



NEXT Biometrics Group ASA – Quarterly report - Q1 2014

Highlights

- NEXT receives the first volume orders for commercial deliveries in 2014 (April and May))
- NEXT receives multiple orders for product integration units to system integrators in China, Taiwan and India
- NEXT signs strategic cooperation and investment agreement with FOXCONN (26 May).
- NEXT sends application for listing at the Oslo stock exchange alternatively Oslo Axess
- NEXT ordered the first coating machine to give a monthly capacity of 1.8 m sensors. This machine is going to be delivered during q4- 2014
- Earnings before interest, tax, depreciation and amortization (EBITDA) of MNOK – 14.8 in 1Q14 compared to MNOK -4.7 in 1Q13.

Interim condensed financial statements as at 31 March 2014 (Unaudited)

Profit & loss statement

NEXT did not earn revenue in the first quarter of 2014 and in the first quarter of 2013.

Payroll expenses increased to NOK 3.9 million in the first quarter of 2014 compared to NOK 1.6 million in the first quarter of 2013. The increase was due to increased number of employees during 2013. Most of the employees are located in Seattle and Shanghai. R&D payroll expenses increased to NOK 2.3 million in the first quarter of 2014 compared to NOK 0.9 million in the first quarter of 2013.

Other operating expenses increased to NOK 10.8 million in the first quarter of 2014 compared to NOK 3.1 million in the first quarter of 2013. The increase was due to increased research and development (R&D) expenses, including ramp-up costs related to test production of NOK 4.0 million. R&D other operating expenses increased to NOK 7.6 million in the first quarter of 2014 compared to NOK 1.4 million in the first quarter of 2013.

Total R&D expenses (payroll and other operating expenses) increased to NOK 9.9 million in the first quarter of 2014 compared to NOK 2.3 million in the first quarter of 2013. The increase was also due to the increased activity in the subsidiary NEXT Biometrics Inc, where the main part of the engineering activities takes place.

Depreciation and amortisation ended at NOK 0.02 million in the first quarter of 2014. In the first quarter of 2013 the amount was NOK 0. Investments in the first quarter of 2014 amounted to NOK 0.23 million, compared to NOK 0.05 million in the first quarter of 2013.

Net financial items amounted to NOK 0.12 million in the first quarter of 2014, up from NOK 0.06 million in the first quarter of 2013. The increase was mainly related to currency adjustments.

NEXT operated at a loss and did not incur deferred or payable income taxes in the first quarter of 2014 or 2013.

Net loss for the first quarter of 2014 was NOK 14.9 million compared to a loss of NOK 4.7 million in the first quarter of 2013. The increased loss was due to increased R&D activity including test production.

Balance sheet

Cash and cash equivalents amounted to NOK 44.3 million by the end of the first quarter of 2014 compared to NOK 2.4 million by the end of the first quarter of 2013. The operations consumed cash in an amount of NOK 25.3 million in the first quarter of 2014 compared to NOK 1.1 million in the first quarter of 2013. Included in the cash consumed in the first quarter of 2014 was NOK 11.3 million related to working capital increase. The main part of the working capital increase is increased use of cash for inventory build up of NOK 12.2 million. This build up is split in prepayments of NOK 9.2 million and NOK 2.9 million in work in progress goods and goods for sale.

Compared to 31 December 2013 cash and cash equivalents have decreased NOK 25.5 million from NOK 69.7 million. The change reflects net cash from operating activities and working capital increase as described above.

Equity amounted to NOK 49.1 million as of 31 March 2014 compared to NOK 63.2 million by the end of 2013 due to a loss of NOK 14.9 million in the first quarter of 2014.

Oslo, May 28, 2014
The Board of Directors
NEXT BIOMETRICS GROUP ASA

NEXT Biometrics Group ASA
Condensed interim statements of comprehensive income (unaudited)
31 March 2014

Amounts in NOK 1,000	2014 1.1-31.03	2013 1.1-31.03	2013
PROFIT AND LOSS			
Revenue			
Operating revenue	0	0	38
Other revenue	0	0	0
Total revenue	0	0	38
Operating expenses			
Payroll expenses	3 923	1 603	12 110
Other operating expenses	10 843	3 083	24 949
Total operating expenses	14 766	4 686	37 058
Profit (loss) before tax, depreciations and amortization	-14 766	-4 686	-37 021
Depreciations and amortisation	20	0	577
Operating profit (loss)	-14 786	-4 686	-37 598
Net financial items	-126	-56	-1 197
Net profit (loss) for the period	-14 912	-4 742	-38 795
Earnings per share - basic and diluted	-1,70	-0,65	-5,06
Other comprehensive income			
Items that will be reclassified to profit and loss			
Exchange rates differences	18	6	-207
Total other comprehensive income	18	6	-207
Total comprehensive income for the period	-14 894	-4 736	-39 002
Total comprehensive income for the period attributable from:			
Owners of the parent company	-14 894	-4 736	-39 002
Total	-14 894	-4 736	-39 002

Condensed interim statements of financial position (unaudited)

Amounts in NOK 1,000	31-Mar-14	31-Mar-13	31-Dec-13
ASSETS			
Non-current assets			
Intangible assets	7 518	7 618	7 538
Machinery and office equipment	334	201	100
Other financial receivables	0	12	0
Total non-current assets	7 852	7 831	7 638
Current assets			
Inventory			
Inventory	12 171	0	0
Receivables			
Account receivables	0	0	5
Other receivables	6 508	1 984	2 339
Total receivables	6 508	1 984	2 345
Cash and cash equivalents	44 255	450	69 728
Total current assets	62 934	2 434	72 073
Total assets	70 787	10 266	79 711
EQUITY AND LIABILITIES			
Equity			
Share capital	8 788	7 258	8 788
Share premium reserve	104 326	14 766	104 326
Other paid in capital	13 031	9 235	12 187
Retained earnings	-77 041	-37 829	-62 147
Total equity	49 104	-6 570	63 154
Liabilities			
Non-current liabilities			
Other non-current provisions	7 399	7 502	7 350
Other non-current debt	0	2 274	0
Total non-current liabilities	7 399	9 776	7 350
Current liabilities			
Accounts payable	2 222	1 842	759
Public duties payable	137	192	139
Other current liabilities	11 925	5 027	8 309
Total current liabilities	14 283	7 060	9 207
Total liabilities	21 682	16 836	16 557
Total equity and liabilities	70 787	10 266	79 711

NEXT Biometrics Group ASA
Condensed interim statements of cash flow (unaudited)

	2014	2013	2013
	1.1-31.03	1.1-31.03	
Cash flows from operating activities			
Profit (loss) before taxes	-14 912	-4 742	-38 795
Share based remuneration (equity part)	844	2 021	4 972
Depreciations and amortisation	20	0	577
Change in working capital items	-11 258	1 585	3 371
Net cash flows from operating activities	-25 306	-1 136	-29 875
Cash flows from investing activities			
Purchase of tangible assets	-234	-46	-442
Net cash flows from investing activities	-234	-46	-442
Cash flows from financing activities			
Proceeds from non-current debt	49	49	-2 364
Share issue net of expenses	0	975	102 015
Net cash flows from financing activities	49	1 024	99 651
Translation differences	18	6	-207
Net change in cash flows	-25 472	-152	69 126
Opening cash balance	69 728	602	602
Closing cash balance	44 255	450	69 728

Condensed interim statements of changes in equity (unaudited)

Amounts in NOK 1,000	Share capital	Share premium reserve	Other paid-in capital	Retained earnings	Total Equity
Balance 1 January 2014	8 788	104 326	12 187	-62 147	63 154
Shares issue					-
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 2013	7 233	13 816	7 215	-33 094	-4 830
Shares issue	1 555	100 460			102 015
Share based compensation			4 972		4 972
Translation differences				-207	-207
Net profit (loss)		-9 949		-28 846	-38 795
Balance 31 December 2013	8 788	104 326	12 187	-62 147	63 154

Notes to the condensed interim financial statements

31 March 2014 (Unaudited)

1. General information

NEXT Biometrics Group ASA ("NEXT") is a private limited liability company incorporated and domiciled in Norway. NEXT's shares have been registered on the Norwegian OTC system ("NOTC") with ticker "NEXT" since 10 October 2013. NEXT is planning an IPO at Oslo Stock exchange in June 2014.

NEXT Biometric Group ASA is the parent company of the Group. The operations of the Group are carried out by the Group's operating subsidiaries. The Group has two wholly owned operating subsidiaries: (i) NEXT Biometrics AS (Norway); and (ii) NEXT Biometrics Inc (USA). In addition the Group plans to establish companies in China and Taiwan. The process of establishing a company in China is initiated. Legal status of the location in Taiwan is to be decided.

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. The company's headquarter is located in Oslo, Norway.

2. Basis of preparation, accounting policies

This condensed interim financial report for the first quarter of 2014 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 2013.

The IFRS accounting policies applied in this condensed interim financial report are consistent with those applied and described in the annual financial statements for 2013.

In the commercialization phase, NEXT need during 2014 to raise additional funds to be able to realize the company's overall strategic and commercial plans. NEXT is planning to raise additional funds in preparation of the planned listing at the Oslo Stock exchange in June 2014.

NEXT did not earn revenue from commercial volumes by the end of the first quarter of 2014. NEXT does not have non-current financial debt. The only non-current liability is related to future royalty payments.

This interim financial report has not been subject to audit.

The board of directors approved the report on 28 May 2014.

3. Revenue and segment reporting

Operating revenue - Per business segment (amounts in NOK)	2014 1.1-31.3	2013 1.1-31.3	2013 1.1-31.12
Fingerprint sensor technology	0	0	37 962
Total	0	0	37 962

Operating revenue - Per country (amounts in NOK)	2014 1.1-31.3	2013 1.1-31.3	2013 1.1-31.12
Taiwan	0	0	27 854
China	0	0	9 908
Total	0	0	37 762

NEXT have grouped the use of the technology into 4 markets; (i) Smartphones & Tablets, (ii) Notebooks & Accessories, (iii) Existing/Traditional markets and (iv) NEXT Enabled markets. The available technology is generic into the 4 markets. Since the company has limited revenues it is operating and reporting only in one business segment; *Fingerprint sensor technology*. NEXT did not earn revenue from commercial volumes by the end of the first quarter of 2014.

The revenue in 2013 involved customer acceptance and payments related to prototype and integration deliveries.

4. Intangible assets

Intangible assets (amounts in NOK)	2014 1.1-31.3	2013 1.1-31.3	2013 1.1-31.12
Cost of 1 January	800 000	800 000	800 000
Additions	0	0	0
Disposals at cost	0	0	0
Currency adjustments	0	0	0
Cost at 31 March/December	800 000	800 000	800 000
Accumulated depreciation at 1 January	720 000	640 000	640 000
Depreciation	20 000	0	80 000
Accumulated depreciation of disposed items	0	0	0
Currency adjustments	0	0	0
Accumulated depreciation at 31 March/December	740 000	640 000	720 000
Book value at 31 March/December	60 000	160 000	80 000
Depreciation period (straight line) years	10	10	10

In addition, 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.

	2014	2013	2013
Purchase of patent (amounts in NOK)	1.1-31.3	1.1-31.3	1.1-31.12
Cost of 1 January	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 at 31 March/December	7 458 255	7 458 255	7 458 255
Accumulated depreciation at 1 January	0	0	0
Depreciation	0	0	0
Accumulated depreciation of disposed items	0	0	0
Currency adjustments	0	0	0
Accumulated depreciation at 31 March/December	0	0	0
Book value at 31 March/December	7 458 255	7 458 255	7 458 255

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

5. Machinery and office equipment

Machinery and office equipment (amounts in NOK)	2014	2013	2013
	1.1-31.3	1.1-31.3	1.1-31.12
Cost of 1 January	1 161 523	662 391	674 819
Additions	235 644	51 938	423 991
Disposals at cost	0	0	0
Currency adjustments	-18 443	30 844	62 713
Cost at 31 December	1 378 724	745 174	1 161 523
Accumulated depreciation at 1 January	1 061 698	520 187	520 187
Depreciation	0	0	497 182
Accumulated depreciation of disposed items	0	0	0
Currency adjustments	-16 858	24 223	44 330
Accumulated depreciation at 31 March/December	1 044 840	544 410	1 061 698
Book value at 31 March/December	333 884	200 764	99 824
Depreciation period (straight line) years	3-7	3-7	3-7

6. 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)	2014 1.1-31.3	2013 1.1-31.3	2013 1.1-31.12
Balance at 1 January	7 649 839	7 652 170	7 652 170
Time value	49 241	49 417	197 669
Additional	0	0	0
Payment	0	0	-200 000
Balance at 31 March/December	7 699 080	7 701 587	7 649 839

Presented as:	2014 1.1-31.3	2013 1.1-31.3	2013 1.1-31.12
Current liability	300 000	200 000	300 000
Non-current liability	7 399 080	7 501 587	7 349 839
Balance at 31 March/December	7 699 080	7 701 587	7 649 839

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

7. Shares and incentive options

Options	2014 01.01.2014 - 31.03.2014		2013 01.01.2013 - 31.12.2013		2012 01.01.2012 - 31.12.2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of period	1 275 332	25,46	843 201	14,40	643 816	11,61
Granted	20 000	75,00	437 931	47,06	199 385	23,42
Transferred in	-	-	-	-	-	-
Exercised	-	-	-5 800	50,00	-	-
Released	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	40 000	25,00	-	-	-	-
Expired	-	-	-	-	-	-
Adjusted quantity	-	-	-	-	-	-
Modification / Dividends	-	-	-	-	-	-
Transferred out	-	-	-	-	-	-
Outstanding at the end of period	1 255 332	26,48	1 275 332	25,46	843 201	14,40
Vested options	995 342	19,44	925 277	18,92	686 777	12,70
Weighted Average Fair Value of Options Granted during the period	20 000	75,00	437 931	24,55	199 385	12,36
Intrinsic value outstanding options at the end of the period	1 184 332	55 183 909	1 224 332	63 385 569	843 201	20 741 117
Intrinsic value vested options at the end of the period	985 342	50 374 219	915 277	51 892 999	686 777	18 062 025

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

Number of financial instruments

	2014	2013	2013
Shares	1.1-31.3	1.1-31.3	1.1-31.12
Opening balance	8 787 665	7 232 569	7 232 569
Share issue(s)	0	25 000	1 549 296
Exercised financial options	0	0	5 800
Closing balance	8 787 665	7 257 569	8 787 665

	2014	2013	2013
Options	1.1-31.3	1.1-31.3	1.1-31.12
Opening balance	1 275 332	843 201	843 201
Grant of incentive options	20 000	257 131	437 931
Exercised incentive options	0	0	-5 800
Terminated or expired incentive options	-40 000	0	0
Closing balance	1 255 332	1 100 332	1 275 332

2014

At AGM May 16 , the Board of Directors is granted an authorization to increase the Company's share capital by up to NOK 1,393,000 for the companies 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. The authorization may be used at the discretion of the board of directors, one or multiple times, in connection with the contemplated listing of the Company's Shares on Oslo Børs, alternatively Oslo Axess including to issue shares to the managers in connection with over-allotment of shares.

2013

30 September 2013 NEXT completed a successful planned private placement of shares. The placement involved 1 264 900 shares at a subscription price of NOK 75 corresponding to a total subscription of NOK 94 867 500. Expenses connected with this private placement amounted to NOK 6 653 632 and net proceeds were NOK 88 213 868.

In addition to the planned private placement NEXT conducted 4 private placements during 2013. In the start of the year this involved 2 private placements with 44 000 shares at a subscription price of NOK 39 corresponding to a total subscription of NOK 1 716 000 and then 2 private placement of 195 396 shares at a subscription price of NOK 50, corresponding to a total subscription of NOK 9 769 800. In connection with the repayment of debt the company also issued 45 000 shares at a subscription price of NOK 45 corresponding to NOK 2 025 000 to a private investor. In addition the same investor exercised 5 800 financial options, with a strike price of NOK 50 per share, corresponding to a total subscription of NOK 290 000 by the end of the year.

8. Profit (loss) per share

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

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

	2014	2013	2013
1 January - 31 March/December	1.1-31.3	1.1-31.3	1.1-31.12
Profit (loss) attributable to the shareholders (NOK)	-14 495 603	-4 741 734	-38 795 193
Number of ordinary shares issue at 31 March	8 787 665	7 276 569	8 787 665
Weighted average basic number of shares	8 787 665	7 274 634	7 673 441
Weighted average diluted number of shares	10 060 330	8 335 554	8 816 503
Profit (loss) per share, basic and diluted (NOK)	-1,70	-0,65	-5,06

9. Events occurring after the balance sheet date

NEXT Biometrics signed May 26 a strategic cooperation and investment agreement with Icreate Investments Limited, a subsidiary of the world largest manufacturing services provider, Foxconn Technology Group ("FOXCONN"). This cooperation agreement includes subscription of shares in the upcoming NEXT IPO. The agreement includes a memorandum of understanding defining business areas in which the parties, for the benefit of FOXCONN clients, will explore opportunities for use of NEXT technology within a wide range of key FOXCONN business areas. FOXCONN has agreed to subscribe shares in the upcoming IPO for an amount of at least NOK 30 million. The subscription is conditional upon NEXT raising a total of minimum NOK 120 million in gross proceeds at a price per share of no less than NOK 73.6 and not higher than NOK 105.

As part of the Subscription Agreement FOXCONN shall be granted a number of warrants based on the number of shares it is allocated in the Offering for an amount of NOK 30 million. The warrants shall be divided into three classes of warrants (A, B and C), divided with 25% in each of classes A and B and 50% in class C. The class B shall only be exercisable upon FOXCONN and its group companies purchasing a minimum of 1 million sensors from NEXT over the next three years. The number of shares to be issued upon the exercise of a warrant of the Class C warrants is subject to how many sensors in the range between 1 and 10 million FOXCONN and its group companies purchases from NEXT in the three years period. The total number of warrants to be issued to FOXCONN, and the maximum number of shares to issued upon the exercise of such warrants, shall be the same as the number of shares allocated to FOXCONN for an amount of NOK 30 million in the IPO. The warrants give a right to subscribe for shares at the same price as the final subscription price for institutional investors in the Offering up until 30 June 2017.

At the AGM, held in 16 May, Next Biometrics Group AS converted to NEXT Biometrics ASA (a public company). In addition a new Board of Directors were elected Jan-Eivind Fondal (chairman), Ketil Fridheim, Ngoc Minh Dinh, Marit Kristin Instanes, Ralph Høibakk, Svenn-Tore Larsen, Inger Berg Ørstavik, Brita Eilertsen.

In the commercialization phase NEXT needs during 2014 to raise additional funds to be able to realize the company's overall strategic and commercial plans going forward. NEXT is planning to raise additional funds in preparation of the planned listing at Oslo Stock exchange In June 2014.

Between 31 March 2014 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 2014 or the value of the company's assets and liabilities at 31 March 2014.