

# Q2

SECOND QUARTER AND FIRST HALF  
YEAR RESULTS 2018



# Highlights

## Q2 2018

- 226 MNOK in revenues, down 6% YoY due to finalisation of initial Slovenia deployment and portfolio adjustments
- 31 MNOK in EBITDA (14% margin), up 43% YoY, and the 7<sup>th</sup> consecutive quarter with YoY EBITDA margin improvement
- 252 MNOK in firm order intake with additional 105-125 MNOK from new frame agreements.
- 148 MNOK in operating cash flow, up from -5 MNOK in Q2-17

## H1 2018

- 430 MNOK in revenues, down 10% from H1-17
- 47 MNOK in EBITDA (11% margin), up 24% from 38 MNOK in H1-17 due to favourable product mix and good cost control
- 106 MNOK in operating cash flow, up from -73 MNOK in H1 17
- Portfolio restructuring finalized - Malta operations closed down end of June, Serbia sold in Q1, Brazil and PSG formally settled in Q2-18

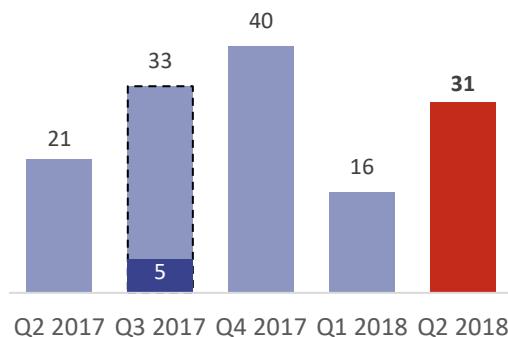
### REVENUES LAST 5 QUARTERS

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	Q2 2018	Q2 2017	Q/Q-%	H1 2018	H1 2017	Y/Y-%	FY 2017
<b>Revenues</b>	<b>225 504</b>	<b>240 069</b>	<b>-6.1%</b>	<b>429 729</b>	<b>475 735</b>	<b>-9.7%</b>	<b>973 475</b>
<b>Gross contribution *</b>	<b>144 681</b>	<b>135 585</b>	<b>6.7%</b>	<b>281 785</b>	<b>274 158</b>	<b>2.8%</b>	<b>591 048</b>
Gross margin - % *	64.2%	56.5%		65.6%	5.6%		60.7%
Operating expenses	114 123	114 179	0.0%	235 121	236 531	-0.6%	480 634
<b>EBITDA excl non-recurring items *</b>	<b>30 558</b>	<b>21 406</b>	<b>42.8%</b>	<b>46 664</b>	<b>37 627</b>	<b>24.0%</b>	<b>110 414</b>
EBITDA margin excl non-recurring items *	13.6%	8.9%		10.9%	7.9%		11.3%
Non-recurring items *	0	0		0	0		27 823
<b>EBITDA *</b>	<b>30 558</b>	<b>21 406</b>	<b>42.8%</b>	<b>46 664</b>	<b>37 627</b>	<b>24.0%</b>	<b>82 591</b>
EBITDA margin *	13.6%	8.9%		10.9%	7.9%		8.5%
Depreciation and amortisation	11 775	14 514	-18.9%	24 185	28 903	16.3%	56 488
Impairment	278	0		278	0		21 876
<b>Operating profit - EBIT excl non-recurring items *</b>	<b>18 505</b>	<b>6 892</b>	<b>168.5%</b>	<b>22 201</b>	<b>8 724</b>	<b>154.5%</b>	<b>32 050</b>
EBIT margin excl non-recurring items *	8.2%	2.9%		5.2%	1.8%		3.3%
<b>Operating profit - EBIT *</b>	<b>18 505</b>	<b>6 892</b>		<b>22 201</b>	<b>8 724</b>		<b>4 227</b>
EBIT margin *	8.2%	2.9%		5.2%	1.8%		0.4%
<b>Profit before tax excl non-recurring items *</b>	<b>12 789</b>	<b>698</b>		<b>11 302</b>	<b>2 944</b>		<b>18 297</b>
<b>Profit before tax</b>	<b>12 789</b>	<b>698</b>		<b>11 302</b>	<b>2 944</b>		<b>-9 526</b>
Profit margin excl non-recurring items *	5.7%	0.3%		2.6%	0.6%		1.9%
Profit margin *	5.7%	0.3%		2.6%	0.6%		-1.0%
Profit after tax from continuing operations	10 273	392		6 540	120		-11 263
Profit after tax on discontinued operations	0	0		0	0		-9 462
<b>Profit for the period</b>	<b>10 273</b>	<b>392</b>		<b>6 540</b>	<b>120</b>		<b>-20 725</b>
<b>EPS</b>	<b>0.12</b>	<b>0.00</b>		<b>0.07</b>	<b>0.00</b>		<b>-0.23</b>

\* Q-Free has with effect from Q1 2018 changed the definition of Gross Contribution. See note 11 and Alternative Performance Measures for a definition of Gross Contribution.

### Profit and loss second quarter 2018

Q-Free generated total revenues of 226 MNOK in the second quarter of 2018. This was 6 percent less than in Q2-17. Tolling revenues ended at 117 MNOK, down 19 percent compared to Q2-17 due to finalisation of the Slovenia truck tolling project and lower activity in Chile. Revenues from other business segments than tolling increased by 13 percent to 108 MNOK from 96 MNOK in Q2-17. The growth is explained by strong performance in the Urban business area, where Q-Free

deployed a connected vehicle software solution with Georgia Department of Transportation.

Gross contribution in the quarter was 145 MNOK, up from 136 MNOK in Q2-17. The gross margin improved by 7 percentage points year-on-year driven by favourable product mix. Actions taken during the last year to reduce complexity and close



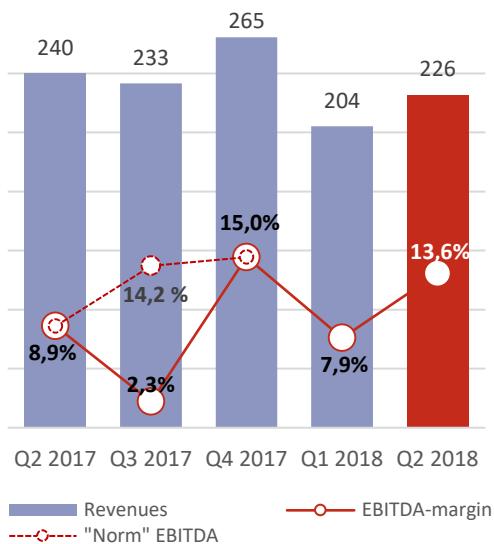
down unprofitable businesses have also had a positive impact on the gross margin.

Operating expenses amounted to 114 MNOK, in line with Q2-17. One-off costs to prepare the planned drop-down demerger and close down of the Malta office had a negative effect of approximately 3 MNOK in the quarter.

EBITDA in the second quarter ended at 31 MNOK and the EBITDA margin at 13.6 percent, up from 21 MNOK and 8.9 percent respectively in Q2-17.

#### QUARTERLY REVENUES AND EBITDA MARGIN

MNOK / Percent



Depreciation and amortisation in Q2-18 ended at 12 MNOK compared to 15 MNOK in Q2-17. The reduction is explained by lower amortisation of intangibles. The impairment of 0.3 MNOK is related to the close down of the Malta operations.

Operating profit (EBIT) ended at 19 MNOK versus 7 MNOK in Q2 2017.

Net financial items in the quarter were -6 MNOK. 9 MNOK of the financial expenses are explained by increased provisions for the Intelight share purchase liability driven by strong financial performance in Intelight in H1 2018.

Reported pre-tax profit ended at 13 MNOK, up from 1 MNOK in Q2 2017.

Earnings per share came in at 0.12 NOK in the second quarter versus 0.0 NOK in Q2-17.

#### Profit and loss first half 2018

Accumulated revenues for first half 2018 amounted to 430 MNOK, down 10 percent from 476 MNOK in H1 2017. The reduction is explained by 45 MNOK in reduced revenue recognition from the Slovenia project in H1-18 compared to H1-17 (35 MNOK in H1-18 vs 84 MNOK in H1-17) and lower activity in Chile.

Gross contribution for the first six months ended at 282 MNOK, up 8 MNOK from 274 MNOK in the corresponding period in 2017. The growth in gross contribution is explained by a gross margin improvement of 8 percent driven by favourable product mix effects and close down of unprofitable businesses.

Operating expenses in H1-18 were 235 MNOK, down 2 MNOK compared to the first half of 2017.

EBITDA in the first half 2018 amounted to 47 MNOK compared to 38 MNOK in H1 2017. The EBITDA margin in H1-18 was 10.9 percent versus 7.9 percent in H1-17.

Operating profit (EBIT) ended at 22 MNOK versus 9 MNOK in H1 2017.

Net financial items were -11 MNOK during the first six months compared to -6 MNOK in the corresponding period of 2017. The increase in net financial costs is explained by the increased provision to acquire the remaining shares in Intelight Inc.

Pre-tax profit for the first half year of 2018 was 11 MNOK compared to 3 MNOK in H1 2017.

#### Balance sheet

Total assets at the end of the second quarter were 889 MNOK versus 1 029 MNOK at the end of Q2-17 and 1 111 MNOK at the end of Q1-18. The net reduction in total assets is explained by debt repayments in relation to the completion of the Slovenia Truck Tolling project.

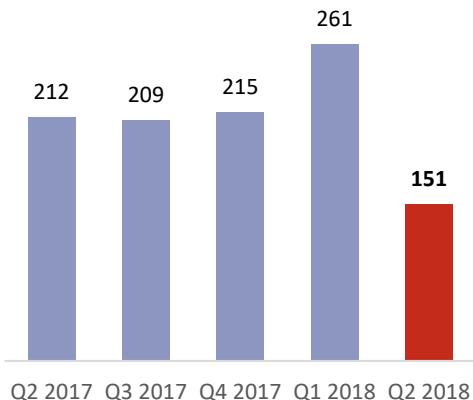
Total equity ended at 401 MNOK, down from 434 MNOK at the end of Q2-17 and up from 400 MNOK at the end of the Q1-18. The equity ratio was 45 percent, up from 42 percent reported at the end of Q2-17 and 36 percent at the end of the previous quarter.

Non-current liabilities were 166 MNOK, down from 278 MNOK reported at the end of Q2-17 and 211 MNOK at the end of Q1-18. The reduction compared to Q2-17 is mainly explained by 50 MNOK in down payment of the serial loan and reallocation of the Intelight share purchase liability to current liabilities. The remaining non-current liability to purchase shares in Intelight is estimated at 43 MNOK. Other non-current liabilities items include pension schemes of 16 MNOK, long-term debt to financial institutions of 100 MNOK and 6 MNOK in deferred tax liability.

Short term interest-bearing debt to financial institutions was 132 MNOK at the end of the quarter compared to 165 MNOK at the end of Q2-17 and 230 MNOK at the end of Q1-18. The reduction of 98 MNOK compared to Q1-18 is explained by the down payment of the Slovenia project credit lines. Granted, but unused, credit facilities were 44 MNOK at the end of the second quarter of 2018.

Net interest bearing debt ended at 151 MNOK, down 61 MNOK from 212 MNOK in Q2-17. During the quarter the company reduced its financial debt with 123 MNOK.

QUARTERLY NIBD  
MNOK



Current liabilities were 323 MNOK at the end of the second quarter of 2018, up from 316 MNOK at the end of Q2-17 and 501 MNOK at the end of Q1-18. The net reduction of 178 MNOK compared to the previous quarter is mainly explained by down payment of the credit lines and VAT related to the Slovenia-project.

Net working capital (defined as current assets excluding cash less current liabilities, and excluding short-term overdraft facilities) amounted to 138 MNOK at the end of Q2-18. The corresponding figure at the end of Q2-17 was 243 MNOK. Net working capital was 15 percent of last 12 months' revenues compared to 29 percent at the end of Q1-18. The decrease is fully explained by the collection of 200 MNOK from the Slovenia project receivables.

#### Cash flow

Net cash flow from operating activities was 148 MNOK in the second quarter of 2018, compared to -5 MNOK in the corresponding quarter of 2017. The significant improvement is explained by the collection of the Slovenia project receivables.

Net cash flow from investment activities was -34 MNOK in Q2-18 compared to -4 MNOK in Q2-17. The main increase was the increased shareholding in Intelight Inc. from 33% to 53%. The proceeds to acquire the shares was 23 MNOK. Q-Free continued during the quarter to invest heavily in the new outdoor parking sensor which is planned launched in the second half of 2018.

Net cash flow from financing activities was -127 MNOK versus 38 MNOK in Q2-17. The Slovenia credit facility of 120 MNOK was repaid in the quarter.

QUARTERLY AVAILABLE CREDIT AND CASH AT HAND  
MNOK



The net change in cash in the period was -13 MNOK. In addition to effects from the completion of the large tolling project in Slovenia, net cash was mainly impacted by the acquisition of Intelight shares and 25 MNOK debt amortisation on the Serial loan. Q-Free had 125 MNOK in available funds at the end of Q2-18.

#### Order intake and backlog

Total order intake in the second quarter of 2018 was 252 MNOK compared to 218 MNOK in Q2-17. This gives a book-to-bill ratio of 1.1. The increased order intake was driven by a tolling contract in Denmark (the Great Belt bridge), tag contracts, tolling service & maintenance contracts in Europe and Urban and Inter-urban SW agreements in the US. 90 MNOK were announced orders, 162 MNOK were unannounced orders.

Q-Free was also awarded two major frame agreements in the quarter with a potential total value of 105-125 MNOK (a 65 MNOK tag frame contract with VINCI in France and 40-60 MNOK from an ALPR camera frame agreement in Norway). These two contracts are not included in the order intake and backlog. Both frame agreements have a high likelihood of being fulfilled.

The order backlog at the end of Q2-18 was 1 060 MNOK, down from 1 314 MNOK at the end of the second quarter of 2017, but up from 1 026 MNOK at the end of Q1-18. The backlog was adjusted with 7 MNOK in positive currency effects related to EURO and USD contracts.

The backlog continues to be at a historically high level. 271 MNOK of the backlog are planned to be delivered during H2

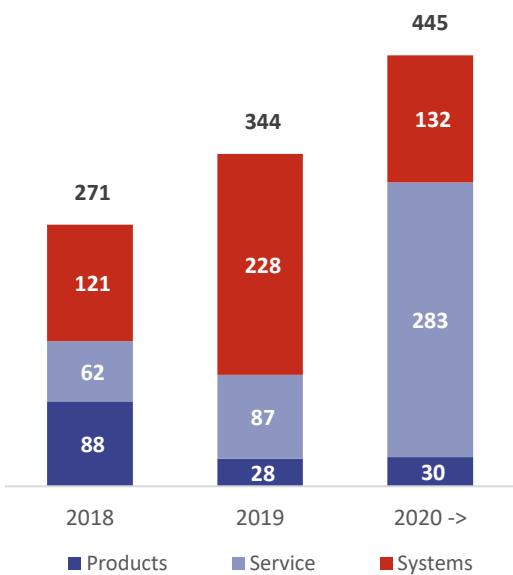
2018, 344 MNOK in 2019, and 445 MNOK from 2020 and onwards.

In terms of revenue mix, the order backlog is composed of 16 percent product deliveries, 39 percent service and maintenance contracts and 45 percent system projects.

ORDER BACKLOG AND ORDER INTAKE END OF Q2-18  
MNOK



ORDER BACKLOG COMPOSITION Q2-18  
MNOK



# Segment overview

Q-Free structure per Q2 2018:

	Tolling	Parking	Infomobility	Urban	Inter-urban	Global Functions
OFFERING	Electronic toll collection systems (Multi lane free-flow, truck tolling, congestion charging, etc.)  DSRC tags and readers  ALPR/ANPR and image based solutions	Parking guidance systems  Parking access control	Weigh in motion  Traffic counters  Cycle & pedestrian detection  Journey time monitoring  Weather & air-quality monitoring	Local intersection/ traffic controllers  Centralized traffic controller SW  Cooperative ITS solutions	Advanced Traffic Management systems  Traffic Information Systems  Ramp metering  Truck parking	Management and board expenses  Group Finance  Corporate services
KEY MARKETS	<b>Europe</b> Norway Sweden Portugal Slovenia France Spain Russia	<b>Europe</b> France Norway Slovenia Portugal	<b>Europe</b> UK Norway Sweden Denmark	<b>Americas</b> USA Canada	<b>Americas</b> USA Canada LATAM	<b>Europe</b> Slovenia
	<b>APMEA</b> Thailand Australia Indonesia South Africa	<b>APMEA</b> Thailand Australia	<b>APMEA</b> Thailand Australia Indonesia		<b>APMEA</b> Australia	<b>Americas</b> USA Mexico



# Segment review

SEGMENT REVIEW Q2-18 v/s Q2-17 and accumulated

(MNOK)	TOLLING	PARKING	INFOMOBILITY	URBAN	INTER-URBAN	Q2 2018
	TOLLING	PARKING	INFOMOBILITY	URBAN	INTER-URBAN	
REVENUES Q2-18						
EUROPE	83	8	12	0	6	109
APMEA	16	2	1	0	0	19
AMERICAS	18	6	3	46	25	98
<b>TOTAL</b>	<b>117</b>	<b>16</b>	<b>16</b>	<b>46</b>	<b>31</b>	<b>226</b>
REVENUES Q2-17						
EUROPE	105	5	11	7	7	134
APMEA	12	0	4	0	0	17
AMERICAS	27	6	2	35	18	89
<b>TOTAL</b>	<b>144</b>	<b>12</b>	<b>16</b>	<b>43</b>	<b>25</b>	<b>240</b>
REVENUES H1-18						
EUROPE	185	13	31	0	13	243
APMEA	28	2	1	0	0	32
AMERICAS	30	11	3	66	45	155
<b>TOTAL</b>	<b>244</b>	<b>26</b>	<b>36</b>	<b>66</b>	<b>58</b>	<b>430</b>
REVENUES H1-17						
EUROPE	194	16	23	8	13	255
APMEA	28	3	7	0	0	37
AMERICAS	49	15	3	72	44	183
<b>TOTAL</b>	<b>271</b>	<b>34</b>	<b>34</b>	<b>80</b>	<b>57</b>	<b>476</b>



## TOLLING

DSRC TAGS & READERS  
ALPR/ANPR SOLUTIONS  
ELECTRONIC TOLL COLLECTION  
CONGESTION CHARGING

### REVENUES AND MARGINS

Quarterly tolling revenues amounted to 117 MNOK, down from 144 MNOK in Q2-17. The overall reduction (and for Europe in particular) is explained by the decline in Slovenia revenues from 38 MNOK in Q2-17 to 13 MNOK in Q2-18. Total tolling revenues in Americas is down due to the close down of Brazil and reduced revenues in Chile. ALPR tolling revenues shows very strong growth from low levels.

In terms of the tolling revenue mix, Q-Free had 40 MNOK in service and maintenance revenues in the quarter, 26 MNOK in system project revenues, and product sales of 51 MNOK.

Tolling achieved an EBITDA of 19 MNOK in the second quarter of 2018, down from 20 MNOK in Q2-17. The improved EBITDA margin is mainly explained by favourable project and product mix and cost reductions due to a lower activity level in Slovenia.

### ORDER SITUATION

Q-Free booked tolling orders of 155 MNOK in the quarter resulting in a book to bill ratio of 1.3. Key wins included the Great Belt Bridge in Denmark of 70 MNOK, service and maintenance contract renewals in Europe of 25 MNOK and a tag order in Chile of 20 MNOK. Q-Free was also awarded a tag frame agreement with VINCI in France estimated to approximately 65 MNOK, which is not included in the order intake and backlog.

Of the Tolling backlog, 20 percent is planned for delivery in 2018, 30 percent in 2019 and 50 percent in 2020 and beyond. Tags and product deliveries represent 11 percent and are typically sold with short lead-times, while the remaining 89 percent of the backlog is system projects and service & maintenance contracts.

### TOLLING REVENUES AND EBITDA

MNOK

	Q2-18	Q2-17	H1-18	H1-17
EUROPE	83	105	185	194
APMEA	16	12	28	28
AMERICAS	18	27	30	49
<b>REVENUES</b>	<b>117</b>	<b>144</b>	<b>244</b>	<b>271</b>
<b>EBITDA</b>	<b>19</b>	<b>20</b>	<b>48</b>	<b>32</b>

### LAST 5 QUARTERS TOLLING REVENUES

MNOK



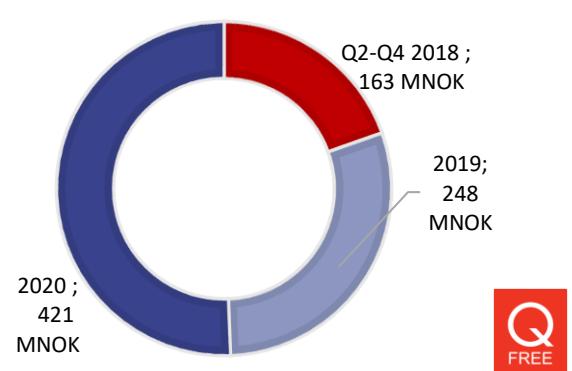
### TOLLING ORDER BACKLOG & ORDER INTAKE

MNOK



### TOLLING ORDER BACKLOG DISTRIBUTION

MNOK





## PARKING

PARKING GUIDANCE

PARKING ACCESS CONTROL

### REVENUES AND MARGINS

Quarterly parking revenues were 16 MNOK, up from 12 MNOK in Q2-17 despite divestment of the parking revenue management business in Malta. The increased revenues in the quarter came from deployment of parking guidance solutions in AMERICAS and EUROPE (mostly in France).

Parking reported an EBITDA of -3 MNOK in the quarter compared to -1 MNOK in Q2-17. The Parking Management business, which was divested end of June, reported a negative EBITDA of 2 MNOK in Q2-18. Negative EBITDA impact in H1-18 was 3 MNOK. Parking EBITDA is currently negatively impacted by ongoing investments in next generation parking guidance solutions. Q-Free expects to broaden its market presence and increase sales once these solutions are launched later this year.

### ORDER SITUATION

The order intake in the quarter was 19 MNOK, in line with Q2-17. Q-Free won several parking guidance contracts in AMERICAS and EUROPE.

Most of the parking backlog is due for delivery in the coming 2 to 6 months. The parking segment has a short turnaround time and often executes orders within a quarter. The current orders are mainly to customers in North America and France, but we see increasing interest from Australian and Nordic customers.

### PARKING REVENUES AND EBITDA

MNOK

	Q2-18	Q2-17	H1-18	H1-17
EUROPE	8	5	13	16
APMEA	2	0	2	3
AMERICAS	6	6	11	15
<b>REVENUES</b>	<b>16</b>	<b>12</b>	<b>26</b>	<b>34</b>
<b>EBITDA</b>	<b>-3</b>	<b>-1</b>	<b>-8</b>	<b>3</b>

### LAST 5 QUARTERS PARKING REVENUES

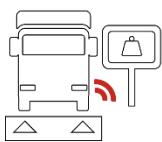
MNOK



### PARKING ORDER BACKLOG & ORDER INTAKE

MNOK





## INFOMOBILITY

WEIGH IN MOTION  
TRAFFIC COUNTERS  
CYCLE & PEDESTRIAN DETECTION  
JOURNEY TIME MONITORING  
WEATHER & AIR-QUALITY MONITORING

### REVENUES AND MARGINS

The second quarter showed flat year-on-year Infomobility revenues of 16 MNOK. Although quarterly revenues will fluctuate depending on call-offs on frame agreements.

Reported EBITDA was 2 MNOK in Q2-18 compared to 3 MNOK Q2-17.

### ORDER SITUATION

Q-Free booked 10 NOK in new orders in the Infomobility segment, down 3 MNOK compared to Q2-17. Q-Free expects to gain further momentum from new distributors signed in the US. The business is also strengthening its distribution in Europe and in the APMEA region.

The business normally consists of small and medium sized orders with a typical turnaround time of 4-8 weeks. All orders in the backlog will be delivered during H2 2018.

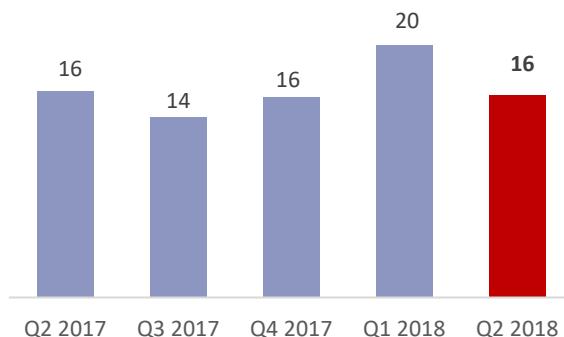
### INFOMOBILITY REVENUES AND EBITDA

MNOK

	Q2-18	Q2-17	H1-18	H1-17
EUROPE	12	11	31	23
APMEA	1	4	1	7
AMERICAS	3	2	3	3
<b>REVENUES</b>	<b>16</b>	<b>16</b>	<b>36</b>	<b>34</b>
<b>EBITDA</b>	<b>2</b>	<b>3</b>	<b>7</b>	<b>7</b>

### LAST 5 QUARTERS INFOMOBILITY REVENUES

MNOK



### INFOMOBILITY ORDER BACKLOG & ORDER INTAKE

MNOK





**URBAN**  
 TRAFFIC CONTROLLERS  
 CENTRALIZED TRAFFIC CONTROLLER SW  
 CO-OPERATIVE ITS

REVENUES AND MARGINS

Q2-18 urban revenues were 46 MNOK, up from 43 MNOK in Q2-17. Q2-18 revenues were driven by a SW agreement to Georgia Department of Transportation (GDOT). There is solid demand for Q-Free's urban solutions, especially in the USA, but also in larger cities outside the USA.

Urban reported an EBITDA of 18 MNOK (39% EBITDA margin). The significant EBITDA improvement in the quarter is mainly explained by the GDOT software agreement. Urban opex and EBITDA were also positively impacted by the sale of Elcom with effect from Q1-18. Elcom reported revenues of 5 MNOK and a negative EBITDA of 2 MNOK in H1 2017.

ORDER SITUATION

Order intake in the quarter was 59 MNOK compared to 46 MNOK in Q2-17. Major wins in the quarter was the SW agreement with GDOT and an ATMS signal integration project with Pennsylvania Department of Transportation (PennDot). Due to a strong value proposition, the Urban business is gaining momentum. Q-Free has over the last quarters developed a strong order pipeline and is also working on opportunities to expand its urban footprint outside Americas.

The order backlog ended at 50 MNOK, up from 37 MNOK by Q1-18. All orders in the backlog will be executed during 2018.

URBAN REVENUES AND EBITDA  
 MNOK

	Q2-18	Q2-17	H1-18	H1-17
EUROPE	0	7	0	8
APMEA	0	0	0	0
AMERICAS	46	35	66	72
<b>REVENUES</b>	<b>46</b>	<b>43</b>	<b>66</b>	<b>80</b>
<b>EBITDA</b>	<b>18</b>	<b>6</b>	<b>12</b>	<b>10</b>

LAST 5 QUARTERS URBAN REVENUES  
 MNOK



URBAN ORDER BACKLOG & ORDER INTAKE  
 MNOK





**INTER-URBAN**  
 ADVANCED TRAFFIC MANAGEMENT  
 TRAFFIC INFORMATION  
 RAMP METERING  
 TRUCK PARKING

**REVENUES AND MARGINS**

Q2-18 inter-urban revenues amounted to 31 MNOK, up from 25 MNOK in Q2-17 due to phasing of the Virginia Department of Transportation (VDOT) project deliveries.

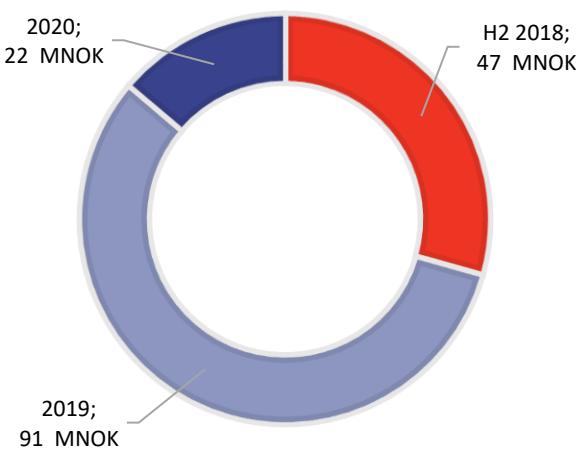
The EBITDA in the quarter ended at 0 MNOK compared to 1 MNOK in Q2-17.

**ORDER SITUATION**

Order intake in the quarter was 9 MNOK compared to 43 MNOK in Q2-17. The majority of the order intake in Q2-18 came from the Inter Urban part of the announced ATMS and signal integration project with Pennsylvania Department of Transportation (PennDot). This demonstrates Q-Frees ability to create customer value by combining the company's ITS offering.

The order backlog mainly reflects scheduled deliveries to VDOT in 2018 and 2019 plus projects for numerous other states.

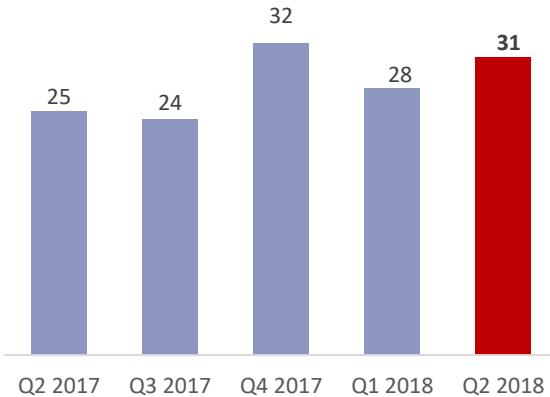
**INTER URBAN ORDER BACKLOG DISTRIBUTION**  
 MNOK



**INTER-URBAN REVENUES AND EBITDA**  
 MNOK

	Q2-18	Q2-17	H1-18	H1-17
EUROPE	6	7	13	13
APMEA	0	0	0	0
AMERICAS	25	18	45	44
<b>Total Revenues</b>	<b>31</b>	<b>25</b>	<b>58</b>	<b>57</b>
<b>EBITDA</b>	<b>0</b>	<b>1</b>	<b>4</b>	<b>6</b>

**LAST 5 QUARTERS INTER-URBAN REVENUES**  
 MNOK



**INTER-URBAN ORDER BACKLOG & ORDER INTAKE**  
 MNOK



# Outlook

Q-Free has now delivered seven consecutive quarters with YoY EBITDA margin improvements. In the first and second quarter of 2018 the margin improvements happened despite the expected revenue decline as the Slovenia project is moving into a steady service and maintenance phase. This proves that the executed cost reduction and portfolio optimization initiatives over the past 18 months have resulted in a more financially robust and flexible business model. The first phase of the company's strategic plan - to restore profitability - has therefore been successfully completed.

Solid order intake and excellence in delivery are key to continued strong financial performance. It is also a prerequisite for completing the second phase of the strategic plan – to develop leading positions in key target segments. Therefore, the growth in order intake in the second quarter (book-to-bill ratio of 1.1, 1.62 if frame contracts are included) was of high financial and strategic importance. The company has recently won several contracts that will partly replace previous Slovenia project revenues. Recent contract wins also demonstrate Q-Free's increased competitiveness in its target segments. Despite pulling out of some unprofitable product/market segments, the contract pipeline across all segments and geographies looks solid. There are several medium and larger contract opportunities in the coming quarters, and relevant new tenders are constantly being announced.

Q-Free is now preparing to move into the third phase of its strategic plan – to integrate and expand its offering. Today, the company has a broad and exciting offering within Intelligent Transport Systems (ITS). Q-Free's current portfolio covers products and systems in several large and growing ITS segments. Going forward Q-Free can, as one of very few players, combine its offering within these various segments to create solutions and packages that deliver on new market needs and trends such as smart/green cities, urban mobility, safety and enforcement, connected vehicles, co-operative ITS etc.). Two examples that demonstrate our uniqueness and the ongoing internal and external convergence, are the recently signed GDOT and PennDOT contracts in the US. With GDOT Q-Free is pushing real-time traffic signal information to connected vehicles, and with PennDOT we will integrate signal processing into our ATMS platform. Further contracts and innovations are expected to be announced in the coming quarters.



# Financial overview

The condensed interim consolidated financial statements per 30.06.18 (unaudited):

## INTERIM CONSOLIDATED INCOME STATEMENT

NOK 1.000	Note	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Revenues	7,8	225 504	240 069	429 729	475 735	973 475
Cost of goods sold	11	60 080	80 170	104 323	154 964	278 493
Contractors *	11	20 743	24 314	43 621	46 613	103 934
Personnel expenses		75 380	69 597	156 055	154 662	318 730
Other operating expenses	11	38 743	44 582	79 066	81 869	189 727
Total operating expenses		194 946	218 663	383 065	438 108	890 884
EBITDA *	7	30 558	21 406	46 664	37 627	82 591
Depreciation and amortisation	9	11 775	14 514	24 185	28 903	56 488
Impairment	9	278	0	278	0	21 876
EBIT *	7	18 505	6 892	22 201	8 724	4 227
Financial income	10	9 069	4 595	21 116	11 835	29 583
Financial expenses	10	-14 785	-10 789	-32 015	-17 615	-43 336
Net financial items		-5 716	-6 194	-10 899	-5 780	-13 753
Profit before tax		12 789	698	11 302	2 944	-9 526
Tax expenses		-2 516	-306	-4 762	-2 824	-1 737
Profit after tax from continuing operations		10 273	392	6 540	120	-11 263
Profit after tax on discontinued operations	12	0	0	0	0	-9 462
Profit for the period		10 273	392	6 540	120	-20 725
Attributable to :						
Equity holders of the parent		10 273	392	6 540	120	-20 725
Profit		10 273	392	6 540	120	-20 725
Number of employees		377	416	377	416	415
Gross margin *		64,2 %	56,5 %	65,6 %	57,6 %	60,7 %
EBITDA margin *		13,6 %	8,9 %	10,9 %	7,9 %	8,5 %
EBIT margin *		8,2 %	2,9 %	5,2 %	1,8 %	0,4 %
Profit margin		5,7 %	0,3 %	2,6 %	0,6 %	-1,0 %
EPS (NOK)		0,12	0,00	0,07	0,00	-0,23
EPS, diluted (NOK)		0,11	0,00	0,07	0,00	-0,23

\* See Alternative Performance Measures for definitions.



## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

NOK 1.000	Note	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Profit for the period		10 273	392	6 540	120	-20 725
Other comprehensive income to be reclassified to profit or loss in subsequent periods:						
Exchange differences on translation of foreign operations		-9 359	2 787	-20 111	6 982	7 965
Net (loss)/gain on available-for-sale financial assets		0	0	0	0	-8
- Income tax effect		0	0	0	0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		-9 359	2 787	-20 111	6 982	7 957
<b>Total comprehensive income for the period</b>		<b>914</b>	<b>3 179</b>	<b>-13 571</b>	<b>7 102</b>	<b>-12 768</b>
<b>Attributable to :</b>						
Equity holders of the parent		914	3 179	-13 571	7 102	-12 768
<b>Total comprehensive income for the period</b>		<b>914</b>	<b>3 179</b>	<b>-13 571</b>	<b>7 102</b>	<b>-12 768</b>

## BALANCE SHEET – ASSETS

NOK 1.000	Note	30.06.2018	31.03.2018	31.12.2017	30.09.2017	30.06.2017
Development	9	143 412	142 635	148 632	157 496	168 852
Goodwill	9	300 549	294 014	305 380	303 469	315 265
Deferred tax assets		12 813	13 501	16 864	12 038	13 420
Total intangible assets		456 774	450 150	470 876	473 003	497 537
Machinery, fixtures and fittings	9	20 770	21 738	22 367	24 481	24 567
Total fixed assets		20 770	21 738	22 367	24 481	24 567
Shares		387	387	387	387	395
Other long term receivables		1 188	2 168	2 147	1 808	1 461
Total financial fixed assets		1 575	2 555	2 534	2 195	1 856
Total non - current assets		479 119	474 443	495 777	499 679	523 960
Inventories		56 110	62 961	65 453	62 120	68 990
Total inventories		56 110	62 961	65 453	62 120	68 990
Accounts receivables		171 497	402 315	130 487	136 155	137 943
Contract assets		67 039	47 162	227 154	169 305	146 998
Other receivables		34 177	29 806	37 868	39 642	40 360
Total receivables		272 713	479 283	395 509	345 102	325 301
Cash		81 195	94 375	113 633	129 258	103 590
Total current assets		410 018	636 619	574 595	536 480	497 881
Assets held for sale	12	0	0	0	7 524	7 524
<b>Total assets</b>		<b>889 137</b>	<b>1 111 062</b>	<b>1 070 372</b>	<b>1 043 683</b>	<b>1 029 365</b>

## BALANCE SHEET - EQUITY &amp; LIABILITIES

NOK 1.000	Note	30.06.2018	31.03.2018	31.12.2017	30.09.2017	30.06.2017
Subscribed share capital		33 905	33 905	33 905	33 905	33 905
Share premium reserve		578 307	578 307	578 307	578 307	578 307
Other paid in capital		20 769	20 699	20 628	20 529	20 529
Total paid in capital		632 981	632 911	632 840	632 741	632 741
Other equity		-232 180	-233 094	-218 609	-224 108	-198 739
Total retained equity		-232 180	-233 094	-218 609	-224 108	-198 739
Total equity		400 801	399 817	414 231	408 633	434 002
Deferred tax		5 608	3 433	4 956	13 551	14 490
Debt to financial institutions		100 000	125 000	125 000	150 000	150 000
Other non-current liabilities		59 903	82 136	85 986	109 660	113 744
Total non-current liabilities		165 511	210 569	215 942	273 211	278 234
Debt to financial institutions		132 231	230 178	203 691	188 524	165 423
Accounts payable		54 031	60 989	89 272	63 943	69 039
Tax payable		1 479	2 699	3 342	415	511
Public duties payable		12 064	59 987	14 541	15 043	14 285
Contract liabilities		21 035	27 294	11 693	11 272	11 110
Other short term debt		101 985	119 529	117 660	81 905	56 024
Total current liabilities		322 825	500 676	440 199	361 102	316 392
Total liabilities		488 336	711 245	656 141	634 313	594 626
Liabilities held for sale	12	0	0	0	737	737
<b>Total equity and liabilities</b>		<b>889 137</b>	<b>1 111 062</b>	<b>1 070 372</b>	<b>1 043 683</b>	<b>1 029 365</b>

## CASH FLOW STATEMENT

NOK 1.000	Note	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Profit before tax		12 789	698	11 302	2 944	-9 526
Paid taxes		-1 191	-2 112	-3 151	-3 675	-7 570
Depreciation and impairment of property, plant and equipment	9	2 668	3 696	5 456	7 441	17 121
Amortisation and impairment of intangible assets	9	9 385	10 818	19 007	21 462	61 243
Shares valued at fair value		0	0	0	0	-8
Cost of share-based payment		70	0	141	0	99
<u>Working capital adjustments:</u>						
Changes in receivables and prepayments from customers		224 559	3 716	-31 668	3 915	11 954
Changes in inventory		6 851	391	9 343	-2 663	874
Changes in accounts payables		-6 958	-5 629	-35 241	-31 170	-10 937
Changes in contract assets		-19 877	-15 299	160 115	-71 191	-151 347
Changes in other balance sheet items		-80 785	-1 183	-29 788	-218	38 760
Net cash flow from operations		147 511	-4 904	105 516	-73 155	-49 337
Investments in intangible assets	9	-8 656	-4 211	-14 610	-9 557	-24 285
Investments in tangible assets	9	-1 700	0	-3 859	-1 105	-5 828
Acquisition of shares in subsidiary, net of cash acquired		-23 210	-33	-23 210	-33	-33
Cash flow from discontinued operations	12	0	0	0	3 617	-835
Net cash flow from investments		-33 566	-4 244	-41 679	-7 078	-30 981
Proceeds from new loans / Drawdown overdraft facilities		17 875	37 765	48 725	85 966	137 476
Down-payments of debt to financial institutions		-145 000	0	-145 000	0	-40 614
Other financial items		0	0	0	0	-5 220
Net cash flow from financing		-127 125	37 765	-96 275	85 966	91 642
Net change in cash and cash equivalent		-13 180	28 617	-32 438	5 733	11 324
Cash and cash equivalents per 01.01.		94 375	74 973	113 633	101 474	101 474
Transferred to Assets held for sale	12	0	0	0	-3 617	835
<b>CASH AND CASH EQUIVALENTS</b>		<b>81 195</b>	<b>103 590</b>	<b>81 195</b>	<b>103 590</b>	<b>113 633</b>

## STATEMENT OF CHANGES IN EQUITY

NOK 1.000	Equity attributable to equity holders of the parent							
	Share capital	Share premium reserves	Other paid in Capital	Other equity	Foreign currency translation reserve	Actuarial gains and losses	Available-for-sale reserve	Total
Equity per 31.12.17	33 905	578 307	20 628	-302 905	84 367	0	-71	414 231
Total comprehensive income for the period	0	0	0	6 540	-20 111	0	0	-13 571
Cost of share-based payment	0	0	141	0	0	0	0	141
<b>Equity per 30.06.18</b>	<b>33 905</b>	<b>578 307</b>	<b>20 769</b>	<b>-296 365</b>	<b>64 256</b>	<b>0</b>	<b>-71</b>	<b>400 801</b>
Equity per 31.12.16	33 905	578 307	20 529	-270 163	76 402	-12 017	-63	426 900
Total comprehensive income for the period	0	0	0	120	6 982	0	0	7 102
Reclassification	0	0	0	-12 017	0	12 017	0	0
<b>Equity per 30.06.17</b>	<b>33 905</b>	<b>578 307</b>	<b>20 529</b>	<b>-282 060</b>	<b>83 384</b>	<b>0</b>	<b>-63</b>	<b>434 002</b>

## KEY FIGURES

## KEY FIGURES

	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Operating profit / EBIT per share (NOK) *	0,21	0,08	0,25	0,10	0,05
Operating margin (%) *	8,2 %	2,9 %	5,2 %	1,8 %	0,4 %
EPS (NOK)	0,12	0,00	0,07	0,00	-0,23
EPS, diluted (NOK)	0,11	0,00	0,07	0,00	-0,23
Cash flow per share (NOK)	1,65	-0,05	1,18	-0,82	-0,55
Equity per share (NOK)	4,49	4,86	4,49	4,86	4,64
Equity ratio (%)	45,0 %	42,2 %	45,0 %	42,2 %	38,7 %
Average number of shares	89 223 446	89 223 446	89 223 446	89 223 446	89 223 446
Average number of shares diluted	91 371 278	89 854 274	91 335 999	89 854 274	90 214 797

\* See Alternative Performance Measures for definitions.

# Notes to the condensed interim financial statements Q2 2018

## NOTE 1 - GENERAL

The consolidated condensed interim financial statements for the second quarter and the first half results of 2018 (unaudited) was approved by the Board of Directors at its meeting on 12 July 2018.

The Q-Free Group provides leading technology solutions to the global ITS market. Q-Free has 377 employees, is headquartered in Trondheim Norway, and has local offices in 17 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 H1 2018, 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 been 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 2017. The consolidated financial statements for 2017 are available upon request from the company's registered office in Trondheim or at our website, [www.q-free.com](http://www.q-free.com).

## NOTE 3 – ACCOUNTING PRINCIPLES

The consolidated financial statements of the Q-Free Group for the second quarter and the first half results of 2018 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 2017, with the exception of IFRS 15: Recognition of revenues and IFRS 9: Accounts receivable and other receivables.

IFRS 15 and IFRS 9 was implemented 01.01.2018 without any changes to the opening balance. For further information see note 3 in the 2017 annual report and the Q1 2018 report.

### Implementation of IFRS 16 Leases

Adoption of IFRS 16 will result in the Group recognising right of use assets and lease liabilities for all material contracts that are, or contain, a lease. For leases currently classified as operating leases under current accounting requirements the Group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term. According to IFRS 16 the Group will

need to recognise the right of use assets and lease liabilities in the balance sheet, and instead of recognising an operating expense for its operating lease payments, the Group will instead recognise interest on its lease liabilities and amortisation on its right of use assets.

The Q-Free Group is in a process of identifying contracts that may contain leases for the purposes of IFRS16, which are not currently considered to be lease contracts under the group's current accounting policy. The main leases that will be recognized in the balance sheet are the different office leases. The Q-Free Group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to first adoption. Implementing IFRS 16 per 1 January 2019 will not have any effect on equity. However there will be changes in the statement of financial position and cash flows.

## NOTE 4 – USE OF ESTIMATES

The preparation of the Q-Free Group's consolidated financial statements requires management to make judgements, 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 outcomes that require a material adjustment to the carrying amount of the assets or liability affected in future periods.

## NOTE 5 – EVENTS AFTER THE BALANCE SHEET DAY

No 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 Q-Free 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.



## NOTE 7 – OPERATING SEGMENTS

Operating segments are aligned with internal reporting to Q-Free Management. The structure also determines how resources and investments are allocated within the Group. The operating segments are determined based on differences with regards to nature of the operations, solutions, products and services. Q-Free manages its operations in five segments plus global functions:

Quarterly segment review:

SEGMENTS Q2 2018		TOLLING		PARKING		INFO MOBILITY		URBAN		INTER-URBAN		Global functions		TOTAL	
NOK 1.000	Note	Q2-18	Q2-17	Q2-18	Q2-17	Q2-18	Q2-17	Q2-18	Q2-17	Q2-18	Q2-17	Q2-18	Q2-17	Q2-18	Q2-17
EUROPE		82 985	104 554	8 152	5 169	11 646	10 547	63	7 091	5 937	6 990				
APMEA		16 161	12 433	1 669	462	1 108	3 686	-	12	-	-				
AMERICAS		17 920	27 190	5 883	6 061	2 868	2 044	46 263	35 441	24 848	18 389				
<b>Revenues</b>	<b>7</b>	<b>117 067</b>	<b>144 177</b>	<b>15 704</b>	<b>11 692</b>	<b>15 622</b>	<b>16 277</b>	<b>46 327</b>	<b>42 544</b>	<b>30 785</b>	<b>25 379</b>	<b>0</b>	<b>0</b>	<b>225 504</b>	<b>240 069</b>
COGS		35 799	47 763	4 050	2 155	5 312	7 175	14 327	23 865	592	83			<b>60 081</b>	<b>80 484</b>
Contractors		9 759	17 236	3 038	658	434	159	1 652	186	5 860	5 761			<b>20 743</b>	<b>23 999</b>
<b>Gross Contribution</b>		<b>71 508</b>	<b>79 178</b>	<b>8 616</b>	<b>8 879</b>	<b>9 876</b>	<b>8 943</b>	<b>30 348</b>	<b>18 494</b>	<b>24 333</b>	<b>19 535</b>			<b>144 681</b>	<b>135 585</b>
Gross margin - %		61,1 %	54,9 %	54,9 %	75,9 %	63,2 %	54,9 %	65,5 %	43,5 %	79,0 %	77,0 %			<b>64,2 %</b>	<b>56,5 %</b>
Total OPEX		52 809	59 582	11 257	9 721	7 992	6 165	12 736	12 088	24 264	19 001	<b>5 065</b>	<b>7 622</b>	<b>114 123</b>	<b>114 179</b>
<b>EBITDA</b>	<b>7,13</b>	<b>18 699</b>	<b>19 596</b>	<b>-2 641</b>	<b>-842</b>	<b>1 884</b>	<b>2 778</b>	<b>17 612</b>	<b>6 406</b>	<b>69</b>	<b>534</b>	<b>-5 065</b>	<b>-7 066</b>	<b>30 558</b>	<b>21 406</b>
EBITDA margin		16,0 %	13,6 %	-16,8 %	-7,2 %	12,1 %	17,1 %	38,0 %	15,1 %	0,2 %	2,1 %			<b>13,6 %</b>	<b>8,9 %</b>
Depreciation		2 055	2 676	1 609	2 112	2 389	2 612	3 405	3 872	2 594	3 243			<b>12 053</b>	<b>14 514</b>
<b>EBIT</b>	<b>7,13</b>	<b>16 644</b>	<b>16 920</b>	<b>-4 250</b>	<b>-2 954</b>	<b>-506</b>	<b>166</b>	<b>14 207</b>	<b>2 533</b>	<b>-2 526</b>	<b>-2 709</b>	<b>-5 065</b>	<b>-7 066</b>	<b>18 506</b>	<b>6 892</b>
EBIT margin		14,2 %	11,7 %	-27,1 %	-25,3 %	-3,2 %	1,0 %	30,7 %	6,0 %	-8,2 %	-10,7 %			<b>8,2 %</b>	<b>2,9 %</b>



## Accumulated SEGMENT review as at 30.06.18

SEGMENTS H1 2018		TOLLING		PARKING		INFO MOBILITY		URBAN		INTER-URBAN		Global functions		TOTAL	
NOK 1.000	Note	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17
EUROPE		185 233	194 331	12 696	16 289	31 261	23 495	421	7 564	13 405	13 489	-	-	243 016	255 168
APMEA		28 012	27 739	2 092	2 551	1 404	7 174	-	-	-	-	-	-	31 508	37 464
AMERICAS		30 258	48 542	10 959	15 196	2 868	3 256	66 039	72 461	45 080	43 648	-	-	155 205	183 103
Revenues	7	243 503	270 612	25 747	34 036	35 532	33 925	66 460	80 025	58 485	57 137	0	0	429 729	475 735
COGS		57 580	87 509	8 102	9 904	12 201	13 095	25 109	44 418	1 332	1 367	-1 015		104 323	155 278
Contractors		27 333	33 162	3 987	1 662	779	482	3 045	351	8 477	10 641	0		43 621	46 298
<b>Gross Contribution</b>		<b>158 591</b>	<b>149 941</b>	<b>13 659</b>	<b>22 470</b>	<b>22 553</b>	<b>20 348</b>	<b>38 306</b>	<b>35 255</b>	<b>48 676</b>	<b>45 129</b>	<b>0</b>		<b>281 784</b>	<b>274 158</b>
Gross margin - %		65,1 %	55,4 %	53,0 %	66,0 %	63,5 %	60,0 %	57,6 %	44,1 %	83,2 %	79,0 %	65,6 %		57,6 %	
Total OPEX		110 096	117 722	21 768	19 445	15 488	13 349	26 341	24 802	45 006	39 108	16 422	22 106	235 121	236 531
<b>EBITDA</b>	7,13	<b>48 495</b>	<b>32 219</b>	<b>-8 109</b>	<b>3 025</b>	<b>7 065</b>	<b>6 999</b>	<b>11 965</b>	<b>10 454</b>	<b>3 670</b>	<b>6 022</b>	<b>-16 422</b>	<b>-21 091</b>	<b>46 664</b>	<b>37 627</b>
EBITDA margin		19,9 %	11,9 %	-31,5 %	8,9 %	19,9 %	20,6 %	18,0 %	13,1 %	6,3 %	10,5 %	10,9 %		7,9 %	
Depreciation		4 306	5 728	2 949	4 211	5 041	5 144	6 944	7 718	5 223	6 102	0	0	24 463	28 903
<b>EBIT</b>	7,13	<b>44 189</b>	<b>26 491</b>	<b>-11 058</b>	<b>-1 186</b>	<b>2 023</b>	<b>1 854</b>	<b>5 022</b>	<b>2 736</b>	<b>-1 554</b>	<b>-80</b>	<b>-16 422</b>	<b>-21 091</b>	<b>22 201</b>	<b>8 724</b>
EBIT margin		18,1 %	9,8 %	-42,9 %	-3,5 %	5,7 %	5,5 %	7,6 %	3,4 %	-2,7 %	-0,1 %	5,2 %		1,8 %	

<b>Tolling</b>	- DSRC tags and readers, ALPR and image based solutions, Electronic toll collection systems (Multilane free-flow, truck tolling, congestion charging, etc.).
<b>Parking</b>	- Parking guidance systems and Parking Access control SW (ALPR)
<b>Infomobility</b>	- Traffic, bicycle & pedestrian detection and counting, Weigh in motion, Journey time monitoring, Weather & air-quality monitoring.
<b>Urban</b>	- Local intersection/traffic controllers, Centralised traffic controller SW, Cooperative ITS solutions.
<b>Inter-urban</b>	- Advanced Traffic Management systems, Traffic Information Systems, Ramp Metering, Truck Parking.
<b>Global Functions</b>	- Corporate services, management and group finance at the Q-Free HQ.

Tolling, Parking and Infomobility solutions are sold globally, whereas Urban and Inter-Urban is predominantly sold in North America.

## NOTE 8 – DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

NOK 1.000

Disaggregation of revenue from contracts with customers	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Product deliveries	111 403	101 061	184 251	189 055	381 092
Service & Maintenance	45 357	41 458	89 437	84 616	174 412
System projects	68 744	97 550	156 041	202 064	417 971
<b>Revenue from contracts with customers</b>	<b>225 504</b>	<b>240 069</b>	<b>429 729</b>	<b>475 735</b>	<b>973 475</b>
Other income	0	0	0	0	0
<b>Total operating income</b>	<b>225 504</b>	<b>240 069</b>	<b>429 729</b>	<b>475 735</b>	<b>973 475</b>

## NOTE 9 – DEPRECIATIONS, AMORTISATIONS AND IMPAIRMENTS

NOK 1.000

Depreciation, amortisation and impairment	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Amortisation of capitalised development cost	4 684	5 442	9 312	10 833	20 499
Amortisation of capitalised acquired development cost	4 701	5 376	9 695	10 629	20 973
Impairment of development cost and Goodwill	0	0	0	0	19 771
Depreciation of other fixed assets	2 390	3 696	5 178	7 441	15 016
Impairment of other fixed assets	278	0	278	0	2 105
<b>Total</b>	<b>12 053</b>	<b>14 514</b>	<b>24 463</b>	<b>28 903</b>	<b>78 364</b>
Specifications of capitalised expenditures, balance sheet	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Capitalised development cost	8 656	4 306	14 610	9 557	24 285
Other fixed assets	1 700	3 001	3 859	1 105	5 828
<b>Total</b>	<b>10 356</b>	<b>7 307</b>	<b>18 469</b>	<b>10 662</b>	<b>30 113</b>

The impairment in 2018 and 2017 is related to the exit of Serbia (Elcom) and parking management (Traffiko).



## NOTE 10 – FINANCIAL ITEMS

NOK 1.000

Financial items	Q2 2018	Q2 2017	H1 2018	H1 2017	FY 2017
Realised agio / disagio	-1 901	-1 728	-1 097	-1 214	-1 234
Unrealised agio / disagio	5 684	-624	3 848	1 765	7 431
Change in other liabilities *	-9 154	0	-9 329	0	-4 273
Other financial income	332	660	1 084	1 742	3 518
Other financial expenses	-677	-4 502	-5 405	-8 073	-19 195
<b>Total</b>	<b>-5 716</b>	<b>-6 194</b>	<b>-10 899</b>	<b>-5 780</b>	<b>-13 753</b>

\* Change in other liabilities in H1 2018 is explained by a revised estimate on liability for purchase of remaining shares on Intelight Inc of 9 MNOK and liability related to pension schemes of 0.3 MNOK. The liability for remaining shares on Intelight Inc as at 30.06.18 is 76 MNOK, of which 43 MNOK is classified as non-current liabilities and 33 MNOK as current liabilities. For further information see Note 6 and 18 in the Annual Report 2017.

## NOTE 11 – RECLASSIFICATION

The presentation of the consolidated financial statements is changed in 2018. Contractors defined as external consultants and/or services that are consumed under project executions and service and maintenance work are now presented separately in the financial statements. Contractors was previously mainly reported under Other operating expenses. A small portion was included in Cost of goods sold.

The table below shows the changes regarding reclassification in 2017 figures.

Operating expenses	Q2 2017 before reclassification	Re classification	Q2 2017	H1 2017 before reclassification	Re classification	H1 2017	FY 2017 before reclassification	Re classification	FY 2017
Cost of goods sold	81 301	-1 131	80 170	158 705	-3 741	154 964	287 833	-9 340	278 493
Contractors	0	24 314	24 314	0	46 613	46 613	0	103 934	103 934
Personnel expenses	69 597	0	69 597	154 662	0	154 662	318 730	0	318 730
Other operating expenses	67 765	-23 183	44 582	124 741	-42 872	81 869	284 321	-94 594	189 727
<b>Total operating expenses</b>	<b>218 663</b>	<b>0</b>	<b>218 663</b>	<b>438 108</b>	<b>0</b>	<b>438 108</b>	<b>890 884</b>	<b>0</b>	<b>890 884</b>

## NOTE 12 – DISCONTINUED OPERATIONS

The divestment of Q-Free's security business Prometheus Security Group Global Inc. (PSG) was closed in February 2017, and all contracts, employees and other assets have been transferred to the new owner. Consequently, PSG has been excluded from the Group's consolidated accounts on continued operations with effect from fourth quarter 2016 and reported separately as "discontinued operations". Comparable figures for 2016 have been reclassified to "discontinued" operations. The fair value of the assets and liabilities relating to PSG is classified as assets and liabilities held for sale. The 2017 loss in discontinued operations represented the Group's understanding of the final impact, and in Q2 2018, all outstanding issues are formally settled. See note 30 in the Annual Report 2017 for further information.

## NOTE 13 – RISK FACTORS

Q-Free is an international technology company exposed to several different risk factors.

The risk factors and the main risk-mitigation actions and measures are all outlined in the Annual Report 2017, note 4.

## NOTE 14 – RELATED PARTY TRANSACTIONS

There are no significant related party transactions for the Q-Free Group in Q2-18.

## ALTERNATIVE PERFORMANCE MEASURES

The Group presents some financial performance measures in its interim report which are not defined according to IFRS. The Group is of the opinion that these measures provide valuable complementary information to investors and the Group's management since they facilitate the evaluation of the Group's performance. As every Group does not calculate financial performance measures in the same manner, these are not always comparable with measures used by other companies. These financial performance measures should therefore not be regarded as a replacement for measures as defined according to IFRS. Performance measures not defined according to IFRS, unless otherwise stated, are presented in the tables below.

### **Gross contribution:**

Defined as revenues reduced with cost of goods sold and contractors. Contractors are included in Gross Contribution since the cost for these services are heavily correlated with project and service revenues.

### **Contractors:**

External consultants and / or services that are consumed under project executions and service and maintenance work.

### **Gross margin:**

Defined as revenues reduced with cost of goods sold and contractors in percentage of revenues.

<b>Gross contribution and gross margin</b>	Figures in TNOK	<b>Q2 2018</b>	<b>Q2 2017</b>	<b>H1 2018</b>	<b>H1 2017</b>	<b>2017</b>
Revenues		225 504	240 069	429 729	475 735	973 475
Cost of goods sold		-60 080	-80 170	-104 323	-154 964	-278 493
Contractors		-20 743	-24 314	-43 621	-46 613	-103 934
<b>Gross contribution</b>		<b>144 681</b>	<b>135 585</b>	<b>281 785</b>	<b>274 158</b>	<b>591 048</b>
<b>Gross margin</b>		<b>64,2 %</b>	<b>56,5 %</b>	<b>65,6 %</b>	<b>57,6 %</b>	<b>60,7 %</b>

### **EBITDA/EBIT:**

The Group considers EBITDA / EBIT to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation for Earnings Before Interest, Taxes, Depreciation and Amortisation. The Group uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which are part of the financial statements for 2017. The same applies for EBIT.



**EBITDA margin:**

Defined as Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) in percentage of revenues.

EBITDA margin	Figures in TNOK	Q2 2018		H1 2018		2017
		Q2 2018	Q2 2017	H1 2018	H1 2017	
Revenues		225 504	240 069	429 729	475 735	973 475
EBITDA		30 558	21 406	46 664	37 627	82 591
<b>EBITDA margin</b>		<b>13,6 %</b>	<b>8,9 %</b>	<b>10,9 %</b>	<b>7,9 %</b>	<b>8,5 %</b>

**EBIT margin:**

Defined as Earnings Before Interest and Taxes (EBIT) in percentage of revenues.

EBIT margin	Q2 2018		H1 2018		2017
	Q2 2018	Q2 2017	H1 2018	H1 2017	
Revenues	225 504	240 069	429 729	475 735	973 475
EBIT	18 505	6 892	22 201	8 724	4 227
<b>EBIT margin</b>	<b>8,2 %</b>	<b>2,9 %</b>	<b>5,2 %</b>	<b>1,8 %</b>	<b>0,4 %</b>

**Non-recurring items:**

The Group defines non-recurring items as one-time costs, not related to the actual reporting period. Restructuring costs and settlement of dispute is classified as non-recurring items.

Non-recurring items	Q2 2018	Q2 2017	H1 2018	H1 2017	2017
Settlement of dispute	0	0	0	0	27 823
<b>Non-recurring items in EBITDA</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27 823</b>
Impairment	0	0	0	0	21 876
<b>Non-recurring items in EBIT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>49 699</b>

**Net Interest Bearing Debt (NIBD):**

Long term borrowings plus short term borrowings less cash and cash equivalents.

Net Interest Bearing Debt	30.06.2018	31.03.2018	31.12.2017	30.09.2017	30.06.2017
Serial loan to Danske Bank	100 000	125 000	125 000	150 000	150 000
Current debt to financial institutions	132 231	230 178	203 691	188 524	165 423
<b>Gross Interests bearing Debt</b>	<b>232 231</b>	<b>355 178</b>	<b>328 691</b>	<b>338 524</b>	<b>315 423</b>
Cash at hand and equivalents	81 195	94 375	113 633	129 258	103 590
<b>Net Interest Bearing Debt</b>	<b>151 036</b>	<b>260 803</b>	<b>215 058</b>	<b>209 266</b>	<b>211 833</b>

**Net working capital:**

Defined as current assets excluding cash less current liabilities, and excluding short-term overdraft facilities.

Net Working Capital	30.06.2018	31.03.2018	31.12.2017	30.09.2017	30.06.2017
Inventories	56 110	62 961	65 453	62 120	68 990
Accounts receivables	171 497	402 315	130 487	136 155	137 943
Contract assets	67 039	47 162	227 154	169 305	146 998
Other receivables	34 177	29 806	37 868	39 642	40 360
<b>Other Current Assets</b>	<b>328 823</b>	<b>542 244</b>	<b>460 962</b>	<b>407 222</b>	<b>394 291</b>
Accounts payable	54 031	60 989	89 272	63 943	69 039
Tax payable	1 479	2 699	3 342	415	511
Public duties payable	12 064	59 987	14 541	15 043	14 285
Contract liabilities	21 035	27 294	11 693	11 272	11 110
Other short term debt	101 985	119 529	117 660	81 905	56 024
<b>Current liabilities (excl debt to financial institutions)</b>	<b>190 594</b>	<b>270 498</b>	<b>236 508</b>	<b>172 578</b>	<b>150 969</b>
<b>Net Working Capital</b>	<b>138 229</b>	<b>271 746</b>	<b>224 454</b>	<b>234 644</b>	<b>243 322</b>

**Working capital ratio:**

Defined as current assets excluding cash less current liabilities, and excluding short-term overdraft facilities in percentages of last 12 months Revenues.

Working Capital ratio	30.06.2018	31.03.2018	31.12.2017	30.09.2017	30.06.2017
12 months Revenues	927 469	942 034	973 475	950 375	914 639
Net Working Capital	138 229	271 746	224 454	234 644	243 322
<b>Working Capital ratio</b>	<b>14,9 %</b>	<b>28,8 %</b>	<b>23,1 %</b>	<b>24,7 %</b>	<b>26,6 %</b>

**Equity ratio:**

Equity ratio is defined as equity proportion of total asset and shows financial leverage.

Equity ratio	30.06.2018	31.03.2018	31.12.2017	30.09.2017	30.06.2017
Total equity	400 801	399 817	414 231	408 633	434 002
Total assets	889 137	1 111 062	1 070 372	1 043 683	1 029 365
<b>Equity ratio</b>	<b>45,1 %</b>	<b>36,0 %</b>	<b>38,7 %</b>	<b>39,2 %</b>	<b>42,2 %</b>

**Order intake:**

Order intake is defined as total amount of all signed new contracts received in a defined period.

**Order backlog:**

Order backlog is defined as total amount of signed contracts to be delivered in future periods.

The order backlog is calculated as shown below:

<b>Last periods backlog</b>	
+	Received new orders
÷	This periods revenues
+ / ÷	Currency adjustments
=	<b>End backlog reporting period</b>

# Responsibility statement from the Board of directors and the CEO

The Board of Directors and the CEO have today considered and approved the condensed financial statements for the first half year of 2018 and the financial information in this report that is relevant for the first half year of 2018.

The report for the first half year of 2018 has been prepared in accordance with IAS 34 Interim Financial Statements and additional disclosure requirements as stated in the Norwegian Verdipapirhandeloven (Securities Trading Act).

We confirm that, to the best of our knowledge, the condensed set of financial statements for the first half year of 2018 gives a true and fair view of the Q-Free Group's consolidated assets, liabilities, financial position and results of operations. To the best of our knowledge the report provides a fair review of important events in the period and their effects on the condensed set of financial statements, with a description of the principal risks and uncertainties that the Q-Free Group is facing for the remaining months of the financial year that may have a material effect on financial position or results for the Q-Free Group for the period and of transactions with related parties

Oslo, 12 July 2018.

The Board of Directors and

Chief Executive Officer of Q-Free ASA

Tore Valderhaug	Chairman of the Board
Trond Valvik	Vice Chairman of the Board
Ingeborg Molden Hegstad	Member
Ragnhild Wahl	Member
Snorre Kjesbu	Member
Olav Gulling	Employee elected member
Rune Jøraandstad	Employee elected member
Håkon Rypern Volldal	President & CEO



# KEY INFORMATION

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Norway

## Financial calendar for Q-Free ASA:

### FINANCIAL YEAR 2018

27.04.2018 - Quarterly Report - Q1

**13.07.2018 - Half-yearly Report**

25.10.2018 - Quarterly Report - Q3

14.02.2019 - Quarterly Report - Q4



# Nothing happens until something moves

– Albert Einstein

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