

# Q3

## THIRD QUARTER 2016 REPORT

President & CEO Håkon Volldal and CFO Roar Østbø



LEADING THE WAY

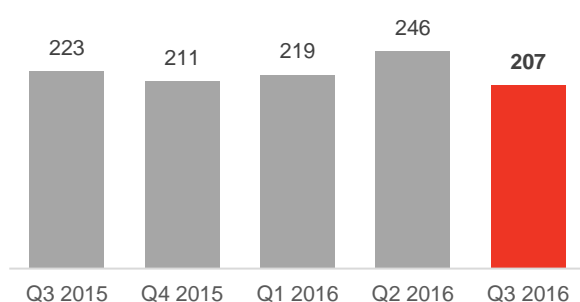


## Q3-16 HIGHLIGHTS

- Revenues of 207 MNOK, down 7% from 223 MNOK in Q3-15
- EBITDA of -10 MNOK before restructuring charges of 15 MNOK, vs. 22 MNOK in Q3-15. EBITDA impacted by late Q3 start-up of new, large orders
- High order intake of 877 MNOK due to signing of our largest ever contracts in tolling (472 MNOK with DARS in Slovenia) and ATMS (200 MNOK with Virginia Department of Transportation in the US)
- All-time high order backlog of 1.5 BNOK compared to 700 MNOK as per end of Q3-15
- Concluded on a focused strategy with 3 global and 2 regional service lines, the security business to be divested
- Initiated a cost savings program that will deliver 50 MNOK in gross savings in 2017
- Private placement successfully completed early October, raising gross proceeds of 134 MNOK

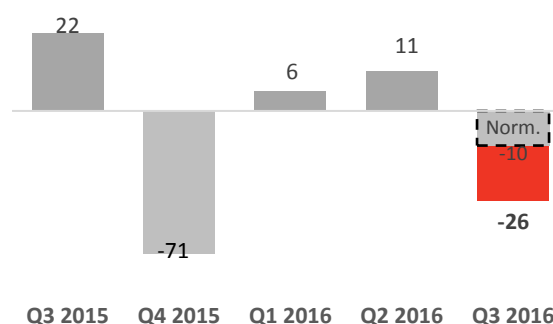
### REVENUES LAST 5 QUARTERS

MNOK



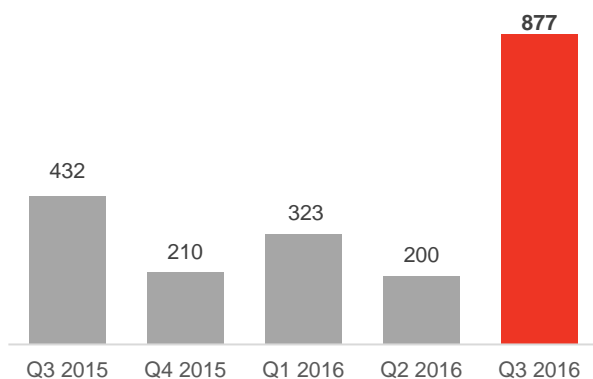
### EBITDA LAST 5 QUARTERS

MNOK



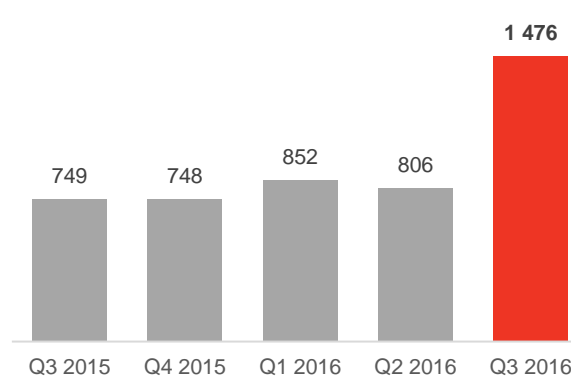
### ORDER INTAKE LAST 5 QUARTERS

MNOK



### ORDER BACK LOG LAST 5 QUARTERS

MNOK



# FINANCIAL REVIEW

## KEY FIGURES

NOK 1.000	Q3 2016	Q3 2015	Q/Q-%	9M 2016	9M 2015	Y/Y-%	FY 2015
<b>Revenues</b>	<b>207 105</b>	<b>222 664</b>	<b>-7,0%</b>	<b>672 318</b>	<b>592 326</b>	<b>13,5%</b>	<b>803 525</b>
<b>Gross profit</b>	<b>144 602</b>	<b>171 450</b>	<b>-15,7%</b>	<b>468 770</b>	<b>443 731</b>	<b>5,6%</b>	<b>571 173</b>
Gross margin - %	69,8%	77,0%		69,7%	74,9%		71,1%
Operating expenses	154 917	149 206	3,8%	462 031	388 650	18,9%	587 149
Non-recurring restructuring cost	15 423	0		15 423	0		79 684
<b>EBITDA excl non-recurring items</b>	<b>-10 315</b>	<b>22 244</b>	<b>-146,4%</b>	<b>6 739</b>	<b>55 081</b>	<b>-87,8%</b>	<b>63 708</b>
<b>EBITDA</b>	<b>-25 738</b>	<b>22 244</b>	<b>-215,7%</b>	<b>-8 684</b>	<b>55 081</b>	<b>-115,8%</b>	<b>-15 976</b>
EBITDA margin excl non-recurring items	-5,0%	10,0%		1,0%	9,3%		7,9%
EBITDA margin	-12,4%	10,0%		-1,3%	9,3%		-2,0%
Depreciation, amortisation and impairment	14 252	21 629	-34,1%	43 198	65 243	-33,8%	144 482
<b>Operating profit - EBIT excl non-recurring items</b>	<b>-24 567</b>	<b>615</b>		<b>-36 459</b>	<b>-10 162</b>		<b>-80 774</b>
<b>Operating profit – EBIT</b>	<b>-39 990</b>	<b>615</b>		<b>-51 882</b>	<b>-10 162</b>		<b>-160 458</b>
EBIT margin excl non-recurring items	-11,9%	0,3%		-5,4%	-1,7%		-10,1%
EBIT margin	-19,3%	0,3%		-7,7%	-1,7%		-20,0%
<b>Pre-tax profit</b>	<b>-46 959</b>	<b>-2 720</b>		<b>-53 686</b>	<b>-21 109</b>		<b>-182 098</b>
Profit margin	-22,7%	-1,2%		-8,0%	-3,6%		-22,7%
<b>EPS</b>	<b>-0,58</b>	<b>-0,14</b>		<b>-0,67</b>	<b>-0,48</b>		<b>-2,79</b>

### PROFIT AND LOSS THIRD QUARTER 2016

Q-Free generated revenues of 207 MNOK in the third quarter of 2016, a decrease of 7 percent from 223 MNOK in the corresponding quarter last year and down 39 MNOK compared to Q2-16. We had low revenues from the Slovenia and V-DOT projects, as both contracts were signed and initiated late in the quarter. Some tag deliveries were also pushed into fourth quarter.

Gross profit for the quarter ended at 144 MNOK (171 MNOK last year). The revenue shortfall explains 11 MNOK of the gap, whereas the rest is due to a reduced gross margin from several ongoing projects in an early phase where, consistent

with past practice, a conservative profit margin has been recognised.

Operating expenses before restructuring cost amounted to 155 MNOK in the third quarter of 2016 compared to 149 MNOK in the corresponding quarter last year and 161 MNOK in the previous quarter. In addition, 15 MNOK in restructuring cost related to a program aiming at reducing gross operating expenses by 50 MNOK next year were booked. The program is described later in this report.

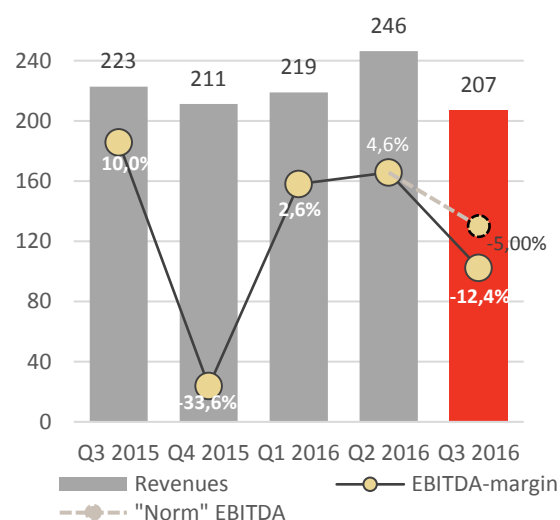
EBITDA before restructuring charges in the third of quarter 2016 was -10 MNOK, down 42 MNOK versus Q3-15. The

overall low revenue recognition and conservative margin on the new, large orders mainly explain the decrease.

Depreciation and amortisation was 14 MNOK (22 MNOK last year). The decrease from Q3-15 reflects the impairment of tolling technology done in Q4-15.

Operating profit (EBIT) before restructuring cost ended at -25 MNOK, a decrease from 1 MNOK in the corresponding quarter in 2015 and down from -3 MNOK in the previous quarter.

QUARTERLY REVENUES AND EBITDA MARGIN  
MNOK & %



Net financial items in the quarter amounted to -7 MNOK, down from -3 MNOK in Q3-15. The decrease is due to less favourable currency fluctuations, partly offset by lower earn-out liabilities as of 30.09.16.

Reported pre-tax profit including restructuring cost was -47 MNOK for the period, compared to -3 MNOK in the third quarter of 2015. With a negative pre-tax profit for the period, the group's tax expenses are +6 MNOK compared to -7 MNOK in the same period last year.

Earnings per share came in at -0.58 NOK in the quarter versus -0.14 NOK in the corresponding quarter last year.

Although the financial performance in the third quarter of 2016 was weak, Q-Free accomplished a lot in this period and has established a sound platform for future profitable growth:

First, the company secured its largest ever tolling contract by signing the 472 MNOK truck tolling contract in Slovenia. Q-Free also secured its largest ever ATMS contract through a 200 MNOK order from the Virginia Department of

Transportation. Last, but not least, Q-Free received a large frame contract for tags in Portugal with a value of 75-90 MNOK. The company's commercial successes in Q3-16 resulted in an all-time high order backlog going into the fourth quarter of 1.5 BNOK. This represents more than a doubling from one year ago and signals significant revenue growth in the coming quarters.

Second, a focused strategy for Q-Free has been concluded. Instead of trying to do everything everywhere, the company will be more focused and targeted in its product and market development. Q-Free will have 3 global service lines – tolling, parking, infomobility – that balance each other nicely in terms of customer mix, cash flow patterns and market channels. Furthermore, Q-Free will have 2 regional service lines – urban and inter-urban – where the focus will be on North America and building a stronghold there before expanding internationally. A process will be initiated to divest the security business.

Third, the company identified and started to execute on a short-term program that will reduce gross operating expenses by roughly 50 MNOK next year. The program involves a reduction of ~30 employees and ~15 consultants, primarily in North America and Europe, which will give a positive financial impact of 6 MNOK already in Q4-2016. The speed at which these short-term actions have been implemented, demonstrates the ambition to return Q-Free to profitability as soon as possible. The estimated net impact of this program, i.e. adjusting for inflation, full-year impact of people hired in 2016 etc. will however be less than 50 MNOK. Going forward the company will target further cost savings related to geographical setups, reductions of cost of goods sold and disposal of non-core business.

## CASH FLOW

Net cash flow from operating activities was -26 MNOK in the third quarter of 2016. This compares to -11 MNOK in the third quarter of 2015. The change reflects lower profitability in the quarter and increased working capital, mostly due to start-up of new large orders. The cash impact during Q3 2016 from restructuring provisions made in Q4-15 was 3 MNOK.

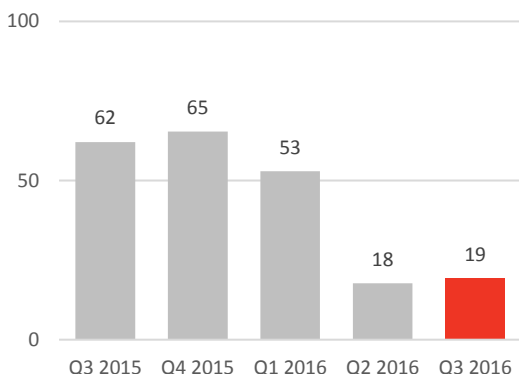
Net cash flow from investment activities was -29 MNOK in the third quarter (-16 MNOK in Q3-2015), mainly reflecting 26 MNOK in earn-out payments related to the acquisition of Open Roads, and 3 MNOK (14 MNOK last year) in investments in technology projects for tolling and parking and other fixed assets.

Net cash flow from financing activities was +57 MNOK in the second quarter (-8 MNOK in 2015), reflecting used credit facilities.

The net change in cash and cash equivalents in the third quarter of 2016 was 2 MNOK (-36 MNOK in 3Q 2015). The cash balance as of September 30 2016 ended at 19 MNOK (62 MNOK on 30 September 2015), up from 18 MNOK as of 30 June, 2016.

## QUARTERLY CASH FUNDS

MNOK



to 17 percent of the revenues generated in the last 12 months. At the end of the second quarter of 2016, net working capital was 143 MNOK, or 16 percent of the revenues generated in the past 12 months. The ratio will vary between quarters depending on revenue composition and timing of payments.

## BALANCE SHEET

Total assets at the end of the third quarter 2016 were 908 MNOK (1,087 MNOK at end of Q3-15), down from 964 MNOK at the end of the second quarter of 2016.

Total equity ended at 330 MNOK (554 MNOK at the end of Q3-15), down from 395 MNOK at the end of the second quarter of 2016. The equity ratio was 36.4 percent (50.9 percent at the end of Q3-15), down from 40.9 percent at the end of the second quarter of 2016.

Non-current liabilities were 268 MNOK (306 MNOK end of Q3-15), compared to 279 MNOK at the end of the second quarter of 2016. Provisions for earn-out payments and obligations for future purchase of shares in Intelight of 87 MNOK and debt to financial institutions of 150 MNOK, represent the majority of non-current liabilities. Earn-out liabilities have been reduced with 33 MNOK since the previous quarter, mainly due to earn-out payments of 26 MNOK and currency fluctuations of 4 MNOK.

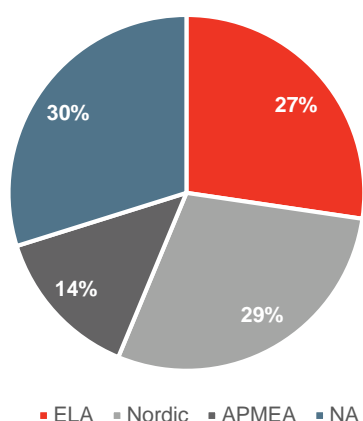
Interest-bearing debt to financial institutions was 274 MNOK at the end of the period (217 MNOK at the end of Q2-16). Q-Free was in breach of its covenant towards Danske Bank on the 150 MNOK loan at the end of the third quarter, but has received a waiver on this breach valid until the reporting of the full year of 2016, and the loan is therefore classified as a long-term loan in this quarter. Available, unused credit facilities were 45 MNOK at the end of third quarter 2016.

Current liabilities were 304 MNOK at the end of the third quarter (228 MNOK at the end of Q3-15). This is slightly up from 290 MNOK at the end of the second quarter of 2016 and mainly explained by an increase in our overdraft facility (57 MNOK) and reduced short-term debt (-26 MNOK) from an earn-out payment for Open Roads.

Net working capital (defined as current assets excluding cash less current liabilities, excluding short-term interest-bearing debt) amounted to 156 MNOK at the end of the quarter (119 MNOK at the end of Q3-15). This corresponds

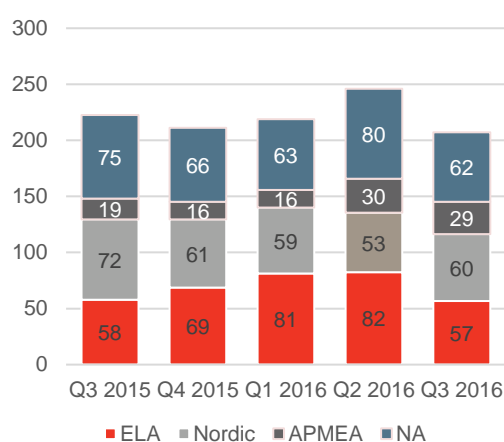
# SEGMENT REVIEW

Q3 2016 REVENUE DISTRIBUTION BY REGION (%)

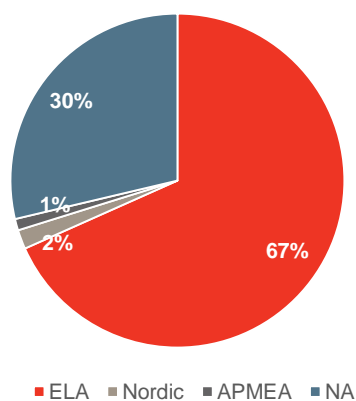


QUARTERLY REVENUES BY REGION

MNOK



Q3-2016 ORDER INTAKE DISTRIBUTION BY REGION (%)



## EUROPE & LATIN AMERICA (ELA)

Revenues in ELA amounted to 57 MNOK in the quarter, in line with the 58 MNOK reported in Q3-15. Order intake amounted to 591 MNOK, compared to 241 MNOK in the corresponding quarter of 2015. The region accounted for 27 percent of total revenues and 67 percent of the total order intake. The region also accounts for 53 percent of the Group's order backlog at the end of the third quarter.

During Q3-16 Q-Free signed a truck tolling project in Slovenia with a value of 472 MNOK. This is the largest contract in Q-Free's history. The scope comprises tags, roadside equipment, back-office SW solutions, and service and maintenance. The delivery period is one year from signing of the contract followed by a 10-year service and maintenance period. The project delivery started during the last days of September, hence only insignificant revenues were recognized in the quarter.

## THE NORDICS (NORDIC)

Revenues in the Nordic region amounted to 60 MNOK in 3Q-16, down from 72 MNOK in Q3-15. The order intake was 10 MNOK during the period, down from 88 MNOK in Q3-15. The region accounted for 29 percent of overall revenues and 1 percent of total order intake. 20 percent of the Group's total order backlog at the end of 3Q-16 are in the Nordic region.

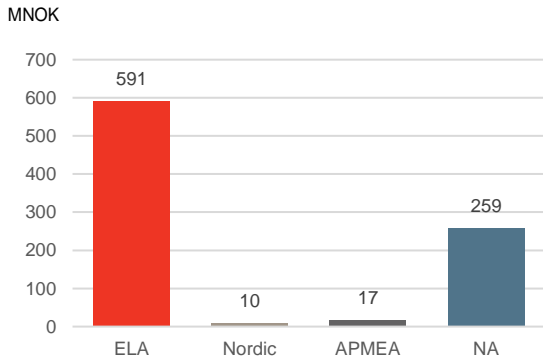
Although the quarterly order intake in the region was low, there are several ongoing tender processes and major contracts up for grabs. We remain confident that the Nordic will generate significant revenues for Q-Free going forward.

## ASIA, MIDDLE EAST AND AFRICA (APMEA)

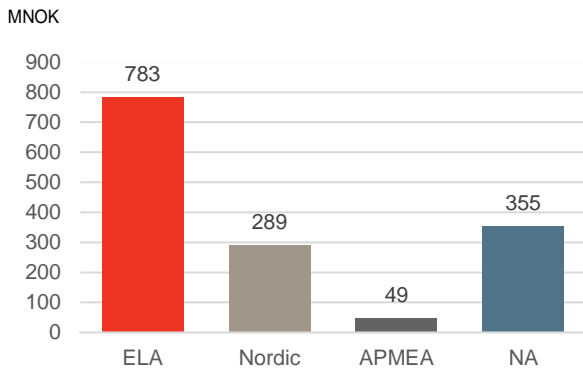
Revenues in APMEA amounted to 29 MNOK in the third quarter, an increase from 19 MNOK in Q3-15. Order intake was 17 MNOK, compared to 27 MNOK in 3Q-2015. The region accounted for 14 percent of overall revenues and 2 percent of total order intake. Out of the Group order backlog at the end of 3Q-16, APMEA represented 3 percent.

During Q3-16 Q-Free has delivered tags to existing customers in Australia and Thailand. In addition, the company is upgrading existing tolling systems to new MultiLaneFreeFlow-technology in Thailand. The activity in the region has for the last quarters been stable both with respect to revenues and orders, but this region might show significant growth for Q-Free over time now that e.g. Indonesia has decided to use the DSRC technology standard, which is Q-Free's preferred standard.

Q3-16 ORDER INTAKE BY REGION



ORDER BACKLOG BY REGION AS OF 30.09.16



**NORTH AMERICA (NA)**

Revenues in NA amounted to 62 MNOK in the third quarter compared to 75 MNOK in Q3-15. Order intake, which amounted to 259 MNOK during the period, is up from 75 MNOK in Q3-15. The region accounted for 30 percent of overall revenues and 30 percent of the total order intake. By the end of the quarter, NA accounted for 24 percent of the Group's total order backlog.

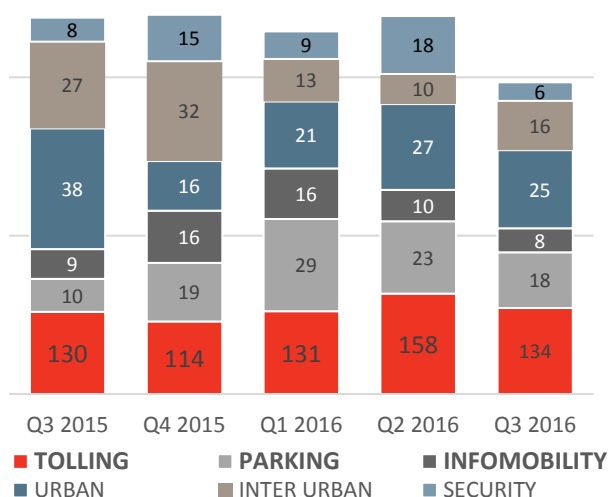
Q-Free was during the third quarter awarded the largest non-tolling contract ever by Virginia Department of Transportation (VDOT). The order value is 200 MNOK, and the contract has a duration of four years. In addition, there are three optional two-year extensions which will increase the value of the contract further. Q-Free will deliver our own centralized web-based Open TMS software and services, which will bring five Transportation Operations Centers (TOC) on a single state-wide platform and provide VDOT with many advantages and advanced features.





# SERVICE LINE REVIEW

QUARTERLY REVENUES BY SERVICE LINES  
MNOK

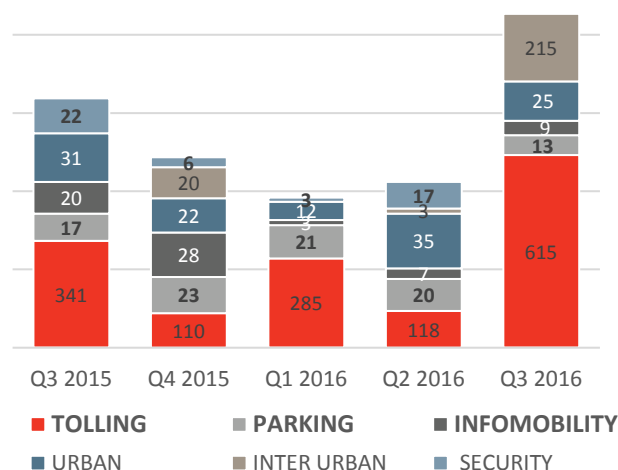


had a value of 615 MNOK, making this quarter the best tolling quarter since Q1-09

**PARKING** comprises delivery of parking guidance systems and parking management systems. Although quarterly segment revenues were 18 MNOK only, there is good momentum in markets like the US, UK, Sweden and Norway. Q-Free has several interesting projects and tenders ongoing, and is developing a next generation technology platform that will give the company both unique selling points and a more favourable cost position versus competition. In Q3 Q-Free also started a pilot together with Telenor and Huawei for an outdoor parking sensor that includes "Narrow-band Internet of Things" (NB-IoT). There are interesting opportunities related to this project in the future.

**INFOMOBILITY** mainly represents systems and deliveries on traffic counters, cycle and pedestrian detection systems, journey time monitoring and weigh-in-motion systems. The third quarter showed revenues in line with Q3-15, but slightly down compared to the last two quarters. There are several, relatively speaking, large tenders and projects up for grabs in our core markets. In 2017 the focus will be on expanding Q-Free's global presence by signing up new distributors.

QUARTERLY ORDER INTAKE BY SERVICE LINE  
MNOK



## REGIONAL SERVICE LINES

**URBAN** refers to traffic management products and systems delivered to cities in the US and streetlights and traffic signs in Eastern Europe. Q3-16 revenues were stable compared to previous quarters. Going forward Q-Free will focus on selling our urban solutions in North America, where sales have increased significantly over the past 2 years and the company continues to see interesting opportunities.

**INTER-URBAN** consists of deliveries of Traffic Management Centers, mainly in the US. This service line won Q-Free its largest non-tolling contract ever during Q3-16. We will deliver our own centralized web-based Open TMS software and services to Virginia Department of Transportation. Also in inter-urban Q-Free will have a North American focus going forward. The company has an excellent market position in key states such as Virginia and Pennsylvania, and eyes multiple opportunities for winning medium and large contracts going forward.

**SECURITY** represents integrated security systems in the US where Q-Free provides 24/7 support on mission-critical systems deployed across the United States, Europe and Asia Pacific. The 6 MNOK in revenues in Q3-16 were in line with 8 MNOK in the corresponding quarter last year.

## GLOBAL SERVICE LINES

**TOLLING** was the largest contributor to overall revenues in Q-Free with 134 MNOK or 66 percent in the third quarter of 2016. We have delivered 34 MNOK in product deliveries to Thailand, Australia, Chile, Russia and Brazil, and 46 MNOK in service and maintenance contracts in Norway, Sweden, Portugal and Australia. In addition, TOLLING-system projects with a value of NOK 56 million were delivered in Norway, Chile, the US and Thailand. New orders received in Q3-16

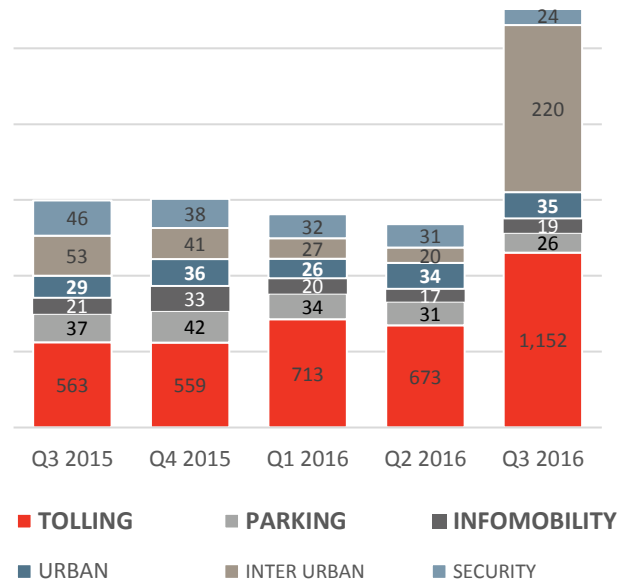
**ORDER INTAKE AND BACKLOG**

Order intake in the third quarter was exceptional and amounted to 877 MNOK (431 MNOK in Q3-15). The order intake includes 747 MNOK in three announced orders (Slovenia, Portugal, and VDOT) and NOK 130 million in unannounced orders.

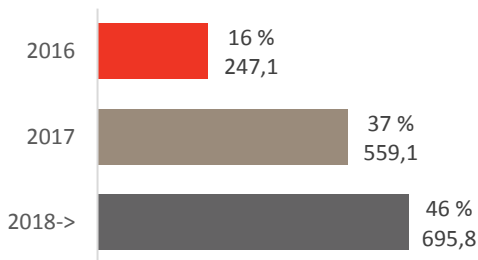
Tolling (615 MNOK) had the highest share of the received orders during the third quarter, but Inter Urban (216 MNOK) and Security (17 MNOK) also contributed positively.

As of the third quarter, Q-Free has changed its policy regarding thresholds to announce new orders to the Oslo Stock Exchange. The previous thresholds were 10 MNOK for tolling orders and 5 MNOK for orders in the other service lines. The new thresholds will be 25 MNOK for all service lines.

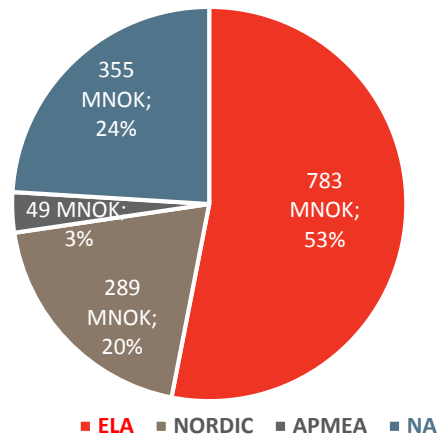
Q3-16 ORDER BACKLOG DISTRIBUTION BY SERVICE LINE MNOK



ORDER BACK LOG DISTRIBUTION AS OF 30.09.16 MNOK



Q3-16 ORDER BACKLOG DISTRIBUTION BY REGIONS



Q-Free's order backlog as of 30 September 2016 is at a record high with 1,476 MNOK (749 MNOK at the end of Q3 2015), up 696 MNOK from 806 MNOK as of 30 June 2016.

247 MNOK (16%) of the backlog will be delivered in 2016. The remaining 1,229 MNOK represent a very strong order position for deliveries in 2017 and 2018 and an all-time high coverage of secured deliveries in the next quarters.



# OUTLOOK

The addition of Q-Free's new CEO in the beginning of the quarter provides new perspectives on the business and competency and capacity to drive required changes. The Board is confident that he, together with the rest of the management team and the Q-Free organization, will implement a much needed revitalization of the company.

On 19 September 2016 the Board was authorized by the Extraordinary General Assembly to increase Q-Free's share capital by up to 25%. A private placement was successfully completed in October and raised more than 130 MNOK in gross proceeds. Consequently, Q-Free now has a healthy capital structure and can focus on returning the company to profitability in 2017.

Despite weak financial performance so far in 2016, Q-Free's huge contract wins in the third quarter make the Board optimistic about the future of the company. Q-Free will enter Q4-16 with a record-high order backlog. The order

reserves have more than doubled in one year, hence the Board is confident quarterly revenues will start to increase.

Q-Free needs to control costs tightly in order to convert the order backlog into profits. The cost reduction program initiated in Q3-16, which is already well underway and expected to be finalized during the first weeks of November, is a good start and will offset most of the cost increase during 2016. However, the company must be very disciplined in how it ramps up for project deliveries in 2017.

Whereas the program launched in Q3-16 targets short-term savings, there are opportunities mid-term to rethink geographical setups, lower COGS and dispose of non-core business with low margin and significant operating expenses attached. Management has already started to look into these opportunities and expects further savings on top of the 50 MNOK in gross savings identified so far.

The decision to reduce number of service lines from 6 to 5 (the security business will be divested) and make 2 of these service lines regional, will provide required focus in market and product development. In turn this will enable Q-Free to bring leading and disruptive technology and solutions to its customers and drive further growth.

# FINANCIAL OVERVIEW

The condensed interim consolidated financial statements per 30.09.16 (unaudited):

## INTERIM CONSOLIDATED INCOME STATEMENT

NOK 1.000	Note	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Revenues	7	207 105	222 664	672 318	592 326	803 525
Cost of goods sold		62 503	51 214	203 548	148 595	232 352
Payroll expenses		94 016	79 813	254 703	203 816	304 419
Other operating expenses		76 324	69 393	222 751	184 834	282 730
Total expenses		232 843	200 420	681 002	537 245	819 501
EBITDA	7	-25 738	22 244	-8 684	55 081	-15 976
Depreciation, amortisation and impairment	8, 10	14 252	21 629	43 198	65 243	144 482
EBIT	7	-39 990	615	-51 882	-10 162	-160 458
Financial income	9	232	11 689	26 586	62 548	76 999
Financial expenses	9	-7 201	-15 024	-28 390	-73 495	-98 639
Net financial items		-6 969	-3 335	-1 804	-10 947	-21 640
Profit before tax		-46 959	-2 720	-53 686	-21 109	-182 098
Tax expenses	10	5 666	-7 396	5 720	-11 845	-12 600
Profit for the period		-41 293	-10 116	-47 966	-32 954	-194 698
Attributable to :						
Equity holders of the parent		-41 293	-10 116	-47 966	-32 954	-194 698
Profit		-41 293	-10 116	-47 966	-32 954	-194 698
Number of employees		464	436	464	436	429
Gross margin		69,8 %	77,0 %	69,7 %	74,9 %	71,1 %
EBITDA margin		-12,4 %	10,0 %	-1,3 %	9,3 %	-2,0 %
EBIT margin		-19,3 %	0,3 %	-7,7 %	-1,7 %	-20,0 %
Profit margin		-22,7 %	-1,2 %	-8,0 %	-3,6 %	-22,7 %
EPS (NOK)		-0,58	-0,14	-0,67	-0,48	-2,79
EPS, diluted (NOK)		-0,58	-0,14	-0,67	-0,48	-2,79

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<b>NOK 1.000</b>	<b>Note</b>	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>	<b>FY 2015</b>
Profit for the period		-41 293	-10 116	-47 966	-32 954	-194 698
Other comprehensive income to be reclassified to profit or loss in subsequent periods:						
Exchange differences on translation of foreign operations	10	-23 070	31 233	-50 531	47 543	72 983
Net (loss)/gain on available-for-sale financial assets		2	-3 350	2	-3 350	-3 370
- Income tax effect		0	0	0	0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		-23 068	27 883	-50 529	44 193	69 613
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:						
Actuarial gains (losses) on defined benefit plans		0	0	0	0	-695
- Income tax effect		0	0	0	0	0
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		0	0	0	0	-695
<b>Total comprehensive income for the period</b>		<b>-64 361</b>	<b>17 767</b>	<b>-98 495</b>	<b>11 239</b>	<b>-125 780</b>
<b>Attributable to :</b>						
Equity holders of the parent		-64 361	17 767	-98 495	11 239	-125 780
<b>Total comprehensive income for the period</b>		<b>-64 361</b>	<b>17 767</b>	<b>-98 495</b>	<b>11 239</b>	<b>-125 780</b>

## BALANCE SHEET - ASSETS

<b>NOK 1.000</b>	<b>Note</b>	<b>30.09.2016</b>	<b>30.06.2016</b>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Development	8, 10	183 548	195 839	199 400	214 526	271 767
Goodwill	8, 10	327 647	343 059	344 960	367 465	357 877
<b>Total intangible assets</b>		<b>511 195</b>	<b>538 898</b>	<b>544 360</b>	<b>581 991</b>	<b>629 644</b>
Machinery, fixtures and fittings		34 809	38 052	39 699	43 854	46 303
<b>Total fixed assets</b>		<b>34 809</b>	<b>38 052</b>	<b>39 699</b>	<b>43 854</b>	<b>46 303</b>
Shares		395	393	674	660	671
Other long term receivables		2 625	2 052	1 625	1 592	1 192
<b>Total financial fixed assets</b>		<b>3 020</b>	<b>2 445</b>	<b>2 299</b>	<b>2 252</b>	<b>1 863</b>
<b>Total non - current assets</b>		<b>549 024</b>	<b>579 395</b>	<b>586 358</b>	<b>628 097</b>	<b>677 810</b>
Inventories		68 773	79 785	96 612	81 378	92 927
<b>Total inventories</b>		<b>68 773</b>	<b>79 785</b>	<b>96 612</b>	<b>81 378</b>	<b>92 927</b>
Accounts receivables		150 797	172 898	132 016	149 606	166 062
Work in progress		83 254	75 621	69 375	44 269	54 688
Other receivables		36 578	39 013	40 012	28 616	33 531
<b>Total receivables</b>		<b>270 629</b>	<b>287 532</b>	<b>241 403</b>	<b>222 491</b>	<b>254 281</b>
Cash		19 195	17 686	52 911	65 349	62 134
<b>Total current assets</b>		<b>358 597</b>	<b>385 003</b>	<b>390 926</b>	<b>369 218</b>	<b>409 342</b>
<b>Total assets</b>		<b>907 621</b>	<b>964 398</b>	<b>977 284</b>	<b>997 315</b>	<b>1 087 152</b>

## BALANCE SHEET - EQUITY &amp; LIABILITIES

<b>NOK 1.000</b>	<b>Note</b>	<b>30.09.2016</b>	<b>30.06.2016</b>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Subscribed share capital		27 124	27 124	27 124	26 627	26 627
Share premium reserve		451 252	451 252	451 252	439 350	439 350
Other paid in capital		20 529	20 529	20 529	20 529	20 529
Total paid in capital		498 905	498 905	498 905	486 506	486 506
Other equity	10	-168 502	-104 141	-92 501	-70 007	67 012
Total retained equity		-168 502	-104 141	-92 501	-70 007	67 012
<b>Total equity</b>		<b>330 403</b>	<b>394 764</b>	<b>406 404</b>	<b>416 499</b>	<b>553 518</b>
Pension liabilities		18 775	18 775	18 775	18 775	18 293
Deferred tax	10	3 453	10 608	6 582	12 630	14 173
Debt to financial institutions		150 000	150 000	0	0	150 000
Other non-current liabilities		95 593	99 820	128 007	135 894	123 322
Total non-current liabilities		267 821	279 203	153 364	167 299	305 788
Debt to financial institutions		123 894	66 756	182 256	150 000	0
Accounts payable		89 627	90 239	83 352	77 913	77 001
Tax payable		1 053	2 233	2 689	2 051	1 885
Public duties payable		10 492	19 783	10 109	19 713	11 006
Advance payments customers		17 648	19 557	18 454	12 576	5 518
Other short term debt		66 683	91 863	120 656	151 264	132 436
Total current liabilities		309 397	290 431	417 516	413 517	227 846
<b>Total liabilities</b>		<b>577 218</b>	<b>569 634</b>	<b>570 880</b>	<b>580 816</b>	<b>533 634</b>
<b>Total equity and liabilities</b>		<b>907 621</b>	<b>964 398</b>	<b>977 284</b>	<b>997 315</b>	<b>1 087 152</b>

## CASH FLOW STATEMENT

NOK 1.000	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Earnings before tax	-46 959	-2 720	-53 686	-21 109	-182 098
Taxes paid	-2 328	-7 047	-5 473	-14 797	-19 272
Depreciation / impairment	14 252	21 629	43 198	65 243	144 482
Other operational items	8 751	-23 261	-73 091	-66 548	39 644
Cash flow from operating activities	-26 284	-11 399	-89 052	-37 211	-17 244
Investments intangible assets	-2 241	-14 458	-12 600	-40 567	-56 240
Investments tangible assets	-742	-1 634	-4 443	-7 541	-8 620
Acquisition of a subsidiary, net of cash acquired	-26 362	0	-50 207	-63 434	-63 434
Other investments	0	0	0	4 881	4 881
Cash flow from investment activities	-29 345	-16 092	-67 250	-106 661	-123 413
Proceeds from new loans	57 138	0	110 148	50 000	50 000
Down payments of debt to financial institutions	0	-8 127	0	-8 127	-8 127
Share issue	0	0	0	0	0
Other financial items	0	0	0	0	0
Cash flow from financing activities	57 138	-8 127	110 148	41 873	41 873
Net change in cash and cash equivalent	1 509	-35 618	-46 154	-101 999	-98 784
Cash and cash equivalents per 01.01.	17 686	97 752	65 349	164 133	164 133
<b>CASH AND CASH EQUIVALENTS</b>	<b>19 195</b>	<b>62 134</b>	<b>19 195</b>	<b>62 134</b>	<b>65 349</b>

## STATEMENT OF CHANGES IN EQUITY

## Equity attributable to equity holders of the parent

NOK 1.000	Subscribed share capital	Share premium reserves	Other paid in Capital	Other equity	Foreign currency translation reserve	Actuarial gains and losses	Available-for-sale reserve	Total
Equity per 31.12.15	26 627	439 350	20 529	-179 884	122 206	-12 265	-65	416 499
Total comprehensive income for the period	0	0	0	-47 966	-50 531	0	2	-98 495
Share issue arising from acquisitions	497	11 903	0	0	0	0	0	12 400
<b>Equity per 30.09.16</b>	<b>27 124</b>	<b>451 253</b>	<b>20 529</b>	<b>-227 850</b>	<b>71 675</b>	<b>-12 265</b>	<b>-63</b>	<b>330 403</b>
Equity per 31.12.14	26 144	426 956	20 529	14 814	49 223	-11 570	3 305	529 401
Total comprehensive income for the period	0	0	0	-32 954	47 543	0	-3 350	11 239
Share issue arising from acquisitions	484	12 394	0	0	0	0	0	12 878
<b>Equity per 30.06.15</b>	<b>26 627</b>	<b>439 350</b>	<b>20 529</b>	<b>-18 140</b>	<b>96 766</b>	<b>-11 570</b>	<b>-45</b>	<b>553 518</b>



## KEY FIGURES

	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Operating profit / EBIT per share (NOK)	-0,56	0,01	-0,73	-0,15	-2,30
Operating margin (%)	-19,3 %	0,3 %	-7,7 %	-1,7 %	-20,0 %
EPS (NOK)	-0,58	-0,14	-0,68	-0,47	-2,79
EPS, diluted (NOK)	-0,58	-0,14	-0,68	-0,47	-2,79
Cash flow per share (NOK)	-0,37	-0,16	-1,26	-0,53	-0,25
Equity per share (NOK)	4,66	7,94	4,66	7,94	5,97
Equity ratio (%)	36,4 %	50,9 %	36,4 %	50,9 %	41,8 %
Average number of shares	71 378 757	70 070 552	70 953 829	69 683 702	69 781 209
Average number of shares diluted	71 378 757	70 070 552	70 953 829	70 183 702	70 155 182

# NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

## NOTE 1 – GENERAL

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The consolidated condensed interim financial statements for the third quarter and the first nine months ended 30.09.2016 (unaudited) was approved by the Board of Directors at its meeting on 26 October 2016.

The Q-Free group provides world class-leading technology solutions to the global ITS market. Q-Free has delivered systems which are now operational in Europe, Asia Pacific, Middle East, Africa, North and South America. Q-Free has 464 employees, is headquartered in Trondheim Norway, and has local offices in 20 countries around the world. Q-Free ASA is a Norwegian public limited liability company, and has been listed on the Oslo Stock Exchange under the ticker QFR since 2002.

## NOTE 2 – STATEMENT OF COMPLIANCE

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These consolidated interim financial statements for the first nine months of 2016, combined with other relevant financial information in this report, have been prepared in accordance with the regulations of the Oslo Stock Exchange and the requirements in IAS 34. These condensed consolidated interim financial statements for the quarter, have not been audited or subject to review by the Group's auditor. The financial statements do not include all of the information required for a full annual financial statements of the Group and should be read in conjunction with the consolidated financial statements for 2015. The consolidated financial statements for 2015 is available upon request from the company's registered office in Trondheim or at our website, [www.q-free.com](http://www.q-free.com).

## NOTE 3 – ACCOUNTING PRINCIPLES

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The consolidated financial statements of the Q-Free Group for the third quarter and the first nine months ended 30.09.2016 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Norwegian Accounting Act. The Group has used the same accounting policies and standards as in the consolidated financial statements as of 31 December 2015.

## NOTE 4 – USE OF ESTIMATES

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The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates can result in outcome that requires a material adjustment to the carrying amount of the assets or liability affected in future periods.

## NOTE 5 – EVENTS AFTER THE BALANCE SHEET DATE

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The Board of Directors of Q-Free ASA approved in a board meeting 28 September 2016 to increase the share capital with NOK 6,780,981.82. The increase in the share capital was carried out according to proxy by issuance of 17,844,689 new shares with a par value of NOK 0.38. The share capital was increased from NOK 27,123,927.66 to NOK 33,904,909.48 after the share capital increase has been registered in Foretaksregisteret (The Norwegian Company Register). The Private Placement was multiple times subscribed. The payment to Q-Free and registration of the new equity were done in early October 2016.

No other significant events, which are not mentioned in this report, have occurred since the balance sheet date.

## NOTE 6 – FORWARD LOOKING STATEMENTS

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This report contains statements regarding the future in connection with Q-Free's growth initiatives, profit figures, outlook, strategies and objectives. In particular, the section "Outlook" contains forward-looking statements regarding the Group's expectations. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual profit and development deviating substantially from what have been expressed or implied in such statements. These factors include the risk factors described in the Board of Directors report for 2015.

## NOTE 7 – OPERATING SEGMENTS

The Group is organised into geographical areas based on the location of the customer, and has four SEGMENTS as follows:

- **ELA** (Europe, Latin America)
- **APMEA** (Asia Pacific, Middle East and Africa)
- **NORDIC** (Norway, Sweden, Denmark, Finland, Iceland and the Faroe Islands.)
- **NA** (USA and Canada)

Group management (chief operating decision makers) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Regional performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

NOK 1.000	Q3 2016					Other / Group	TOTAL Q3-16	Q3 2015					Other / Group	TOTAL Q3-15
	ELA	APMEA	NORDIC	NA				ELA	APMEA	NORDIC	NA			
<b>Revenues</b>	<b>69 498</b>	<b>35 255</b>	<b>62 594</b>	<b>71 584</b>	<b>-31 824</b>	<b>207 106</b>	<b>66 169</b>	<b>27 551</b>	<b>74 240</b>	<b>84 091</b>	<b>-29 387</b>	<b>222 664</b>		
<b>Gross profit</b>	<b>39 060</b>	<b>22 705</b>	<b>41 256</b>	<b>47 716</b>	<b>-6 135</b>	<b>144 602</b>	<b>42 588</b>	<b>9 684</b>	<b>60 281</b>	<b>71 673</b>	<b>-12 776</b>	<b>171 450</b>		
Gross margin - %	56,2%	64,4%	65,9%	66,7%	19,3%	69,8%	64,4%	35,1%	81,2%	85,2%	43,5%	77,0%		
Operating expenses	39 521	20 460	23 334	62 607	24 417	170 340	30 717	13 441	32 493	49 221	23 334	149 206		
<b>EBITDA</b>	<b>-462</b>	<b>2 245</b>	<b>17 922</b>	<b>-14 891</b>	<b>-30 552</b>	<b>-25 737</b>	<b>11 871</b>	<b>-3 757</b>	<b>27 788</b>	<b>22 452</b>	<b>-36 110</b>	<b>22 244</b>		
EBITDA margin	-0,7%	6,4%	28,6%	-20,8%	96,0%	-12,4%	17,9%	-13,6%	37,4%	26,7 %	122,9%	10,0%		
Depreciation, amortisation and impairment	3 513	142	4 839	5 796	-38	14 252	8 513	1 598	5 768	5 760	-11	21 629		
<b>Operating profit - EBIT</b>	<b>-3 974</b>	<b>2 103</b>	<b>13 083</b>	<b>-20 688</b>	<b>-30 514</b>	<b>-39 990</b>	<b>3 358</b>	<b>-5 356</b>	<b>22 020</b>	<b>-5 760</b>	<b>-36 099</b>	<b>615</b>		
EBIT margin	-5,7%	6,0%	20,9%	-28,9%	95,9%	-19,3%	5,1%	-19,4%	29,7%	-6,8%	122,8%	0,3%		

NOK 1.000	30.09.2016					Other / Group	TOTAL 2016	30.09.2015					Other / Group	TOTAL 2015
	ELA	APMEA	NORDIC	NA				ELA	APMEA	NORDIC	NA			
<b>Revenues</b>	<b>254 489</b>	<b>107 305</b>	<b>185 462</b>	<b>222 283</b>	<b>-97 219</b>	<b>672 318</b>	<b>249 145</b>	<b>73 448</b>	<b>192 866</b>	<b>170 234</b>	<b>-93 367</b>	<b>592 326</b>		
<b>Gross profit</b>	<b>143 717</b>	<b>58 419</b>	<b>141 099</b>	<b>151 758</b>	<b>-26 230</b>	<b>468 770</b>	<b>136 180</b>	<b>30 275</b>	<b>151 260</b>	<b>144 577</b>	<b>-18 561</b>	<b>443 732</b>		
Gross margin - %	56,5%	54,4%	76,1%	68,3%	27,0%	69,7%	54,7%	41,2%	78,4%	84,9%	19,9%	74,9%		
Operating expenses	105 312	54 380	75 689	185 806	56 260	477 453	85 593	40 864	79 424	120 440	62 329	388 650		
<b>EBITDA</b>	<b>38 405</b>	<b>4 039</b>	<b>65 410</b>	<b>-34 048</b>	<b>-82 490</b>	<b>-8 683</b>	<b>50 587</b>	<b>-10 589</b>	<b>71 836</b>	<b>24 137</b>	<b>-80 890</b>	<b>55 081</b>		
EBITDA margin	15,1%	3,8%	35,3%	-15,3%	84,8%	-1,3%	20,3%	-14,4%	37,2%	14,2 %	86,6%	9,3%		
Depreciation, amortisation and impairment	11 134	356	13 229	18 524	-44	43 198	30 220	4 295	14 914	15 825	-11	65 244		
<b>Operating profit - EBIT</b>	<b>27 271</b>	<b>3 683</b>	<b>52 181</b>	<b>-18 524</b>	<b>45</b>	<b>-51 881</b>	<b>20 366</b>	<b>-14 884</b>	<b>56 921</b>	<b>-15 825</b>	<b>-80 879</b>	<b>-10 163</b>		
EBIT margin	10,7%	3,4%	28,1%	-8,3%	0,0%	-7,7%	8,2%	-20,3%	29,5%	-9,3%	86,6%	-1,7%		

## NOTE 8 – DEPRECIATIONS, AMORTISATIONS AND IMPAIRMENTS

NOK 1.000

Depreciations, amortisations and impairments	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Capitalised development cost	4 562	12 152	12 473	35 341	44 844
Impairment development cost	0	0	0	0	55 523
Capitalised acquired development cost	5 916	5 292	19 038	16 865	27 550
Other	3 774	4 185	11 687	13 037	16 565
<b>Total</b>	<b>14 252</b>	<b>21 629</b>	<b>43 198</b>	<b>65 243</b>	<b>144 482</b>

Specifications of capital expenditures, balance sheet	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Capitalised development cost	2 241	14 458	12 600	40 567	53 664
Capitalised acquired development cost	0	0	0	145 945	146 501
Other	742	1 634	4 443	7 541	8 620
<b>Total</b>	<b>2 983</b>	<b>16 092</b>	<b>17 043</b>	<b>194 053</b>	<b>208 785</b>

## NOTE 9 – FINANCIAL ITEMS

NOK 1.000

Financial items	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Realised agio / disagio	-625	-2 346	171	-12 655	-16 011
Unrealised agio / disagio	-2 746	-5 224	-8 507	7 999	9 650
Currency effects earn-out	78	4 218	2 495	-4 122	-3 555
Change earn-out	0	0	12 383	0	-6 935
Other financial income	43	4 006	529	7 439	5 381
Other financial expenses	-3 720	-3 989	-8 876	-9 608	-10 170
<b>Total</b>	<b>-6 970</b>	<b>-3 335</b>	<b>-1 805</b>	<b>-10 947</b>	<b>-21 640</b>

## NOTE 10 – CHANGES RELATED TO PREVIOUS QUARTERS

Any goodwill arising on the acquisition of a foreign company and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign company shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign company and shall be translated at the closing rate. We have previously converted currency on the time of the acquisition, and treated the effects in NOK. We have implemented the currency effects per 31.12.2015 and restated previous quarters.

Changes related to previous quarters	31.12.14	Adjust.	Restated 31.12.14	31.03.15	Adjust.	Restated 31.03.15	30.06.14	Adjust.	Restated 30.06.15	30.09.15	Adjust.	Restated 30.09.15
Development	202 777	12 259	215 036	193 870	15 121	208 991	248 796	14 802	263 598	245 810	25 957	271 767
Goodwill	192 885	35 084	227 969	192 885	45 048	237 933	284 158	44 653	328 811	284 158	73 719	357 877
Deferred tax assets	18 680	-3 331	15 349	16 435	-4 150	12 285	0	0	0	0	0	0
<b>Total assets</b>	<b>414 342</b>	<b>44 012</b>	<b>458 354</b>	<b>403 190</b>	<b>56 019</b>	<b>459 209</b>	<b>532 954</b>	<b>59 455</b>	<b>592 409</b>	<b>529 968</b>	<b>99 676</b>	<b>629 644</b>
Other equity (OCI)	11 761	44 012	55 773	-339	56 019	55 680	-6 614	55 859	49 245	-25 356	92 368	67 012
Deferred tax	19 808	0	19 808	19 808	0	19 808	285	3 596	3 881	6 865	7 308	14 173
<b>Total equity and liabilities</b>	<b>31 569</b>	<b>44 012</b>	<b>75 581</b>	<b>19 469</b>	<b>56 019</b>	<b>75 488</b>	<b>-6 329</b>	<b>59 455</b>	<b>53 126</b>	<b>-18 491</b>	<b>99 676</b>	<b>81 185</b>

The effects on depreciation and tax expenses in the profit for 2015 are immaterial and for that reason profits for previous quarters have not been restated.

## NOTE 11 – RISK FACTORS

Q-Free is an international technology company exposed to a number of different risk factors. The following outlines the most prominent operational and financial risk factors and the main risk-mitigation actions and measures:

- Project risk
- Political risk
- Technology risk
- Financial risks such as :
  - Currency risk
  - Credit risk
  - Interest risk
  - Liquidity risk

These risk factors are all outlined in the Board of Directors Report as part of the 2015 Annual Report.

## NOTE 12 – RELATED PARTY TRANSACTIONS

There are no significant related party transactions for Q-Free Group in Q3-16.

The company received for 2016 invoices for consultancy services from Kjelstrup & Wiggen Consulting AS (KWC AS) that totalled NOK 266,800 (ex. VAT), which was paid in August 2016. Vice Chairman of the Board, Tore Valderhaug, was part of the team that delivered the consultancy services to the Company. All transactions between related parties are based on arm's length principles and the services was according to an agreement between Q-Free ASA and the Board concerning consultancy services.

# KEY INFORMATION

## Q-FREE ASA

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Organisation number: NO 935 487 242  
Founded: 1984

HQ visitors address: Strindfjordvegen 1,  
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## FINANCIAL CALENDAR

First quarter 2016 : 28.04.2016  
Second quarter 2016 : 18.08.2016  
Third quarter 2016 : 27.10.2016  
Fourth quarter 2016 : 14.02.2017



