Interim report Q3 2018

TECHSTEP

Highlights Q3 2018

- Revenue increased 45% year over year to NOK 261.6 million in Q3 2018, driven by growth in Norway
- EBITDA of NOK 10.9 million (4.2%) vs. Q3 2017 EBITDA of NOK 5.4 million (3.0%). The EBITDA level continues to reflect growth investments and integration costs
- Awarded new contracts with a potential total value of NOK 242 million in Q3 and NOK 765 million YTD 2018
- Completed acquisition of Wizor AS, enabling Techstep to provide high-end cyber security solutions

CEO comments

“We delivered solid growth in the third quarter. Revenue increased 45% driven primarily by growth in Norway.

We also continued to close new contracts. The important DIFI contract (Agency for Public Management and eGovernment) shows that our sharp focus on being a specialised mobility vendor pays off. Our customers value that Techstep’s sole mission is to ensure that they harvest the benefits mobile technology offers.

Revenue growth alone does not generate the profitability we aim for and as part of our integration and consolidation strategy, several actions have been implemented to improve our profitability level. We are beginning to see the impact of these efforts, especially in Norway. In Sweden, where we started later, we expect to see results next year.

Another key part of the integration plan in Norway and Sweden is the merger of sales and delivery units in each country. We expect to complete this by the end of the year.

A better integrated Nordic organisation aligned behind one Techstep brand, makes us excited about the opportunities we see ahead of us. People want simple and secure mobile solutions and Techstep is increasingly better positioned to deliver on that demand”, says Jens Haviken, CEO of Techstep.

About Techstep

Techstep is positioning as a leading Nordic enabler of the digital workplace. Techstep delivers hardware, software, connectivity and mobile device management as a managed service. This enables enterprises and their employees do their work across mobile devices and locations, with a high degree of security and operational stability. Techstep has 225 employees based in Norway and Sweden, serving close to 6,000 customers and 658,000 end users across various industries in the private and public sectors. The company is listed on the Oslo Stock Exchange. For more information, please visit http://techstepasa.no/.

Key Figures

(amounts in NOK 1 000)	Q3 2018	Restated* Q3 2017	YTD 2018	Restated* YTD 2017	2017
Total revenues	261 596	180 811	746 763	508 248	789 473
EBITDA	10 945	5 392	28 734**	(2 444)	(735)
EBITA	10 574	5 127	27 520**	(3 364)	(2 125)
EBIT	5 583	(515)	13 149**	(17 969)	(23 147)
EBITDA margin (%)	4.2%	3.0%	3.8%**	(0.5%)	(0.1%)
EBITA margin (%)	4.0%	2.8%	3.7%**	(0.7%)	(0.3%)
Hardware, share of revenue***	73%	71%	73%	72%	72%
Solutions, share of revenue***	27%	29%	27%	28%	28%
Total Assets	749 023	676 478	749 023	676 478	765 477
Cash	43 201	70 645	43 201	70 645	35 278
Equity	492 575	459 058	492 575	459 058	450 110
Employees	225	214	225	214	219

Note: Figures include M&A costs and other one-offs of NOK 3.2 million in Q3 2017 and NOK 26.3 million full year 2017.
*Refer to note 6
** Includes a reduction of a contingent liability of NOK 10 million related to BKE Telecom AB in Q2 2018. For details, see note 7 in the Financial Report for Q2 2018.
*** Includes related commission and bonus. The split of hardware and solutions sales reflects Techstep's operational split of sales and does not reconcile with the figures reported in Note 2.

Operational review

Main developments

Techstep's strategy is to become a leading enabler of the digital workplace in the Nordic region.

Acquisitions have been an important part of the growth strategy, and the integration of companies acquired in both Norway and Sweden during 2017 and 2018 continued in the third quarter 2018. Main priorities include clarifying the group's value proposition, streamlining of roles and responsibilities, aligning everyone behind one brand and build a shared and strong company culture.

As part of Techstep's ongoing efforts to strengthen its marketing and sales capacity, the group commenced its customer engagement programme and continued to invest in product development. Furthermore, a reorganisation of the sales organisation was effectuated by shifting to industry verticals and a clear distinction between public and private sales teams. Another ongoing project is to develop a new corporate profile and implement Techstep branding of all group units. The new corporate profile including a new website was launched at the turn of the quarter.

Techstep was awarded new contracts with a potential total value of NOK 242 million in the quarter. For the first nine months of 2018, Techstep has been awarded new contracts with a potential total value of NOK 765 million.

Techstep offers its customers a "Mobile as a Service" (MaaS) solution that enables them to let employees do their work across mobile devices and locations, with a high degree of security and operational stability. Techstep's strategy is to create value for customers and deliver margins for Techstep through the MaaS solution, thereby improving the group's profitability over time, and compensating for the continued price pressure on hardware. The pipeline of larger MaaS opportunities is growing, however the roll-out of contracts needs to be phased out to ensure the organisation has the neccesary capacity. Year-to-date, Techstep has signed 14 MaaS contracts with a potential total value of NOK 121 million.

Larger contracts awarded in the quarter

A two-year framework agreement for delivery of mobile solutions to Difi, the Norwegian government's Agency for public management and eGovernment. The potential contract value is NOK 200 million (excl. options), with the majority of revenues expected from 2019. The contract includes options for an additional two years with semi-annual renewal.

End-user base developments

Techstep's consolidated end-user base increased to ~658,000 at the end of the third quarter 2018, up from ~574,000 at the end of third quarter 2017, corresponding to a year-over-year growth of 14%.

Financial review

The interim financial information has not been subject to audit or review.

Profit and loss

Techstep generated total revenues of NOK 261.6 million in the third quarter 2018, up by 45% from NOK 180.8 million in the corresponding quarter last year. The growth stems primarily from the Norwegian operations. The Swedish operations are performing weaker than expected, and actions have been initiated to improve profitability.

Hardware sales increased by 49% year-over-year, primarily from the Norwegian operations, while solutions revenue grew by 36% related to increased sales to new and existing customers in Norway and Sweden

Operating expenses increased from NOK 175.7 million to NOK 251.0 million year-over-year. The gross margin dropped from 31% to 27%, mainly due to a bulk hardware case, increased cost of goods in Sweden and a lower relative share of solutions revenue. Personnel costs increased due to new hirings, in line with Techstep's growth strategy. Options costs were NOK 1.4 million in the quarter, compared with NOK 1.2 million in third quarter 2017. Other operational costs amounted to NOK 18.7 million, up from NOK 13.5 million in the corresponding quarter 2017, and included costs related to the acquisition of Wizor and integration, marketing and branding costs, in line with the group's growth strategy.

EBITDA was NOK 10.9 million, up from NOK 5.4 million in the corresponding quarter last year. The EBITDA level continues to reflect growth investments and integration costs. EBITDA for the third quarter 2017 includes non-recurring restructuring and transaction costs of NOK 3.2 million. The EBITDA margin was 4.2% compared to 3.0% in Q3 2017.

The operating profit (EBIT) was NOK 5.6 million for the third quarter 2018, compared to an operating loss (EBIT) of NOK 0.5 million for the third quarter 2017.

The net financial expenses amounted to NOK 1.0 million in the third quarter 2018, compared with NOK 0.7 million in the third quarter 2017.

The net profit for the third quarter 2018 ended at NOK 3.8 million. For the third quarter 2017, the net profit was NOK 0.6 million.

Cash flow

The net cash flow from operating activities was positive at NOK 3.2 million for the third quarter of 2018. This is mainly driven by increased earnings, partly offset by changes in working capital.

The net cash flow used for investment activities was NOK 6.8 million and relates to the acquisition of Wizor AS and IT related capital expenditure.

The net cash flow from financing activities was NOK 22.9 million and relate to the net proceeds from the private placement of NOK 23.7 million made at the end of the second quarter. The private placement was made to finance the acquisition of Wizor AS as well as for general corporate purposes.

Cash and cash equivalents increased by NOK 19.3 million over the third quarter 2018 to NOK 43.2 million at the end of the period.

Financial position

As at 30 September 2018, Techstep had total assets of NOK 749.0 million, compared with NOK 765.5 million at 31 December 2017. NOK 517.4 million relates to the Group's intangible assets. Accounts receivable decreased by NOK 2.2 million from the close of the previous quarter, to NOK 125.4 million.

During the third quarter 2018, Techstep's total equity increased by NOK 42.3 million to NOK 492.6 million and the equity ratio increased from 64% to 66% from the previous quarter. The increase in equity is related to the private placement and issuance of shares in connection with the acquisitions of Wizor AS and the remaining 49% of Conneqted 365 AB, as well as operating profit from the period.

Non-current interest-bearing debt of NOK 7.0 million relates to a long-term property loan for the premises in Karlstad, Sweden. Other non-current debt of NOK 4.8 million represents an earn-out obligation related to Wizor AS.

Current interest-bearing liabilities amounted to NOK 80.8 million and includes factoring debt of NOK 35.5 million, a drawn credit facility of NOK 24.7 million, a vendor note of NOK 13.8 million related to the acquisition of BKE TeleCom AB, and a term loan of NOK 5.6 million, due in December 2018. Other current liabilities include the remaining estimated earn-out liability related to BKE TeleCom AB of NOK 9.4 million, as this has been reclassified from non-current debt to other current liabilities.

Outlook

Techstep expects the market for B2B mobility services in Norway and Sweden to continue to grow in the years ahead. Increased demand for the digital workplace and mobile solutions is expected to be an important market driver.

Techstep continues to execute its strategy to become a leading Nordic enabler of the digital workplace, integrating acquired companies and developing its organisation and “Mobile as a Service” offering. Investments made over the last two years are expected to generate revenue growth and improved profitability going forward.

Consolidated income statement

(amounts in NOK 1 000)	Note	Q3 2018	Restated* Q3 2017	YTD 2018	Restated* YTD 2017	2017
Revenue	2, 3	261 596	180 588	744 286	506 734	786 242
Other income		-	223	2 477	1 515	3 231
Total revenues		**261 596**	**180 811**	**746 763**	**508 248**	**789 473**
Cost of goods sold		(189 704)	(124 264)	(535 276)	(353 533)	(559 656)
Salaries and personnel costs		(42 602)	(34 752)	(141 649)	(96 506)	(144 943)
Other operational costs		(18 694)	(13 461)	(51 275)	(43 681)	(59 451)
Share of profit (loss) in joint ventures		349	289	138	396	223
Depreciation		(371)	(265)	(1 214)	(920)	(1 390)
Amortisation		(4 992)	(5 642)	(14 371)	(14 605)	(21 022)
Other income and expenses	7	-	(3 231)	10 034	(17 368)	(26 381)
Operating profit (loss)		**5 583**	**(515)**	**13 149**	**(17 969)**	**(23 147)**
Remeasurement on equity interests		-	-	-	(5 356)	(5 356)
Financial income		163	62	486	4 494	6 211
Financial expense		(1 133)	(773)	(3 937)	(2 503)	(29 230)
Profit before taxes		**4 612**	**(1 226)**	**9 698**	**(21 334)**	**(51 523)**
Income taxes		(861)	1 844	770	2 901	3 846
Net profit (loss) for the period		**3 751**	**620**	**10 468**	**(18 433)**	**(47 677)**
Net income attributable to						
Non-controlling interests		64	-	644	-	95
Shareholders of Techstep ASA		3 687	620	9 824	(18 433)	(47 773)
Earnings per share in NOK:						
Basic		0.02	0.00	0.07	(0.14)	(0.35)
Diluted		0.02	0.00	0.07	(0.14)	(0.35)

**Refer to note 6*

The interim financial information has not been subject to audit or review.

Consolidated statement of comprehensive income

(amounts in NOK 1 000)	Note	Q3 2018	Restated* Q3 2017	YTD 2018	Restated* YTD 2017	2017
Net profit (loss) for the period		**3 751**	**620**	**10 468**	**(18 433)**	**(47 677)**
Items that may be reclassified to profit and loss						
Exchange differences on translation of foreign operations		720	-	(9 545)	-	487
Income tax related to these items		(150)	-	1 201	-	
Total comprehensive income for the period		**4 321**	**620**	**2 124**	**(18 433)**	**(47 189)**
Total comprehensive income for the period attributable to						
Non-controlling interests		64		644		95
Shareholders of Techstep ASA		4 257	620	1 481	(18 433)	(47 285)

**Refer to note 6*

The interim financial information has not been subject to audit or review.

Consolidated statement of financial position

ASSETS	Note	Q3 2018	2017
Non-current assets			
Goodwill	7	452 988	436 515
Customer relations and technology		64 470	77 385
Total intangible assets		**517 459**	**513 900**
Property, plant and equipment		10 815	9 115
Total tangible assets		**10 815**	**9 115**
Joint ventures		754	616
Shares and investments		8 117	8 877
Other non-current assets		1 971	1 547
Total financial assets		**10 842**	**20 155**
Total non-current assets		**539 115**	**534 056**
Inventories		17 496	20 715
Accounts receivable		125 362	156 663
Other receivables		23 848	18 766
Total inventories and receivables		**166 706**	**196 143**
Cash and cash equivalents		43 201	35 278
Total current assets		**209 907**	**231 421**
Total assets		**749 023**	**765 477**

EQUITY AND LIABILITIES	Note	Q3 2018	2017
Share capital		159 057	146 252
Other equity		333 517	303 488
Total equity attributable to the owners of Techstep ASA	4, 6, 9	**492 575**	**449 740**
Non-controlling interests		-	370
Total equity		**492 575**	**450 110**
Deferred tax		7 998	10 428
Non-current interest-bearing debt		7 023	23 551
Other non-current debt	7	4 856	22 277
Total non-current debt		**19 878**	**56 256**
Current interest-bearing liabilities		80 789	67 604
Accounts payable		88 342	116 765
Tax payable		115	4 586
Public taxes, provisions		19 995	19 657
Other current liabilities		47 330	50 498
Total current debt		**236 571**	**259 110**
Total liabilities		**256 448**	**315 367**
Total equity and liabilities		**749 023**	**765 477**

The interim financial information has not been subject to audit or review.

Consolidated statement of changes in equity

(amounts in NOK 1 000)	Share capital	Other paid-in capital	Other equity	Sum	Minority interest	Total equity capital
Equity as of 1 January 2017	**102 476**	**283 702**	**(151 072)**	**235 107**	**25 187**	**260 294**
Profit for the period			(47 773)	(47 773)	95	(47 677)
Other comprehensive income			487	487	-	487
Total comprehensive income for the period	**-**	**-**	**(47 286)**	**(47 286)**	**95**	**(47 190)**
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs	17 544	78 656		96 200		96 200
Share based payments			3 365	3 365		3 365
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	26 232	110 934	25 187	162 354	(25 187)	137 166
Non-controlling interests on acquisition of subsidiary				-	274	274
Equity as of 31 December 2017	**146 252**	**473 292**	**(169 806)**	**449 740**	**370**	**450 110**
Equity as of 1 January 2018	**146 252**	**473 292**	**(169 806)**	**449 740**	**370**	**450 110**
Profit for the period			9 824	9 824	644	10 468
Other comprehensive income			(8 344)	(8 344)		(8 344)
Total comprehensive income for the period	**-**	**-**	**1 481**	**1 481**	**644**	**2 124**
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs	7 937	16 062		23 999		23 999
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	4 869	7 741		12 610		12 610
Purchase of minority interest in subsidiary			1 013	1 013	(1 013)	-
Share-based payments			3 733	3 733		3 733
Equity as of 30 September 2018	**159 057**	**497 096**	**(163 579)**	**492 575**	**-**	**492 575**

The interim financial information has not been subject to audit or review.

Consolidated statement of cash flow

(amounts in NOK 1 000)	Q3 2018	Restated* Q3 2017	YTD 2018	Restated* YTD 2017	2017
Profit before tax	4 612	(1 226)	9 698	(21 334)	(51 523)
Profit from joint venture	(349)	(289)	(138)	(396)	(223)
Depreciation and amortisation	5 362	5 907	15 585	15 525	22 413
Share-based payments	1 355	1 177	3 733	1 851	3 365
Unrealised changes in fair value of shares and investments	-	-	-	-	25 647
Remeasurement of contingent liability	-		(10 035)	-	-
Remeasurement of equity interest	-	-	-	5 356	5 356
Taxes paid	-	-	(5 392)	(5 835)	(5 835)
Changes in net operating working capital	(7 745)	(16 580)	(10 581)	(37 765)	(33 871)
Net cash flow from operational activities	**3 235**	**(11 011)**	**2 872**	**(42 598)**	**(34 671)**
Payment for acquisition of subsidiaries net of cash acquired	(5 335)	(25 744)	(5 335)	(85 582)	(83 581)
Payment for acquisition of equity in joint ventures	-	-	-	-	(500)
Payment for other financial assets	-	41	-	(89)	(89)
Payment for property, plant and equipment	(1 510)	(647)	(6 793)	(764)	(2 896)
Proceeds from sale of equity instruments	-	-	760	-	-
Net cash used on investment activities	**(6 845)**	**(26 350)**	**(11 369)**	**(86 435)**	**(87 066)**
Proceeds from issuance of shares	23 700	-	23 700	95 000	95 000
Repayment of borrowings	(819)	(5 625)	(6 326)	(20 000)	(20 000)
Net cash flow from financing activities	**22 881**	**(5 625)**	**17 374**	**75 000**	**75 000**
Net change in cash and cash equivalents	**19 272**	**(42 986)**	**8 877**	**(54 033)**	**(46 738)**
			-		
Cash and cash equivalents at beginning of period	23 782	70 645	35 332	81 692	81 692
Effects of exchange rate changes on cash and cash equivalents	146	-	(1 008)	-	324
Cash and cash equivalents at end of period	**43 201**	**27 659**	**43 201**	**27 659**	**35 278**

**Refer to note 6*

The interim financial information has not been subject to audit or review.

Notes to the consolidated financial statements

1. Accounting principles

Techstep (the Group) consists of Techstep ASA (the Company) and its subsidiaries. Techstep ASA is a limited liability company, incorporated in Norway. The consolidated interim financial statements consist of the Group and the Group's interests in a joint arrangement. As a result of rounding differences, numbers or percentages may not add up to the total.

1. ACCOUNTING PRINCIPLES
The interim consolidated financial statements are prepared under International Financial Reporting Standards (IFRS), for the period 1 January 2018 to 30 September 2018. The interim financial report is presented in accordance with IAS 34 Interim Financial Reporting. The interim consolidated financial statements do not include all the information and disclosures required in the Annual Financial Statements and should be read in conjunction with the Group's Annual Financial Statements 2017. The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's Annual Financial Statements for the year ended 31 December 2017, with the exceptions stated below. The report has not been audited.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 in its entirety as of 1 January 2018. The new rules have been applied retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 have not be restated.

Classification and measurement of financial assets

Financial assets comprise the following current assets: accounts receivable, other receivables and cash and cash equivalents. All of these current assets are in the IAS 39 category of loans and receivables and are measured at amortized cost. Upon adoption of IFRS 9, these financial assets have been determined to be within a business model of hold to collect and meet the solely payments of principal and interest (SPPI) criteria. Classification and measurement will continue to be at amortised cost under IFRS 9. There is no implementation impact on the financial statements related to the classification and measurement of the Group's financial assets.

Impairment

Upon implementation of IFRS 9 the Group has adopted the new impairment requirements for financial assets and made the accounting policy choice of measuring the loss allowance at the lifetime expected credit loss for accounts receivables. Management has not recognised any initial adjustment to the opening 1 January 2018 equity as financial assets taken, as a whole, are in stage 1 and have a low estimated probability of default.

Hedge accounting

The Group does not apply hedge accounting and is thus not affected by the changes related to the new rules under IFRS 9.

Overall implementation effect

No implementation effects related to the IFRS 9 classification, impairment and hedge accounting rule changes have affected the 1 January 2018 opening balance.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 in its entirety as of 1 January 2018. The new rules have been applied retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 has not be restated.

IFRS 15 establishes a new set of principles that shall be applied to reported information related to the nature, amount, timing and uncertainty of revenue arising from contracts with customers. In order to operationalise these principles, the standard introduces a five-step model;

1. Identify customer contracts
2. Identify performance obligations in the contracts
3. Determine the transaction price
4. Allocate the transaction price
5. Recognise revenue when (or as) a performance obligation is satisfied

Under IFRS 15 an entity recognises revenue when (or as) the “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Techstep has performed an impact assessment of the aspects of IFRS 15 and has not identified any significant impact to the Group’s consolidated financial statements. Techstep has applied the modified retrospective approach, which allows for any adjustments to the opening balance of equity at the date of initial application 1 January 2018. No prior year comparatives are restated when using the modified retrospective approach.

Areas of specific importance for Techstep when assessing the impact of applying IFRS 15 are as follows:
Revenue from sale of hardware
A major part of the Group’s revenue arises from the sale of hardware to its customers. Each sale is defined as a customer contract, where the delivery of the hardware in question is identified as the performance obligation. The customers obtain control of the hardware when the item is shipped to the customers. Recognition of revenue is done at the time of shipment as the performance obligations then is satisfied.
Revenue from sale of licences
The group provides various software licenses to its customers. Management has assessed the customer contracts related to software license and have found the sale of software licenses to be distinct performance obligations as software licenses customer can benefit from the license on its own and can be a stand-alone delivery with no other goods or services.

The performance obligation is satisfied when the customer gets access to the software license, and revenue from sale of licenses is thus recognised at the point in time when the software is transferred to the customer.

Revenue from sale of services

Techstep offers support and maintenance services to its customers. These services are organised as subscription program where the customers have access to support and maintenance for a monthly fee. The performance obligations related to support and maintenance is satisfied on an ongoing basis, and revenue related to sales of services are thus recognised on a linear basis over time.

Commissions and bonus
Sale of certain items of hardware and licenses triggers a right to a commission or bonus from suppliers and partners. Commission or bonus is recognised as revenue when the performance obligations for the sale of hardware or license is satisfied.

Overall implementation effect

No implementation effects related to IFRS 15 have been recognized to the 1 January 2018 opening balance.

For all other accounting principles, please refer to note 1 in the Group's Annual financial statements 2017.

New standards and interpretations not yet adopted:
The group has elected not to early adopt IFRS 16 Leases which have an adoption date after the balance sheet date.

Note 2. Business segments (for accounting purposes)

For the financial statements, Techstep has two main business segments, which per 30 September 2018 are represented by the following legal entities specified below. The entities are controlled and owned by the Techstep Group. Other companies are included in the segment Headquarters and other.

Some of the solutions sale is routed through the primary sales channels, the hardware distribution companies Techstep Norway AS, Apro Tele og Data AS and Techstep Sweden AB, presented as Hardware suppliers. Consequently, the income statements presented as Hardware suppliers and Solutions suppliers do not represent the Group's hardware and solutions income statements.

Internal sales are eliminated in the Group accounts. Eliminations of transactions between segments are presented in the column Eliminations.

1) Hardware suppliers

- Techstep Norway AS: The mobile operator Telenor's key distribution channel of devices and subscriptions to the Norwegian business segment.
- Apro Tele & Data AS: A Norwegian hardware supplier providing fixed network IP and mobile solutions, with special expertise in the Norwegian public sector.
- Techstep Sweden AB: A Swedish hardware supplier, offering an industry leading cloud-based (UCaaS) PBX solution, where users may choose to communicate via mobile, fixed, wireless phones, web or computer applications. One of few market players in Sweden offering cloud-based PBXs integrated with all the largest Swedish operators, i.e. Tele2, Telenor and Telia.

***2*) Solutions suppliers:**

- Techstep Nordic AS: Delivers services and solutions within the "Enterprise Mobility Management," and offers mobility digitalization solutions through third party software such as Cisco, Citrix and Microsoft. The company generates revenue both directly from external customers and as supplier to Nordialog.
- Mytos AS: A Norwegian based software as a services company with mainly recurring revenue. Mytos offers a full range of telecom expense management ("TEM") modules, all with proprietary software and highly user-friendly implementation and operation.
- Techstep InfraAdvice AB: A Swedish Enterprise Mobility Management specialist services to customers mainly based in Stockholm, with local presence in Luleå and Strängnäs.
- Conneqted 365 AB: A Swedish company providing complete Enterprise Mobility Management ("EMM") service, including Mobile Security, system design, implementation, mobile device management, maintenance and support. Located in Karlstad.
- Wizor AS and its subsidiary Mowizor AB: A Norwegian and Swedish company providing high security communication solutions.

3) Headquarters and other:

Techstep ASA, Teki Solutions AS, Netconnect AS, Mytos IPR AS and Techstep Holding AB

Q3 2018	Hardware	Solutions	Head-quarter and other	Elim-inations	Total
Operating revenues from external customers	**230 169**	**31 477**	**-**	**-**	**261 596**
Operating revenues from other segments	2 686	7 377	5 174	(15 237)	-
Total revenues	**232 854**	**38 854**	**5 125**	**(15 237)**	**261 596**
Cost of goods sold	(184 035)	(13 505)	-	7 837	(189 704)
Salaries and personnel costs	(23 318)	(13 739)	(5 795)	249	(42 602)
Other operational costs	(13 438)	(5 625)	(5 997)	6 366	(18 694)
Share of profit (loss) of joint venture	-	-	349	-	349
Depreciation	(302)	(55)	(14)	-	(371)
Amortization	(2 741)	(1 441)	(810)	-	(4 992)
Other expenses	-	-	(0)	-	(0)
Operating profit (loss)	**9 020**	**4 489**	**(7 142)**	**(785)**	**5 583**
Employees 30 September 2018	**135**	**81**	**9**		**225**

Q3 2017	Hardware	Solutions	Head-quarter and other	Elim-inations	Total
Operating revenues from external customers	**152 891**	**27 662**	**258**	**-**	**180 811**
Operating revenues from other segments	-	7 195	2 724	(9 919)	-
Total revenues	**152 891**	**34 857**	**2 982**	**(9 919)**	**180 811**
Cost of goods sold	(122 482)	(10 286)	-	8 504	(124 264)
Salaries and personnel costs	(17 814)	(10 638)	(6 300)	-	(34 752)
Other operational costs	(10 423)	(3 805)	(1 958)	2 724	(13 461)
Share of profit (loss) of joint venture	-	-	289	-	289
Depreciation	(193)	(51)	(21)	-	(265)
Amortisation	(6 035)	393	-	-	(5 642)
Other expenses	-	-	(3 231)	-	(3 231)
Operating profit (loss)	**(4 056)**	**10 472**	**(8 239)**	**1 309**	**(515)**
Employees 30 September 2017	**139**	**65**	**10**		**214**

YTD 2018	Hardware	Solutions	Head-quarter and other	Elim-inations	Total
Operating revenues from external customers	**667 516**	**79 080**	**166**	**-**	**746 763**
Operating revenues from other segments	5 607	30 959	16 160	(52 726)	-
Total revenues	**673 124**	**110 039**	**16 326**	**(52 726)**	**746 763**
Cost of goods sold	(526 195)	(39 859)	(51)	30 829	535 276)
Salaries and personnel costs	(78 137)	(45 793)	(18 839)	1 119	141 649)
Other operational costs	(39 842)	(15 570)	(15 687)	19 824	(51 275)
Share of profit (loss) of joint venture	-	-	138	-	138
Depreciation	(939)	(218)	(57)	-	(1 214)
Amortisation	(8 295)	(4 217)	(1 860)	-	(14 371)
Impairment	-	-	10 034	-	10 034
Other expenses	**19 715**	**4 382**	**(9 995)**	**(953)**	**13 149**
Operating profit (loss)	**667 516**	**79 080**	**166**	**-**	**746 763**

YTD 2017	Hardware	Solutions	Head-quarter and other	Elim-inations	Total
Operating revenues from external customers	**429 388**	**77 798**	**1 062**	**-**	**508 248**
Operating revenues from other segments	958	20 190	8 208	(29 356)	-
Total revenues	**430 346**	**97 988**	**9 270**	**(29 356)**	**508 248**
Cost of goods sold	(347 839)	(28 159)	-	22 464	(353 533)
Salaries and personnel costs	(50 541)	(30 572)	(15 392)	-	(96 506)
Other operational costs	(30 302)	(10 189)	(11 399)	8 208	(43 681)
Share of profit (loss) of joint venture	107	-	289	-	396
Depreciation	(749)	(107)	(64)	-	(920)
Amortisation	(14 605)	-	-	-	(14 605)
Other expenses	-	-	(17 368)	-	(17 368)
Operating profit (loss)	**(13 582)**	**28 962**	**(34 664)**	**1 317**	**(17 969)**

2017	Hardware	Solutions	Head-quarter and other	Elim-inations	Total
Operating revenues from external customers	**707 712**	**80 440**	**1 320**	**-**	**789 473**
Operating revenues from other segments	1 698	32 060	10 926	(44 684)	-
Total revenues	709 410	112 501	12 246	(44 684)	789 473
Cost of goods sold	(551 201)	(42 208)	-	33 753	(559 656)
Salaries and personnel costs	(78 333)	(45 987)	(20 623)	-	144 943)
Other operational costs	(41 491)	(15 052)	(13 833)	10 926	(59 451)
Share of profit (loss) of joint venture	107	-	116	-	223
Depreciation	(1 135)	(134)	(121)	-	(1 390)
Amortisation	(18 355)	(2 668)	-	-	(21 022)
Other expenses	-	-	(26 381)	-	(26 381)
Operating profit (loss)	**19 002**	**6 452**	**(48 596)**	**-**	**(23 147)**
Employees 31 December 2017	**141**	**69**	**9**	**-**	**219**

Note 3: Disagregation of revenues

In the following tables, Total revenue is disaggregated by major revenue streams divided into the reportable segments as shown in note 2:

Q3 2018	**Norway**	**Sweden**	**Eliminations**	**Group**
Total revenue	**216 755**	**49 888**	**(5 046)**	**261 596**
Hardware				
Hardware revenues	145 704	41 596	(3 689)	183 611
Bonus	7 455	111	-	7 566
Provisions	-	-	-	-
Total	**153 160**	**41 707**	**(3 689)**	**191 177**
Solutions				
Solutions revenues	50 276	6 599	(56)	56 819
Bonus	5 199	-	-	5 199
Provisions	5 685	2 717	-	8 401
Total	**61 160**	**9 315**	**(56)**	**70 419**
Other revenues				
Other	2 435	(1 134)	(1 301)	-
Total	**2 435**	**(1 134)**	**(1 301)**	**-**

YTD 2018	**Norway**	**Sweden**	**Eliminations**	**Group**
Total revenue	**583 311**	**186 712**	**(23 260)**	**746 763**
Hardware				
Hardware revenues	398 008	137 242	(15 027)	520 222
Bonus	29 195	225	-	29 420
Provisions	-	-	-	-
Total	**427 203**	**137 467**	**(15 027)**	**549 642**
Solutions				
Solutions revenues	127 784	41 691	(4 398)	165 078
Bonus	1 399	-	-	1 399
Provisions	20 999	7 168	-	28 167
Total	**150 182**	**48 860**	**(4 398)**	**194 644**
Other revenues				
Other	5 926	386	(3 835)	2 477
Total	**5 926**	**386**	**(3 835)**	**2 477**

Note 4: Share capital and shareholders

The company's share capital as at 30 September 2018 was NOK 159,057,020 divided on 159,057,020 ordinary shares with a par value of NOK 1.00.

Each share gives the right to one vote at the company's general meeting. At the date of this report, Techstep holds 1,914 treasury shares.

Techstep's 20 largest shareholders as at 28 September 2018, are as follows:

Shareholder	# of shares	Ownership %
DATUM AS	31 817 975	20.00%
MIDDELBORG INVEST AS	30 517 764	19.19%
Skandinaviska Enskilda Banken AB	7 491 402	4.71%
CIPRIANO AS	4 968 835	3.12%
SKARESTRAND INVEST AS	4 563 097	2.87%
TIGERSTADEN AS	4 000 000	2.51%
PALOS NORGE AS	3 966 667	2.49%
DOVRAN INVEST AS	3 763 372	2.37%
Tinde industrier as	3 763 372	2.37%
JYST INVEST AS	3 092 285	1.94%
ZONO HOLDING AS	3 000 007	1.89%
SÅ&HØSTE AS	2 925 936	1.84%
TVENGE TORSTEIN	2 700 000	1.70%
NOMO HOLDING AS	1 946 253	1.22%
NORDIALOG ENSJØ AS	1 946 253	1.22%
UNIFIED AS	1 849 457	1.16%
VERDIPAPIRFONDET DNB SMB	1 736 715	1.09%
RAKNES HOLDING AS	1 649 348	1.04%
DATUM VEKST AS	1 600 000	1.01%
Euroclear Bank S.A./N.V.	1 587 303	1.00%
Total number owned by top 20	**118 886 041**	**74.74%**
Total number of shares	**159 057 020**	**100%**

[1)] Middelborg invest controlled by board member Kristian Lundkvist
[2)] Cipriano AS, owned by chairman of the Board of Directors Einar J. Greve
[3)] Zono Holding AS owned by Middelborg Invest AS 50.44%, Cipriano AS 4.65%, Duo Jag AS 0.93%

Duo Jag AS, which is partly owned by member of the Board of Directors Ingrid Leisner, owns 554,834 shares in Techstep ASA.

Share option grant

As per 30 September 2018, the total number of outstanding share options was 13.2 million, equivalent to 7.7 % of the number of shares fully diluted (including 1,914 treasury shares) in Techstep ASA.

Note 5: Related party transactions

Techstep ASA has entered into an agreement with Gture AS, a company controlled by Stein Erik Moe, who is also as a member of the board of directors of Techstep. Gture will render certain consultancy services to Techstep in connection with development of a new ecommerce solution for Techstep. The estimated value of the contract is NOK 5 million.

Note 6: Restatement 2017

Techstep acquisitions

Techstep Group accounted for the remeasurement of its previously held 50% equity interest in Nordialog Asker AS (merged into Nordialog Oslo AS effective from 2017) in Q3 2017, whereas the transaction occurred in February 2017. The consolidated income statement YTD 2017 and the consolidated income statement for Q3 2017 have been restated. In the consolidated income statement YTD 2017 the amount NOK 5.4 million has been recognised as a cost on the financial statement line item remeasurement on equity interests. The same amount has been accounted for as a reduction of Goodwill and other equity. The same amount has been removed from the Q3 2017 consolidated income statement.

Share options

27 April 2017 the Board of Directors granted share options to the executive management. The related cost was not accounted for in Q3 2017. The restatement applies to the consolidated income statements for YTD 2017 and Q3 2017. The amount restated to the line item Salaries and personnel costs is NOK 1 117 thousand for the consolidated income statement for Q3 2017 and NOK 1 851 thousand for the consolidated income statement YTD 2017.

Note 7: Change in Group structure and business combination

Q3 2018

Techstep has in Q3 2018 invested NOK 4.7 million in cash (net of cash acquired NOK 5.3 million) related to acquistions of subsidiaries and businesses (Business combination).

Further the Group has issued consideration shares amounting to NOK 12.6 million in Q3 2018 related to business combinations and share purchases. In addition contingent consideration amounting to NOK 4.9 million have been recognised.

The remaining 49% shares in Conneqted 365 AB was aqcuired with 2,500,302 consideration shares in Techstep ASA.

Business combination

Techstep has invested NOK 4.7 million in cash (net of cash acquired NOK 5.3 million) related to acquistions (Business combinations) in Q3 2018.

Further the Group has issued 2,368,421 shares as payment for business combination in Q3 2018 related to business combinations. In addition a contingent consideration amounting to NOK 4.9 million have been recognised.

In June 2018, Techstep entered into a binding agreement to acquire 100% of Wizor AS. With the acquisition of Wizor, Techstep added a Nordic supplier of encrypted and secure solutions for mobile phones, tablets and other mobile devices to its portfolio. The transaction was closed 3 September 2018.

In June 2018 the Group entered into a binding agreement to acquire 49% of the shares in Conneqted 365 AB, making Conneqted a wholly owned subsidiary. The transaction was closed 3 September 2018.

The tables below summarise the consideration transferred and the amounts recognised for assets acquired and liabilities assumed after the business combinations:

(figures in NOK thousand)

Consideration

Cash	4 643
Consideration shares included share premium	6 134
Contingent consideration	4 859
Total	**15 636**

Net assets

Intangible assets	64
Property plant and equipment	598
Trade and other receivables	630
Cash and cash equivalents	(692)
Other non-current liabilities	(387)
Current liabilities	(1 902)
Net assets	**(1 689)**
Excess value	**17 325**

Preliminary Purchase price allocation

Goodwill	17 325
Total	**17 325**

The goodwill of NOK 17.3 million recognised is attributable to inseparable noncontractual customer relationships, the assembled workforce of the companies and synergies with other companies in the Group. None of the goodwill recognised is expected to be deductible for income tax purposes. The business combination is carried out as part of the Group's growth strategy, and the businesses acquired are good strategic fit with existing operations within the Techstep Group, in terms of supplementary product offerings.

The companies acquired in business combinations completed through purchase of shares have since the acquisition dates contributed NOK 0.5 million to operating revenues and NOK 0 to consolidated profit (loss). If the acquisition date of all business combinations completed through purchase of shares was as at 1 January 2018, the operating revenues of the Group would have increased by NOK 6 million and there would not have been any effect on consolidated profit (loss).

Note 8: Subsequent events

No material events have occurred from the balance sheet date until the publication of the financial statements that have had material impact on the Group’s financial position and that should have been reflected in the published financial statements.

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