



NEXT Biometrics Group ASA

Quarterly report – Q1 2015

Highlights

- 52 000 sensors shipped in Q1
- Initial order for 100 000 units received in Smarthome segment
- First tier 1 customer increases volume estimates by a minimum of 200 000 units
- Organisation expanded by 13 people – now counting a total of 52 employees
- Significant growth in NEXT-Enabled markets. Several leads with 7-digit potential
- Product portfolio expanded from 1 to 6 modules. Optimized competitiveness in all key mass markets

Status

NEXT Q1-2015 focus has been to replace the first market generic product with 6 new module series designed to meet all requirements of the targeted mass markets. Based on these new modules more than 160 customer leads have now been generated. To support these activities, NEXT has expanded its organization from 39 to 52 employees. Several key hires have been made, including VP of Operations and Asia Sales, Mr. Campbell Kan, former ACER President PC Global Operations.

The process of integrating NEXT sensors in the devices of the first TIER 1 Design-Win is proceeding according to plan. Approximately 10 000 units have been delivered as part of the preparations process. Targeted first launch is late in Q3.

In a massive sized 3rd party comparative test of NEXT sensors versus 2 market leading capacitive sensors, NEXT Technology has been proven to perform in line with same size, significantly more expensive, competitors and also critically superior to small sized (and still more expensive) alternatives.

Key financial figures

Amounts in NOK million (except per share data)	Q1-2015	Q4-2014	Q1-2014	2014	2013
Total revenue	2,4	4,4	0,0	6,7	0,0
Operating profit (loss)	-22,2	-35,9	-14,8	-82,6	-37,6
Net profit (loss) for the period	-19,6	-33,4	-14,9	-79,7	-38,8
Opening cash balance	129,3	163,5	69,7	69,7	0,6
Net change in cash flows	-30,5	-34,3	-25,5	-25,5	69,1
Closing cash balance	98,7	129,3	44,3	44,3	69,7
Total equity	142,0	161,6	49,1	49,1	63,2
Earnings per share - basic & diluted	-1,73	-2,96	-1,70	-7,92	-5,06
Weighted average number of shares (in thousands)	11 318	11 267	8 788	10 057	7 673

Interim condensed financial statements as of 31 March 2015 (Unaudited)

Profit & loss statement

Revenues

NEXT earned NOK 2.4 million in the first quarter of 2015, compared to NOK 4.4 million in the previous quarter. The revenue in the first quarter of 2015 all consisted of operating revenue and was generated by shipment of 52.000 sensors.

Due to low production volumes and high manufacturing costs, the calculated gross margin is still negative. The Cost of goods sold for these initial delivered sensors are currently included in other operating expenses. Several of the initial cost elements related to production and delivery of these units are one-offs and do not give a clear and relevant cost of goods sold.

Operating expenses

Payroll expenses amounted to NOK 8.4 million in the first quarter of 2015, compared to NOK 6.4 million in the previous quarter and NOK 3.9 million in the corresponding quarter of 2014. Research and development (R&D) costs included in payroll expenses is the major increase and amounted to NOK 5.5 million in the first quarter of 2015, compared to NOK 2.8 million in the previous quarter and NOK 2.3 million in the corresponding quarter of 2014. The quarterly increase of NOK 2.0 from the fourth quarter was mainly due to higher activity.

Other operating expenses amounted to NOK 15.9 million in the first quarter of 2015, compared to NOK 33.6 million in the previous quarter and NOK 10.8 million in the corresponding quarter of 2014. R&D cost included in other operating expenses amounted to NOK 6.8 million in the first quarter of 2015, compared to NOK 7.3 million in the previous quarter and NOK 8.3 million in the corresponding quarter of 2014. The quarterly decrease of NOK 17.7 from the previous quarter was mainly related to the fact that ramp-up cost, including cost of goods sold and write-down of inventories, amounting to NOK 23.5 million was included in the fourth quarter.

Total R&D expenses, included in both payroll and other operating expenses amounted to NOK 12.3 million in the first quarter of 2015, compared to NOK 10.1 million in the previous quarter and NOK 10.6 million in the corresponding quarter of 2014.

Depreciation, amortization and investments

Depreciation and amortisation amounted to NOK 0.2 million in the first quarter of 2015, compared to NOK 0.3 million in the previous quarter.

Investments amounted to NOK 1.4 million in the first quarter of 2015, compared to 1.2 million in the previous quarter.

Net financial items

Net financial items amounted to a net income of NOK 2.6 million in the first quarter of 2015, compared to a net income of NOK 2.6 million in the previous quarter.

Net profit (loss) for the period

Net loss in the first quarter of 2015 was NOK 19.6 million, compared to a loss of NOK 33.4 million in the fourth quarter of 2014 and a loss of NOK 14.9 in the first quarter of 2014. The decreased loss from the previous quarter was due to the high level of ramp-up costs in Q4, including cost of goods sold. NEXT operated at a loss and did not incur deferred or payable income taxes in the first quarter of 2015 or in 2014.

Cash flow and balance sheet**Cash and cash equivalents**

Cash and cash equivalents amounted to NOK 98.7 million by the end of the first quarter of 2015 compared to NOK 129.3 million by the end of 2014.

The operations consumed cash in an amount of NOK 29.1 million in the first quarter of 2015 compared to NOK 36.0 million in previous quarter. The cash consumed was mainly related to the loss of NOK 19.6 million in the first quarter and continuous inventory build up of NOK 6.8 million.

Equity

Equity amounted to NOK 142.0 million at the end of the first quarter of 2015 compared to NOK 161.9 million by the end of 2014.

Outlook

Q1-2015 focus was to replace the original first product with 6 new module series designed to meet the requirements of all main targeted mass markets. Based on these new modules more than 160 leads have been generated. Most of these customer processes are necessarily time consuming. NEXT has in Q1 strengthened the company's market presence and its organization. The Company is in position to secure significant customer contracts and market share in the coming months and quarters.

Oslo, May 26, 2015
Board of directors
NEXT Biometrics Group ASA

NEXT Biometrics Group ASA

Condensed interim statements of comprehensive income (unaudited)

31 March 2015

Amounts in NOK 1,000	Notes	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
PROFIT AND LOSS				
Revenue				
Operating revenue	3	2 385	0	6 306
Other revenue	3	0	0	375
Total revenue		2 385	0	6 681
Operating expenses				
Payroll expenses	4	8 395	3 923	21 914
Other operating expenses	4	15 926	10 843	66 781
Total operating expenses		24 321	14 766	88 695
Profit (loss) before tax, depreciations and amortization		-21 936	-14 766	-82 014
Depreciations and amortisation	5,6	235	20	596
Operating profit (loss)		-22 170	-14 786	-82 609
Net financial items	7	2 595	-126	2 918
Net profit (loss) for the period		-19 575	-14 912	-79 691
Earnings per share - basic and diluted	9	-1,73	-1,70	-7,92
Other comprehensive income				
Items that will be reclassified to profit and loss				
Exchange rates differences		-33	18	-105
Total other comprehensive income		-33	18	-105
Total comprehensive income for the period		-19 609	-14 894	-79 797
Total comprehensive income for the period attributable from:				
Owners of the parent company		-19 609	-14 894	-79 797
Total		-19 609	-14 894	-79 797

Condensed interim statements of financial position (unaudited)

Amounts in NOK 1,000		31.mar.15	31.mar.14	31.des.14
ASSETS				
Non-current assets				
Intangible assets	5	7 134	7 518	7 215
Machinery and office equipment	6	3 247	334	1 960
Total non-current assets		10 381	7 852	9 175
Current assets				
Inventory		23 968	12 171	17 154
Receivables				
Account receivables		4 356	0	3 770
Other receivables		19 813	6 508	19 568
Total receivables		24 169	6 508	23 338
Cash and cash equivalents		98 748	44 255	129 265
Total current assets		146 884	62 934	169 758
Total assets		157 265	70 787	178 933
EQUITY AND LIABILITIES				
Equity				
Share capital	8	11 318	8 788	11 318
Share premium reserve		268 155	104 326	268 155
Other paid in capital		16 599	13 031	16 594
Retained earnings		-154 066	-77 041	-134 457
Total equity		142 006	49 104	161 609
Liabilities				
Non-current liabilities				
Other non-current provisions	7	7 195	7 399	7 147
Total non-current liabilities		7 195	7 399	7 147
Current liabilities				
Accounts payable		3 731	2 222	5 121
Public duties payable		241	137	465
Other current liabilities		4 092	11 925	4 590
Total current liabilities		8 064	14 283	10 177
Total liabilities		15 259	21 682	17 323
Total equity and liabilities		157 265	70 787	178 933

NEXT Biometrics Group ASA

Condensed interim statements of cash flow (unaudited)

Amounts in NOK 1,000	Notes	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
Cash flows from operating activities				
Profit (loss) before taxes		-19 575	-14 912	-79 691
Share based remuneration (equity part)		5	844	4 407
Depreciations and amortisation	5,6	235	20	323
Change in working capital items		-9 708	-11 258	-37 382
Net cash flows from operating activities		-29 043	-25 306	-112 342
Cash flows from investing activities				
Purchase of tangible assets		-1 441	-234	-2 133
Net cash flows from investing activities		-1 441	-234	-2 133
Cash flows from financing activities				
Change in non-current debt		0	49	0
Share issue net of expenses		0	0	173 845
Net cash flows from financing activities		0	49	173 845
Translation differences		-33	18	-105
Net change in cash flows		-30 517	-25 472	59 264
Opening cash balance		129 265	69 728	69 728
Closing cash balance		98 748	44 255	129 265

Condensed interim statements of changes in equity (unaudited)

Amounts in NOK 1,000	Notes	Share capital	Share premium reserve	Other paid-in capital	Retained earnings	Total Equity
Balance 1 January 2015		11 318	268 155	16 594	-134 457	161 609
Shares issue	8	-	-			-
Share based compensation				5		5
Translation differences					-33	-33
Net profit (loss)					-19 575	-19 575
Balance 31 March 2015		11 318	268 155	16 599	-154 066	142 006
Balance 1 January 2014		8 788	104 326	12 187	-62 147	63 154
Shares issue	8	-	-			-
Share based compensation				844		844
Translation differences					18	18
Net profit (loss)					-14 912	-14 912
Balance 31 March 2014		8 788	104 326	13 031	-77 041	49 104
Balance 1 January 2014		8 788	104 326	12 187	-62 147	63 154
Shares issue	8	2 530	171 315			173 845
Share based compensation				4 407		4 407
Translation differences					-105	-105
Net profit (loss)			-7 486		-72 205	-79 691
Balance 31 December 2014		11 318	268 155	16 594	-134 457	161 609

Notes to the condensed interim financial statements

31 March 2015 (Unaudited)

1. General information

NEXT BIOMETRCS GROUP ASA ("NEXT") is a public limited liability company incorporated and domiciled in Norway. NEXT Biometric Group ASA is the parent company of the Group whose headquarter is located in Oslo, Norway, and subsidiaries in Shanghai and Seattle. NEXT's shares were listed at Oslo Axess market place at Oslo Stock Exchange 25 June 2014.

The operations of the Group are carried out by the Group's operating subsidiaries. As per the end of the first quarter of 2015, the Group has three wholly owned operating subsidiaries: NEXT Biometrics AS (Norway) and its subsidiaries NEXT Biometrics Inc (Seattle, USA) and NEXT Biometrics China Ltd (Shanghai, China). In addition the group has initiated the process of establishing new subsidiaries in Taiwan and in the Czech Republic.

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 related activities that will naturally fall under this.

2. Basis of preparation, accounting policies

This condensed interim financial report for the first quarter of 2015 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 2014.

The IFRS accounting policies applied in this condensed interim financial report are consistent with those applied and described in the annual financial statements for 2014.

NEXT has adequate equity and liquidity for going concern for longer than 12 months from the date of this report.

The going concern assumption has been applied when preparing this financial report. In 2014 NEXT raised additional funds to enable NEXT to enter the commercial phase. By the end of the first quarter of 2015 NEXT had earned revenue from commercial volumes, but still at modest levels. The board points out that until NEXT enters the full commercial stage, there is uncertainty attached to the going concern assumption.

This interim financial report has not been subject to audit.

The board of directors approved the report on 26 May 2015.

3. Revenue and segment reporting

Operating revenue - Per business segment (amounts in NOK)	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
Fingerprint sensor technology	2 385 156	0	6 306 414
Total	2 385 156	0	6 306 414

Operating revenue - Per country (amounts in NOK)	2015 1.1-30.9	2014 1.1-31.3	2014 1.1-31.12
USA	1 875 682	0	1 527 979
Taiwan	160 779	0	2 777 437
Malaysia	330 615	0	0
Hong Kong	14 234	0	1 947 944
Others	3 846	0	53 054
Total	2 385 156	0	6 306 414

NEXT have grouped the focus of its activities into 4 main market segments;

(i) Smartphones & Tablets, (ii) Notebooks & Accessories, (iii) Existing/Traditional markets and (iv) NEXT Enabled markets.

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

In the first quarter of 2015, 52 000 sensors were shipped. For the year 2014 more than 150 000 sensors were shipped to customers.

Other operating revenue for 2014 amounting to NOK 375 thousand consisted of grants from Innovasjon Norge.

4. Operating expenses

Payroll expenses (amounts in NOK)	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
Share based remuneration (salary part)	-32 795	591 785	3 001 961
Share based remuneration (employer's tax)	-52 078	-362 715	-1 907 640
R&D related payroll expenses	5 518 397	2 265 332	11 061 540
Other payroll expenses	2 961 865	1 428 834	9 758 505
Total	8 395 389	3 923 236	21 914 366

Other operating expenses (amounts in NOK)	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
Share based remuneration (operating part)	37 988	252 603	1 405 382
R&D related operating expenses	6 769 543	8 335 548	27 703 940
Other expenses *	9 118 214	2 255 051	37 671 394
Total	15 925 745	10 843 202	66 780 716

Total - Operating expenses	24 321 134	14 766 438	88 695 082
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*Cost of goods sold and inventories write-downs are included in Other expenses.

5. Intangible assets

The company entered into a royalty agreement on 8 May 2008 regarding NEXT Biometrics Group AS right to use the patent described as the *Active Thermal Sensing Principle*. This purchase was recognized at net present value and included in the opening balance as of 1 January 2012. The book value is depended on the successful development of the fingerprint technology in the parent company and in the subsidiaries.

	2015	2014	2014
Purchase of patent (amounts in NOK)	1.1-31.3	1.1-31.3	1.1-31.12
Cost - Opening balance	7 458 255	7 458 255	7 458 255
Additions	0	0	0
Disposals at cost	0	0	0
Currency adjustments	0	0	0
Cost - Closing balance	7 458 255	7 458 255	7 458 255
Accumulated depreciation - Opening balance	243 204	0	0
Depreciation	81 068	0	243 204
Accumulated depreciation of disposed items	0	0	0
Currency adjustments	0	0	0
Accumulated depreciation - Closing balance	324 272	0	243 204
Book value - Closing balance	7 133 983	7 458 255	7 215 051

The patent is amortized over the patent life from the time revenue was recognized. The provision connected to this purchase is recognized as long-term provision.

In addition, other intangible assets amounting to NOK 80 thousand were included in the balance, as of 31.3.2014. Total intangible assets by the end of the first quarter of 2014 were thus NOK 7 518 thousand.

6. Tangible assets

Fixed assets

Machinery and office equipment (amounts in NOK)	2015	2014	2014
	1.1-31.3	1.1-31.3	1.1-31.12
Cost - Opening balance	3 535 656	1 161 523	1 161 523
Additions	1 270 006	235 644	2 116 481
Disposals at cost	0	0	0
Currency adjustments	312 174	-18 443	257 652
Cost - Closing balance	5 117 835	1 378 724	3 535 656
Accumulated depreciation - Opening balance	1 575 766	1 061 698	1 061 698
Depreciation	142 062	0	272 511
Accumulated depreciation of disposed items	0	0	0
Currency adjustments	152 970	-16 858	241 557
Accumulated depreciation - Closing balance	1 870 798	1 044 840	1 575 766
Book value - Closing balance	3 247 037	333 884	1 959 890

7. Provisions

Royalty payments

NEXT Biometrics Group AS and board member Ngoc Minh Dinh entered into a royalty agreement on 8 May 2008 regarding the company's right to use the patent described as the *Active Thermal Sensing principle*. This agreement regulates royalty payments for the transfer of the patent. Ngoc Minh Dinh shall receive a royalty equal to 5% of the company's gross margin from the technology. Gross margin is defined as sales price minus cost of goods sold, insurance, freight, and other costs related to set-up of production.

Regardless of the company's gross margin from the sales from the company, Ngoc Minh Dinh is entitled to a minimum royalty of NOK 9.4 million from 2013 up to 2025. A provision for these yearly minimum amounts has been recognized in the balance sheet, and has been determined by discounting these amounts using an interest rate of 2.6%. The time value of money is recognized as financial cost.

Royalty payments (amounts in NOK)	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
Opening balance	7 546 803	7 649 839	7 649 839
Time value	48 410	49 241	196 964
Additional	0	0	0
Payment	0	0	-300 000
Closing balance	7 595 213	7 699 080	7 546 803

Presented as:	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
Current liability	400 000	300 000	400 000
Non-current liability	7 195 213	7 399 080	7 146 803
Closing balance	7 595 213	7 699 080	7 546 803

NEXT does not have any contingent assets or contingent liabilities except royalty liabilities. NEXT has not issued any guarantees.

8. Shares and incentive options

Shares	2015 1.1-31.3	2014 1.1-31.3	2014 1.1-31.12
Opening balance	11 317 665	8 787 665	8 787 665
Share issue(s)	0	0	2 400 000
Exercised financial options	0	0	130 000
Closing balance	11 317 665	8 787 665	11 317 665

2015

The company has no new shares issues in 2015

2014

In June 2014 NEXT completed a successful placement of shares. The placement involved 2 400 000 shares at a subscription price of NOK 80 corresponding to a total subscription price of NOK 192.0 million. Expenses and commission fee connected with this placement amounted to NOK 21.4 million and net proceeds were NOK 170.6 million.

At the Annual general Meeting (AGM) 16 May 2014 the Board of Directors granted an authorization to increase the Company's share capital by up to NOK 1 393 000 for the company's option program. In addition the AGM gave the Board of Directors authorization to increase the Company's share capital by up to NOK 3 000 000 in connection with the listing of the Company's Shares on Oslo Axess at Oslo Børs. NOK 2 400 000 of this authorization was used in the IPO.

In the fourth quarter 130 000 options were exercised, with a strike price of NOK 25 per share, corresponding to a total subscription of NOK 3 250 000. Total net proceeds for the year 2014 amounted to NOK 173.9 million.

Options	2015	2014	2014
	1.1-31.3	1.1-31.3	1.1-31.12
Opening balance	1 299 876	1 275 332	1 275 332
Grant of incentive options	0	40 000	224 544
Exercised incentive options	0	0	-130 000
Forfeited incentive options	-53 000	-60 000	-60 000
Expired incentive options	0	0	-10 000
Closing balance	1 246 876	1 255 332	1 299 876

In order to attract talented, experienced and high value networked human resources the Company continue to enter into stock option agreements. NEXT has granted incentive options to employees, contractors and board members, high value networked individuals and members of the advisory board.

Options	Weighted Average Exercise Price		Weighted Average Exercise Price		Weighted Average Exercise Price	
	Shares	Price	Shares	Price	Shares	Price
	01.01.2015 - 31.3.2015		1.1.2014 - 31.12.2014		1.1.2013 - 31.12.2013	
Outstanding at the beginning of period	1 299 876	28,65	1 275 332	25,46	843 201	14,40
Granted	-	-	224 544	47,63	437 931	47,06
Exercised	-	-	-130 000	25,00	-5 800	50,00
Cancelled	-	-	-	-	-	-
Forfeited	-53 000	53,58	-60 000	25,00	-	-
Expired	-	-	-10 000	75,00	-	-
Adjusted quantity	-	-	-	-	-	-
Modification / Dividends	-	-	-	-	-	-
Outstanding at the end of period	1 246 876	27,59	1 299 876	28,65	1 275 332	25,46
Vested options	1 000 200	20,21	970 210	19,63	925 277	18,92
Weighted Average Fair Value of Options Granted during the period	-	-	251 544	26,26	437 931	24,55
Intrinsic value outstanding options at the end of the period	857 700	28 769 561	857 700	29 369 951	1 224 332	63 385 569
Intrinsic value vested options at the end of the period	857 700	28 769 561	827 710	29 055 056	915 277	51 892 999

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 per share in the period, the incentive options are not counted as being dilutive.

	2015	2014	2014
	1.1-31.3	1.1-31.3	1.1-31.12
Profit (loss) attributable to the shareholders (NOK)	-19 575 265	-14 912 223	-79 691 090
Number of ordinary shares issue at 31 March	11 317 665	8 787 665	11 317 665
Weighted average basic number of shares	11 317 665	8 787 665	10 057 062
Weighted average diluted number of shares	12 591 152	10 060 330	11 323 499
Profit (loss) per share, basic and diluted (NOK)	-1,73	-1,70	-7,92

10. Events occurring after the balance sheet date

Between 31 March 2015 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 in the first quarter of 2015 or the value of the company's assets and liabilities at 31 March 2015.