



IDEX

Fourth quarter 2019 report

IDEX Biometrics ASA

2019 AND RECENT HIGHLIGHTS

Commercial and Sales

- » Secured largest design win and supply agreement in the company's history, a NOK 56 million, minimum commitment to supply the company's sensors and software to a major global financial news and IT services company
- » Selected by a leading global Tier 1 smartcard manufacturer to supply the TrustedBio™ sensor for use in the manufacturer's next generation biometric payment cards
- » Selected by Feitian, a leading Chinese smartcard manufacturer for exclusivity on biometric payment card opportunities in China
- » Entered into license agreements for remote enrollment with two leading smartcard manufacturers, IDEMIA and Chutian Dragon
- » Secured additional design wins in Asia for both access control, payment and brand loyalty smartcards

Product Development

- » Launched TrustedBio™ - a new family of dual-interface products and solutions designed to dramatically reduce biometric smartcard cost while improving performance, security, and manufacturability
- » IDEX's dual-interface technology including the sensor, software and reference design was validated by independent labs to meet multiple global payment schemes' certification requirements
- » Received EMVCo security certification for IDEX's development site in the U.K.; the first and only biometric sensor company to be EMVCo security certified
- » Formed supply chain partnerships with Feitian, Silone Cardtech and others to bring cost effective, mass produced biometric smartcards to market
- » Strengthened its patent portfolio with broad patents granted for biometric systems-on-chip and remote enrollment in key geographies

2019 AND RECENT HIGHLIGHTS CONTINUED

Financial

- » Raised 304 million NOK (296 million NOK, net of expenses) in additional capital during 2019
- » Completed cost reductions expected to lower annual operating expenses by 30% and the company intends to re-invest these savings into critical development projects and customer facing activities
- » IDEX shares were listed on the U.S. OTCQB Venture Market (ticker: IDXAF)

Organizational

- » Added individuals with significant experience in semiconductor technology, payments, and global public companies
- » Steve Skaggs joined the board of directors
- » Derek D’Antilio joined as CFO, Pascal Dufour joined as Director of European Sales, Marianne Boe joined in investor relations, and, just recently, the company announced the addition of Vince Graziani as CEO

Market and Ecosystem Update

- » Market interest in biometric smartcards continues to grow and leading issuers have conducted pilots in Europe, Asia and the United States
- » 2019 also marked the first commercial launch of biometric payment cards by an issuer
- » Many smartcard manufacturers have overcome the complexities associated with the integration of a biometric sensor into the card
- » The first dual-interface biometric payment card was certified by a major global payment scheme

CEO’S COMMENT

“I am proud of the progress we have made at IDEX Biometrics during 2019 and in the first two months of 2020, we significantly strengthened the team, helped solve some of the gating issues to mass adoption of biometric smartcards, launched major product platforms, and had our first significant customer wins.

I am excited about the company’s prospects as IDEX moves forward in 2020, with a new CEO, a strong team, a supportive shareholder base, and a family of products with demonstrated technology and cost leadership.”

Stan Swearingen, CEO of IDEX Biometrics ASA



BUSINESS REVIEW

LEADERSHIP IN BIOMETRIC FINGERPRINT SENSING TECHNOLOGY

Strategy to deliver fingerprint sensing solutions to mass markets

IDEX is the only vendor worldwide capable of supplying capacitive off-chip architecture designs, sensors, and biometric algorithms optimized for the smartcard market.

IDEX delivers fingerprint solutions to mass markets based on a unique flexible and cost efficient off-chip technology. The off-chip design splits the fingerprint sensor into two key components; the sensor array and the silicon chip (ASIC). This architecture allows the separate sensor array to be made from a low-cost flexible polymer resulting in a larger sensing area, thus improving matching reliability, while decreasing the total amount of silicon used. Overall this provides optimal size and cost-to-performance characteristics.

The off-chip technology enables integration of additional features and value into the ASIC, including the biometric microcontroller, encryption and power management. The recently launched TrustedBio™ family of products delivers this unprecedented level of integration and dramatically reduces biometric smart-card costs while improving performance, security, and manufacturability.

IDEX also became the first and only biometric sensor company to achieve EMVCo security certification. IDEX's software engineering team is now certified to develop and deliver software that resides in the secure element of the card. Smartcard manufacturers can now choose to directly integrate IDEX's biometric software, use IDEX's reference design, and embed the sensor into their products, and experience a seamless certification process.

Technology roadmap

IDEX's technology roadmap is focused on:

- » Significant reductions in system costs through optimized architecture and integration
- » Improvements in usability, convenience and performance through next-generation silicon, sensor and algorithm design
- » Enhancements to security through secure end-to-end architectures, and advanced match-on-secure element algorithms
- » Developing solutions for in-display sensor integration

Market opportunities

IDEX's largest potential market is the biometric payment card market. IDEX also offers its products and solutions for the access control market, as well as other adjacent verticals like healthcare, identification, and IOT.

Payment cards

The biometric payment card market represents the largest addressable market for IDEX's products and solutions. The need for biometric payment cards is driven by a desire for higher levels of security and a frictionless transaction process as well as a means for card issuers to continue to acquire and retain customers and remain *top of wallet*. The total addressable market includes all chip enabled payment cards. According to EMVCo, the payment card industry security standards organization, there are more than 8.2 billion EMV chip payment cards in circulation and this number is growing. In comparison, the market for smartphone biometrics includes an estimated 3.5 billion smartphones.

Significant progress was made in 2019 towards bringing biometric payment cards to the mass market, including a number of pilots as well as the first commercial launch of a biometric payment card.

At the end of the year, the first dual-interface biometric payment cards were certified by a major global payment scheme and others are expected to follow, further enabling market adoption.

IDEX is engaged with all of the leading smartcard manufacturers and has a supply chain that will allow the company to meet requirements of all card manufacturers. IDEX was recently selected by a leading global Tier 1 smartcard manufacturer to supply the TrustedBio™ sensor for use in the manufacturer's next-generation biometric payment cards. IDEX was also selected by Feitian, a leading Chinese smartcard manufacturer for exclusivity on biometric payment card opportunities in China. Finally, IDEX's remote enrollment technology was licensed to two leading smartcard manufacturers, one in Europe and one in China.

Access control

Another significant market opportunity for IDEX is the access control market, which includes both logical or information access and physical access control. This market is estimated to 250 million units annually and growing at 5%.

Access control devices have multiple form factors, such as smart cards, keyboards and tokens. The adoption of biometrics in access control is being driven by the need for additional security and data privacy, in part driven by regulations being enacted in various countries.

In access control, IDEX secured the largest design win and supply agreement in the company's history, a NOK 56 million minimum commitment to supply the company's sensors and software to a major global financial news and IT services company. In addition, IDEX had additional design wins in Asia for access control applications. Production shipments to these

customers are expected to begin in the second quarter of 2020.

Financial

During 2019, IDEX completed capital raises totaling 304 million NOK. The company also implemented cost reductions expected to lower the annual operating cost base by 30%, and lower the expected break-even number of units sold level by 50%. Some of these savings will be invested in critical development activities including TrustedBio™.

IDEX seeks to broaden its global investor reach, and IDEX shares were in 2019 listed on the U.S. OTCQB Venture Market (ticker: IDXAF).

Summary and outlook

IDEX has made substantial progress during 2019 and into 2020. The board is pleased to see a major product launch, design wins in both the payment card market and in the access control market, and the beginning of production shipments in 2020.

Industry participants and analysts believe 2020 will be the year where the biometric payment card market moves from one defined by pilots, towards commercial deployments. IDEX expects additional payment card certifications on existing platforms in the near term. Sensors including the TrustedBio™ technology are expected to be released to mass production in the fourth quarter of 2020.

In the access control market, IDEX expects to begin volume shipments in the second quarter of 2020.

The board is excited about the company's prospects as IDEX moves forward into 2020, with a new CEO, a strong team, a supportive shareholder base, and a family of products with demonstrated technology and cost leadership.

FINANCIAL REVIEW

Statements of profit and loss

IDEX recorded revenues of NOK 0.7 million in the fourth quarter of 2019, up from NOK 0.4 million in the corresponding period of 2018. In the full year of 2019, the revenues amounted to NOK 3.7 million, compared to NOK 3.6 million in 2018. Product revenues were primarily from card products and other operating income in 2019 was primarily related to engineering services to a large customer to qualify IDEX products with this customer.

The gross margin on product sales in the fourth quarter was 71%, compared to 62% in same quarter of 2018. The total gross margin includes service income and was 79% for the full year of 2019, compared to 64% in 2018. The gross margin at small volumes is not necessarily representative of the gross margin achievable at mass volumes.

Total operating expenses in the fourth quarter of 2019 amounted to NOK 83.9 million, compared to NOK 61.5 million in the fourth quarter of 2018. The increase in the fourth quarter of 2019 compared to 2018, was primarily related to severance and staff reduction costs as well as incentive compensation. In the full year, total operating expenses amounted to NOK 270.8 million in 2019 and NOK 238.7 million in 2018. The increase in expenses year on year was mainly due to increased payroll and other operating costs, partially offset by lower development expenses as more development was performed in-house.

Payroll expenses amounted to NOK 60.3 million in the fourth quarter of 2019 and NOK 191.4 million in the full year of 2019, up from NOK 42.9 million and NOK 161.0 million in the same periods of 2018. The underlying payroll cost excluding share-based remuneration was NOK 55.1 million in the fourth quarter and NOK 168.3 million in the full year, up from NOK 39.0 million and NOK 137.0 million in the corresponding periods of 2018. The increase reflects that the average number of IDEX employees was 109 full-time equivalents (FTE) in the full year, up from 99 FTE in the full year of last year.

In addition, the fourth quarter of 2019 included severance and staff reduction costs. There are fluctuations between quarters as salaries in subsidiaries are paid in foreign currency and variations in other staff-related items, such as recruiting costs. The net accounting cost of share-based remuneration may vary substantially between quarters because of share price fluctuations as well as grants and exercises. Cash cost upon exercises are funded by the capital injected at exercise.

IDEX's staff, including both employees and individual contractors, was 109 FTE at 31 December 2019, down from 115 FTE at 31 December 2018. The staff is comprised of 100 FTE employees and 9 FTE individual contractors. The decrease in staff is primarily due to cost reduction measures implemented in the fourth quarter of 2019, partially offset by critical additions in sales and engineering.

Development expenses amounted to NOK 12.3 million in the fourth quarter of 2019, up from NOK 10.6 million in the corresponding quarter of 2018. In the full year of 2019, these expenses were NOK 38.6 million, down from NOK 45.9 million in the same period of 2018, as less development work was contracted out.

Other operating expenses, mainly expenses related to sales, marketing and administration, amounted to NOK 11.3 million in the fourth quarter and NOK 40.8 million in the full year of 2019, compared to NOK 8.0 million and NOK 31.9 million in the corresponding periods the year before. The increase was primarily due to outside professional services associated with the two capital raises as well as customer contract and intellectual property patenting work.

Amortization and depreciation amounted to NOK 3.9 million and NOK 14.4 million in the fourth quarter and full year respectively, which were notable increases from NOK 1.8 million and 6.9 million in the corresponding periods of 2018. The increase is primarily due to IDEX's investment in high-volume test equipment in

the second half of 2018 as well as the classification of lease costs as amortization under IFRS 16.

Net financial items amounted to an expense of NOK 0.3 million in the fourth quarter 2019, compared to an expense of NOK 0.9 million in the fourth quarter 2018. Net financial items amounted to an expense of NOK 1.9 million in the full year of 2019 and compares to an expense of NOK 2.3 million in the full year of 2018. The variation in net financial items between periods is mainly caused by re-/devaluations of foreign currency, mainly the U.S. dollar, causing gains or losses on receivables and debt denominated in currencies other than NOK.

The group recorded a tax credit of NOK 1.9 million in the fourth quarter this year, compared to a tax credit of NOK 0.6 in the fourth quarter of 2018. Due to profits in IDEX's subsidiaries in the U.S.A. and U.K., the group's tax charge amounted to NOK 1.4 million in the full year of 2019, compared to a tax charge of NOK 0.3 million in 2018.

The group had a net loss of NOK 85.7 million in the fourth quarter of 2019, compared to a net loss of NOK 63.4 million in the fourth quarter of 2018. In the full year of 2019, the group recorded a loss of NOK 285.3 million, compared to a loss of NOK 246.1 million for the full year of 2018.

Loss per weighted average number of basic shares amounted to NOK 0.14 in the fourth quarter, compared to a loss of NOK 0.12 per share in the fourth quarter of 2018. In the full year, the loss amounted to NOK 0.48 per share in 2019, down from NOK 0.45 per share in 2018.

Financial position

The main assets held on the balance sheet are acquired intangible assets and cash in bank. Cash is the largest item, representing 60% of the total assets.

The acquired intangible assets and intellectual property rights have been capitalized in accordance with IFRS, and included goodwill amounting to NOK 8.3 million and depreciating assets at a net book value of NOK 22.9 million at 31 December 2019. The corresponding values at 31 December 2018 were NOK 8.3 million and NOK 26.8 million respectively. The assets

depreciate over the economic life of the respective items. IDEX's self-developed intellectual property rights and product development costs are generally not held on the balance sheet because they do not satisfy the IFRS criteria for capitalization. No development expenses were capitalized in 2019 or 2018.

Tangible fixed assets amounted to NOK 29.7 million at 31 December 2019, up from NOK 14.6 million at 31 December 2018. The fixed assets are right-of-use assets related to office leases, and investments in scientific and test equipment, engineering tools, leasehold outfitting, office equipment and furniture with useful lives of 3-7 years.

Inventory amounted to NOK 6.0 million at 31 December 2019, down from NOK 10.2 million at 31 December 2018. The inventory consists mainly of components and fingerprint sensors for cards. Because of significant lead times for certain components, IDEX holds inventory to satisfy expected demand for deliveries with short notice.

There were customer receivables of NOK 0.3 million at 31 December 2019, same as at 31 December 2018.

At 31 December 2019 IDEX had a cash balance of NOK 124.0 million, up from NOK 83.7 million at the end of 2018. Capital injections have added more cash than the company spent in the year.

Equity amounted to NOK 156.4 million at the end of the fourth quarter of 2019, up from NOK 123.2 million at the end of 2018. On 25 January 2019 IDEX made a private placement of shares, raising NOK 213.8 million before expenses. On 17 November 2019, IDEX made additional private placements of shares, raising a total of NOK 90.0 million before expenses. In total, new equity, net of expenses of NOK 295.9 was added. The net loss in 2019 has been charged to equity.

IDEX does not have any debt to financial institutions or lenders.

IDEX implemented IFRS 16 effective 1 January 2019. The total right-of-use asset recognized for the group was NOK 9.9 million. The corresponding liability was NOK 4.0 million long-term and NOK 5.9 million short-term. The implementation has led to a decrease in rent expense offset by an increase in amortization charged

to financial costs. For the full year of 2019, IDEX reported NOK 6.1 million in amortization of right-of-use assets, NOK 6.4 million in rent offset and NOK 0.4 million financial cost.

Total short-term liabilities amounted to NOK 44.0 million at 31 December 2019, up from NOK 32.8 million at 31 December 2018. Variations between quarters are caused by activity level, specific pay terms and timing of deliveries.

The net working capital, inventory plus receivables less trade accounts payable, amounted to NOK 15.8 million at 31 December 2019, up from NOK 16.6 million at 31 December 2018. IDEX will need to build up its inventory and accumulate receivables as sales increase.

Liquidity

IDEX's operational cash outflow was NOK 57.3 million in the fourth quarter of 2019, compared to NOK 50.1 million in the fourth quarter of 2018. The main operating cash items are the operating losses in each

period, partly offset by the equity part of the share-based compensation, and depreciation. The working capital varies between quarters, mainly due to fluctuating payables to suppliers and accrued liabilities. Future growth in sales is expected to cause an increase in working capital in the form of inventory and receivables, partly funded by payables.

IDEX invested NOK 2.9 million in capital equipment during the fourth quarter of 2019, compared to NOK 0.6 million in the fourth quarter of 2018. Going forward, IDEX expects modest investments in test equipment as operations scale. NOK 5.8 million of the NOK 7.5 million invested in the full year of 2019 is related to manufacturing equipment for use in manufacturing at suppliers.

IDEX's balance sheet solvency, which is the cash position less the net of receivables and short-term liabilities, amounted to NOK 93.8 million at 31 December 2019, up from NOK 62.4 million at the beginning of the year. The increase was a result of the private placements less the net loss in the period.

Wilmington, Massachusetts, 26 February 2020
The board of directors of IDEX Biometrics ASA

INTERIM CONSOLIDATED FINANCIAL INFORMATION

STATEMENTS OF PROFIT AND LOSS

Amounts in NOK 1,000	Note	Quarters		Full year	
		Q4 2019	Q4 2018	2019	2018
Operating revenue					
Product sales		476	358	1 396	2 181
Other operating income		184	15	2 328	1 404
Total revenue		659	373	3 724	3 585
Cost of goods sold		140	134	547	1 502
Gross margin		519	238	3 177	2 082
Operating expenses					
Payroll expenses	4	60 319	42 912	191 396	160 983
Development expenses		12 281	10 615	38 589	45 850
Other operating expenses	5, 6	11 320	8 006	40 838	31 908
Total operating expenses		83 920	61 532	270 824	238 740
Profit (loss) before interest, tax, depreciation and amortization (EBITDA)		(83 401)	(61 294)	(267 646)	(236 658)
Amortization and depreciation	6, 7	3 929	1 760	14 372	6 854
Profit (loss) before interest and tax (EBIT)		(86 780)	(63 054)	(282 019)	(243 512)
Net financial items	6, 8	(326)	(854)	(1 904)	(2 254)
Net result before tax (EBT)		(87 107)	(63 908)	(283 923)	(245 766)
Income taxes	9	(1 881)	(557)	1 412	332
Net loss for the period		(85 225)	(63 350)	(285 335)	(246 097)
Profit (loss) per share, basic and diluted (NOK)	10	(0.14)	(0.12)	(0.48)	(0.45)

STATEMENTS OF OTHER COMPREHENSIVE INCOME

Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):

Amounts in NOK 1,000	Quarters		Full year	
	Q4 2019	Q4 2018	2019	2018
Net loss for the period	(85 774)	(63 350)	(285 335)	(246 097)
Exchange differences on foreign operations	(122)	1 044	298	946
Total comprehensive income (loss) for the period, net of tax	(85 896)	(62 306)	(285 037)	(245 151)

STATEMENTS OF FINANCIAL POSITION

Amounts in NOK 1,000	Note	At 30 December 2019	At 30 December 2018
Assets			
Long-term assets			
Goodwill		8 260	8 260
Other intangible assets		22 870	26 763
Total intangible assets		31 130	35 023
Fixed assets		17 678	14 590
Right-of-use assets	6	12 070	
Total fixed assets		29 748	14 590
Long-term receivables		1 336	1 269
Total financial assets		1 336	1 269
Total long-term assets	7	62 215	50 882
Current assets			
Inventory	12	6 026	10 164
Customer receivables		271	339
Prepaid expenses		6 752	5 529
Other short-term receivables		6 780	5 684
Total receivables		13 803	11 552
Cash and bank deposits		124 031	83 714
Total current assets		143 861	105 430
Total assets		206 076	156 312
Equity and liabilities			
Equity			
Share capital	10	107 698	81 647
Share premium		1 462 097	1 192 222
Other paid-in capital		120 830	98 553
Total paid-in capital		1 690 625	1 372 422
Retained earnings (losses)		(1 534 220)	(1 249 183)
Total equity		156 405	123 239
Long-term liabilities			
Deferred tax liabilities		271	226
Long-term lease liabilities		5 355	
Total long-term liabilities		5 626	226
Short-term liabilities			
Accounts payable		4 062	5 126
Income tax payable		1 134	2 276
Short-term lease liabilities		6 921	
Public duties payable		3 131	1 716
Notional employer's tax on subscription rights	11	22	
Other short-term liabilities		28 775	23 729
Total short-term liabilities		44 045	32 847
Total liabilities		49 671	33 073
Total equity and liabilities		206 076	156 312

STATEMENTS OF EQUITY

Amounts in NOK 1,000	Note	Share capital	Share premium	Other paid-in capital	Retained earnings (uncovered loss)	Total equity
Balance at 1 January 2019		81 647	1 192 222	98 553	(1 249 183)	123 239
Share issue 25 January		8 016	198 704			206 720
Share issue 2 December		8 314	33 255			41 569
Share issue 24 December		9 686	37 915			47 601
Share issue (board remun.)		36		549		585
Share-based remuneration	5			21 728		21 728
Profit (loss) for the period					(284 786)	(284 786)
Other comprehensive income					298	298
Balance at 31 December 2019		107 698	1 462 097	120 830	(1 534 220)	156 405
Balance at 1 January 2018		81 357	1 185 355	74 382	(1 004 032)	337 062
Exercise of subscript. rights	4	245	6 868			7 112
Share issue (board remun.)		45		1 030		1 075
Share-based remuneration	5			23 141		23 141
Profit (loss) for the year					(246 097)	(246 097)
Other comprehensive income					946	946
Balance at 31 December 2018		81 647	1 192 223	98 553	(1 249 183)	123 239

STATEMENTS OF CASH FLOWS

Amounts in NOK 1,000	Quarters		Full year	
	Q4 2019	Q4 2018	2019	2018
Operating activities				
Profit (loss) before tax	(87 656)	(63 908)	(283 923)	(245 766)
Amortization and depreciation	3 929	1 761	14 372	6 854
Share-based remuneration (equity part)	4 529	5 384	22 277	24 170
Change in inventories	8 597	257	4 137	(909)
Change in accounts receivables	(195)	456	68	211
Change in accounts payable	(1 918)	(3 763)	(1 094)	2 051
Change in other working capital items	15 538	9 635	3 473	997
Other operating activities	106	477	380	980
Net financial items	(190)	(406)	(1 183)	(1 731)
Change in income taxes	(24)	(13)	(1 989)	(1 593)
Net cash flows from operating activities	(57 285)	(50 121)	(243 481)	(214 735)
Investing activities				
Investments in tangible assets	(2 901)	(615)	(7 479)	(8 991)
Change in long-term receivables	(71)	(3)	(54)	(3)
Interest income receipts	191	184	1 185	1 095
Net cash flows used in investing activities	(2 780)	(434)	(6 348)	(7 899)
Financing activities				
Net proceeds from issue of shares	89 171	7 112	295 926	7 157
Payments on lease liabilities	(1 649)		(5 939)	
Change in long-term payables		(3 888)		(3 271)
Net cash flows from financing activities	87 521	3 224	289 987	3 886
Net change in cash and bank deposits	27 456	(47 330)	40 157	(218 748)
Effect of foreign exchange rate changes	(364)	573	160	360
Opening cash and bank deposits balance	96 939	130 472	83 714	302 102
Closing cash and bank deposits balance	124 031	83 714	124 031	83 714

NOTES TO INTERIM FINANCIAL STATEMENTS

1 General information

IDEX Biometrics is a leader in fingerprint sensing solutions and technology for multiple markets. The company has developed an off-chip sensor architecture and embedded biometric algorithms suited to capacitive fingerprint sensors. The company is a public limited liability company incorporated and domiciled in Norway. The address of the head office is Dronning Eufemias gate 16, NO-0191 Oslo, Norway. IDEX Biometrics ASA's shares are listed at Oslo Børs, the stock exchange in Oslo and are also traded in the U.S.A. on the OTCQB Venture Market.

IDEX Biometrics ASA holds a subsidiary group in the United States of America, a subsidiary in the People's Republic of China and a subsidiary in the United Kingdom. The subsidiaries provide technical development services, sales facilitation, marketing assistance and/or logistics processing for IDEX Biometrics ASA.

2 Basis of preparation and accounting policies

These interim financial statements for the full year of 2019 have been prepared in accordance with IAS 34 Interim financial reporting. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the interpretations set out by the International Accounting Standards Board, as approved by the European Union. The going concern assumption has been applied when preparing this interim financial report. See note 3. This interim financial report has not been subject to audit. The report was approved by the board of directors on 26 February 2020.

The accounting policies applied are consistent with those applied in the previous financial year, except for the implementation of IFRS 16 - Leases. 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 at the implementation. Upon implementation, the right-of-use asset and lease liability will be the same amount and will 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.

IDEX 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 as at 1 January 2019 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 are 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.

3 Risks

It is the duty of the board of directors to duly present the principal risks of IDEX and its business. The company's major risk is its business risk, meaning its ability to generate revenue and earn profit. The future revenue generation will depend on IDEX's ability to market and deliver technically sound, cost-effective and competitively differentiated products, and the company's ability to legally protect its intellectual property rights. IDEX considers that its fingerprint sensor technology has one of the best biometric performances, and that its fingerprint sensor products offer unique properties, particularly well-suited for the payment card and access control markets as well as other markets.

IDEX currently generates immaterial revenue and operates at a significant loss. As of 31 December 2019, the company had 124.0 million NOK in cash and no financial debt.

The company expects to increase revenue generation through sales of sensors and monetization of its intellectual property. The biometric payment card market is still an emerging growth market, and, as is common in most emerging growth markets, the timing of revenue is difficult to predict with any precision. IDEX monitors its cash position very closely, including the expense and working capital requirements. IDEX will continue to review opportunities to optimally capitalize the business, while minimizing shareholder dilution.

IDEX does not have any significant assets or liabilities with financial risk. IDEX's balance sheet comprises mainly cash and working capital and the company is fully funded on equity. IDEX does not hold financial instruments or significant financial assets or liabilities and has limited financial risks related to currency and interest rates. USD is the dominant currency of the company's payables.

4 Payroll expenses

Amounts in NOK 1,000	Quarters		Full year	
	Q4 2019	Q4 2018	2019	2018
Salary, payroll tax, benefits, other	55 061	39 047	168 313	136 960
Payable payroll tax on realized share-based benefit		31	77	31
Notional cost of incentive subscription rights	4 529	5 383	22 277	24 170
Accrued (reversed) payroll tax on share-based remuneration	728	(1 550)	728	(179)
Payroll expenses	60 319	42 912	191 396	160 983

The fair value at grant date of subscription rights granted to employees is expensed over the vesting period of each tranche. The fair value of the subscription rights is determined using the Black-Scholes option pricing model. Employer's social security tax related to share-based remuneration is calculated on the balance sheet date based on the earned intrinsic value of the subscription rights, and the adjustment to the accrued amount is charged or credited to cost. When subscription rights are exercised, the accrued payroll tax is reversed, and the actual payroll tax is expensed.

50% of 2019 incentive compensation settlement, which is expected to be paid in the first quarter of 2020, will be settled in IDEX shares.

5 Related party transactions

The chairman Morten Opstad is a partner in Advokatfirma Ræder DA. This law firm provided services to the company amounting to NOK 4,132 thousand in the full year of 2019. Mr Opstad's work beyond board duty has been invoiced by Ræder.

Larry Ciaccia, who was elected board member at the annual general meeting on 12 May 2015, has served on IDEX's Strategy Advisory Committee (SAC) since 2014 and continues his tenure on the SAC. The SAC service fee is USD 15 thousand per year. Mr Ciaccia also provides consulting services beyond board duty to IDEX for a fixed fee of USD 50 thousand per year.

Since 2016, former board member Andrew MacLeod had provided consulting services beyond board duty to IDEX for a fixed fee of GBP 60 thousand per year. Mr MacLeod's service agreement ended on 27 March 2019, and he left the board on 9 May 2019.

Some board members and senior managers participated in the private placement on 25 January 2019, and acquired shares at NOK 4.00 per share, the same price as the other investors. Chairman Morten Opstad acquired 100,000 shares, CEO Stan Swearingen acquired 250,000 shares, former board member Andrew MacLeod acquired 140,000 shares, and former CFO Henrik Knudtzon acquired 100,000 shares.

Following the annual general meeting of IDEX on 9 May 2019, board members Deborah Davis and Hanne Høvding, and former board member Andrew MacLeod, elected to receive part or full board remuneration in shares. Board member Deborah Davis acquired 88,291 shares against payment of NOK 0.15 per share, instead of NOK 235,000 of the board remuneration. Ms. Davis took the remainder of the board remuneration in cash. Board member Hanne Høvding acquired 60,113 shares against payment of NOK 0.15 per share, instead of NOK 160,000 of the board remuneration. Ms. Høvding took the remainder of the board remuneration in cash. Former board member Andrew MacLeod acquired 88,291 shares against payment of NOK 0.15 per share, instead of NOK 235,000 of the board remuneration. Mr. MacLeod took the remainder of the board remuneration in cash.

The board resolved on 4 August 2019 the annual refresh grant of incentive subscription rights (SRs) to IDEX employees under the company's 2019 incentive subscription rights plan. The following grants were made to officers and primary insiders: Stan Swearingen, CEO, 1,200,900 SRs; Derek D'Antilio, CFO 2,000,000 SRs; Anthony Eaton, CTO, 327,800 SRs; David Orme, SVP of Sales and Marketing, 208,600 SRs; and Erling Svella, VP of Finance, 178,800 SRs. The exercise price of the subscription rights is NOK 1.65 per share. 25 per cent of the subscription rights vest per year. The subscription rights expire on 9 May 2024.

On 4 December 2019, Erling Svella, VP of Finance, was granted 443,100 incentive SRs under the IDEX Biometrics' 2019 incentive subscription rights plan. The exercise price of the SRs is NOK 0.15 per share. 50% of the SRs vest per year over two years and the SRs expire on 9 May 2024. After the grant, Mr. Svella holds 203,167 shares and 1,061,200 SRs in IDEX.

6 Leases

Leases in the statements of income	Quarter	Full year
Amounts in NOK 1,000	Q4 2019	2019
Other operating expense	(1 744)	(6 348)
EBITDA	1 744	6 348
Depreciation of right-of-use assets	1 696	6 144
EBITA	48	204
Interest expense on lease liabilities	123	438
EBIT	(75)	(233)

Leases in the statements of financial position

Amounts in NOK 1,000	At 31 December 2019	At 1 January 2019
Assets		
Right-of-use-assets - office buildings	12 070	9 909
Total lease assets	12 070	9 909
Liabilities		
Short-term liabilities	5 355	3 981
Long-term liabilities	6 921	5 928
Total lease liabilities	12 276	9 909

Note: 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	
Operating lease obligation at 31 December 2018	12 101
Relief option for short-term leases	(1 753)
Gross lease liabilities at 1 January 2019	10 348
Effect of discounting using incremental borrowing rate	(439)
Lease liability and right-of-use assets recognized at initial application	9 909

The lease liabilities were discounted at the incremental borrowing rate as at 1 January 2018. The weighted average discount rate was 4.89%

Leases in the statements of cash flows

In the statements of cash flows the cash payments for the principal are classified within cash flows from financing activities. The interest portion of the lease liability is classified as net financial items within cash flows from operating activities.

7 Long-term assets

Amounts in NOK 1,000	Goodwill	Other intangible assets	Tangible fixed assets	Right-of-use assets	Long-term receivables	Total long- term assets
Balance at 1 January 2019	8 260	26 763	14 590		1 269	50 882
Additions			7 479	18 003	71	25 553
Disposals and retirements at cost		(294)	(981)		(17)	(1 292)
Depreciation and impairment losses		(3 650)	(4 578)	(6 144)		(14 372)
Depreciation on disposed and retired assets		51	957			1 008
Effects of changes in foreign currency			212	211	13	436
Balance at 31 December 2019	8 260	22 870	17 678	12 070	1 336	62 215
Balance at 1 January 2018	8 260	30 464	8 002		1 251	47 977
Additions			9 016		3	9 019
Disposals and retirements at cost			(222)			(222)
Depreciation and impairment losses		(3 701)	(3 153)			(6 854)
Depreciation on disposed and retired assets			197			197
Effects of changes in foreign currency			750		15	765
Balance at 31 December 2018	8 260	26 763	14 590		1 269	50 882

Acquired intangible assets and intellectual property rights have been capitalized in accordance with IFRS, and included goodwill amounting to NOK 8.3 million and depreciating assets in an original acquisition amount of NOK 42.7 million. The assets depreciate over the economic life of the respective assets. The major items depreciate over 9.5 years and 17.3 years from acquisition, through July 2024 and to the end of 2030 respectively. Under IFRS, goodwill is not amortized but impairment tested at each year end. Intangible assets that are fully depreciated are by definition retired.

IDEX's self-developed patents and other intellectual property rights are generally not held in the balance sheet because they do not satisfy the IFRS criteria for capitalization. Development costs have largely been expensed for the same reason. IDEX has not capitalized any development expenses in 2019 or 2018.

8 Financial items

Amounts in NOK 1,000	Quarters		Full year	
	Q4 2019	Q4 2018	2019	2018
Interest income	(994)	184		1 095
Currency exchange gain	(1 304)	9 231	1 185	13 201
Other financial income	2 830	(177)	2 830	
Total financial income	532	9 238	4 015	14 296
Interest expenses	(1)	0		14
Interest expenses on lease liabilities	(314)		1	
Interest expenses on deferred settlement	88	217	438	828
Currency exchange loss	(3 924)	9 339	471	15 173
Other financial expenses	5 009	536	5 009	535
Total financial expense	858	10 092	5 919	16 550
Net financial items	(326)	(854)	(1 904)	(2 254)

9 Income tax expense

The income tax expense relates to estimated income tax on profit in IDEX America and IDEX UK.

10 Profit (Loss) per share

	Full year	
	2019	2018
Profit (loss) attributable to the shareholders (NOK 1 000)	(285 335)	(246 097)
Weighted average basic number of shares	613 330 138	542 795 969
Weighted average diluted number of shares	605 436 010	543 117 924
Profit (loss) per share, basic and diluted	NOK (0.48)	NOK (0.45)

When the period result is a loss, the loss per diluted number of shares is not reduced by the higher 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 subscription rights or warrants exceeds the average share price in the period, the subscription rights or warrants are not counted as being dilutive.

11 Shares and subscription rights; Share-based remuneration

Number of financial instruments	Incentive subscription rights	Shares
Balance at 1 January 2019	37 471 050	544 314 537
25 January: Share issue		53 437 500
2 December: Share issue		55 425 407
24 December Share issue		64 574 593
Granted incentive subscription rights	20 414 143	
Expired/forfeited incentive subscription rights	(5 010 150)	
28 May: Issued shares in lieu of board remuneration		236 695
Balance at 31 December 2019	52 875 043	717 988 732
Balance at 1 January 2018	25 260 000	542 383 105
Granted incentive subscription rights	23 400 600	
Exercised incentive subscription rights	(1 631 250)	1 631 250
Expired/forfeited incentive subscription rights	(9 558 300)	
9 May: Issued shares in lieu of board remuneration		300 182
Balance at 31 December 2018	37 471 050	544 314 537

The annual general meeting of IDEX Biometrics ASA on 9 May 2019 resolved that the board members could elect to receive all or part of the board remuneration in the form of shares in IDEX; that the number of shares should correspond to a value of 133 per cent of the NOK amount of board remuneration taken in shares; that the board member must pay a subscription price per share equal to the par value of the share, being NOK 0.15; and that the shares are locked up for one year from the date of the annual general meeting. In 2018, a similar resolution was passed by the annual general meeting.

IDEX from time to time grants incentive subscription rights (SRs) to employees and individual contractors. Unless specifically resolved otherwise, 25% of each grant of subscription rights vest per year and expire on the fifth anniversary following the general meeting that resolved the program. Unvested subscription rights terminate on the holder's last day of employment. Vested subscription rights may be exercised up to 90 days after the holder's last day of employment. The weighted average exercise price of outstanding incentive SRs on 31 December 2019 was NOK 4.01 per share.

The extraordinary general meeting on 4 December 2019 resolved to implement an employee stock purchase plan (ESPP), whereby employees may elect to invest a portion of their compensation in IDEX shares. The number of shares purchased will be calculated using a pre-determined formula and applying a discount of up to 15%. The company

intends to launch the ESPP in 2020. In addition, 50% of the 2019 incentive compensation settlement, which is expected to be paid in the first quarter of 2020, will be settled in IDEX shares.

12 Inventory

Amounts in NOK 1,000	At 31 December 2019	At 31 December 2018
Inventory at cost	16 159	19 117
Obsolesces accrual	-10 133	-8 954
Total	6 026	10 164

Inventory, consisting mainly of fingerprint sensors which are manufactured for sale, is held at cost, which is less than recoverable value. Inventory value has been reduced to reflect aging, obsolescence and estimated shrinkage. In 2019 NOK 9,499 thousand of materials used in new product development was charged to development expense.

13 Events occurring after the balance sheet date

The board of directors of IDEX resolved on 26 February 2020 to issue 5,542,500 incentive subscription rights to employees and individual contractors in the IDEX group. The grant was made under the company's 2019 incentive subscription rights plan as resolved at the annual general meeting on 9 May 2019. The exercise price of the subscription rights is NOK 1.11 per share. The subscription rights vest by 25% per year and expire on 9 May 2024. Following the grant there will be 58,417,543 subscription rights outstanding.

There have been no events between 31 December 2019 and the resolution of these interim financial statements that have had any material impact on IDEX's results in the full year of 2019 or the value of the company's assets and liabilities at 31 December 2019.

Get in touch



Be part of the fingerprint authentication revolution

Sales & Marketing Enquiries
E-mail: sales@idexbiometrics.com

Investor Relations Enquiries
Marianne Bøe, Investor Relations
E-mail: marianne.boe@idexbiometrics.com

General Enquiries
E-mail: mailbox@idexbiometrics.com

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