

Q4

FOURTH QUARTER AND PRELIMINARY FULL YEAR RESULTS 2016

President & CEO Håkon Volldal and CFO Roar Østbø



LEADING THE WAY

HIGHLIGHTS

Q4 2016

- 241 MNOK in revenues, up 23% from 197 MNOK in Q4-15
- 7 MNOK in EBITDA. Performance negatively impacted by 12 MNOK in inventory write-down and work in progress principle adjustments in Q-Free UK
- 196 MNOK in order intake, 55 MNOK announced orders and 141 MNOK in unannounced orders
- 1.4 bn NOK in order backlog, 615 MNOK scheduled for delivery in 2017
- Cost savings program initiated in Q3-16 finalized with 50 MNOK in annual gross OPEX savings as promised
- 134 MNOK in gross proceeds from private placement in October, cash flow further improved due to good cash management

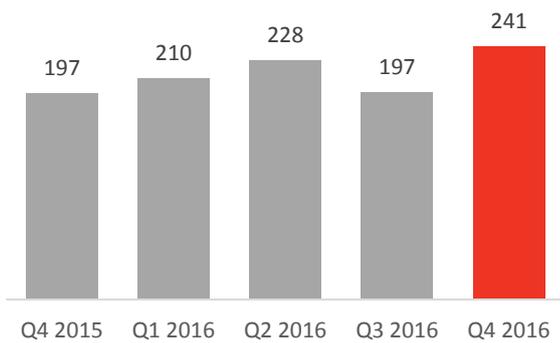
FY 2016

- 877 MNOK in revenues, up 14% from 767 MNOK in 2015
- 11 MNOK in EBITDA vs 69 MNOK in 2015 before restructuring charges
- 1 575 MNOK in order intake due to signing of largest ever tolling contract in Slovenia (472 MNOK) and largest ever ATMS contract with Virginia Department of Transportation in USA (200 MNOK)

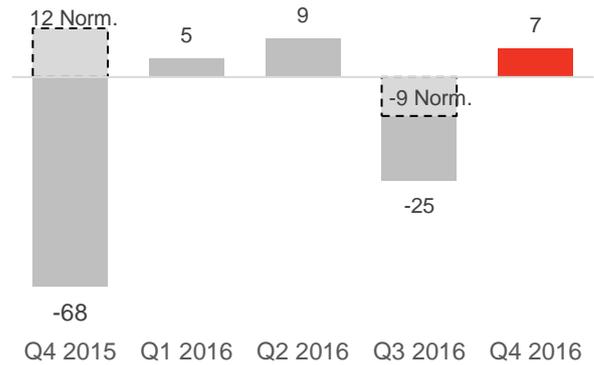
POST Q4 2016

- The Security Division divested for a net consideration of 10 MNOK and hence reported as “Discontinued Operations” and excluded from 2015 and 2016 Profit and Loss, Balance sheet and Cash Flow statements.

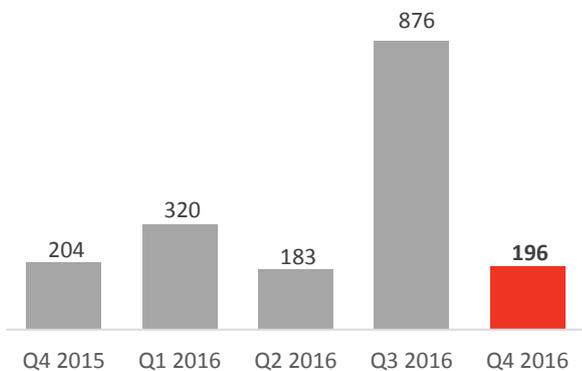
REVENUES LAST 5 QUARTERS
MNOK



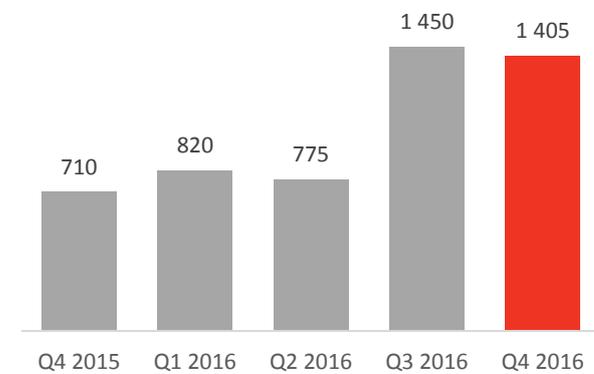
EBITDA LAST 5 QUARTERS
MNOK



ORDER INTAKE LAST 5 QUARTERS
MNOK



ORDER BACK LOG LAST 5 QUARTERS
MNOK



FINANCIAL REVIEW

KEY FIGURES

NOK 1.000	Q4 2016	Q4 2015	Q/Q-%	FY 2016	FY 2015	Y/Y-%
Revenues	241 411	196 572	22,8%	877 165	766 885	14,4%
Gross profit	136 598	117 643	16,1%	580 684	545 270	6,5%
Gross margin - %	56,6%	59,8%		66,2%	71,1%	
Operating expenses	129 595	105 745	22,6%	569 607	476 311	19,6%
EBITDA excl non-recurring items	7 003	11 898	-41,1%	11 077	68 959	-83,9%
EBITDA margin excl non-recurring items	2,9%	6,1%		1,3%	9,0%	
Non-recurring items	0	79 684		15 423	79 684	
EBITDA	7 003	-67 786	-110,3%	-4 346	-10 725	-59,5%
EBITDA margin	2,9%	-34,5%		-0,5%	-1,4%	
Depreciation, amortisation and impairment	14 578	22 177	-34,3%	54 761	84 046	-34,8%
Impairment	0	55 523		0	55 523	
Operating profit - EBIT excl non-recurring items	-7 575	-10 279		-43 684	-15 087	
EBIT margin excl non-recurring items	-3,1%	-5,2%		-5,0%	-2,0%	
Operating profit - EBIT	-7 575	-145 486		-59 107	-150 294	
EBIT margin	-3,1%	-74,0%		-6,7%	-19,6%	
Profit before tax excl non-recurring items	-2 150	-76 495		-40 198	-92 250	
Profit before tax	-2 150	-156 179		-55 621	-171 934	
Profit margin excl non-recurring items	-0,9%	-38,9%		-4,6%	-12,0%	
Profit margin	-0,9%	-79,5%		-6,3%	-22,4%	
Profit after tax from continuing operations	-5 668	-158 618		-53 419	-188 091	
Profit after tax on discontinued operations	-29 998	-3 126		-30 213	-6 607	
Profit for the period	-35 666	-161 744		-83 632	-194 698	
EPS	-0,40	-2,31		-1,11	-2,79	

NOTE: The security business is presented as "Discontinued operations", see note 10.

PROFIT AND LOSS FOURTH QUARTER 2016

Q-Free generated revenues of 241 MNOK in the fourth quarter of 2016. This represented an increase of 23 percent from 197 MNOK in the corresponding quarter last year. Only 19 MNOK from the Slovenia truck tolling contract were recognized as revenues in the quarter in accordance with past practice.

Gross profit for the quarter ended at 137 MNOK compared to 118 MNOK in Q4 last year mainly due to higher revenues. The gross margin was down year on year due to inventory adjustments (-4 MNOK) and a change of principle for recognising revenues on work in progress (-8 MNOK) in Q-Free UK. Q-Free also had a higher share of projects in the initial phase with low margin contribution in Q4-16 compared to Q4-15.

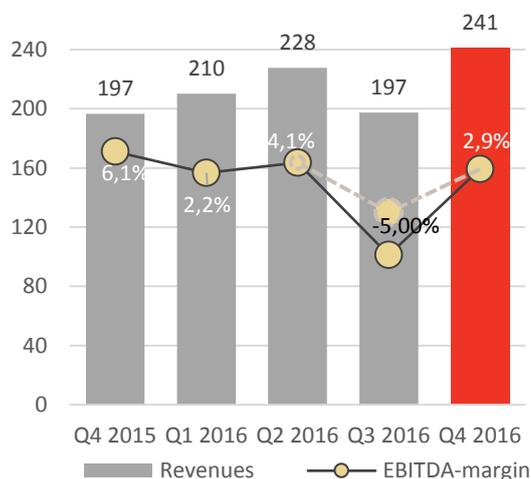
Operating expenses amounted to 130 MNOK in Q4-16 versus 185 MNOK in Q4-15 and 163 MNOK in Q3-16. Q4-15 and Q3-16 numbers were negatively impacted by 80 MNOK and 15 MNOK in non-recurring expenses respectively. The cost reduction program initiated in Q3-16 was finalized and had a positive impact of approximately 12 MNOK in the fourth quarter.

EBITDA in Q4-16 was 7 MNOK, up from -68 MNOK in the same period in 2015. Q4-16 EBITDA was negatively impacted by changes in Q-Free UK, as commented above, whereas Q4-15 was hampered by 80 MNOK in restructuring charges.

Depreciation, amortisation and impairment was 15 MNOK (78 MNOK last year). The decrease reflects the 56 MNOK impairment of tolling technology done in Q4-15.

Operating profit (EBIT) ended at -8 MNOK, up from -145 MNOK last year. Q4-15 EBIT exclusive of non-recurring items was -10 MNOK in Q4-15.

QUARTERLY REVENUES AND EBITDA MARGIN
MNOK & %



Net financial items in the quarter amounted to 5 MNOK, up from -10 MNOK in Q4-15 and -7 MNOK in Q3-16. The increase is mainly related to lower financial costs on the back of favourable currency fluctuations.

Reported pre-tax profit was -2 MNOK for the period, compared to -156 MNOK in the fourth quarter of 2015. The group's tax expenses are -4 MNOK, compared to -2 in Q4-15.

Earnings per share came in at -0.40 NOK in the quarter versus -2.31 NOK in the corresponding quarter last year.

PROFIT AND LOSS FY 2016

Group revenues for 2016 amounted to 877 MNOK, up 14% from 767 MNOK in 2015. The growth was mainly organic (only a minor contribution from Intelight and Traffiko) and mainly driven by our tolling, parking, and urban service lines.

Gross profit was 581 MNOK compared to 545 MNOK in 2015, an increase of 7 percent YoY. The gross margin was down 5 percentage points due to negative mix effects and a higher share of revenues from projects in 2016 than in 2015.

Operating expenses were 585 MNOK during the period, up from 556 MNOK in 2015. Adjusting for non-recurring items, Q-Free had 570 MNOK in operating expenses in 2016 compared to 476 MNOK in 2015. The 20 percent increase in operating expenses excluding of non-recurring items is due to the full-year effect of acquisitions concluded in 2015, less capitalized R&D expenses, increased costs for projects, and general cost increases.

2016 EBITDA before restructuring charges ended at -4 MNOK compared to -11 MNOK in 2015. Excluding restructuring charges, the numbers for 2016 and 2015 were 11 MNOK and 69 MNOK respectively.

Operating profit (EBIT) for 2016 was -59 MNOK compared to -150 MNOK in 2015. Adjusting for restructuring charges, the numbers for 2016 and 2015 were -44 MNOK and -15 MNOK respectively.

Full-year net financial items in 2016 were 3 MNOK versus -22 MNOK in 2015.

Pre-tax profit for 2016 was -56 MNOK versus -172 MNOK in 2015.

Profit after tax from continuing operations were -53 MNOK compared to -188 MNOK for 2015.

For specification of discontinued operations for the Security Division, see note 10.

Reported earnings per share were -1.11 NOK, an improvement compared to - 2.79 NOK in 2015.

CASH FLOW

Net cash flow from operating activities was 22 MNOK in the fourth quarter of 2016, slightly up from 20 MNOK in the fourth quarter of 2015. The change reflects a positive EBITDA and improved working capital. The cash impact during Q4 2016 from restructuring provisions made in Q3 2016 was -9 MNOK.

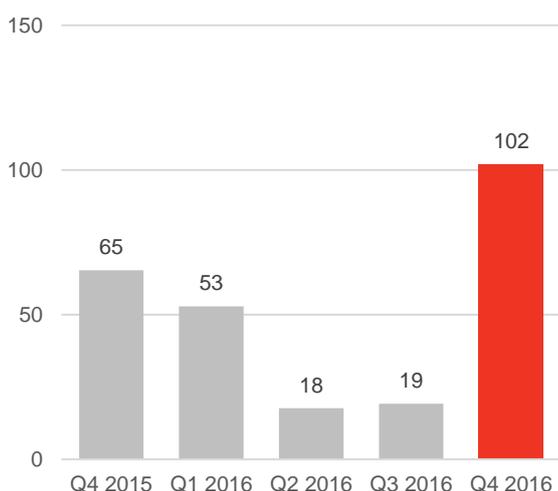
Net cash flow from investment activities was -22 MNOK in the fourth quarter compared to -17 MNOK in Q4-15, mainly reflecting 16 MNOK in investments in technology projects for tolling and parking and 6 MNOK in other fixed assets.

Net cash flow from financing activities was 83 MNOK in the fourth quarter versus 0 MNOK in Q4-15, reflecting net proceeds from the October share issue of 127 MNOK, down payments on short term overdraft facilities in Norway and in the US of 58 MNOK and increased credit facility for the Slovenia truck tolling project of 14 MNOK.

The net change in cash and cash equivalents in the period was 83 MNOK compared to 3 MNOK in Q4-15. The cash balance as of Q4-16 ended at 102 MNOK versus 65 MNOK on Q4-15 and 19 MNOK at the end of Q3-2016.

QUARTERLY CASH FUNDS

MNOK



BALANCE SHEET

Total assets at the end of the fourth quarter 2016 were 990 MNOK versus 997 MNOK at end of Q4-15. This is up from 908 MNOK at the end of the third quarter 2016.

Total equity ended at 427 MNOK, up from 416 MNOK at the end of Q4-15 and up from 330 MNOK at the end of the third quarter 2016. The equity ratio was 43 percent versus 42 percent at the end of Q4-15 and 36 percent at the end of the previous quarter.

Non-current liabilities were 282 MNOK, an increase versus 167 MNOK at the end of Q4-15 and 268 MNOK at the end of third quarter 2016. Future obligations for purchase of shares in Intelight of 94 MNOK, liabilities related to pension schemes of 15 MNOK, and long term debt to financial institutions of 150 MNOK represent most of the non-current liabilities. Q-Free was in breach of its covenant towards Danske Bank on the 150 MNOK loan at the end of 2016, but had received a waiver on this breach valid until mid-February 2017, and the loan is therefore classified as long-term loan.

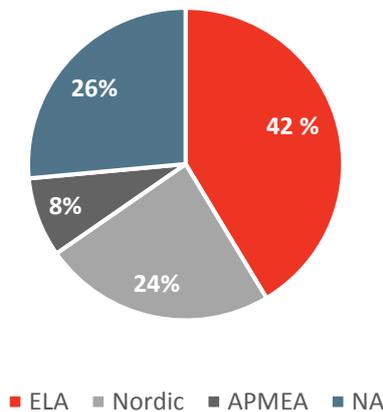
Short term interest-bearing debt to financial institutions was 79 MNOK at the end of the period. This is down from 150 MNOK at the end of Q4-15 and 124 MNOK at the end of Q3-16. Available, unused credit facilities were 154 MNOK at the end of fourth quarter 2016.

Current liabilities were 263 MNOK at the end of the fourth quarter, down from 414 MNOK at the end of Q4-15 and 309 MNOK at the end of Q3-16. The decrease from the previous quarter is mainly explained by a decrease in the short-term debt to financial institutions (-44 MNOK) and increased accounts payable (11 MNOK).

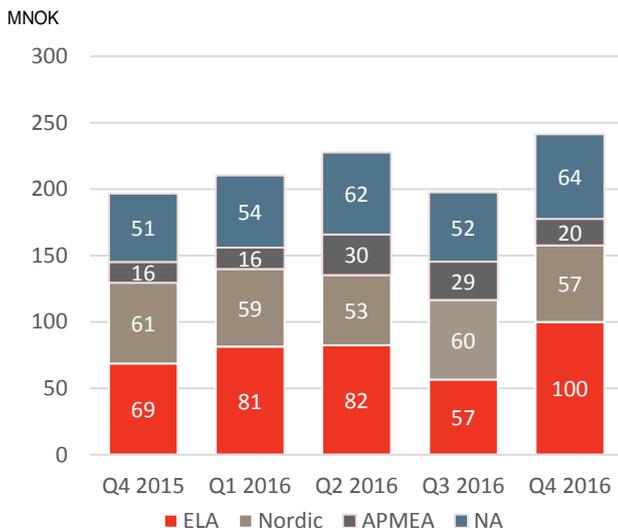
Net working capital (defined as current assets excluding cash less current liabilities, and excluding short-term overdraft facilities) amounted to 132 MNOK at the end of the quarter. The corresponding figure at the end of Q4-15 was 40 MNOK. Net working capital equals 15 percent of the revenues generated in the last 12 months. At the end of the third quarter of 2016, net working capital was 154 MNOK, or 18 percent of the revenues generated in the past 12 months. The ratio will vary between quarters depending on revenue mix and timing of payments.

SEGMENT REVIEW

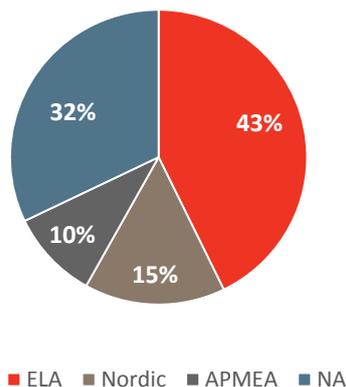
Q4 2016 REVENUE DISTRIBUTION BY REGION (%)



QUARTERLY REVENUES BY REGION



Q4-2016 ORDER INTAKE DISTRIBUTION BY REGION (%)



EUROPE & LATIN AMERICA (ELA)

ELA is our largest region. Q-Free is targeting tolling, parking, and infomobility opportunities across this region, which consists of both established markets such as Portugal, Chile, and France and developing markets such as Slovenia and Serbia.

Revenues amounted to 100 MNOK in the quarter, up from 69 MNOK in Q4-15. The region accounted for 42 percent of Q-Free's total revenues. After a weak third quarter, ELA benefited from the initiation of the Slovenia truck tolling project and from miscellaneous tag and project deliveries.

Order intake came in at 85 MNOK compared to 79 MNOK in the corresponding quarter of 2015. This represented 43 percent of Q-Free's total order intake in Q4-16. The region also accounts for 55 percent of the Group's order backlog at the end of 2016.

THE NORDIC REGION (NORDIC)

The majority of Q-Free's revenues in the Nordic region is derived from contracts related to the AutoPASS tolling system in Norway and congestion charging systems in Sweden. In addition, Q-Free has entered the parking business through several deployments with APCOA in Sweden.

Revenues in the region were 57 MNOK in Q4-16, down from 61 MNOK in Q4-15. The region accounted for 24 percent of Q-Free's overall revenues in the quarter.

The order intake was 30 MNOK, or 15 percent of the Group's total, during the period. This is down from 56 MNOK in Q4-15. A key win for Q-Free in Q4-16 was the AutoPASS ferry quay contract for Mortavika-Arsvågen with Fjord1. Q-Free also won important parking contracts during the quarter. 18 percent of the Group's total order backlog at the end of 2016 are in the Nordic region.

ASIA, MIDDLE EAST AND AFRICA (APMEA)

APMEA mostly consists of developing and immature traffic technology markets, with the exception of Australia. As in ELA and NORDIC, Q-Free targets tolling, parking, and infomobility opportunities.

Revenues in APMEA amounted to 20 MNOK in the fourth quarter, an increase from 16 MNOK in Q4-15. Revenues mostly came from various tolling activities in Australia and upgrades of tolling infrastructure in Thailand. APMEA accounted for 8 percent of total Group revenues.

Order intake was 19 MNOK, compared to 21 MNOK in Q4-2015. This represents 10 percent of total order intake. Out of the Group order backlog at the end of Q4-16, APMEA accounted for 3 percent.

NORTH AMERICA (NA)

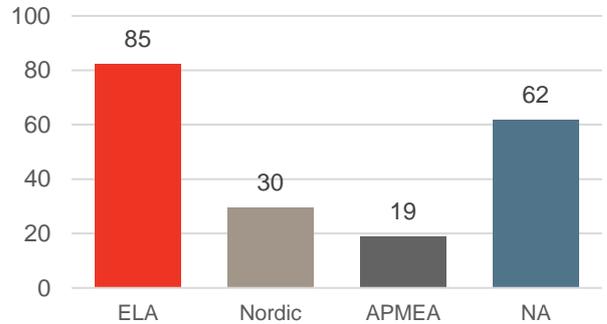
Besides APMEA, NA is Q-Free's most important growth market. Q-Free has a strong and growing business based on parking guidance solutions, smart intersection controllers, and inter-urban traffic management centre solutions. Q-Free is also targeting tolling and infomobility solutions, and hence has a very comprehensive offering in the region.

Revenues in NA came in at 64 MNOK compared to 51 MNOK in Q4-15. The region accounted for 26 percent of overall revenues. Q-Free generated revenues across all its target segments in North America in Q4-16. Growth was driven by a new tolling project in Massachusetts, start-up of the VDOT delivery, and parking and infomobility projects.

Order intake, which amounted to 62 MNOK during the period, was up from 48 MNOK in Q4-15. Hence, 32 percent of Q-Free's total order intake came from NA. By the end of 2016, NA accounted for 24 percent of the Group's total order backlog.

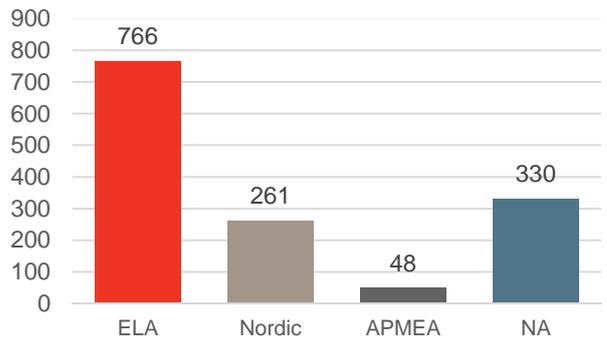
Q4-16 ORDER INTAKE BY REGION

MNOK



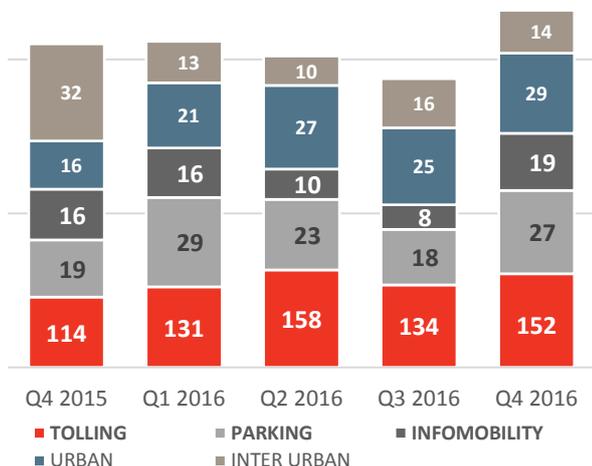
ORDER BACKLOG BY REGION AS OF 31.12.16

MNOK



SERVICE LINE REVIEW

QUARTERLY REVENUES BY SERVICE LINES
MNOK



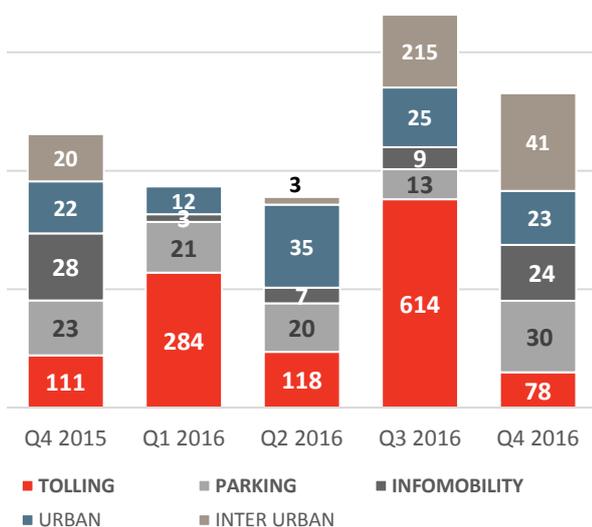
GLOBAL SERVICE LINES

TOLLING comprises sales of tags, roadside equipment, and software systems for electronic toll collection and related service and maintenance agreements. This service line was by far the largest contributor to overall revenues in Q-Free in the fourth quarter of 2016 with 152 MNOK or 63 percent of total Group revenues. Q-Free delivered 51 MNOK in products to Thailand, Australia, Chile, Russia, and Brazil, and 37 MNOK in service and maintenance contracts in Norway, Sweden, Portugal and Australia. In addition, TOLLING-system projects with a value of NOK 63 million were delivered in Norway, Chile, Slovenia, the US, and Thailand. New orders received in Q4-16 had a value of 78 MNOK, mostly related to tag orders in France and Chile and a new ferry contract in Norway.

PARKING comprises central parking management and parking guidance systems. Quarterly revenues were 27 MNOK, up from 19 MNOK in Q4-15. Most of the revenues were generated from sale of parking guidance solutions in North America and parking management systems in NORDIC and ELA. Q-Free is investing significant resources into developing next-generation parking solutions and expect to broaden its market presence once these solutions are finalized during the second half of 2017. The “Narrow-Band Internet of Things” (NB-IoT) pilot together with Telenor and Huawei involving Q-Free’s outdoor parking sensor continued and was officially launched late January 2017.

INFOMOBILITY mainly represents sales of traffic counters, cycle and pedestrian detection systems, journey time monitoring, and weigh-in-motion systems. The fourth quarter showed revenues of 19 MNOK, slightly up compared to the last quarters. Q-Free obtained multiple small orders in ELA and North America in the quarter.

QUARTERLY ORDER INTAKE BY SERVICE LINE
MNOK



REGIONAL SERVICE LINES

URBAN refers to intersection controller systems delivered to cities in the US and streetlights and traffic signs in Eastern Europe. Q4-16 revenues were stable compared to previous quarters and Q4-15. We experienced increased sales YoY in NA of our intelligent traffic controller solutions.

INTER-URBAN consists of Traffic Management Centre solutions, mainly in the US. Although the delivery of a centralized web-based traffic management system to Virginia Department of Transportation (VDOT) has started, limited revenues were booked in Q4-16. In addition to VDOT deliveries, Q-Free generated revenues from ongoing contracts with Pennsylvania and West Virginia Department of Transportation.

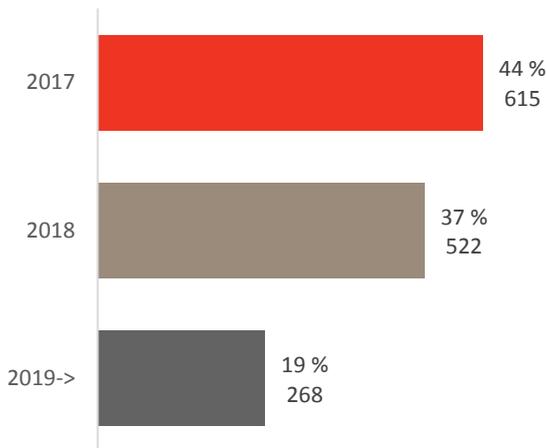
ORDER INTAKE AND BACKLOG

Total order intake in the fourth quarter was 196 MNOK compared to 204 MNOK in Q4-15 (877 MNOK in Q3-16). Received orders include 55 MNOK in two announced tag orders from Chile and France, and NOK 141 MNOK in unannounced orders. Tolling (78 MNOK) had the highest share of the received orders during the fourth quarter, but Inter Urban (41 MNOK) and Parking (30 MNOK) also contributed positively.

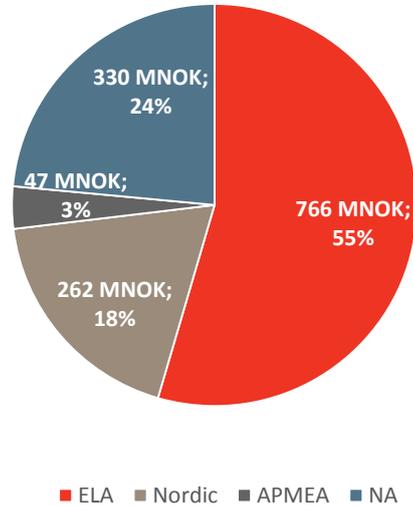
Total order intake in 2016 was 1,575 MNOK compared to 1,070 MNOK in 2015.

Q-Free's order backlog per 31 December 2016 was 1,405 MNOK (710 MNOK at the end of 2015), down 35 MNOK from Q3-16. 615 MNOK (44%) of the backlog is expected to be delivered in 2017 and provides a solid foundation for 2017.

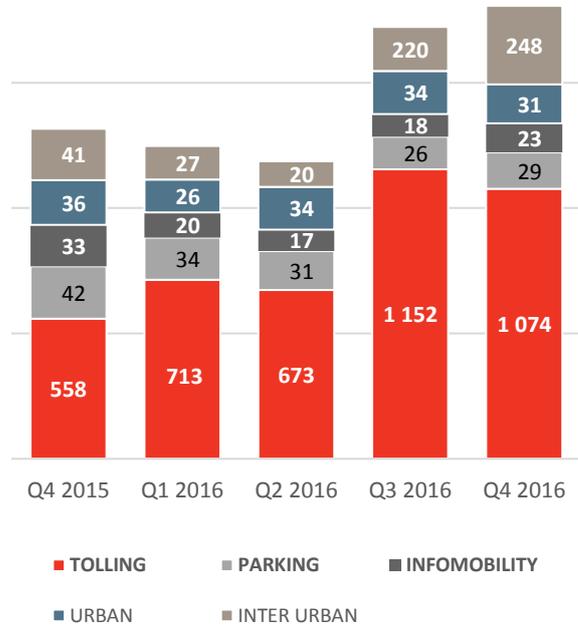
ORDER BACK LOG DISTRIBUTION AS OF 31.12.16
MNOK



Q4-16 ORDER BACKLOG DISTRIBUTION BY REGIONS



Q4-16 ORDER BACKLOG DISTRIBUTION BY SERVICE LINE
MNOK



OUTLOOK

In the second half of 2016, Q-Free has taken a number of actions to pave the way for profitable growth in 2017. The order-backlog has been built to a record-high level, the financial structure has been significantly improved through a private share placement, gross operational expenses have been reduced by more than 50 MNOK, and the business scope has been narrowed to allow better allocation of resources. In sum Q-Free is well positioned going into 2017.

Q-Free aims to capitalize on its high order backlog and successfully convert the significant Slovenia and VDOT contracts into double digit revenue growth over 2016. Delivering attractive margins is another key goal for Q-Free in 2017. Tight project follow-ups, increased focus on performance management, and continued cost discipline are needed to improve EBITDA margins.

Despite a challenging 2016, Q-Free is confident the company will deliver a positive operating profit in 2017. When it comes to cash flow, the company will not be able to deliver a positive cash flow operations in 2017 given the payment terms for the Slovenia contract. However, Q-Free has secured external financing for expected increases in working capital throughout 2017 and will have a positive operating cash flow in 2018 when the Slovenia payment is due.

Beyond 2017, Q-Free sees numerous growth opportunities. The company operates in a market that is growing fast and can now leverage its broad product offering to generate growth from multiple regions and segments:

- **ELA:** This region provides opportunities for large and medium-sized projects from both mature and developing markets. Several tolling projects are assumed to be tendered in the coming years, e.g. in markets such as Chile, Spain, and Bulgaria. In addition, Europe has an attractive parking sector with large international operators looking to reduce operational costs and increase customer convenience. This fits well with Q-Free's market positioning and innovative offering, Infomobility solutions are in demand as governments look to acquire more data on what is happening on their roads.
- **NORDIC:** Several AutoPASS roadside contracts and ferry connection contracts will be tendered in Norway from 2017. The ferry market alone is estimated at 500 MNOK over the coming 3-5 years. There are also interesting opportunities related to expansions and modifications of the congestion charging systems in Sweden. Furthermore, Q-Free is targeting parking opportunities in Sweden and Norway and look to capitalize on new sensor and software innovations.
- **APMEA:** This region will show significant growth for Q-Free over the coming years. There are huge tolling opportunities in Thailand, Indonesia, and Myanmar. Some large urban traffic management projects in Thailand will also be put out for tender soon. It is worth noting that Q-Free has sold its first parking solutions in Australia and Myanmar during 2016 and expect to grow parking revenues in APMEA substantially from a low base.
- **NA:** Besides APMEA, North America is Q-Free's most important growth market. Q-Free already has a strong and growing business in parking guidance solutions and smart intersection controllers. As the company uses its best-in-class license plate recognition software to break into the US tolling market, Q-Free expects to increase its revenues from this segment. The 2016 contract to deliver an advanced traffic management centre solution to Virginia Department of Transportation also proves that Q-Free can win sizeable contracts in advanced traffic management in NA. Q-Free also expects to piggy back on recent successes to expand its infomobility presence to more states.

FINANCIAL OVERVIEW

The condensed interim consolidated financial statements per 31.12.16 (unaudited):

INTERIM CONSOLIDATED INCOME STATEMENT

NOK 1.000	Note	Q4 2016	Q4 2015	FY 2016	FY 2015
Revenues	7	241 411	196 572	877 165	766 885
Cost of goods sold		104 813	78 929	296 481	221 615
Payroll expenses		66 695	98 264	308 241	296 356
Other operating expenses		62 900	87 165	276 789	259 639
Total operating expenses		234 408	264 358	881 511	777 610
EBITDA	7	7 003	-67 786	-4 346	-10 725
Depreciation, amortisation and impairment	8	14 578	77 700	54 761	139 569
EBIT	7	-7 575	-145 486	-59 107	-150 294
Financial income	9	13 260	14 451	39 711	76 999
Financial expenses	9	-7 835	-25 144	-36 225	-98 639
Net financial items		5 425	-10 693	3 486	-21 640
Profit before tax		-2 150	-156 179	-55 621	-171 934
Tax expenses		-3 518	-2 439	2 202	-16 157
Profit after tax from continuing operations		-5 668	-158 618	-53 419	-188 091
Profit after tax on discontinued operations	10	-29 998	-3 126	-30 213	-6 607
Profit for the period		-35 666	-161 744	-83 632	-194 698
Attributable to :					
Equity holders of the parent		-35 666	-161 744	-83 632	-194 698
Profit		-35 666	-161 744	-83 632	-194 698
Number of employees		416	409	416	409
Gross margin		56,6 %	59,8 %	66,2 %	71,1 %
EBITDA margin		2,9 %	-34,5 %	-0,5 %	-1,4 %
EBIT margin		-3,1 %	-74,0 %	-6,7 %	-19,6 %
Profit margin		-0,9 %	-79,5 %	-6,3 %	-22,4 %
EPS (NOK)		-0,40	-2,31	-1,11	-2,79
EPS, diluted (NOK)		-0,40	-2,31	-1,11	-2,79

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOK 1.000	Note	Q4 2016	Q4 2015	FY 2016	FY 2015
Profit for the period		-35 666	-161 744	-83 632	-194 698
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	14	4 727	25 440	-45 804	72 983
Net (loss)/gain on available-for-sale financial assets		0	-20	2	-3 370
- Income tax effect		0	0	0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		4 727	25 420	-45 802	69 613
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial gains (losses) on defined benefit plans		248	-695	248	-695
- Income tax effect		0	0	0	0
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		248	-695	248	-695
Total comprehensive income for the period		-30 691	-137 019	-129 186	-125 780
Attributable to :					
Equity holders of the parent		-30 691	-137 019	-129 186	-125 780
Total comprehensive income for the period		-30 691	-137 019	-129 186	-125 780

BALANCE SHEET - ASSETS

NOK 1.000	Note	31.12.2016	30.09.2016	30.06.2016	31.03.2016	31.12.2015
Development	8, 14	178 746	183 548	195 839	199 400	214 526
Goodwill	8, 14	316 285	327 647	343 059	344 960	367 465
Deferred tax assets	14	17 420	0	0	0	0
Total intangible assets		512 451	511 195	538 898	544 360	581 991
Machinery, fixtures and fittings		33 661	34 809	38 052	39 699	43 854
Total fixed assets		33 661	34 809	38 052	39 699	43 854
Shares		395	395	393	674	660
Other long term receivables		1 008	2 625	2 052	1 625	1 592
Total financial fixed assets		1 403	3 020	2 445	2 299	2 252
Total non - current assets		547 515	549 024	579 395	586 358	628 097
Inventories		66 327	68 773	79 785	96 612	81 378
Total inventories		66 327	68 773	79 785	96 612	81 378
Accounts receivables		142 425	150 797	172 898	132 016	149 606
Work in progress		75 807	83 254	75 621	69 375	44 269
Other receivables		31 646	36 578	39 013	40 012	28 616
Total receivables		249 878	270 629	287 532	241 403	222 491
Cash		101 474	19 195	17 686	52 911	65 349
Total current assets		417 679	358 597	385 003	390 926	369 218
Assets held for sale	10	25 225	0	0	0	0
Total assets		990 419	907 621	964 398	977 284	997 315

BALANCE SHEET - EQUITY & LIABILITIES

NOK 1.000	Note	31.12.2016	30.09.2016	30.06.2016	31.03.2016	31.12.2015
Subscribed share capital		33 905	27 124	27 124	27 124	26 627
Share premium reserve		578 307	451 252	451 252	451 252	439 350
Other paid in capital		20 529	20 529	20 529	20 529	20 529
Total paid in capital		632 741	498 905	498 905	498 905	486 506
Other equity	14	-205 841	-168 502	-104 141	-92 501	-70 007
Total retained equity		-205 841	-168 502	-104 141	-92 501	-70 007
Total equity		426 900	330 403	394 764	406 404	416 499
Pension liabilities		0	18 775	18 775	18 775	18 775
Deferred tax	14	15 003	3 453	10 608	6 582	12 630
Debt to financial institutions		150 000	150 000	150 000	0	0
Other non-current liabilities		116 690	95 593	99 820	128 007	135 894
Total non-current liabilities		281 693	267 821	279 203	153 364	167 299
Debt to financial institutions		79 457	123 894	66 756	182 256	150 000
Accounts payable		100 209	89 627	90 239	83 352	77 913
Tax payable		702	1 053	2 233	2 689	2 051
Public duties payable		16 647	10 492	19 783	10 109	19 713
Advance payments customers		11 677	17 648	19 557	18 454	12 576
Other short term debt		54 696	66 683	91 863	120 656	151 264
Total current liabilities		263 388	309 397	290 431	417 516	413 517
Total liabilities		545 081	577 218	569 634	570 880	580 816
Liabilities held for sale	10	18 438	0	0	0	0
Total equity and liabilities		990 419	907 621	964 398	977 284	997 315

CASH FLOW STATEMENT

NOK 1.000	Note	Q4 2016	Q4 2015	FY 2016	FY 2015
Earnings before tax		-2 150	-156 180	-55 621	-171 934
Taxes paid		-1 863	-4 475	-7 336	-19 272
Depreciation / impairment	8	14 865	78 438	55 909	142 422
Other operational items		11 055	102 290	-65 636	26 868
Cash flow from operating activities		21 907	20 073	-72 684	-21 916
Investments intangible assets	8	-15 740	-14 877	-23 593	-51 591
Investments tangible assets	8	-3 905	-1 079	-8 348	-8 620
Acquisition of a subsidiary, net of cash acquired		-1 942	0	-52 149	-63 434
Other investments		0	0	0	4 881
Cash flow from discontinued operations	10	43	-902	835	23
Cash flow from investment activities		-21 544	-16 858	-83 255	-118 741
Proceeds from new loans		13 783	0	123 931	50 000
Down payments of overdraft facilities		-58 220	0	-58 220	-8 127
Share issue		127 188	0	127 188	0
Other financial items		0	0	0	0
Cash flow from financing activities		82 751	0	192 899	41 873
Net change in cash and cash equivalent		83 114	3 215	36 960	-98 784
Cash and cash equivalents per 01.01.		19 195	62 134	65 349	164 133
CASH AND CASH EQUIVALENTS		102 309	65 349	102 309	65 349

STATEMENT OF CHANGES IN EQUITY

NOK 1.000	Equity attributable to equity holders of the parent							Total
	Subscribed share capital	Share premium reserves	Other paid in Capital	Other equity	Foreign currency translation reserve	Actuarial gains and losses	Available-for-sale reserve	
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	-83 632	-45 804	248	2	-129 186
Share issue arising from acquisitions	7 278	138 957	0	-6 648	0	0	0	139 587
Equity per 31.12.16	33 905	578 307	20 529	-270 163	76 402	-12 017	-63	426 900
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	-194 698	72 983	-695	-3 370	-125 780
Share issue arising from acquisitions	484	12 394	0	0	0	0	0	12 878
Equity per 31.12.15	26 627	439 350	20 529	-179 884	122 206	-12 265	-65	416 499

KEY FIGURES

	Q4 2016	Q4 2015	FY 2016	FY 2015
Operating profit / EBIT per share (NOK)	-0,09	-2,08	-0,78	-2,15
Operating margin (%)	-3,1 %	-74,0 %	-6,7 %	-19,6 %
EPS (NOK)	-0,40	-2,31	-1,11	-2,79
EPS, diluted (NOK)	-0,40	-2,31	-1,11	-2,79
Cash flow per share (NOK)	0,25	0,29	-0,96	-0,31
Equity per share (NOK)	5,67	5,97	5,67	5,97
Equity ratio (%)	43,1 %	41,8 %	43,1 %	41,8 %
Average number of shares	88 447 590	70 070 552	75 351 168	69 781 209
Average number of shares diluted	88 447 590	70 070 552	75 351 168	70 155 182

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

NOTE 1 – GENERAL

The consolidated condensed interim financial statements for the fourth quarter and the full year ended 31.12.2016 (unaudited) was approved by the Board of Directors at its meeting on 13 February 2017.

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 445 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

These consolidated interim financial statements for 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 the 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.

NOTE 3 – ACCOUNTING PRINCIPLES

The consolidated financial statements of the Q-Free Group for 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

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

The Board of Directors of Q-Free ASA informed to the Stock Exchange with reference to an Announcement on 30 January 2017 that Q-Free had signed an agreement to sell all assets related to its security business Prometheus Security Group Inc. ("PSG") at a net consideration of NOK 10 million.

Announced on the 6 February 2017, the transaction has now been closed, and all contracts, employees, and other assets have been transferred to the new owner. PSG will be excluded from Q-Free Group's operating results with effect from fourth quarter 2016 and be reported as "discontinued operations".

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

NOTE 6 – FORWARD LOOKING STATEMENTS

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	Q4 2016					Other / Group	TOTAL Q4-16	Q4 2015					Other / Group	TOTAL Q4-15
	ELA	APMEA	NORDIC	NA				ELA	APMEA	NORDIC	NA			
Revenues	139 502	30 763	61 821	56 567	-47 242	241 411	77 768	23 094	63 504	48 796	-16 590	196 572		
Gross profit	46 238	23 102	45 318	18 810	3 130	136 598	50 679	11 346	31 298	49 213	-24 893	117 643		
Gross margin - %	33,1%	75,1%	73,3%	33,3%	-6,6%	56,6%	65,2%	49,1%	49,3%	100,9%	150,0%	59,8%		
Operating expenses	39 538	22 516	24 515	27 849	15 177	129 595	52 831	14 765	24 262	57 703	35 868	185 429		
EBITDA	6 700	586	20 803	-9 039	-12 047	7 003	-2 152	-3 419	7 036	-8 490	-60 761	-67 786		
EBITDA margin	4,8%	1,9%	33,7%	-16,0%	25,5%	2,9%	-2,8%	-14,8%	11,1%	-17,4%	366,2%	-34,5%		
Depreciation, amortisation and impairment	5 768	156	4 852	5 085	-1 283	14 578	54 888	3 362	12 017	10 039	-2 605	77 700		
Operating profit - EBIT	932	430	15 950	-14 124	-10 764	-7 575	-57 039	-6 781	-4 981	-18 528	-58 156	-145 486		
EBIT margin	0,7%	1,4%	25,8%	-25,0%	22,8%	-3,1%	-73,3%	-29,4%	-7,8%	-38,0%	350,5%	-74,0%		

NOK 1.000	FY 2016					Other / Group	TOTAL 2016	FY 2015					Other / Group	TOTAL 2015
	ELA	APMEA	NORDIC	NA				ELA	APMEA	NORDIC	NA			
Revenues	393 990	138 068	247 283	242 286	-144 462	877 165	326 913	96 542	256 370	197 017	-109 957	766 885		
Gross profit	189 955	81 521	186 417	182 448	-59 656	580 692	186 859	41 621	182 557	199 700	-65 466	545 271		
Gross margin - %	48,2%	59,0%	75,4%	75,3%	41,3%	66,2%	57,2%	43,1%	71,2%	101,4%	59,5%	71,1%		
Operating expenses	144 850	76 896	100 204	226 014	37 067	585 038	138 424	55 629	103 686	160 059	98 197	555 996		
EBITDA	45 105	4 625	86 212	-43 566	-96 724	-4 345	48 435	-14 008	78 871	39 641	-163 663	-10 725		
EBITDA margin	11,4%	3,3%	34,9%	-18,0%	67,0%	-0,5%	14,8%	-14,5%	30,8%	20,1%	148,8%	-1,4%		
Depreciation, amortisation and impairment	16 902	512	18 081	20 594	-1 327	54 762	85 108	7 657	26 931	22 490	-2 617	139 569		
Operating profit - EBIT	28 204	4 113	68 131	-64 160	-95 397	-59 107	-36 673	-21 665	51 940	17 151	-161 046	-150 294		
EBIT margin	7,2%	3,0%	27,6%	-26,5%	66,0%	-6,7%	-11,2%	-22,4%	20,3%	8,7%	146,5%	-19,6%		

NOTE 8 – DEPRECIATIONS, AMORTISATIONS AND IMPAIRMENTS

NOK 1.000

Depreciations, amortisations and impairments	Q4 2016	Q4 2015	FY 2016	FY 2015
Capitalised development cost	6 206	8 701	16 525	42 783
Impairment development cost	0	55 523	0	55 523
Capitalised acquired development cost	4 226	9 948	22 403	24 698
Other	4 146	3 528	15 833	16 565
Total	14 578	77 700	54 761	139 569

Specifications of capital expenditures, balance sheet	Q4 2016	Q4 2015	FY 2016	FY 2015
Capitalised development cost	9 943	13 097	22 543	53 664
Capitalised acquired development cost	0	556	0	146 501
Other	2 105	1 079	6 548	8 620
Total	12 048	14 732	29 091	208 785

NOTE 9 – FINANCIAL ITEMS

NOK 1.000

All financial impact from changes in working capital items is classified as financial items.

Financial items	Q4 2016	Q4 2015	FY 2016	FY 2015
Realised agio / disagio	5 824	-3 356	5 995	-16 011
Unrealised agio / disagio	1 259	1 651	-7 248	9 650
Currency effects earn-out	130	567	2 625	-3 555
Change earn-out	1 740	-6 935	14 123	-6 935
Other financial income	946	-2 058	1 475	5 381
Other financial expenses	-4 474	-562	-13 484	-10 170
Total	5 425	-10 693	3 486	-21 640

NOTE 10 – DISCONTINUED OPERATIONS

In October 2016 the Board announced its intention to divest Q-Free's security business Prometheus Security Group Inc. (PSG) and began this process in December 2016. The security division is not a part of Q-Free's core business going forward.

The divestment was completed in February 2017, and all contracts, employees and other assets have been transferred to the new owner. Consequently, PSG has been excluded from Q-Free's consolidated accounts on continued operations with effect from fourth quarter 2016 and reported separately as "discontinued operations". The fair value of the assets and liabilities relating to PSG is classified as assets and liabilities held for sale.

Interim consolidated income statement discontinued operations	Q4 2016	Q4 2015	FY 2016	FY 2015
Revenues	8 481	14 627	45 045	36 640
Cost of goods sold	2 089	4 828	13 969	10 737
Payroll expenses	4 071	2 339	17 228	8 063
Other operating expenses	4 507	10 731	13 369	23 091
Total operating expenses	10 667	17 898	44 566	41 891
EBITDA	-2 186	-3 271	479	-5 251
Depreciation, amortisation and impairment	27 823	1 539	30 838	4 913
EBIT	-30 009	-4 810	-30 359	-10 164
Financial income	11	0	146	0
Net financial items	11	0	146	0
Profit before tax	-29 998	-4 810	-30 213	-10 164
Tax expenses	0	1 684	0	3 557
Profit after tax from discontinued operations	-29 998	-3 126	-30 213	-6 607

Assets held for sale	31.12.2016
Development	9 824
Machinery, fixtures and fittings	907
Inventories	1 852
Accounts receivables	4 043
Work in progress	7 686
Other receivables	78
Cash	835
Assets held for sale	25 225

Liabilities held for sale	31.12.2016
Deferred tax	1 951
Accounts payable	5 814
Public duties payable	219
Other short term debt	10 454
Liabilities held for sale	18 438

Cash flow from discontinued operations	Q4 2016	Q4 2015	FY 2016	FY 2015
Earnings before tax	-29 998	-4 809	-30 213	-10 164
Depreciation / impairment	27 536	801	29 690	2 060
Other operational items	3 223	3 902	6 823	12 776
Cash flow from operating activities	761	-106	6 300	4 672
Investments intangible assets	-718	-796	-5 465	-4 649
Cash flow from investment activities	-718	-796	-5 465	-4 649
Cash flow from financing activities	0	0	0	0
Cash flow from discontinued operations	43	-902	835	23

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 Q4-16.

NOTE 13 – POTENTIAL PROVISION

Q-Free has an ongoing discussion with one of its customers related to the invoicing principles for Q-Free deliveries prior to 2015. Q-Free has currently not sufficient certainty with regards to the resolution of these discussions and has therefore no basis for considering any provision in the accounts.

NOTE 14 – 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	30.06.15	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
Total assets	414 342	44 012	458 354	403 190	56 019	459 209	532 954	59 455	592 409	529 968	99 676	629 644
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
Total equity and liabilities	31 569	44 012	75 581	19 469	56 019	75 488	-6 329	59 455	53 126	-18 491	99 676	81 185

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.

KEY INFORMATION

Q-FREE ASA

POB 3974 Leangen
7443 Trondheim
Norway

Homepage: www.q-free.com
Email: info@q-free.com
Telephone: +47 73 82 65 00
Organisation number: NO 935 487 242
Founded: 1984

HQ visitors address: Strindfjordvegen 1,
7053 Ranheim,
Norway

FINANCIAL CALENDAR

First quarter 2017 : 28.04.2017
Second quarter 2017 : 14.07.2017
Third quarter 2017 : 26.10.2017
Fourth quarter 2017 : 15.02.2018

