



N E X T B I O M E T R I C S G R O U P A S A

Q U A R T E R L Y R E P O R T - Q 4 2 0 1 9

One Touch.
One You.
NEXT Biometrics



NEXT Biometrics Group ASA

Quarterly report – Q4-2019

Highlights

- Revenue for 2019 of NOK 84.4 million, down 22% compared to same period last year
- Revenue of NOK 9.2 million in Q4-2019, down 68% from Q4-2018
- Revenues to date 2020 already higher than revenues reported in Q4-2019
- Gross margin of -2% in Q4-2019 (36% in Q4-2018) resulting from reduced sales volume and product mix in the quarter
- EBITDA ex options¹ of NOK -49.3 million in Q4-2019 (NOK -34.7 million in Q4-2018) including non-recurring costs of NOK 4.7 million
- Cash position NOK 88.5 million as per 31 December 2019 (NOK 46.3 million per 31 December 2018)
- Accelerated cost reduction program and reduced headcount
- Large-size FAP20 sensor module granted US PIV certification

CEO comment

“We continued to see the revenue impact of our largest customer reducing sensor purchases in the fourth quarter as expected. To offset this, we reduced headcount, made cost avoidance and lowered indirect costs substantially during the quarter. At the same time, we are working closer with both existing and potential new customers and have at year-end built a much stronger sales funnel. We have also received PIV certification of our promising FAP20 sensor. With a stronger sales focus we have also started to convert increased activity in India into revenues. With a more customer centric organization operating at lower cost, I’m confident we will deliver more orders and revenue during 2020.”

Peter Heuman, CEO of NEXT Biometrics Group ASA

| AMOUNTS IN NOK MILLION (EXCEPT GROSS MARGIN) | Q4-2019 | Q3-2019 | Q2-2019 | Q1-2019 | 2019 | 2018 |
|---|---------|---------|---------|---------|--------|--------|
| Total revenue | 9.2 | 17.6 | 30.1 | 27.5 | 84.4 | 108.4 |
| Gross margin (%) | -2 % | 11 % | 32 % | 34 % | 24 % | 28 % |
| EBITDA ex options ¹⁾ | -49.3 | -34.7 | -30.5 | -35.4 | -149.9 | -149.5 |
| Closing cash balance | 88.5 | 131.7 | 163.5 | 188.9 | 88.5 | 46.3 |

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

Operational review:

Revenue for 2019 was NOK 84.4 million, down 22% compared to 2018. Fourth-quarter revenue was NOK 9.2 million, compared to NOK 29.3 million during the same period of 2018. The decline in quarterly and full-year revenue reflects reduced shipments to the US tier 1 notebook customer in line with the previously communicated expected reduction in number of platforms using NEXT's sensors.

NEXT continues to diversify its customer and revenue base across target markets including increasing sensor shipments to Fujitsu and other customers. NEXT is experiencing increased demand for its sensor technology, but due to prevailing sales lead-times and design-in cycles it will be challenging to, in the short term, fully offset the reduction in notebook revenue during the first half year of 2020.

In India, demand is increasing for biometric solutions tied to the Government's Aadhaar program. After establishing local presence in India in 2019, NEXT commenced a slow ramp-up of shipments through the fourth quarter of 2019. NEXT's change of focus combined with increased activity during quarter paid off, and in January the company received an USD 750,000 order for UIDAI and STQC certified fingerprint biometric readers. The readers were shipped in early 2020 for use in a regional public program aimed at improving living standards of citizens in rural areas. NEXT expects additional orders in 2020 from both existing and new customers in India.

In December, the FAP20 government grade sensor was granted Personal Identity Verification (PIV) Certification in the US following tests by the Federal Bureau of Investigation (FBI). The new FAP20 sensor has been sampled to a wide range of customers and projects and has generated substantial interest in the government ID, access control and the commercial high security notebook markets.

In the fourth quarter, NEXT executed a program to optimize the organization and cost base with its strategic priorities and market opportunities. Following the restructuring, NEXT will have less than 65 full-time employees, a reduction of more than 20%. The measures were largely implemented in the fourth quarter of 2019 and are expected to yield annual cost saving of minimum NOK 45 million with effect starting from the first quarter of 2020. Other operating expenses which are not related to near-term revenue generation or critical development activities, has also been scaled down.

As of today, there has been no material impact to NEXT's business as a result of the Corona virus outbreak in China. The company and its customers have had ample inventory of modules and readers to ensure shipments during the extended holiday closure in late January and early February.

Smart Cards

NEXT's smart card product development activities focused on commercializing the dual interface solution progressed to plan with high customer activity across the smart card ecosystem.

Government ID

NEXT offers a market-leading product portfolio for government ID market and continued to develop the customer base based on its fingerprint readers and sensor modules certified for India's Aadhaar program. The PIV certified FAP20 sensor will offer new opportunities from 2020 onwards.

Access control

The access control segment is a highly fragmented and regional business. NEXT's strategy is to drive market penetration through regional distributors and by leveraging its existing product portfolio and the new FAP20 sensor for physical access control and time & attendance applications. In the fourth quarter, NEXT introduced sensor modules (One Touch Access 115) that is targeting enhanced temperature requirements.

Notebook

Shipments to the US tier-1 customer declined as expected in the fourth quarter as it reduced the number of platforms using NEXT sensors. NEXT expects shipments to stabilize in 2020 at a new lower level. Shipments to Fujitsu are according to plan as more platforms with NEXT sensors are launched in the market.

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

Interim condensed financial statements as of 31 December 2019 (unaudited)

Profit & loss statement

Operating revenue for the fourth quarter of 2019 was NOK 9.2 million, compared to NOK 29.3 million in the fourth quarter of 2018. The decrease was mainly related to reduced shipments to the US tier 1 notebook customer. For the full year of 2019, operating revenue amounted to NOK 84.4 million, compared NOK 108.4 million in 2018.

Fourth-quarter gross margin was -2%, compared to 36% in the fourth quarter of 2018. The negative margin in the fourth quarter was due to reduced sales volume and product mix in the quarter.

For the full year of 2019, the gross margin was 24% (NOK 20.6 million), compared to 28% (NOK 30.8 million) in 2018. The gross margin will fluctuate over time based on the production volume and mix of products sold.

Payroll expenses were NOK 33.5 million in the fourth quarter of 2019, compared to NOK 31.5 million in the fourth quarter of 2018. The fourth quarter 2019 payroll expenses include non-recurring costs of NOK 4.7 million. Full-year of 2019 payroll expenses were NOK 121.9 million, compared to NOK 116.1 million in 2018.

Other operating expenses were NOK 16.4 million in the fourth quarter of 2019, compared to NOK 17.6 million in the fourth quarter of 2018. The fourth quarter 2018 costs include NOK 5 million in Skattefunn cost reduction. For the full year of 2019 other operating expenses amounted to NOK 51.4 million, compared NOK 75.6 million in 2018.

Total R&D expenses, included in both payroll and other operating expenses, was NOK 95.7 million in 2019, a decrease from NOK 114.7 million in 2018.

The company booked lease amortization cost of NOK 1.2 million and interest cost of NOK 0.1 million in the fourth quarter 2019 relating to the company's office lease liabilities due to implementation of IFRS 16.

NEXT had income tax expenses of NOK 2.1 million related to foreign subsidiaries in 2019.

Net loss after tax for the fourth quarter of 2019 was NOK 56.6 million, compared to a loss of NOK 40.9 million in the fourth quarter of 2018. The increased loss was mainly related reduced revenues and gross margin, non-recurring costs relating to the personnel reduction implemented in the quarter and increased depreciation and amortization. Net loss after tax for the full year of 2019 amounted to NOK 171.4 million, compared to a loss of NOK 172.9 million for the full year of 2018.

Cash flow and balance sheet

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

Cash flow from operating activities was negative NOK 38.5 million in the fourth quarter of 2019, compared to a negative NOK 24.9 million in the fourth quarter of 2018. For the full year of 2019, cash flow from operations was negative NOK 131.4 million, compared to negative NOK 144.4 million for the full year of 2018.

Investments were NOK 0.0 million in the fourth quarter of 2019, compared to NOK 0.3 million in the fourth quarter of 2018. For the full year of 2019, investments amounted to NOK 1.2 million, compared to NOK 4.1 million for the full year of 2018.

Net cash flow from financing activities was NOK 174.5 million for the full year of 2019, compared to NOK 114.4 million in 2018. The positive cash effect from financing relates to the funds raised in the private placements in 2018 and early 2019.

At the end of December 2019, the Company's share capital was NOK 42.9 million, divided into 42,930,575 shares with a par value of NOK 1 per share.

Equity amounted to NOK 129.8 million as at 31 December 2019, compared to NOK 119.3 million at the end of 2018.

Going concern

The company's accounts for the fourth quarter of 2019 have been prepared on the basis of a going concern assumption. In the view of the board of directors, based on current projections the group cash position and working capital cover less than 12 months operations, and that there is material uncertainty related to the ability of the company to continue as a going concern. The board is evaluating activities to ensure relevant company financing.

Outlook

A number of changes has been initiated in late 2019 and early 2020 as a part of the comprehensive review, including reduction of staff, other indirect costs and external R&D cost. The implemented operating costs reductions are expected to yield annual savings of minimum NOK 45 million in 2020 relative to the annual costs of NOK 173 million in 2019.

Revenue in early 2020 will reflect reduced shipments to the US tier-1 notebook customer. Current sales lead-times and design-in cycles makes it challenging to immediately offset the associated decrease in Group revenue. However, we believe the Q4 revenues will be the low point in terms of quarterly revenues for NEXT. Improved sales management and the strengthening of the sales force with focus on sale of existing and already developed products will yield results already from Q1 2020. Moreover, with the large order win in India and recurring Notebook sensor volumes, revenues to date in 2020 are already higher than revenues reported in Q4 2019. Additionally, we received the first purchase order for FAP20, which we believe has potential for increased revenues in the medium and long term.

Oslo, February 25, 2020

Board of Directors

NEXT Biometrics Group ASA

NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

31 DECEMBER 2019

| | | Q4-2019 | Q4-2018 | 2019 | 2018 |
|--|-------|--------------|-------------|--------------|-------------|
| (AMOUNTS IN NOK 1,000) | NOTES | Post IFRS 16 | Pre IFRS 16 | Post IFRS 16 | Pre IFRS 16 |
| PROFIT AND LOSS | | | | | |
| Revenue | | | | | |
| Operating revenue | 3 | 9 234 | 29 278 | 84 436 | 108 392 |
| Total revenue | | 9 234 | 29 278 | 84 436 | 108 392 |
| Cost of goods sold | | 9 437 | 18 796 | 63 865 | 77 612 |
| Gross margin | | -202 | 10 481 | 20 570 | 30 780 |
| Operating expenses | | | | | |
| Payroll expenses | 4 | 33 471 | 31 516 | 121 929 | 116 077 |
| Other operating expenses | 4 | 16 428 | 17 553 | 51 419 | 75 569 |
| Total operating expenses | | 49 899 | 49 069 | 173 348 | 191 647 |
| Profit (loss) before tax, depreciation and amortization | | | | | |
| | | -50 101 | -38 587 | -152 777 | -160 867 |
| Amortization of intangible assets | 5 | 1 745 | 1 739 | 6 982 | 6 204 |
| Depreciation right-of-use-assets | 6 | 1 204 | | 4 647 | |
| Depreciation of tangible assets | 7 | 1 389 | 970 | 5 176 | 3 823 |
| Operating profit (loss) | | -54 439 | -41 297 | -169 582 | -170 894 |
| Net financial items | | -72 | 2 001 | 266 | -425 |
| Net profit (loss) before tax | | -54 512 | -39 296 | -169 316 | -171 319 |
| Taxes | | -2 132 | -1 584 | -2 131 | -1 582 |
| Net profit (loss) for the period | | -56 644 | -40 880 | -171 447 | -172 901 |
| Earnings per share - basic and diluted | | | | | |
| | 9 | -1.32 | -2.10 | -4.32 | -9.30 |
| Other comprehensive income | | | | | |
| Items that may be reclassified to profit or loss | | | | | |
| Exchange rates differences | | -451 | 701 | 315 | 708 |
| Total other comprehensive income | | -451 | 701 | 315 | 708 |
| Total comprehensive income for the period | | | | | |
| | | -57 095 | -40 179 | -171 132 | -172 194 |
| Total comprehensive income for the period attributable to: | | | | | |
| Owners of the parent company | | -57 095 | -40 179 | -171 132 | -172 194 |
| Total | | -57 095 | -40 179 | -171 132 | -172 194 |

NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITIONS (UNAUDITED)

31 DECEMBER 2019

| (AMOUNTS IN NOK 1,000) | NOTES | 31 DEC 2019 Post IFRS 16 | 31 DEC 2018 Pre IFRS 16 |
|------------------------------------|-------|-----------------------------|----------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Deferred tax assets | | 9 | 354 |
| Patens and other intangible assets | 5 | 11 969 | 18 951 |
| Right-of-use assets | 6 | 7 523 | |
| Machinery and office equipment | 7 | 23 689 | 27 125 |
| Total non-current assets | | 43 189 | 46 430 |
| Current assets | | | |
| Inventory | | 25 961 | 29 373 |
| Receivables | | | |
| Accounts receivable | | 3 481 | 12 797 |
| Other receivables | | 6 724 | 15 147 |
| Total receivables | | 10 204 | 27 945 |
| Cash and cash equivalents | | | |
| | | 88 541 | 46 299 |
| Total current assets | | 124 706 | 103 617 |
| Total assets | | 167 896 | 150 046 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 8 | 42 931 | 19 431 |
| Share premium | | 624 451 | 469 200 |
| Other paid in capital | | 58 261 | 55 369 |
| Accumulated losses | | -595 842 | -424 710 |
| Total equity | | 129 801 | 119 289 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Non-current lease liabilities | 6 | 3 344 | |
| Total current liabilities | | 3 344 | 0 |
| Current liabilities | | | |
| Current lease liabilities | 6 | 4 487 | |
| Accounts payable | | 11 786 | 19 096 |
| Public duties payable | | 2 004 | 1 330 |
| Other current liabilities | | 16 473 | 10 331 |
| Total current liabilities | | 34 751 | 30 757 |
| Total liabilities | | 38 095 | 30 757 |
| Total equity and liabilities | | 167 896 | 150 046 |

NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

31 DECEMBER 2019

| (AMOUNTS IN NOK 1,000) | NOTES | Q4-2019 | Q4-2018 | 2019 | 2018 |
|--|-------|--------------|-------------|--------------|-------------|
| | | Post IFRS 16 | Pre IFRS 16 | Post IFRS 16 | Pre IFRS 16 |
| Cash flow from operating activities | | | | | |
| Profit (loss) before taxes | | -54 512 | -39 296 | -169 316 | -171 319 |
| Taxes payable | | -2 141 | -1 938 | -2 141 | -1 936 |
| Share based remuneration (equity part) | | 759 | 4 240 | 2 893 | 11 933 |
| Amortization of intangible assets | 5 | 1 745 | 1 739 | 6 982 | 6 204 |
| Depreciation right-of-use-assets | 6 | 1 204 | 0 | 4 647 | 0 |
| Depreciation of tangible assets | 7 | 1 389 | 970 | 5 176 | 3 823 |
| Change in prepayments | | 0 | 3 081 | 0 | 3 070 |
| Change in working capital items | | 13 020 | 6 343 | 20 365 | 3 810 |
| Net cash flows from operating activities | | -38 536 | -24 861 | -131 394 | -144 416 |
| Cash flows from investing activities | | | | | |
| Purchase of intangible assets | 5 | 0 | -338 | 0 | -3 701 |
| Purchase of tangible assets | 7 | 34 | 6 | -1 199 | -438 |
| Net cash flows from investing activities | | 34 | -331 | -1 199 | -4 138 |
| Cash flows from financing activities | | | | | |
| Share issue net of expenses | | 0 | 0 | 178 752 | 114 424 |
| Payment of lease liabilities | | -4 233 | 0 | -4 233 | 0 |
| Net cash flows from financing activities | | 0 | 0 | 174 519 | 114 424 |
| Translation differences | | -451 | 701 | 315 | 708 |
| Net change in cash flows | | -38 954 | -24 492 | 42 242 | -33 423 |
| | | | | | |
| Opening cash balance | | 131 728 | 70 791 | 46 299 | 79 722 |
| Closing cash balance | | 88 541 | 46 299 | 88 541 | 46 299 |

NEXT BIOMETRICS GROUP ASA

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

31 DECEMBER 2019

| (AMOUNTS IN NOK 1,000) | NOTES | SHARE CAPITAL | SHARE PREMIUM | OTHER CAPITAL RESERVES | RETAINED EARNINGS | TOTAL EQUITY |
|---------------------------------|-------|------------------|------------------|------------------------------|----------------------|-----------------|
| Balance 1 October 2019 | | 42 931 | 624 451 | 57 513 | -538 740 | 186 154 |
| Shares issue | 8 | | | | | 0 |
| Share based compensation | | | | 749 | | 749 |
| Translation differences | | | | | -451 | -451 |
| Net profit (loss) | | | | | -56 644 | -56 644 |
| Balance 31 December 2019 | | 42 931 | 624 451 | 58 261 | -595 842 | 129 801 |
| Balance 1 October 2018 | | 19 431 | 799 487 | 51 128 | -714 818 | 155 228 |
| Shares issue | 8 | | | | | 0 |
| Share based compensation | | | | 4 240 | | 4 240 |
| Translation differences | | | | | 701 | 701 |
| Net profit (loss) | | | -330 288 | | 289 408 | -40 880 |
| Balance 31 December 2018 | | 19 431 | 469 200 | 55 369 | -424 710 | 119 289 |
| Balance 1 January 2019 | | 19 431 | 469 200 | 55 369 | -424 710 | 119 289 |
| Shares issue | 8 | 23 500 | 155 252 | | | 178 752 |
| Share based compensation | | | | 2 893 | | 2 893 |
| Translation differences | | | | | 315 | 315 |
| Net profit (loss) | | | | | -171 447 | -171 447 |
| Balance 31 December 2019 | | 42 931 | 624 451 | 58 261 | -595 842 | 129 801 |
| Balance 1 January 2018 | | 16 382 | 688 111 | 43 436 | -582 804 | 165 126 |
| Shares issue | 8 | 3 048 | 111 376 | | | 114 424 |
| Share based compensation | | | | 11 933 | | 11 933 |
| Translation differences | | | | | 708 | 708 |
| Net profit (loss) | | | -330 288 | | 157 387 | -172 901 |
| Balance 31 December 2018 | | 19 431 | 469 200 | 55 369 | -424 710 | 119 289 |

Notes to the condensed interim financial statements

31 December 2019 (Unaudited)

1. General information

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

Group operations are carried out by the operating subsidiaries. As per 31 December 2019, the Group had five wholly owned operating subsidiaries: NEXT Biometrics AS (Norway) and its subsidiaries NEXT Biometrics, Inc. (Seattle, USA), NEXT Biometrics China, Ltd. (Shanghai, China), NEXT Biometrics Taiwan, Ltd. (Taipei, Taiwan) and NEXT Biometrics s.r.o (Prague, Czech Republic) and NEXT Biometrics India (Bengaluru, India).

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

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

2. Basis of preparation, accounting policies

This condensed interim financial report has been prepared in accordance with IAS 34 “Interim financial reporting”. The condensed interim financial report should be read in conjunction with the annual financial statements for 2018.

The IFRS accounting policies applied in this condensed interim financial report are consistent with those applied and described in the annual financial statements for 2018.

The company’s accounts for the fourth quarter of 2019 have been prepared on the basis of a going concern assumption. In the view of the board of directors, based on current projections the group cash position and working capital cover less than 12 months operations, and that there is material uncertainty related to the ability of the company to continue as a going concern. The board is prepared to initiate activities to ensure relevant company financing.

This interim financial report has not been subject to audit.

The Board of Directors approved the report on 25 February 2020.

The accounting policies applied are consistent with those applied in the previous financial year, except for the implementation of IFRS 16 - Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The group has, with effect from 1 January 2019, adopted IFRS 16 using the modified retrospective approach. Accordingly, comparable information has not been restated, and the effect is entered in the statement of financial position in the implementation year 2019. Upon implementation, the right-of-use asset and lease liability were the same amount and did not impact on equity.

At the commencement date of a lease, a lessee will recognize a liability at the present value of lease payments with a corresponding asset representing the right to use the underlying asset during the lease term (right-of-use asset). The recognized asset is amortized over the lease period and the depreciation expense is recognized as an operating expense on an ongoing basis. The lease liabilities will be discounted at the incremental borrowing rate, and the interest expense on the lease commitment is recognized as a financial expense.

NEXT has identified office buildings to be the only material lease agreements. The group has used the relief option for leases with a duration of less than 12 months and leases with low value, and these leases will not be recognized in the statement of financial position but recognized as an operating expense over the lease period. This approach will be applied consistently to all lease contracts.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The impacts of IFRS 16 adoption per 1 January 2019 and 2019 impact from IFRS 16 are summarized in note 6.

3. Revenue and segment reporting

OPERATING REVENUE - PER BUSINESS SEGMENT (AMOUNTS IN NOK 1,000)

| | 2019 | 2018 |
|-------------------------------|---------------|----------------|
| Fingerprint sensor technology | 84 436 | 108 392 |
| Total | 84 436 | 108 392 |

NEXT targets four markets for the technology;

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

The available technology is generic into the four markets. 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. NEXT considers that the group only operate within one business segment, and therefore also report only within one business segment, "Fingerprint sensor technology".

4. Operating expenses

PAYROLL EXPENSES

(AMOUNTS IN NOK 1,000)

| | 2019 | 2018 |
|---|----------------|----------------|
| R&D related payroll expenses | 65 841 | 69 591 |
| Other payroll expenses | 52 585 | 35 445 |
| Share based remuneration (salary part) | 3 609 | 11 562 |
| Share based remuneration (employer's tax) | -106 | -520 |
| Total | 121 929 | 116 077 |

OTHER OPERATING EXPENSES

(AMOUNTS IN NOK 1,000)

| | 2019 | 2018 |
|---|---------------|---------------|
| R&D related operating expenses | 29 889 | 45 143 |
| Other expenses | 22 186 | 30 086 |
| Share based remuneration (operating part) | -656 | 340 |
| Total | 51 419 | 75 569 |

| | | |
|-----------------------------------|----------------|----------------|
| Total - Operating expenses | 173 348 | 191 647 |
|-----------------------------------|----------------|----------------|

5. Intangible assets

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

INTANGIBLE ASSETS

(AMOUNTS IN NOK 1,000)

| | 2019 | 2018 |
|---|---------------|---------------|
| Cost - Opening balance | 26 996 | 23 295 |
| Additions | 0 | 3 701 |
| Disposals at cost | 0 | 0 |
| Currency adjustments | 0 | 0 |
| Cost - Closing balance | 26 996 | 26 996 |
| Accumulated amortization - Opening balance | 8 045 | 1 841 |
| Amortisation | 6 982 | 6 204 |
| Accumulated amortization of disposed items | 0 | 0 |
| Currency adjustments | 0 | 0 |
| Accumulated amortization - Closing balance | 15 027 | 8 045 |
| Book value - Closing balance | 11 969 | 18 951 |
| Amortization period (straight line) years | 3-12 | 3-12 |

The additions in 2018 relates to the source code license acquisition.

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

6. Leases

LEASES IN THE STATEMENTS OF INCOME (AMOUNTS IN NOK 1,000)

| | 2019 |
|--|--------------|
| Other operating expense | -4 958 |
| Profit (loss) before tax, depreciation and amortization | 4 958 |
| Depreciation of right-to-use assets | 4 647 |
| Operating profit (loss) | 311 |
| Interest expenses on lease liabilities | 652 |
| Net profit (loss) before tax | -340 |

LEASES IN THE STATEMENTS OF FINANCIAL POSITION (AMOUNTS IN NOK 1,000)

| | 2019 YTD-Q4 | 2019 JAN. 01 |
|--|----------------|-----------------|
| Assets | | |
| Right-of-use assets - Office buildings | 7 523 | 11 998 |
| Total lease assets | 7 523 | 11 998 |
| Liabilities | | |
| Current lease liabilities | 4 487 | 5 508 |
| Non-current lease liabilities | 3 344 | 6 490 |
| Total lease liabilities | 7 830 | 11 998 |

At the implementation date 1 January 2019, the right-of-use assets and lease liabilities were at the same amount and equity was not impacted.

RECONCILIATION OF LEASE COMMITMENTS TO LEASE LIABILITIES (AMOUNTS IN NOK 1,000)

| | 2019 JAN. 01 |
|---|-----------------|
| Operating lease obligation at 31 December 2018 | 14 347 |
| New contract and currency adjustments identified per 1 January 2019 | -1 237 |
| Gross lease liabilities at 1 January 2019 | 13 110 |
| Effect of discounting using incremental borrowing rate | -1 112 |
| Total lease liabilities | 11 998 |

Leases with a lease term of 12 months or shorter, and low value leases, were not capitalized. As at 1 January 2019, this was mainly leased office equipment with a total value of NOK 152 thousand.

Some of the leasing contracts includes an option for renewal. At implementation date, management has assessed that the probability for execution of these options are low, and they are not reflected in total lease liabilities.

The weighted average incremental borrowing rate applied to lease liabilities recognized in the statement of financial positions at 1 January 2019 was 6.5%.

7. Tangible assets

FIXED ASSETS

MACHINERY AND EQUIPMENT

(AMOUNTS IN NOK 1,000)

| | 2019 | 2018 |
|---|---------------|---------------|
| Cost - Opening balance | 53 410 | 52 080 |
| Additions | 1 199 | 437 |
| Disposals at cost | 0 | -27 |
| Currency adjustments | 826 | 920 |
| Cost - Closing balance | 55 435 | 53 410 |
| Accumulated depreciation - Opening balance | 26 285 | 21 994 |
| Depreciation | 5 176 | 3 823 |
| Accumulated depreciation of disposed items | 0 | -27 |
| Write-downs | 0 | 0 |
| Currency adjustments | 285 | 495 |
| Accumulated depreciation - Closing balance | 31 746 | 26 285 |
| Book value - Closing balance | 23 689 | 27 125 |
| Depreciation period (straight line) years | 3-10 | 3-10 |

8. Shares and incentive options

NUMBER OF SHARES OUTSTANDING

| | 2019 | 2018 |
|-----------------------------|-------------------|-------------------|
| Opening balance | 19 430 575 | 16 382 480 |
| Share issue(s) | 23 500 000 | 2 860 855 |
| Exercised incentive options | 0 | 187 240 |
| Closing balance | 42 930 575 | 19 430 575 |

In the first quarter of 2019, NEXT raised NOK 178.8 million in net proceeds in a private placement. The private placement was divided into two tranches, followed by a repair issue.

Tranche 1, finalized under the current board authorization, consisted of 1,923,000 new shares at a subscription price of NOK 8. This corresponded to a total gross amount of NOK 15.4 million. Expenses and commission fee connected with tranche 1 of the placement amounted to NOK 1.1 million and net proceeds were NOK 14.3 million.

Tranche 2 consisted of 18,077,000 new shares at a subscription price of NOK 8, corresponding to a total gross amount of NOK 144.6 million. The issuance of the new shares in tranche 2 was approved at the extraordinary general meeting on 15 February 2019. Expenses and commission fee connected with tranche 2 of the placement amounted to NOK 6.1 million and net proceeds were NOK 138.5 million.

The repair issue was performed in March and 3,500,000 new shares were subscribed at a subscription price of NOK 8, corresponding to a total gross amount of NOK 28.0 million. Expenses and commission fee connected with the repair issue amounted to NOK 2.0 million and net proceeds were NOK 26.0 million.

Share options

The Company has entered into, and plans to continue to enter into stock option agreements in order to attract talented, experienced and high value networked human resources. NEXT has three different option programs; unconditional long-term share options, milestone-based share options and conditional long-term share options.

In the first quarter of 2019, a total of 61,400 new share options were granted. In addition, a total of 10,000 new share options under the 2017 program was granted. In the second quarter of 2019, a total of 706,250 new share options were granted. In the third quarter of 2019 a total of 440,000 new share options were granted. In the fourth quarter of 2019 a total of 220,000 new share options were granted to Peter Heuman (CEO). Peter Heuman holds total 220,000 conditional options and 0 shares.

| | | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE |
|---------------------------------|------------------|--|----------------------|--|
| OPTIONS | 2019 | | 2018 | |
| Outstanding - Beginning period | 1 325 329 | 52.04 | 1 504 717 | 63.08 |
| Granted | 1 437 650 | 6.45 | 334 500 | 44.04 |
| Exercised | - | - | -187 240 | 1.00 |
| Cancelled | - | - | -7 244 | 1.00 |
| Forfeited | -461 857 | 60.05 | -122 669 | 78.11 |
| Expired | -668 737 | 39.63 | -103 590 | 46.47 |
| Modifications | - | - | -44 750 | 42.04 |
| Adjusted quantity ¹ | 100 090 | 45.45 | -48 394 | 0.89 |
| Outstanding - End period | 1 732 475 | 28.90 | 1 325 331 | 52.04 |
| Vested options - End period | 408 811 | 63.05 | 845 305 | 44.56 |

| | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE |
|---------------------------------|--|----------------------|--|
| Granted options - During period | 2.81 | 334 500 | 40.54 |

| | INTRINSIC VALUE | NUMBER OF OPTIONS | INTRINSIC VALUE |
|----------------------------------|--------------------|----------------------|--------------------|
| Outstanding options - End period | 92 400 | 260 930 | 2 809 891 |
| Vested options - End period | - | 260 930 | 2 809 891 |

¹ Adjusted quantity of 100,090 for 2019 represents the adjustment for the probability of all conditions related to the granted share options being met.

9. Profit (loss) per share

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

The diluted number of shares has been calculated by the treasury stock method. If the exercise price of incentive options exceeds the average price per share in the period, the incentive options are not counted as being dilutive.

| BASIS FOR CALCULATION - EARNINGS PER SHARE | 2019 | 2018 |
|--|--------------|--------------|
| Profit (loss) attributable to the shareholders (NOK 1,000) | -171 447 | -172 901 |
| Number of ordinary shares issued at 31 December | 42 930 575 | 19 430 575 |
| Weighted average basic number of shares | 39 662 498 | 18 594 061 |
| Weighted average diluted number of shares | 39 662 498 | 20 383 160 |
| Profit (loss) per share (NOK) | -4.32 | -9.30 |

10. Risk management

A description of risk factors can be found in Note 2 of NEXT Biometrics Group ASA's 2018 annual report.

11. Events occurring after the balance sheet date

Between 31 December 2019 and the resolution of these condensed consolidated interim financial statements, there has not been any other event which have had any noticeable impact on NEXT's result for the full year of 2019 or the value of the Company's assets and liabilities at 31 December 2019.

Alternative performance measures

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

Definitions

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

Gross margin / gross margin (%)

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

| (AMOUNTS IN NOK 1,000) | Q4-2019 | Q4-2018 | 2019 | 2018 |
|-------------------------|-------------|---------------|---------------|---------------|
| Operating revenue | 9 234 | 29 278 | 84 436 | 108 392 |
| Cost of goods sold | -9 437 | -18 796 | -63 865 | -77 612 |
| Gross margin | -202 | 10 481 | 20 570 | 30 780 |
| Operating revenue | 9 234 | 29 278 | 84 436 | 108 392 |
| Gross margin | -202 | 10 481 | 20 570 | 30 780 |
| Gross margin (%) | -2 % | 36 % | 24 % | 28 % |

EBITDA ex options

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

| (AMOUNTS IN NOK 1,000) | Q4-2019 | Q4-2018 | 2019 | 2018 |
|---|----------------|----------------|-----------------|-----------------|
| Profit (loss) before tax, depreciation and amortization | -50 101 | -38 587 | -152 777 | -160 867 |
| Share based remuneration (salary part) | 770 | 3 921 | 3 609 | 11 562 |
| Share based remuneration (employer's tax) | 1 | -624 | -106 | -520 |
| Share based remuneration (operating part) | 0 | 285 | -656 | 340 |
| EBITDA ex. options | -49 330 | -35 006 | -149 931 | -149 485 |

Cost of goods sold

Cost of materials and production service expenses.



Visit www.nextbiometrics.com or contact us:

ABOUT NEXT BIOMETRICS:

NEXT provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets. The company's patented *NEXT Active Thermal™* principle allows the development of large, high quality fingerprint sensors in both rigid and flexible formats. NEXT Biometrics Group ASA (www.nextbiometrics.com) is headquartered in Oslo, with sales, support and development operations in Seattle, Silicon Valley, Taipei, Prague, Bengaluru and Shanghai.

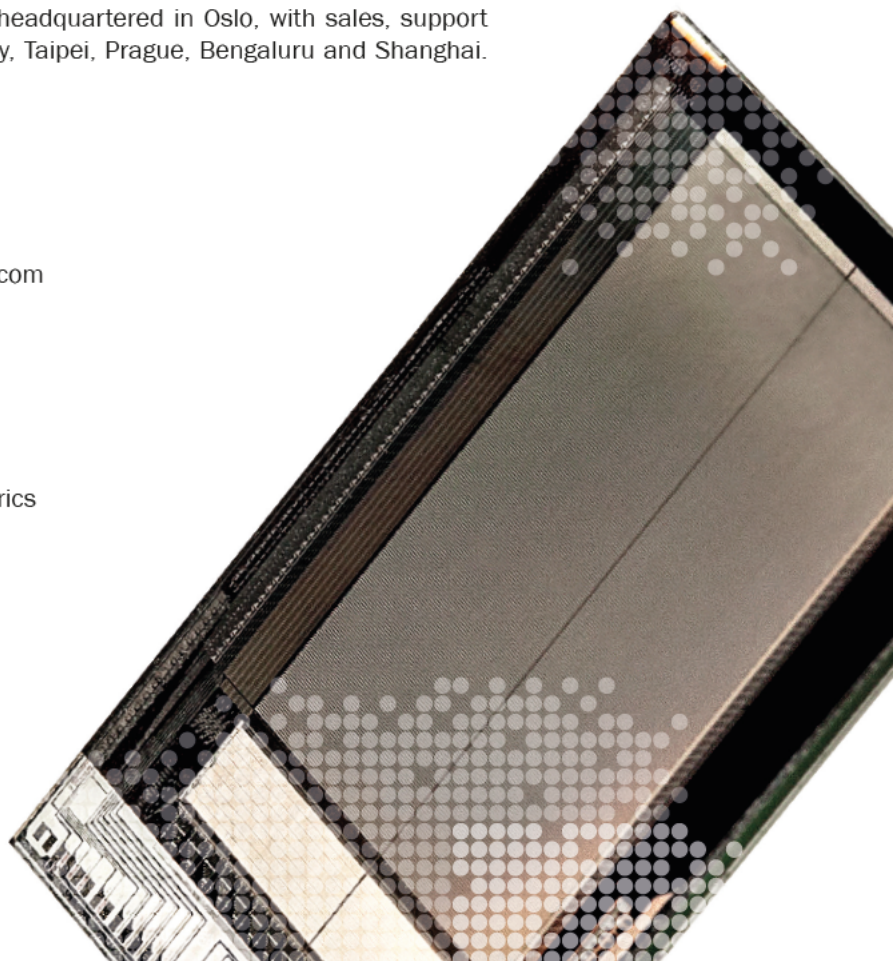
NEXT INVESTOR CONTACT:

Peter Heuman (CEO), peter.heuman@nextbiometrics.com

HOMEPAGE: www.nextbiometrics.com

TWITTER: [www.twitter.com/NEXT_Biometrics](https://twitter.com/NEXT_Biometrics)

LINKEDIN: www.linkedin.com/company/next-biometrics



Copyright© 2019 NEXT BIOMETRICS GROUP ASA, all rights reserved. Specifications are subject to change without notice. The NEXT Biometrics logo and NEXT Active Thermal™ are trademarks of NEXT BIOMETRICS GROUP ASA in Norway and other countries. All other brand and product names are trademarks or registered trademarks of their respective owners.