



IDEX BIOMETRICS ASA

SECOND QUARTER REPORT 2019

HIGHLIGHTS

Landmark first high-volume customer order for IDEX's dual-interface sensors

- » Multi-year, multimillion-dollar commitment. Largest customer commitment to date

Further progress on developing the ecosystem in Asia to accelerate biometric payment card adoption

- » Collaboration with Tongxin Microelectronics Co., Ltd ("TMC") in China to create a biometric smart card solution for end-customer implementation
- » IDEX and Chutian Dragon collaborate with point of sales terminal provider PAX Technology Limited ("PAX") to run real-life EMV compliant transactions of biometric smart cards using IDEX's dual-interface sensor

Manufacturing milestones for biometric smart cards achieved

- » IDEX customer in Asia achieves cost-effective, mass production milestone for biometric smart cards
- » Partnerships with Sian and Silone Cardtech to accelerate high volume production of biometric smart cards
- » Low-cost, go-to-market solution achieved through pre-lam supply agreement with Feitian

Certification progress

- » Major global payment scheme in Asia begins its certification process for biometric smart cards containing IDEX's dual-interface sensors
- » IDEX Biometrics' dual-interface technology validated by independent labs to meet multiple global payment schemes' certification requirements

Leadership position in biometric smart cards secured with grant of foundational patents for on-card enrollment

- » Comprehensive patents granted by the United States Patent and Trademark Office and IP Australia
- » Innovative remote enroll solution outperforms in certification tests

IDEX sensors enabling financial inclusion

- » Successful Edenred pilot using biometric smart cards, containing IDEX sensors, for state benefit programs

CEO'S COMMENT

"The evolution of the biometric smart card market is undoubtedly gathering pace and IDEX made great progress in the quarter. Our pipeline of commercial opportunities continues to grow, and we expect sensor shipments to increase significantly. We have developed important relationships with new customers in the ecosystem and our biometric technology is proven, and ready for mass deployment. I am highly confident that our strategy and technology leadership will deliver considerable success for all our stakeholders."

Stan Swearingen, CEO of IDEX Biometrics ASA



BUSINESS REVIEW

UNLOCKING VALUE IN THE BIOMETRIC SMART CARD MARKET THROUGH DISRUPTIVE TECHNOLOGY AND COMPLETE SOLUTIONS

Off-chip technology offers disruptive cost levels and unique design advantages

IDEX is the only vendor worldwide capable of supplying off-chip sensor architecture designs and embedded biometric algorithms suited to capacitive fingerprint sensors for the biometric smart card market.

IDEX maintains a focus on off-chip technology solutions due to their inherent advantages. 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, whilst decreasing the total amount of silicon used. Overall this provides optimal size and cost-to-performance characteristics.

The off-chip technology enables a path to integrating additional features and value into the ASIC, including the biometric microcontroller, encryption and power management. This allows for future optimization of the system performance whilst maintaining a competitive cost advantage.

The importance of a 'systems approach'

In addition to its unique off-chip sensor technology, IDEX has assembled a highly accomplished team of innovators spanning numerous disciplines of technology in order to pursue a full systems approach to its solutions for biometric cards. This vast experience enables IDEX to support its customers in the integration of all the various components within the smart card. This approach is a key tenet of IDEX's strategy, and the result is the SmartFinger platform; a full-featured, biometric authentication solution, which

enables fingerprint enrollment, template storage and verification. By adopting a bespoke systems approach, IDEX offers customers the flexibility to supply a sensor only, a full biometric module or a matching algorithm which can perform the final fingerprint match in the secure element. This approach is expected to speed up adoption of biometric smart cards.

Landmark first high-volume order for IDEX's dual-interface sensors

In April, IDEX achieved a significant milestone in its journey to commercialize biometric technology. IDEX was chosen by one of the world's leading providers of advanced IT systems and financial news, to upgrade their existing biometric security solutions. The agreement involves a multimillion-dollar commitment for IDEX's dual-interface sensors, enhanced with advanced security features, to be delivered over the next three years.

This first volume order for IDEX's dual-interface sensor validates IDEX's technological leadership and systems expertise in secure biometric solutions. This customer has successfully deployed biometric authentication solutions for over a decade and the partnership will enable IDEX to accelerate the development of its next generation security technology for the smart card market.

IDEX has begun initial shipments of sensors to the customer and expects to fulfill further volume production orders over the next twelve months.

IDEX's commercial progress in biometric payment cards

The biometric payment card market continues to evolve and IDEX is witnessing growing investment by major players across the global ecosystem. An increasing number of pilots using dual-interface biometric smart cards are underway and IDEX expects to see strong commercial traction and increased orders towards the end of 2019.

As a leader in biometric solutions, IDEX strongly believes that to enable the evolution of the market and achieve mass adoption of biometric smart cards requires partnership and cooperation within the smart card ecosystem. IDEX has established a long-standing partnership with Mastercard, the operator of the world's fastest payment processing network that connects consumers, financial institutions, merchants, governments and businesses in more than 210 countries. This partnership has enabled both companies to drive the evolution of the biometric payment card market.

In addition, IDEX has announced a number of collaborations with card integrators in Asia to help accelerate mass production and adoption of biometric smart cards in the region. Notable collaborations include some of the largest smart card manufacturers; Goldpac, Hengbao and Chutian Dragon. These card manufacturers have considerable experience and a strong track record of delivering smart cards in high volumes to customers, not only in Asia, but worldwide.

During the quarter, IDEX also begun a significant collaboration with TMC, a major secure element vendor in China focusing on the smart card industry. The secure element is a crucial component within the smart card and in order to achieve seamless compatibility between the secure element and biometric sensor, both companies are working on a dual-interface solution that will support both match in the biometric MCU and match in the secure element, thus providing an enhanced level of security. This combined solution creates a compelling value proposition for card manufacturers; a simple and secure turn-key solution that reduces card complexity and overall cost.

Work also began in the quarter to demonstrate how existing payment infrastructure will support transactions using biometric payment cards. IDEX and its partner Chutian Dragon have begun a collaboration with PAX, a leading international supplier of secure electronic payment terminal hardware and transactional software services, to run real-life EMV compliant transactions of biometric smart cards using IDEX's dual-interface sensor. The aim is to ensure interoperability between all elements of the transaction value chain and is a clear example of IDEX

actively driving the creation of the biometric smart card market.

Progress towards mass production of biometric smart cards

Significant progress has been made by smart card manufacturers across the globe in 2019 to overcome the complexities associated with the introduction of a biometric sensor into the smart card.

IDEX has committed its expertise to help its customers solve these mass manufacturing problems. In July a major milestone was achieved when one of IDEX's Asian customers achieved cost-effective, mass production standards for biometric smart cards. This card integrator has successfully made a cost-effective biometric smart card on a production line that has the capacity to quickly ramp up production to millions of units whilst maintaining high yields.

IDEX is also working closely alongside component suppliers within the smart card ecosystem to accelerate the high-volume manufacture of biometric smart cards. IDEX has begun partnerships with Sian and Silone Cardtech, leading Chinese smart card manufacturers, specializing in the development, design, manufacturing and sale of dual-interface smart cards. The strategic rationale is to ensure that crucial components within the biometric smart card are compatible and ready for mass production.

A key development during the quarter was the multi-year partnership agreement between IDEX and Feitian to offer card manufacturers a cost-effective, turnkey solution for mass manufactured biometric smart cards. Feitian has become a leading manufacturer of smart card pre-lam, a major component within the smart card. By joining forces with Feitian, IDEX has further differentiated itself from its competitors by including its sensors as part of a mass-produced, low-cost, end-to-end solution for card manufacturers. This agreement marks another important step for IDEX towards securing high volume sensor orders.

Dual-interface biometric smart card certification underway

Another important milestone in the evolution of the biometric smart card market is the achievement of

dual-interface certification. We expect to see certifications for multiple card integrators during the fourth quarter.

In June, a major global payment scheme in Asia began its certification process for various biometric smart cards containing IDEX's dual-interface sensors. Certification is taking place through an independent, third-party testing house in Beijing and is expected to be successfully completed in the third quarter of 2019.

In July, IDEX's dual-interface sensor technology was the first to meet the key requirements for compliance, security and biometric performance by multiple payment schemes. Having surpassed these critical requirements for the biometric sensor and matching algorithms, IDEX has a compelling solution for card manufacturers looking to enhance their customer offering with the additional security and convenience of a biometric smart card.

Securing biometric smart card leadership with on-card remote enrollment solution

A critical barrier to mass adoption of biometric smart cards is the ability of card issuers to provide a simple, convenient and secure means to enroll the end-user. A simplified registration process will accelerate adoption of biometric cards by issuers and consumers alike.

IDEX has been granted comprehensive patents for enrollment of biometric smart cards by the United States and Australian Patent and Trademark Offices. These patents have wide claims covering devices and methods to enable a user to enroll their fingerprint on a biometric card using an unconnected power supply. Further patents are pending in other major territories and IDEX expects to sign multiple license agreements with global card integrators in the second half of the year.

Recently IDEX's remote enroll solution was used by an independent third-party testing house to gather real-world fingerprint images as part of its certification process for a global payment scheme. The results of the image-capture data from the tests far exceeded the FRR and FAR benchmarks required for certification. This is a clear validation that IDEX's remote enroll solution delivers the required performance and represents an important part of the Company's

competitive strategy to differentiate its product offering by providing complete end-to-end biometric solutions for its customers.

Biometric technology enabling financial inclusion

Biometric technology has long been seen as a way to reliably and conveniently authenticate the identity of millions of people and ensure greater financial inclusion for those who remain unbanked due to a range of factors from language, health limitations, physical barriers or a distrust of the financial system.

In May, IDEX sensors were used in a successful pilot between Edenred, one of the world's largest payment solutions providers, and Mastercard to ensure greater security for state benefit programs. The pilot was conducted by Sonora state in Mexico and provided beneficiaries with increased security when receiving their entitled benefit since the card protects their identity and cannot be used by anyone else.

This trial is an example of emerging market opportunities where IDEX's biometric solutions can improve social welfare programs and financial inclusion by reducing reliance on cash payments and minimizing the potential for fraud.

Organizational changes

IDEX continues to invest in people and capabilities that will enable the growth of the business and help the organization deliver on its strategy of achieving leadership in biometric technology solutions.

During the quarter, Henrik Knudtzon stepped down as Chief Financial Officer and has been replaced by Derek D'Antilio. Mr D'Antilio has over twenty years of financial experience with some of the most recognizable companies, including PwC and Hewlett-Packard. He has held senior finance positions at high-growth US-listed technology companies with responsibility for global accounting and reporting, financial planning, treasury, tax and operations. Most recently, Derek served as VP of Finance for a global, high-growth, privately held software company. Prior to that he spent 8 years leading the accounting, finance and treasury teams of MKS Instruments, Inc., a publicly traded semiconductor equipment supplier

that tripled in size to over 2 billion USD in revenue during his tenure. He is based at IDEX's Wilmington office in Boston, USA.

Another key appointment was Pascal Dufour, Director of Sales, EMEA. Mr. Dufour has over twenty-five years of global experience in the payment ecosystem, including biometric payments, cards, and digital services. He has worked both directly for, and as a consultant to, major companies including Mastercard, Europay, and ATOS.

Summary and outlook

The biometric smart card market continues to make significant progress towards mass adoption. The Board is confident that IDEX's industry-leading off-chip technology and systems approach will lead to further customer wins and increased sensor orders as the market for biometric cards continues to evolve.

IDEX has the management, technological expertise and strategy to become a leader in the biometric smart card ecosystem. The strong commercial momentum in 2019 and the milestones achieved during the quarter are expected to continue in the second half of the year. The Company is making good progress towards sustained profitability and ensuring long-term value creation for all its stakeholders.

FINANCIAL REVIEW

Statements of income

IDEX recorded revenues of NOK 0.4 million in the second quarter of 2019, up from NOK 0.3 million in the corresponding period of 2018. In the first half of 2019, the revenues amounted to NOK 1.7 million, compared to NOK 2.1 million in the same period of 2018. Revenues are chiefly related to card products.

The gross margin on product sales in the second quarter was 55%, compared to 39% in same quarter of 2018. The total gross margin includes service income and was 88% for the first half of 2019, compared to 75% during the first half of 2018. The gross margin at small volumes is not necessarily representative of the gross margin at mass volumes.

Total operating expenses in the second quarter of 2019 amounted to NOK 60.1 million, compared to NOK 63.3 million in the second quarter of 2018. In the first half of the year, total operating expenses amounted to NOK 124.7 million in 2019 and NOK 119.1 million in 2018. The increase in expenses in the first half of 2019 is mainly due to increased other operating costs, see comments below, while the increased payroll expenses are offset by lower development expenses as more development work is carried out by internal staff.

Payroll expenses amounted to NOK 41.3 million in the second quarter of 2019 and NOK 86.4 million in the first half of 2019, up from NOK 39.8 million and NOK 77.7 million in the comparable periods of 2018. The underlying payroll cost excluding share-based remuneration was NOK 36.0 million in the second quarter and NOK 74.3 million in the first half of this year, up from NOK 31.9 million and NOK 65.2 million in the corresponding periods of 2018. The increase reflects that the average number of IDEX employees was 107 full-time equivalents (FTE) in the first half of this year, up from 100 FTE in the first half of last year. In addition, 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 cost of share-based

remuneration may vary substantially between quarters because of share price fluctuations as well as grants and exercises. Cost of exercises are funded by the capital injected at exercise.

IDEX's staff, including both employees and individual contractors, was 119 FTE at 30 June 2019, up from 115 FTE at 31 December 2018. The staff is comprised of 108 FTE IDEX employees and 11 FTE individual contractors working continuously as part of the development or sales teams. IDEX does not currently plan to make significant changes in staff size.

Development expenses amounted to NOK 7.9 million in the second quarter of 2019, down from NOK 15.2 million in the corresponding quarter of 2018. In the first half of 2019, these expenses were NOK 17.7 million, down from NOK 25.9 million in the same period of 2018, for the reason explained above.

Other operating expenses, mainly expenses related to sales, marketing and administration, amounted to NOK 10.8 million in the second quarter and NOK 20.5 million in the first half of 2018, compared to NOK 8.3 million and NOK 15.4 million in the corresponding periods last year. The increase is mainly related to outsourcing of accounting services, and an increase in IT expenses and legal services.

Amortization and depreciation amounted to NOK 3.5 million and NOK 7.0 million in the second quarter and first half of this year respectively, increased from NOK 1.7 million and 3.4 million in the corresponding periods last year. The increase is chiefly due IDEX's investment in in-house, high-volume test equipment that started depreciating at the beginning of 2019.

Net financial items amounted to an expense of NOK 0.5 million in the second quarter this year, compared to an expense of NOK 1.2 million in the second quarter last year. Net financial items amounted to an expense of NOK 0.6 million in the first half of 2019 and compares to an expense of NOK 1.0 million in the first half 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 IDEX group recorded a tax charge of NOK 1.3 million in the second quarter this year, compared to a tax credit of NOK 0.9 in the second quarter of 2018 due to an adjustment of IDEX America's 2017 tax cost following tax filings for 2017. Due to profits in IDEX's subsidiaries in the USA and UK, the group's tax charge amounted to NOK 2.1 million in the first half of 2019, compared to a tax charge of NOK 0.2 million the corresponding period last year.

The IDEX group had a net loss of NOK 65.2 million in the second quarter of 2019, in line with the loss in the second quarter of 2018. In the first half of 2019, the group recorded a loss of NOK 132.9 million, compared to a loss of NOK 122.0 million for the first half of 2018.

Loss per weighted average number of basic shares amounted to NOK 0.11 in the second quarter, in line with the loss of NOK 0.12 per share in the second quarter of 2018. In the first half of the year, the loss amounted to NOK 0.23 per share this year and NOK 0.22 per share last year.

Financial position

The main assets held on the balance sheet are acquired intangible assets and cash in bank. Cash is the major item, representing 65% 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 25.0 million at 30 June 2019. The corresponding values at 30 June 2018 were NOK 8.3 million and NOK 28.6 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 22.6 million at 30 June 2019, up from NOK 14.6 million at 31 December 2018 and NOK 8.0 million at 30 June 2018.

The fixed assets are scientific and test equipment, engineering tools, leasehold outfitting, office equipment and furniture with useful lives of 3-7 years.

Inventory amounted to NOK 14.5 million at 30 June 2019, up from NOK 10.2 million at 31 December 2018 and 10.6 million at 30 June 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 no customer receivables at the end of the first half of 2019 or 2018, compared to NOK 0.3 million at 31 December 2018.

At 30 June 2019 IDEX had a cash balance of NOK 155.0 million, up from NOK 83.7 million at the end of 2018. On 25 January 2019 IDEX made a private placement amounting to NOK 214 million.

Equity amounted to NOK 208.7 million at the end of the second quarter of 2019, up from NOK 123.2 million at the end of 2018. In the first half of 2019, new equity in a net amount of NOK 206.7 was added. The ongoing decrease is mainly caused by net losses.

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. In line with IFRS 16, the implementation will lead to decreased rental costs offset by increased depreciation and financial costs. For the first half of 2019, these are NOK 2.9 million in depreciation, NOK 3.1 million in rent offset and NOK 0.2 million financial cost. See note 2 and 6 for more information.

Total short-term liabilities amounted to NOK 28.2 million at 30 June 2019, down from NOK 32.8 million at 31 December 2018 and up from NOK 26.7 million at 30 June 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 20.8 million

at 30 June 2019, up from NOK 16.6 million at 31 December 2018 and up from NOK 16.3 million at 30 June 2018. IDEX will need to build up its inventory and accumulate receivables as sales to the card markets increase.

Liquidity

IDEX's operational cash outflow was NOK 62.0 million in the second quarter of 2019, compared to NOK 54.8 million in the second 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 planned growth of sales is expected to cause an increase in working capital in the form of inventory and receivables, partly funded by payables.

IDEX invested NOK 2.3 million in capital equipment during the second quarter of 2019, compared to NOK 1.2 million in the second quarter of 2018. Going forward, IDEX will invest in equipment for scaling its manufacturing. At 30 June 2019, NOK 1.6 million of the NOK 2.5 million invested in the first half of 2019 is related to ordered manufacturing equipment expected to be deployed for use in the third quarter of 2019, currently classified as investment in progress.

IDEX's balance sheet solvency, which is the cash position less the net of receivables and short-term liabilities, amounted to NOK 139.7 million at 30 June 2019, up from NOK 62.4 million at the beginning of the year. The increase was mainly caused by the private placement partly offset by net loss in the period.

INTERIM CONSOLIDATED FINANCIAL INFORMATION

STATEMENTS OF INCOME

Amounts in NOK 1,000	Note	Quarters		First six months		Full year
		Q2 2019	Q2 2018	2019	2018	2018
Operating revenue						
Product sales		363	289	448	741	2 181
Other operating income		6		1 293	1 389	1 404
Total revenue		369	289	1 740	2 130	3 585
Cost of goods sold		164	176	217	538	1 502
Gross margin		205	113	1 523	1 592	2 082
Operating expenses						
Payroll expenses	4	41 320	39 801	86 429	77 715	160 983
Development expenses		7 948	15 200	17 732	25 923	45 850
Other operating expenses	5, 6	10 837	8 250	20 547	15 436	31 908
Total operating expenses		60 105	63 251	124 709	119 074	238 740
Profit (loss) before interest, tax, depreciation and amortization (EBITDA)		(59 900)	(63 138)	(123 186)	(117 482)	(236 658)
Amortization and depreciation	6, 7	3 512	1 698	6 957	3 354	6 854
Profit (loss) before interest and tax (EBIT)		(63 413)	(64 836)	(130 143)	(120 836)	(243 512)
Net financial items	6, 8	(452)	(1 192)	(599)	(970)	(2 254)
Net result before tax (EBT)		(63 864)	(66 028)	(130 741)	(121 806)	(245 766)
Income taxes	9	1 339	(872)	2 146	197	332
Net loss for the period		(65 204)	(65 156)	(132 887)	(122 003)	(246 097)
Profit (loss) per share, basic and diluted (NOK)	10	(0.11)	(0.12)	(0.23)	(0.22)	(0.45)

STATEMENTS OF 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		First six months		Full year
	Q2 2019	Q2 2018	2019	2018	2018
Net loss for the period	(65 204)	(65 156)	(132 887)	(122 003)	(246 097)
Exchange differences on foreign operations	(474)	490	(622)	(67)	946
Total comprehensive income (loss) for the period, net of tax	(65 678)	(64 666)	(133 509)	(122 070)	(245 151)

STATEMENTS OF FINANCIAL POSITION

Assets	Note	At 30 June 2019	At 30 June 2018	At 31 December 2018
Long-term assets				
Goodwill		8 260	8 260	8 260
Other intangible assets		24 964	28 639	26 763
Total intangible assets		33 224	36 899	35 023
Fixed assets		14 591	7 954	14 590
Right-of-use assets	6	8 006		
Total fixed assets		22 597	7 954	14 590
Long-term receivables		1 237	1 233	1 269
Total financial assets		1 237	1 233	1 269
Total long-term assets	7	57 057	46 086	50 882
Current assets				
Inventory		14 490	10 631	10 164
Customer receivables				339
Prepaid expenses		5 511	4 636	5 529
Other short-term receivables		7 220	7 081	5 684
Total receivables		12 731	11 717	11 552
Cash and bank deposits		155 088	189 889	83 714
Total current assets		182 309	212 237	105 430
Total assets		239 366	258 323	156 312
Equity and liabilities				
Equity				
Share capital	10	89 698	81 357	81 647
Share premium		1 390 926	1 185 355	1 192 222
Other paid-in capital		110 598	87 059	98 553
Total paid-in capital		1 591 223	1 353 771	1 372 422
Retained earnings (losses)		(1 382 544)	(1 126 102)	(1 249 183)
Total equity		208 679	227 669	123 239
Long-term liabilities				
Deferred tax liabilities		213	326	226
Long-term lease liabilities		2 324		
Other long-term liabilities			3 665	
Total long-term liabilities		2 537	3 991	226
Short-term liabilities				
Accounts payable		6 442	6 073	5 126
Income tax payable		2 166	1 403	1 716
Short-term lease liabilities		5 797		
Public duties payable		2 144	2 494	2 276
Notional employer's tax on share-based remuneration	11			
Other short-term liabilities		11 601	16 693	23 729
Total short-term liabilities		28 151	26 663	32 847
Total liabilities		30 687	30 654	33 073
Total equity and liabilities		239 366	258 323	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 (board remun.)		36				36
Share-based remuneration	5			12 046		12 046
Profit (loss) for the period					(132 887)	(132 887)
Other comprehensive income					(474)	(474)
Balance at 30 June 2019		89 698	1 390 926	110 598	(1 382 544)	208 679
Balance at 1 January 2018		81 357	1 185 355	74 382	(1 004 032)	337 062
Share-based remuneration	5			12 677		12 677
Profit (loss) for the period					(122 003)	(122 003)
Other comprehensive income					(67)	(67)
Balance at 30 June 2018		81 357	1 185 355	87 059	(1 126 102)	227 669
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		First six months		Full year
	Q2 2019	Q2 2018	2019	2018	2018
Operating activities					
Profit (loss) before tax	(63 864)	(66 028)	(130 741)	(121 806)	(245 766)
Amortization and depreciation	3 512	1 698	6 957	3 354	6 854
Share-based remuneration (equity part)	5 274	7 867	12 046	12 677	24 170
Change in inventories	(2 695)	66	(4 326)	(1 376)	(909)
Change in accounts receivables	1 373	67	597	708	211
Change in accounts payable	2 045	3 276	1 321	3 024	2 051
Change in other working capital items	(5 518)	(68)	(13 962)	(6 008)	997
Other operating activities	34	327	(15)	261	980
Net financial items	(442)	(460)	(722)	(940)	(1 731)
Change in income taxes	(1 688)	(1 501)	(1 657)	(1 637)	(1 593)
Net cash flows from operating activities	(61 969)	(54 756)	(130 504)	(111 743)	(214 735)
Investing activities					
Investments in tangible assets	(2 255)	(1 179)	(2 511)	(1 564)	(8 991)
Change in long-term receivables	(0)		16		(3)
Interest income receipts	445	332	725	698	1 095
Net cash flows used in investing activities	(1 810)	(847)	(1 769)	(866)	(7 899)
Financing activities					
Net proceeds from issue of shares	(4 373)		206 755		7 157
Payments on lease liabilities	(1 424)		(2 832)		
Change in long-term payables		341		503	(3 271)
Net cash flows from financing activities	(5 797)	341	203 923	503	3 886
Net change in cash and bank deposits	(69 575)	(55 263)	71 650	(112 106)	(218 748)
Effect of foreign exchange rate changes	(252)	376	(276)	(107)	360
Opening cash and bank deposits balance	224 915	244 776	83 714	302 102	302 102
Closing cash and bank deposits balance	155 088	189 889	155 088	189 889	83 714

NOTES TO INTERIM FINANCIAL STATEMENTS

1 General information

IDEX Biometrics ASA is a provider of fingerprint identification technologies and other related activities. The company is a public limited liability company incorporated and domiciled in Norway. IDEX Biometrics ASA's shares are listed at Oslo Børs, the stock exchange in Oslo. The address of the head office is Martin Linges vei 25 at NO-1364 Fornebu, Norway.

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 first half 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 14 August 2019.

The accounting policies applied are consistent with those applied in the previous financial year, except for the implementation of IFRS 16 - Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The group has, with effect from 1 January 2019, adopted IFRS 16 using the modified retrospective approach. Accordingly, comparable information has not been restated, and the effect is entered in the statement of financial position in the implementation year 2019. Upon implementation, the right-of-use asset and lease liability 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 will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The impacts of IFRS 16 adoption per 1 January 2019 and year-to-date 2019 are summarized in note 6.

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 in the card market.

IDEX currently generates immaterial revenue and operates at a significant loss. The company expects to increase revenue generation through sale of sensors and monetization of its intellectual property. Subject to timing of revenues and other planning assumptions, IDEX has adequate liquidity and equity. As an ongoing activity the company monitors liquidity and will take appropriate measures if required. The group does not have any debt to financial lenders.

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		First six months	Full year	
	Q2 2019	Q2 2018	2019	2018	2018
Salary, payroll tax, benefits, other	35 968	31 936	74 307	65 217	136 960
Payable payroll tax on realized share-based benefit	77		77		31
Share-based remun., notional cost	5 274	7 867	12 046	12 677	24 170
Accr. (rev.) payr. tax on share-based remun.	(0)	(2)		(179)	(179)
Payroll expenses	41 320	39 801	86 429	77 715	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.

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 2,588 thousand in the first half of 2019. Mr Opstad's work beyond board duty has been invoiced by Ræder. The recognized amounts include accruals for services received but not yet billed.

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 Andy 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.

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 Andy MacLeod acquired 140,000 shares, and former CFO Henrik Knudtson 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 Andy 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 Andy 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.

6 Leases

Leases in the statements of income	Quarters	First six months
Amounts in NOK 1,000	Q2 2019	2019
Other operating expense	(1 531)	(3 052)
EBITDA	1 531	3 052
Depreciation of right-of-use assets	1 479	2 950
EBITA	52	102
Interest expense on lease liabilities	107	219
EBIT	(55)	(118)

Leases in the statements of financial position

Amounts in NOK 1,000	At 31 March 2019	At 1 January 2019
Assets		
Right-of-use-assets - office buildings	8 006	9 909
Total lease assets	8 006	9 909
Liabilities		
Short-term liabilities	2 324	3 981
Long-term liabilities	5 797	5 928
Total lease liabilities	8 122	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			2 511	11 077		13 589
Disposals and retirements at cost			(225)		(16)	(242)
Depreciation and impairment losses		(1 799)	(2 207)	(2 950)		(6 957)
Depreciation on disposed and retired assets			201			201
Effects of changes in foreign currency			(278)	(122)	(16)	(416)
Balance at 30 June 2019	8 260	24 964	14 591	8 006	1 237	57 057
Balance at 1 January 2018	8 260	30 464	8 002		1 251	47 977
Additions			1 564			1 564
Depreciation and impairment losses		(1 825)	(1 528)			(3 353)
Effects of changes in foreign currency			(84)		(18)	(102)
Balance at 30 June 2018	8 260	28 639	7 954		1 233	46 086
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		First six months		Full year
	Q2 2019	Q2 2018	2019	2018	2018
Interest income	445	332	725	698	1 095
Currency exchange gain	529	1 373	1 789	3 294	13 201
Other financial income					
Total financial income	974	1 705	2 514	3 992	14 296
Interest expenses	0	1	0	10	14
Interest expenses on lease liabilities	107		219		
Interest expenses on deferred settlement	116	205	230	403	828
Currency exchange loss	1 203	2 691	2 663	4 550	15 173
Other financial expenses					535
Total financial expense	1 426	2 898	3 113	4 962	16 550
Net financial items	(452)	(1 192)	(599)	(970)	(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

	First three months		Full year
	2019	2018	2018
Profit (loss) attributable to the shareholders (NOK 1 000)	(132 887)	(122 003)	(246 097)
Weighted average basic number of shares	597 830 174	542 432 859	542 795 969
Weighted average diluted number of shares	597 828 876	542 463 691	543 117 924
Profit (loss) per share, basic and diluted	NOK (0.11)	NOK (0.22)	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

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
Granted incentive subscription rights	1 455 400	
Expired/forfeited incentive subscription rights	(2 806 025)	
28 May: Issued shares in lieu of board remuneration		236 695
Balance at 30 June 2019	36 120 425	597 988 732
Balance at 1 January 2018	25 260 000	542 383 105
Granted incentive subscription rights	18 165 000	
Expired/forfeited incentive subscription rights	(6 688 900)	
31 May: Issued shares in lieu of board remuneration		300 182
Balance at 30 June 2018	36 736 100	542 683 287
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 shall 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.

The annual general meeting of IDEX on 9 May 2018 resolved that the board members could elect to receive all or part of the board remuneration in the form of shares in IDEX. In 2018, the chairman and three board members took board remuneration partly or fully in shares in lieu of cash against a payment of par value NOK 0.15 per share.

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 30 June 2019 was NOK 5.49 per share.

12 Events occurring after the balance sheet date

The board of directors of IDEX resolved on 14 August 2019 to issue 12,766,500 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 1.65 per share. The subscription rights vest by 25% per year and expire on 9 May 2024. Following the grant there will be 48,886,925 subscription rights outstanding.

There have been no events between 30 June 2019 and the resolution of these interim financial statements that have had any noticeable impact on IDEX's results in the first half of 2019 or the value of the company's assets and liabilities at 30 June 2019.

RESPONSIBILITY STATEMENT

The board of directors and the managing director have today reviewed and approved the IDEX Biometrics ASA unaudited interim condensed financial statements as of 30 June 2019.

To the best of our knowledge, we confirm that:

- The interim condensed consolidated financial statements with notes for the first half of 2019 have been prepared in accordance with IAS 34 - Interim Financial Reporting and additional disclosure requirements as stated in the Norwegian Securities Trading Act section 5-6.
- The interim condensed consolidated financial statements for the first half year of 2019 give a true and fair view of IDEX's assets, liabilities, financial position and results for the period viewed in their entirety.
- The report from the board of directors issued in concert with these condensed financial statements gives a true and fair view of the development, performance and financial position of the group, and a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated financial statements.
- A description of the principal risks and uncertainties for the remaining six months of the financial year have been disclosed in note 3 to the financial statements.
- Major related party transactions have been disclosed in note 5 to the financial statements.
- The report from the board of directors have been prepared in accordance with the Norwegian accounting act and generally accepted accounting practice in Norway.

Wilmington, USA, 14 August 2019
The board of directors of IDEX Biometrics ASA



Morten Opstad
Chairman



Lawrence John Ciaccia
Board member



Deborah Davis
Board member



Hanne Høvdning
Board member



Stephen Skaggs
Board member



Stanley Swearingen
CEO