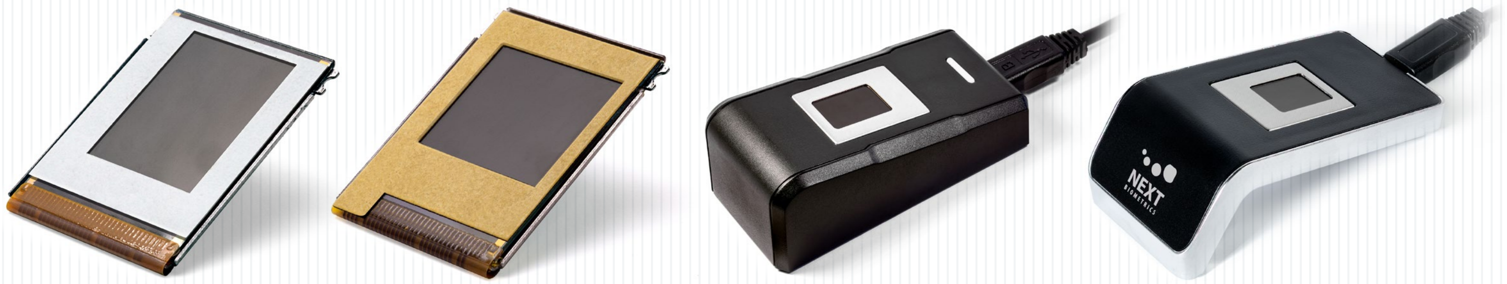
NEXT BIOMETRICS GROUP ASA

ANNUAL REPORT 2018

One Touch.
One You.
NEXT Biometrics



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> LETTER FROM THE CEO

DEAR SHAREHOLDERS,

Strategic diversification of NEXT Biometrics from a one-product-one-market Company to a multi-product technology partner to the access control, government ID, notebook and smart card sectors made further progress in 2018.

From a technology perspective, we achieved significant milestones on our product roadmap and completed key product development and commercialization steps. Following rigorous testing, our fingerprint sensors and readers received Aadhaar certification in June 2018. Customer design-in processes for Aadhaar authentication and payment solutions started at the end of last year, accelerated recently and are expected to result in mass production and shipments over the coming months. The new FAP20 government grade sensor was launched for sampling in late 2018 and has since received significant customer interest in our notebook, access control and government ID segments. Moreover, development of our dual interface smart card solution reached completion. Sampling to key customers will start soon followed by further commercialization steps in close cooperation with smart card manufacturers and further smart card ecosystem partners.

From a commercial perspective, we recorded highlights and lowlights in 2018. The Supreme Court ruling in India created temporary uncertainty in the market and resulted in lower-than-anticipated sales in the fourth quarter. Call-off quantities for fingerprint sensors and chipsets under an existing smart card contract remained below expectations due to project delays. In the notebook segment, in turn, volumes reached an all-time high in 2018. Moreover, design-in agreements laid the foundation for future growth in government-driven Point-of-Sale fingerprint authentication solutions.

In total, revenues for fiscal year 2018 increased by 10% over 2017. Improvement on gross margin level was even more significant, swinging 35 points year-on-year from negative 4% in the last quarter of 2017 to 36% in the fourth quarter of 2018, driven by our new cost-optimized sensor module, improved yields and economies of scale as well as shipments to higher-margin market segments.

Based on the continued growth trend for biometrics, positive customer feedback and a favorable number of new business partners and prospects, we are confident to achieve further progress in 2019. As reported, we anticipate stable revenues to notebook clients. Demand for Aadhaar-based (Government ID) solutions in India is picking up gradually, partnerships and distribution agreements in the access control sector are shaping up well and we continue to strengthen our position in the smart card ecosystem in preparation for the projected hypergrowth in the payment smart card sector from 2020 onwards.

On behalf of the management team, I would like to thank the NEXT team for their dedication and strong contribution to the Company`s strategic development and success. We would also like to extend our gratitude to our customers, business partners and shareholders for their continued trust and support.

Your sincerely,

Ritu Favre
Chief Executive Officer

> REPORT FROM THE BOARD OF DIRECTORS

A GLOBAL LEADER IN FINGERPRINT SENSOR TECHNOLOGY

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

NEXT provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets.

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 Company 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.

In 2018, NEXT continued to strengthen its position as a supplier in the fingerprint sensor industry and the Company's life-time accumulated shipments exceeded 6 million sensors to customers in December.

The Group has five wholly owned operating subsidiaries: NEXT Biometrics AS (Norway) and its subsidiaries NEXT Biometrics, Inc. (Seattle, USA), NEXT Biometrics China, Ltd. (Shanghai, China), NEXT Biometrics Taiwan, Ltd. (Taipei, Taiwan) and NEXT Biometrics s.r.o (Prague, Czech Republic).

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

HIGHLIGHTS 2018

NEXT Biometrics continued to develop its position as a global leader in fingerprint sensor technology throughout 2018. The Company delivered on its product and technology roadmap and diversified the customer base in all four target markets; smart cards, government ID, access control and notebook. The following are a selection of key milestones reached in 2018:

- **Full-year revenue growth of 10% to NOK 108.4 million in 2018**
- **Positive gross margin of 28% after a planned turn-around from negative 2017 contribution**
- **Shift of organizational focus from product development to revenue generation well underway**
- **Achieved Aadhaar certification in India and initial orders signed**
- **Smart card position significantly strengthened by Infineon technology partnership, R&D program with MK Group and Tactilis pilot projects that target government-grade biometric enabled smart card projects**
- **Government ID progress with orders from Telpo, Tysso and India agreement with Digitsecure**
- **Access control market strategy refined, and strong and relevant notebook position maintained**

SALES AND MARKETING

In 2018, NEXT started pivoting its focus from product development to revenue generation. The strategy is to leverage the Company's large-size, highly secure, easy-to-use and cost-effective sensor products in all market segments to drive increased revenue while positioning for the emerging hyper-growth of the payment smart card market.

NEXT signed four new agreements with tier-2 card manufacturers in Asia during 2018. Furthermore, the Company announced the development of a joint reference platform with Infineon Technologies AG providing smart card makers with a complete solution and shorter time-to-market. NEXT also started a smart card R&D program targeting payment cards and other applications with MK Group, Vietnam's leading provider of smart cards and digital security solutions. Additional smart card agreements were announced in early 2019.

NEXT was also chosen to supply sensors to three smart card pilot projects in Asia by Tactilis Pte. Ltd. The pilots are with the International Organization of Migration, a related agency of the United Nations and targets deployment in three different migrant and foreign worker environments, namely visa card, cross border card and migrant camp card. In January 2019, NEXT shipped 30,000 chipsets to Tactilis to support the pilot projects as well as other Tactilis' smart card projects such as the US Veterans Card and Madeira Smart City. NEXT remains ready to provide additional chipsets to Tactilis as they ramp their business.

Commercial developments in the government ID segment reflected both major progress and headwinds. The Aadhaar certification in June represented a commercial breakthrough and was expected to lead to meaningful sensor and solutions sales into India in 2018. However, a Supreme Court ruling on the Aadhaar program in the third quarter delayed customer projects which combined with uncertainty before the 2019 elections in India, made customers pause their projects. This led to lower-than-expected revenue and cash flow for NEXT towards the year-end.

Market activity in India improved in early 2019, which is reflected in an increased lead pipeline and firm contract awards including purchase orders from MobiOcean Technologies Pvt. Ltd. for mobile point-of-sale terminals (POS), a cooperation agreement with Digitsecure India Pvt. Ltd. and a sensor module order from China-based Telpo for POS units for retail sales transactions NEXT also secured government ID contracts outside of India in early 2019.

In late 2018, NEXT completed its review and segmentation of the access control market, targeting healthcare and physical and logical access, all representative of segments that provide volumes and attractive pricing. Going into 2019, NEXT will leverage its existing portfolio through regional distribution partners to widen geographical presence. The Company targets increased market penetration based on the existing product portfolio with the embedded matching algorithm as well as leveraging the FAP 20 sensor for physical access control and time/attendance applications.

Shipments to notebook customers reached an all-time-high in the fourth quarter of 2018. Most of the sensor shipments in 2018 were to the US tier-1 customer. Shipments to the US customer are expected to continue in 2019, but the number of platforms using NEXT sensors will likely decline. However, shipments to Fujitsu started to ramp in 2018 and are expected to increase significantly in 2019 as more notebooks with NEXT sensors are launched in the market. NEXT is engaged in ongoing technology evaluation with additional notebook manufacturers based on the existing sensor portfolio and the new FAP 20 sensor. For 2019, NEXT targets stable shipments of sensors to notebook customers overall compared to 2018.

MANUFACTURING

Throughout 2018, NEXT delivered volume shipments of its sensors, predominantly to its tier-1 US notebook customer. The proven ability to produce large volumes of high quality, mass-market robust sensors at very high yield rates is highly recognised by existing and potential new customers. The Company can increase production capacity rapidly when needed.

Shipments of products containing the Company's second-generation ASIC (A2) accelerated in 2018, offering improved performance and reduced cost. The new cost optimized module with the A2 was a major driver for the Company's significant gross margin improvement. Higher yields and scaling as well as shipments to new and more profitable segments also contributed to the margin development. The gross margin was positive with 28% for the full year. This compares to a margin of -6% in 2017.

PRODUCT DEVELOPMENT

NEXT made significant progress along its product and technology development roadmap in 2018. Development was largely focused on the smart card and government ID markets after previously having completed its notebook solutions. The access control offering was strengthened with the acquisition of a source code (algorithm) to provide improved customization and performance and faster time-to-market.

At year-end, the Company started to sample its One Touch ID FAP20 compliant sensor for use in government applications. NEXT has also made progress with its Dual Interface smart card solution (One Touch Flex CL) which will be demonstrated to clients from the second quarter of 2019. The solution enables NEXT's unique technology to be used with contact and contactless smart cards, including payment cards. Both solutions represent major milestones in NEXT's strategy to win a strong position in the payment card and government ID multi-million-unit markets.

Development investments peaked in late 2018 in line with the roadmap. In 2019, NEXT will concentrate investments on further commercializing smart card solutions, including dual interface payment cards. The Company will also complete products for the government ID market, but at lower investment levels than before, as the Company has established a market-leading product portfolio with the inclusion of the FAP20 sensor. The latter has generated significant customer interest in the government ID, access control and notebook segments.

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

CORPORATE MATTERS

In March 2018, NEXT completed a private placement of new shares raising NOK 120 million. The net proceeds were used to scale smart card and government ID activities. NEXT anticipated that the net proceeds together with increased revenues from the government ID segment in India and a forecasted ramp of shipments to Tactilis' smart card projects would cover the Group's operations for more than 12 months.

Delays in customer purchase orders and the market impact of the Indian Supreme Court ruling, both events outside the control of the Company, had a significant negative impact on NEXT's actual revenue generation in 2018 as compared to the Company's best estimate at the time of the private placement in March 2018. As the Board of Directors considered available alternatives for financing in the fourth quarter of 2018, market volatility increased, and a decision was made to pause the funding process. However, market volatility continued and effectively closed the market for new transactions until 2019.

In the first quarter of 2019, NEXT raised a total of NOK 188 million in gross proceeds in a private placement and subsequent offering. The liquidity position after completion of the private placement and subsequent offering is expected to secure financing for at least six quarters.

On December 18, board member and former CEO of Next Biometrics Group ASA, Tore Etholm-Idsøe assumed the position as a Senior Vice President of Tactilis PTE Ltd. and resigned with immediate effect as a board member of NEXT to avoid potential conflict of interest.

FINANCIAL SUMMARY – THE GROUP

NEXT presented the interim report for the fourth quarter of 2018, together with the preliminary numbers for the year 2018, on 27 February 2019. The final full-year 2018 net loss of NOK 172.9 million, deviates from the preliminary reported net loss of NOK 169.9 million. The increased loss of NOK 3.0 million is related to the assessment of an investment of NOK 3.1 million in a new ASIC (1.5) included in in the preliminary fourth quarter 2018 accounts, with a corresponding NOK 0.1 million impact on depreciation. Based on the new assessment, the investment and corresponding depreciation cost have been reversed, and the net amount included as an expense in the final numbers for 2018.

REVENUE:

Group revenue was NOK 108.4 million in 2018. Revenue for 2017 was NOK 98.2 million.

In January 2018, NEXT started recording positive gross margins for the first time. The full-year gross profit was NOK 30.8 million, equal to a gross margin of 28%. This was compared to a loss of NOK 5.9 million and a gross margin of -6% in 2017.

PAYROLL EXPENSES

Payroll expenses was NOK 116.1 million in 2018, up from NOK 89.3 million in 2017. The increase reflects mainly a higher number of employees. The Group had 90 employees at the end of 2018, compared to 81 employees at the end of 2017. More than half of the employees were in Seattle, USA.

Included in payroll expenses was net cost related to share-based compensation, including related accrued social security tax, of NOK 11.0 million in 2018, compared to NOK 12.0 million in 2017.

Research and development (R&D) cost included in payroll expenses increased by NOK 23.5 million from NOK 46.1 million in 2017 to NOK 69.6 million in 2018.

OTHER OPERATING EXPENSES:

Other operating expenses were NOK 75.6 million in 2018, compared to NOK 68.1 million in 2017. R&D costs included in other operating expenses were NOK 45.1 million in 2018, compared to NOK 36.0 million in 2017.

Total R&D expenses, included in both payroll and other operating expenses, was NOK 114.7 million in 2018, an increase from NOK 82.1 million in 2017.

DEPRECIATION:

Depreciation and amortisation were NOK 10.0 million in 2018, compared to NOK 4.8 million in 2017.

The Company invested NOK 3.7 million in 2018, compared to NOK 32.2 million in 2017. The main investments in 2018 were the source code license acquisition in the second quarter of 2018. The cost of NOK 3.1 million in new ASIC (1.5) was capitalised with NOK 3.1 million in the interim report for the fourth quarter of 2018. Following reclassification, these costs have been expensed in the final 2018 numbers. The main investments in 2017 were related to the coating machine of NOK 20.4 million and a cutting machine for flexible sensor production of NOK 7.3 million. At the end of 2017, NEXT wrote down the value of its first coating machine from 2014 by NOK 11.4 million. In 2018 there were no write-downs.

NET FINANCIAL ITEMS:

Net financial items amounted to a net cost of NOK 0.4 million in 2018, compared to a net cost of NOK 0.2 million in 2017. Net financial items were mainly related to foreign exchange gains and losses.

TAXES:

Payable taxes related to foreign subsidiaries were NOK 1.9 million in 2018, compared to NOK 1.2 million in 2017. Deferred taxes related to foreign subsidiaries reduced the tax expense by NOK 0.4 million in 2018.

NET LOSS FOR THE YEAR:

Net loss for the Group was NOK 172.9 million in 2018, compared to a net loss of NOK 180.8 million in 2017.

CASH AND CASH EQUIVALENTS:

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

CASH FLOW:
Cash flow from operating activities was negative with NOK 144.4 million in 2018 compared to a negative amount of NOK 147.6 million in 2017. The deviation of NOK 26.9 million from the loss before tax and the net cash flow from operating activities, was mainly related to non-cash items. These non-cash items were mainly share based remuneration of NOK 11.9 million, amortisation from intangible assets of NOK 6.2 million, depreciation from tangible assets of NOK 3.8 million and working capital adjustments of NOK 6.9 million. Cash flow from investing activities was negative with NOK 4.1 million in 2018 compared to a negative amount of NOK 32.2 million in 2017.

Cash flow from financing activities was positive with NOK 114.4 million in 2018, following the private placement of new shares. In 2017, cash flow from financing activities was positive with NOK 153.1 million, mainly due to a private placement of new shares.

LIABILITIES:
The Company did not have non-current financial debt at the end of 2018.

EQUITY:
Total Group equity was NOK 119.3 million at the end of 2018 compared to NOK 165.1 million at the end of 2017. The change reflects the net loss of NOK 172.9 million, partly offset by net proceeds of NOK 114.4 million from the private placement of new shares and an equity effect of NOK 11.9 million related to share-based compensation.

As at 31 December 2018, the Company's share capital was NOK 19,430,575, divided into 19,430,575 shares with a par value of NOK 1 per share.

> FINANCIAL SUMMARY – THE PARENT COMPANY

REVENUES:
Revenue for the parent company was NOK 10.3 million in 2018, compared to NOK 6.6 million in 2017. Revenue for 2018 consisted of management fee and royalty charged to the subsidiary NEXT Biometrics AS. Revenue for 2017 only consisted of management fee.

PAYROLL EXPENSES:
Payroll expenses for the parent company were NOK 12.7 million in 2018, an increase from NOK 11.8 million in 2017. Salaries and fees increased to NOK 8.5 million in 2018 from NOK 7.8 million in 2017. There were 7 employees in the parent company at year-end, up from 6 employees at the end of 2017.

OTHER OPERATING EXPENSES:
Other operating expenses for the parent company decreased to NOK 13.8 million in 2018 from NOK 20.9 million in 2017. The decrease was mainly related reduced consultant fees and legal fees.

NET FINANCIAL ITEMS:
Net financial items, excluding write-downs on investments in subsidiaries, amounted to a net financial income of NOK 3.0 million in 2018, compared to a net financial income of NOK 7.8 million in 2017. The decrease was mainly related to a NOK 2.5 million reduction in currency gain and a NOK 1.2 million decrease in interest received from the subsidiary NEXT Biometrics AS on the long-term intercompany loan. The parent company received NOK 3.6 million of interest in 2018, compared to NOK 4.8 million in 2016.

At the end of 2018, NEXT wrote down the value of the investment in the subsidiary NEXT Biometrics AS with NOK 316.1 million, to NOK 284.1 million. The write-down was based on the reduced stock price at year-end 2018. After the write-down, the equity of the parent company was equal to the market value of the group at year-end.

TAXES:
The parent company had net losses in 2018 and 2017. Hence, no payable taxes incurred. No deferred tax assets have been recognised during 2018 and 2017.

NET RESULT FOR THE YEAR:
Net loss for 2018 was NOK 330.3 million compared to NOK 18.8 million in 2017 for the parent company. Excluding the write-down of NOK 316.1 million on the investment in subsidiaries, the net loss for 2018 was NOK 14.2 million, a reduction of the net loss of NOK 4.6 million compared to 2017.

CASH AND CASH EQUIVALENTS:
Cash and cash equivalents amounted to NOK 22.2 million at the end of 2018 compared to NOK 70.1 million at the end of 2017.

CASH FLOW:
Operations consumed NOK 13.1 million of cash in 2018, compared to NOK 10.3 million in 2017. The change reflects net cash from operating activities throughout each year and the net cash effect from issue of shares and financing the subsidiary.

New funds were raised by share issues amounting to net cash inflow of NOK 114.4 million in 2018 and NOK 153.1 million in 2017.

The long-term loan to the subsidiary NEXT Biometrics AS was increased with NOK 149.2 million. The remaining outstanding loan amounted to NOK 198.7 million at the end of 2018, up from NOK 49.4 million by the end of 2017.

EQUITY:
Equity for the parent company was NOK 544.0 million at the end of 2018 compared to NOK 747.9 million at the end of 2017. This change was mainly related to the write-down of NOK 316.1 million on the investment in the subsidiary, net proceeds from the share issues of NOK 114.4 million, the remaining net loss of NOK 14.2 million and the equity effect of NOK 11.9 million related to share-based compensation.

ALLOCATION OF NET INCOME (LOSS)
The board of directors has proposed that the net loss of NEXT Biometrics Group ASA to be transferred from the Share premium reserve in the amount of NOK 330,287,615

> THE NEXT SHARE AND SHARE CAPITAL

The NEXT share (NEXT.OL), is listed at the Oslo Stock Exchange's main list and is included in the OSEBX index. The 2018 year-end closing price was NOK 28.00, down from NOK 59.50 at the end of 2017. During 2018, the shares traded in the range of NOK 20.50 to NOK 61.30.

The issued share capital of the Company at the end of 2018 amounted to NOK 19,430,575 consisting of 19,430,575 ordinary shares, each share having a par value of NOK 1. At the end of 2018, there were a total of 1,238 registered shareholder accounts, compared to 1,389 at the end of 2017.

In March and April 2018, NEXT raised NOK 114.3 million in net proceeds in a private placement and repair issue at a subscription price at NOK 42. The private placement was divided into two tranches and a repair issue. In the third quarter of 2018, a total of 187,240 incentive options were exercised at a subscription price of NOK 1.

The Company has entered into, and plan to continue to enter into, stock option agreements to attract talented, experienced and highly-valued employees. NEXT has three different option programs; unconditional long-term share options, milestone-based share options and conditional long-term share options. There are no authorizations to the board to purchase own shares.

At the Annual General Meeting (AGM) of 15 May 2018, the Board of Directors was granted authorization to issue up to 330,000 share options which each entitle the holder to subscribe for one new share in the Company. 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 share options for the management team shall be subject to fulfilment of certain achievement based on individual conditions. Vested, but unexercised share options, will expire without compensation to the holder six years after allotment. 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 2018, the board of directors resolved to grant the net amount of 334.500 new share options. The remaining amount under the 2018 board authorisation was 20,500 at year-end 2018. (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 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 2018.

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.

> EMPLOYEES

At the end of 2018, the group had 90 employees (2017: 81), of which 17 are women (2017: 14). The female proportion of group employees was 19 percent (2017: 17 percent) including the CEO of the Group, employed in the subsidiary NEXT Biometrics Inc. Additionally, the group has individual technical/scientific specialists working at its premises on a contract basis.

The parent company NEXT Biometrics Group ASA had 7 employees by the end of 2018, an increase of 1 employee from the end of 2017. There were 4 male employees and 3 female employees at year-end.

There are currently 4 members of the board, of which 2 are women.

> 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 Company 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.

In January and February 2019, NEXT raised NOK 160 million in gross proceeds in a private placement, followed by a repair issue with gross proceeds of NOK 28 million in March 2019. NEXT has adequate equity and liquidity for being a going concern for longer than 12 months from the date of this report.

> EVENT AFTER BALANCE SHEET DATE

In connection with the above-mentioned private placement and repair issue NEXT held a business update presentation on 24 January 2019, which provided additional information about sales and marketing developments and prospects.

To date in 2019, NEXT has received and delivered on purchase order for 30,000 chipsets from Tactilis. The company has experienced customer traction in India reflected in firm awards and growing lead pipeline, and significant steps have been taken to expand the smart card ecosystem with agreements in Asia.

> OUTLOOK

The markets for NEXT's fingerprint sensor technology are expected to grow in 2019 and over the following years. The board considers that NEXT's unique, patented technology and comprehensive and independent IP portfolio will open multiple market opportunities.

Areas of focus for NEXT during 2019 include:

- Customer demonstrations of new Dual Interface smart card module (One Touch Flex CL) in the second quarter of 2019
- Customer progress in the smart card and government ID segments
- Continued sampling of FAP20 high-end, government grade sensor for Government ID, access control and notebook applications
- Increased market share in India
- Improve operational cash flow from increased sales and scaling

Oslo, April 29, 2019
The Board of directors of NEXT Biometrics Group ASA

Magnus Mandersson
Chairman

Brita Eilertsen
Board member

Emine Lundkvist
Board member

Emanuel Lang
Board member

Ritu Favre
CEO

THERE'S ONLY **ONE** YOU

NEXT BIOMETRICS

> FINANCIAL STATEMENTS

STATEMENTS OF COMPREHENSIVE INCOME 1 JANUARY - 31 DECEMBER

NEXT BIOMETRICS GROUP ASA				THE GROUP	
2017	**2018**	**NOTES**	**(AMOUNTS IN NOK 1 000)**	**2018**	**2017**
			Profit and loss		
			Revenue		
6 607	10 280	3	Operating revenue	108 392	98 159
6 607	**10 280**		**Total revenue**	**108 392**	**98 159**
0	**0**	9	**Cost of goods sold**	**77 612**	**104 014**
6 607	**10 280**		**Gross margin (loss)**	**30 780**	**-5 855**
			Operating expenses		
11 815	12 710	4	Payroll expenses	116 077	89 343
486	750	5	Amortisation of intangible assets	6 204	751
14	177	6	Depreciations of tangible assets	3 823	4 012
0	0	6	Write-downs on tangible assets	0	11 397
20 905	13 804	7,8,9,10,11	Other operating expenses	75 569	68 063
33 220	**27 441**		**Total operating expenses**	**201 674**	**173 567**
-26 613	**-17 160**		**Operating profit (loss)**	**-170 894**	**-179 421**
			Financial items		
4 773	3 551	12,16	Interest income group companies	0	0
271	149	12	Interest income	177	285
2 856	319	12	Other financial income	8 428	9 203
-3	-6	12	Interest expenses	-32	-17
-111	-1 020	12	Other financial expenses	-8 998	-9 661
0	-316 120	12,15	Write-downs on investments in subsidiaries	0	0
7 786	**-313 127**		**Net financial items**	**-425**	**-190**
-18 828	**-330 288**		**Profit (loss) before tax**	**-171 319**	**-179 611**
0	**0**	13	**Income tax expenses**	**-1 582**	**-1 209**
-18 828	**-330 288**		**Net profit (loss) for the year**	**-172 901**	**-180 820**
			Attribution of profit (loss):		
-18 828	-330 288		Share premium reserve	0	0
			Owners of the parent company	-172 901	-180 820
-18 828	**-330 288**		**Total**	**-172 901**	**-180 820**
			Other comprehensive income		
			Items that may be reclassified to profit or loss		
0	0		Exchange rate differences	708	-7
0	**0**		**Total other comprehensive income for the year**	**708**	**-7**
-18 828	**-330 288**		**Total comprehensive income for the year**	**-172 194**	**-180 827**
			Total comprehensive income for the year attributable from:		
			Owners of the parent company	-172 194	-180 827
			Total	**-172 194**	**-180 827**
		14	**Earnings per share**		
			Basic and diluted	-9.30	-11.11

STATEMENTS OF FINANCIAL POSITION 31 DECEMBER

NEXT BIOMETRICS GROUP ASA				THE GROUP	
2017	**2018**	**NOTES**	**(AMOUNTS IN NOK)**	**2018**	**2017**
			Assets		
			Non-current assets		
			Intangible assets		
0	0	13	Deferred tax assets	354	0
5 999	5 249	5	Patents and other intangible assets	18 951	21 454
5 999	**5 249**		**Total intangible assets**	**19 305**	**21 454**
			Tangible assets		
518	341	6	Machinery and office equipment	27 125	30 086
518	**341**		**Total tangible assets**	**27 125**	**30 086**
			Financial assets		
627 262	321 310	15	Shares in subsidiaries	0	0
49 420	198 665	16	Loans to other group companies	0	0
676 682	**519 975**		**Total financial assets**	**0**	**0**
683 199	**525 565**		**Total non-current assets**	**46 430**	**51 540**
			Current assets		
0	**0**	9	**Inventories**	**29 373**	**28 014**
			Receivables		
0	0	17	Accounts receivable	12 797	16 570
737	1 004	17	Other receivables	15 147	16 464
0	0	17	Prepayments	0	3 070
737	**1 004**		**Total receivables**	**27 945**	**36 103**
70 081	**22 165**	18	**Cash and cash equivalents**	**46 299**	**79 722**
70 819	**23 169**		**Total current assets**	**103 617**	**143 839**
754 018	**548 734**	19	**Total assets**	**150 046**	**195 379**
			Equity and liabilities		
			Equity		
16 382	19 431	19	Share capital	19 431	16 382
688 111	469 200	19	Share premium reserve	469 200	688 111
43 436	55 369	19	Other paid-in capital	55 369	43 436
0	0	19	Accumulated losses	-424 710	-582 804
747 930	**543 999**	19	**Total equity**	**119 289**	**165 126**
			Liabilities		
			Non-current liabilities		
0	0		Other non-current provisions	0	0
0	**0**		**Total non-current liabilities**	**0**	**0**
			Current liabilities		
1 519	1 034		Accounts payable	19 096	21 631
2 245	290		Accounts payable group companies	0	0
0	0	13	Taxes payable	1 868	1 152
681	1 816		Public duties payable	1 330	807
1 642	1 595	20	Other current liabilities	8 463	6 662
6 088	**4 735**		**Total current liabilities**	**30 757**	**30 253**
6 088	**4 735**		**Total liabilities**	**30 757**	**30 253**
754 018	**548 734**		**Total equity and liabilities**	**150 046**	**195 379**

Oslo, 29 April 2019
The board of directors of NEXT Biometrics Group ASA

Magnus Mandersson	**Brita Eilertsen**	**Emine Lundkvist**	**Emanuel Lang**	**Ritu Favre**
Chairman	Board member	Board member	Board member	CEO

STATEMENTS OF CASH FLOW 31 DECEMBER

NEXT BIOMETRICS GROUP ASA				THE GROUP	
2017	**2018**	**NOTES**	**(AMOUNTS IN NOK)**	**2018**	**2017**
			Cash flows from operating activities		
-18 828	-330 288		Profit (loss) before tax (EBT)	-171 319	-179 611
15 655	11 933		Share based remuneration (equity part)	11 933	15 655
0	0	13	Income taxes	-1 936	-1 209
486	750	5	Amortisation from intangible assets	6 204	751
14	177	6	Depreciation from tangible assets	3 823	4 012
0	0	6	Write-downs on tangible assets	0	11 397
0	316 120	15	Write-downs on investments in subsidiaries	0	0
0	0	9	Change in inventories	-1 359	-4 612
5 713	-267	17	Change in receivables	5 089	-10 398
0	0	17	Change in prepayments	3 070	10 492
2 655	-2 440		Change in accounts payable	-2 535	7 283
0	0		Net change in non-current provisions	0	0
-16 022	-9 080		Change in other working capital items	2 615	-1 349
-10 326	**-13 096**		**Net cash flows from operating activities**	**-144 416**	**-147 588**
			Cash flows from investing activities		
-172 526	-149 245	16	Net financing of subsidiary	0	0
0	0		Sale of intangible & tangible assets	0	0
0	0	5	Purchase of intangible assets	-3 701	-2 900
-532	0	6	Purchase of tangible assets	-438	-29 256
-173 058	**-149 245**		**Net cash flows from investing activities**	**-4 138**	**-32 157**
			Cash flows from financing activities		
0	0		Net change in non-current debt	0	0
153 132	114 424	19	Net proceeds from issue of shares	114 424	153 132
0	0		Dividens paid	0	0
153 132	**114 424**		**Net cash flows from financing activities**	**114 424**	**153 132**
0	0		Translation differences	708	-7
-30 251	**-47 917**		**Net change in cash flow**	**-33 423**	**-26 619**
100 333	**70 081**		**Cash balance at 1 January**	**79 722**	**106 342**
70 081	**22 165**		**Cash balance at 31 December**	**46 299**	**79 722**

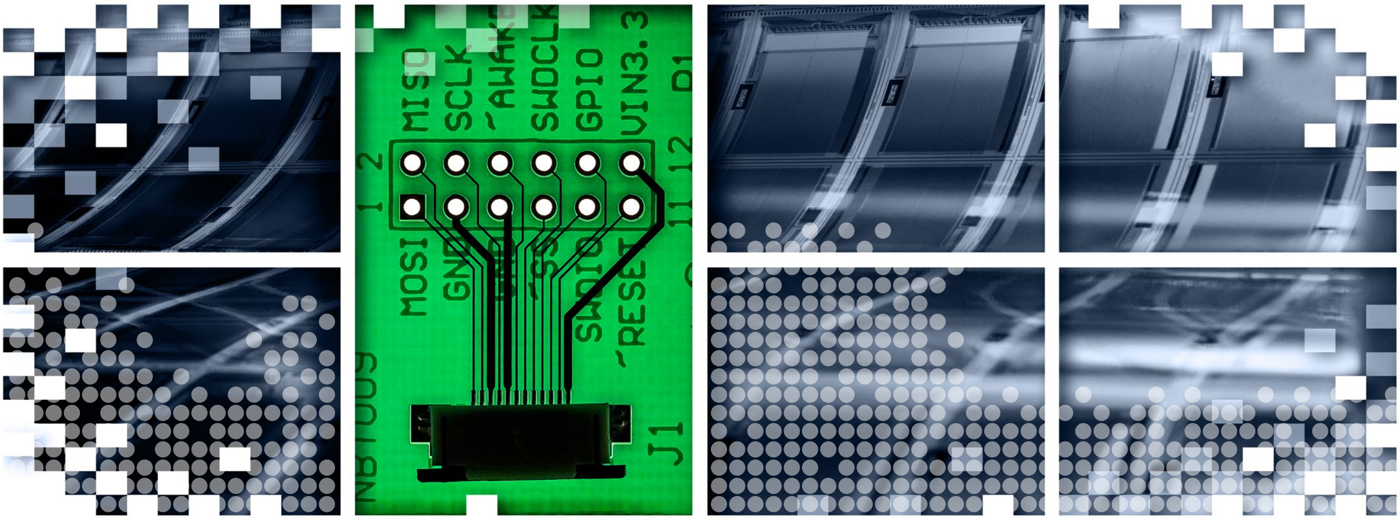
			Comprising		
70 081	22 165	18	Cash and cash equivalents	46 299	79 722

STATEMENTS OF CHANGES IN EQUITY 1 JANUARY - 31 DECEMBER — THE GROUP

(AMOUNTS IN NOK 1 000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	OTHER PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
1 January 2017	**15 159**	**555 030**	**27 781**	**-420 804**	**177 165**
Share issues	1 224	157 230			158 453
Share issue costs		-5 321			-5 321
Net profit (loss)		-18 828		-161 992	-180 820
Translation differences				-7	-7
Share based compensation			15 655		15 655
31 December 2017	**16 382**	**688 111**	**43 436**	**-582 804**	**165 126**
Share issues	3 048	117 295			120 343
Share issue costs		-5 919			-5 919
Net profit (loss)		-330 288		157 387	-172 901
Translation differences				708	708
Share based compensation			11 933		11 933
31 December 2018	**19 431**	**469 200**	**55 369**	**-424 710**	**119 289**

STATEMENTS OF CHANGES IN EQUITY 1 JANUARY - 31 DECEMBER — NEXT BIOMETRICS GROUP ASA

(AMOUNTS IN NOK 1 000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	OTHER PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL EQUITY
1 January 2017	**15 159**	**555 030**	**27 781**	**0**	**597 970**
Share issues	1 224	157 230			158 453
Share issue costs		-5 321			-5 321
Net profit (loss)		-18 828			-18 828
Share based compensation			15 655		15 655
31 December 2017	**16 382**	**688 111**	**43 436**	**0**	**747 930**
Share issues	3 048	117 295			120 343
Share issue costs		-5 919			-5 919
Net profit (loss)		-330 288			-330 288
Share based compensation			11 933		11 933
31 December 2018	**19 431**	**469 200**	**55 369**	**0**	**543 999**



> NOTES FOR THE YEAR 2018

NOTE 1 – GENERAL INFORMATION

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

Group operations are carried out by the operating subsidiaries. As at the end of 2018, the Group had five wholly owned operating subsidiaries: NEXT Biometrics AS (Norway) and its subsidiaries NEXT Biometrics, Inc. (Seattle, USA), NEXT Biometrics China, Ltd. (Shanghai, China), NEXT Biometrics Taiwan, Ltd. (Taipei, Taiwan) and NEXT Biometrics s.r.o (Prague, Czech Republic).

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

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

The annual financial statements were approved for publication by the board of directors 29 April 2019 and will be presented for approval at the annual general meeting on 21 May 2019.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis and 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 2018.

During 2018, NEXT earned revenue from commercial volumes with positive gross margins, but still at rather modest levels. In January and February 2019, NEXT raised NOK 160 million in gross proceeds in a private placement. The private placement was divided into two tranches. Tranche 1 consisted of NOK 15.4 million and was finalized under the current board authorization. Tranche 2 consisted of NOK 144.6 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting 15 February 2019. In March 2019, this was followed up by a repair issue raising NOK 28.0 million in gross proceeds. NEXT has adequate equity and liquidity for being a going concern longer than 12 months from the date of this report.

NEXT does not have non-current financial debt by the end of 2018.

The financial statements comprise statements of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity, statements of cash flow and notes. Income and expenses, excluding the components of other comprehensive income, are recognised in the statement of profit or loss. Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in the statement of profit or loss, as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognised in other comprehensive income in the current or previous periods. Transactions with the owners in their capacity as owners are recognised in the statement of changes in equity.

NEXT presents the statement of profit and loss using classification by nature of expenses. NEXT believes this method provides more useful information and better reflects the way operations are run from a business point of view. The statement of financial position format is based on a current / non-current distinction.

MEASUREMENT BASES

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.

CHANGES IN ACCOUNTING POLICIES

The accounting policies are consistent with those of the previous financial year except for the adoption of new standards applicable from 1 January 2018. There were no new or amended standards or interpretations with effect in 2018 that have had any impact on the result or equity of NEXT in 2018, except below.

New and amended standards adopted by the Group:

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables and contract assets.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The adoption of IFRS 15 has not had any impact on the financial statements for NEXT.

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39.

<u>Financial instruments: Recognition and Measurement</u>

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and ‘Other Comprehensive Income’ (OCI). Previously, the Group’s approach was to include the impairment of trade receivables in other expenses.

Any impairment losses on other financial assets are presented under ‘finance costs’, similar to the presentation under IAS 39. If material, the impairment losses will be presented separately in the statement of profit or loss and OCI. Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

<u>Classification and measurement of financial assets and liabilities</u>

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, ‘Fair Value through OCI’ (FVOCI) and Fair Value through Profit and Loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group’s accounting policies related to financial liabilities. For an explanation of how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 17. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

– The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

– The determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at the date of initial application.

The Group has initially applied IFRS 15 and IFRS 9 from 1 January 2018. Other new standards and amendments are also effective from 1 January 2018, but they do not have a material effect on the Group's financial statements.

New standards and interpretations not yet adopted:

IFRS 16 Leases (effective from 1 January 2019): The Standard replaces IAS 17 and its Interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Standard is expected to have limited implications on the financial statements, since NEXT only have office leases.

There are no other IFRSs or IFRIC interpretations that are not yet in force that is expected to have a significant impact on its balance sheet as of 31 December 2018.

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:
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.

Shares in subsidiaries:
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 2018, the market value of NEXT was lower than the book value of the equity in the mother company, NEXT Biometrics Group ASA. The mother company's main assets at the end of 2018 was the investment in the subsidiary NEXT Biometrics AS and the long-term loan to the same company. Based on this, the book value of the 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 2018 was 28.00 and the numbers of shares at year-end was 19.43, with a total market value of NOK 544 million. After the write-down, the equity of the parent company was equal to the market value of the group. In addition, there is no change in the expectation of the subsidiaries ability to pay back the long-term loan.

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.

Intangible assets:
Intangible assets consist of acquisition of right to use the patent and know-how (IP) described as the *NEXT Active Thermal™* Sensing principle and the internally generated ASIC designs. The additions in 2018 relates to source code license acquisition.

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 FIFO 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.

Discounts:
For discounts where the company through agreement has committed to a fixed amount irrespective of volume, the company has estimated a discount per unit based on expected sales of related products. The discount is calculated with estimated discount per unit multiplied by the actual sales volume of these products during the period.

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 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 2018.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

NEXT's consolidated financial statements comprise NEXT Biometrics Group ASA and companies in which the 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
Revenue is recognized when a customer obtains control of the goods or services.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer, which includes the following steps:

1. Identifying the contract with the customer
2. Identifying the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to each performance obligation
5. Recognise revenue when a performance obligation is satisfied

Royalty: Royalty revenue are recognized at the time the licensee generates income on which NEXT have the contractual right to receive royalty. NEXT do not have any agreements to receive royalty payments from external parties.

Delivery of products: Revenue will be recognized at the time of delivery, and when the risk of the goods has passed to the buyer and can be reliably measured.

Rendering of services: Revenue generated by rendering of services is recognised as the services are delivered.

Interest income: Interest income is recognised on a time-proportion basis.

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. Exchange rate differences are recognized in OCI. Translation differences previously recognized in OCI are reversed and recognized in profit and loss when the foreign operations are disposed of.

These financial statements are presented in NOK, which is the parent company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT

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.

TANGIBLE ASSETS - MACHINERY AND OFFICE EQUIPMENT

Fixed assets 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 statement.

The gross carrying amount of fixed assets is the purchase price, including duties/taxes and direct acquisition costs related to making the non-current 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 the income statement. 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 recognised 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

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, 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.

Classification and subsequent measurement
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Business model assessment
The Group makes an assessment of the objective of the business model in which a financial asset is held. Assessment whether contractual cash flows are solely payments of principal and interest: For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial asset impairment
The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. If the credit risk on the financial instruments has not increased significantly since initial recognition, loss allowances are measured at an amount equal to 12-month expected credit losses. Otherwise loss allowances are measured at an amount equal to lifetime expected credit losses. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

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.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.
The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
– the financial asset is more than 180 days past due, unless the Group, based on historic data with the business partner, and individual assessment of the identified asset, considers it very likely that the asset will be settled.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

• significant financial difficulty of the borrower or issuer;
• a breach of contract such as a default or being more than 180 days past due;
• the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
• it is probable that the borrower will enter bankruptcy or any other financial reorganisation; or
• the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortised 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. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. 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 recognised when it is probable that NEXT will have a sufficient profit for tax purposes to utilise the tax asset. At each balance sheet date, NEXT reviews its unrecognised deferred tax assets and the value it has recognized. NEXT recognises an unrecognised 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
Leasing contracts are classified as financial or operational leases based on an individual assessment. Operational lease contracts are expensed on a straight-line basis through the contract period. All existing leases are classified as operational leases and are expensed on a straight-line basis through the contract period.

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.

NOTE 3 - REVENUE AND SEGMENT REPORTING

OPERATING REVENUE - PER BUSINESS SEGMENT	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Fingerprint sensor technology	108 392	98 159	10 280	6 607
Total	**108 392**	**98 159**	**10 280**	**6 607**

THE GROUP

NEXT has grouped the use of the technology into four main markets:

(i) Smart cards
(ii) Government ID
(iii) Access control
(iv) Notebooks

The available technology is generic into the four markets. Most of NEXT's key IP, including our *NEXT Active Thermal™* is shared and used in all four markets. Most NEXT employees also work broad, adding value to all our markets and technologies. Our R&D personnel are focused on technology, such as sensor or ASIC, rather than markets such as smart cards or notebook. More than 90 % of our revenues comes from the notebook market. Based on this, NEXT consider that we only operate within one business segment, and therefore also report only within one business segment, "Fingerprint sensor technology".

The operating revenue, both in 2018 and in 2017, was mainly related to a major customer in the Notebooks market, geographically located in Asia.

Except for the coating and cutting machines physically located in Taiwan, with a total book value of NOK 25.2 million by the end of 2018, most of the investments and working capital is located physically in Norway.

NEXT Biometrics Group ASA (parent company)

Operating revenue amounted to NOK 10.3 million in 2018, compared to NOK 6.6 million in 2017. Revenue for 2018 consisted of management fee and royalty charged to the subsidiary NEXT Biometrics AS. Revenue for 2017 only consisted of management fee.

NOTE 4 – PAYROLL EXPENSES AND REMUNERATION

PAYROLL EXPENSES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Salaries, fees	91 362	66 843	8 545	7 811
Share based remuneration (salary part)	11 562	14 459	2 475	2 712
Share based remuneration (employer's tax)	-520	-2 458	-153	-1 052
Social security taxes	6 117	4 550	1 268	1 194
Pension contribution	831	603	495	603
Other personnel expenses	6 724	5 346	79	548
Total payroll expenses	**116 077**	**89 343**	**12 710**	**11 815**
Average numbers of employees	**85.5**	**72.0**	**6.5**	**5.0**

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. For the year 2018, the contribution was 5 per cent of the employee's annual salary between 0G and 7.1G, and 15 per cent of the employee's annual salary between 7,1G and 12G, where G (NOK 96,883 as of 1 May 2018) is the basic amount in the Norwegian social security system. Pension cost amounted to NOK 0.5 million in 2018. By the end of 2018, there were 7 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 2018

(AMOUNTS IN NOK 1,000)	BOARD REMUNERATION	SALARY	OTHER BENEFITS	PENSION COST	FAIR VALUE GRANTED OPTIONS	TOTAL REMUNERATION
SENIOR EXECUTIVES						
Ritu Favre, CEO	0	4 392	121	0	995	5 508
Knut Stålen, CFO	0	1 922	7	104	861	2 895
Dr. Matias Troccoli, CTO [1]	0	2 076	57	0	495	2 628
Dan Cronin, COO	0	2 273	117	0	1 109	3 500
Zehira Dadon-Sitbon, Chief of Staff & HR Officer, SVP of BO [2]	0	1 878	117	0	597	2 592
Dr. Robert Mueller, VP of Biometric Solutions Group [3]	0	0	2 033	0	293	2 325
Alain Faburel, Chief Sales and Marketing Officer [4]	0	1 016	0	130	895	2 042
Campbell Kan, VP Operations & Asia sales [5]	0	2 440	90	15	40	2 584
Charles Ng, VP Sales, Americas [6]	0	2 050	83	0	246	2 378
Radek Matyasek, SVP Sales Europe, Asia & India [7]	0	1 892	305	0	318	2 515
BOARD OF DIRECTORS						
Magnus Mandersson, Chairperson [8]	0	0	0	0	0	0
Tore Etholm-Idsøe [9]	400	96	1 080	0	686	2 263
Brita Eilertsen	230	0	0	0	0	230
Emanuel Lang	220	0	0	0	0	220
Emine Lundkvist	200	0	0	0	0	200
Svenn-Tore Larsen [10]	200	0	0	0	0	200
Nomination committee						
Odd-Harald Hauge, Chairperson	30	0	0	0	0	30
Haakon Sæter	20	0	0	0	0	20
Matei Stefan Gaburici [11]	20	0	0	0	0	20
Total remuneration	**1 320**	**20 035**	**4 010**	**249**	**6 535**	**32 150**

[1] Dr. Matias Troccoli was member of the senior management until 1 December 2018.
[2] Zehira Dadon-Sitbon left the company 1 February 2019.
[3] Dr. Robert Mueller is a consultant. He was member of the senior management until 1 February 2019.
[4] Alain Faburel was hired from 1 May 2018.
[5] Campbell Kan left the company 30 June 2018.
[6] Charles Ng was member of the senior management until 30 June 2018.
[7] Radek Matyasek left the company 31 January 2019.
[8] Magnus Mandersson was elected chairperson of the board 15 May 2018.
[9] Tore Etholm-Idsøe was chairperson of the board until 15 May 2018. He had a consultant agreement until 30 June 2018, included in other benefits. In addition, he received vacation money in 2018, earned in 2017, included in salary. He was member of the board until 18 December 2018.
[10] Svenn-Tore Larsen was member of the board until 15 May 2018.
[11] Matei Stefan Gaburici was elected member of the nomination committee 24 May 2017.

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

ACTUAL REMUNERATION - SENIOR EXECUTIVES 2017

(AMOUNTS IN NOK 1,000)	BOARD REMUNERATION	SALARY	OTHER BENEFITS	PENSION COST	FAIR VALUE GRANTED OPTIONS	TOTAL REMUNERATION
SENIOR EXECUTIVES						
Ritu Favre, CEO [1]	0	2 746	136	0	11 605	14 486
Knut Stålen, CFO	0	1 695	13	118	993	2 819
Dr. Matias Troccoli, CTO	0	2 253	133	0	1 467	3 853
Dan Cronin, Executive VP, Engineering [2]	0	1 398	80	0	1 601	3 079
Campbell Kan, VP Operations & Asia sales	0	2 492	188	29	550	3 259
Dr. Robert Mueller, VP of Biometric Solutions Group [3]	0	0	1 969	0	587	2 556
Charles Ng, VP Sales, Americas	0	2 163	95	0	0	2 259
Radek Matyasek, SVP Sales Europe, Asia & India	0	1 848	166	121	587	2 722
Zehira Dadon-Sitbon, VP Programs & Products Man. [4]	0	1 362	81	0	1 039	2 483
BOARD OF DIRECTORS						
Tore Etholm-Idsøe, Chairperson and	0	1 011	1 437	58	260	2 766
former CEO [5]	420	0	0	0	0	420
Brita Eilertsen [6]	200	0	0	0	0	200
Svenn-Tore Larsen	230	0	0	0	0	230
Emanuel Lang	69	0	0	0	0	69
Emine Lundkvist	230	0	0	0	0	230
Ketil Fridheim [7]	144	0	0	0	0	144
Inger Berg Ørstavik [8]						
Election committee						
Odd-Harald Hauge, Chairperson	30	0	0	0	0	30
Haakon Sæter	30	0	0	0	0	30
Total remuneration	**1 353**	**16 968**	**4 300**	**326**	**18 688**	**41 635**

[1] Ritu Favre was hired as CEO from 1 February 2017.
[2] Dan Cronin was hired from 1 May 2017.
[3] Dr. Robert Mueller is a consultant.
[4] Zehira Dadon-Sitbon was hired from 16 March 2017.

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

[5] Tore Etholm-Idsøe was CEO until 1 February 2017. He received salary up to 31 May 2017 and from 1 June 2017 this was replaced with a consultant agreement. 24 May 2017 he was elected chairman of the board.
[6] Brita Eilertsen was chairman of the board until 24 May 2017.
[7] Ketil Fridheim was member of the board until 24 May 2017.
[8] Inger Berg Ørstavik was member of the board until 19 January 2017.

CEO REMUNERATION

Ritu Favre has a salary of USD 445,000 per year. In addition, she 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. In 2018, she received USD 95,000 in bonus. Further, the CEO is part of the customary fringe benefits available to Seattle-based employees of the company, including retirement plans, medical, dental, vision coverage and life insurance. The CEO is part of the subsidiary NEXT Biometrics Inc's pension scheme as described above.

SEVERANCE

Ritu Favre has a severance agreement whereby she will receive 100% pay for 12 months for termination by the Company without cause, termination by the CEO for good reason, or termination by the CEO upon a change in control (The severance package also includes COBRA premium coverage for 12 months following termination and a full vesting of the CEO's outstanding unvested share options). In addition, the CFO is entitled to 9 months' severance pay if the employment is terminated by the Company.

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. The intrinsic value varies with the share price and may entail a net reversal of costs. If and when, the options are exercised, the accrued employer's tax will be reversed, and the payable employer's tax of the actual transaction will be expensed.

For the shareholders, a possible exercise will represent a dilution. At the end of 2018, the number of outstanding options to senior executives amounted to 1,036,597, corresponding to 5.3 % of the share capital. At the end of 2017, the number of outstanding options to senior executives amounted to 850,847, corresponding to 5.2 % of the share capital.

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

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	0	0.00	275 000	85.67
Knut Stålen, CFO	80 000	30 000	-3 750	0	0.00	106 250	85.15
Dr. Matias Troccoli, CTO [1]	241 377	0	-11 250	0	0.00	230 127	38.15
Dan Cronin, COO	45 000	55 000	0	0	0.00	100 000	57.58
Zehira Dadon-Sitbon, Chief of Staff HR Officer, SVP [2]	20 000	30 000	0	0	0.00	50 000	69.30
Alain Faburel, Chief Sales and Marketing Officer [3]	0	45 000	0	0	0.00	45 000	38.60
Dr. Robert Mueller, VP of Biometric Solut. Group [4]	86 470	5 000	-2 500	0	0.00	88 970	53.72
Campbell Kan, VP Operations & Asia sales [5]	57 000	0	-21 250	0	0.00	35 750	72.56
Charles Ng, VP Sales, Americas [6]	40 000	2 500	-2 500	0	0.00	40 000	98.75
Radek Matyasek, SVP Sales Europe, Asia & India [7]	56 000	12 000	-2 500	0	0.00	65 500	78.11
BOARD OF DIRECTORS							
Tore Etholm-Idsøe [8]	303 000	0	-5 000	-132 240	1.00	165 760	53.71
Svenn-Tore Larsen [9]	20 000	0	-20 000	0	0.00	0	0.00
Total	**1 173 847**	**229 500**	**-68 750**	**-132 240**		**1 202 357**	

[1] Dr. Matias Troccoli was member of the senior management until 1 December 2018.
[2] Zehira Dadon-Sitbon left the company 1 February 2019.
[3] Alain Faburel was hired from 1 May 2018.
[4] Dr. Robert Mueller is a consultant. He was member of the senior management until 1 February 2019.
[5] Campbell Kan left the company 30 June 2018.
[6] Charles Ng was member of the senior management until 30 June 2018.
[7] Radek Matyasek left the company 31 January 2019.
[8] Tore Etholm-Idsøe was chairperson of the board until 15 May 2018. He had a consultant agreement until 30 June 2018, included in other benefits. In addition, he received vacation money in 2018, earned in 2017, included in salary. He was member of the board until 18 December 2018.
[9] Svenn-Tore Larsen was member of the board until 15 May 2018.

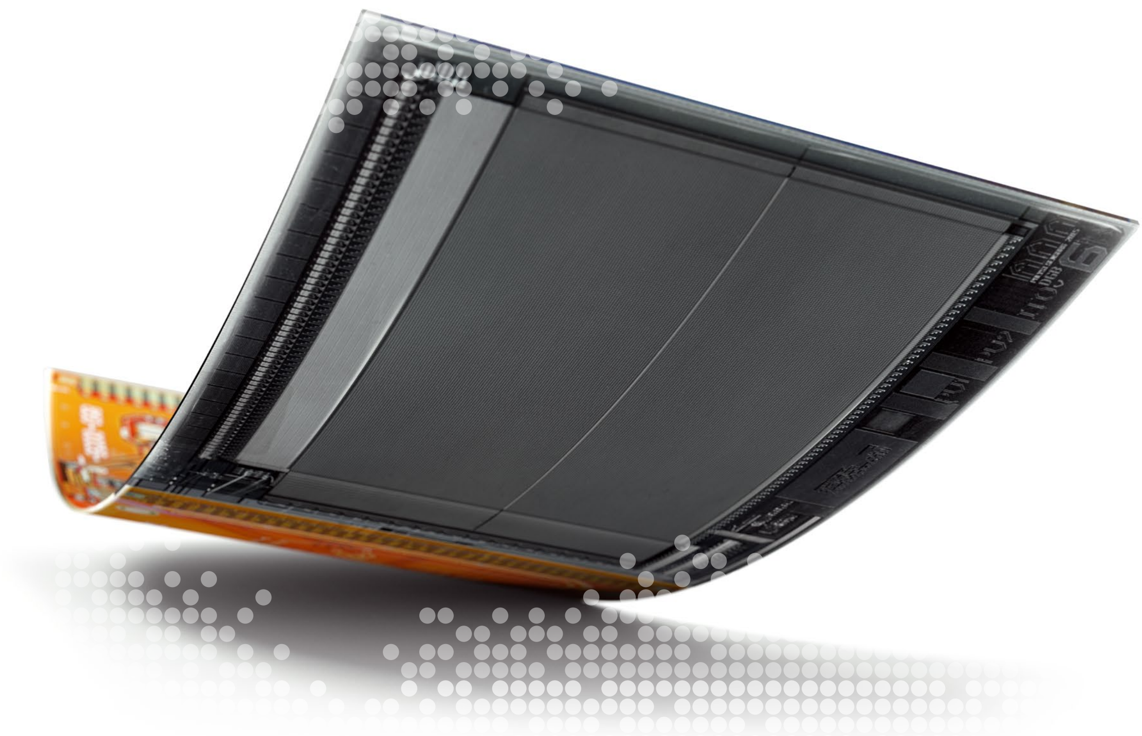
Adjusted options include the 25% reduction in issued share options for the new average volume-weighed marked price related to the 2016 granted options ("give-and-take-back).

OPTIONS - SHARE BASED REMUNERATION 2017

(AMOUNTS IN NOK)	ACCUMULATED QUANTITY OPTIONS OB	GRANTED OPTIONS	EXPIRED OPTIONS	EXERCISED OPTIONS	AVERAGE EXERCISE PRICE - A	ACCUMULATED QUANTITY OPTIONS CB	AVERAGE EXERCISE PRICE - B
SENIOR EXECUTIVES							
Ritu Favre, CEO	0	225 000	0	0	0.00	225 000	94.93
Knut Stålen, CFO	55 000	25 000	0	0	0.00	80 000	96.59
Dr. Matias Troccoli, CTO	201 377	40 000	0	0	0.00	241 377	44.12
Campbell Kan, EVP of Asia, Sales & Operations	42 000	15 000	0	0	0.00	57 000	92.01
Dr. Robert Mueller, VP of Biometric Solut. Group [1]	70 470	16 000	0	0	0.00	86 470	52.73
Charles Ng, VP Sales, Americas	40 000	0	0	0	0.00	40 000	96.00
Radek Matyasek, VP Sales EMEAI	40 000	16 000	0	0	0.00	56 000	81.94
Zehira Dadon-Sitbon, VP Prog. & Products Man. [2]	0	20 000	0	0	0.00	20 000	107.25
Dan Cronin, Executive VP, Engineering [3]	0	45 000	0	0	0.00	45 000	74.35
BOARD OF DIRECTORS							
Tore Etholm-Idsøe, Chairperson [4]	298 000	5 000	0	0	0.00	303 000	29.82
Svenn-Tore Larsen	20 000	0	0	0	0.00	20 000	50.00
Total	**766 847**	**407 000**	**0**	**0**		**1 173 847**	

[1] Dr. Robert Mueller is a consultant.
[2] Zehira Dadon-Sitbon was hired from 16 March 2017.
[3] Dan Cronin was hired from 1 May 2017.
[4] Tore Etholm-Idsøe was CEO until 1 February 2017. On 24 May 2017 he was elected chairman of the board.

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

The additions 2018, relates to source code license acquisition.

INTANGIBLE ASSETS	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Cost of 1 January	23 295	20 395	7 458	7 458
Additions	3 703	2 900	0	0
Disposals at cost	0	0	0	0
Currency adjustments	0	0	0	0
Cost at 31 December	**26 998**	**23 295**	**7 458**	**7 458**
Accumulated depreciation at 1 January	1 841	1 090	1 459	973
Depreciation	6 204	751	750	486
Accumulated depreciation of disposed items	0	0	0	0
Currency adjustments	0	0	0	0
Accumulated depreciation at 31 December	**8 045**	**1 841**	**2 209**	**1 459**
Book value at 31 December	**18 953**	**21 454**	**5 249**	**5 999**
Amortization period (straight line) years	3-12	3-12	12	12

Of the book value of NOK 19.0 million by the end of 2018, NOK 10.3 million is related to internally generated assets and NOK 8.7 million is related to separately acquired assets.

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

NOTE 6 – TANGIBLE ASSETS

MACHINERY AND OFFICE EQUIPMENT	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Cost of 1 January	52 080	22 949	532	0
Additions	437	29 433	0	532
Disposals at cost	-27	0	0	0
Currency adjustments	920	-301	0	0
Cost at 31 December	**53 410**	**52 080**	**532**	**532**
Accumulated depreciation at 1 January	21 994	6 709	14	0
Depreciation	3 823	4 012	177	14
Accumulated depreciation of disposed items	-27	0	0	0
Write-downs	0	11 397	0	0
Currency adjustments	495	-125	0	0
Accumulated depreciation at 31 December	**26 285**	**21 994**	**191**	**14**
Book value at 31 December	**27 125**	**30 086**	**341**	**518**
Depreciation period (straight line) years	3-10	3-10	3-10	3-10

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

In 2018 there were no investments related to machinery and only NOK 0.4 million investments in office equipment. In 2017, the main investments were the coating machine of NOK 20.4 million and the cutting machine for flexible sensor production of NOK 7.3 million. At the end of 2017, NEXT wrote down the value of its first coating machine from 2014 by NOK 11.4 million.

NOTE 7 – OPERATING EXPENSES

OTHER OPERATING EXPENSES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK)	**2018**	**2017**	**2018**	**2017**
R&D related operating expenses	45 143	36 023	0	0
Fees to consultants, lawyers and others	10 901	17 410	7 499	13 737
Travel expenses	9 955	4 268	624	1 076
Rent expenses	5 951	2 356	940	884
Other expenses	3 279	6 832	4 894	5 462
Share based remuneration (operating part) [1]	340	1 174	-153	-255
Total	**75 569**	**68 063**	**13 804**	**20 905**

[1] Share based remuneration (operating part) refers to options granted to contractors.

NOTE 8 – RESEARCH AND DEVELOPMENT COST

Research costs are expensed when incurred. Development of new ASIC was subcontracted to a third party. The Group identified this as development to be capitalized in 2016, with additional investments in 2017, see note 5. Internal work in 2018 are researching or development work that do not meet the capitalization criterias.

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. As stated above, no such capitalization of internal work has been made to date. 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.

The R&D costs for the Group that are expensed amounted to NOK 114.7 million in 2018, of which NOK 69.6 million as payroll expenses and NOK 45.1 million as other operating expenses. In 2017, R&D costs amounted to NOK 82.1 million, of which NOK 46.1 million as payroll expenses and NOK 36.0 million as 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 2018. The total amount is recognized as other current receivables and has correspondingly led to a reduction in other operating expenses. The grant is subject to final approval by the tax authorities. The corresponding amount for 2017 was NOK 5.0 million.

NOTE 9 – INVENTORIES

INVENTORIES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Raw material, consumables and supplies	17 405	18 242	0	0
Work in progress	9 321	7 729	0	0
Finished products	2 647	2 043	0	0
Total	**29 373**	**28 014**	**0**	**0**

No write-downs from 2017 has been reversed and included in the inventory value in 2018. Most of the write-downs from 2017 was realized in 2018. New write-downs in 2018 consists of 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. In 2017, NOK 2.6 million in write-downs was reversed and included in cost of goods sold. The net amount consisted of NOK 0.8 in write-downs and NOK 3.4 million in reversal of write-downs.

NOTE 10 – AUDIT FEES

AUDITOR REMUNERATION	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Audit fee	769	798	495	529
Other services	78	102	78	37
Total	**847**	**900**	**573**	**566**

NOTE 11 – OPERATING LEASES

As of 31 December 2018, the Group leases offices in Oslo, Seattle, Shanghai, Taipei and Prague. Conditions for the major leases are:

OPERATING LEASES

COMPANY	LOCATION	LEASE (ANNUAL COST)	CURRENCY	EXPIRY
NEXT Biometrics Group ASA [1]	Oslo, Norway	861 000	NOK	31.des.22
Companies owned by NEXT Biometrics AS:				
NEXT Biometrics Inc [2]	Seattle, USA	263 470	USD	30.apr.21
NEXT Biometrics China Ltd	Shanghai, China	251 133	CNY	30.apr.20
NEXT Biometrics Taiwan Ltd	Taipei, Taiwan	2 646 000	TWD	30.jun.21
NEXT Biometrics s.r.o	Prague, Czech	1 313 904	CZK	30.sep.21

[1] Including one parking place for NOK 36,000 a year.
[2] Consist of a main lease and a sublease

FUTURE MINIMUM OPERATING LEASE PAYMENTS		
(AMOUNTS IN NOK 1,000)	**2018**	**2017**
Within one year	4 737	3 528
More than 1 year but within 5 years	9 610	6 595
After 5 years	0	0
Total	**14 347**	**10 123**

NOTE 12 – FINANCIAL ITEMS

FINANCIAL INCOME	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Interest income group companies [1]	0	0	3 551	4 773
Interest income	177	285	149	271
Currency gains	8 428	9 203	319	2 856
Total	**8 605**	**9 488**	**4 018**	**7 900**

FINANCIAL EXPENSES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Interest expenses	32	17	6	3
Currency losses	8 998	9 661	0	111
Write-downs investments in subsidiaries [2]	0	0	316 120	0
Total	**9 030**	**9 678**	**316 126**	**114**
Total - Net financial items	**-425**	**-190**	**-312 108**	**7 786**

[1] Interest income group companies regards interest paid from the subsidiary NEXT Biometrics AS on the long-term loan from the parent company, see note 16.
[2] Write-downs investments in subsidiaries are related to the shares in the subsidiary NEXT Biometrics AS, see note 2, 15 and 16.

NEXT does not have non-current financial debt by the end of 2018.

NOTE 13 – TAXES

Tax note for the Group:

TAX NOTE	THE GROUP	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**
Current taxes	1 936	1 209
Deferred taxes	-354	0
Total income tax expense	**1 582**	**1 209**
TAX EXPENSE RECONCILIATION		
Profit (loss) before tax	-171 319	-179 611
Corporation tax charge thereon at 23% (24%)	-39 403	-43 107
Adjusted for the effect of:		
Expenses not deductible for tax purposes and currency adjustments	-1 457	-3 188
Change in deferred tax assets not recognized	33 983	38 610
Change in tax rates	8 813	8 893
Income tax expense for the year	**1 936**	**1 209**
Effective tax rate	**NA**	**NA**
Current tax	1 868	1 152
Current tax in the balance sheet	**1 868**	**1 152**

The theoretical income taxes are determined by applying the domestic corporate tax rate in Norway, where the parent is domiciled. The rate was reduced from 24% to 23% from 1 January 2018. Total income tax recognized directly in equity amounts to NOK 0 (2017: NOK 0). Payable taxes refer to the subsidiaries NEXT Biometrics Inc, NEXT Biometrics Taiwan Ltd and NEXT Biometrics s.r.o. Deferred tax assets refer to the subsidiary NEXT Biometrics Inc.

Deferred tax relates to the following temporary differences:

TEMPORARY DIFFERENCES AND TAX LOSS CARRIED FORWARD	THE GROUP	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**
Tangible assets	-2 128	-4 227
Inventories	-4 030	-6 845
Receivables	0	0
Tax loss carried forward	-870 447	-686 330
Other temporary differences	-28 275	-19 540
Total	**-904 880**	**-716 943**
Deferred tax assets	**-198 603**	**-164 410**
Deferred tax assets not recognized	198 249	164 410
Deferred tax assets in the balance sheet	**-354**	**0**

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

DEFERRED TAX BALANCE	THE GROUP	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**
Deferred tax assets	354	0
Deferred tax liabilities	0	0
Net balance at 31 December	**354**	**0**

Due to a history of recent losses, the Group has not recognized deferred tax asset up to 2017. This assessment is unchanged for the Group in 2018, except for the subsidiary NEXT Biometrics Inc as the criteria for recognition are not considered to be met for any other group company. For the subsidiary NEXT Biometrics Inc. NOK 0.4 million is recognised as deferred tax asset.

Tax note for the parent company:

THIS YEAR'S TAX EXPENSE (INCOME)	NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**
Change in deferred tax	-4 207	-5 200
Change caused by new tax rules	1 444	1 261
Deferred tax asset not recognized	2 763	3 939
Income tax expense (Income)	**0**	**0**

CALCULATION CURRENT TAX	NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**
Profit (loss) before tax	-330 288	-18 828
Permanent differences	311 998	-2 839
Change in temporary differences	-153	-1 052
Basis for current tax in the balance sheet	**-18 442**	**-22 719**
Current tax	0	0
Current tax in the balance sheet	**0**	**0**

BASIS FOR DEFERRED TAX	NEXT BIOMETRICS GROUP ASA	
TEMPORARY DIFFERENCES AND TAX LOSS CARRIED FORWARD	**2018**	**2017**
Tax loss carried forward	-144 350	-125 908
Other temporary differences	0	-153
Total	**-144 350**	**-126 061**
Deferred tax assets (22%/23%)	**-31 757**	**-28 994**
Deferred tax assets not recognized	31 757	28 994
Deferred tax assets in the balance sheet	**0**	**0**
TAX EXPENSE RECONCILIATION		
Profit (loss) before tax	-330 288	-18 828
Corporation tax charge thereon at 23% (24%)	-75 966	-4 519
Adjusted for the effect of:		
Expenses not deductible for tax purposes	71 760	-681
Change in deferred tax assets not recognized	2 763	3 939
Change in tax rates	1 444	1 261
Income tax expense for the year	**0**	**0**
Effective tax rate	**0 %**	**0 %**

Due to a history of losses, the parent has not recognized deferred tax asset.

NOTE 14 – EARNINGS PER SHARE

Earnings per share shall be calculated by dividing the profit or loss for the period by the weighted average number of ordinary shares outstanding in the year. Earnings per fully diluted share shall be calculated based on the result for the year divided by the weighted average number of fully diluted shares. In case of a net loss, the dilution would reduce the loss per share. In that case, the effect of dilution is not taken into account.

BASIS FOR CALCULATION - EARNINGS PER SHARE 1 JANUARY - 31 DECEMBER	THE GROUP	
	2018	**2017**
Profit (loss) attributable to the shareholders (NOK 1,000)	-172 901	-180 820
Number of ordinary shares issue at 31 December	19 430 575	16 382 480
Weighted average basic number of shares	18 594 061	16 269 796
Weighted average diluted number of shares	20 383 160	17 789 978
Profit (loss) per share, basic and diluted (NOK)	**-9.30**	**-11.11**

NOTE 15 – INVESTMENTS IN SUBSIDIARIES

NEXT Biometrics Group ASA owns NEXT Biometrics AS 100%. NEXT Biometrics AS owns NEXT Biometrics Inc, NEXT Biometrics China Ltd, NEXT Biometrics Taiwan Ltd and NEXT Biometrics s.r.o all 100%.

Book value includes each company's share of the Group's share-based remuneration of options based on where the employee receiving the options is employed.

COMPANIES

(AMOUNTS IN NOK 1,000)	OFFICE ADDRESS	OWNERSHIP	INVESTMENT AT COST	SHARE BASED OPTIONS	WRITE-DOWNS	BOOK VALUE
NEXT Biometrics AS	Oslo	100 %	600 120	4 089	-316 120	288 089
Companies owned by NEXT Biometrics AS:						
NEXT Biometrics Inc	Seattle	100 %	0	24 026	0	24 026
NEXT Biometrics China Ltd	Shanghai	100 %	0	1 250	0	1 250
NEXT Biometrics Taiwan Ltd	Taipei	100 %	0	4 528	0	4 528
NEXT Biometrics s.r.o	Prague	100 %	0	3 417	0	3 417
Total			600 120	37 310	**-316 120**	**321 310**

SHARE OF PROFIT (LOSS) AND EQUITY

	PROFIT (LOSS)		EQUITY	
(AMOUNTS IN NOK 1,000)	2018	2017	2018	2017
NEXT Biometrics AS	-156 920	-154 081	-109 798	45 832
NEXT Biometrics Inc	-1 343	-5 452	9 207	2 705
NEXT Biometrics China Ltd	213	319	1 026	713
NEXT Biometrics Taiwan Ltd	-156	-1 822	1 444	983
NEXT Biometrics s.r.o	-528	-957	771	359

Write-downs on investments in subsidiaries are related to the shares in the subsidiary NEXT Biometrics AS, see note 1 and 12. At year-end 2018, 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 2018 was the investment in the subsidiary NEXT Biometrics AS and the long-term loan to the same company. NEXT has assessed that the best estimate of the recoverable amount is the market value based on the closing stock price in 2018. The book value of the investment in the subsidiary was therefore written down, so the equity of the parent company corresponds with the marked value based on the stock price at year-end. The closing stock price in 2018 was 28.00 and the numbers of shares at year-end was 19.43, with a total market value of NOK 544 million. After the write-down, the equity of the parent company was equal to the market value of the group. In addition, there is no change in the expectation of the subsidiaries ability to pay back the long-term loan see note 16.

NOTE 16 – NON-CURRENT RECEIVABLES, INCLUDING INTERCOMPANY

NON-CURRENT RECEIVABLES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	2018	2017	2018	2017
Receivables due later than one year:				
Loans to group companies	0	0	198 665	49 420
Total	**0**	**0**	**198 665**	**49 420**

The non-current receivables against the subsidiary is related to financing of engineering services conducted in NEXT Biometrics AS. The book value is assessed together with the shares in the subsidiary (see note 15), because the long-term loan will be converted to equity in 2019.

The long-term loan is charged with NIBOR 6 months + 1.5%. Interest for 2018 amounted to NOK 3.6 million, see note 12. Interest received in 2017 amounted to NOK 4.8 million. See also note 15.

NOTE 17 – RECEIVABLES

RECEIVABLES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Account receivables	12 797	16 570	0	0
Other receivables	15 147	16 464	1 004	737
Prepayments [1]	0	3 070	0	0
Total	**27 945**	**36 103**	**1 004**	**737**

[1] PREPAYMENTS (AMOUNTS IN NOK 1,000)	2018	2017
ASIC (New project)	0	3 070
Coating Machine	0	0
Cutting Machine	0	0
Total	**0**	**3 070**

PROVISION FOR BAD DEBT	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Opening balance	0	-159	0	0
This year provision for bad debt	0	0	0	0
This year actual losses	0	0	0	0
Reversed previous year’s provisions	0	159	0	0
Closing balance	**0**	**0**	**0**	**0**

All receivables are due within 12 months. The receivables are considered to be held within a held-to-collect business model consistent with the group’s continuing recognition on the receivables.

At the end of 2018, 8% of the account receivables were past due. All accounts receivable are received in 2019. The account receivables were in USD.

Other receivables consisted of multiple currencies, the major part was in NOK. Due to the short period to maturity, the carrying amount of other receivables approximates fair value.

NOTE 18 - CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Employees withheld payroll tax deposits	462	337	447	323
Office rent deposits	1 188	1 043	606	669
Cash and cash equivalents - held in USD	14 206	40 451	25	34 463
Cash and cash equivalents - held in CNY	341	570	0	0
Cash and cash equivalents - held in CZK	910	77	0	0
Cash and cash equivalents - held in TWD	877	1 115	0	0
Cash and cash equivalents - held in NOK	28 316	36 128	21 088	34 627
Total	**46 299**	**79 722**	**22 165**	**70 081**

RESTRICTED ASSETS

NEXT Biometrics Group ASA had placed an amount corresponding to 6 months' office rent on an escrow account. At the end of 2018, the escrow account amounted to NOK 0.6 million. In 2017, the corresponding amount was NOK 0.7 million.

The subsidiary NEXT Biometrics Inc had placed an amount corresponding to 3 months' office rent on an escrow account. At the end of 2018, the escrow account amounted to NOK 0.4 million (approximately $44,000). In 2017, the corresponding amount also was NOK 0.4 million (approximately $45,000).

The subsidiary NEXT Biometrics s.r.o had placed an amount corresponding to 3 months' office rent on an escrow account. At the end of 2018, the escrow account amounted to NOK 0.2 million (approximately CZK 498,000). In 2017, the corresponding amount also was NOK 0.1 million (approximately CZK 223,000).

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 19,430,575 shares in the company on 31 December 2018, compared to 16,382,480 shares on 31 December 2017. At the end of 2018 there were 1,238 shareholder accounts compared to 1,389 at the end of 2017.

SHARES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK)	**2018**	**2017**	**2018**	**2017**
Opening balance	16 382 480	15 158 980	16 382 480	15 158 980
Share issue(s)	2 860 855	1 167 000	2 860 855	1 167 000
Exercised incentive share options	187 240	56 500	187 240	56 500
Closing balance	**19 430 575**	**16 382 480**	**19 430 575**	**16 382 480**

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.

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

2017

In February 2017, NEXT completed a placement of 1,167,000 new shares at a subscription price of NOK 134 corresponding to a total amount of NOK 156.4 million. Expenses and commission fee connected with this placement amounted to NOK 5.3 million and net proceeds were NOK 151.1 million.

In March 2017, 56,500 incentive share options were exercised, and the share capital was increased accordingly. Net proceeds amounted to NOK 2.1 million.

Total net proceeds for the year 2017 amounted to NOK 153.1 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 2018 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, under the non-current financial debt condition.

EQUITY RATIO	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Total equity	119 289	165 126	543 999	747 930
Total assets	150 046	195 379	548 734	754 018
Equity share	**80 %**	**85 %**	**99 %**	**99 %**

CAPITAL RESOURCES	THE GROUP		NEXT BIOMETRICS GROUP ASA	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Current debt	30 757	30 253	4 735	6 088
Non-current debt	0	0	0	0
Less cash and cash equivalents	-46 299	-79 722	-22 165	-70 081
Net debt (net cash)	-15 542	-49 469	-17 430	-63 993
Total equity	119 289	165 126	543 999	747 930
Total capital resources	**103 747**	**115 657**	**526 569**	**683 936**
Gearing ratio (%)	**-15 %**	**-43 %**	**-3 %**	**-9 %**

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

TOP 20 SHAREHOLDERS AT 31 DECEMBER 2018

NAME:	NUMBER OF SHARES	PERCENT OF SHARES
GREENBRIDGE INVESTMENT L.P.	3 453 614	17.8%
CLEARSTREAM BANKING S.A.	1 357 323	7.0%
CITIBANK, N.A.	1 231 400	6.3%
ECOMNEX HOLDING AS	1 205 484	6.2%
TORSTEIN INGVALD TVENGE	605 000	3.1%
J.P. MORGAN BANK LUXEMBOURG S.A.	576 536	3.0%
SILVERCOIN INDUSTRIES AS	571 689	2.9%
NOMURA INTERNATIONAL PLC	519 013	2.7%
NORUS AS	449 995	2.3%
EUROSTORES AS	425 964	2.2%
AVANZA BANK AB	424 546	2.2%
STATOIL PENSJON	422 764	2.2%
SONGA TRADING INC	350 000	1.8%
ENGELSBERG INVEST AS	342 407	1.8%
SKANDINAVISKA ENSKILDA BANKEN AB	223 774	1.2%
MARSTAL AS	209 000	1.1%
HAAKON MORTEN SÆTER	197 500	1.0%
SVENSKA HANDELSBANKEN AB	185 838	1.0%
FKKG AS	175 000	0.9%
UBS SWITZERLAND AG	172 771	0.9%
TOTAL top 20	13 099 618	67.4%
Others	6 330 957	32.6%
Total number of shares	**19 430 575**	**100.0%**

SHARES OWNED BY EXECUTIVES AND DIRECTORS OF THE BOARD

SHARES OWNED BY	NUMBER OF SHARES	PERCENT OF SHARES	HELD THROUGH
Senior Executives			
Matias Troccoli [1]	13 623	0.1%	
Knut Stålen	13 400	0.1%	
Charles Ng [2]	2 700	0.0%	
Radek Matyasek [3]	1 000	0.0%	
Board of Directors			
Emanuel Lang [4]	3 453 614	17.8%	Greenbridge Investment L.P
Tore Etholm-Idsøe [5]	562 796	2.9%	Eurostores AS & Tore Etholm-Idsøe
Emine Lundkvist	21 000	0.1%	
Nomination Committee			
Odd-Harald Hauge	60 449	0.3%	Barske Gleder AS & Odd-Harald Hauge
Haakon Sæter	769 189	4.0%	Silvercoin Industries AS & Haakon Sæter
	4 897 771	**25.2%**	

[1] Dr. Matias Troccoli was member of the senior management until 1 December 2018.
[2] Charles Ng was member of the senior management until 30 June 2018.
[3] Radek Matyasek left the company 31 January 2019.
[4] Emanuel Lang is employed by Greenbrigde Investment L.P.
[5] Tore Etholm-Idsøe was chairperson of the board until 15 May 2018. He was member of the board until 18 December 2018.

There are three types of option programs in the Company; (i) unconditional long-term fixed share options, (ii) conditional long-term share option, and (iii) milestone-based share options:

(i) Unconditional - Long term fixed share options

Up until 2015, unconditional long-term share options were granted to employees, consultants, board members and advisory board members. For share-based options to senior executives and members of the Board, see note 4.

There are currently an accumulated 626,167 (3.2% of the Company) unconditional long-term share options outstanding that were granted in the period from 2005 - 2015. Since 2008, these options were awarded with a strike price equal to the market price at the time of grant.

At the annual general meeting on May 15, 2018, 624,493 of the options expiring in 2018 were extended to 31 December 2019. The extended options cannot be exercised in 2018 and the options holders will only be able to exercise the options in the exercise windows provided by the company. The exercise windows will be linked to a short period after each quarterly reporting.

(ii) 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. There are currently an accumulated 997,402 (5.1% of the Company) conditional long-term share options outstanding. 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%.

(iii) Milestone based share options

The Company has entered agreements where a number of stock options are granted contingent of certain pre-defined high value milestones. These agreements are made with external high-end networked advisors. Upon delivery of key contributions in processes landing high-value milestones (typically major sales contracts and industry partnerships), these advisors will have earned the right to their stock options. As of year-end 2018 total outstanding options in this segment were 10,000 (approximately 0.1% of the Company). Milestone based options expire on 31 December 2019.

(iv) Totals

In total, at year-end 2018 the Company had outstanding 1,633,569 stock options, equal to 8.4% of the outstanding shares in the Company. Of these, 845,305 (4.4% of the Company) share options have vested. 308,238 (1.6% of the Company) share options are adjusted down to represents the adjustment for the probability of all conditions being meet. Thus, there are 1,325,331 net outstanding share options at year-end 2018.

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.

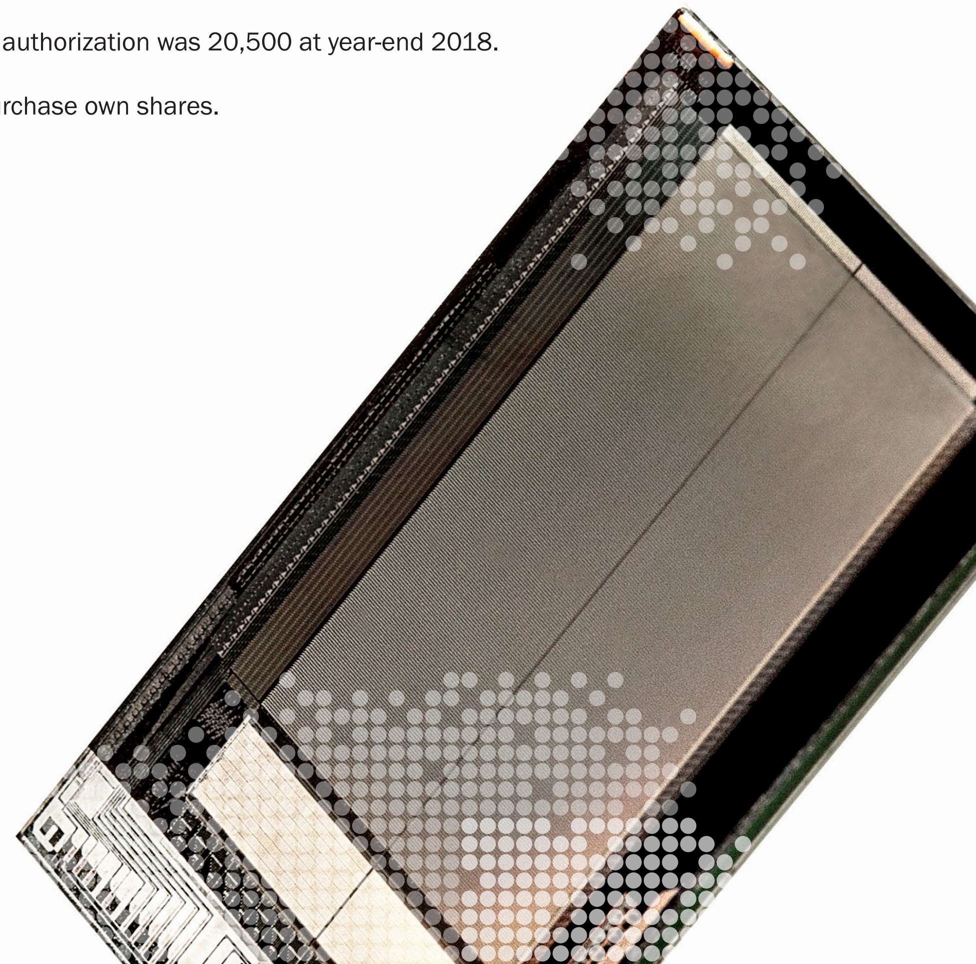
All of the Company's option agreements include a clause on accelerated vesting implying that if (i) 67% of the shares in the Company are sold to an acquirer, (ii) if a shareholder alone or with a group of shareholders either through a tender offer or other market transaction should gain control over 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.

At the Annual General Meeting (AGM) 15 May 2018 the Board of Directors was granted authorization to issue up to 330,000 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 2018, the board of directors resolved to grant under the 2017 authorization 25,000 new share options at a strike price of NOK 43.23 per share. In the second quarter of 2018, the board of directors resolved to grant a total of 225,000 new shares options at a strike price of NOK 44.00 per share, and 45,000 at a strike price of 38.60. In the third quarter of 2018, the board of directors resolved to grant a total of 37,500 new shares options, where 25,000 at a strike price of NOK 42.36 per share, 10,500 at a strike price of 49.91 and 2,000 share options at a strike price of NOK 38.60 per share. In the fourth quarter of 2018, the board of directors resolved to grant a total of 2,000 new shares options at a strike price of 50.50 per share.

The remaining amount under the 2018 board authorization was 20,500 at year-end 2018.

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



	2018		2017	
OPTIONS - MOVEMENTS	**NUMBER OF OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE**	**NUMBER OF OPTIONS**	**WEIGHTED AVERAGE EXERCISE PRICE**
Outstanding - Start period	1 504 717	63.08	1 333 811	59.63
Granted	334 500	44.04	526 000	83.78
Exercised	-187 240	1.00	-56 500	36.73
Cancelled	-7 244	1.00	-	-
Forfeited	-122 669	78.11	-38 750	143.00
Expired	-103 590	46.47	-	-
Modifications	-44 750	42.04	-259 844	83.90
Adjusted quantity [1]	-48 394	0.89	-	-
Outstanding - End period	**1 325 331**	**52.04**	**1 504 717**	**63.08**
Vested options - End period	845 305	44.56	1 104 127	42.54
	NUMBER OF OPTIONS	**WEIGHTED AVERAGE FAIR PRICE**	**NUMBER OF OPTIONS**	**WEIGHTED AVERAGE FAIR PRICE**
Granted options - During period	334 500	40.54	526 000	44.64
	NUMBER OF OPTIONS	**INTRINSIC VALUE VESTED OPTIONS**	**NUMBER OF OPTIONS**	**INTRINSIC VALUE VESTED OPTIONS**
Outstanding options - End period	260 930	2 809 891	974 101	29 396 108
Vested options - End period	260 930	2 809 891	965 811	29 283 082

[1] Adjusted quantity of 48,394 in the year 2018 represent the adjustment for the probability of all conditions related to the granted share options being meet. Total adjusted quantity at the end of 2018 was 308,238 and therefore the maximum closing balance, if all conditions are meet, are 1,633,569.

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 2018 and 2017:

- Exercise price:
    - 2018: NOK 38.60 – 50.50 per share, weighted average NOK 44.04 per share
    - 2017: NOK 45.80 - 128.70 per share, weighted average NOK 83.78 per share
- Duration:
    - 2018: 1/3 have 1 years, 1/3 have 2 years and 1/3 have 3 years
    - 2017: 1/3 have 1 years, 1/3 have 2 years and 1/3 have 3 years
- Volatility:
    - 2018: 66% - 75%, average 71%
    - 2017: 71% - 76%, average 74%
- Risk free interest rate:
    - 2018: 0.9% - 1.6%, average 1.3%
    - 0.7% - 1.2%, average 0.9%
- No expected dividend payment.
- Actual population of share-based options, 5% attrition for employees and 0% for executives

NOTE 20 - OTHER CURRENT LIABILITIES

OTHER CURRENT LIABILITIES	**THE GROUP**		**NEXT BIOMETRICS GROUP ASA**	
(AMOUNTS IN NOK 1,000)	**2018**	**2017**	**2018**	**2017**
Accrued salary and vacation pay	3 400	2 436	1 573	1 409
Share options social security tax	108	622	0	153
Other current liabilities	4 955	3 604	22	80
Total	**8 463**	**6 662**	**1 595**	**1 642**

Due to the short period to maturity, carrying amount of other current liabilities approximates fair value.

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 has been disclosed in note 4.

NOTE 22 – CHANGED NUMBERS FROM THE FOURTH QUARTER OF 2018 AND THE PRELIMINARY NUMBERS FOR THE YEAR 2018

NEXT presented the interim report for the fourth quarter of 2018, together with the preliminary numbers for the year 2018, on 27 February 2019. The final full-year 2018 net loss of NOK 172.9 million, deviates from the preliminary reported net loss of NOK 169.9 million. The reduction of NOK 3.0 million is related to the assessment of an investment of NOK 3.1 million in a new ASIC (1.5) included in in the preliminary fourth quarter 2018 accounts, with a corresponding NOK 0.1 million impact on depreciation. Based on the new assessment, the investment and corresponding depreciation cost have been reversed, and the net amount included as an expense in the final numbers for 2018.

NOTE 23 – EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In January and February 2019, NEXT raised NOK 160 million in gross proceeds in a private placement. The private placement was divided into two tranches. Tranche 1 consisted of NOK 15.4 million and was finalized under the current board authorization. Tranche 2 consisted of NOK 144.6 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting 15 February 2019. In March 2019, this was followed up by a repair issue raising NOK 28.0 million in gross proceeds.

Between 31 December 2018 and the resolution of these consolidated financial statements, there has not been any other event which have had any noticeable impact on NEXT's result for 2018 or the value of the company's assets and liabilities at 31 December 2018.

> RESPONSIBILITY STATEMENT

The board and the managing director have today reviewed and approved this report from the board of directors as well as the annual financial statements for the parent company NEXT Biometrics Group ASA and for the Group at 31 December 2018.

The consolidated annual financial statements and the annual financial statements for NEXT Biometrics Group ASA have been prepared in accordance with IFRS as adopted by the EU and the additional requirements in the Norwegian accounting act. The notes are an integral part of the respective financial statements. The report from the board of directors has been prepared in accordance with the Norwegian accounting act and generally accepted accounting practice in Norway.

We confirm, to the best of our knowledge, that the information presented in the financial statements gives a true and fair view of the group's and the parent company's assets, liabilities, financial position and result for the period viewed in their entirety, and that the report from the board of directors 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 which the group and the parent company are facing.

Oslo, 29 April 2019
The board of directors of NEXT Biometrics Group ASA

Magnus Mandersson
Chairman

Brita Eilertsen
Board member

Emine Lundkvist
Board member

Emanuel Lang
Board member

Ritu Favre
CEO

RSM Norge AS

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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 balance sheet as at 31 December 2018, the income statement showing a loss of NOK 330 288 000, statement of changes in equity and cash flow statement 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 balance sheet as at 31 December 2018, the income statement showing a loss of NOK 172 901 000, statement of changes in equity and statement of cash flows 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 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.
- 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.

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.

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.

Revenue recognition

The Group have revenues of NOK 108,4 million in 2018, an increase of NOK 10,2 million from 2017. Revenue is related to sales of goods within the fingerprint sensor technology segment. Revenue is recognized at the time a customer obtains control of the goods. Revenue recognition is considered as a key audit matter because there is a risk that revenue is recognized before control of the goods are transferred to the customers.

How our audit addressed the key audit matter

Our audit procedures included, among others:

- Considerations of the customer contracts and assessment of contract terms
- Sample tests of sales at year end against consignment notes
- Control of credit notes after balance sheet date
- Evaluation of management's assessment of probability of return
- Reconciliation of customer statement confirming sales in 2018

Carrying value of investments in subsidiary

In the separate financial statement for the Company the investment in Next Biometrics AS is recognized at cost less impairment. The investment has a book value of NOK 321,3 million as at 31 December 2018 after impairment of NOK 316,1 million. In addition the Parent Company has a loan to the subsidiary of NOK 198,7 million. For additional information we refer to notes 15 and 16 in the annual report. We have considered the valuation of the investment as a key audit matter because of its impact on the financial statement.

How our audit addressed the key audit matter

Our audit procedures included, among others:

- Evaluation of management's assessment of impairment indicators
- Assessing the impairment documentation prepared by management, including evaluation of the impairment calculation based on stock price at year-end

From the evidence obtained, we consider management assessment of the carrying value of the investments as reasonable.

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 coverage of the loss is consistent with the financial statements and complies with the law and regulations.

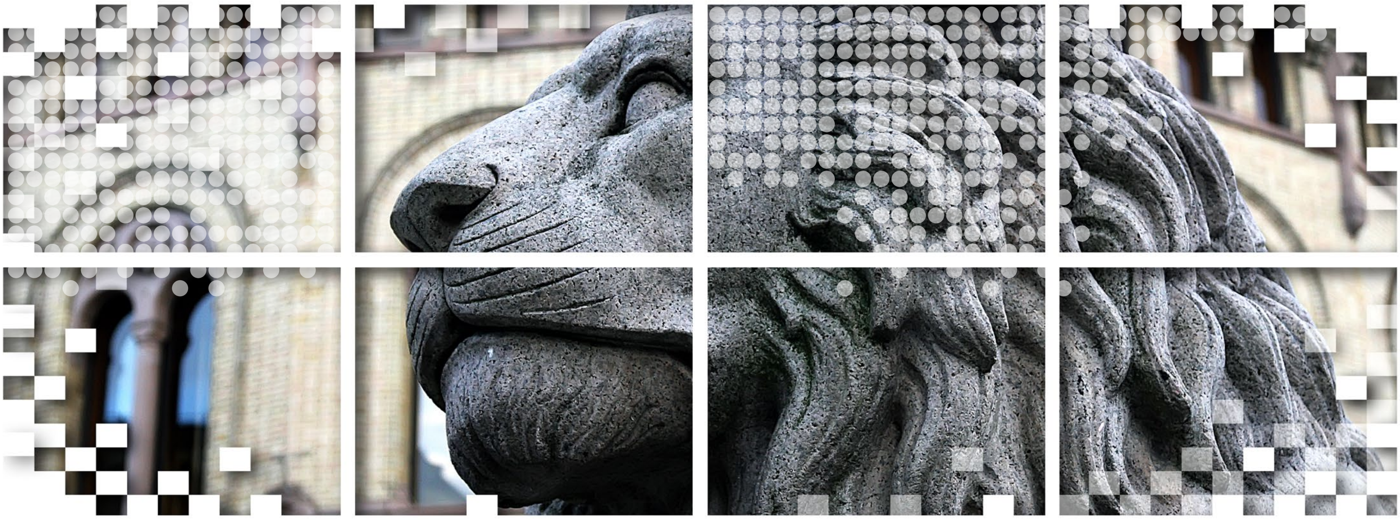
Opinion on Registration and Documentation

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, 29 April 2019
RSM Norge AS

Cecilie Tronstad

Cecilie Tronstad
State Authorised Public Accountant



> 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.

At 31 December 2018 (2017), the consolidated equity of the Group amounted to NOK 119 (165) million, which equals 80 % (85%) of total assets. Based on this, the board of director's initiated to raise additional equity in a private placement in January 2019. After completion of the private placement the board of directors considers the equity to debt ratio satisfactory and is of the view that the capital structure of the Company is appropriate to the Company's objectives, strategies and risk profile. Nonetheless, the board of director's closely monitors the equity level against NEXT's level of activity. Actions are taken by the board to improve the equity level, including to propose and to obtain approval from the Company's general meeting to issue new shares.

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 15 May 2018, gave the board authorization to increase the Company's share capital by up to NOK 1,923,000. The authorization was used to issue shares in tranche 1 of the private placement which took place in February 2019.

At the annual general meeting held on 15 May 2018, the board of directors was also given an authorization to increase the Company's share capital for the option program by up to NOK 1,504,717. 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 2019 general meeting or 30 June 2019, whichever comes first.

As of 31 December 2018, 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 March 2018, NEXT raised NOK 120 million in gross proceeds in a private placement at a subscription price of NOK 42 per share. The private placement was divided into two tranches. Tranche 1 consisted of NOK 68.8 million (1,638,000 shares) and was finalized under the current board authorisation. Tranche 2 consisted of NOK 51.2 million (1,219,142 shares). The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting on 13 April 2018. In order to accommodate for the shareholders not able to take part in this subscription, NEXT conducted a subsequent offering and listing of up to 200,000 shares at a subscription price of NOK 42 in June 2018.

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) 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.

At the Company's annual general meeting in May 2017, Tore Etholm-Idsøe was elected as chairman of the board of directors in accordance with the nomination committee recommendation. The annual general meeting decided to approve the monthly consideration of NOK 180,000 to Tore Etholm-Idsøe (through his wholly-owned company, Eurostores AS) pursuant to the consulting agreement between Eurostores AS and the Company that applied from the annual general meeting in 2017 until 30 June 2018. The consultancy agreement with Tore Etholm-Idsøe automatically terminated 30 June 2018. Further, Tore Etholm-Idsøe is no longer a member of the board of directors.

Other than this, the board is not aware of any transactions in 2018 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 15 May 2018 for the period until the annual general meeting in 2019. 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 2018, 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 2018, the board of directors comprises the following four members:

- Magnus Mandersson (chair);
- Brita Eilertsen;
- Emine Lundkvist; and
- Emanuel Lang.

All of the abovementioned board members are elected for the period until the annual general meeting in 2019.

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 four 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 7,213,614 (17.13%) 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.

NEXT is a company in a relatively new industry. On this back ground, the Company has opened for the possibility that members of the management with special competence may serve as directors in special cases, although this is against the recommendations given in the Code. However, the board does not include any such personnel at the time being.

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. Tore Idsøe provided a notice of resignation from the board on 18 December 2018 after accepting a Senior Vice President position at one of the Company's customers.

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. Tore Idsøe resigned from the board on 18 December 2018.

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 23 May 2016.

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. Emanuel Lang excused himself from the board meetings several times during 2018 when the board discussed the financial transactions in the Company, because of his position in Greenbridge Advisory Services Limited.

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 2018, 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 insure 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 outsourced their payroll, but insourced the accounting during 2018.

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 and none of the current board members have been granted share options.

The 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.

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.

Until the end of 2015, NEXT had an unconditional option program in order to attract and motivate the employees.

In 2016, the general meeting resolved to approve a new option program. The new program consists of conditional share options. Exercise of vested share options is conditional upon the respective option holders meeting certain KPIs. In 2017, the general meeting resolved to modify the program. The strike price for the subscription rights is in line with the share price the five last trading days prior to the date of grant, with the addition of 10 %. The conditional 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. In 2018, the general meeting resolved to continue the modified program from 2017 in 2018 but with performance conditions only for the management team.

For details regarding remuneration to the executive management, see note 4 to the annual financial statements.

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 2018.

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. RSM Norge AS is currently the Company's auditor. NEXT represents a small share of the auditor's business. NEXT is at the same time that one of few publicly listed companies audited by RSM Norge. 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 2018)

§ 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 19 430 575, divided into 19 430 575 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 Biometrics' 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 23 May 2016 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 2017, 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 90 employees at the end of 2018, 17 are women. In addition, NEXT also had 7 contractors. At year-end 2018, the parent company has 4 board members, of which 2 are women. The 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 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.