23 295 281	20 394 861	20 394 861
Additions	3 362 860	1 249 380	2 900 420
Disposals at cost	0	0	0
Currency adjustments	0	0	0
Cost - Closing balance	26 658 141	21 644 241	23 295 281
Accumulated amortization - Opening balance	1 841 280	1 089 972	1 089 972
Amortization	4 464 838	424 007	751 308
Accumulated amortization of disposed items	0	0	0
Currency adjustments	0	0	0
Accumulated amortization - Closing balance	6 306 118	1 513 979	1 841 280
Book value - Closing balance	20 352 023	20 130 262	21 454 001
Amortization period (straight line) years	3-12	3-12	3-12

The patent is amortized over the patent life from recognition in the opening balance 1 January 2012.

The investment in new ASIC is amortized over 3 years.

6. Tangible assets

MACHINERY AND EQUIPMENT (AMOUNTS IN NOK)	2018 YTD-Q3	2017 YTD-Q3	2017
Cost - Opening balance	52 080 242	22 948 697	22 948 697
Additions	444 220	20 481 187	29 432 646
Disposals at cost	0	0	0
Currency adjustments	-699 098	-494 359	-301 100
Cost - Closing balance	51 825 365	42 935 524	52 080 242
Accumulated depreciation - Opening balance	21 994 099	6 709 434	6 709 434
Depreciation	2 853 318	2 667 387	4 012 401
Accumulated depreciation of disposed items	0	0	0
Write-downs	0	0	-11 396 980
Currency adjustments	-56 498	-302 665	-124 716
Accumulated depreciation - Closing balance	24 790 919	9 074 156	21 994 099
Book value - Closing balance	27 034 446	33 861 369	30 086 144
Depreciation period (straight line) years	3-10	3-10	3-10

The additions in 2017, consisted of the coating machine in the second quarter and the cutting machine for flexible sensors in the fourth quarter.

7. Shares and incentive options

NUMBER OF SHARES OUTSTANDING	2018 YTD-Q3	2017 YTD-Q3	2017
Opening balance	16 382 480	15 158 980	15 158 980
Share issue(s)	2 860 855	1 167 000	1 167 000
Exercised incentive options	187 240	56 500	56 500
Closing balance	19 430 575	16 382 480	16 382 480

In March and April 2018, NEXT raised NOK 114.3 million in net proceeds in a private placement. The private placement was divided into two tranches. Tranche 1, finalized under the current board authorization, consisted of 1,638,000 new shares at a subscription price of NOK 42. This corresponded to a total gross amount of NOK 68.8 million. Expenses and commission fee connected with tranche 1 of the placement amounted to NOK 3.1 million and net proceeds were NOK 65.7 million.

Tranche 2 consisted of 1,219,142 new shares at a subscription price of NOK 42, corresponding to a total gross amount of NOK 51.2 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting on 13 April 2018. Expenses and commission fee connected with tranche 2 of the placement amounted to NOK 2.7 million and net proceeds were NOK 48.5 million.

The repair issue was performed in June and 3,713 new shares were subscribed at a subscription price of NOK 42, corresponding to a total gross amount of NOK 0.15 million.

In the third quarter of 2018 187,240 incentive options was exercised at a subscription price of NOK 1, corresponding to a total gross amount of NOK 0.2 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 third quarter of 2018, a total of 47 500 new share options were granted.

OPTIONS	2018 YTD-Q3	2017 YTD-Q3	2017
Opening balance	1 504 717	1 333 811	1 333 811
Grant of incentive options	332 500	499 500	526 000
Exercised incentive options	-187 240	-56 500	-56 500
Forfeited incentive options	-103 002	-36 500	-38 750
Cancelled incentive options	-7 244	0	0
Modifications	-44 750	0	0
Adjusted quantity 1	-132 495	-246 595	-259 844
Closing balance	1 362 486	1 493 716	1 504 717

¹Adjusted quantity of 132,495 for the first three quarters of 2018 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 third quarter of 2018 was 392,339.

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
OPTIONS	YTD-Q3 2018		YTD-Q3 2017		2017	
Outstanding - Beginning of period	1 504 717	63.08	1 333 811	59.63	1 333 811	59.63
Granted	332 500	44.00	499 500	87.23	526 000	83.78
Exercised	-	-	-56 500	36.73	-56 500	36.73
Cancelled	-7 244	1.00	-	-	-	-
Forfeited	-103 002	84.04	-36 750	155.40	-38 750	143.00
Expired	-	-	-	-	-	-
Adjusted quantity	-132 495	42.04	-246 595	85.87	-259 844	83.90
Modification / Dividends	-44 750	39.60	-	-	-	-
Outstanding - End of period	1 362 486	49.79	1 493 466	64.55	1 504 717	63.08
Vested options - End of period	876 945	43.26	981 811	31.07	1 104 127	42.54

	SHARES	WEIGHTED AVERAGE FAIR VALUE	SHARES	WEIGHTED AVERAGE FAIR VALUE	SHARES	WEIGHTED AVERAGE FAIR VALUE
Granted Options - During the period	332 500	20.83	499 500	44.56	526 000	44.64

	SHARES	INTRINSIC VALUE	SHARES	INTRINSIC VALUE	SHARES	INTRINSIC VALUE
Outstanding options - End of the period	1 046 333	20 371 325	734 135	35 560 854	974 101	29 396 108
Vested options - End of the period	761 077	16 129 747	701 135	34 933 854	965 811	29 283 082

8. 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.

	2018 YTD-Q3	2017 YTD-Q3	2017
Profit (loss) attributable to the shareholders (NOK)	-132 021 498	-127 850 098	-180 819 916
Number of ordinary shares issue at 30 Sept./31 Dec.	19 430 575	16 382 480	16 382 480
Weighted average basic number of shares	18 312 159	16 231 822	16 269 796
Weighted average diluted number of shares	20 083 866	17 690 845	17 789 978
Profit (loss) per share (NOK)	-7.21	-7.88	-11.11

9. Risk management

A description of risk factors can be found in Note 2 of NEXT Biometrics Group ASA's 2017 annual report.

10. Events occurring after the balance sheet date

Between 30 September 2018 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 for the first three quarters of 2018 or the value of the Company's assets and liabilities at 30 September 2018.



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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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