



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 4 2 0 1 8

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



## HIGHLIGHTS

- Q4-18 revenue of NOK 29.3 million, compared with NOK 30.2 million in Q3-18
- Q4-18 gross margin of 36%, compared to 30% in Q3-18
- Full-year 2018 revenue growth of 10% and gross margin of 28% (FY 2017: -6%)
- Sampling of One Touch ID FAP 20 sensor started in Q4-18
- Infineon technology partnership and R&D program with MK Group strengthen Smart Card position
- Government ID progress with orders from Telpo, Tysso and India agreement with Digitsecure

### Post Q4-18 events

- Received and delivered purchase order for 30,000 chipsets from Tactilis
- Increased customer traction in India reflected in firm awards and growing lead pipeline
- Expanding smart card ecosystem with agreements in Asia
- Initiated cost reduction program
- Raised NOK 160 million in gross proceeds in private placement
- Subsequent offering with potential gross proceeds of maximum NOK 28 million

### CEO comment

*"We have delivered consistently on our technology roadmap through 2018. Our FAP 20 sensor is with customers for testing and the Dual Interface solution for payment cards is soon ready for sampling. Increased year-over-year revenues for 2018 and the significantly improved gross margin confirm we are pivoting from product development to revenue generation. Going forward, we expect to leverage our large-size, highly secure and cost-effective sensor technology in all market segments to drive growth and position for the emerging hyper-growth of the payment smart card market."*

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



### AMOUNTS IN NOK MILLION (EXCEPT GROSS MARGIN)

	Q4-2018	Q3-2018	Q2-2018	Q1-2018	2018	2017
Total revenue	<b>29.3</b>	30.2	25.6	23.3	<b>108.4</b>	98.2
Gross margin (%)	<b>36 %</b>	30 %	26 %	19 %	<b>28 %</b>	-6%
EBITDA ex. Options	<b>-31.9</b>	-35.7	-41.0	-37.8	<b>-146.4</b>	-150.1
Closing cash balance	<b>46.3</b>	70.8	112.9	108.6	<b>46.3</b>	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 fourth consecutive quarter of improved gross margin growth for the three months ending 31 December 2018. The gross margin increased to 36% on revenue of NOK 29.3 million, compared to 30% margin on revenue of NOK 30.2 million in the third quarter of 2018. Full-year 2018 revenue was NOK 108.4 million, an increase of 10% from 2017, and gross margin of 28% compared to a negative 6% margin in 2017.

The Company has consistently delivered on its technology roadmap throughout 2018 and into 2019 as the Company continues to diversify the customer base accross smart card, government ID, access control and notebook markets. Development investments peaked in late 2018 in line with the roadmap.

In Q4 2018, NEXT started sampling the One Touch ID FAP20 compliant sensor for use in government applications. The sensor is designed to replace bulky optical scanners in applications such as mobile verification terminals, voting terminals and point of sales (POS) solutions. NEXT has also announced it will start sampling its Dual Interface smart card solution (One Touch Flex CL) early in the second quarter of 2019. The solution enables NEXT's unique technology to be used with contact and contactless smart cards, including payment cards. Both solutions represent major milestones in NEXT's strategy to win a strong position in the payment card and Government ID multi-million-unit markets.

Going forward, NEXT will concentrate investments on further commercializing smart card solutions, including payment cards. The Company will also complete products for the government ID market, but at lower investment levels than before as the company has established a market-leading product portfolio with the inclusion of the FAP20 sensor.

NEXT has also initiated a cost reduction program with the target of reducing OPEX by 20% from peak quarter 2018 levels with full impact from Q3 2019. The strategic decision to reduce product development investments and optimize the organization follows the outlined path to prioritize payment smart card technology and revenue generation from market-ready solutions.

In Q1 2019, NEXT raised gross proceeds of NOK 160 million in a private placement. This will be followed by a subsequent offering in March with a potential of NOK 28 million in gross proceeds. The cash will be used to further scale the company's activities within payment smartcard development and enable a sustainable balance of revenues and expenses.

**Smart Cards** In 2018, NEXT signed four new agreements with Tier 2 card manufacturers in Asia. Furthermore, the Company announced the development of a joint reference platform with Infineon Technologies AG providing smart card makers with a complete solution and shorter time-to-market. NEXT also started a smart card R&D program targeting banking and other applications with MK Group, Vietnam's leading provider of smart cards and digital security solutions.

NEXT also updated on the three smart card pilot projects in Asia announced by Tactilis Pte. Ltd. in late October. The pilots are with the International Organization of Migration, a related agency of the United Nations and targets deployment in three different migrant and foreign worker environments, namely visa card, cross border card and migrant camp card. There are close to 260 million migrants globally, with 75 million of those across Asia, many of whom are undocumented or displaced and require resettlement and trusted identity credentials. In January 2019, NEXT shipped 30,000 chipsets to Tactilis as part of a call-off under a previously announced open purchase order for 250,000 chipsets. The chipsets will be used to support the pilot projects as well other Tactilis' smart card projects such as the US Veterans Card and Madeira Smart City. NEXT remains ready to provide additional chipsets to Tactilis as the company ramps its business.



Sampling of the new Dual Interface sensor module from the second quarter of 2019 is an important step towards commercializing a competitive payment card solution with the highest security and ease of use at an attractive cost point. The solution has triggered significant interest across the smart card ecosystem. NEXT is currently in advanced discussions with three additional tier 2 players and engaged in a payment card specification project. NEXT's smart card products that offer full physical flexibility, large size enabling the highest security and one touch enrollment are ideally suited for the emerging hyper-growth payment card market.

On February 11, NEXT announced an agreement with M-Tech Innovations Ltd. to develop and deploy contact-based and Dual Interface biometric smart card solutions to address current and evolving banking card standards. M-Tech is an accredited and certified RuPay, MasterCard and VISA card manufacturer and one of the largest smart card producers in India. In addition to the company's strong foothold in the banking sector, M-Tech's solutions are also used in government, access control, high-security and many more applications in India and beyond.

**Government ID** Q4-2018 developments in the Government ID segment reflected the market hesitation in India brought on by the Supreme Court on ruling on the Aadhaar program which delayed customer projects. Market activity has improved at the beginning of 2019, which is reflected in an increased lead pipeline and firm contract awards such as the second purchase order received early this year from NEXT's distribution partner AqTronics Technologies for the Company's STQC and UIDAI certified fingerprint technology. On 12 February, NEXT announced that MobiOcean Technologies Pvt. Ltd. had selected NEXT's certified sensor module for its mobile point-of-sale terminals (POS)-based platform for Aadhaar authentication and payments in India.

In the fourth quarter of 2018, NEXT signed a cooperation agreement with Digitsecure India Pvt Ltd. for developing new products based on NEXT's advanced, large-area fingerprint sensor technology. NEXT also announced an initial order for its One Touch ID fingerprint sensor module from China-based Telpo used in POS units for retail sales transactions in India NEXT expects to increase its market share in India through 2019.

NEXT is actively engaged with Government ID customers outside of India. Taiwan-based Tysso (Fametech Inc.) placed an order for the Company's NB 2023 sensor modules to be used in POS terminals for the U.S. market. First volumes are expected to be shipped in the first quarter of 2019. In addition, the FAP 20 sensor, which has been sampled to prospective customers will be a key enabler for further market penetration.

**Access control** In late 2018, NEXT completed its review and segmentation of the access control market to allow for a more effective market cultivation and a wider regional coverage. The product offering was earlier in the year enhanced with the acquisition of an algorithm to provide improved customization and performance and faster time-to-market. As stated at the 24 January business update, NEXT is in advanced negotiations for three additional regional distribution agreements. The Company targets increased market penetration based on the existing product portfolio as well as leveraging the FAP 20 sensor for physical access control and time/attendance applications.

Recent agreements in access control include selection of the Company's One Touch Access 100 fingerprint sensor module by Prima Technology Inc. for integration into its high-quality display panel solutions for the educational market in North America, as announced on 14 February. Initial sensors have been shipped for integration and testing.

**Notebooks** Shipments to notebook customers reached an all-time-high in the fourth quarter of 2018 with a gross margin of 36%. The high gross margin reflects completion and mass production of the new sensor and ASIC. Most of the sensor shipments in Q4 were to the US Tier 1 customer. However, shipments to Fujitsu have started to ramp and are expected to increase significantly in 2019 as more notebooks with NEXT sensors are launched in the market.

Next is engaged in ongoing technology evaluation with additional notebook manufacturers based on the existing sensor portfolio and the new FAP 20 sensor. For 2019, NEXT expects stable shipments of sensors to notebook customers overall compared to 2018.

**Other** In December NEXT exceeded 6 million in accumulated sensor shipments, confirming the ability to mass-produce high quality biometric sensors meeting the requirements of global tier 1 customers.

On December 18, board member and former CEO of Next Biometrics Group ASA, Tore Etholm-Idsøe assumed the position as a Senior Vice President of Tactilis PTE Ltd. and resigned with immediate effect as a board member of NEXT to avoid potential conflict of interest. The nomination committee will propose a candidate to join the NEXT Board of Directors at the 2019 annual general meeting.





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

### PROFIT & LOSS STATEMENT

#### Revenues

Operating revenue in the fourth quarter of 2018 was NOK 29.3 million, compared to NOK 30.2 million in the previous quarter and NOK 24.7 million in the fourth quarter of 2017. For the full year of 2018, operating revenue amounted to NOK 108.4 million, compared NOK 98.2 million in 2017.

#### Cost of goods sold and gross margin

Cost of goods sold were NOK 18.8 million in the fourth quarter of 2018, compared to NOK 21.1 million in the previous quarter and NOK 25.6 million in the fourth quarter of 2017. For the full year of 2018, cost of goods sold amounted to NOK 77.6 million, compared to NOK 104.0 million in 2017.

The gross margin in the fourth quarter of 2018 was 36% (NOK 10.5 million), compared to 30% (NOK 9.1 million) in the previous quarter and negative 4% (NOK -0.9 million) in the fourth quarter of 2017. For the full year of 2018, the gross margin was 28% (NOK 30.8 million), compared to negative 6% (NOK 5.9 million) in 2017.

#### Operating expenses

Payroll expenses were NOK 31.5 million in the fourth quarter of 2018, compared to NOK 30.6 million in the previous quarter and NOK 26.0 million in the fourth quarter of 2017. Full-year of 2018 payroll expenses were NOK 116.1 million, compared to NOK 89.4 million in 2017.

Other operating expenses were NOK 14.5 million in the fourth quarter of 2018, compared to NOK 17.6 million in the previous quarter and NOK 14.8 million in the fourth quarter of 2017. The decrease from previous quarter of NOK 3.1 million was mainly related to a NOK 5.0 million recognition from Skattefunn. This was the same amount as recognized in the fourth quarter of 2017. For the full year of 2018 other operating expenses amounted to NOK 72.5 million, compared NOK 68.0 million in 2017.

The R&D costs included in other operating expenses increased to NOK 42.1 million for the full year of 2018, compared to NOK 36.0 million in 2017. The number of R&D projects in 2018 were at a historic high level. NEXT has initiated a cost reduction program that will reduce the total R&D spend in 2019.

#### Depreciation, amortisation and investments

Depreciation and amortization amounted to NOK 2.8 million in the fourth quarter of 2018 compared to NOK 2.7 million in previous quarter and NOK 1.7 million in the fourth 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. In 2018, depreciation and amortization were NOK 10.1 million compared to NOK 4.8 million in 2017.

Investments were NOK 3.8 million in the fourth quarter of 2018, compared to NOK 0.4 million in the previous quarter and NOK 9.5 million in the fourth quarter of 2017. The main investment in the fourth quarter was additional investments in new ASIC (1.5). In 2018, investments amounted to NOK 7.6 million compared NOK 32.2 million in 2017. In 2018, the main investments were the source code license acquisition in the second quarter and additional investments in new ASIC (1.5) in the fourth quarter. In 2017, the main investments 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 2.0 million in the fourth quarter of 2018, compared to a net financial cost of NOK 0.8 million in the previous quarter and an income of NOK 3.0 million in the fourth quarter of 2017. The increased income from the previous quarter of NOK 2.8 million was mainly related to foreign exchange gains and losses. For the full year of 2018 net financial cost was NOK 0.4 million, compared to a net cost of NOK 0.2 million in 2017.

#### Net profit (loss) for the period

Net loss for the fourth quarter of 2018 was NOK 37.9 million, compared to a loss of NOK 42.6 million in the previous quarter and a loss of NOK 53.0 million in the fourth quarter of 2017.

Payable taxes of NOK 1.9 million related to foreign subsidiaries, were expensed in the fourth quarter of 2018. At the same time, deferred taxes related to foreign subsidiaries reduced the tax expenses with NOK 0.4 million. In 2017, payable taxes of NOK 1.2 million related to foreign subsidiaries, were expensed in the fourth quarter. The mother company, NEXT Biometrics Group ASA, operated at a loss and did not incur deferred or payable income tax in 2018 or in 2017.

## CASH FLOW AND BALANCE SHEET

### Cash and cash equivalents

Cash and cash equivalents amounted to NOK 46.3 million by the end of 2018, compared to NOK 79.7 million at the end of 2017.

Cash flow from operating activities was negative with NOK 21.4 million in the fourth quarter of 2018, compared to a negative NOK 41.7 million in the previous quarter and a negative NOK 34.1 million in the fourth quarter of 2017. For the year 2018, cash flow from operating activities was negative NOK 141.0 million compared to negative NOK 147.6 million in 2017.

Net cash flow from financing activities was NOK 0.0 million in the fourth quarter of 2018, compared to NOK 0.1 million in the third quarter of 2018.

For the year 2018, net cash flow from financing activities amounted to NOK 114.4 million, mainly related to the private placement and subsequent offering totaling 2,860,855 new shares, compared to NOK 153.1 million for the year 2017 when the company issued 1,167,000 new shares in a private placement.

At the end of 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 122.3 million at the end of 2018, compared to NOK 165.1 million at the end of 2017. The decrease of NOK 42.8 million was mainly related to the net loss of NOK 169.9 million, less net proceeds of NOK 114.4 million from the private placement of new shares.

In January 2019, NEXT raised NOK 160 million in gross proceeds in a private placement. The private placement was divided into two tranches. Tranche 1 consisted of NOK 15.4 million and was finalized under the current board authorization. Tranche 2 consisted of NOK 144.6 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting 15 February 2019. This will be followed by a subsequent offering with a potential of maximum NOK 28 million in gross proceeds. The subscription period will be March 1 - March 8.

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 in design wins and revenue
- Volume shipment of high-end smart card sensors
- Sampling of Dual Interface solution planned from Q2-19
- Expand and capitalize on network in payment smart-card ecosystem
- Ramp India sales
- Increased interest for FAP20 products
- Significant increase of sensor module shipments to Fujitsu expected in Notebook segment
- OPEX to decline in H2-19

**Oslo, February 26, 2019**  
**Board of directors**  
**NEXT Biometrics Group ASA**

## NEXT BIOMETRICS GROUP ASA

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

	NOTES	Q4-2018	Q4-2017	2018	2017
<b>Revenue</b>					
Operating revenue	3	29 278	24 678	108 392	98 159
<b>Total revenue</b>		<b>29 278</b>	<b>24 678</b>	<b>108 392</b>	<b>98 159</b>
<b>Cost of goods sold</b>		<b>18 796</b>	<b>25 617</b>	<b>77 612</b>	<b>104 014</b>
<b>Gross margin</b>		<b>10 481</b>	<b>-938</b>	<b>30 780</b>	<b>-5 855</b>
<b>Operating expenses</b>					
Payroll expenses	4	31 516	26 037	116 077	89 343
Other operating expenses	4	14 483	14 791	72 500	68 063
<b>Total operating expenses</b>		<b>45 999</b>	<b>40 827</b>	<b>188 577</b>	<b>157 406</b>
<b>Profit (loss) before tax, depreciation and amortization</b>		<b>-35 518</b>	<b>-41 766</b>	<b>-157 797</b>	<b>-163 260</b>
Amortization of intangible assets	5	1 824	327	6 289	751
Depreciation of tangible assets	6	970	1 345	3 823	4 012
Write-downs on tangible assets	6	0	11 397	0	11 397
<b>Operating profit (loss)</b>		<b>-38 312</b>	<b>-54 835</b>	<b>-167 910</b>	<b>-179 421</b>
Net financial items		2 001	3 074	-425	-190
<b>Net profit (loss) before tax</b>		<b>-36 312</b>	<b>-51 761</b>	<b>-168 335</b>	<b>-179 611</b>
Income tax expenses		-1 584	-1 209	-1 582	-1 209
<b>Net profit (loss) for the period</b>		<b>-37 895</b>	<b>-52 970</b>	<b>-169 917</b>	<b>-180 820</b>
<b>Earnings per share - basic and diluted</b>	8	<b>-1.95</b>	<b>-3.23</b>	<b>-9.14</b>	<b>-11.11</b>
<b>Other comprehensive income</b>					
<b>Items that will be reclassified to profit and loss</b>					
Exchange rates differences		701	235	708	-7
<b>Total other comprehensive income</b>		<b>701</b>	<b>235</b>	<b>708</b>	<b>-7</b>
<b>Total comprehensive income for the period</b>		<b>-37 195</b>	<b>-52 735</b>	<b>-169 209</b>	<b>-180 827</b>
<b>Total comprehensive income for the period attributable from:</b>					
Owners of the parent company		<b>-37 195</b>	<b>-52 735</b>	<b>-169 209</b>	<b>-180 827</b>
<b>Total</b>		<b>-37 195</b>	<b>-52 735</b>	<b>-169 209</b>	<b>-180 827</b>



## NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)  
31 DECEMBER 2018

## AMOUNTS IN NOK 1,000

## ASSETS

## NOTES

31 DEC 2018

31 DEC 2017

**Non-current assets**

Deferred tax asset		354	0
Patens and other intangible assets	5	21 935	21 454
Machinery and office equipment	6	27 125	30 086

<b>Total non-current assets</b>		<b>49 414</b>	<b>51 540</b>
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**Current assets**

<b>Inventory</b>		<b>29 373</b>	<b>28 014</b>
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**Receivables**

Accounts receivable		12 797	16 570
Other receivables		15 147	16 464
Prepayments		0	3 070

<b>Total receivables</b>		<b>27 945</b>	<b>36 103</b>
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<b>Cash and cash equivalents</b>		<b>46 299</b>	<b>79 722</b>
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<b>Total current assets</b>		<b>103 617</b>	<b>143 839</b>
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<b>Total assets</b>		<b>153 031</b>	<b>195 379</b>
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**EQUITY AND LIABILITIES****Equity**

Share capital	7	19 431	16 382
Share premium		799 487	688 111
Other paid in capital		55 369	43 436
Retained earnings		-752 013	-582 804

<b>Total equity</b>		<b>122 273</b>	<b>165 126</b>
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**Liabilities****Current liabilities**

Accounts payable		19 096	21 631
Public duties payable		1 330	807
Other current liabilities		10 331	7 815

<b>Total current liabilities</b>		<b>30 757</b>	<b>30 253</b>
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<b>Total liabilities</b>		<b>30 757</b>	<b>30 253</b>
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<b>Total equity and liabilities</b>		<b>153 031</b>	<b>195 379</b>
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## NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF CASH FLOW (UNAUDITED)  
31 DECEMBER 2018

AMOUNTS IN NOK 1,000					
CASH FLOWS FROM OPERATING ACTIVITIES	NOTES	Q4-2018	Q4-2017	2018	2017
Profit (loss) before taxes		-36 312	-51 761	-168 335	-179 611
Payable taxes		-1 938	-1 209	-1 936	-1 209
Share based remuneration (equity part)		4 240	4 517	11 933	15 655
Amortization of intangible assets	5	1 824	327	6 289	751
Depreciation of tangible assets	6	970	1 345	3 823	4 012
Write-down on tangible assets	6	0	11 397	0	11 397
Change in prepayments		3 081	7 226	3 070	10 492
Change in working capital items		6 343	-5 974	3 810	-9 076
<b>Net cash flows from operating activities</b>		<b>-21 791</b>	<b>-34 131</b>	<b>-141 347</b>	<b>-147 588</b>
<b>Cash flows from investing activities</b>					
Purchase of intangible assets	5	-3 407	-1 651	-6 770	-2 900
Purchase of tangible assets	6	6	-7 818	-438	-29 256
<b>Net cash flows from investing activities</b>		<b>-3 401</b>	<b>-9 469</b>	<b>-7 208</b>	<b>-32 157</b>
<b>Cash flows from financing activities</b>					
Change in non-current debt		0	0	0	0
Share issue net of expenses		0	0	114 424	153 132
<b>Net cash flows from financing activities</b>		<b>0</b>	<b>0</b>	<b>114 424</b>	<b>153 132</b>
Translation differences		701	235	708	-7
<b>Net change in cash flows</b>		<b>-24 492</b>	<b>-43 365</b>	<b>-33 423</b>	<b>-26 619</b>
Opening cash balance		70 791	123 087	79 722	106 342
Closing cash balance		46 299	79 722	46 299	79 722

## NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)  
31 DECEMBER 2018

AMOUNTS IN NOK 1,000	NOTES	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
<b>Balance 1 October 2018</b>		<b>19 431</b>	<b>799 487</b>	<b>51 128</b>	<b>-714 818</b>	<b>155 228</b>
Shares issue	<b>7</b>	-	-			0
Share based compensation				4 240		4 240
Translation differences					701	701
Net profit (loss)			0		-37 895	-37 895
<b>Balance 31 December 2018</b>		<b>19 431</b>	<b>799 487</b>	<b>55 369</b>	<b>-752 013</b>	<b>122 273</b>
<b>Balance 1 October 2017</b>		<b>16 382</b>	<b>706 939</b>	<b>38 919</b>	<b>-548 896</b>	<b>213 344</b>
Shares issue	<b>7</b>	-	-			-
Share based compensation				4 517		4 517
Translation differences					235	235
Net profit (loss)			-18 828		-34 142	-52 970
<b>Balance 31 December 2018</b>		<b>16 382</b>	<b>688 111</b>	<b>43 436</b>	<b>-582 804</b>	<b>165 126</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	<b>7</b>	3 048	111 376			114 424
Share based compensation				11 933		11 933
Translation differences					708	708
Net profit (loss)			0		-169 917	-169 917
<b>Balance 31 December 2018</b>		<b>19 431</b>	<b>799 487</b>	<b>55 369</b>	<b>-752 013</b>	<b>122 273</b>
<b>Balance 1 January 2017</b>		<b>15 159</b>	<b>555 030</b>	<b>27 781</b>	<b>-420 804</b>	<b>177 165</b>
Shares issue	<b>7</b>	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
<b>Balance 31 December 2017</b>		<b>16 382</b>	<b>688 111</b>	<b>43 436</b>	<b>-582 804</b>	<b>165 126</b>



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS 31 DECEMBER 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 per the end 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 fourth 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. During 2018, NEXT earned revenue from commercial volumes with positive gross margins, but still at rather modest levels. In January 2019, NEXT raised NOK 160 million in gross proceeds in a private placement. The private placement was divided into two tranches. Tranche 1 consisted of NOK 15.4 million and was finalized under the current board authorization. Tranche 2 consisted of NOK 144.6 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting 15 February 2019. This will be followed by a subsequent offering with a potential of maximum NOK 28 million in gross proceeds. The subscription period will be March 1 - March 8.

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 26 February 2019.

**3. Revenue and segment reporting****OPERATING REVENUE - PER BUSINESS SEGMENT  
(AMOUNTS IN NOK 1,000)**

	2018	2017
Fingerprint sensor technology	108 392	98 159
<b>Total</b>	<b>108 392</b>	<b>98 159</b>

NEXT targets four markets for the technology;

- (i) Smart Cards
- (ii) Government ID
- (iii) Access Control
- (iv) Notebooks

The available technology is generic into the four markets. Since NEXT has limited revenues it is operating and reporting only in one business segment; *Fingerprint sensor technology*.

#### 4. Operating expenses

<b>PAYROLL EXPENSES (AMOUNTS IN NOK 1,000)</b>	<b>2018</b>	<b>2017</b>
R&D related payroll expenses	69 591	46 068
Other payroll expenses	35 445	31 274
Share based remuneration (salary part)	11 562	14 459
Share based remuneration (employer's tax)	-520	-2 458
<b>Total</b>	<b>116 077</b>	<b>89 343</b>

  

<b>OTHER OPERATING EXPENSES (AMOUNTS IN NOK 1,000)</b>	<b>2018</b>	<b>2017</b>
R&D related operating expenses	42 074	36 023
Other expenses	30 086	30 866
Share based remuneration (operating part)	340	1 174
<b>Total</b>	<b>72 500</b>	<b>68 063</b>

  

<b>Total - Operating expenses</b>	<b>188 577</b>	<b>157 406</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 Active Thermal Sensing principle and the internally generated ASIC designs.

The additions in 2018 relates to the internally generated ASIC 1.5 design and source code license acquisition.

<b>INTANGIBLE ASSETS (AMOUNTS IN NOK 1,000)</b>	<b>2018</b>	<b>2017</b>
Cost - Opening balance	23 295	20 395
Additions	6 770	2 900
Disposals at cost	0	0
Currency adjustments	0	0
<b>Cost - Closing balance</b>	<b>30 065</b>	<b>23 295</b>
Accumulated amortization - Opening balance	1 841	1 090
Amortization	6 289	751
Accumulated amortization of disposed items	0	0
Currency adjustments	0	0
<b>Accumulated amortization - Closing balance</b>	<b>8 131</b>	<b>1 841</b>
<b>Book value - Closing balance</b>	<b>21 935</b>	<b>21 454</b>

  

Amortization period (straight line) years	3-12	3-12
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Of the book value of NOK 21.9 million by the end of 2018, NOK 13.7 million is related to internally generated assets and NOK 7.8 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's are amortized over 3 years, starting from the completion of the different projects. The source code license is amortised over 3 years.

## 6. Tangible assets

<b>MACHINERY AND EQUIPMENT (AMOUNTS IN NOK 1,000)</b>	<b>2018</b>	<b>2017</b>
Cost - Opening balance	52 080	22 949
Additions	437	29 433
Disposals at cost	-27	0
Currency adjustments	920	-301
<b>Cost - Closing balance</b>	<b>53 410</b>	<b>52 080</b>
Accumulated depreciation - Opening balance	21 994	6 709
Depreciation	3 823	4 012
Accumulated depreciation of disposed items	-27	0
Write-downs	0	11 397
Currency adjustments	495	-125
<b>Accumulated depreciation - Closing balance</b>	<b>26 285</b>	<b>21 994</b>
<b>Book value - Closing balance</b>	<b>27 125</b>	<b>30 086</b>
Depreciation period (straight line) years	3-10	3-10

Of the book value of NOK 27.1 million by the end of 2018, NOK 25.1 million is related to machinery and NOK 2.0 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.

## 7. Shares and incentive options

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

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 were 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 fourth quarter of 2018, a total of 2 000 new share options were granted.

OPTIONS	2018	2017
Opening balance	1 504 717	1 333 811
Grant of incentive options	334 500	526 000
Exercised incentive options	-187 240	-56 500
Forfeited incentive options	-7 244	0
Cancelled incentive options	-122 669	-38 750
Modifications	-103 590	0
Adjusted quantity 1	-44 750	0
	-48 394	-259 844
<b>Closing balance</b>	<b>1 325 330</b>	<b>1 504 717</b>

<sup>1</sup> Adjusted quantity of 48,394 in the year 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 2018 was 308,238 and therefore the maximum closing balance, if all conditions are met, are 1,633,568.

INCENTIVE OPTIONS MOVEMENT	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
OPTIONS	2018		2017		2016	
Outstanding - Beginning of period	1 504 717	63.08	1 333 811	59.63	1 374 276	31.16
Granted	334 500	44.04	526 000	83.78	225 000	187.00
Exercised	-187 240	1.00	-56 500	36.73	-245 465	16.98
Cancelled	-7 244	1.00	-	-	-	-
Forfeited	-122 669	78.11	-38 750	143.00	-20 000	59.90
Expired	-103 590	46.47	-	-	-	-
Modification / Dividends	-44 750	42.04	-259 844	83.90	-	-
Adjusted quantity	-48 394	0.89	-	-	-	-
<b>Outstanding - End of period</b>	<b>1 325 331</b>	<b>52.04</b>	<b>1 504 717</b>	<b>63.08</b>	<b>1 333 811</b>	<b>59.63</b>
Vested options - End of period	845 305	44.56	1 054 127	42.66	921 311	29.44

	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	334 500	40.54	526 000	44.64	225 000	101.22

	NUMBER OF OPTIONS	INTRINSIC VALUE	NUMBER OF OPTIONS	INTRINSIC VALUE	NUMBER OF OPTIONS	INTRINSIC VALUE
Outstanding options - End of the period	260 930	2 809 891	974 101	29 396 108	1 108 811	108 905 380
Vested options - End of the period	260 930	2 809 891	965 811	29 283 082	921 311	94 492 880

## 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.

<b>BASIS FOR CALCULATION - EARNINGS PER SHARE</b>	<b>2018</b>	<b>2017</b>
Profit (loss) attributable to the shareholders (NOK 1,000)	-169 917	-180 820
Number of ordinary shares issue at 31 December	19 430 575	16 382 480
Weighted average basic number of shares	18 594 061	16 269 796
Weighted average diluted number of shares	20 383 160	17 789 978
<b>Profit (loss) per share (NOK)</b>	<b>-9.14</b>	<b>-11.11</b>

## 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

In January 2019, NEXT raised NOK 160 million in gross proceeds in a private placement. The private placement was divided into two tranches. Tranche 1 consisted of NOK 15.4 million and was finalized under the current board authorization. Tranche 2 consisted of NOK 144.6 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting 15 February 2019. This will be followed by a subsequent offering with a potential of maximum NOK 28 million in gross proceeds. The subscription period will be March 1 - March 8.

Between 31 December 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 year 2018 or the value of the Company's assets and liabilities at 31 December 2018.

**Oslo, February 26, 2019**  
**Board of directors**  
**NEXT Biometrics Group ASA**

**Magnus Mandersson**  
Chairman

**Brita Eilertsen**  
Board member

**Emine Lundkvist**  
Board member

**Emanuel Lang**  
Board member

**Ritu Favre**  
CEO



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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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