



NEXT Biometrics Group ASA

Quarterly report – Q4 2014

Highlights

- NEXT Biometrics secures first multi-national, brand name design-win (7 digits)
- NEXT ships in excess of 100 000 sensors in Q4
- Launch of sensor coating compliant with design requirements of phones, tablets and PC's.
- NEXT coating machine passes the acceptance testing, and is ready to be shipped to Taiwan
- NEXT signs distribution agreement with Japanese Hakuto Co Ltd.
- Strong distribution network established.

Status

The key milestone in Q4 was securing the design-win with one of the major international players after 12 months of intense effort and in competition with the world's leading fingerprint sensor suppliers. The contract confirms that NEXT's dedication to a no-compromise line concerning sensor size and quality is accepted and appreciated by tier ones in the market. Design-in of sensors in the customer's product lines typically requires 8-12 months. Volume shipments will start in the second half of 2015.

NEXT has in Q4 invested in substantial ramp up activities and has written down the value of existing inventory in the quarter, related to the cost down activities in 2015. This includes the impact of the new coating machine.

Key financial figures

Amounts in NOK million

(except per share data)

	Q4-2014	Q4-2013	Q3-2014	2014	2013	2012
Total revenue	4,4	0,0	1,6	6,7	0,0	1,1
Operating profit (loss)	-35,9	-18,0	-14,7	-82,6	-37,6	-16,5
Net profit (loss) for the period	-33,4	-18,6	-14,4	-79,7	-38,8	-17,1
Earnings per share - basic & diluted	-2,96	-2,15	-1,29	-7,92	-5,06	-2,41
Weighted average number of shares (in thousands)	11 267	8 647	11 188	10 057	7 673	7 068
Opening cash balance	163,5	0,4	188,9	69,7	0,6	2,4
Net change in cash flows	-34,3	69,3	-25,4	59,5	69,1	-1,8
Closing cash balance	129,3	69,7	163,5	129,3	69,7	0,6
Total equity	161,6	63,2	190,5	161,6	63,2	-4,8

Interim condensed financial statements as of 31 December 2014 (Unaudited)

Profit & loss statement

Revenues

NEXT earned NOK 4.4 million in the fourth quarter of 2014, compared to NOK 1.6 million in the previous quarter and NOK 33 thousand in the fourth quarter of 2013. The revenue in the fourth quarter of 2014 consisted of operating revenue and was generated by shipment of in excess of 100 000 sensors.

For the year 2014 NEXT earned revenue amounting to NOK 6.7 million, which was split between NOK 6.3 million in operating revenue and NOK 0.4 million in other revenue. The operating revenue for the year 2014 was generated by shipment of more than 150 000 sensors. Other revenue was grants from Innovasjon Norge.

Due to initial low production volumes and high manufacturing and coating costs, the calculated gross margin is 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 amount for these levels of production.

Operating expenses

Payroll expenses in the fourth quarter of 2014 amounted to NOK 6.4 million, compared to NOK 5.2 million in the previous quarter and NOK 6.7 million in the corresponding quarter of 2013. The quarterly increase of NOK 1.2 million from the third quarter was primarily due to accrued board remuneration for 2014. Research and development (R&D) costs included in payroll expenses amounted to NOK 2.8 million in the fourth quarter of 2014, compared to NOK 3.0 million in the previous quarter and NOK 2.8 million in the corresponding quarter of 2013.

Payroll expenses for the year 2014 amounted to NOK 21.9 million, compared to NOK 12.1 million for the year 2013. R&D costs included in payroll expenses increased to NOK 11.1 million for the year 2014 compared to NOK 5.8 million for the year 2013.

Other operating expenses in the fourth quarter of 2014 amounted to NOK 33.6 million, compared to NOK 10.9 million in the previous quarter and NOK 10.7 million in the corresponding quarter of 2013. R&D cost included in other operating expenses amounted to NOK 7.3 million in the fourth quarter of 2014, compared to NOK 5.4 million in the previous quarter and NOK 10.0 million in the corresponding quarter of 2013. Ramp-up cost, including cost of goods sold and write-down of inventories, amounted to NOK 23.5 million in the fourth quarter. The write-down is related to the companies execution of cost down projects – including reduced bill of materials and the installation of the new coating machine.

Other operating expenses for the year 2014 amounted to NOK 66.8 million, compared to NOK 24.9 million for the year 2013. The increase was mainly due to increased R&D expenses, ramp-up costs related to test production, cost of goods sold, write-down of inventories and other one-off items.

R&D costs included in other operating expenses increased to NOK 27.7 million for the year 2014 compared to NOK 17.6 million for the year 2013.

Total R&D expenses, included in both payroll and other operating expenses, increased to NOK 38.8 million for the year 2014 compared to NOK 23.4 million for the year 2013.

Depreciation, amortization and investments

Depreciation and amortisation for the year 2014 amounted to NOK 0.6 million, compared to NOK 0.6 million for the year 2013.

Investments for the year 2014 amounted to NOK 2.1 million, compared to NOK 0.4 million for the year 2013.

Net financial items

Net financial items amounted to a net income of NOK 2.6 million for the fourth quarter of 2014, compared to a net cost of NOK 0.6 million for the fourth quarter of 2013. The positive effect was mainly related to lower interest expenses and higher interest income.

For the year 2014 net financial items amounted to a net income of NOK 2.9 million, compared to a net cost of NOK 1.2 million for the year 2013. The positive effect was mainly related to lower interest expenses and higher interest income.

Income tax expenses

NEXT operated at a loss and did not incur deferred or payable income taxes for the years 2014 or 2013.

Net profit (loss) for the period

Net loss in the fourth quarter of 2014 was NOK 33.4 million, compared to a loss of NOK 18.6 million in the fourth quarter of 2013. The increased loss was due to increased activities within Sales and R&D, including test production and one-offs.

Net loss for the year 2014 amounted to NOK 79.7 million, compared to a loss of NOK 38.8 million for the year 2013. The increased loss was due to increased activities within Sales and R&D, including test production and one-offs.

Cash flow and balance sheet

Cash and cash equivalents

Cash and cash equivalents amounted to NOK 129.3 million by the end 2014 compared to NOK 69.7 million by the end of 2013.

In the fourth quarter of 2014 the share capital increased with 130 000 shares due to exercised options. The options were exercised at a subscription price of 25 per share corresponding to a total subscription price of NOK 3.3 million.

In the second quarter of 2014 NEXT completed a planned IPO with 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. A company within the Foxconn Group (Icreate Investments Ltd.), received a 5% commission of its upfront subscription of NOK 30 million. Expenses and commission fee connected with this placement amounted to NOK 21.4 million and net proceeds were NOK 170.6 million.

The operations consumed cash in an amount of NOK 112.1 million for the year 2014 compared to NOK 29.9 million in for the year 2013. Included in the cash consumed for the year 2014 was NOK 37.4 million related to working capital increase. The main part of the working capital increase was increased use of cash for inventory build up of NOK 17.2 million and write-down of inventories of NOK 12.0 million and increased R&D activity.

Compared to 31 December 2013 cash and cash equivalents have increased by NOK 59.5 million from NOK 69.7 million to NOK 129.3 million. The change reflects the net proceeds from the placement and net negative cash from operating activities and working capital increase as described above.

Equity

Equity amounted to NOK 161.6 million at the end of 2014 compared to NOK 63.2 million by the end of 2013. This was mainly due to the net proceeds of NOK 173.9 million and the loss of NOK 79.7 million in 2014.

Outlook

As communicated earlier, customer processes are time consuming and this will continue to be the case. Next has in Q4 strengthened the company's market presence and is in position to secure significant customer contracts in the coming months.

Oslo, February 23, 2015
Board of directors
NEXT Biometrics Group ASA

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

Amounts in NOK 1,000	Notes	2014 1.10-31.12	2013 1.10-31.12	2014 1.1-31.12	2013 1.1-31.12
PROFIT AND LOSS					
Revenue					
Operating revenue	3	4 382	33	6 306	38
Other revenue	3	0	0	375	0
Total revenue		4 382	33	6 681	38
Operating expenses					
Payroll expenses		6 409	6 722	21 914	12 110
Other operating expenses	4	33 566	10 738	66 781	24 949
Total operating expenses		39 975	17 460	88 695	37 058
Profit (loss) before tax, depreciations and amortization		-35 593	-17 427	-82 014	-37 021
Depreciations and amortisation	5,6	353	577	596	577
Operating profit (loss)		-35 946	-18 004	-82 609	-37 598
Net financial items	7	2 561	-598	2 918	-1 197
Net profit (loss) for the period		-33 385	-18 602	-79 691	-38 795
Earnings per share - basic and diluted	9	-2,96	-2,15	-7,92	-5,06
Other comprehensive income					
Items that will be reclassified to profit and loss					
Exchange rates differences		-85	-215	-105	-207
Total other comprehensive income		-85	-215	-105	-207
Total comprehensive income for the period		-33 470	-18 817	-79 797	-39 002
Total comprehensive income for the period attributable from:					
Owners of the parent company		-33 470	-18 817	-79 797	-39 002
Total		-33 470	-18 817	-79 797	-39 002

Condensed interim statements of financial position (unaudited)

Amounts in NOK 1,000		31.des.14	31.des.13
ASSETS			
Non-current assets			
Intangible assets	5	7 215	7 538
Machinery and office equipment	6	1 960	100
Total non-current assets		9 175	7 638
Current assets			
Inventory		17 154	0
Receivables			
Account receivables		3 770	5
Other receivables		19 568	2 339
Total receivables		23 338	2 345
Cash and cash equivalents		129 265	69 728
Total current assets		169 758	72 073
Total assets		178 933	79 711
EQUITY AND LIABILITIES			
Equity			
Share capital	8	11 318	8 788
Share premium reserve		275 641	104 326
Other paid in capital		16 594	12 187
Retained earnings		-141 944	-62 147
Total equity		161 609	63 154
Liabilities			
Non-current liabilities			
Other non-current provisions	7	7 147	7 350
Total non-current liabilities		7 147	7 350
Current liabilities			
Accounts payable		5 121	759
Public duties payable		465	139
Other current liabilities		4 590	8 309
Total current liabilities		10 177	9 207
Total liabilities		17 323	16 557
Total equity and liabilities		178 933	79 711

NEXT Biometrics Group ASA

Condensed interim statements of cash flow (unaudited)

Amounts in NOK 1,000	Notes	2014	2013	2014	2013
		1.10-31.12	1.10-31.12	1.1-31.12	1.1-31.12
Cash flows from operating activities					
Profit (loss) before taxes		-33 385	-18 602	-79 691	-38 795
Share based remuneration (equity part)		1 409	1 222	4 407	4 972
Depreciations and amortisation	5,6	353	577	596	577
Change in working capital items		-4 374	-2 339	-37 382	3 371
Net cash flows from operating activities		-35 997	-19 143	-112 070	-29 875
Cash flows from investing activities					
Purchase of tangible assets		-1 250	-195	-2 133	-442
Net cash flows from investing activities		-1 250	-195	-2 133	-442
Cash flows from financing activities					
Change in non-current debt		-148	-1 677	0	-2 364
Share issue net of expenses		3 213	90 529	173 845	102 015
Net cash flows from financing activities		3 065	88 852	173 845	99 651
Translation differences		-85	-215	-105	-207
Net change in cash flows		-34 267	69 299	59 537	69 126
Opening cash balance		163 531	429	69 728	602
Closing cash balance		129 265	69 728	129 265	69 728

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 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)					-79 691	-79 691
Balance 31 December 2014		11 318	275 641	16 594	-141 944	161 609
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 December 2014 (Unaudited)

1. General information

NEXT Biometrics Group ASA ("NEXT") is a public limited liability company incorporated and domiciled in Norway. NEXT's shares have been listed at Oslo Axess market place at Oslo Børs since 25 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 three wholly owned operating subsidiaries: (i) NEXT Biometrics AS (Norway), (ii) NEXT Biometrics Inc (USA) and (iii) NEXT Biometrics China Ltd.

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 fourth 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.

The going concern assumption has been applied when preparing this financial report. In the second quarter of 2014 NEXT raised additional fund that makes NEXT able to enter into the commercialization phase. By the end of the fourth quarter of 2014, NEXT has earned revenue from commercial volumes, but have still not reached enough volumes to justify capitalizing of development expenses. NEXT does not have non-current financial debt. The only non-current liability is related to future royalty payments. NEXT has adequate equity and liquidity for going concern for longer than 12 months from the date of this report.

This interim financial report has not been subject to audit.

The board of directors approved the report on 23 February 2015.

3. Revenue and segment reporting

Operating revenue - Per business segment (amounts in NOK)	2014 1.1-31.12	2013 1.1-31.12
Fingerprint sensor technology	6 306 414	37 962
Total	6 306 414	37 962

Operating revenue - Per country (amounts in NOK)	2014 1.1-31.12	2013 1.1-31.12
USA	1 527 979	0
Taiwan	2 777 437	27 584
China	1 947 944	9 908
Other	53 054	0
Total	6 306 414	37 492

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*.

For the year 2014 more than 150 000 sensors were shipped to customers. Of this, in excess of 100 000 sensors were shipped in the fourth quarter of 2014. NEXT did not earn revenue from commercial volumes in 2013. The revenue in 2013 involved customer acceptance and payments related to prototype and integration deliveries.

Other revenue

Other revenue in the year 2014 amounting to NOK 375.000 all consisted of grants from Innovasjon Norge from the third quarter of 2014.

4. Operating expenses

Payroll expenses (amounts in NOK)	2014 1.1-31.12	2013 1.1-31.12
Share based remuneration (salary part)	3 001 961	1 970 400
Share based remuneration (employer's tax)	-1 907 640	2 708 445
R&D related payroll expenses	11 061 540	5 809 763
Other payroll expenses	9 758 505	1 620 912
Total	21 914 366	12 109 520

Other operating expenses (amounts in NOK)	2014 1.1-31.12	2013 1.1-31.12
Share based remuneration (operating part)	1 405 382	3 001 669
R&D related operating expenses	27 703 940	17 586 951
Other expenses *	37 671 394	4 360 256
Total	66 780 716	24 948 876

Total - Operating expenses	88 695 082	37 058 396
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*Cost of goods sold and inventories write-downs are included in Other expenses.

5. Intangible assets

	2014	2013
Intangible assets (amounts in NOK)	1.1-31.12	1.1-31.12
Cost of 1 January	800 000	800 000
Additions	0	0
Disposals at cost	0	0
Currency adjustments	0	0
Cost at 31 December	800 000	800 000
Accumulated depreciation at 1 January	720 000	640 000
Depreciation	80 000	80 000
Accumulated depreciation of disposed items	0	0
Currency adjustments	0	0
Accumulated depreciation at 31 December	800 000	720 000
Book value at 31 December	0	80 000
Depreciation period (straight line) years	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
Purchase of patent (amounts in NOK)	1.1-31.12	1.1-31.12
Cost of 1 January	7 458 255	7 458 255
Additions	0	0
Disposals at cost	0	0
Currency adjustments	0	0
Cost at 31 December	7 458 255	7 458 255
Accumulated depreciation at 1 January	0	0
Depreciation	243 204	0
Accumulated depreciation of disposed items	0	0
Currency adjustments	0	0
Cost at 31 December	243 204	0
Book value at 31 December	7 215 051	7 458 255

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.

6. Machinery and office equipment

Machinery and office equipment (amounts in NOK)	2014	2013
	1.1-31.12	1.1-31.12
Cost of 1 January	1 161 523	674 819
Additions	2 116 481	423 991
Disposals at cost	0	0
Currency adjustments	257 652	62 713
Cost at 31 December	3 535 656	1 161 523
Accumulated depreciation at 1 January	1 061 698	520 187
Depreciation	272 511	497 182
Accumulated depreciation of disposed items	0	0
Currency adjustments	241 557	44 330
Cost at 31 December	1 575 766	1 061 698
Book value at 31 December	1 959 890	99 824
Depreciation period (straight line) years	3-7	3-7

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)	2014	2013
	1.1-31.12	1.1-31.12
Balance at 1 January	7 649 839	7 652 170
Time value	196 964	197 669
Additional	0	0
Payment	-300 000	-200 000
Balance at 31 December	7 546 803	7 649 839

Presented as:	2014	2013
	1.1-31.12	1.1-31.12
Current liability	400 000	300 000
Non-current liability	7 146 803	7 349 839
Balance at 31 December	7 546 803	7 649 839

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

8. Shares and incentive options

	2014	2013
Shares	1.1-31.12	1.1-31.12
Opening balance	8 787 665	7 232 569
Share issue(s)	2 400 000	1 549 296
Exercised financial options	130 000	5 800
Closing balance	11 317 665	8 787 665

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.

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.

	2014	2013
Options	1.1-31.12	1.1-31.12
Opening balance	1 275 332	843 201
Grant of incentive options	224 544	437 931
Exercised incentive options	-130 000	-5 800
Forfeited incentive options	-60 000	0
Expired incentive options	-10 000	0
Closing balance	1 299 876	1 275 332

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.

	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options	01.01.2014 - 31.12.2014		01.01.2013 - 31.12.2013		01.01.2012 - 31.12.2012	
Outstanding at the beginning of period	1 275 332	25,46	843 201	14,40	643 816	11,61
Granted	224 544	47,63	437 931	47,06	199 385	23,42
Transferred in	-	-	-	-	-	-
Exercised	- 130 000	25,00	- 5 800	50,00	-	-
Released	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Forfeited	-60 000	25,00	-	-	-	-
Expired	-10 000	75,00	-	-	-	-
Adjusted quantity	-	-	-	-	-	-
Modification / Dividends	-	-	-	-	-	-
Transferred out	-	-	-	-	-	-
Outstanding at the end of period	1 299 876	28,65	1 275 332	25,46	843 201	14,40
Vested options	970 210	19,63	925 277	18,92	686 777	12,70
Weighted Average Fair Value of Options Granted during the period	251 544	26,26	437 931	24,55	199 385	12,36
Intrinsic value outstanding options at the end of the period	857 700	29 369 951	1 224 332	63 385 569	843 201	20 741 117
Intrinsic value vested options at the end of the period	827 710	29 055 056	915 277	51 892 999	686 777	18 062 025

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.

	2014	2013
1 January - 31 December	1.1-31.12	1.1-31.12
Profit (loss) attributable to the shareholders (NOK)	-79 691 090	-38 795 193
Number of ordinary shares issue at 31 December	11 317 665	8 787 665
Weighted average basic number of shares	10 057 062	7 673 441
Weighted average diluted number of shares	11 323 499	8 816 503
Profit (loss) per share, basic and diluted (NOK)	-7,92	-5,06

10. Events occurring after the balance sheet date

Between 31 December 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 four quarters of 2014 or the value of the company's assets and liabilities at 31 December 2014.