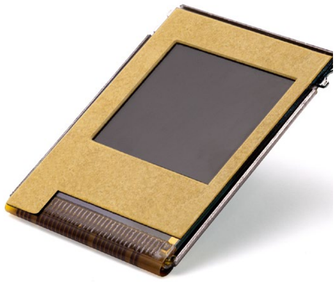
NEXT BIOMETRICS

NEXT BIOMETRICS GROUP ASA

ANNUAL REPORT 2019

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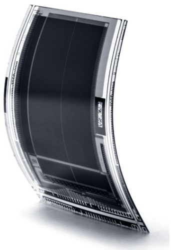


LETTER FROM THE CEO

DEAR SHAREHOLDERS,

2019 was not in line with your nor my expectations. Revenues were highly impacted by reduced sensor purchases from our largest customer, in the last two quarters of 2019, and gross margin decreased to 24% for the full year. As a result, several measures were taken during 2019 and we have implemented additional measures during 2020.

I started as CEO at NEXT in September 2019. During my initial period, I completed a 100-day program to get insight in both strengths and improvement areas for NEXT. The background for the program was analysis of internal and external data, including business processes and input from market data, customers/prospects and shareholders. My analysis showed important areas for the Group to focus on going forward. By creating a more tangible growth agenda, become more customer centric, and invest selectively in new products to ensure that we are positioned to meet customer demand in our target markets, we can better drive revenue and value creation and become less dependent on a single customer.

We have reduced headcount, made cost avoidance and lowered indirect costs substantially during the last quarter of 2019 to ensure the best resource and capital allocation. At the same time, we have worked closer with both existing and potential new customers and we have already built a much stronger sales funnel. Our promising FAP20 sensor, which we believe have high potential in our main target markets, received US PIV certification in late 2019 and we have increased the sales efforts for this sensor product.

In 2020, we will accelerate our commercial growth agenda and focus on diversification of customer base to enable a longer company runway by:

- *Strengthen margins and commercial strategy and execution,*
- *Deliver improved customer-focused solutions, and*
- *Continue with a more cost-conscious and selective resource and capital allocation.*

In addition, we will work on funding options to ensure sufficient working capital for the operation of the company.

Execution of our cost reduction program will reduce yearly operating expenses with minimum NOK 65 million in 2020. The stronger growth agenda has already yielded result in beginning of 2020, by converted increased activity in India into revenues and our first commercial order of our FAP20 sensor. Unfortunately, due to the COVID-19 pandemic, we see some delays in closing of revenue generating deals from March onwards. The pandemic has increased uncertainty and is expected to delay orders in the short term. Still, we believe the long-term outlook for biometric products and solutions are unchanged.

With a more customer centric organization, operating at lower cost, I´m confident we will deliver better results in the future.

Peter Heuman
CEO of NEXT Biometrics Group ASA

NEXT BIOMETRICS AT A GLANCE

NEXT provides secure easy-to-use fingerprint sensor technology for authentication in the smart card, government ID, access control and notebook markets. The Group's patented NEXT Active Thermal™ principle allows the development of large, high quality fingerprint sensors in both rigid and flexible formats.

PRODUCT DEVELOPMENT

Historically, NEXT has had a strong R&D focus and has made significant progress along its product and technology development roadmap in the last five years. The Group has developed products for the notebook, Government-ID (globally and India's Aadhaar program), point of sales terminals and smart card markets. From 2014 to 2019 the Group has spent approximately NOK 500 million in research and development to develop the current set of products.

Late 2019, the Group completed its development of its FAP20 sensor, which can be used for a variety of applications including government ID and point of sales terminals. NEXT has also completed its Dual Interface smart card solution (One Touch Flex CL) which is ready for sale to end customers. 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 R&D roadmap.

Entering 2020, the Group will reduce its spending on R&D and focus on improving already developed solutions, accelerate design-in projects and proactively support with customer activities.

SALES AND MARKETING

The Group shipped the first commercial sensors to customers in the middle of 2014. Initially, most of the sensor shipments to the notebook market were to one US tier-1 customer. Shipments to the US customer declined in 2019 due to the number of platforms using NEXT sensors were reduced. Still, shipments to a second notebook OEM customer started to ramp up in 2018 and continued into 2019. Volumes are expected to increase further in 2020 as more notebooks with NEXT sensors are launched in the market. NEXT is also engaged in ongoing technology development with additional notebook manufacturers based on the existing sensor portfolio and the new FAP20 sensor.

In June 2018, the Group completed its development and certification of its India Aadhaar biometric reader. The Aadhaar certification represented a commercial breakthrough in India. However, sales volumes were delayed due to a Supreme Court ruling on the Aadhaar program in late 2018 and uncertainty before the 2019 government election in India. Market activity in India started to improve in 2019 with increasing volumes and potential customers. The Group shipped its first large order certified fingerprint biometric readers in Q1 2020. The order was valued at USD 1.1 million.

The Group has established partner agreements with several players in different target markets to leverage the Group's large-size, highly secure, easy-to-use and cost-effective sensor products. NEXT's ongoing business development efforts are expected to bring in additional volumes for niche applications and new use cases.

MANUFACTURING

NEXT has established outsourced production in Asia with the proven ability to produce large volumes of high quality, mass-market robust sensors at very high yield rates is highly recognized by existing and potential new customers. The Group can increase production capacity rapidly when needed.

REPORT FROM THE BOARD OF DIRECTORS

A GLOBAL LEADER IN FINGERPRINT SENSOR TECHNOLOGY

NEXT Biometrics Group ASA ("Parent Company") is a public limited liability company incorporated and domiciled in Norway, with headquarters in Oslo, Norway. The Parent company and its subsidiaries ("NEXT" or "the Group") provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets.

NEXT's fingerprint sensors are unique, using active thermal conductivity to read the fingerprint, as opposed to capacitive or optical sensing used by others. This patented sensing principle allows simple designs uniquely compatible with the low temperature polysilicon production processes ("LTPS") used in high-end display factories. This enables significantly lower production cost for the Group's fingerprint sensors compared to competing sensors of similar quality. The Group has developed and markets a portfolio of fingerprint sensor modules, readers and flexible biometric subassemblies, which may be incorporated into a wide range of products and solutions.

The Group has six 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), NEXT Biometrics Solutions India Pvt. Ltd. (Bengaluru, India) and NEXT Biometrics s.r.o. (Prague, Czech Republic).

NEXT ASA's shares are listed on the Oslo Stock Exchange.

HIGHLIGHTS 2019

Key 2019 developments in NEXT:

- Operating revenues for 2019 of NOK 84.4 million, down 22% compared to 2018
- Gross margin of 24% for 2019 compared to 28% in 2018
- Total operating expenses reduced to NOK 185.2 million in 2019, compared to NOK 201.7 million in 2018
- Hired new CEO Peter Heuman with focus on company turnaround, more customer centric organization and improved resource and capital allocation
- Large-size FAP20 sensor module granted US PIV certification
- Accelerated sales in India Aadhaar market from initial low base
- Implemented cost reduction program and reduced headcount from 90 at the start of the year to 65 at year-end

BUSINESS OVERVIEW

Biometric fingerprint sensing devices have been used effectively in an increased number of applications during 2019. This technology is being used in PCs, Cell Phone and governments and businesses across the world have started deploying the technology in medical services, pension payment, point of sale (POS) recording, facility access, voting registration and Time and Attendance solutions. In India, the Aadhaar program has one billion people registered. The group (NEXT) is a key player in this market with large contract wins. India's deployment has raised interest in other developing countries and to enable ease of use of fingerprint based biometric devices and its infrastructure.

Historically, the group has spent around NOK 500 million on research and development and spent additional amounts to establish a manufacturing platform and sales and marketing to establish a business with significant footprint and customers in key markets as NoteBook, Government ID and point of sale solutions for voting and financial applications. The group has shipped more than 7 million sensor units to its customers starting from the initiation of the company.

In the Notebook market the company is working to increase the run rate revenues from existing client contracts as well as developing new opportunities with Microsoft Secure Bio and high security implementations based on FAP20. In the Government ID market, the company has established itself as a key player in India with Aadhaar certified devices. The company also has established a foothold in Africa with sales of sensors and readers. The new FAP 20 high security solution is being used for both existing (Aadhaar and Notebook) and new customers based on POS solutions for voting and financial inclusion both through direct sales and the group's partner network.

The group has a unique proven technology that outperforms competitive solutions in key markets from formfactor (size and thickness), biometric performance, quality, standard compliance and cost perspectives. Moreover, the group has completed development and readiness of its Dual Interface smart card solution in 2019, which enables its unique technology to be used with contact and contactless smart cards, including payment cards. In the access control market, the group has launched a new module for harsh conditions late 2019. The group also completed the development of the FAP20 sensor, and in December 2019, the sensor was granted Personal Identity Verification (PIV) Certification in the US following tests by the Federal Bureau of Investigation (FBI).

The group's 2019 financial performance was unsatisfactory both from a revenue and profit perspective. Revenues were highly impacted by reduced sensor purchases from the company's largest customer and gross margin decreased to 24% for the full year. Moreover, continued spending on research and development to complete the group's current product pipeline has hampered financial results.

The group hired its new CEO, Peter Heuman, to address the group's revenue challenge, improve cost effectiveness as well as to implement the company's turnaround strategy from September 2019 onwards. Several measures were taken during 2019 and additional measures have been implemented during 2020 in order to become more customer centric as well as investing selectively in new products to ensure that the Group is positioned to meet customer demand in target markets.

With reduced headcount, lowered indirect costs, strengthened sales force and improved resource and capital allocation, the company is expected to improve its results going forward.

FINANCIAL SUMMARY – THE GROUP

Comprehensive income

Operating revenues were NOK 84.4 million in 2019 compared to NOK 108.4 million in 2018.

Gross margin was NOK 20.6 million (24%) in 2019 compared to a gross margin of NOK 30.8 million (28%) in 2018.

Payroll expenses were NOK 121.9 million in 2019, up from NOK 116.1 million in 2018. Average number of employees were 80 persons compared to 86 persons in 2018. The Group had 65 employees at the end of 2019, compared to 90 employees at the end of 2018. The reduction of employees is due to implemented cost reduction programs. Share-based remuneration, including related accrued social security tax, included in payroll expenses was, NOK 3.5 million in 2019, compared to NOK 11.0 million in 2018. Research and development (R&D) expenses included in payroll expenses were NOK 65.8 million in 2019 compared to NOK 69.6 million in 2018.

Other operating expenses were NOK 46.4 million in 2019, compared to NOK 75.6 million in 2018. R&D expenses included in other operating expenses were NOK 24.9 million in 2019, compared to NOK 45.1 million in 2018.

Total R&D expenses, included in both payroll and other operating expenses, were NOK 90.7 million in 2019, a decrease from NOK 114.7 million in 2018.

Depreciation and amortization were NOK 16.8 million in 2019, compared to NOK 10.0 million in 2018. The increase is mainly related to depreciation right-of-use-assets of MNOK 4.6 million.

Net financial items amounted to a net income of NOK 0.3 million in 2019, compared to a net expense of NOK 0.4 million in 2018. Net financial items were mainly related to interest income related to bank deposits and interest expenses related to right-of-use assets in 2019, compared to net currency gains and losses in 2018.

Income tax expenses were NOK 2.1 million in 2019, compared to NOK 1.6 million in 2018, and are related to tax on profit in foreign subsidiaries in the Group.

Loss after taxes for the Group was NOK 166.4 million in 2019, compared to NOK 172.9 million in 2018.

Financial position and cash

Total assets as of 31 December 2019 amounted to NOK 172.9 million, compared to NOK 150.0 million as of 31 December 2018.

Total equity was NOK 134.8 million at the end of 2019 compared to NOK 119.3 million at the end of 2018. The change reflects the loss of NOK 166.1 million, partly offset by net proceeds of NOK 178.8 million from the private placement of new shares and an equity effect of NOK 2.9 million related to share-based compensation.

The Group had non-current liabilities of MNOK 3.3 million and current liabilities of NOK 4.5 million relating to office lease liabilities at the end of 2019.

Cash and cash equivalents amounted to NOK 88.5 million at the end of 2019 compared to NOK 46.3 million at the end of 2018.

Cash flow

Net cash flow from operating activities was negative with NOK 131.4 million in 2019 compared to a negative amount of NOK 144.4 million in 2018. The difference between operating loss and net cash flow from operating activities of NOK 38.2 million, was mainly related to depreciation and amortization of NOK 16.8 million and change in working capital items of NOK 20.4 million.

Net cash flow from investing activities was negative with NOK 1.2 million in 2019 compared to a negative amount of NOK 4.1 million in 2018.

Net cash flow from financing activities was positive with NOK 174.5 million in 2019, due to net proceeds from new share issue of MNOK 178.8 million offset by NOK 4.2 million in payment of lease liabilities, compared to positive net cash flow of NOK 114.4 million in 2018.

FINANCIAL SUMMARY – THE PARENT COMPANY

Comprehensive income

Operating revenues for the parent company was NOK 9.5 million in 2019, compared to NOK 10.3 million in 2018, and consisted of management fee and royalty charged to the subsidiary NEXT Biometrics AS.

Payroll expenses for the parent company were NOK 15.6 million in 2019, an increase from NOK 12.7 million in 2018. There were 8 employees in the parent company at year-end 2019, compared to 7 employees at the end of 2018.

Other operating expenses for the parent company decreased to NOK 10.7 million in 2019 from NOK 13.8 million in 2018, including decreased office rent expenses of MNOK 0.9 due to IFRS 16.

Depreciation and amortization for the parent company increased to NOK 1.8 million in 2019 from NOK 0.9 million in 2018 due to IFRS 16.

Net financial items, excluding write-down on investment in subsidiaries, amounted to a net financial income of NOK3.5 million in 2019, compared to a net financial income of NOK 3.0 million in 2018. The increase was mainly related to a reduction in net currency losses of MNOK 0.5 million.

At the end of 2019, the parent company wrote down the value of the investment in the subsidiary NEXT Biometrics AS with NOK 556.3 million, to NOK 107.8 million. The write-down was based on the reduced stock price of NEXT ASA at year-end 2019. After the write-down, the equity of the parent company (NEXT ASA) was equal to the market value of the Group at year-end.

The parent company had a loss before taxes in 2019 and 2018. Hence, no payable taxes incurred. No deferred tax assets have been recognized during 2019 and 2018.

Loss after taxes for 2019 was NOK 571.2 million compared to NOK 330.3 million in 2018. Excluding the write-down on investment in subsidiaries of NOK 556.3 million, loss after taxes for 2019 was NOK 14.9 million, compared to a loss after taxes of NOK 14.2 million in 2018.

Financial position and cash

Total assets as of 31 December 2019 amounted to NOK 162.3 million, compared to NOK 548.7 million as of 31 December 2018.

The parent company had current financial debt of NOK 2.4 million related to lease liabilities at the end of 2019.

Cash and cash equivalents amounted to NOK 46.7 million at the end of 2019 compared to NOK 22.2 million at the end of 2018.

Cash flow

Net cash flow from operating activities was NOK 12.2 million in 2019, compared to NOK 13.1 million in 2018. Net financing of subsidiary was NOK 141.3 million compared to NOK 149.3 million in 2018, offset by net proceeds from new share issue of MNOK 178.8 million in 2019 compared to NOK 114.4 in 2018. Additional funds were raised by share issues amounting to net cash inflow of NOK 178.8 million in 2019 and NOK 114.4 million in 2018.

Equity and allocation of profit (loss) after taxes

Equity for the parent company was NOK 154.5 million at the end of 2019 compared to NOK 544.0 million at the end of 2018. The change was mainly related to the write-down on investment in subsidiaries of NOK 556.3 million reduced by net proceeds from share issues of NOK 178.8 million.

The Board of Directors proposes that the loss after taxes of the parent company to be transferred from share premium in the amount of MNOK 571.2 million.

THE NEXT SHARE AND SHARE CAPITAL

NEXT ASA's shares are listed at Oslo Stock Exchange's main list with ticker NEXT. The 2019 year-end closing price was NOK 3.60, down from NOK 26.02 at the end of 2018. During 2019, the shares traded in the range of NOK 2.49 to NOK 26.95.

The issued share capital of the parent company at the end of 2019 amounted to NOK 42.9 million consisting of 42,930,575 ordinary shares, each share having a par value of NOK 1. At the end of 2019, there were a total of 1,702 registered shareholder accounts, compared to 1,238 at the end of 2018.

In Q1 2019, NEXT raised gross proceeds of NOK 188 million in a private placement and repair issue at a subscription price at NOK 8. The private placement was divided into two tranches and a repair issue.

The Group has entered into, and plan to continue to enter into, stock option agreements to attract talented, experienced and highly valued employees. As per 31 December, NEXT has conditional long-term share options outstanding. There are no authorizations to the board to purchase own shares.

At the Annual General Meeting (AGM) of 21 May 2019, the Board of Directors was granted authorization to issue up to 2,724,464 share options to employees which each entitle the holder to subscribe for one new share in the parent company. The Annual General Meeting also granted authorization to issue 170,000 share options to board members. The share options vest over a period of three years from allocation. 1/3 of the share options shall vest one year after allotment, and then 1/3 for each additional year.

The exercise price of the share options shall be equal to the average volume-weighted market price of the shares over the five last trading days prior to the date of grant, plus 10 percent.

During 2019, the Board of Directors resolved to grant the net amount of 1,437,650 new share options. Please see note 19 for further details.

FINANCIAL RISK, CAPITAL MANAGEMENT

NEXT is exposed to certain financial risks related to exchange rates and interest levels. These are, however, insignificant compared to the business risk. Business risk may be summarized in:

(a) NEXT currently has limited revenue compared to cost. The Group has reported accumulated financial losses.
(b) NEXT's business plan assumes revenue from new products under development.
(c) Revenue from NEXT's products depends, among other things, on market factors which are not controlled by NEXT.
(d) Competing companies' products have entered the commercial stage, and the competitive situation for NEXT's products is constantly changing.
(e) NEXT's intended markets are undergoing rapid technological changes.

NEXT manages its liquidity passively, which means that funds are placed in floating-interest bank accounts. The majority of cash is held in Norwegian kroner at parent company level and is distributed when appropriate to the affiliates. This is both to have control of the overall liquidity situation and to manage expense levels in the affiliates.

NEXT only has financial liabilities related to leases by the end of 2019.

NEXT's sales and production cost are in US dollars. Other operating expenses are mainly in Norwegian kroner (NOK) and US dollars (USD), depending on the location. Equity transactions are in NOK. In the parent company, the majority of the cost and all equity transactions are in NOK. NEXT does not use financial instruments to hedge this risk.

Investments in fixed assets are only made when mandatory for the needs of the core business. NEXT has been funded by equity and will prepare and implement comprehensive capital management and funding policies as and when needed.

The Group is exposed to credit risk, although this has historically not resulted in significant losses. NEXT sells its sensors to leading international distributors of electronic components, primarily based in Asia. The Group's receivables are not credit insured, but credit monitoring routines are in place for setting up credit lines and demanding advance payments when required.

EMPLOYEES

At the end of 2019, the Group had 65 employees (2018: 90), of which 9 are women (2018: 17). Additionally, the Group has individual technical/scientific specialists working at its premises on a contract basis. The female proportion of group employees was 14 percent (2018: 19 percent).

The parent company had 8 employees by the end of 2019. There were 5 male employees and 3 female employees at year-end. There are currently 5 members of the board, of which 2 are women.

The parent company had no long-term leave of absence due to illness or any work-related incidents or accidents resulting in material damage or personal injury during 2019.

CORPORATE GOVERNANCE

NEXT's guidelines for corporate governance are in accordance with the Norwegian Accounting Act §3-3b and seek to comply with the Norwegian code of Practice for Corporate Governance, dated 17 October 2018. Taking into account the size and maturity of the Group there may be deviations from the code. In such cases, NEXT will explain the deviations. Please see the section entitled "Principles of corporate governance" included in the Annual Report for more information.

SOCIAL RESPONSIBILITY

NEXT's guidelines for social responsibilities are in accordance with the Norwegian Accounting Act §3-3c. Please see separate section for "Corporate Social Responsibility Report" included in the Annual report for more information.

GOING CONCERN

In accordance with § 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared under the assumption of going concern.

The Group has historically operated at a loss due to substantial investments in research and development and sales and marketing. Revenues have been trending up in recent years, but the revenues were reduced in 2019 due to loss of a key customer. The company turnaround has been initiated in 2019, but it is taking time to fully replace lost revenues, return to growth and reach profitability.

The Group requires additional capital to fund its operations. Based on current projections the Group's cash position and working capital cover less than 6 months operations from the date of signing of these financial statements. The Group's non-current assets are specialized in nature and the entity may therefore be unable to realize its assets and discharge its liabilities in the normal course of business, and there is material uncertainty related to the ability of the Group to continue as a going concern.

Subsequent to year-end, the board has engaged a financial advisor to ensure relevant company financing. The Group has accelerated cost reduction measures to further reduce the Group's annual cost run rate from earlier announced cost targets, and is also considering additional measures to reduce costs even further to prolong the company's financial runway if capital raising efforts are delayed.

SUBSEQUENT EVENTS

Between 31 December 2019 and the resolution of these financial statements, there has not been any event which have had any noticeable impact on the Group's or the parent company's result for 2019 or the value of the Group or the parent company's assets and liabilities as of 31 December 2019, except events mentioned below.

The Group's functional currency is Norwegian Kroner, but the Group has an international currency exposure due to its international exposure. The majority of the Group's bank deposits are held in Norwegian Kroner while the main international trading currency is US dollars. The exchange rate for converting US dollars (USD) to NOK published by the National Norwegian Bank has changed from 8.78 as per 31 December 2019 to 10.39 as per 17 April 2020. Other international currency-exchange rates have had a similar development relative to the Norwegian kroner. Since the Group's revenues, production costs and a majority of operating expenses are booked in Norwegian kroner based on USD-exchange and other international currency exchange rates, this would have had an impact on financial statements if the change had occurred prior to 31 December 2019.

The parent company has assessed that the best estimate of recoverable amount of NEXT Biometrics AS is the market value based on year-end stock price for the parent company, since the main asset in the parent company is investment in subsidiaries. At year-end 2019, the closing stock price for the parent company was NOK 3.60 per share, which gives a total market value of NOK 154.6 million. See also note 15. Subsequent to year-end, the stock price of the parent company has been reduced. As per end of 17 April 2020, the company's stock price was NOK 2.26 per share. Based on the principles applied in 2019 the accounting effect of the subsequent reduction of the stock price would imply an additional write-down of NOK 57.5 million.

Subsequent to year-end, the COVID-19 pandemic has spread to multiple countries where the Group has offices, outsourced production facilities and customers, which includes China, Taiwan, Norway, Czech, USA and India. The production in Asia was negatively impacted for approximately three weeks but the Group had sufficient inventory to cover customer product demand. The Group has experienced slower demand from customers from March onwards and is continuing to assess the impact on product demand for the remaining part of 2020. The COVID-19 pandemic could also impact client credit risk, but the Group has not yet experienced any such impact. Moreover, the availability of equity capital is believed to be scarcer due the pandemic and related capital market weakness. To address the pandemic, the Group has implemented measures and COVID-19 policies in line with local government regulations in office locations globally.

OUTLOOK

The markets for NEXT's fingerprint sensor technology are expected to grow in 2020 and over the following years albeit the COVID-19 pandemic has created short-term uncertainty and may delay the expected market growth (please refer to subsequent events section). The Board considers that NEXT's unique, patented technology and comprehensive and independent IP portfolio has multiple market opportunities. Areas of focus for NEXT during 2020 are improving cost efficiency, customer centric organization, resource and capital allocation.

The Group has a continued focus on cost efficiency and expects an annual reduction in payroll and operating expenses of NOK 65 million relative to the 2019 cost level.

The Group has had a strong revenue development in Q1 2020 relative to Q4 2019 with an initial large order in India in January 2020 and First FAP20 commercial purchase order in February 2020. Unfortunately, due to the COVID-19 pandemic, short term revenue outlook has become more uncertain. Still, we believe the long-term outlook for biometric products and solutions is strong.

Oslo, 20 April 2020
The Board of Directors of NEXT Biometrics Group ASA

/sign/	/sign/	/sign/
Magnus Mandersson	**Brita Eilertsen**	**Petter Fjellstad**
Chairman	Board member	Board member
/sign/	/sign/	/sign/
Emine Lundkvist	**Emanuel Lang**	**Peter Heuman**
Board member	Board member	CEO

CORPORATE GOVERNANCE REPORT

0. INTRODUCTION

For NEXT Biometrics Group ASA ("NEXT" or the "Company"), good corporate governance is about doing the right things, and doing the things right. The manner in which the Company is managed is vital to the development of the Company’s value over time. The Company's corporate governance framework has been designed to provide foundation for value creation, business risk reduction, and to ensure good control mechanisms.

NEXT believes in open and honest communication with the shareholders, and interaction between shareholders, the board of directors and the Company’s management. NEXT aims to show respect and responsibility for shareholders as well as with all stakeholder groups, such as co-operating partners, customers, suppliers, employees and authorities.

NEXT is subject to corporate governance reporting requirements according to section 3-3b of the Norwegian Accounting Act and the Continuing obligations of stock exchange listed companies at Oslo Stock Exchange. Further, NEXT’s board of directors endorses "The Norwegian Code of Practice for Corporate Governance" (the "Code"), most recently revised on 17 October 2018 and issued by the Norwegian Corporate Governance Policy Board. The Code is available at http://www.nues.no/.

This report follows the system used in the Code.

1. NEXT'S IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

NEXT aspires to comply with the recommendations of the Code. Taking into account the size and maturity of the Company, there may be deviations from the Code. If the Code is deviated from, the deviation is described and explained in the relevant section of this report.

The Company’s policies, instructions and internal processes are continuously developed. A review of the Company’s corporate governance policy is performed annually to ensure continued compliance with the Code.

2. BUSINESS

NEXT’s business consists of research & development, commercialization and manufacturing of fingerprint technology and products for a variety of uses, including smartcards, government ID, notebooks, and access control systems.

The Company’s business is clearly described in the Company's articles of association:

“The objective of the company is to conduct research, development and commercialization of security products, participation and investment in companies conducting similar activities as well as other activities that will naturally fall under this”.

The Company's mission is to provide fingerprint sensors and sensor components, which will offer secure authentication and/or identification of any process requiring such facility in a global market. The board of directors has defined objectives, strategies and risk profiles for the Company's business activities, in order to create value for the Company's shareholders. The business objectives, key strategies and risk profiles are stated in the Company's business plan. The board of directors evaluates the Company's objectives, strategies and risk profiles on an annual basis.

Basic corporate values

The Company has formulated three basic corporate values to form a guideline for the Company's business operations: (i) innovative business models, (ii) close client relationship and (iii) global reach." The ethical and corporate social responsibility guideline" has been set out in accordance with these values.

Ethics and corporate social responsibility

The Company has implemented ethical and corporate social responsibility guidelines, in accordance with its basic corporate values. The guidelines are published on NEXT's website www.nextbiometrics.com. A report on corporate social responsibility is included in the annual report.

3. EQUITY AND DIVIDENDS

Capital structure

The board of directors and the management of the Company seek, at all times, to have a sound relation between the Company's capital structure and the Company's objectives, strategies and risk profile. The board shall immediately take adequate steps should it be apparent at any time that the Company's equity or liquidity is less than adequate.

Dividend policy

It is a long-term objective of the Company to generate returns to shareholders in the form of dividends and capital appreciation, at a level which is at least equal to other investment possibilities with comparable risk.

Since NEXT is in an accelerated growth-phase, no dividend has been paid so far. Further, no dividend has been proposed for the coming year. When the Company reaches a steady state position, NEXT intends to establish a clear and predictable dividend policy which will form the basis for any proposals on dividend payments to be resolved by the general meeting.

Authorisations to the board of directors

Authorizations granted to the board to increase the Company's share capital or to purchase own shares are restricted to defined purposes. The general meeting can approve multiple mandates. In such an instance, the proposals for the mandates should stipulate a limit on the overall amount by which the board shall be permitted to increase the Company's share capital. Each authorization is considered separately by the general meeting, and is limited to two years at most.

The annual general meeting, held on 21 May 2019, gave the board authorization to increase the Company's share capital by up to NOK 8,586,000 to enable the Company to conduct share issues in an effective manner. The board of directors was also granted authorization to deviate from the shareholder's preferential rights when using the authorization.

At the annual general meeting held on 21 May 2019, the board of directors was given an authorization to increase the Company's share capital for the option program by up to NOK 2,724,464. The authorization covers capital increases by way of contributions in kind, but does not cover capital increases in connection with mergers, and the board may decide that the shareholders' pre-emption right to the new shares can be deviated from. The authorization is limited in time until the 2020 general meeting or 30 June 2020, whichever comes first.

At the annual general meeting, held on 21 May 2019, the board of directors was also given authorization to increase the Company's share capital for options to the board of directors by up to NOK 170,000. The issuance of shares was given pursuant with the terms and conditions set of in the recommendation from the nomination committee. The authorization covers capital increases by way of contributions in kind, but does not cover capital increases in connection with mergers, and the board may decide that the shareholders' pre-emption right to the new shares can be deviated from. The authorization is limited in time until the 2020 general meeting or 30 June 2020, whichever comes first.

As of 31 December 2019, there are no further authorizations granted to the board of directors, neither to increase the share capital by issuing new shares, nor to the Company to purchase own shares. Any future authorizations given will be limited in time until the next general meeting, in accordance with the Code.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

Class of shares

The Company has one class of shares and there are no voting restrictions. Each share represents one vote and equal rights at the Company's general meeting. The par value per share is NOK 1,00.

Pre-emption rights of existing shareholders

NEXT's existing shareholders have pre-emption rights to subscribe for shares in the event of a share capital increase, unless otherwise indicated by special circumstances. Any decision to deviate from the pre-emption rights of existing shareholders shall be justified. The justification shall be publicly disclosed in a stock exchange announcement issued in connection with the increase in share capital.

In January 2019, NEXT raised NOK 160 million in gross proceeds in a private placement at a subscription price of NOK 8 per share. The private placement was divided into two tranches. Tranche 1 consisted of NOK 15 384 000 (1,923,000 shares). Tranche 2 consisted of NOK 144.6 million (18,077,000 shares). Completion of the private placement implied a deviation from the existing shareholders pre-emptive rights to subscribe for and be allocated new shares. The board of directors carefully considered such deviation and resolved that the private Placement was in the best interests of the Company and its shareholders. In reaching this conclusion the board of the Company's share price, alternative financing sources, the dilutive effect of the share issue, the investor interest in the transaction, the strengthening of the shareholder base that will be achieved by the private placement, and that a subsequent offering was expected to be carried out. The issuance of the new shares was approved at the extraordinary general meeting on 15 February 2019. In order to accommodate for the shareholders who were not able to take part in this subscription, NEXT offered a subsequent offering and listing of up to 3,500,000 shares at a subscription price of NOK 8 in March 2019.

Transaction with close associates

The Company's significant shareholders, a shareholder's parent company, board members, executive personnel and close associates of any such parties are considered related parties. All transactions with related parties will be carried out in accordance with the arm's length principle.

All transactions with related parties which are not immaterial will be publicly disclosed by NEXT. In the event of such transactions, the board will arrange for a valuation to be obtained from an independent third party. This will not apply if the transaction requires the approval of the general meeting pursuant to the requirements of the Public Companies Act.

If NEXT should carry out any transaction in its own shares, this will be carried out either through the stock exchange or at prevailing stock exchange prices to ensure equal treatment of all shareholders.

The board of directors decided to enter into a consultancy agreement with the board chair, Magnus Mandersson through his fully owned company PMMAdvisors S.A, on May 29, 2019. Magnus Mandersson shall provide his competence and experience within small-cap high tech companies to the Company. Magnus charges the Company an annual fee and a set travel fee. The initial term of the agreement is 12 months, upon which time it automatically terminates, unless being extended. Both parties can terminate the agreement by given the other party one month written notification.

Other than this, the board is not aware of any transactions in 2019 between the Company and the shareholders, a shareholder's parent company, directors, executive personnel or parties closely related to such individuals that qualify as material transactions.

5. SHARES AND NEGOTIABILITY

The shares in the Company are freely transferable, and the Company’s articles of association contain no restrictions on transferability, ownership, trading or voting.

6. GENERAL MEETING

The general meeting is the Company’s supreme governing body, and all shareholders are guaranteed participation and the opportunity to exercise their rights.

The annual general meeting will be held on 30 June at the latest according to law. The annual general meeting is to take place in Oslo.

The Company’s board takes steps to ensure that the shareholders can participate at the general meetings of the Company. The board of directors will ensure that:

• the resolutions and any supporting information distributed are sufficiently detailed, comprehensive and specific to allow shareholders to form a view on all matters to be considered at the general meeting;
• members of the board of directors, the chairman of the nomination committee and the auditor (if the items to be considered are of such a nature that the auditor's attendance must be regarded as essential) are present at the general meeting;
• the general meeting is able to elect an independent chairperson for the general meeting; and
• that shareholders are able to vote on each independent matter, including on each individual candidate nominated for election.

Shareholders are encouraged to give notice of their intention to attend the AGM, with a deadline as close to the date of the General Meeting as possible, typically one day in advance.

Shareholders that are unable to attend in person are given the opportunity to, and encouraged to, vote by proxy. The Company will provide information on the procedure for representation at the general meeting and prepare a proxy form including nominating a person to act as proxy for the shareholders.

Agenda and execution

In accordance with the code, the Company will make arrangements to ensure an independent chairman for the general meeting is elected.

The Company will facilitate the use of prepare a proxy form which allow separate voting instructions to be given for each item on the agenda.

7. NOMINATION COMMITTEE

Article 6 of the Company's articles of association sets out the requirements for the nomination committee.

Composition

The nomination committee shall consist of two to three members, where all members, including the chairman, are elected by the general meeting, which also have approved guidelines for the duties and remuneration of the nomination committee. The members are elected for a period of up to two years.

The current nomination committee was elected at the annual general meeting on 21 May 2019 for the period until the annual general meeting in 2020. All of the members of the nomination committee have been selected to take into account the interests of shareholders in general and are independent from both the Company's management and the Company's board. As of 31 December 2019, the nomination committee consisted of Odd Harald Hauge (chairman), Haakon M. Sæter and Matei Stefan Gaburici.

NEXT is not aware of the existence of any agreements or business partnerships between the Company and any third parties in which members of the nomination committee have direct or indirect interests.

Instructions and work

Instructions to the nomination committee were last revised by the general meeting held on 16 May 2014. The nomination committee is responsible for seeking out and nominating qualified candidates for the board of directors and the nomination committee, and for proposing the remuneration to be paid to the board of directors and the nomination committee, including an explanation of how it came to its recommendations. The nomination committee has contact with shareholders, the board of directors and the Company's executive personnel as part of its work on proposing candidates for election to the board.

The Company provides information on the membership of the committee.

8. THE BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

Composition of the board of directors

The articles of association state that the Company's board of directors should comprise 3-9 board members elected by the general meeting. The chairman of the board is elected by the general meeting and among the Company's board.

NEXT emphasises that the board shall have requisite competency to independently evaluate the cases presented by the executive management team as well as the Company's operation. It is also considered important that the board can function well as a body of colleagues.

As of 31 December 2019, the board of directors comprises the following five members:

- Magnus Mandersson (chair, attended 12 of 12 board meetings);
- Brita Eilertsen (attended 12 of 12 board meetings);
- Emine Lundkvist (attended 12 of 12 board meetings);
- Emanuel Lang (attended 11 of 12 board meetings); and
- Petter Fjellstad (attended 1 of 2 board meetings).

All of the abovementioned board members are elected for the period until the annual general meeting in 2020.

A presentation of the board can be found at the Company's website.

The board's independence

NEXT believes that it is in the best interest of the Company and its shareholders to have independent directors and applies the Code's list of criteria for evaluating whether a director is considered independent.

Two out of the five board members are women, and none of the members of the Company's executive management or main business connections are members of the board of directors. Emanuel Lang is managing partner in Greenbridge Advisory Services Limited, the largest shareholder in the Company holding 7,413,614 (17.3%) shares in the Company. Other than this, the members of the board of directors are independent of the Company's main shareholders. The composition of the board ensures that it can attend to the common interests of all shareholders and meet the Company's need for expertise, capacity and diversity, and that it can operate independently of any special interests.

Each independent director who experiences a change in circumstances that could affect such director's independence is obligated to deliver a notice of such change to the chairman of the board.

Members of the board are encouraged to own shares in the Company.

Election of the board of directors

The general meeting appoints the members of the board of directors based on the proposal from the Company's nomination committee. The chairman of the board is elected by the General Meeting.

Directors are elected each year. It is the Company's view that directors who have developed a valuable insight into the Company and its operations over time provide an important contribution to the board as a whole. On this background, the Company does not wish to establish time limits in relation to the term of office for board members.

To ensure that the board continues to generate new ideas and operate effectively, the board evaluates and assesses their performance annually, and takes necessary steps in order to continue their service as directors.

A member of the board is entitled to retire prior to the end of his or her term of appointment if special circumstances arise. If possible, the board and the nomination committee shall be given reasonable prior notice thereof.

9. THE WORK OF THE BOARD OF DIRECTORS

The board's responsibilities

Norwegian law lays down the tasks and responsibilities of the board of directors. These include the overall management and supervision of the Company. This means that the board bears the ultimate responsibility for managing the Company and for monitoring administration and the business activities. The board is responsible for establishing internal control systems and for ensuring that the Company operates in compliance with the adopted value platform and Code of Ethics. The directors of the board shall discharge their duties in a loyal manner.

The fundamental responsibility of the directors is to oversee day-to-day management and evaluate strategy, to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its shareholders. The board is also to oversee such matters as are required by statutory law, the Company's articles of association, policies, instructions and procedures as well as resolutions of the general meeting. It is the duty of the board to oversee the management's performance to ensure that the Company operates in an effective, efficient and ethical manner in order to produce value for the Company's shareholders. The board also evaluates the Company's overall strategy and monitors the Company's performance against its operating plan.

The board is responsible for supervising strategic, financial and execution risks and exposures associated with the Company's business strategy, product innovation and sales road map, policy matters, significant litigation and regulatory exposures, and other current matters that may present material risk to the Company's financial performance, operations, infrastructure, plans, prospects or reputation, acquisitions and divestitures. Further, the board shall satisfactory control the ongoing activities of the Company.

Annual plan

The board of directors sets an annual plan for its work, with particular emphasis on financial objectives, strategy and implementation. This plan covers the follow-up of the Company's operations, internal control, strategy development and other issues. If possible, the board prepares a plan for the ordinary board meetings within end of January each year.

Instructions for the board of directors

The board of directors has implemented instructions for its own work. The board's instructions are subject to review every second year and are revised as needed. The current instruction was revised 11 November 2019.

The instructions cover the following items: appointment of the board of directors; board member independence; tenure and retirement; by-election; the duties of the board; committees; takeovers; allocation of the work within the board; the working procedures of the board; meeting – including meeting plan; quorum; disqualification; majority requirements; categories of decision; minutes; safety procedures and duty of confidentiality; information concerning the work of the board; evaluation of the work of the board and board committees; directors' liability insurance; liability for damages; new board members or CEO awareness of instructions; waiver and amendment; and communications with shareholders.

Instruction for the CEO

There is a clear segregation of duties between the board of directors and the executive management. The board has prepared a set of instructions for the CEO.

The CEO shall follow the guidelines and instructions issued by the board of directors. The CEO is responsible for the day-to-day management of the Company, pursuant to § 6-14 in the Norwegian Public Limited Companies Act. The CEO ensures that the board receives relevant information in an accurate, sufficient and timely manner in order to allow the board to carry out its duties. The CEO represents the Company externally in matters which form part of the day-to-day management. The day-to-day management does not cover matters of extraordinary nature or of major importance. However, the CEO is authorized to decide on matters of extraordinary nature or of major importance in cases, where the decisions of the board of directors cannot be awaited without serious detriment for the Company. The board of directors must be notified of the decision as soon as possible.

Financial reporting

The board is responsible for ensuring the integrity of financial information. The board evaluates the integrity of the Company's accounting and financial reporting systems, including the audit of the Company's annual financial statements by the independent auditors, and that appropriate disclosure controls and procedures and systems of internal control are in place.

Quarterly and annually financial reports are reviewed and approved at board meetings and form the basis for external financial reporting.

In connection with the presentation of the year-end financial statements, the CEO and the CFO declare that the accounts have been prepared in accordance with generally accepted accounting principles, and that to the best of their knowledge all information is accurate and no material information has been omitted.

Board meetings

The board shall deliberate matters and make decisions in meetings, unless the chairman of the board finds that the matter may be presented in writing or be dealt with in another satisfactory manner.

Meetings are normally held at the Company's office in Oslo. Meetings are held in the Norwegian or English language.

The directors are free to consult the Company's executives as needed. Any board member or the CEO can require specific matters to be deliberated by the board. The CEO shall, in consultation with the chairman of the board, prepare matters to be deliberated by the board. Any matter shall always be prepared and presented in such a manner as to provide the board with a satisfactory basis for making a decision.

The CEO has a right and a duty to attend the board's deliberation of matters, unless otherwise determined by the board in respect of each individual matter. The CEO is not entitled to cast votes. Other participants are called in as needed.

Conflicts of interest and disqualification

The board of directors ensures that members of the board of directors and executive personnel make the Company aware of any material interest that they may have in items to be considered by the board of directors.

A member of the board or the executive management may not participate in the discussion or decision of issues of such special and prominent interest to the person in question, or to any closely related party of said person, that the board member or member of the executive management must be regarded as having a distinct personal or financial interest in the matter. This is in compliance with §6-27 of the Norwegian Public Limited Companies Act.

Chairman of the board of directors

The chairman of the board of directors ensures that the board of directors operates well and carries out its duties. In addition, the chairman of the board of directors also has certain specific duties in respect of the general meeting. Matters to be considered by the board are prepared by the chief executive in collaboration with the chairman, who chairs the meetings of the board.

Board Committees

The board has appointed a separate audit committee. The committee shall prepare, draw up and present items for consideration by the board as a whole.

Audit Committee

The Company's audit committee is governed by the Norwegian Public Limited Companies Act and a separate instruction adopted by the board. A majority of the members shall have qualifications within accounting or auditing. The principal tasks of the audit committee are:

- prepare the board of directors' supervision of the Company’s financial reporting process;
- monitor the systems for internal control and risk management;
- have continuous contact with the Company's auditor regarding the audit of the annual accounts;
- review and monitor the independence of the Company's auditor, including in particular the extent to which services other than auditing provided by the auditor or the audit firm represent a threat to the independence of the auditor;
- monitor the Company's compliance with applicable legal and regulatory requirements;
- handle and investigate concerns raised by the Company`s employees related to the internal revision or audit; and
- evaluate the audit committee`s activities.

As of 31 December 2019, the audit committee consisted of Brita Eilertsen (Chair), Emanuel Lang and Magnus Mandersson.

Remuneration Committee

The remuneration committee draw up guidelines and proposals for remuneration to senior executives. The Company’s remuneration policy, including remuneration for the CEO and the senior executives, are dealt with at one of the board meetings and accounted for in the Board’s annual report.

The committee consist of Magnus Mandersson (Chair), Emanuel Lang and Brita Eilertsen.

The board of director’s evaluation of its own work

The board shall annually evaluate its activities, performance and competence, and has adopted a self-assessment questionnaire for the purpose thereof. The assessment results shall be submitted to the nomination committee.

10. RISK MANAGEMENT AND INTERNAL CONTROL

It is ultimately the responsibility of the board of directors to ensure that NEXT has sound internal controls and risk management systems appropriate to the Company's size and business. The board, and the management, have increased focus on risk management and internal controls. The board of directors forms its opinion on the Company's internal controls and risk management systems based on the information presented to it by the management.

The executive management closely monitors the main risk factors, to ensure the Company has proper guidelines, processes and internal controls in place. The board of directors conducts annual reviews of the Company's most important areas of exposure to risk and such areas' internal control arrangements.

NEXT has experienced finance and accounting personnel, which continuously strives for improving routines and internal control systems. Initiatives are ongoing to ensure risks are efficiently managed, and that key controls are in place to achieve financial goals, operational goals, and compliance with regulations. The Company's internal controls and systems also cover the Company's corporate values, ethical guidelines and principles of corporate social responsibility.

The size of the Company's operations and staff number necessarily leads to dependence on key individuals. At the same time, these factors also provide for transparency and inherent risk reduction. The Norwegian entities of NEXT have an internal risk management, finance and accounting function.

The board presents an in-depth review of NEXT's financial status in the "Report from the board of directors" as part of this annual report.

11. REMUNERATION OF THE BOARD OF DIRECTORS

The remuneration of the board reflects the board's responsibility, expertise, time commitment and the complexity of the Company's activities.

The general meeting approves the remuneration paid to the board of directors each year. The nomination committee makes the proposal for remuneration.

The remuneration of the board of directors is not linked to the Company's performance. The current board members have been granted share options in 2019 (see section 4 above), which were approved at the Annual General Meeting held in 2019.

Magnus Mandersson, through his fully owned company PMMAdvisors S.A, board chair, has been engaged as a consultant to the Company in 2019. Mandersson has specific competence and experience within small-cap high tech companies, which the Company was in need for beyond his duty as Chair. The consultant agreement was therefore recommended by the nomination committee and approved by the board of directors. The other board members, or companies associated with board members, have not been engaged in specific assignments for the Company in addition to their appointments as members of the board of directors. For more details on the remuneration to the board, please refer to note 4 to the annual financial statements.

Except for the two deviations above, the Company does not deviate from the Code.

12. REMUNERATION OF EXECUTIVE MANAGEMENT

The board establishes guidelines for the remuneration of the executive management team setting out the main principles applied in determining the salary and other remuneration of the executive management team. The guidelines are communicated to the annual general meeting, and the board of director's guidelines will be presented in a separate appendix to the agenda for the general meeting.

The main principle in the Company's policy for remuneration is that the leading employees shall be offered competitive terms to attract and retain the competence which the Company needs.

The general meeting has approved the Company's share option arrangement.

For details regarding remuneration to the executive management, see note 4 in the annual financial statements, and for details regarding share option arrangements, see note 19 in the annual financial statements.

The Company deviates from the Code by not having a cap on the performance-related remuneration.

13. INFORMATION AND COMMUNICATIONS

NEXT believes in open and honest communication with the shareholders, and interaction between shareholders, the board of directors and the Company's management. The board of directors and the executive management team assign considerable importance to giving the shareholders and other stakeholders, relevant and current information about the Company and its activity areas.

Regular information is published through annual reports, quarterly reports, press releases, notices to the stock exchange and investor presentations in accordance with what is deemed appropriate from time to time. Information on value drivers and risk factors is provided through the interim reporting, which will enable investors to evaluate NEXT's performance and risk.

The CEO is responsible for the investor relations and is the main contact person of the Company for the capital marked. All communication is done solely in the English language.

All reports and notices are issued and distributed according to the rules and regulations of the Oslo Stock Exchange. Information relevant to investors is published at Oslo Stock Exchange and made available on the Company's website. Shareholder information, including a financial calendar and information about web casts, is available on www.nextbiometrics.com/investors.

14. TAKE-OVERS

The Company has established guidelines for the board on how it will act in the event of a take-over bid. The board will handle take-over bids in accordance with Norwegian law, including the Norwegian Securities Trading Act and the Code. The Company has not been subject to any take-over bids in 2019.

There are no defence mechanisms against take-over bids in the Company's articles of association nor any underlying steering document. In corporate take-over or restructuring situations, the board shall exercise due and proper care so that all shareholder values and interests are preserved. During the course of a take-over process, the board and management shall ensure that the shareholders are treated equally, and that the Company's business activities are not disrupted unnecessarily. The board has a particular responsibility to ensure that shareholders are given sufficient information and time to form a view on the offer. The board of directors otherwise concurs with what is stated in the Code regarding this issue.

15. AUDITOR

The Company's auditor is elected by the general meeting and is fully independent from the Company. Until the general meeting, May 21, 2019, RSM Norge AS was the Company's auditor. On May 21, 2019 PricewaterhouseCoopers AS was appointed as the Company's new auditor by the general meeting. NEXT represents a small share of the auditor's business. NEXT does not obtain business or tax planning advice from its auditor. For further information, see note 10 to the financial statements.

The board of directors is responsible for ensuring that the board and the audit committee are provided with sufficient insight into the work of the auditor. In this regard, the board of directors ensures that the auditor submits the main features of the plan for the audit of the Company to the audit committee annually. The board of directors invites the auditor to participate in board meeting(s) that deal with the annual accounts. At these meetings, the auditor (i) reports on any material changes in the Company's accounting principles and key aspects of the audit, (ii) comments on any material estimated accounting figures, and (iii) reports all material matters on which there has been disagreement between the auditor and the executive management of the Company.

The audit committee shall at least once a year a review of the Company's internal control procedures with the auditor, including weaknesses identified and proposals for improvement. The board and the audit committee shall review periodically the use of the auditor for services other than the audit. At least once a year, the audit committee and the board will meet the auditor without the presence of the CEO or other members of executive management.

The auditor is present at the general meeting. At the annual general meeting, the board shall present a review of the auditor's compensation as paid for auditory work required by law and remuneration associated with other assignments.

In connection with the auditor's presentation to the board of the annual work plan, the board considers if the auditor to a satisfactory degree also carries out a control function.

ARTICLES OF ASSOCIATION (as of 31 December 2019)

§ 1 – The Company name
The name of the Company is NEXT Biometrics Group ASA. The Company is organized as a public limited Company.

§ 2 – Business office
The Company's registered business office is in Oslo municipality.

§ 3 – Business Activities
The objective of the Company is research and development, and commercialization of safety products, trade and investment in such companies and what is connected with such business.

§ 4 – Share capital
The Company's share capital is NOK 42 930 575, divided into 42 930 575 shares, each with a nominal value of NOK 1. The Company's shares shall be registered in the Norwegian Central Securities Depository.

§ 5 – Board of Directors
The Company's Board of Directors shall consist of 3 – 9 members as appointed by the General Meeting.

§ 6 – Nomination Committee
The Company shall have a Nomination Committee. The Nomination Committee shall consist of two or three members appointed by the General Meeting. The members of the Nomination Committee, including the Director, shall be elected by the General Meeting. The Nomination Committee shall be elected for a period of two years, if not other period is decided upon by the General Meeting.

The Nomination Committee makes recommendations to the General Meeting regarding election of Board Members and members to the Nomination Committee, and regarding remuneration to the board members and members of the Nomination Committee. The General Meeting shall resolve the remuneration to the members of the Nomination Committee. The General Meeting may lay down guidelines for the Nomination Committee.

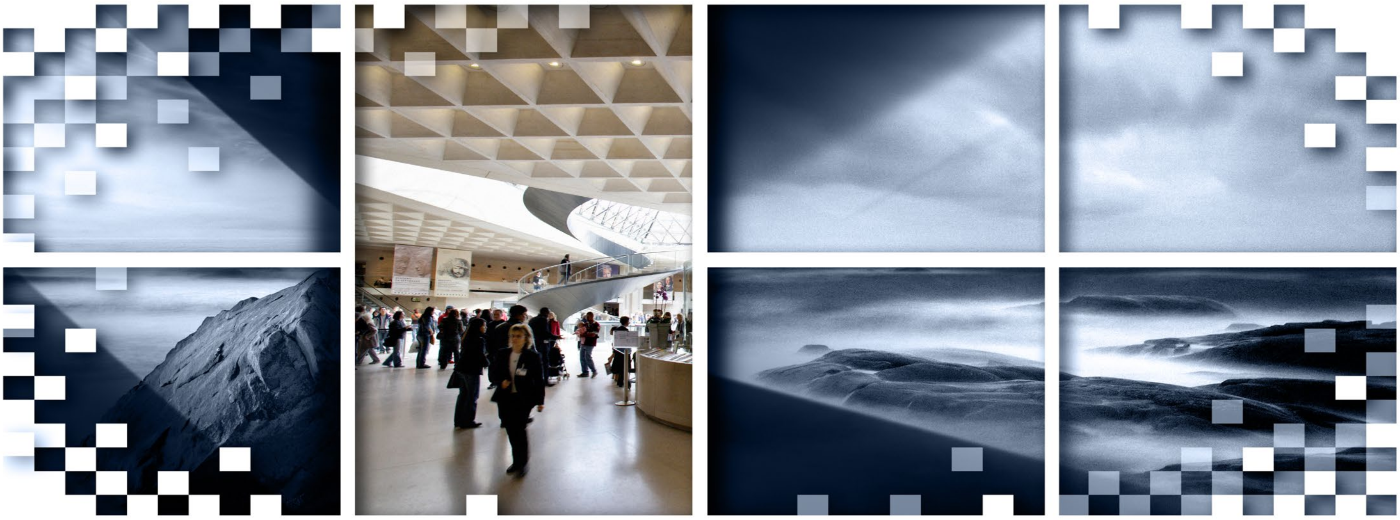
§ 7 – Signatory Rights
Two board members jointly have the right to sign on behalf of the Company. The Board of Directors may give power of procuration.

§ 8 – General Meeting
Documents regarding matters to be discussed in the General Meeting of the Company, also applying documents that, pursuant to law, shall be included in, or attached to the notice of the General Meeting of Shareholders, can be made available at the Company's website. The requirement regarding physical distribution shall then not apply. A shareholder may in any case request to be sent documents that shall be discussed at the General Meeting.

The shareholder may vote in writing, including by way of electronic communication, in advance for a period prior to the General Meeting. The Board of Directors may establish guidelines for such voting in advance. The applicable guidelines shall be stated in the notice for the General Meeting.

At the ordinary General Meeting the following matters shall be addressed and decided upon:

1. Approval of the annual accounts and annual report, including the distribution of dividends.
2. Other matters that pursuant to law or the articles of association must be dealt with at the General Meeting or that are mentioned in the notice of the General Meeting.



CORPORATE SOCIAL RESPONSIBILITY REPORT

This review of the Group's Corporate Social Responsibility principles and practice is prepared in compliance with Section 3-3c of the Norwegian Accounting Act.

NEXT's business consists of research & development, commercialization and manufacturing of fingerprint technology and products for a variety of uses. NEXT works closely with world class manufacturing subcontractors and distribution partners. NEXT is committed to be a good corporate citizen and demonstrate integrity and high ethical standards in all its business dealings.

NEXT's board and management are committed to maintaining high ethical standards and have implemented guidelines with regard to values and ethics. The purpose of these standards and guidelines is to create a sound corporate culture and to preserve the integrity of NEXT by helping employees to promote standards of good business practice. NEXT's Ethical and Social Responsibility Guidelines was last approved by the Board on 11 November 2019 and applies to all employees of the Group. They also apply to anyone who holds a position of trust in the Group (including membership of boards) and hired consultants acting on behalf of the Group. They aim to provide guidance to our people for a common platform.

The Group strives for a business culture characterized by openness. Openness is a prerequisite for motivation, trust, confidence and safety at work. Everyone shall feel confident to raise any concern, small or large, with their manager or another colleague.

The ethical and corporate social responsibility rules support NEXT's vision, core values and principles. The guidelines are instrumental for NEXT's approach to human rights, fair working environment and equal rights, health and safety, environment, business ethics and anti-corruption. The Group regularly reviews the guidelines and take steps to update and educate the organization.

HUMAN RIGHTS

In addition to following national rules and regulations, NEXT conducts its business in line with fundamental international rules. Including those described in international human rights conventions such as the UN Convention on Human Rights and the labour rights conventions of the International Labour Organization (ILO).

The Group respects the right to freedom of association and opposes any form of child labour, forced labour or discrimination. NEXT practices equal opportunities and rights and encourage all business relations to follow the same principles. Any violations of basic human rights are unacceptable to the Group.

It is our goal to have no form of human rights abuse or labor issue at any stage related to production of our products. Similar to 2018, improvement in follow-up of new suppliers and increasing knowledge of our supply chain are specific targets for the coming year.

FAIR WORKING ENVIRONMENT

NEXT has a personnel policy designed to prevent discrimination on the grounds of race, color, gender, sexual orientation, age, disability, language, religion, legitimate political or other opinions, national or social origin, property, birth or other status.

The Group employs many different nationalities from a diversity of cultures and has built an international mindset for years. Employees are encouraged to treat each other and business contacts with respect and act according to local laws and regulations, as well as to pay attention to local values and norms for social conduct.

The Group does not tolerate degrading treatments towards any employee. The Groups employees are encouraged to report any incident of discrimination to their nearest leader or through the applicable whistle-blow channels through our HR department.

The NEXT board and management seek to create a working environment that is pleasant, stimulating, safe and beneficial to all employees. The working environment complies with the existing rules and regulations. The board has not found reason to implement special measures. No employee has suffered work-related injury resulting in sick leave. No accidents nor incidents involving the assets of the Group have occurred.

EQUAL RIGHTS

All facilities are equally well equipped for females and males. Traditionally, fewer women than men have graduated in NEXT's fields of work, and the candidates available for recruiting have often predominantly been males. The management structure reflects the composition of the technical staff. Of the 65 employees at the end of 2019, 9 are women. At year-end 2019, the parent company has 5 board members, of which 2 are women. The parent company complies with Norwegian legal requirement with respect to gender representation in the board of directors. The board has not taken any special measures.

Raising awareness of employees on Human rights and Labor principles and relevant issues are regularly done by internal training and as part of the introduction program for new employees.

HEALTH AND SAFETY

Health and safety are an indispensable component in all the Group's activities. All hazards and risks to health and safety must be avoided. Generally, NEXT's business involves low safety risk in the day-to-day activities, without use of heavy machinery or equipment that can cause damage or injuries. As a fabless biometrics company, production has been outsourced to specialized manufacturers. NEXT is concerned for safety of employees in third-party-factories and it is an integral part of the evaluation criteria which the Group applies ahead of being classified as a "NEXT certified vendor/partner".

None of the processes in use by the suppliers are known to be of particular hazard to the staff.

ENVIRONMENT

NEXT does not own or operate manufacturing facilities. Manufacturing is done through third parties that comply with the ISO 14001 environmental standard, among others. Consequently, there is little pollution associated with the Group's operations. NEXT seeks to limit resource consumption, prevent unnecessary environmental pollution including optimizing transportation of goods, and manage waste in an environment friendly and resource efficient manner.

BUSINESS ETHICS & ANTI-CORRUPTION

The Group's operations depend on the trust of contractual parties, the authorities, shareholders, employees and society in general. In order to gain trust, the Group is dependent upon professionalism, expertise and high ethical standards in all aspects of the Group's work. This applies to the way the Group operates and to the conduct of each individual. All employees are therefore expected to behave with care, integrity and professionalism and abstain from actions that may weaken trust in the Group.

The NEXT Biometrics' Ethical and Corporate Social Responsibility Guidelines contain guidelines for ethical behaviour in business relations. These clearly states that NEXT strongly oppose all forms of corruption or bribery. NEXT encourages reporting of suspected misconduct; a «whistle-blower» communication channel. NEXT adheres to national and foreign antitrust laws.

No one may receive benefits for themselves or for others from the Group's business contacts if such benefits are based on the employment relationship. Correspondingly, no one shall give such benefits to the Group's business contacts. The guidelines explicitly govern conflict of interests, gifts and money laundering. Business courtesies of modest value, conforming to normal social customs and not intended for influence, are not considered bribes. All gifts with an estimated value of more than NOK 1,000 must be reported to the Group's CFO, who will keep a log over such gifts and assess whether the relevant gift can be retained or provided, based on a case by case evaluation.

NEXT has to date not been accused of, or involved in, any cases pertaining to any form of corruption or bribery. NEXT encourages each employee to report on possible censurable incidents. NEXT's employees have an obligation to report on criminal activity and on incidents which could endanger life or health. The board of directors and management are not aware of any breach of our code of conduct.

Raising awareness of the guideline has been the Group's main action with regard to this area. The Group is not aware of any breach of the implemented guideline. The Group does not have any other guidelines or actions regarding Corporate Social Responsibility due to the limited size and resources of the parent company. The Group will continue to have high focus on these guidelines and incorporate them into our company culture. The Group will do this by updating and educating the organization.

NEXT's Ethical and Corporate Social Responsibility Guideline is publicly available on NEXT' website.

> FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME - 1 JANUARY - 31 DECEMBER

PARENT COMPANY				THE GROUP	
2019	**2018**	**Notes**	**(amounts in NOK 1 000)**	**2019**	**2018**
9,545	10,280	3	Operating revenues	84,436	108,392
-	-	9	Cost of goods sold	-63,865	-77,612
9,545	**10,280**		**Gross margin**	**20,570**	**30,780**
-15,581	-12,710	4	Payroll expenses	-121,929	-116,077
-10,650	-13,804	7,8,10,11	Other operating expenses	-46,419	-75,569
-1,707	-927	5,6,11	Depreciation and amortization	-16,805	-10,027
-27,938	**-27,441**		**Total operating expenses**	**-185,152**	**-201,674**
-18,393	**-17,160**		**Operating profit (loss)**	**-164,582**	**-170,894**
3,830	3,699	12	Financial income	987	177
-168	-6	12	Financial expenses	-697	-32
-173	-701	12	Net currency gains (losses)	-23	-571
-556,271	-316,120	12,15	Write-down on investments in subsidiaries	-	-
-552,781	**-313,127**		**Net financial items**	**266**	**-425**
-571,174	**-330,288**		**Profit (loss) before taxes**	**-164,316**	**-171,319**
-	-	13	Income tax expenses	-2,131	-1,582
-571,174	**-330,288**		**Profit (loss) after taxes**	**-166,447**	**-172,901**
			Other comprehensive income (loss) that may be reclassified subsequently to profit and loss:		
-	-		Translation differences on net investments in foreign operations	315	708
-	**-**		**Other comprehensive income (loss)**	**315**	**708**
-571,174	**-330,288**		**Total comprehensive income (loss)**	**-166,132**	**-172,194**
			Profit (loss) after taxes attributable to:		
			Owners of the parent company	-166,447	-172,901
			Total comprehensive income (loss) attributable to:		
			Owners of the parent company	-166,132	-172,194
			Earnings per share (in NOK):		
		14	Basic and diluted	-4.02	-5.54

STATEMENT OF FINANCIAL POSITION - AS OF 31 DECEMBER

PARENT COMPANY				THE GROUP	
2019	**2018**	**Notes**	**(amounts in NOK 1 000)**	**2019**	**2018**
			ASSETS		
-	-	13	Deferred tax assets	9	354
4,499	5,249	5	Intangible assets	11,969	18,951
2,501	341	6,11	Property, plant and equipment	31,212	27,125
107,822	321,310	15	Shares in subsidiaries	-	-
-	198,665	16	Loans to group companies	-	-
114,822	**525,565**		**Total non-current assets**	**43,189**	**46,430**
-	-	9	Inventories	25,961	29,373
-	-	17	Accounts receivables	3,481	12,797
786	1,004	17	Other current assets	11,724	15,147
46,697	22,165	18	Cash and cash equivalents	88,541	46,299
47,483	**23,169**		**Total current assets**	**129,706**	**103,617**
162,305	**548,734**		**Total assets**	**172,896**	**150,046**
			EQUITY AND LIABILITIES		
42,931	19,431	19	Share capital	42,931	19,431
53,278	469,200	19	Share premium	53,278	469,200
58,261	55,369	19	Other reserves	58,261	55,369
-	-		Accumulated losses	-19,668	-424,710
154,469	**543,999**		**Total equity**	**134,801**	**119,289**
1,660	-	11	Other non-current liabilities	3,344	-
1,660	**-**		**Total non-current liabilities**	**3,344**	**-**
1,279	1,324		Accounts payables	11,786	19,096
-	-	13	Income tax payables	188	1,868
4,897	3,411	11,20	Other current liabilities	22,777	9,793
6,176	**4,735**		**Total current liabilities**	**34,751**	**30,757**
162,305	**548,734**		**Total equity and liabilities**	**172,896**	**150,046**

Oslo, 20 April 2020
The board of directors of NEXT Biometrics Group ASA

/sign/
Magnus Mandersson
Chairman

/sign/
Brita Eilertsen
Board member

/sign/
Emine Lundkvist
Board member

/sign/
Emanuel Lang
Board member

/sign/
Petter Fjellstad
Board member

/sign/
Peter Heuman
CEO

STATEMENT OF CASH FLOW - 1 JANUARY - 31 DECEMBER

PARENT COMPANY				THE GROUP	
2019	**2018**	**Notes**	**(amounts in NOK 1 000)**	**2019**	**2018**
-571,174	-330,288		Profit (loss) before taxes	-164,316	-171,319
2,893	11,933		Share based remuneration (equity part)	2,893	11,933
-	-	13	Income taxes paid	-2,141	-1,936
1,707	927	5,6,11	Depreciation and amortization	16,805	10,027
556,271	316,120	15	Write-down on investments in subsidiaries	-	-
-	-		Change in inventories	3,412	-1,359
218	-267		Change in accounts receivables and other current assets	12,740	8,158
-45	-2,440		Change in accounts payables	-7,310	-2,535
-2,056	-9,080		Change in other working capital items	6,523	2,615
-12,185	**-13,096**		**Net cash flow from operating activities**	**-131,394**	**-144,416**
-141,335	-149,245	15	Net financing of subsidiary	-	-
-	-	5,6	Purchase of property, plant and equipment and intangible assets	-1,199	-4,138
-141,335	**-149,245**		**Net cash flow from investing activities**	**-1,199**	**-4,138**
178,752	114,424	19	Net proceeds from issue of shares	178,752	114,424
-699	-	11	Payment of lease liabilities	-4,233	-
178,053	**114,424**		**Net cash flow from financing activities**	**174,519**	**114,424**
-	-		Translation differences	315	708
24,533	**-47,917**		**Net change in cash flow**	**42,242**	**-33,423**
22,165	70,081		Cash balance as of 1 January	46,299	79,722
46,697	**22,165**		**Cash balance as of 31 December**	**88,541**	**46,299**
			Comprising of:		
46,697	22,165	18	Cash and cash equivalents	88,541	46,299

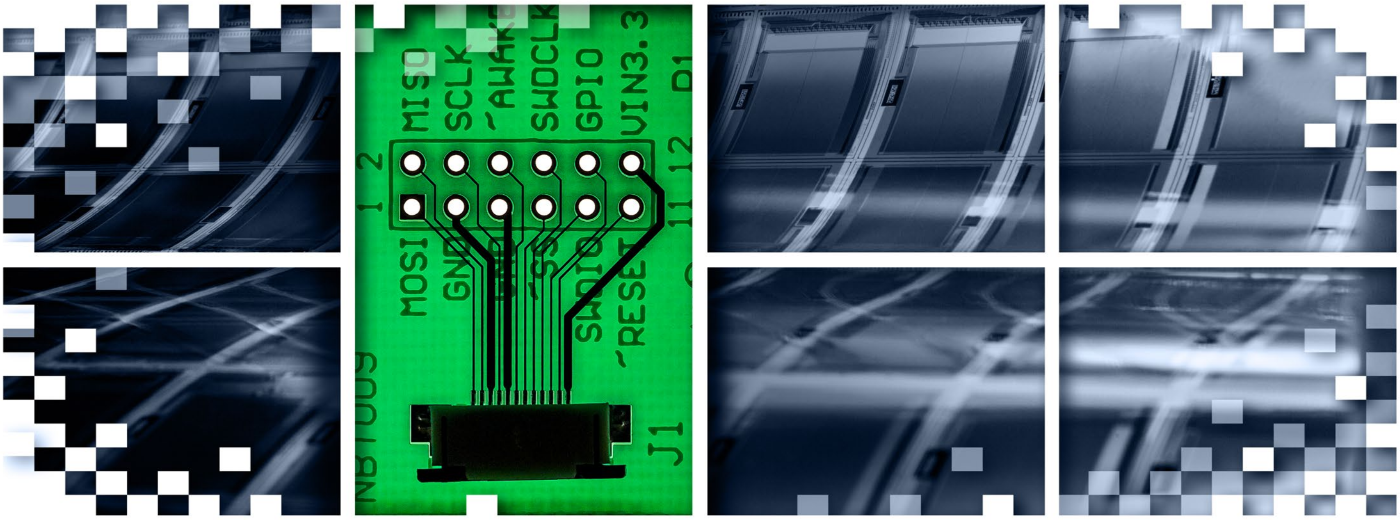
STATEMENT OF CHANGES IN EQUITY - 1 JANUARY - 31 DECEMBER

THE GROUP

(amounts in NOK 1 000)	Notes	Share capital	Share premium	Other reserves	Accumulated losses	Total equity
		ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY				
As of 1 January 2018		**16,382**	**688,111**	**43,436**	**-582,804**	**165,126**
Profit (loss) after taxes			-330,288		157,387	-172,901
Other comprehensive income (loss)					708	708
Total comprehensive income (loss)		**-**	**-330,288**	**-**	**158,094**	**-172,194**
Share issues	19	3,048	117,295			120,343
Share issue costs	19		-5,919			-5,919
Share based remuneration	19			11,933		11,933
As of 31 December 2018		**19,431**	**469,200**	**55,369**	**-424,710**	**119,289**
Profit (loss) after taxes			-571,174		404,727	-166,447
Other comprehensive income (loss)					315	315
Total comprehensive income (loss)		**-**	**-571,174**	**-**	**405,042**	**-166,132**
Share issues	19	23,500	164,500			188,000
Share issue costs	19		-9,248			-9,248
Share based remuneration	19			2,893		2,893
As of 31 December 2019		**42,931**	**53,278**	**58,261**	**-19,668**	**134,801**

THE PARENT COMPANY

(amounts in NOK 1 000)	Notes	Share capital	Share premium	Other reserves	Accumulated losses	Total equity
As of 1 January 2018		**16,382**	**688,111**	**43,436**	**-**	**747,930**
Profit (loss) after taxes			-330,288			-330,288
Other comprehensive income (loss)						-
Total comprehensive income (loss)		**-**	**-330,288**	**-**	**-**	**-330,288**
Share issues	19	3,048	117,295			120,343
Share issue costs	19		-5,919			-5,919
Share based remuneration	19			11,933		11,933
As of 31 December 2018		**19,431**	**469,200**	**55,369**	**-**	**543,999**
Profit (loss) after taxes			-571,174			-571,174
Other comprehensive income (loss)						-
Total comprehensive income (loss)		**-**	**-571,174**	**-**	**-**	**-571,174**
Share issues	19	23,500	164,500			188,000
Share issue costs	19		-9,248			-9,248
Share based remuneration	19			2,893		2,893
As of 31 December 2019		**42,931**	**53,278**	**58,261**	**-**	**154,469**



NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – GENERAL INFORMATION

NEXT Biometrics Group ASA ("Parent company") is a public limited liability company, incorporated and domiciled in Norway, with headquarter in Oslo, Norway. The Parent company and its subsidiaries ("NEXT" or "the Group") provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets.

NEXT's fingerprint sensors are unique, using active thermal conductivity to read the fingerprint, as opposed to capacitive or optical sensing used by others. This patented sensing principle allows simple designs uniquely compatible with the low temperature polysilicon production processes ("LTPS") used in high-end display factories. This enables significantly lower production cost for the Group's fingerprint sensors compared to competing sensors of similar quality. The Group has developed and markets a portfolio of fingerprint sensor modules, readers and flexible biometric subassemblies, which may be incorporated into a wide range of products and solutions.

The Group has six 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), NEXT Biometrics Solutions India Pvt. Ltd. (Bengaluru, India) and NEXT Biometrics s.r.o. (Prague, Czech Republic).

NEXT ASA's shares are listed on the Oslo Stock Exchange.

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.

These financial statements have been approved for issuance by the Board of Directors on 20 April 2020 and is subject to approval by the Annual General Meeting on 12 May 2020.

Changes in accounting policies

The accounting policies applied are consistent with those applied in the previous financial year, except for the adoption of new and revised accounting standards and interpretations, and other changes, as described below.

New and amended standards and interpretations adopted by the Group:

The following new and amended standards and interpretations have been adopted with effect from 1 January 2019.

IFRS 16 Leases (effective from 1 January 2019):

IFRS 16 Leases 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. Under IAS 17, leases of property, plant and equipment were classified as either finance leases or operating leases. For leases which have previously been classified as operating leases under the principles of IAS 17 Leases, the lease liability upon adoption of IFRS 16 wass measured as the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. A corresponding asset representing the right to use the underlying asset during the lease term (right-of-use asset) was recognized. The right-of-use-asset is depreciated over the lease term and the depreciation expense is recognized as an operating expense.The interest expense on the lease liability is recognized as a financial expense.

The Group has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach in accordance with IFRS 16.C5(b) and accordingly comparative information has not been restated. The Group has applied the following practical expedients related to implementation of IFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- reliance on previous assessments on whether leases are onerous,
- not capitalized leases with remaining lease term of less than 12 months as at 1 January 2019
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains option to extend or terminate the lease.

NEXT has identified office rentals to be the only material lease agreements in the Group. Upon implementation, the Group recognized a lease liability and a right-of-use asset at the same amount, and the implementation of the standard did not have impact on equity. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.5 %.

The implementation had the following effect on the statement of financial position for the Group as of 1 January 2019:

(amounts in NOK 1,000)	
Operating lease commitments as of 31 December 2018	14,347
New contract and currency adjustments identified per 1 January 2019	-1,237
Effect of discounting using the Group's weighted average incremental borrowing rate of 6.5 %	-1,112
Lease liability recognized upon implementation as of 1 January 2019	**11,998**
Of which:	
Non-current lease liabilities (presented within "Other non-current liabilities")	5,508
Currenct lease liabilities (presented within "Other current liabilities")	6,490
Total lease liabilities as of 1 January 2019	**11,998**

The corresponding right-of-use assets amounted to NOK 12.0 million as of 1 January 2019 and were related to office buildings and are presented within "Property, plant and equipment".

The implementation had the following effect on the statement of comprehensive income for the Group in 2019:

(amounts in NOK 1,000)	
Other operating expenses	-4,958
Depreciation and amortization	4,647
Operating profit (loss)	**-311**
Financial expenses	652
Profit (loss) before taxes	**-963**

New and amended standards and interpretations not yet adopted:

Certain new and amended standards and interpretations have been published but are not mandatory for financial statements as of 31 December 2019. They have not been early adopted by the Group and are not expected to have a material impact on the Group.

Changes in presentation of financial statements:

The presentation of financial items in statement of comprehensive income have been adjusted. Currency gains and losses are netted and presented in a separate line-item, and other line-items have been merged. The comparative numbers for 2018 are restated as follows:

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**Rep.**	**Recl.**	**Rep.**	**Recl.**
Interest income group companies	-		3,551	
Interest income	177		149	
Other financial income	8,428		319	
Interest expenses	-32		-6	
Other financial expenses	-8,998		-1,020	
Write-downs on investments in subsidiaries	-		-316,120	
Net financial items	**-425**		**-313,127**	
Financial income		177		3,699
Financial expenses		-32		-6
Net currency gains (losses)		-571		-701
Write-downs on investments in subsidiaries		-		-316,120
Net financial items		**-425**		**-313,127**

In addition, the two line-items “Amortisation of intangible assets” and “Depreciations of tangible assets” have been merged into one line-item “Amortization and depreciation”.

In statement of financial position, “Other receivables” and “Prepayments” have been merged into one line-item “Other current assets” and “Public duties payable” have been merged into line-item “Other current liabilities”.

The changes in presentation have been done to give a better and more transparent overview of the Group and the Parent company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU, being standards and interpretations issued by the International Accounting Standards Board (“IASB”), in force at 31 December 2019.

Going concern

In accordance with § 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared under the assumption of going concern.

The Group has historically operated at a loss due to substantial investments in research and development and sales and marketing. Revenues have been trending up in recent years, but the revenues were reduced in 2019 due to loss of a key customer. The company turnaround has been initiated in 2019, but it is taking time to fully replace lost revenues, return to growth and reach profitability.

The Group requires additional capital to fund its operations. Based on current projections the Group's cash position and working capital cover less than 6 months operations from the date of signing of these financial statements. The Group’s non-current assets are specialized in nature and the entity may therefore be unable to realize its assets and discharge its liabilities in the normal course of business, and there is material uncertainty related to the ability of the Group to continue as a going concern.

Subsequent to year-end, the board has engaged a financial advisor to ensure relevant company financing. The Group has accelerated cost reduction measures to further reduce the Group’s annual cost run rate from earlier announced cost targets, and is also considering additional measures to reduce costs even further to prolong the company’s financial runway if capital raising efforts are delayed.

Measurement basis

The financial statements have been prepared under the historical cost convention, unless otherwise presented in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. NEXT uses market observable data to the extent possible when measuring the fair value of an asset or a liability. If the fair value of an asset or a liability is not directly observable, it is estimated by NEXT using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Financial risk and capital management

NEXT is exposed to certain financial risks related to exchange rates and interest levels. These are, however, insignificant compared to the business risk. Business risk may be summarised in:

(a) NEXT currently has limited revenue compared to cost. The Group has reported accumulated financial losses. After introduction of the new ASIC, NEXT has generated positive gross margins from the start of 2018.
(b) NEXT’s business plan assumes revenue from new products under development.
(c) Revenue from NEXT’s products depends, among other things, on market factors which are not controlled by NEXT.
(d) Competing companies’ products have entered the commercial stage, and the competitive situation for NEXT’s products is constantly changing.
(e) NEXT’s intended markets are undergoing rapid technological changes.

NEXT manages its liquidity passively, which means that funds are placed in floating-interest bank accounts. The majority of cash is held in Norwegian kroner at parent company level and is distributed when appropriate to the affiliates. This is both to have control of the overall liquidity situation and to manage expense levels in the affiliates.

NEXT has no financial non-current debt by the end of 2019, except for lease liabilities.

NEXT's sales and production cost are in US dollars. Other operating expenses are mainly in Norwegian kroner (NOK) and US dollars (USD), depending on the location. Equity transactions are in NOK. In the parent company, the majority of the cost and all equity transactions are in NOK. NEXT does not use financial instruments to hedge this risk.

Investments in fixed assets are only made when mandatory for the needs of the core business. NEXT has been funded by equity and will prepare and implement comprehensive capital management and funding policies as and when needed.

The Company is exposed to credit risk, although this has historically not resulted in significant losses. NEXT sells its sensors to leading international distributors of electronic components, primarily based in Asia. The Company's receivables are not credit insured, but credit monitoring routines are in place for setting up credit lines and demanding advance payments when required.

Consolidation

NEXT's consolidated financial statements comprise of the Parent company and companies in which the Parent company has a controlling interest. A controlling interest is normally obtained when the Group holds more than 50 per cent of the voting rights or has decisive power on the entity's operational and financial management. Minority interests are included in the Group's equity. Intragroup transactions and balance sheet items and any unrealized gains or losses or revenue and cost related to intragroup transactions have been eliminated when preparing the consolidated financial statements. The purchase method is applied when accounting for business combinations.

Revenue from contracts with customers

The Group develops, manufactures and sell fingerprint sensors. In general, sales are recognised when control of the products has transferred at delivery according to delivery terms. The company delivers products and send invoices both to distributors and directly to end customers. The company assess individual contracts and makes determines whether a distributor is a customer or a sales agent. When making this assessment it will be considered whether the buyer could have the opportunity to return products to the Group, whether the distributor/agent independently can set end-customer prices and sell products to any end-customer. The classification of a distributor as a customer or a sales agent will have an impact on the timing revenue recognition.

The goods are sold based on fixed prices with no variable consideration. No significant element of financing is deemed present as the sales are made with a credit term of 30 days upon delivery, which is consistent with market practice. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Currency

These financial statements are presented in Norwegian kroner, which is also the Parent company's functional currency. Each entity in the Group determines its own functional currency based on local operations, and items included in the financial statements are measured using that functional currency.

Monetary assets and liabilities denominated in foreign currency are converted to the functional currency using the exchange rates of the balance sheet date. Revenues and expenses in foreign currency are converted using the exchange rate at the transaction date.

Assets and liabilities in foreign operations are translated into the presentation currency using the exchange rates on the balance sheet date. Incomes and expenses relating to foreign operations are translated into the presentation currency using the average exchange rate. Translation differences are recognized in other comprehensive income (loss). Translation differences previously recognized in other comprehensive income (loss) are reversed and recognized in profit and loss when the foreign operations are disposed of.

Intangible assets

Separately acquired intangible assets

On initial recognition, intangible assets acquired separately are measured at cost. The cost of a separately acquired intangible asset comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses. The estimated useful life and amortisation method are revised at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset - measured as the difference between the net disposal proceeds and the carrying amount of the asset - are recognized in profit or loss when the asset is derecognized.

Internally generated intangible assets

Development costs represent typical internally generated intangible assets of relevance for the Group. Costs incurred in relation to individual projects are capitalised only when the future economic benefit of the project is probable and the following main conditions are met: (i) the development costs can be measured reliably, (ii) the technical feasibility of the product has been ascertained and (iii) Management has the intention and ability to complete the intangible asset and use or sell it.

When expenditure is initially recognised as an expense, for example where it cannot be determined whether future economic benefits are probable, it cannot later be recognised as part of the cost of an intangible asset.

Internally generated intangible assets primarily relate to internally developed ASICs (Application Specific Integrated Circuits). Research costs are expensed as incurred.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment losses. When assets are sold or retired, the gross carrying amount and accumulated depreciations are reversed. Any gain or loss on the sale or retirement is recognized in the profit and loss.

The gross carrying amount is the purchase price, including duties/taxes and direct acquisition costs related to making the asset ready for use. Subsequent costs, such as repair and maintenance expenses, are normally recognized in profit or loss as incurred. When increased future economic benefits as a result of repair/maintenance work can be proven, such expenses will be recognized in the balance sheet as additions to non-current assets.

The assets are depreciated using the straight-line method over each asset's useful life. Estimated useful life and residual value are reviewed at least at each financial year end.

Impairment of assets

Assessments of indications that assets may be impaired are made by the end of each reporting period. If an asset's carrying amount is higher than the asset's recoverable amount, an impairment loss will be recognized in profit and loss. The recoverable amount is the higher of the fair value less costs to sell and the discounted cash flow from continued use. The fair value less costs to sell is the net amount that can be obtained from a sale to an independent third party. The recoverable amount is determined separately for each asset.

Provisions

Provisions are recognized when, and only when, the Group has a valid liability (legal or constructive) as a result of events that have taken place and it is more probable than not that a financial settlement will take place as a result of the event(s), and the size of the amount can be measured reliably. Provisions are reviewed on each balance sheet date and their level reflects the best estimate of the liability. When the effect of time is insignificant, the provisions will be equal to the size of the expense necessary to be free of the liability. When the effect of time is significant, the provisions will amount to the present value of future payments to cover the liability. Any increase in the provisions due to time is recorded as other financial expenses.

Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. Trade receivables are initially recognized when they are originated. A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The Group makes an assessment of the objective of the business model in which a financial asset is held. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial asset or both. In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI test), the Group considers the contractual terms of the instrument. The Groups financial assets at amortized cost includes trade receivables.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets.

Financial asset impairment

The Group recognizes loss allowances for ECLs on financial assets measured at amortized cost. For trade receivables that do not contain a significant financing component, the simplified approach is applied, and the Group recognize lifetime expected credit loss (ECL). The Group applies the provision matrix as a practical expedient to calculate ECL. The provision matrix is based on historical losses and forward-looking information and is updated at each reporting date. In addition, the trade receivables are grouped in customer segments that have a similar loss pattern. For trade receivables which are individually assessed the ECL is calculated as the exposure at default multiplied with the probability of default multiplied with the exposure at default. The Group consider the rebuttable presumption that default does not occur later than 90 days past due as its policy.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

ECLs are discounted at the effective interest rate of the financial asset. For trade receivables without significant financing component, the time value of money will not need to be considered as it is insignificant and the ECL will therefore not be discounted. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial asset write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

Subsidiaries

Subsidiaries are accounted for using the cost method in the separate financial statement for the parent company. The investments in subsidiaries are valued at cost unless impairment is required. When the parent has an obligation to settle share options to employees in the subsidiaries in its own equity instruments, this is accounted for as an increase in shares in subsidiaries.

Inventory

Raw materials, work in progress and finished products are valued at the lower of cost and net realizable value after deduction for obsolescence. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined using the FIFO method. Work in progress and finished goods includes variable cost and non-variable cost which can reasonably be allocated to items based on normal capacity.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Taxes

The tax expense consists of the tax payable and changes in deferred tax. Deferred tax has been calculated based on the temporary differences between the recorded and tax values, as well as on any tax loss carry-forward at the balance sheet closing date. Any temporary differences increasing or reducing tax that will or may reverse in the same period, have been netted.

A deferred tax asset will be recognized when it is probable that NEXT will have sufficient profit for tax purposes to utilize the tax asset. At each balance sheet date, NEXT reviews its unrecognized deferred tax assets and the value it has recognized. NEXT recognizes an unrecognized deferred tax asset to the extent that is has become probable that NEXT can utilize the deferred tax asset. Similarly, NEXT will reduce its deferred tax asset to the extent that it can no longer utilize it.

Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates.

Contingent liabilities and assets

Contingent liabilities are possible obligations resulting from past events which existence depends on future events; obligations that are not recognized because it is not probable that they will lead to an outflow of resources; and obligations that cannot be measured with sufficient reliability.

Contingent liabilities are not recognized in the annual financial statements but will be disclosed in the notes if applicable. A contingent asset is not recognized in the annual financial statements but is disclosed in the notes if there is a degree of probability that a benefit will accrue to NEXT.

Share-based remuneration

Share based payments are equity-settled share options granted to employees, contractors and members of the board of directors and the advisory board. The options are charged against the income statements at their fair value over the vesting period, with a corresponding increase in equity. The fair value of share-based options is determined using a Black & Scholes option-pricing model.

The social security contribution payable in connection with the exercise of the share options is accrued on a straight-line basis as short-term liabilities, based on the intrinsic value of the share options at the end of each accounting period with consequent charges to the payroll expenses.

Costs related to employees and members of the board are charged as payroll expenses, while costs related to members of the advisory board and contractors are charged as other operating expenses.

When the parent has an obligation to settle the share-based payment transaction with the subsidiaries' employees by providing the parent's own equity shares, this is accounted for as an increase in equity and a corresponding increase in shares in subsidiaries.

Leasing agreements

Lease contracts entered with a duration of less than 12 months and leases with a low value will not be recognized in the statement of financial position but recognized as an operating expense over the lease period. 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).

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.

Termination benefits

Termination benefits are payable when the employment is terminated by the Group before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when the Group can no longer withdraw the offer.

Earnings per share

Earnings per share are calculated by dividing the profit or loss for the period by the weighted average number of ordinary shares outstanding over the course of the period. Earnings per share fully diluted are calculated based on the result or the year divided by the average number of shares fully diluted. The effect of dilution is not counted in when the result is a decrease loss per share.

Equity transactions

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Cash flow

The cash flow statement has been drawn up in accordance with the indirect method and reports cash flows during the period classified by operating, investing and financing activities.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as a reduction in expense. When the grant can be viewed as payment for a deliverable or performance of service, it is recognized as other revenue.

Segment reporting

NEXT has to date had limited commercial revenues and therefore currently reports only in one business segment. Hence, all revenue and cost are related to the Fingerprint sensor technology business segment.

Income taxes

Deferred tax assets related to losses carried forward is recognised when it is probable that the loss carried forward may be utilised. Evaluation of probability is based on historical earnings, expected future margins and the size of the order backlog. Future events may lead to these estimates being changed. Such changes will be recognised when reliable new estimates can be made.

Inventory

Finished products, work in progress and raw materials are valued at the lower of cost and net realizable value. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined using the weighted average method. Raw materials, work in progress and finished products includes variable cost and non-variable cost which can be allocated to items based on normal capacity.

Estimates and judgements

Preparation of financial statements in accordance with IFRS requires that the management makes judgements and prepares estimates and assumptions which have an impact on the recognized amounts for assets, liabilities, revenue and costs. Estimates and related assumptions have been based on the management's best knowledge of past and recent events, experience and other factors which are considered reasonable under the circumstances. Actual results may deviate from such assumptions. Estimates and underlying assumptions are subject to continuous evaluation.

Critical account estimates for NEXT are:

Share based remuneration:

NEXT estimates the fair value of options at the grant date. NEXT has applied a Black & Scholes option-pricing model when valuing the options. The option valuation is based on assumptions about share price, volatility, interest rates and duration of the options. The cost of share-based remuneration is expensed over the vesting period. Estimates with regards to future attrition are applied. Such estimates are updated at the balance sheet date. Changes in this estimate will impact the expensed cost of share-based remuneration in the period.

Research and development expenses/ Intangible assets:

Research costs are expensed as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when NEXT can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the company's intention and capability of completing the development and realize the assets and the net future financial benefits of use or sale. Intangible assets consist of acquisition of right to use the patent and know-how (IP) described as the NEXT Active Thermal™ Sensing principle, acquisition of source code license and the internally generated ASIC designs. There were no additions in 2019.

Shares in subsidiaries:

For the parent company, the investments in subsidiaries are valued at cost unless impairment is required. Assessments of indications that the shares in subsidiary may be impaired are made by the end of each reporting period. At year-end 2019, the market value of NEXT was lower than the book value of the equity in the parent company, NEXT Biometrics Group ASA. The parent company's main assets at the end of 2019 was the investment in the subsidiary NEXT Biometrics AS. Based on this, the book value of the investment in the subsidiary was written down to fair value based on the stock price at year-end. The closing stock price in 2019 was 3.60 and the numbers of shares at year-end was42.931, with a total market value of NOK 155 million. After the write-down, the equity of the parent company was equal to the market value of the group.

NOTE 3 - OPERATING REVENUES AND SEGMENT REPORTING

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Fingerprint sensor technology	84,436	108,392	9,545	10,280
Total operating revenues	**84,436**	**108,392**	**9,545**	**10,280**

THE GROUP

The Group targets four markets for the technology:

(i) Smart Cards
(ii) Government ID
(iii) Access control
(iv) Notebook

The available technology is generic into the four markets. Most of the Group's key IP, including our NEXT Active Thermal™ is shared and used in all four markets. Most employees in the Group also works 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, the Group consider that we only operate within one business segment, and therefore also report only within one business segment, "Fingerprint sensor technology".

The operating revenue, both in 2019 and in 2018, was mainly related to a major customer in the notebook market, geographically located in Asia.

Except for the coating and cutting machines physically located in Taiwan, with a carrying amount of NOK 15.7 million as of 31 December 2019, most of the investments and working capital is located physically in Norway.

PARENT COMPANY

Operating revenue amounted to NOK 9.5 million in 2019, compared to NOK 10.3 million in 2018. Revenue for 2019 and 2018 consisted of management fee and royalty charged to the subsidiary NEXT Biometrics AS.

NOTE 4 – PAYROLL EXPENSES AND REMUNERATION

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Salaries, fees	-100,810	-91,362	-10,904	-8,545
Share based remuneration (salary part)	-3,609	-11,562	-109	-2,475
Share based remuneration (employer's tax)	106	520	-1	153
Social security taxes	-9,510	-6,117	-1,582	-1,268
Pension contribution	-1,072	-831	-677	-495
Other personnel expenses	-7,033	-6,724	-2,307	-79
Total payroll expenses	**-121,929**	**-116,077**	**-15,581**	**-12,709**
Average numbers of employees	**80**	**86**	**7**	**7**

The parent company, NEXT Biometrics Group ASA, provides a contribution-based pension insurance scheme for all employees. The scheme satisfies the mandatory service pension ('OTP') in Norway. Pension cost amounted to NOK 0.7 million in 2019. By the end of 2019, there were 8 employees in the parent company.

The Norwegian subsidiary, NEXT Biometrics AS is not obliged to establish a pension plan.

NEXT Biometrics Inc has a 401-K plan for its employees, which allows employees to save for retirement with pre-tax funds. The company currently does not contribute to this plan but pays for its administration.

NEXT Biometrics Taiwan Ltd has a pension plan to save for retirement by paying 6% of the salary but limited to TWD 9,000 (NOK 2,400) a month per employee. NEXT Biometrics s.r.o has a pension plan to save for retirement by paying up to 3% of the gross salary, provided that the employee contributes with the same amount. NEXT Biometrics China Ltd has no local pension plan.

ACTUAL REMUNERATION - SENIOR EXECUTIVES 2019

(amounts in NOK 1,000)	Board remuneration	Salary	Other benefits	Pension cost	Fair value granted options*	Total remuneration
Senior Executives						
Peter Heuman, CEO [1)]	-	817	2	32	11	862
Ritu Favre, CEO [2)]	-	3,887	81	-	-1,560	2,408
Knut Stålen, CFO	-	2,018	11	110	1,193	3,333
Dan Cronin, CEO/COO [3)]	-	2,622	134	-	1,692	4,448
Zehira Dadon-Sitbon, Chief of Staff & HR Officer [4)]	-	896	22	-	318	1,236
Alain Faburel, Chief Sales and Marketing Officer	-	2,161	26	286	605	3,078
Board of Directors						
Magnus Mandersson, Chairperson	630	-	-	-	75	705
Brita Eilertsen	330	-	-	-	45	375
Petter Fjeldstad	-	-	-	-	45	45
Emanuel Lang	260	-	-	-	45	305
Emine Lundkvist	200	-	-	-	45	245
Nomination committee						
Odd-Harald Hauge, Chairperson	30	-	-	-	-	30
Haakon Sæter	20	-	-	-	-	20
Matei Stefan Gaburici	20	-	-	-	-	20
Total remuneration	**1,490**	**12,402**	**276**	**428**	**2,515**	**17,110**

*Fair value of granted options is equal to expensed share option remuneration for the year, which is based on fair value at grant date and vesting period (see note 2 for further information).

Board remuneration reported above is based on paid-out amounts.

1) Peter Heuman was CEO effective from 16 September 2019.
2) Ritu Favre left the company July 28 2019.
3) Dan Cronin was COO. He was acting CEO from July 2019 to September 2019.
4) Zehira Dadon-Sitbon, Chief of Staff & HR Officer left the company 1 February 2019.

ACTUAL REMUNERATION - SENIOR EXECUTIVES 2018

(amounts in NOK 1,000)	Board remuneration	Salary	Other benefits	Pension cost	Fair value granted options*	Total remuneration
Senior Executives						
Ritu Favre, CEO	-	4,392	121	-	995	5,508
Knut Stålen, CFO	-	1,922	7	104	861	2,895
Dr. Matias Troccoli, CTO	-	2,076	57	-	495	2,628
Dan Cronin, COO	-	2,273	117	-	1,109	3,500
Zehira Dadon-Sitbon, Chief of Staff & HR Officer, SVP of BO	-	1,878	117	-	597	2,592
Dr. Robert Mueller, VP of Biometric Solutions Group	-	-	2,033	-	293	2,325
Alain Faburel, Chief Sales and Marketing Officer	-	1,016	-	130	895	2,042
Campbell Kan, VP Operations & Asia sales	-	2,440	90	15	40	2,584
Charles Ng, VP Sales, Americas	-	2,050	83	-	246	2,378
Radek Matyasek, SVP Sales Europe, Asia & India	-	1,892	305	-	318	2,515
Board of Directors						
Magnus Mandersson, Chairperson	-	-	-	-	-	-
Tore Etholm-Idsøe [1)]	516	96	1,080	-	724	2,417
Brita Eilertsen	230	-	-	-	-	230
Emanuel Lang	220	-	-	-	-	220
Emine Lundkvist	200	-	-	-	-	200
Svenn-Tore Larsen	200	-	-	-	-	200
Nomination committee						
Odd-Harald Hauge, Chairperson	30	-	-	-	-	30
Haakon Sæter	20	-	-	-	-	20
Matei Stefan Gaburici	20	-	-	-	-	20
Total remuneration	**1,436**	**20,035**	**4,010**	**249**	**6,573**	**32,304**

1) Tore Etholm-Idsøe was a member of the board until 18 December 2018. NOK 116 thousand of his 2018 board renumeration was paid in 2019.

CEO REMUNERATION

Peter Heuman has a salary of NOK 2.8 million per year. In addition, he is part of the Company's option plan and the bonus program, which provides annual bonuses based upon the achievement of performance objectives established by the company. Further, the CEO is part of the company's pension plan and other benefits including medical and life insurance. The CEO is part of the subsidiary NEXT Biometrics AS' pension scheme as described above.

SEVERANCE

Peter Heuman has a severance agreement whereby he will receive 100% pay for 6 months for termination by the Company without cause.

LOANS AND GUARANTEES FOR SENIOR EXECUTIVES

The Company has not made any advance payments or issued loans to, or guarantees in favor of, any senior executives or members of the board.

SHARE BASED REMUNERATION

Salary, pension and any bonuses will attract employer's tax, which will be expensed simultaneously with the remuneration. The notional cost of options as share-based remuneration is expensed, but the equity effect is nil because the contra item is a notional equity injection of equal amount. In addition, employer's tax is accrued on the intrinsic value of the option on the balance sheet date.

For the shareholders, a possible exercise will represent a dilution. At the end of 2019, the number of outstanding options to senior executives amounted to 992,416 corresponding to 2.3 % of the share capital. At the end of 2018, the number of outstanding options to senior executives amounted to 1,036,597, corresponding to 5.23 % of the share capital.

For further details regarding share-based remuneration, see note 19.

OPTIONS - SHARE BASED REMUNERATION 2019

(amounts in NOK)	Accumulated quantity options OB	Granted options	Expired/ adjusted options	Exercised options	Average exercise price - A	Accumulated quantity options CB	Average exercise price - B
Senior Executives							
Peter Heuman, CEO	-	220,000	-	-	0.00	220,000	3.18
Ritu Favre, CEO	275,000	-	-233,334	-	0.00	41,666	94.82
Knut Stålen, CFO	108,752	126,500	-42,502	-	0.00	192,750	40.83
Dan Cronin, CEO/COO	100,002	206,500	-2	-	0.00	306,500	25.99
Zehira Dadon-Sitbon, Chief of Staff & HR Officer	50,000	-	-26,667	-	0.00	23,333	80.14
Alain Faburel, Chief Sales and Marketing Officer	75,000	126,500	-30,000	-	0.00	171,500	18.03
Board of Directors							
Magnus Mandersson, Chairperson	-	50,000	-	-	0.00	50,000	8.44
Brita Eilertsen	-	30,000	-	-	0.00	30,000	8.44
Petter Fjeldstad	-	30,000	-	-	0.00	30,000	8.44
Emanuel Lang	-	30,000	-	-	0.00	30,000	8.44
Emine Lundkvist	-	30,000	-	-	0.00	30,000	8.44
Nomination committee							
Odd-Harald Hauge, Chairperson	-	-	-	-	0.00	-	0.00
Haakon Sæter	-	-	-	-	0.00	-	0.00
Matei Stefan Gaburici	-	-	-	-	0.00	-	0.00
Total	**774,514**	**849,500**	**-491,599**	**-**		**1,132,415**	

OPTIONS - SHARE BASED REMUNERATION 2018

(amounts in NOK)	Accumulated quantity options OB	Granted options	Expired/ adjusted options	Exercised options	Average exercise price - A	Accumulated quantity options CB	Average exercise price - B
Senior Executives							
Ritu Favre, CEO	225,000	50,000	-	-	0.00	275,000	85.67
Knut Stålen, CFO	82,502	30,000	-3,750	-	0.00	108,752	85.15
Dr. Matias Troccoli, CTO	241,377	-	-11,250	-	0.00	230,127	38.15
Dan Cronin, COO	45,000	55,002	-	-	0.00	100,002	57.58
Zehira Dadon-Sitbon, Chief of Staff HR Officer, SVP	20,000	30,000	-	-	0.00	50,000	69.30
Alain Faburel, Chief Sales and Markting Officer	-	75,000	-	-	0.00	75,000	38.60
Dr. Robert Mueller, VP of Biometric Solut. Group	86,470	5,000	-2,500	-	0.00	88,970	53.72
Campbell Kan, VP Operations & Asia sales	57,000	-	-21,250	-	0.00	35,750	72.56
Charles Ng, VP Sales, Americas	40,000	2,500	-2,500	-	0.00	40,000	98.75
Radek Matyasek, SVP Sales Europe, Asia & India	56,000	12,000	-2,500	-	0.00	65,500	78.11
Board of Directors							
Tore Etholm-Idsøe	303,000	-	-5,000	-132,240	1.00	165,760	53.71
Svenn-Tore Larsen	20,000	-	-20,000	-	0.00	-	0.00
Total	**1,176,349**	**259,502**	**-68,750**	**-132,240**		**1,234,861**	

Adjusted options in 2018 include the 25% reduction in issued share options for the new average volume-weighed marked price related to the 2016 granted options (“give-and-take-back).

A - Average exercise price for options exercised during the financial year (amounts in NOK)
B - Average exercise price for quantity of options by the end of the financial year (amounts in NOK)

NOTE 5 – INTANGIBLE ASSETS

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

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Accumulated cost as of 1 January	26,996	23,295	7,458	7,458
Additions	-	3,701	-	-
Disposals at cost	-	-	-	-
Translation differences	-	-	-	-
Accumulated cost as of 31 December	**26,996**	**26,996**	**7,458**	**7,458**
Accumulated amortization and impairment losses as of 1 January	-8,045	-1,841	-2,209	-1,459
Amortization	-6,982	-6,204	-750	-750
Accumulated amortization and impairment losses of disposed items	-	-	-	-
Translation differences	-	-	-	-
Accumulated amortization and impairment losses as of 31 December	**-15,027**	**-8,045**	**-2,959**	**-2,209**
Carrying amount as of 31 December	**11,969**	**18,951**	**4,499**	**5,249**
Amortization period in years (straight line)	3-12	3-12	12	12

As of 31 December 2019, carrying amount of in total NOK 12.0 million (2018: NOK 19.0) consists of NOK 4.9 million (2018: NOK 10.3 million) in internally generated assets and NOK 7.0 million (2018: NOK 8.7) in separately acquired assets.

The patent and know-how (IP) are amortized over 12 years, equal to the patent life from recognition as of 1 January 2012, ASIC designs are amortized over 3 years, and source code license is amortized over 5 years.

The individual intangible and tangible assets' are not considered as separate cash generating units. Rather, these assets are evaluated for impairment in combination with other assets in the group. Therefore, impairment test of the assets have been done as part of an overall impairment assessment (see note 15 for further information), and it was concluded that there were no need for impairment on these assets.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Accumulated cost as of 1 January	53,410	52,080	532	532
Additions	1,199	437	-	-
Disposals at cost	-	-27	-	-
Translation differences	826	920	-	-
Accumulated cost as of 31 December	**55,435**	**53,410**	**532**	**532**
Accumulated depreciation and impairment losses as of 1 January	-26,285	-21,994	-191	-14
Depreciation	-5,176	-3,823	-178	-177
Accumulated depreciation and impairment losses of disposed items	-	27	-	-
Translation differences	-285	-495	-	-
Accumulated depreciation and impairment losses as of 31 December	**-31,746**	**-26,285**	**-369**	**-191**
Carrying amount as of 31 December	**23,689**	**27,125**	**163**	**341**
Depreciation period in years (straight line)	3-10	3-10	3-10	3-10

The difference between the line-item "Property, plant and equipment" in the statement of financial position and amounts above is related to right-of-use assets which are presented in a different note. This amounts to NOK 7.5 million (2018: NOK 0.0 million) for the Group and NOK 2.3 million for the Parent company (2018: NOK 0.0 million). See note 11 for further information.

As of 31 December 2019, carrying amount for the Group of in total NOK 23.7 million (2018: NOK 27.1 million) consists of NOK 21.3 million (2018: NOK 25.1 million) in machinery and NOK 2.3 million (NOK 2.0 million) in office equipment.

See note 5 for information about impairment assessment.

NOTE 7 – OTHER OPERATING EXPENSES

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
R&D related operating expenses	-24,889	-45,143	-	-
Fees to consultants, lawyers and others	-12,132	-10,901	-8,979	-6,136
Travel expenses	-7,440	-9,955	-767	-624
Rent expenses	-152	-5,951	-9	-940
Other expenses	-1,150	-3,279	-894	-6,813
Share based remuneration (operating part) [1)]	-656	-340	-	710
Total other operating expenses	**-46,419**	**-75,569**	**-10,650**	**-13,804**

[1)] Share based remuneration (operating part) refers to share options granted to contractors (see note 19 for further information).

NOTE 8 – RESEARCH AND DEVELOPMENT COST

In general, research costs are expensed when incurred. Internal and external researching and development performed in 2019 do not meet the Group's capitalization criteria.

The reported research and development (R&D) costs includes external project costs for work and material purchased from various companies and institutions. The payroll cost of R&D staff is included in payroll, and any capitalization reported as a credit on a separate line. The major parts of the R&D costs are related to development of the sensor technology. Furthermore, production activities, production trials, pilot production runs and the development of a new version of the ASIC have been undertaken in the period.

Expensed R&D costs for the Group amounted to NOK 90.7 million in 2019 (2018: NOK 114.7 million), of which NOK 65.8 million (2018: NOK 69.6 million) is presented in payroll expenses and NOK 24.9 million (2018: NOK 45.1 million) in other operating expenses.

There are no R&D costs in the parent company.

GOVERNMENT GRANTS

The subsidiary NEXT Biometrics AS has been granted public subsidies in connection with SkatteFUNN (Norwegian tax deduction scheme) in the amount of NOK 5.0 million for 2019 (2018: NOK 5.0 million). The total amount is presented as part of "Other current assets" in the balance sheet and has correspondingly led to a reduction in other operating expenses. The grant is subject to final approval by the tax authorities.

NOTE 9 – INVENTORIES

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Raw material, consumables and supplies	4,838	17,405	-	-
Work in progress	7,163	9,321	-	-
Finished products	13,960	2,647	-	-
Total inventories	**25,961**	**29,373**	**-**	**-**

Cost of goods sold is defined as cost of materials and production service expenses.

Cost of goods sold includes net write-downs of inventories. In 2019, write-downs on inventories was expensed with NOK 4.4 million in work in progress, and write-downs of NOK 0.3 million in raw material, consumables and supplies was reversed. In 2018, write-downs on inventory was expensed with NOK 0.2 million in raw material, consumables and supplies, NOK 0.7 million in work in progress and NOK 0.6 million in finished products.

As of 31 December 2019, carrying amount of inventory include write-downs of NOK 8.1 million (2018: 4.0 million).

NOTE 10 – AUDIT FEES

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Audit fee	952	769	524	495
Attestation	56	-	30	-
Tax services	21	-	21	-
Non-audit services	283	78	141	78
Total audit fees	**1,311**	**847**	**716**	**573**

NOTE 11 – LEASES

The Group implemented IFRS 16 on 1 January 2019. The implementation is further presented in note 1. The table below shows the amounts related to leases recognized in the statement of financial position:

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Property (included in "Property, plant and equipment")	7,523	-	2,338	-
Total right-of-use assets	**7,523**	**-**	**2,338**	**-**
Non-current lease liabilities (included in "Other non-current liabilities")	3,344	-	1,660	-
Current lease liabilities (included in "Other current liabilities")	4,487	-	759	-
Total lease liabilities	**7,830**	**-**	**2,418**	**-**

Additions to the right-of-use assets in 2019 were NOK 0.1 million for the Group and the Parent company and were related to yearly CPI adjustments.

The table below shows the amounts related to leases recognized in the statement of comprehensive income:

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Depreciation property right-of-use assets (included in "Depreciation and amortization")	-4,647	-	-779	-
Expenses relating to low-value leases (included in "Other operating expenses")	-44	-	-6	-
Expenses relating to short-term leases (included in "Other operating expenses")	-63	-	-	-
Interest expenses (included in "Financial expenses")	-652	-	-162	-
Total expenses related to leases	**-5,406**	**-**	**-948**	**-**

The total cash outflow for leases in 2019 was NOK 5.2 million for the Group and NOK 0.9 million for the Parent company.

The table below shows the maturity profile for the lease liabilities based on contractual undisocunted payments:

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018 [1)]**	**2019**	**2018 [1)]**
Within one year	4,797	4,737	877	861
More than 1 year but within 5 years	3,367	9,610	1,754	2,670
After 5 years	-	-	-	-
Total contractual cash flows related to leases	**8,164**	**14,347**	**2,631**	**3,531**

[1)] 2018 figures shows future minimum operating lease payments according to IAS 17.

NOTE 12 – FINANCIAL ITEMS

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Interest income from group companies [1)]	-	-	3,150	3,551
Interest income	987	177	681	149
Total financial income	**987**	**177**	**3,830**	**3,699**
Interest expenses	-46	-32	-5	-6
Interest expenses right-to-use assets	-652	-	-162	-
Total financial expenses	**(697)**	**(32)**	**(168)**	**(6)**
Currency gains	5,844	8,428	112	319
Currency losses	-5,868	-8,998	-285	-1,020
Net currency gains (losses)	**-23**	**-571**	**-173**	**-701**
Write-down on investments in subsidiaries [2)]	**-**	**-**	**-556,271**	**-316,120**
Net financial items	**266**	**-425**	**-552,781**	**-313,127**

1) Interest income from group companies are interest income from NEXT Biometrics AS, see note 16 for further information.

2) Write-down on investments in subsidiaries are write-down on the shares in NEXT Biometrics AS, see note 15 for further information.

NOTE 13 – INCOME TAXES

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Current taxes	1,729	1,936	-	-
Change in deferred taxes	403	-354	-	-
Total income tax expenses	**2,131**	**1,582**	**-**	**-**
Income tax expense reconciliation:				
Profit (loss) before taxes	-164,316	-171,319	-571,174	-330,288
Expected income tax expenses at Norwegian nominal tax rate (22%/23%)	**-36,149**	**-39,403**	**-125,658**	**-75,966**
Difference between local tax rates and Norwegian nominal tax rate	-105		-	-
Effect of change in local tax rates	73	8,459	-	1,444
Tax effect of permanent differences	-3,057	-1,457	120,372	71,760
Change in deferred tax assets not recognized	40,055	33,983	5,286	2,763
Prior year underaccrual/(overaccrual) of income tax	1,181			
Witholding tax	134			
Actual income tax expenses	**2,131**	**1,582**	**-**	**-**
Effective tax rate	**-1%**	**-1%**	**0%**	**0%**

Total income tax recognized directly in equity amounts NOK 0 for 2019 (2018: NOK 0).

The reason for the difference between income tax payable for the Group in the balance sheet of NOK 0.2 million is due to advance payment of taxes.

Deferred tax related to the following temporary differences:

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Property, plant and equipment	6,687	-2,128	2,338	-
Inventories	-8,124	-4,030	-	-
Accounts receivables and other current assets	-180	-	-	-
Lease liabilities	-7,830	-	-2,418	-
Other temporary differences	-29,006	-28,275	1	-
Tax losses carried forward	-1,046,844	-870,447	-168,296	-144,350
Total temporay differences and tax losses carried forward	**-1,085,298**	**-904,880**	**-168,376**	**-144,350**
Deferred tax assets	**-238,340**	**-198,603**	**-37,043**	**-31,757**
Deferred tax assets not recognized	238,331	198,249	37,043	31,757
Deferred tax assets in the balance sheet	**-9**	**-354**	**-**	**-**

As of 31 December 2019, NOK 1 046.1 million (2018: 869.2 million) of tax losses carried forward are related to the Norwegian companies with no limitiations in expiry date.

Due to a history of losses, deferred tax assets are not recognized.

The following table illustrates the deferred tax balance recognized in the statement of financial position:

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Deferred tax assets	9	354	-	-
Deferred tax liabilities	-	-	-	-
Net deferred taxes as of 31 December	**9**	**354**	**-**	**-**

The following table illustrates the basis for calculation of currebt tax in Parent company:

	PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**
Profit (loss) before taxes	-571,174	-330,288
Permanent differences	547,147	311,998
Change in temporay differences	81	-153
Basis for current taxes	**-23,945**	**-18,442**

NOTE 14 – EARNINGS PER SHARE

The calculations of earnings per share attributable to the equity holders of the parent company are based on the following data:

	THE GROUP	
(amounts in NOK 1,000)	**2019**	**2018**
Profit (loss) after taxes (NOK 1,000)	**-166,447**	**-172,901**
Number of shares outstanding as of 1 January	19,430,575	16,382,480
New shares issued during the year (note 19)	23,500,000	2,860,855
Excercised incentive options during the year	-	187,240
Number of shares outstanding as of 31 December	**42,930,575**	**19,430,575**
Weighted average number of shares for the year *	**41,362,001**	**31,217,767**
Effect of dilution option programmes	-	1,789,099
Weighted average number of shares adjusted for effect of dilution	**41,362,001**	**33,006,866**
Earnings per share, basic and diluted (NOK)	**-4.02**	**-5.54**

*Weighted average number of shares for 2018 has been adjusted retrospectivly as a result of capitalization in 2019.

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

NOTE 15 – SHARES IN SUBSIDIARIES AND GROUP COMPANIES

The table below shows the subsidiaries in the Group. All subsidiaries are consolidated in the Group's financial statements.

(amounts in NOK 1,000)	Office	Owned directly by Parent company	Ownership / voting interest in % 2019	Ownership / voting interest in % 2018
NEXT Biometrics AS	Oslo, Norway	x	100%	100%
NEXT Biometrics Inc.	Seattle, USA		100%	100%
NEXT Biometrics China Ltd.	Shanghai, China		100%	100%
NEXT Biometrics Taiwan Ltd.	Taipei, Taiwan		100%	100%
NEXT Biometrics Solutions Pvt. Ltd.[1)]	Bengaluru, India		100%	
NEXT Biometrics s.r.o	Prague, Czech Republic		100%	100%

[1)] NEXT Biometrics Solutions Pvt. Ltd., India, was established in 2019

The table below shows the carrying amount of shares in subsidaries for the Parent company as of 31 December.

	PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**
NEXT Biometrics AS	107,822	321,310
Total shares in subsidiaries	**107,822**	**321,310**

The change in carrying amount from NOK 321.3 million in end of 2018 to NOK 107.8 in end of 2019, is related to capital increases of NOK 340.0 million, share-based remuneration to employees in subsidiaries of NOK 2.8 million and write-down on investments of NOK 556.3 million in 2019.

The main asset in the parent company is shares in subsidiaries. At year-end 2019, carrying amount was therefore written down with NOK 556.3 million so carrying amount of equity in the parent company corresponds to market value of equity. The market value of equity is considered to be the closing stock price at Oslo Stock Exchange at year-end 2019, which was NOK 3.60 per share and equals to a total market value of NOK 154.6 million. After the write-down, carrying amount of equity in the parent company was equal to the market value of equity.

NOTE 16 – LOANS TO GROUP COMPANIES

	PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**
Loan to NEXT Biometrics AS	-	198,665
Total loans group companies	**-**	**198,665**

Loan to NEXT Biometrics AS was charged with NIBOR 6 months +1.5%. Interest for 2019 amounted to NOK 3.1 million (2018: NOK 3.6 million), see note 12. The loan was converted to equity during Q4 2019.

NOTE 17 – ACCOUNTS RECEIVABLES AND OTHER CURRENCT ASSETS

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Accounts receivables	3,481	12,797	-	-
Other receivables	6,682	7,473	-	63
Prepayments	5,041	7,675	786	941
Total accounts receivables and other current assets	**15,204**	**27,945**	**786**	**1,004**

Other receivables for the Group includes NOK 5 million in government grants as of 31 December 2019 and 2018, see note 8 for further information.

	THE GROUP				
(amounts in NOK 1,000)	**Current**	**More than 30 days past due**	**More than 60 days past due**	**More than 120 days past due**	**Total**
Expected loss rate	0%	1%	2%	5%	
Gross carrying amount (Class 1 and 2)	2,296	527	130	61	
Loss allowance (Class 1 and 2)	**-**	**5**	**3**	**3**	**10**
Gross carrying amount (Class 3)				646	
Loss allowance (Class 3: individual assessment)				**170**	**170**
Total loss allowance per 31 December 2019					**180**

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Opening balance	-	-	-	-
This year's allowance for expected credit loss	180	-	-	-
This year actual credit loss	-	-	-	-
Change in estimate previous year's expected credit loss	-	-	-	-
Closing balance allowance for expected credit loss	**180**	**-**	**-**	**-**

Due to short period to maturity, the carrying amount of trades receivables and other receivables approximates fair value.

IMPAIRMENT OF FINANCIAL ASSETS

Expected credit loss based on the Group's provision matrix is as of 31 December 2019 immaterial. Based on individual assessment of certain customers an expected credit loss of NOK 0.2 million has been recognized in accordance with the Group's policy.

NOTE 18 - CASH AND CASH EQUIVALENTS

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Employees withheld payroll tax deposits	369	462	369	447
Office rent deposits 1	1,193	1,188	606	606
Cash and cash equivalents - held in USD	8,959	14,206	35	25
Cash and cash equivalents - held in CNY	487	341	-	-
Cash and cash equivalents - held in CZK	1,846	910	-	-
Cash and cash equivalents - held in TWD	636	877	-	-
Cash and cash equivalents - held in INR	75	-	-	-
Cash and cash equivalents - held in NOK	74,975	28,316	45,687	21,088
Total cash and cash equivalents	**88,541**	**46,299**	**46,697**	**22,165**

The fair value for this class of financial instruments is assessed to be equal to the nominal amount.

RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents consists of withheld payroll tax deposits for employees and office rent deposit on escrow accounts, in total NOK 1.6 million (2018: 1.6 million) for the Group and NOK 1.0 million (2018: 1.1 million) for the Parent company.

NOTE 19 – SHARE CAPITAL, SHAREHOLDER'S INFORMATION AND SHARE BASED OPTIONS

There is one class of shares. All shares have equal rights and are freely negotiable. The share capital is fully paid in. The par value of the shares is NOK 1 per share.

There were 42,930,575 shares in the company on 31 December 2019, compared to 19,430,575 shares on 31 December 2018. At the end of 2019 there were 1,702 shareholder accounts compared to 1,238 at the end of 2018.

	THE GROUP		PARENT COMPANY	
Number of shares outstanding	**2019**	**2018**	**2019**	**2018**
Opening balance	19,430,575	16,382,480	19,430,575	16,382,480
Share issue(s)	23,500,000	2,860,855	23,500,000	2,860,855
Exercised incentive share options	-	187,240	-	187,240
Closing balance	**42,930,575**	**19,430,575**	**42,930,575**	**19,430,575**

In the first quarter of 2019, NEXT raised NOK 178.8 million in net proceeds in a private placement and 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 trance 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.

Total net proceeds for the year 2019 amounted to NOK 178.8 million.

There are no authorizations to the board to purchase own shares.

2018

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 trance 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.

Total net proceeds for the year 2018 amounted to NOK 114.4 million.

CAPITAL RESOURCES

NEXT manages its liquidity passively, which means that funds are placed in floating-interest bank accounts. The majority of cash is held in Norwegian kroner at parent company level and is distributed when appropriate to the affiliates. This is both to have control of the overall liquidity situation and to manage expense levels in the affiliates.

NEXT has no financial non-current debt by the end of 2019 and does not hold any other financial instruments in the balance sheet or any such instruments outside the balance sheet.

NEXT targets to have an equity ratio above 80%, measured as total equity divided by total assets.

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Total equity	134,801	119,289	154,469	543,999
Total assets	172,896	150,046	162,305	548,734
Equity ratio	**78%**	**80%**	**95%**	**99%**

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Current debt	34,751	30,757	6,176	4,735
Non-current debt	3,344	-	1,660	-
Less cash and cash equivalents	**-88,541**	**-46,299**	**-46,697**	**-22,165**
Net debt (net cash)	-50,446	-15,542	-38,862	-17,430
Total equity	134,801	119,289	154,469	543,999
Total capital resources	**84,355**	**103,747**	**115,608**	**526,569**
Gearing ratio (%)	**-60%**	**-15%**	**-34%**	**-3%**

The largest shareholders at year end and shares owned by executive and Directors of the Board:

TOP 20 SHAREHOLDERS AT 31 DECEMBER 2019

	Number of shares	Percent of shares
GREENBRIDGE INVESTMENT L.P.	7,413,614	17.3 %
Avanza Bank AB	1,705,722	4.0 %
ECOMNEX HOLDING AS	1,519,484	3.5 %
CLEARSTREAM BANKING S.A.	1,289,849	3.0 %
BNP Paribas Securities Services	1,240,000	2.9 %
SILVERCOIN INDUSTRIES AS	1,078,601	2.5 %
Nordnet Bank AB	1,077,164	2.5 %
Skandinaviska Enskilda Banken AB	1,019,841	2.4 %
NORUS AS	982,495	2.3 %
TORSTEIN INGVALD TVENGE	981,719	2.3 %
TVECO AS	900,000	2.1 %
EQUINOR PENSJON	880,096	2.1 %
UBS Switzerland AG	821,041	1.9 %
ØYSTEIN ERLING TVENGE	753,000	1.8 %
LUCELLUM AS	700,000	1.6 %
VERDIPAPIRFONDET STOREBRAND	544,532	1.3 %
TIGERSTADEN AS	500,000	1.2 %
ENGELSBERG INVEST AS	496,337	1.2 %
MARSTAL AS	452,500	1.1 %
ARNE HELGE FREDLY	450,000	1.0 %
TOTAL top 20	**24,805,995**	**57.8 %**
Others	18,124,580	42.2 %
Total number of shares	**42,930,575**	**100,0%**

SHARES OWNED BY EXECUTIVES AND DIRECTORS OF THE BOARD

	Number of shares	Percent of shares	Held through
Senior Executives			
Peter Heuman, CEO [1]	-	0.00%	
Ritu Favre, CEO [2]	53,643	0.12%	
Knut Stålen	40,000	0.09%	
Dan Cronin, CEO/COO [3]	53,643	0.12%	
Zehira Dadon-Sitbon, Chief of Staff & HR Officer [4]	-	0.00%	
Alain Faburel, Chief Sales and Marketing Officer	3,658	0.01%	
Board of Directors			
Magnus Mandersson, Chairperson	-	0.00%	
Emanuel Lang [5]	7,413,614	17.27%	Greenbridge Investment L.P
Brita Eilertsen	-	0.00%	
Petter Fjeldstad	10,000	0.02%	Aponia AS
Emine Lundkvist	29,738	0.07%	
Nomination Committee			
Odd-Harald Hauge	90,449	0.21%	Barske Gleder AS & Odd-Harald Hauge
Haakon Sæter	1,462,331	3.41%	Silvercoin Industries AS & Haakon Sæter
Matei Stefan Gaburici	-	0.00%	
	9,157,076	**21.33%**	

[1] Peter Heuman was CEO effective from 16 September 2019.
[2] Ritu Favre left the company July 28 2019.
[3] Dan Cronin was COO. He was acting CEO from July 2019 to September 2019.
[4] Zehira Dadon-Sitbon, Chief of Staff & HR Officer left the company 1 February 2019.
[5] Emanuel Lang is employed by Greenbrigde Investment L.P.

As of 31 December 2019, the Company has one share option program:

(I) CONDITIONAL – LONG-TERM SHARE OPTIONS

From 2016, NEXT has allotted conditional long-term share options to employees. From share-based options to senior executives, see note 4. The conditional options vest 1/3 after 1 year, additionally 1/3 after 2 years, additionally 1/3 after 3 years. The options expire after 6 years. These options have been awarded with a strike price equal to the assumed market value of the Company's shares at the time of allotment of the share options with the addition of 10%.

There are currently an accumulated 1,940,624 (4.5% of the Company) conditional long-term share options outstanding. Out of these, 401,811 share options have vested.

Each option gives the holder the right to acquire one share from the Company at a strike price defined in the individual share option agreement.

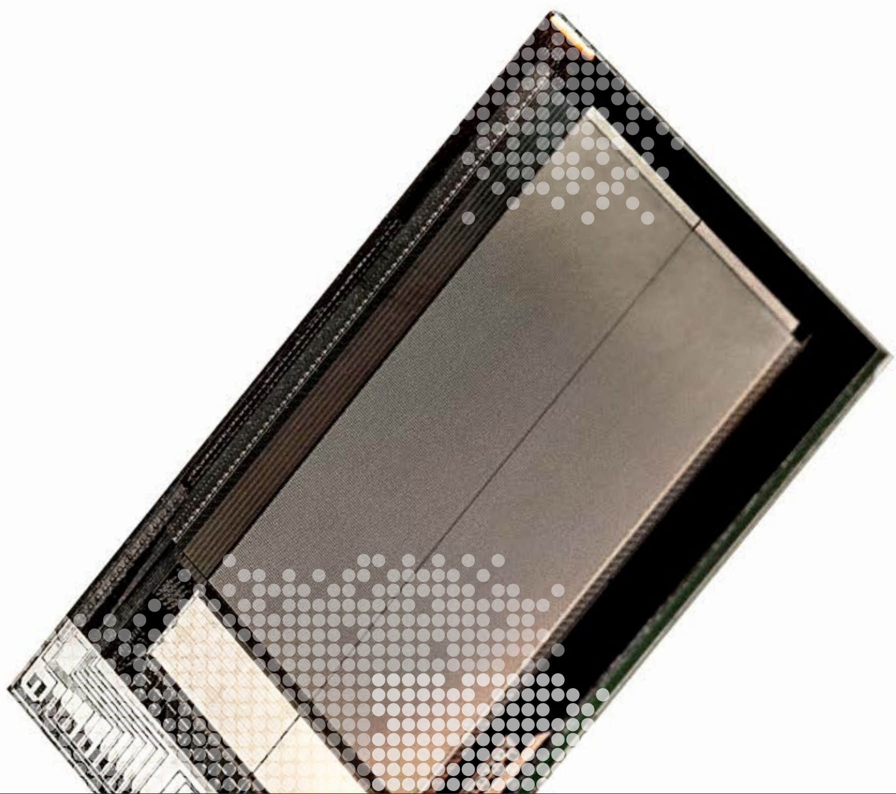
The option agreements include a clause on accelerated vesting implying that if (i) 67% of the shares in the Company are sold to an acquirer, (ii) if a shareholder alone or with a group of shareholders either through a tender offer or other market transaction should gain control over the ownership of 33.33% or more of the outstanding share capital, (iii) the Company is merged with another company where the Company is the going forward, (iv) the Company decides to sell all or substantial parts of its assets, (v) a demerger occurs and the option holder is not granted options on similar conditions as those set out in the agreement, and (vi) if during any 15 month period from any grant individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute at least a majority of the Board of Directors, all outstanding options are vested.

Previously, the Company had share options related to the programs "Unconditional – Long-term fixed share options" and "Milestone based share options". All share options related to these programs expired during 2019 and as of 31 December 2019 there were no outstanding share options related to them. Information about these programs are therefore not included in the Annual Report for 2019 but further information about these programs can be found in Annual Report for previous years.

At the Annual General Meeting (AGM) 21 May 2019 the Board of Directors was granted authorization to issue up to 2,894,464 share options which each entitle the holder to subscribe for one new share in the company. The share options shall vest over a period of three years from allocation. 1/3 of the share options shall vest one year after allotment, and then 1/3 for each additional year. Exercise of the share options shall also be subject to fulfilment of certain achievement-based conditions developed for the management. Employees granted options below management level shall not be subject to fulfilment of certain achievement based individual conditions.

In the first quarter of 2019, a total of 61,400 new share options were granted. In addition, a total of 10,000 new share options under the 2017 program was granted. In the second quarter of 2019, a total of 706,250 new share options were granted. In the third quarter of 2019 a total of 440,000 new share options were granted. Moreover, in the fourth quarter of 2019, 220,000 new share options were granted.

There are no authorizations to the board to purchase own shares.



Options - movement	2019 Number of options	2019 Weighted average exercise price	2018 Number of options	2018 Weighted average exercise price
Outstanding options - Beginning period	1,633,568	52.04	1,764,561	63.08
Granted	1,437,650	6.45	334,500	44.04
Exercised	-	-	(187,240)	1.00
Cancelled	-	-	(7,244)	1.00
Forfeited	(461,857)	60.05	(122,669)	78.11
Expired	(668,737)	39.63	(103,590)	46.47
Modifications	-	-	(44,750)	42.04
Outstanding options - End period 1)	**1,940,624**	**28.90**	**1,633,568**	**52.04**
Vested options - End period	**408,811**	**63.05**	**845,305**	**44.56**

	2019 Number of options	2019 Weighted average fair value	2018 Number of options	2018 Weighted average fair value
Granted options - During period	1,437,650	2.81	334,500	40.54

	2019 Number of options	2019 Weighted average fair value	2018 Number of options	2018 Weighted average fair value
Outstanding options - End period	1,940,624	92,400	1,633,568	2,809,891
Vested options - End period	408,811	-	850,180	2,809,891

1) The outstanding option quantity as per 31 December 2019 has not been adjusted for performance conditions, which represents the adjustment for the probability of all conditions related to the granted share options being meet. The estimated adjustment was negative 208,148 options at the end of 2019.

The fair value for the share-based options granted in the year has been calculated by use of the Black & Scholes option-pricing model applying the following assumptions applied in 2019 and 2018:

EXERCISE PRICE:

2019: Weighted average NOK 6.45 per share
2018: Weighted average NOK 44.04 per share

DURATION:

2019: 1/3 have 1 years, 1/3 have 2 years and 1/3 have 3 years
2018: 1/3 have 1 years, 1/3 have 2 years and 1/3 have 3 years

VOLATILITY:

2019: 69% - 79%, average 73%
2018: 66% - 75%, average 71%

RISK FREE INTEREST RATE:

2019: 1.2%-1.4%, average 1.2%
2018: 0.9% - 1.6%, average 1.3%

No expected dividend payment

Actual population of share-based options, 5% attrition for employees and 0% for executives.

NOTE 20 – OTHER CURRENT LIABILITIES

	THE GROUP		PARENT COMPANY	
(amounts in NOK 1,000)	**2019**	**2018**	**2019**	**2018**
Accrued salary, vacation pay and board remuneration	8,022	3,400	2,294	1,573
Current lease liabilities (see note 11)	4,487	-	759	-
Other current liabilities	8,263	4,955	391	22
Total financial liabilities at amortised cost	**20,772**	**8,355**	**3,443**	**1,595**
Public duties payable	2,004	1,330	1,453	1,816
Share options social security tax	1	108	1	-
Total non-financial liabilities	**2,005**	**1,438**	**1,454**	**1,816**
Total other current liabilities	**22,777**	**9,793**	**4,897**	**3,411**

For financial liabilities at amortised cost, the carrying amount is assessed to be a reasonable approximation of fair value. The effect of not discounting is considered to be immaterial for this class of financial instruments.

See note 11 for further information about leases and lease liabilities.

NOTE 21 – RELATED PARTY TRANSACTIONS

The Company’s significant shareholders, board members and management are considered related parties. All transactions with related parties have been carried out on arm’s length principle.

Board members have received remuneration according to the general meetings decisions. In addition, some of the board members have previously been granted options. Salary and board remuneration to related parties have been disclosed in note 4.

NOTE 22 – CHANGED NUMBERS FROM Q4 2019 REPORT

The Group presented the interim report for Q4 2019, together with the preliminary numbers for the year, on 25 February 2020. The final loss after taxes for 2019 amounts to NOK 166.4 million, a difference of NOK 5.0 million compared to reported preliminary loss after taxes of NOK 171.4 million. The increase is related to recognition of government grants of NOK 5.0 million (see note 8 for further information). At the date of presentation of Q4 report, it was uncertain if the Group would be within the terms to receive the government grants and therefore they were not recognized. After the release of the Q4 2019 report, the terms for the goverment grant have been clarified by the Norwegian Ministry of Finance so the Group expects to receive the government grants and they are therefore recognized in 2019 figures.

NOTE 23 – EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Between 31 December 2019 and the resolution of these financial statements, there has not been any event which have had any noticeable impact on the Group’s or the parent company's result for 2019 or the value of the Group or the parent company’s assets and liabilities as of 31 December 2019, except events mentioned below.

The Group’s functional currency is Norwegian Kroner, but the Group has an international currency exposure due to its international exposure. The majority of the Group’s bank deposits are held in Norwegian Kroner while the main international trading currency is US dollars. The exchange rate for converting US dollars (USD) to NOK published by the National Norwegian Bank has changed from 8.78 as per 31 December 2019 to 10.39 as per 17 April 2020. Other international currency-exchange rates have had a similar development relative to the Norwegian kroner. Since the Group's revenues, production costs and a majority of operating expenses are booked in Norwegian kroner based on USD-exchange and other international currency exchange rates, this would have had an impact on financial statements if the change had occurred prior to 31 December 2019.

The parent company has assessed that the best estimate of recoverable amount of NEXT Biometrics AS is the market value based on year-end stock price for the parent company, since the main asset in the parent company is investment in subsidiaries. At year-end 2019, the closing stock price for the parent company was NOK 3.60 per share, which gives a total market value of NOK 154.6 million. See also note 15. Subsequent to year-end, the stock price of the parent company has been reduced. As per end of 17 April 2020, the company's stock price was NOK 2.26 per share. Based on the principles applied in 2019 the accounting effect of the subsequent reduction of the stock price would imply an additional write-down of NOK 57.5 million.

Subsequent to year-end, the COVID-19 pandemic has spread to multiple countries where the Group has offices, outsourced production facilities and customers, which includes China, Taiwan, Norway, Czech, USA and India. The production in Asia was negatively impacted for approximately three weeks but the Group had sufficient inventory to cover customer product demand. The Group has experienced slower demand from customers from March onwards and is continuing to assess the impact on product demand for the remaining part of 2020. The COVID-19 pandemic could also impact client credit risk, but the Group has not yet experienced any such impact. Moreover, the availability of equity capital is believed to be scarcer due the pandemic and related capital market weakness. To address the pandemic, the Group has implemented measures and COVID-19 policies in line with local government regulations in office locations globally.

RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the financial statements for the period from 1 January to 31 December 2019 have been prepared in accordance with IFRS as adopted by the EU, with such additional information as required by the Norwegian Accounting Act, and give a true and fair view of the Group's and Parent company's assets, liabilities, financial position and result of operations, and that the Board of Directors' report gives a true and fair view of the development, performance and financial position of the Group and the Parent company, and includes a description of the principal risks and uncertainties that they face.

Oslo, 20 April 2020
The Board of Directors of NEXT Biometrics Group ASA

/sign/
Magnus Mandersson
Chairman

/sign/
Brita Eilertsen
Board member

/sign/
Petter Fjellstad
Board member

/sign/
Emine Lundkvist
Board member

/sign/
Emanuel Lang
Board member

/sign/
Peter Heuman
CEO

To the General Meeting of NEXT Biometrics Group ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of NEXT Biometrics Group ASA, which comprise:

- The financial statements of the parent company NEXT Biometrics Group ASA (the Company), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and

- The consolidated financial statements of NEXT Biometrics Group ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.

- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Material Uncertainty Relating to Going Concern

We draw attention to note 2 to these financial statements and the Board of Directors' report, which states that the Group historically has operated at a loss due to substantial investments in research and development and sales and marketing. Revenues were reduced in 2019 due to loss of a key customer and a company turnaround replacing lost revenues is taking time. Based on management's current projections the Group's cash position and working capital cover less than 6 months operations from the date of signing the financial statements for 2019. Management's cash flow projections indicates that the Company will be in need of cash contributions during 2020. This, along with other matters as described in note 2 and the Board of Directors' report indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section above, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition The Group develops and sells fingerprint sensors for authentication in the smart card, government ID, access control and notebook markets. The majority of the group's sales in 2019 is handled through distributors. It is challenging to determine based on the terms of the contracts and the business set up, whether a distributor is considered an agent or a principal for accounting purposes. The complexity of the arrangements with distributors and end customers lead to an inherent risk of misinterpretation of the terms, and as a consequence, a risk that revenue is recorded in a financial period before control has passed over to the customer. Furthermore, there is a risk that revenue is recorded net of service charge to distributors if the distributor is considered an agent rather than a principal. In such a case revenue and cost of goods sold would both be understated by the same amount. We refer to note 2 where management describes their principle for revenue recognition.	Our audit procedures included among others, a review of customer contracts and distribution contracts and assessment of contract terms and business set up to understand how they relate to IFRS requirements for revenue recognition. Further, we assessed whether the distributor, when acting in line with the stipulations in the agreements, was an agent or a principal and when control of the goods was transferred from the Group. To test whether revenue was recognized in the correct period, we performed a review of goods shipped to the distributor acting as agent to the Company and assessed whether there were goods not transferred to end-customers as per 31 December 2019. Furthermore, we evaluated management's assessment of probability of return of goods. Our evaluation was based on testing of credit notes after 31 December 2019 and analysis of historical returns. Invoiced sales to the two largest distributors representing 94% of total revenue in 2019, was tested by obtaining confirmations from the distributors. To test whether revenue was recorded net of service charge, we performed a review of invoices sent to the distributor acting as agent to the Company and compared the price to the price agreed with the end customer and the level of service charge (margin) as agreed in the distribution contract. For one distributor we found that revenue had been accounted for as if the distributor was a principal whereas our view was that this was an agent. We discussed our point of view with management and expanded our testing to see if there were more than one agreement assessed to

be agent. We found no more distributors to be assessed as agents and that the revenue amounts involved was below our materiality levels.

We read the note relevant to revenue recognition and found that they gave an adequate description of how the Group applies IFRS on revenue recognition.

Valuation of investment in subsidiary

In the parent company's financial statements, the investment in NEXT Biometrics AS is recognized at cost. If the carrying amount exceeds recoverable amount, the investment is impaired. Indicators of impairment loss triggers an impairment test. The investment has a book value of NOK 107,8 million as at 31 December 2019 after impairment of NOK 872,4 million of which NOK 556,3 million is recognized in 2019. The impairment is linked to the fall in stock price during 2019.

For additional information on how management has assessed the valuation of the subsidiary, we refer to notes 2 and 15 in the annual report.

Our audit procedures included among others, an evaluation of management's assessment of impairment indicators. We found that management has mainly based their assessment of whether the shares in the subsidiary NEXT Biometrics are impaired, on the stock price for the parent company's shares at year end 2019.

We considered the method applied by management in their impairment assessment against the requirements in IFRS. To use the stock price as a valuation method is allowed when the share price is considered to be a reliable estimate of recoverable amount for the subsidiary. We agree with management's assessment. Furthermore, we tested the mathematical accuracy of the impairment calculation.

We read the notes relevant to valuation of investment in subsidiary and found that they gave an adequate description of the valuation methods used.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 20 April 2020

PricewaterhouseCoopers AS

Anne Kristin Huuse
State Authorised Public Accountant

ALTERNATIVE PERFORMANCE MEASURES

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

DEFINITIONS

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

GROSS MARGIN / GROSS MARGIN (%)

Revenues less cost of goods sold. Gross margin as a percentage of revenues.

(AMOUNTS IN NOK 1,000)	2019	2018
Operating revenue	84,436	108,392
Cost of goods sold	(63,865)	(77,612)
Gross margin	**20,570**	**30,780**
Operating revenue	84,436	108,392
Gross margin	20,570	30,780
Gross margin (%)	**24%**	**28%**

EBITDA EX OPTIONS

Earnings before interest, taxes, depreciation and amortization (EBITDA). EBITDA ex option is equal to "Profit (loss) before tax, depreciation and amortization" excluding "share based remuneration", (Salary part, employer's part and operating part).

(AMOUNTS IN NOK 1,000)	2019	2018
Profit (loss) before tax, depreciation and amortization	(152,777)	(160,867)
Share based remuneration (salary part)	3,609	11,562
Share based remuneration (employer's tax)	(106)	(520)
Share based remuneration (operating part)	(656)	340
EBITDA ex. options	**(149,931)**	**(149,485)**

COST OF GOODS SOLD

Cost of materials and production service expenses.


One Touch.
One You.
NEXT Biometrics