



Q3

Interim report
July – September 2017
Clavister Holding AB

CLAVISTER[®]
CONNECT · PROTECT

INTERIM REPORT

JULY-SEPTEMBER 2017

Third Quarter 2017

- Revenues amounted to 23.9 (15.7) MSEK, an increase of 52% compared to the third quarter in 2016.
- Gross profit amounted to 17.3 (9.6) MSEK, an increase of 81% year over year.
- Gross margin amounted to 73 (61) %.
- EBIT amounted to -16.4 (-14.7) MSEK. Adjusted for a reversal of depreciation of 2.6 MSEK in 2016, EBIT for Q3 2017 was 0.9 MSEK better than the same period last year.
- Result after financial items for the period amounted to -18.6 (-10.0) MSEK. Adjusted for extraordinary items and costs, including reversal of depreciation of 2.6 MSEK and financial gain of associate of 5.5 MSEK (Q3 2016), and financial costs in conjunction with financing (Q3 2017), result after financial items for Q3 2017 was 1.1 MSEK better than the same period last year.
- Cash by the end of the period was 31.3 (15.6) MSEK. In addition, Clavister has own shares at a value of 7.8 MSEK at the end of the quarter, which-together with cash and cash equivalents--yielded a total of 39.1 MSEK.
- Earnings per share amounted to -0.63 (-0.52) SEK.

Important Events from the Third Quarter and After

- Year over year growth for enterprise sales was 21% with strong development in Clavister's main geographical markets. A major Nordic law-enforcement agency recommitted to Clavister by placing a substantial order.
- Commercial incline with Japanese key accounts was positive, including an order from Canon IT Solutions for 2 MSEK.
- The Clavister E10, a new entry-level product for the Service Provider market, was launched. Production batches from Sanmina started shipping in August and have reached the market in live deployments. Initial feedback has shown positive quality effects.
- Two orders from large global mobile operators were received, one in July with an initial order value of 2 MSEK, and one after the end of the quarter with an initial order value of 1.1 MSEK. Both deals have an estimated value of 20 – 40 MSEK each over five years.
- Up-sell orders for increased capacity and functionality pertaining to initial telecom customer deployments were received during the period.
- An order for virtualized security was received from a market-leading global datacenter provider.
- The first indicative term sheet for funding was realized in the third quarter to the amount of 50 MSEK. Clavister continues to be engaged with one of the world's larger lending financial institutions regarding additional long-term financing.
- Clavister appointed new managers to head the Operations, Marketing and Corporate Communications, Product Management, CTO Office and People and Culture functions.

Summary in figures (TSEK)	July - Sept	July - Sept	Jan - Sept	Jan - Sept	Jan - Dec
	2017	2016	2017	2016	2016
Operating revenues	23 860	15 689	65 791	51 054	78 117
Gross profit	17 327	9 564	50 917	33 131	53 467
Gross margin	73%	61%	77%	65%	68%
Operating profit	-16 365	-14 727	-58 230	-52 090	-72 509
Operating margin	-69%	-94%	-89%	-102%	-93%

Comments by John Vestberg, President and CEO

The structural changes to our business that we've been pursuing throughout this year are starting to bear tangible, positive results in our key business metrics. Those changes were driven by our updated, comprehensive business plan which has two very concrete goals for the near future. The first one is to substantially increase our market share. The second, to pursue our goal of high customer satisfaction.

To execute on that business plan and our ambition to achieve a fully funded business, an important step was achieved at the end of the third quarter. The first indicative term sheet for funding that was announced during the second quarter was realized in the third quarter to the amount of 50 MSEK.

Key changes carried out in this quarter include the implementation of a newly structured management team, one that is leaner and more metrically driven to achieve operational excellence and commercial success. We've also taken key decisions on our focus markets: organising the sales teams to be more effective and providing them with the support to fully succeed in their go-to-market strategies.

The third quarter saw a year over year growth of over 50%. Especially positive is that our enterprise business reports solid growth on our main markets—Nordics, Germany and Japan.

Additionally, the telecom business has been on a steady trajectory with a sharp incline from 2016's numbers. This quarter also saw the important work of key technological partnerships in the SDN/NFV space that lay down the critical innovations and use cases that play a factor in growth.

Lastly, one of our most satisfying metrics comes from a survey of customers where they were asked if they'd recommend Clavister to a fellow business or friend. The answer was 93%. That kind of customer satisfaction is a privilege for a company to have and shows that the hard work that we put into this key pillar of our strategy is paying off.

Taken as a sum, these key take-outs from this quarter represent a positive impact on the business and motivate us to continue on a growth line of delivery.

John Vestberg President and CEO



Business Update

Enterprise Segment

The enterprise segment had an overall strong quarter where the main geographical markets demonstrated good growth year over year. Revenues in the enterprise segment, including IAM (Identity Access Management), rose from 15.7 MSEK in the same quarter 2016 to 21.8 MSEK, a growth equal to 39%. The Nordic market unit performed well in the third quarter, increasingly building momentum in both market share and customer satisfaction. Customer retention is high, evidenced for instance by a major Nordic law-enforcement agency placing a substantial order, recommitting to Clavister for the next three years.

The Japanese market, with key accounts such as Canon IT Solutions and NTT-BT, continues its positive commercial incline and achieved a result of 4.2 MSEK in revenues. Part of this revenue is attributable to Canon IT Solutions choosing to adopt the new Clavister E10 product which is considered highly competitive and a good addition to the product portfolio.

The new Clavister E10 is an entry-level Next Generation Firewall (NGFW), designed primarily for Service Providers who desire a high-performance and cost-effective Customer Premise Equipment (CPE) device. The Clavister E10 was launched to selected customers in July and became generally available in the end of September. The Clavister E10 has already started to ship in volumes, and is on a trajectory to have the fastest volume ramp-up in Clavister's history of product launches.

Products produced at the Sanmina plant located in Örnköldsvik, Sweden started shipping in August and have already reached the market and been installed in live environments. As proof of the increased quality of using Sanmina, no product defects have been reported from the field, which otherwise is common in early stages of product launches.

Lastly Africa, being a reasonably new market for Clavister, and China, holding large potential but nonetheless a challenging operating terrain, aggregate the enterprise primary markets that Clavister competes in.

Telecom Segment

Clavister has since the beginning of 2017 received eight telecom orders, of which five were won in the first six months, two during the third quarter and one in October. Seven out of the eight telecom orders received during the year are for virtual security.

Additionally, there were up-sell orders with capacity and functionality increase pertaining to initial customer deployments. These kinds of orders demonstrate that the first roll-outs were successfully deployed and point to increased potential for regional and capacity expansion.

The orders received since the end of the second quarter included two global mobile operators with operations in multiple countries. The initial orders were both for single countries in Asia, valued at 2 MSEK and 1.1 MSEK, respectively. The deal size of those orders, over five years, are estimated at 20 – 40 MSEK each. A smaller, but strategically important order was received for a market-leading global datacenter provider.

The revenues within the telecom segment for the third quarter ended at 2.1 MSEK compared to no revenues for the same quarter last year.

The recent months have shown a continued positive market trend for virtual security in the SDN/NFV domain which is reflected in strong funnel growth for Clavister in the coming quarters. The orders received so far, in four out of five regions globally for virtual security as well as commercial activities in all regions worldwide, demonstrate this point.

This period also saw the extension of global partnership dialogues for virtual security in the SDN/NFV domain. These key partnerships include large brands like Intel through the Intel Network Builders program; strategic technological collaborations that yield potential customer solutions.

Lastly, to replicate the commercial successes, we are gearing up our marketing efforts and activities. Some of these events include a recent keynote presentation held at the SDN/NFV World Congress in The Hague, the Netherlands and a future webinar with industry leading platform Lightreading as led by one of the most respected names in the SDN/NFV space, analyst Patrick Donegan of HardenStance. These and many more will expand our mindshare in the market and start building the Clavister brand.

Revenues and Gross Profits in the Third Quarter

Revenues amounted to 23.9 (15.7) MSEK, an increase of 52% compared with the third quarter of 2016. Acquisition of PhenixID contributed with 4.9 (2.0) MSEK.

Gross profit for the third quarter amounted to 17.3 (9.6) MSEK with gross margin growing to 73 (61)%, somewhat negatively affected by larger shipments of lower-margin products to Asia.

In the third quarter, revenues from enterprise sales, excluding IAM (Identity and Access Management), increased by 23%. Inclusive IAM, this corresponds to a growth of 39%.

For the Nordic region, revenues amounted to 8.1 (4.7) MSEK, a growth of 74% year over year.

For EMEA (excluding Nordics), revenues amounted to 4.4 (2.9) MSEK, a growth of 53% year over year.

Americas, no longer representing a tier-1 geographical market for Clavister due to staff reallocation to focus markets, experienced a slight decline in revenues.

Asia achieved a revenue growth of 42%, from 4.3 to 6.1 MSEK, predominantly from Japan.

Revenues from Global Key Accounts increased by 40%, from 3.0 to 4.2 MSEK. Of those accounts, telecom-related global accounts had a very strong growth accelerating from no revenues in 2016 to 2.1 MSEK in 2017. Enterprise-related accounts are developing as expected, although somewhat negatively affected during the third quarter due to project pace.

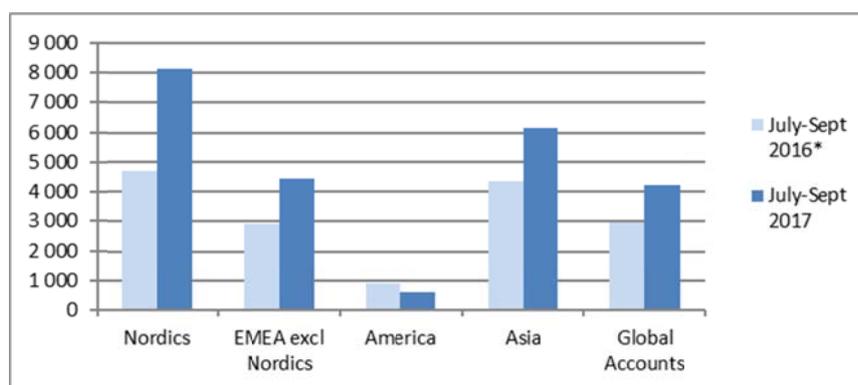


Figure 1. Revenues per Geographical Market

* Comparative figures are according to the adopted Annual Accounts of 2016

Currency exchange rates, mainly USD to SEK, have affected revenues negatively for the Group by -2.2 percentage points for the third quarter this year compared to last year.

Costs in the Third Quarter

Total operating expenses amounted to 33.0 (29.0) MSEK, an increase of 14%. Extra ordinary expenses, legal and consultancy fees, have increase during the quarter and are partly linked to ongoing funding.

Personnel expenses increased by 16% and amounted to 23.1 (19.9) MSEK. In the third quarter 2016 the acquisition of PhenixID only affected personnel expenses one month, compared to three months in 2017. The total number of employees in the group has decreased from 159 to 157 by the end of the quarter.

Result and Items affecting Comparability

Result after financial items for the period amounted to -18.6 (-10.0) MSEK. Adjusted for extraordinary items and costs, including reversal of depreciation of 2.6 MSEK and financial gain of associate of 5.5 MSEK (Q3 2016), and financial costs in conjunction with financing (Q3 2017), result after financial items for Q3 2017 was 1.1 MSEK better than the same period last year.

	July - Sept 2017	July - Sept 2016
<i>MSEK</i>		
EBIT	-16,4	-14,7
Reversal of depreciation	0	-2,6
EBIT after items affecting comparability	-16,4	-17,3
	July - Sept 2017	July - Sept 2016
<i>MSEK</i>		
Result after financial items	-18,6	-10,0
Reversal of depreciation	0,0	-2,6
Financial gain of associate	0	-5,5
Extra ordinary financial cost in conjunction with financing	1,6	0
Result after items affecting comparability	-17,0	-18,1

Table 1. Items affecting comparability.

Investments, Capitalization and Amortization of Development Costs

The Group's investments in the form of capitalized expenditures on intangible fixed assets amounted to 5.3 (4.9) MSEK for the third quarter 2017. During the quarter, the company capitalized development costs corresponding to 56% of the company's total development costs. Investments in tangible assets consist primarily of computer equipment.

Depreciation of tangible assets amounted to 0.1 (0.2) MSEK during the third quarter, and amortization of intangible assets amounted to 5.8 (0.0) MSEK, mainly attributable to amortization of previous capitalizations.

Cash and Cash Equivalents, Financing and Financial Position

Cash flow from operating activities during the third quarter amounted to -12.9 (-5.0) MSEK.

Cash flow from investing activities amounted to -5.3 (-4.9) MSEK. Description of investment activities is shown in the section on investments, capitalization and amortization above.

Cash flow from financing activities amounted to 20.8 (-1.3) MSEK.

Clavister signed a loan Financing Agreement of 50 MSEK on September 27, 2017 with TageHus Holding AB as lender. The loan financing has a tenor of three years. The Financing Agreement is based on the terms and conditions previously agreed between the two parties as communicated to the market in a press release dated September 13, 2017. The loan and its accrued interest may be repaid by issuing warrants based on a subscription price of 20 SEK.

The larger part of the funding provided by TageHus is made available immediately as new liquidity for general corporate purposes. The funding has been refinanced approximately 16 MSEK in existing loan obligations of the Clavister group.

Clavister continues to be engaged with one of the world's larger lending financial institutions regarding additional long-term financing.

Cash and cash equivalents amounted to 31.3 (15.6) MSEK at the end of the period. The acquisition of PhenixID also included 330,000 own shares, which at the end of the quarter amounted to 7.8 MSEK, share price 23.50 SEK per share, reported as equity in the balance sheet.

Impairment Testing

According to IAS 36 goodwill and other intangible assets (such as capitalized development costs and deferred tax assets) are sampled annually for devaluation irrespective of whether there are indications that the asset should be devalued or not. Goodwill is an item arising on business combinations if the purchase price exceeds the value of its assets and is seen as a record that will provide repayment through future economic benefits. As such they're difficult to identify in order to properly assess whether devaluation has both internal and external sources of information used. Value in use is that the calculated value of the asset has been calculated on the future cash flows (DCF), based on the strategic plans adopted by the Board for the next five years, as well as on external information such as market interest rate, loan margins, etc.

In conjunction with the 2016 annual report, a review of the Group's goodwill was tested for the acquisition of PhenixID and Clavister APAC. This impairment test resulted in impairment of goodwill linked to Clavister APAC, whereby a write-down in the Group was made by 2.6 MSEK. Other items showed no impairment loss. No major changes have occurred during the third quarter of 2017, with the need for impairment being unchanged.

Agreements and Events after the End of the Period

2017-10-16 – A commercial order from a pan-global telecom provider placed an order for one of its largest Asian operations. The initial order is for 1.1 MSEK with estimates of high growth year on year, based on the Clavister data charge models. According to previously communicated telecom business update, and following Clavister's business model based on capacity, the total deal value is estimated to 20 - 40 MSEK over a five year period for that single country and solution.

Enterprise Market

The cybersecurity market continues to grow substantially as cybercrime evolves and awareness reaches the board rooms. The global cybersecurity market is forecasted to more than 120 billion USD for year 2017, with an annual growth of between 12 to 15%. It is estimated that cybercrime will cost businesses globally more than 6 trillion USD annually by 2021.



Figure 2. Global cybersecurity market 2017 – 2021. Source: Cybersecurity Ventures

Updated forecasts from Gartner estimates the Enterprise security market to be worth 98 billion USD for the year 2017, an adjustment from the 95 billion USD reported previous quarter. The market is expected to grow to 132 billion USD by the year 2021, again adjusted from 125 billion USD as reported in the previous quarter.

Clavister’s current product portfolio, including Next-Generation Firewalls, Endpoint Security and Identity and Access Management solutions, is able to address about 20% of this market.

The product group Next-Generation Firewalls, being Clavister’s core product area, is expected to be worth over 12 billion USD for 2017 and is estimated to grow to 14.6 billion USD by the year 2021. The product groups Identity Access Management and Endpoint Security represent an addressable market for Clavister worth 3.6 billion USD and 4.1 billion USD, respectively.

All in all, this presents a total addressable market to Clavister at about 20 billion USD for the current year, see Figure 3 (Source: Gartner; “Forecast: Information Security, Worldwide, 2015-2021, 2Q17 Update”).

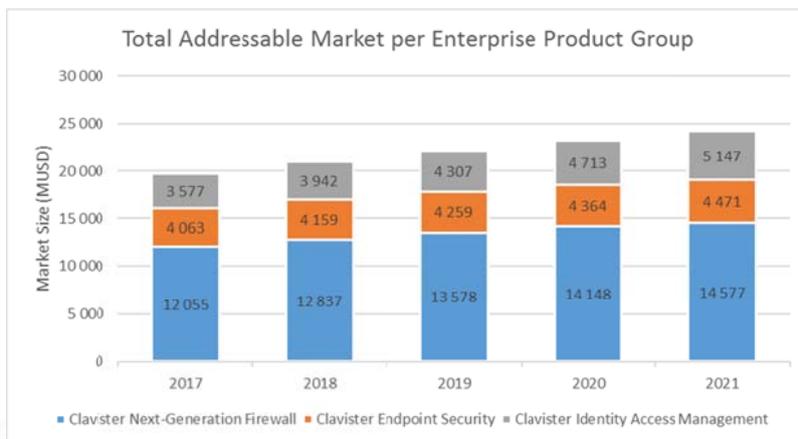


Figure 3. Total addressable market for Clavister’s product portfolio in the Enterprise segment 2017 - 2021 (MUSD).

Clavister’s activities are primarily focused to five geographical markets (Clavister’s tier-1 markets): Sweden, Germany, Japan, China and the African Maghreb region. The total addressable market for those geographies

aggregated amounts to 3.5 billion USD for the current year (an update from 2.9 billion USD as reported in the previous quarter), and is expected to grow to 4.2 billion USD by 2022, see Figure 4.

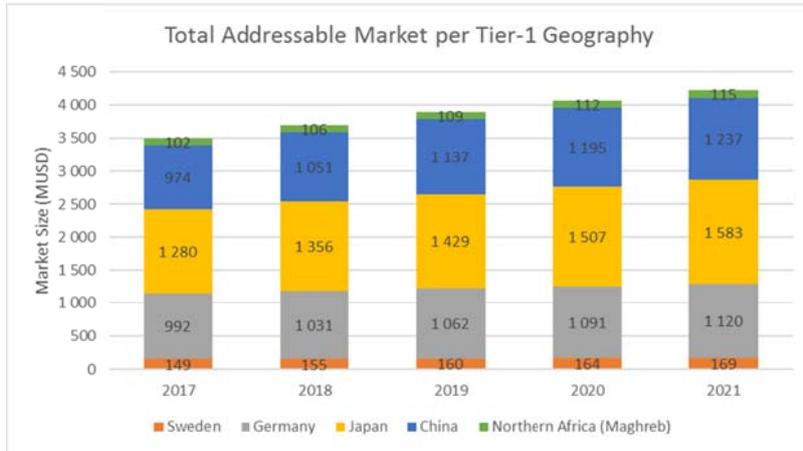


Figure 4. Total addressable market on Clavister’s geographical focus markets 2017 - 2022 (MUSD).

Telecom Market

The Fourth Industrial Revolution

Digital transformation is emerging as a key driver of a dramatic change in the way we live, work and interact. This sweeping change has been termed the Fourth Industrial Revolution. The telecom industry is playing a critical role in this revolution by providing the fundamental building blocks and technologies required. Cloud services, virtualization, mobile connectivity, autonomous vehicles, IoT (internet of things), social media, data analytics and artificial intelligence are just some examples of technologies that, combined, drive the transformation.

As a consequence, the growth of information is astonishing; according to Cisco's Visual Networking Index (2016), mobile data traffic has grown with a factor of *400 million* in the past 15 years. Forecasted by IDC, more than 44 zettabytes of data (equivalent to 44 trillion gigabytes) will flow annually through global networks in 2020.

Kathrin Buvac, Chief Strategy Officer at Nokia, suggests that "The internet of things and industrial digitization have the potential to have as big an impact on people as the incarnation of the internet itself had, possibly even bigger than that."

Security is Key

Within the context of this massive digital transformation, it is easy to understand that the financial and integrity implications are profound if security and data privacy cannot be ensured.

Rajeev Suri, CEO of Nokia, in his keynote speech at the 2017 edition of the Mobile World Congress in Barcelona went as far as to state that network security is the second most important topic for the telecom industry (after carrier mergers and acquisitions).

The telecom market is clearly at an inflexion point, where the combination of disruptive technology such as virtualization, projected massive data growth and a high awareness of the need for security opens a disruptive window of opportunity for companies like Clavister. With a unique business model and already contracted partnerships with some of the world's most renowned telecom suppliers, including Nokia, we believe that Clavister has a strong possibility to capitalize on this opportunity.

Business Model

The business model Clavister applies for the telecom segment is based on an indirect sales model, in which a system integrator assumes the full responsibility towards the end customer, i.e. the mobile operator. Clavister has currently contracted a handful of systems integrators, where players such as Nokia, Ericsson and Mirait are the most renowned. Additionally, other global system integrators, originally from the Enterprise space, are starting to gain traction in the telecom segment as well, thereby expanding on Clavister's potential prospect base.

Nokia, one of the market leaders regarding LTE/4G infrastructure, for example, has chosen to license and sell Clavister software under its own brand, Nokia NetGuard Virtual Firewall. The solution has – by leveraging on Nokia's extensive sales organization – the potential to reach out globally to all mobile operators.

Mirait, as another example, is a major supplier to some of the largest companies in Japan, including the major mobile operators.

The typical delivery from Clavister to the system vendors consists of security software, related software for administration, required licenses and technical support and upgrades. The software is primarily licensed per peak traffic throughput, which means that Clavister's revenue potential increases as the volume of data increases in the operators' networks. Mobile operators are typically ordering small-capacity licenses initially, and placing subsequent purchase orders as capacity requirements increase. Initial feedback from several operator customers is that they anticipate a capacity increase of 80 – 100% year over year for the first five years of deployment.

Additional technical features are licensed separately and provide an upsell opportunity for Clavister. Those feature licenses follow the same peak traffic throughput model which means that the upsell revenue scales with throughput as well.

Technical support and upgrades are provided at an annual support charge, which is a percentage of the aggregated license cost.

Clavister's Telecom Security Solutions

Network security is required for different use cases and in multiple locations within a mobile operator's network. Clavister currently provides solutions for at least four different use cases, based on Clavister's security software, see Figure 5 below.

- **Core Security (Gi/SGi Firewall)** – providing perimeter security between the mobile core network and the public internet. The vast majority of all data traffic sent to and from mobile phones or other mobile devices are transferred through Core Security nodes.
- **Backhaul Security (LTE Security Gateway)** – providing transport security for the backhaul; the communication between radio base stations and the mobile core network. Backhaul security is required in order to protect the mobile core network against cyberattacks and provides eavesdropping and data integrity protection for the subscribers. Mobile operators who have fully deployed backhaul security have all their mobile data traffic passing through backhaul security nodes.
- **Domain Security (Virtual Firewall)** – providing general-purpose separation of domains (firewalling) within a telecom network. Traffic volumes depend on the specific use case.
- **Roaming Security (GRX Firewall)** – providing security for roaming traffic (data traffic flowing between two mobile operator networks).

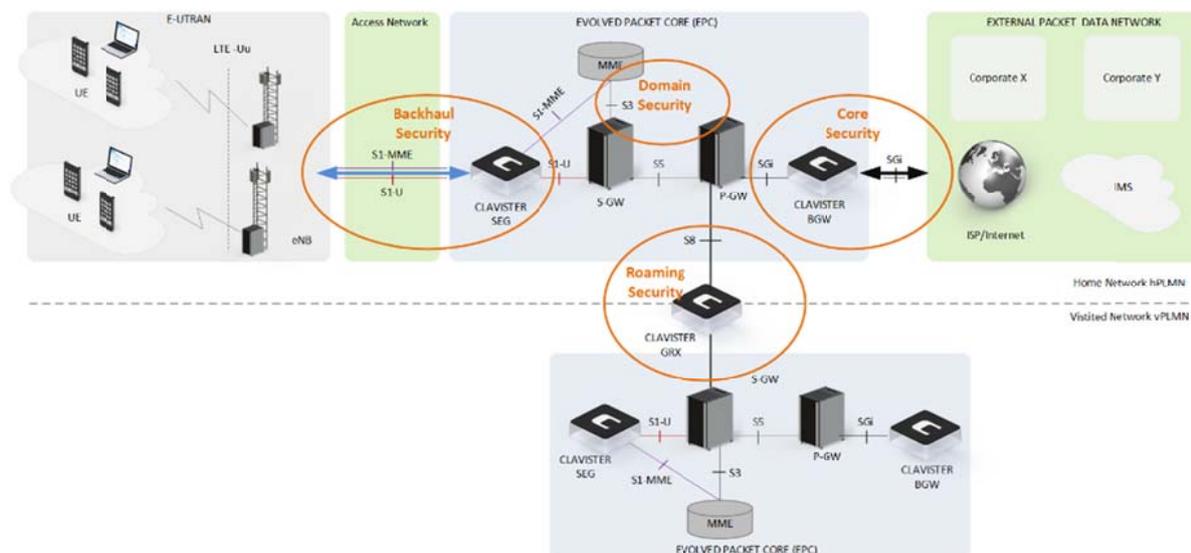


Figure 5. Multiple telecom security solutions based on Clavister's security software.

Total Addressable Market

The three main parameters governing the size of the addressable market for Clavister within the telecom segment are the growth of mobile data traffic, the rate of which virtualized telecom networks are being deployed and the price per peak throughput being accepted by the mobile operators.

According to Ericsson Mobility Report 2017, mobile data is forecasted to over 19 Exabytes (19 billion Gigabytes) per month next year, growing to 72 Exabytes (72 billion Gigabytes) per month by 2022.

Mobile data usage is, in average, uniform over the days in the month, and part of the daily traffic is concentrated in the *Busy Hour* (the theoretical hour in which most of the data is being used). Following assumptions set out by CelPlan (www.celplan.com), one third of the daily mobile traffic is consumed in the Busy Hour. The network capacity required to cope with the data traffic in the Busy Hour is known as *Peak Throughput*. When dimensioning the network nodes in a mobile network, the Peak Throughput is hence the key governing parameter.

For 2018, the Peak Throughput on a global basis, based on above assumptions, would amount to 515 Tbps (Terabit per Second), growing to 1 855 Tbps by year 2022.

Due to the emerging nature of virtualized telecom networks, the rate of which they are being deployed is still a parameter which is somewhat uncertain. However, SNS Research estimates that, by 2020, nearly 80% of all new EPC (mobile core) investments will be virtualized. Indications from early Clavister customers point towards the same rate.

Again, as this market is emerging, pricing levels are yet to be normalized. Also, price levels from Clavister differ between the solutions, as they include different feature-sets. As an example, for Core Security, Clavister is deploying an average gross price (before discounts) at 4,000 Euros per Gbps (Gigabit per Second). A nominal price erosion is assumed.

The table below illustrates a scenario for the total addressable market for the Core Security solution. The scenario indicates that the addressable market, before discounts to partners, is worth approximately 100 million EUR in 2018, growing to 2.6 billion EUR by 2022.

Total Addressable Market - Virtualized Core Security	2018	2019	2020	2021	2022
Monthly Mobile Data (PB / Month) ¹⁾	19 857	28 679	39 615	53 096	71 566
Peak Throughput (Tbps) ²⁾	515	744	1 027	1 377	1 855
Virtualization Adoption ³⁾	5%	25%	50%	80%	95%
Virtualized Mobile Core Throughput (Tbps)	26	186	514	1 101	1 763
Incremental Virtualized Mobile Core Throughput (Tbps)	26	160	328	588	661
Average Gross Price, Virtualized Core Security, per Gbps (EUR) ⁴⁾	4 000	4 000	4 000	4 000	4 000
Total Addressable Market - Virtualized Core Security (Based on Gross Prices) (MEUR)	103,0	640,6	1 310,6	2 350,9	2 645,6

Sources: ¹⁾ Ericsson Mobility Report 2017, ²⁾ CelPlan, ³⁾ SNS Research, ⁴⁾ Clavister

Pricing for the Backhaul Security solution is somewhat higher, due to more advanced features included. Following the same assumptions on virtualized adoption rate, the table below illustrates a total addressable market for the Backhaul Security solution, growing from 111 million EUR in 2018 to 2.5 billion EUR by 2022, before discounts to partners.

Total Addressable Market - Virtualized Backhaul Security	2018	2019	2020	2021	2022
Monthly Mobile Data (PB / Month) ¹⁾	19 857	28 679	39 615	53 096	71 566
Peak Throughput (Tbps) ²⁾	515	744	1 027	1 377	1 855
Virtualization Adoption ³⁾	5%	25%	50%	80%	95%
Virtualized Mobile Core Throughput (Tbps)	26	186	514	1 101	1 763
Incremental Virtualized Mobile Core Throughput (Tbps)	26	160	328	588	661
Average Gross Price, Virtualized Backhaul Security, per Gbps (EUR) ⁴⁾	4 300	4 300	4 300	4 300	4 300
Total Addressable Market - Virtualized Backhaul Security (Based on Gross Prices) (MEUR)	110,7	688,6	1 408,9	2 527,2	2 844,0

Sources: ¹⁾ Ericsson Mobility Report 2017, ²⁾ CelPlan, ³⁾ SNS Research, ⁴⁾ Clavister

The two other solutions currently provided by Clavister, Domain Security and Roaming Security, do not have the same direct correlation to total mobile data. For simplicity, the addressable market for those solutions are estimated to 20% and 10% of Core Security, respectively.

Because of the progressive nature of the telecom market, it is relevant to understand the aggregated market size over some years. *Figure 6* below provides a high-level understanding of the total addressable market for Clavister's current four security solutions, aggregated over a period of five years. As in previous examples, the numbers given are before discounts to partners.

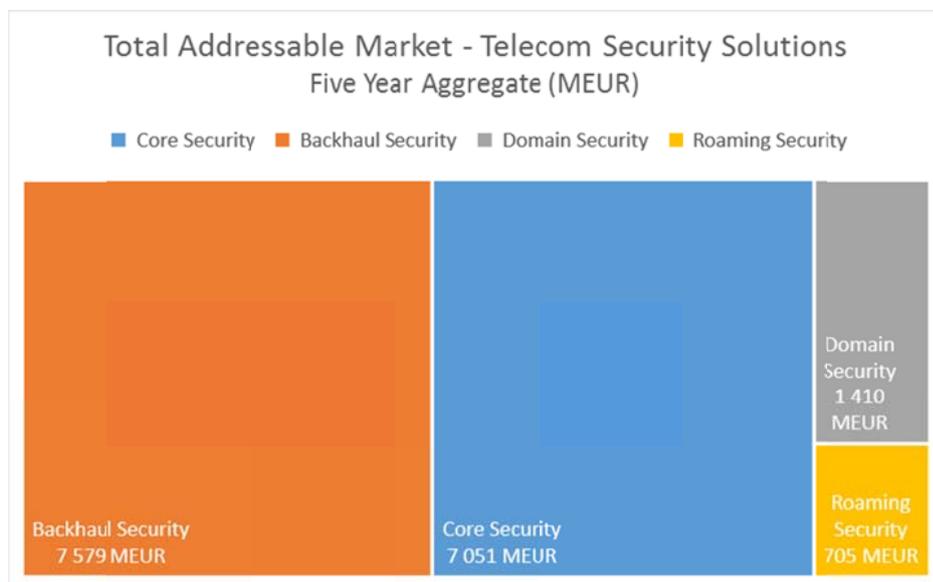


Figure 6. Total Addressable Market for Clavister's telecom security solutions. Five-year aggregate, before discounts.

About Clavister

Clavister is a Swedish company that develops, produces and sells network security solutions in the area of cybersecurity to customers in the Telecom, Enterprise and IAM (Identification, Authentication & Management) market. The company was founded in 1997 and has its headquarters in Örnköldsvik. Clavister's solutions are based on proprietary and innovative software with powerful performance. Thanks to the high degree of own-built software, not only is exceptionally good performance achieved, but the products are also considered to be very secure, especially against the so-called "backdoors", which media and whistle-blowers believe are found amongst most competitors. Proprietary software will also provide a good gross margin and hence price competitiveness, especially in business applications, where licensing can be used.

For further information about Clavister visit www.clavister.com.

Personnel and Organization

In the end of the third quarter the number of employees in the group amounted to 157 (159). Clavister AB increased with three employees, PhenixID added one employee, and Clavister China decreased by six employees. The number of employees corresponds to the number of full-time positions. In addition to permanent staff, Clavister also engages consultants in customer projects and sales corresponding to 9 (10) full-time positions. Clavister thus employed a total of 30 in September 2017, including employees and consultants 166 (169).

Employees are one of the Group's most important asset, and the strategy is to continue working for a good and stimulating work environment with challenging tasks and development opportunities. This, along with various support for maintaining good health, are crucial factors in continuing to attract, recruit and retain qualified employees.

Parent Company

The parent company Clavister Holding AB has a limited business.

Accounting Policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (IFRS IC) as adopted by European Union (EU). The Group also applies the Annual Accounts Act (1995: 1554) and the recommendation of the Council for Financial Reporting RFR 1 "Supplementary Accounting Rules for Groups".

New Revenue Recognition Standard IFRS 15

The preparations for the new revenue recognition standard, IFRS 15, are in progress. IFRS 15 will be implemented from January 2018 and the initial analysis indicates a need for changes in the company's transactions systems and revenue recognition. The changes identified will result in delayed revenue recognition of the company's support and maintenance services, which to a greater extent will be deferred over the contract period. The assessment regarding current revenue accounting for sales of hardware and software licenses is they will not be affected.

Disputes and Litigation

There are no litigation cases or legal proceedings on-going at present.

Transactions with Related Parties

No significant transactions between related parties and Clavister have occurred in the group or the parent company during the reporting period.

Risks and Uncertainties

The company refers to the Annual Report 2016 and the website www.clavister.com/investor-relations/financial-documents/ where a more extensive summary is made of the risks and uncertainties in the business that could significantly affect the results and share performance. The Company does not believe that during the reporting period any material changes to the risks and uncertainties have been made, compared with those featured in the annual report. Risks are a natural part of the activities. Clavister works continuously to identify, assess, evaluate and prevent the risks that the business is exposed. To risks occur, they can affect Clavister's sales, earnings and financial position. In brief, operational risks where market or operational risks such as competition, product development and technical difficulties, product liability and guarantees, the risks to employees and key personnel, declining economic conditions, political events, intangible assets that are not patented and legal risks are included. Interest rates, credit and liquidity risks as well as tax risks, are described under the financial risks. Regarding currency risk, all sales are either in SEK, USD, EUR regulated by agreements with the customer. The currency EUR dominates, followed by SEK. Currency fluctuations both in terms of supplier payments and customer payments can create losses or gains and impact the financial position.

The company in China invoices and reports in the Chinese currency CNY (Yuan). As trade and purchase of products in Clavister China for the most part take place locally and in CNY, the exchange rate impact on earnings is limited, but impacts the profits of the Group.

Hedging occurs by offsetting payments received with disbursements in the same currency. In terms of the overall distribution between different currencies with respect to sales in EUR for around half of group sales, followed by SEK CNY and USD with a third each. The cost is dominated by SEK to around two thirds, and the remainder is distributed between the USD, EUR and CNY.

Financial Information

Clavister intends to distribute financial reports on the dates below.

- | | |
|--|-------------------|
| • Earnings report and report for the fourth quarter 2017 | February 15, 2018 |
| • Annual general meeting | April 24, 2018 |
| • Interim report January-March 2018 | May 16, 2018 |
| • Interim report April-June 2018 | August 22, 2018 |

Financial reports, press releases, and information are available from the date of publication on Clavister's website www.clavister.com.

The Board of Directors and company management make estimates and assumptions that affect the company's results and financial position. The assumptions are continually evaluated and are based on past experience, and expectations of future events that are expected to be reasonable under prevailing circumstances. Actual results may differ from these estimates. The areas where estimates and assumptions could result in significant risk of adjustments to the carrying values of the results and financial position in future reporting periods are primarily, estimates of sales and market conditions, the useful lives of the Group's intangible assets, impairment test for goodwill and value of our shares, valuation of deferred tax assets and accounts receivable.

Any forward-looking statements in this report are based on the Company's best assessment at the time of the report. Clavister makes no forecasts.

The Board of Directors, President and CEO and CFO ensure that the interim report gives a true and fair view of the Group's and the Parent Company's business, position and results and describes significant risks and uncertainties faced by the company and the companies included in the Group.

Viktor Kovács
Chairman of the Board

Ilkka Hiidenheimo
Board member

Sigrun Hjelmquist
Board member

Annika Andersson
Board member

Peter Dahlander
Board member

Göran Carstedt
Board member

Jan Ramkvist
Board member

John Vestberg
President and CEO

This earnings and quarterly report has not been subject to special review by the Company's auditor.

Condensed Consolidated Income Statement and Statement of Total Income for the Group

	July - Sept 2017	July - Sept 2016	Jan - Sept 2017	Jan - Sept 2016	Jan-Dec 2016 *
Income statement (TSEK)					
Revenue	23 860	15 689	65 791	51 054	78 117
COGS	-6 533	-6 125	-14 874	-17 923	-24 650
Gross profit	17 327	9 564	50 917	33 131	53 467
<i>Gross margin, %</i>	73%	61%	77%	65%	68%
Cap. Dev. Expenses	5 286	4 933	17 471	13 773	20 406
Staff costs	-23 113	-19 890	-79 120	-61 613	-89 751
Other external costs	-9 902	-9 111	-32 067	-29 259	-41 896
Depreciation and impairment loss	-138	-231	-425	-470	-629
Amortization and impairment loss	-5 825	8	-15 006	-7 652	-14 106
EBIT	-16 365	-14 727	-58 230	-52 090	-72 509
Financial items	-2 208	4 714	-4 353	2 030	796
Result after financial items	-18 573	-10 013	-62 583	-50 060	-71 713
Taxes	4 037	-22	13 621	-62	16 516
Net profit - loss	-14 536	-10 035	-48 962	-50 122	-55 197
<i>Average number of shares (before dilutive effect)</i>	22 895 384	19 371 608	22 821 254	19 037 284	20 642 541
<i>Average number of shares (after dilutive effect)</i>	24 637 485	20 896 323	24 563 355	20 562 000	22 015 009
<i>Result per share, SEK</i>	-0,63	-0,52	-2,15	-2,63	-2,67
<i>Result per share (after dilutive effect), SEK</i>	-0,59	-0,48	-1,99	-2,44	-2,48
Net profit relating to					
Shareholders of the Parent Company	-14 536	-10 035	-48 962	-50 122	-55 197
<i>Total results of the Group:</i>					
Net profit (loss) end of the period	-14 536	-10 035	-48 962	-50 122	-55 197
Other profit	-54	1276	-205	907	108
Net profit (loss)	-14 590	-8 759	-49 167	-49 215	-55 089

* Comparative figures are according to the adopted Annual Accounts of 2016

Condensed Consolidated Balance Sheet for the Group

Balance sheet (TSEK)	2017-09-30	2016-09-30	2016-12-31 *
Assets			
Intangible assets	109 873	104 678	107 410
Tangible assets	529	1 180	964
Financial assets	80 051	66 569	66 377
Inventories	6 823	8 811	6 577
Current receivables	18 259	10 168	20 530
Cash and bank balances	31 284	15 614	75 311
Total assets	246 820	207 020	277 169
Equity and liabilities			
Equity	172 404	150 367	208 378
Untaxed reserves	0	586	0
Provisions	2 997	0	2 997
Long-term liabilities	42 130	20 119	17 270
Current liabilities	29 290	35 948	48 524
Total equity and liabilities	246 820	207 020	277 169
Pledged assets	94 333	24 149	89 363
Contingent liabilities	0	0	0

Condensed Consolidated Cash Flow Statements for the Group

Cash flow analysis (TSEK)	July-Sept 2017	July-Sept 2016	Jan - Sept 2017	Jan - Sept 2016	Jan - Dec 2016 *
Profit (loss) after financial items	-18 573	-10 013	-62 581	-50 060	-71 713
Adjustments for non-cash items, etc.	5 964	5 249	15 432	13 151	9 481
Paid taxes	-282	-195	-846	-585	3 167
Cash flow from operating activities before working capital changes	-12 891	-4 959	-47 995	-37 494	-59 065
Change in W/C	-987	9 171	-6 439	6 131	6 670
Cash flow from operating activities	-13 878	4 212	-54 434	-31 363	-52 395
Cash flow from investing activities	-5 286	-4 933	-17 471	-13 774	-20 400
Cash flow from financing activities	20 830	-1 267	27 878	17 224	104 579
Cash flow	1 666	-1 988	-44 027	-27 913	31 784
Cash, beginning of period	29 618	17 602	75 311	43 527	43 527
Cash, end of period	31 284	15 614	31 284	15 614	75 311

* Comparative figures are according to the adopted Annual Accounts of 2016

Condensed Consolidated Changes in Equity for the Group

Equity (TSEK)	July - Sept 2017	July - Sept 2016	Jan - Sept 2017	Jan - Sept 2016	Jan - Dec 2016 *
Equity, beginning of period	176 994	91 656	208 378	90 929	90 929
Cash issue	0	0	4 448	27 105	125 078
Non-cash issue	0	16 500	0	16 500	65 090
Issue expenses	0	-15	0	-214	-7 520
Non-registered issue	10 000	50 985	5 875	65 261	6 390
Holdings of own shares	0	0	0	0	-16 500
Equity component at convertible loan	0	0	2 870	0	0
Other total income for the period	-54	1 276	-205	907	108
Result for the period	-14 536	-10 035	-48 962	-50 121	-55 197
Equity, end of period	172 404	150 367	172 404	150 367	208 378

Consolidated Key Data and Figures for the Group

Key data and figures	July - Sept 2017	July - Sept 2016	Jan - Sept 2017	Jan - Sept 2016	Jan - Dec 2016
Operating revenues (TSEK)	23 860	15 689	65 791	51 054	78 117
Gross profit (TSEK)	17 327	9 564	50 917	33 131	53 467
Gross margin (%)	73%	61%	77%	65%	68%
Operating profit (TSEK)	-16 365	-14 727	-58 230	-52 090	-72 509
Net profit (loss) (TSEK)	-14 536	-10 035	-48 962	-50 122	-55 197
Earnings per share (SEK) before dilution	-0,63	-0,52	-2,15	-2,63	-2,67
Earnings per share (SEK) after dilution	-0,59	-0,48	-1,99	-2,44	-2,48
Price per earnings (SEK)	N/A	N/A	N/A	N/A	-17,24
Equity per share	7,53	7,70	7,53	7,70	9,16
Number of shares before dilution at the end of the period	22 895 384	19 536 610	22 895 384	19 536 610	22 747 124
Number of shares after dilution at the end of the period	24 637 485	21 061 325	24 637 485	21 061 325	24 139 392
Average number of shares before dilution	22 895 384	19 371 608	22 821 254	19 037 284	20 642 541
Average number of shares after dilution	24 637 485	20 896 323	24 563 355	20 562 000	22 015 009
Number of employees at the end of period	157	159	157	159	160
Average number of employees	159	153	159	160	142
Number of employees and external resources at end of period	167	169	167	169	170
Equity/assets ratio (%)	70%	73%	70%	73%	75%
Quick ratio (%)	169%	72%	169%	72%	198%
Net dept (-), Net cash (+) (TSEK)	-10 846	-6 381	-10 846	-6 381	46 828

Segment Reporting

A business segment is a part of the Group which operates independently and can generate revenue and incur costs and for which there is separate and individual financial information available. Clavister develops products for the business segment enterprise for medium and large customers as well as for telecom operators (and other service providers) based on Core and Stream platforms. Based on the segments, a resource allocation of the Group's development work is made. Product platforms have unique advantages where Stream has better adapted functionality and performance for telecom while Core generally suits the enterprise segment. The segment of the enterprise accounts for the most significant part of the sales. Through close business cooperation, the company has been able to adapt the telecom solutions, which, together with increased data

traffic in the telecom networks, is expected to generate dividends in increased growth and development for the Group.

The capitalized development costs have been used as a reference when allocating operating assets and operating liabilities. For 2016, the balanced development costs are divided by 64% for enterprise and 36% respectively for the telecom segment. By 2017, they are divided by 62% for enterprise and 38% for telecom.

For more information and description about the operating segments, see Annual report 2016, <http://www.clavister.com/>. The company's share capital amounts to 2,289, 538.40 SEK.

Segment reporting (TSEK)	Enterprise		Telecom		Group-wide/ elimination		Total Group	
	July-Sept 2017	July-Sept 2016	July-Sept 2017	July-Sept 2016	July-Sept 2017	July-Sept 2016	July-Sept 2017	July-Sept 2016
Revenue								
External revenue	21 469	15 856	2 097	0	0	0	23 566	15 856
Internal revenue	0	0	0	0	0	0	0	0
Other income	293	-167	0	0	0	0	293	-167
Total revenue	21 762	15 689	2 097	0	0	0	23 859	15 689
Operating profit (loss)	-10 146	-9 425	-6 219	-5 302	0	0	-16 365	-14 727
Financial items	-1 369	3 017	-839	1 697	0	0	-2 208	4 714
Tax on profit of the year	2 503	-14	1 534	-8	0	0	4 037	-22
Net profit (loss)	-9 012	-6 422	-5 524	-3 613	0	0	-14 536	-10 035
Other information								
Operational assets	153 028	132 493	93 792	74 527	0	0	246 820	207 020
Operational liabilities	18 160	18 046	11 130	10 151	0	0	29 290	28 197
Investments	1 678	2 640	3 608	2 592	0	0	5 286	5 232
Depreciation and Amortizations	2 735	223	3 228	0	0	0	5 963	223
Goodwill	53 669	64 805	0	0	0	0	53 669	64 805

Shareholders and Shares

Clavister Holding shares are listed on Nasdaq First North. There is only one type of share. Each share represents one vote at the General Meeting. The number of shareholders were 5,970 shareholders at 2017-09-30. The number of registered shares 2017-09-30 were 22,895,384 according to the Swedish Companies Registration Office (Bolagsverket).

The 10 largest shareholders	Number of shares 2017-09-30	% of total number
Försäkringsaktiebolaget, Avanza Pension	3 316 962	14,5%
Danica Pension	1 404 253	6,1%
Ålandsbanken ABP, Bank of Åland Ltd	1 308 742	5,7%
Fondita Nordic Micro Cap SR	1 010 000	4,4%
Nordnet Pensionsförsäkring AB	996 863	4,4%
RGG Adm-Gruppen AB	880 000	3,8%
JP Morgan Securities LLC	755 881	3,3%
Alcur	545 978	2,4%
Fondita 2000+	543 000	2,4%
AMF Aktiefond Småbolag	531 060	2,3%
Other Shareholders	11 602 645	50,7%
Total shares registered under the Companies Registration Office	22 895 384	100,0%

Events	Number	Date
Opening number of shares	22 747 124	2017-01-01
New share issues due to warrants prg 2016-12-31	148 260	2017-02-15
New share issues due to convertible loan prg 2017-09-30	666 666	2017-10-06
Closing number of shares	23 562 050	2017-10-10
Any future share issues during 2016-2026 due to warrants	19 801	
Any future share issues during 2017 due to warrants	175 000	
Any future share issues during 2019 due to warrants	530 800	
Any future share issues during 2022 due to convertibles	204 834	
Any future share issues during 2020 due to warrants	70 000	
	75 000	
Number of shares after full dilution	24 637 485	

Share Related Incentive Program and Convertible Loan

Warrants

There are four current incentive programs addressed to key employees of the Company as well as a minor part to previous and current board members. Pricing is based on the Black-Scholes option pricing model. Payment of the warrant options has been made in accordance with the extrapolated price according to the Black & Scholes model therefore it has not affected the accounts with any charge.

There is an additional program for warrants linked to loan financing equivalent to 19,801 warrants maturing 2026. Holders of warrants will be entitled to subscribe for one new share in the company for each warrant. The number of warrants issued amounted to a total of 870,601 warrants.

Reasons for the Warrants Program

Clavister considers it a positive undertaking to offer warrant programs to create greater commitment, loyalty and greater interest among warrant holders, which also favors the development of the company.

Warrants	Number		Share Price,	
	issued	Redeemed	Open	SEK
TO 2016-2026	19 801	0	19 801	0,1
TO 2015 - 2017-12-31	175 000	0	175 000	30
TO 2016 - 2019-06-30	530 800	0	530 800	72
TO 2017 - 2020-02-28	70 000	0	70 000	72
TO 2017 - 2020-02-28	75 000	0	75 000	79
	870 601	0	870 601	

Convertible Debenture (loan)

Clavister and Norrlandsfonden entered into a partnership in which Clavister in 2012 received a convertible debenture of 10 MSEK, due in September 2017. Upon conversion, 666,666 shares in Clavister Holding AB will be added, the conversion price amounts to 15 SEK. Norrlandsfonden has decided to convert the convertible loan into shares in October 2017.

Clavister extended the cooperation with Norrlandsfonden and has entered into an agreement for a new convertible debenture of 10 MSEK. In case of conversion, approximately 204,834 shares in Clavister Holding AB will be added and the conversion price amounts to 48.82 SEK. The maturity of the convertible is 5 years. The interest rate is based on STIBOR 90. If there is still a negative interest rate, no interest payment will be paid to the Norrlandsfonden.

Convertible loan	Number		Share Price,	
	issued	Redeemed	Open	SEK
Norrlandsfonden 2017-09-30	666 666	666 666	0	15
Norrlandsfonden 2022-05-31	204 834	0	204 834	48,82
	871 500	666 666	204 834	

Decisions of the Extraordinary General Meeting 2017-01-17

The decision was taken to issue a maximum of 100,000 warrants. The right to subscribe to the warrants will be extended to ten employees of PhenixID. The warrants will be issued free of charge and entitle a subscription to new shares at a price of 79 SEK. The company's remuneration cost-free warrant is 815 TSEK. It was also decided to issue a maximum of 120,000 warrants. The right to subscribe to these warrants will be extended to Clavister AB free of charge, with intention of transfer to employees of Clavister AB and PhenixID AB at a purchase price per warrant based on the warrants' market value and allow subscription in new shares at a price of 72 SEK.

At the extraordinary general meeting of 2017-01-17, the AGM resolved to authorize a convertible bond issue, deviating from shareholders' preferential rights.

Decisions of the Annual Yearly Meeting 2017-04-27

The decision was taken to issue a maximum of 300,000 warrants corresponding to a dilution of no more than 1.3% of the share capital and votes in the company after full dilution. The right to subscribe for the options shall be free of charge to the subsidiary Clavister AB for transfer to senior executives in Clavister AB and the subsidiary PhenixID AB at a cash price per option based on the option's market value. In support of the valuation, the company will seek advice from an independent actor.

Condensed Parent Company Income Statement

	July - Sept 2017	July - Sept 2016	Jan - Sept 2017	Jan - Sept 2016	Jan - Dec 2016 *
Income statement (TSEK)					
Net sales	1 500	1 500	4 500	4 500	4 200
Staff costs	-1 090	-366	-3 111	-895	-1 239
Other external costs	-1 115	-376	-2 569	-1 469	-2 362
EBIT	-705	759	-1 180	2 136	599
Financial items	-249	-154	-573	-455	-617
Result after financial items	-954	605	-1 753	1 681	-18
Group contribution paid	0	0	0	0	-650
Taxes	0	0	0	0	143
Net result	-954	605	-1 753	1 681	-525

Condensed Parent Company Balance Sheet

Balance sheet (TSEK)	2017-09-30	2016-09-30	2016-12-31 *
Assets			
Financial assets	538 531	433 925	456 210
Current receivables	62	0	392
Cash and bank balances	18 576	65	60 500
Total assets	557 169	433 990	517 102
Equity and liabilities			
Equity	513 471	359 852	502 031
Long-term liabilities	42 130	9 266	9 554
Current liabilities	1 568	64 871	5 517
Total equity and liabilities	557 169	433 990	517 102
Pledged assets	516 515	349 396	431 189
Contingent liabilities	0	24 453	21 959

Condensed Parent Company Changes in Equity

	July - Sept 2017	July - Sept 2016	Jan - Sept 2017	Jan - Sept 2016	Jan - Dec 2016*
Equity (TSEK)					
Equity, beginning of period	504 425	359 195	502 031	311 008	311 008
Cash issue	0	0	4 448	27 106	110 047
Non-cash issue	0	16 500	0	19 010	83 010
Issue expenses	0	-15	0	-215	-7 520
Non-registered issue	10 000	-16 432	5 875	1 261	6 010
Equity component at convertible loan	0	0	2 870	0	0
Result for the period	-954	605	-1 753	1 682	-525
Equity, end of period	513 471	359 853	513 471	359 853	502 031

Definitions

Operation revenues	Net sales plus other income
Gross profit	Operating revenues minus cost of goods sold
Gross margin	Gross profit in relation to operating revenues.
Operating profit	Operating revenues minus operating costs
Net profit/loss	Operating profit minus, financial items and taxes.
Earnings per share (SEK) before dilution	Profit for the period divided by the average number of shares outstanding during the period, before dilution from options
Earnings per share (SEK) after dilution	Profit for the period divided by the average number of shares outstanding during the period, after dilution from options
Price-Earnings Ratio	Market value per Share divided by the earnings per Share, full year
Equity per share	Shareholders' equity divided by the number of shares outstanding at the end of the period.
Number of shares before dilution at the end of the period	Number of shares outstanding before dilution from options, at the end of the period
Number of shares after dilution at the end of the period	Number of shares outstanding after dilution from options, at the end of the period
Average number of shares before dilution	Average number of shares during the period, before dilution from options
Average number of shares after dilution	Average number of shares during the period, after dilution from options.
Number of employees at the end of period	The number of employees at the end of the period, defined as full-time equivalents
Average number of employees	The average number of employees during the period, defined as full-time equivalents
Number of employees and external resources at end of period	The number of employees and external resources such as dedicated persons with contracted suppliers and subcontractors at the end of the period, defined as full-time equivalents
Equity/assets ratio (Solidity)	Equity at the end of period as a percentage of total assets at the end of the period
Quick ratio	Current assets in relation to current liabilities
Net debt, Net cash	Cash equivalents minus interest-bearing short-term and long-term liabilities.

Contact information

Clavister Holding AB

Organization number: 556917-6612

Sjögatan 6 J

SE-891 60 Örnsköldsvik, Sweden

Telephone: +46 (0)660 29 92 00

E-mail: finance@clavister.com

www.clavister.com

President & CEO

John Vestberg

Telephone: +46 (0)660 29 92 00

E-mail: john.vestberg@clavister.com

Certified Advisor

Remium Nordic AB

Telephone: +46 (8) 454 32 00

E-mail: info@remium.com

www.remium.se

Listed Shares

Symbol: CLAV

SIN-code: SE0005308558

Örnsköldsvik, October 25, 2017
Clavister Holding AB

Publication

This information is information that Clavister Holding AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 8:00 CET on October 25, 2017.