

Annual report | 2016



LEADING THE WAY



LEADING THE WAY



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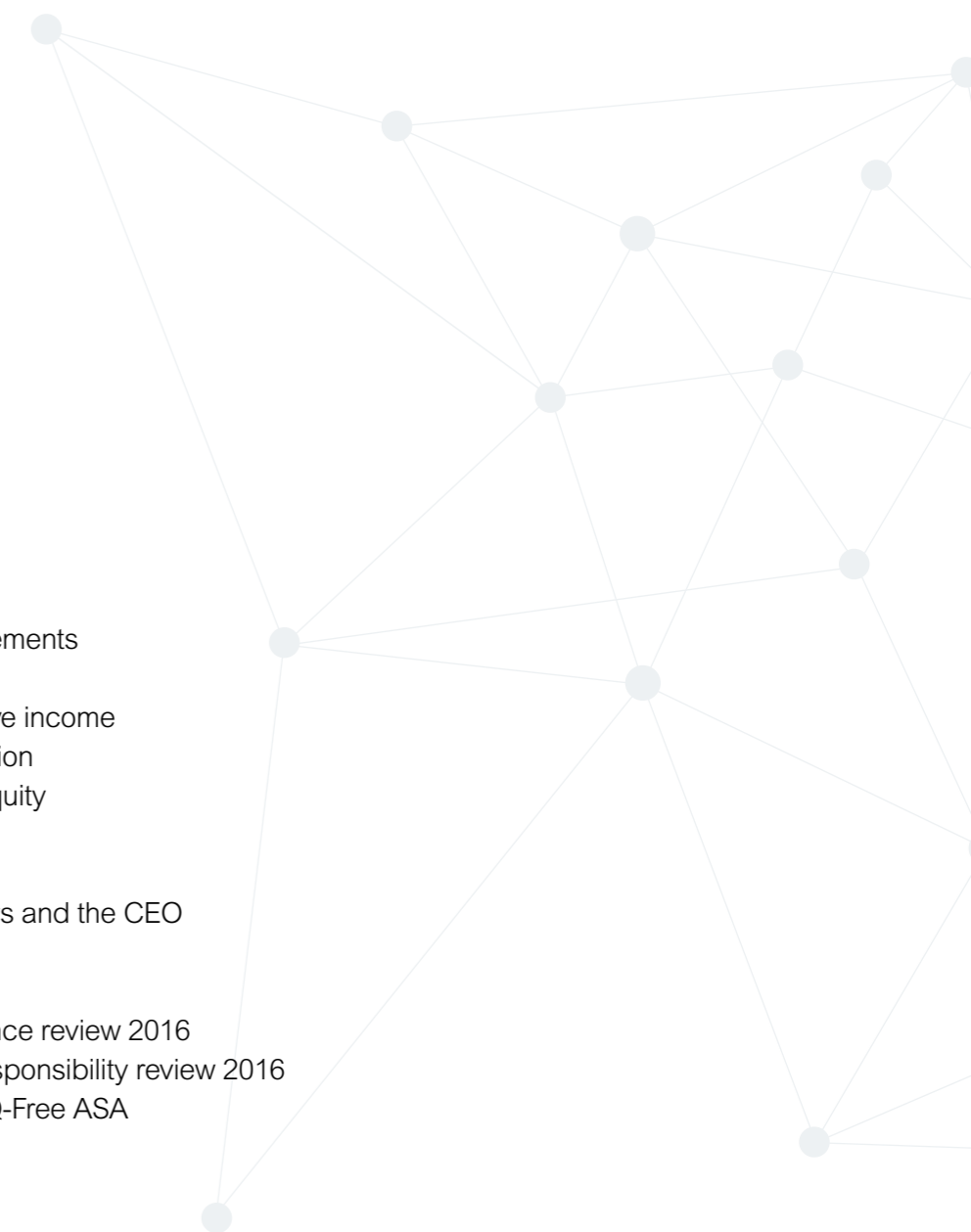
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28.04.2017 | Q1-17  
24.05.2017 | Annual General meeting  
14.07.2017 | Q2-17  
26.10.2017 | Q3-17  
15.02.2018 | Q4-17

For further information, please contact [ir@q-free.com](mailto:ir@q-free.com)

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# Mission Vision Values

The world around is rapidly changing. For Q-Free to continue to thrive as a technology leader and as a disruptor in many new areas for the next decades, we need to look ahead, understand the trends and markets that will shape the ITS business in the future and be prepared for what is to come.

Q-Free aspires to be ready *today* for *tomorrow* and our vision reflects that. It creates a long-term aim for our business and provides us with a solid roadmap for our employees, partners and customers.

## Our Mission

*Q-Free creates intelligent solutions for efficient, safe, and environmentally friendly transportation based on innovative technology and open platforms.*

## Our Vision

*Changing the movements of life.*

## Our Values

*Our values serve as a compass for our actions and describe how we behave in the world.*

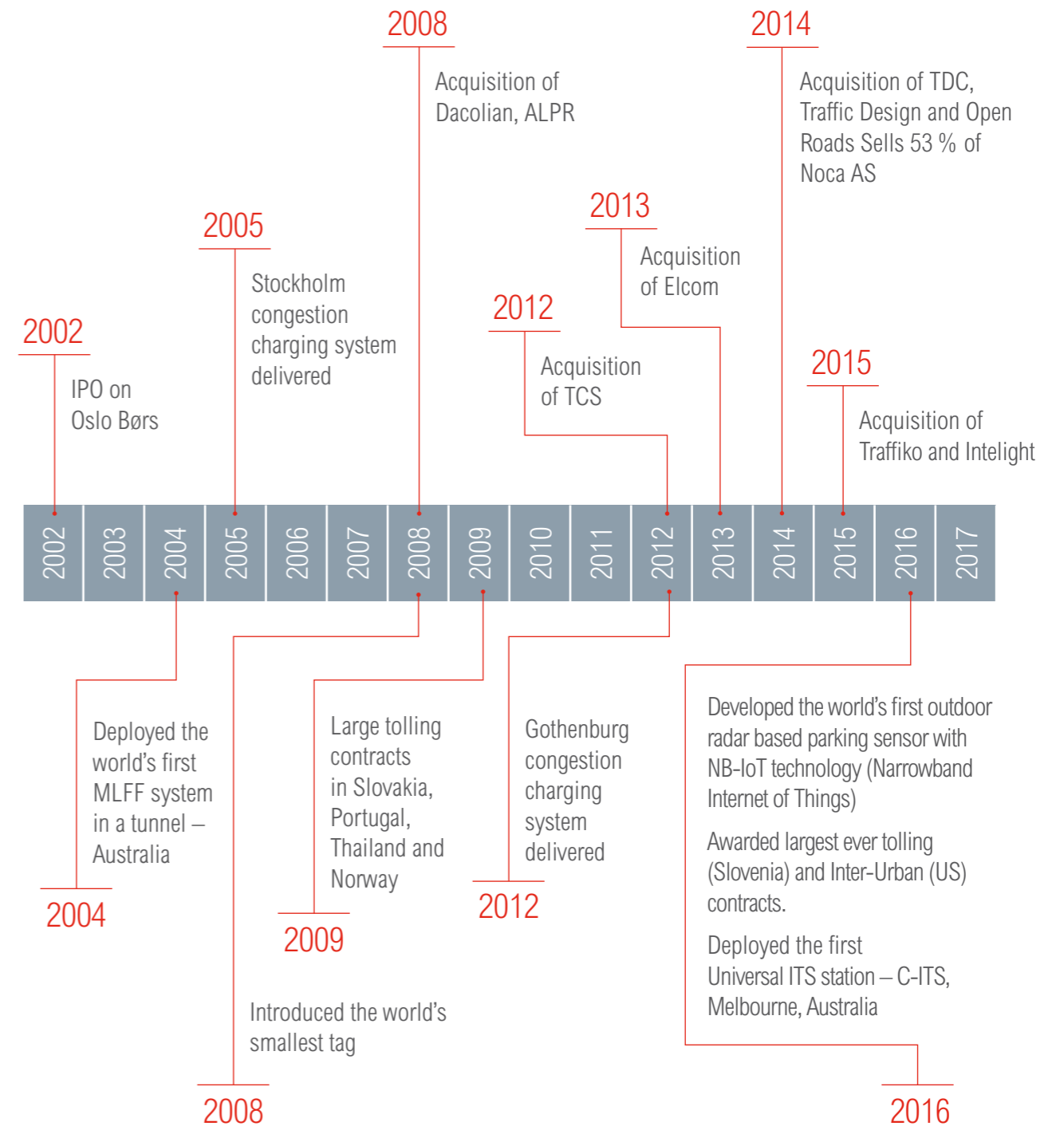
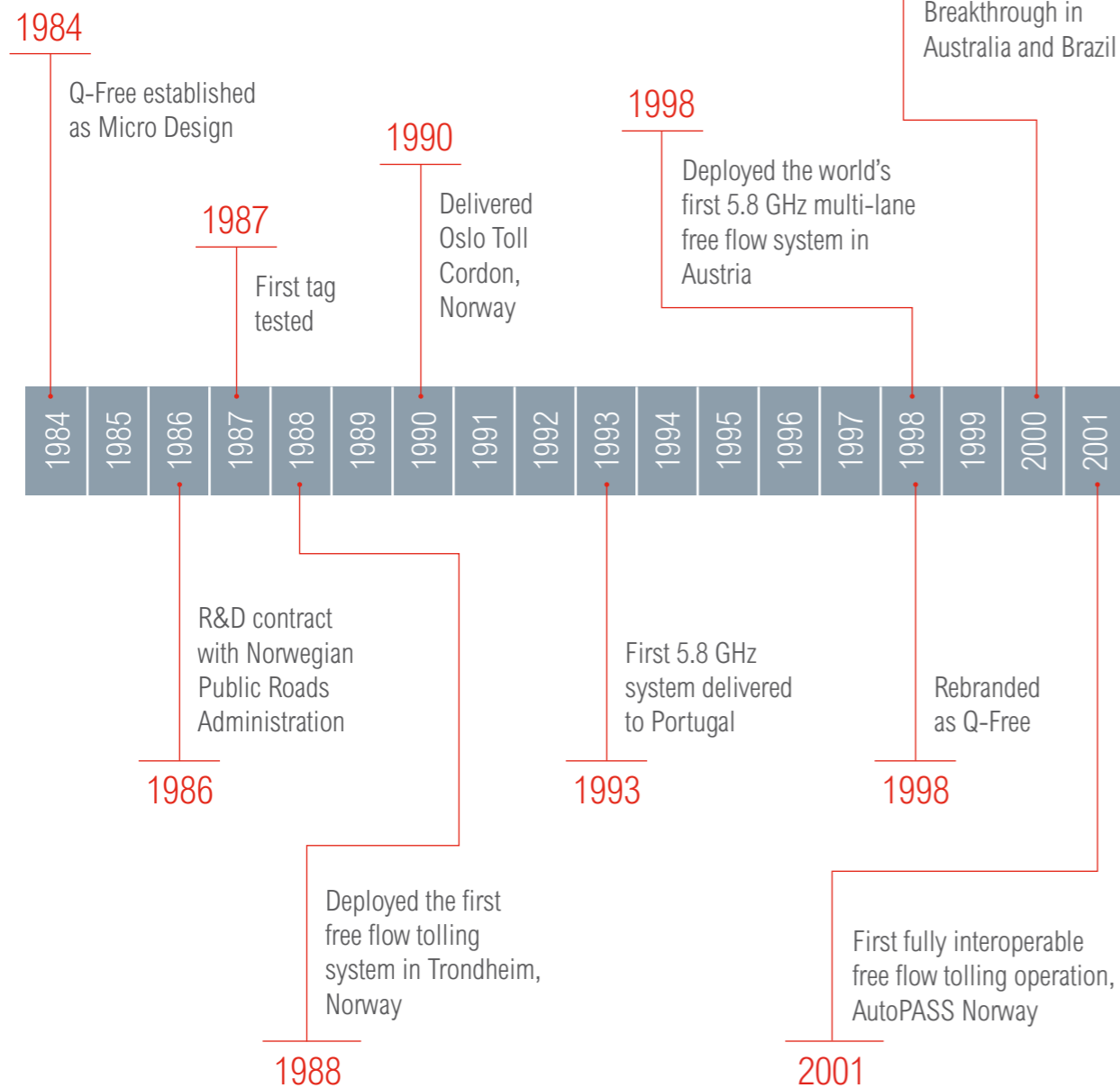
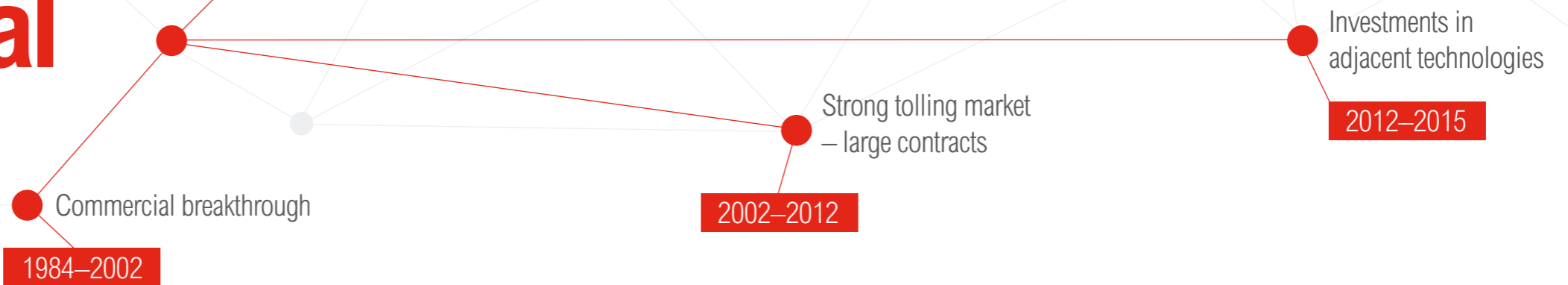
**E**xcellence

**P**assion

**I**nnovation

**C**ollaboration

# The historical context



# Q-Free at a glance



FOUNDED IN  
**1984**



HEADQUARTERS IN  
**TRONDHEIM  
NORWAY**

INSTALLED THE  
WORLD'S FIRST  
**FREE FLOW**  
TOLLING  
SYSTEM IN

**1998**



OFFICES IN  
**20**  
COUNTRIES



REFERENCES  
FROM  
**50+**  
MARKETS



**420**  
EMPLOYEES



**900**  
MNOK IN  
REVENUES



**30**  
MILLION  
TAGS SOLD



**1400**  
ETC  
LANES  
IN OPERATIONS



**300**  
PARKING  
FACILITIES



**325**  
WEIGH IN  
MOTION SYSTEMS



**350**  
BICYCLE  
COUNTERS



**3 000**  
TRAFFIC  
COUNTERS



**20 000**  
TRAFFIC  
CONTROLLERS

**50+**

BILLION NOK IN  
ACCUMULATED  
TOLL REVENUES  
PROCESSED IN  
CENTRAL SYSTEM  
NORWAY  
**2007-2016**



HEADQUARTERS  
DRINKS  
**58 500**  
CUPS OF COFFEE  
PER YEAR



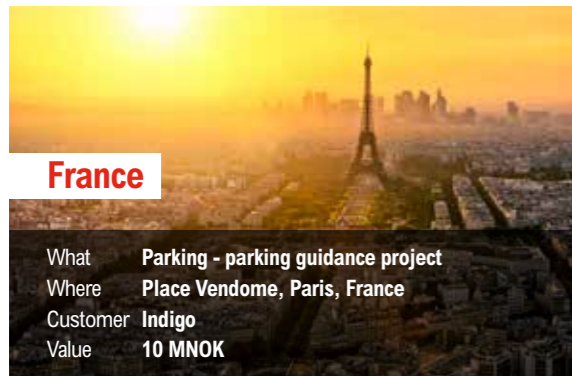
2016 ORDER INTAKE  
**1,6**  
BNOK

# Key figures

	2012	2013	2014	2015 *	2016
<b>Profit &amp; loss account (NOK)</b>					
Operating revenue	597 532	606 072	788 684	766 885	877 165
Cost of goods sold	227 090	224 791	282 173	221 615	296 481
Operating expenses	376 434	413 080	421 667	555 995	585 030
<b>EBITDA</b>	<b>-5 992</b>	<b>-31 799</b>	<b>84 844</b>	<b>-10 725</b>	<b>-4 346</b>
<b>EBIT</b>	<b>-55 306</b>	<b>-94 713</b>	<b>8 436</b>	<b>-150 294</b>	<b>-59 107</b>
<b>PROFIT BEFORE TAX</b>	<b>-44 623</b>	<b>-97 959</b>	<b>-16 369</b>	<b>-171 934</b>	<b>-55 621</b>
<b>PROFIT AFTER TAX</b>	<b>-31 979</b>	<b>-110 770</b>	<b>-26 958</b>	<b>-188 091</b>	<b>-53 419</b>
GM %	62.0 %	62.9 %	64.2 %	71.1 %	66.2 %
EBITDA %	-1.0 %	-5.2 %	10.8 %	-1.4 %	-0.5 %
EBIT %	-9.3 %	-15.6 %	1.1 %	-19.6 %	-6.7 %
<b>Selected balance sheet items (NOK)</b>					
Intangible fixed assets	244 387	236 279	414 342	581 991	512 451
Tangible fixed assets	66 320	63 071	51 799	43 854	33 661
Cash	369 491	271 477	164 133	65 349	101 474
Total assets	941 699	894 344	939 794	997 315	990 419
Equity (incl minority)	630 908	504 526	485 389	416 499	426 900
Interest bearing liabilities	100 000	100 000	100 000	150 000	150 000
<b>Key figures per share (NOK)</b>					
Earnings per share, ordinary	-0,51	-1,65	-0,42	-2,79	-1,11
Earnings per share, diluted	-0,51	-1,65	-0,42	-2,79	-1,11
Cashflow	-0,29	-0,48	0,92	-0,31	-0,96
Book equity	9,34	7,42	7,08	5,97	5,67
Market cap as at 31.12 (MNOK)	1 298	952	688	683	703
Average no of shares	67 541	67 972	68 574	69 781	75 351
<b>Other key figures</b>					
Order backlog	437 408	379 194	481 192	710 202	1 405 261
Order Intake	573 365	548 060	889 792	1 009 722	1 575 143
Return on Invested Capital (ROIC)	0,63	0,68	0,84	0,77	0,89
Net interest bearing liabilities	100 000	100 000	100 000	150 000	150 000
Cash flow from operations	-19 886	-32 567	63 310	-21 916	-72 684
Operational investment	54 195	37 738	69 074	60 211	31 941
Equity ratio	67 %	56 %	52 %	42 %	43 %
Gearing	10.6 %	11.2 %	10.6 %	15.0 %	15.1 %
Number of employees	305	291	399	429	416
Price/book value	2,06	1,89	1,42	1,64	1,65

\* See note 30 Discontinued operations regarding restatement 2015.

# 2016 successes



**France**

What Parking - parking guidance project  
 Where Place Vendome, Paris, France  
 Customer Indigo  
 Value 10 MNOK



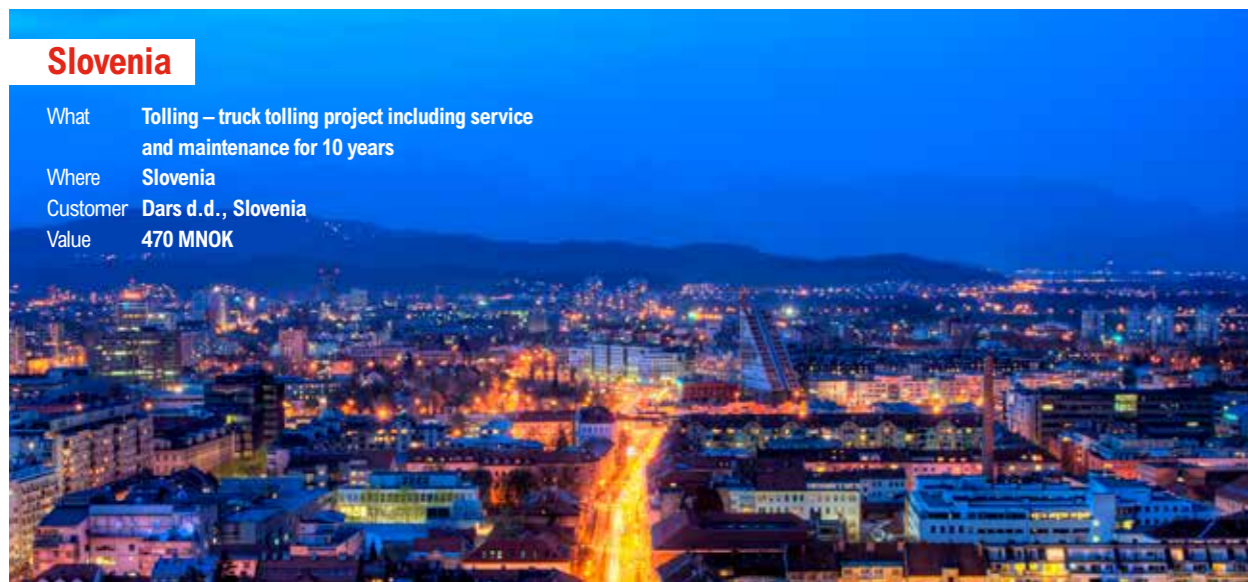
**Chile**

What Tolling - multi-lane free flow project deliveries  
 Where Santiago, Chile  
 Customer Vespucio Norte, Santiago, Chile  
 Value 34 MNOK



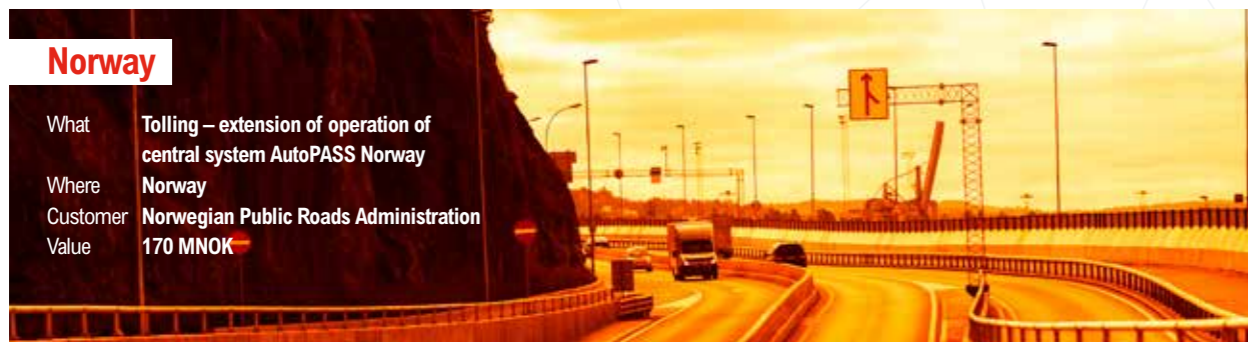
**Portugal**

What Tolling - tag frame agreement  
 Where Portugal  
 Customer Via Verde, Portugal  
 Value 75-90 MNOK



**Slovenia**

What Tolling – truck tolling project including service and maintenance for 10 years  
 Where Slovenia  
 Customer Dars d.d., Slovenia  
 Value 470 MNOK



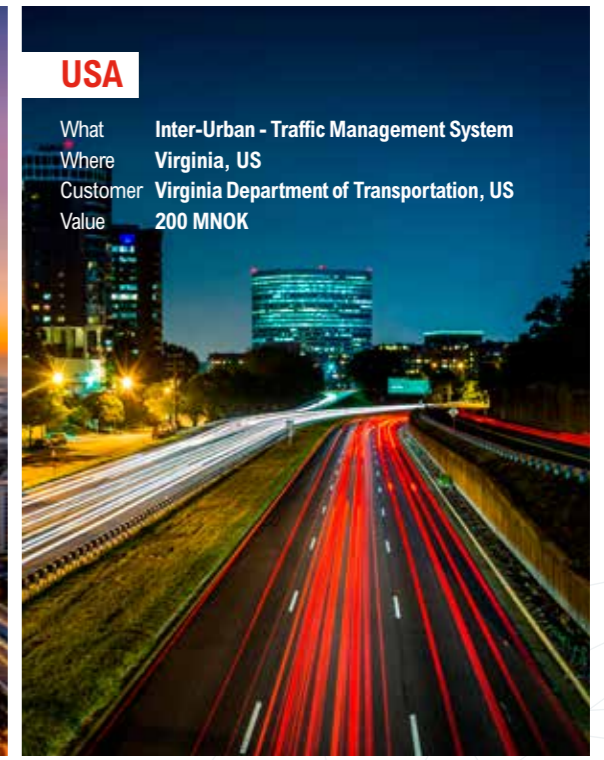
**Norway**

What Tolling – extension of operation of central system AutoPASS Norway  
 Where Norway  
 Customer Norwegian Public Roads Administration  
 Value 170 MNOK



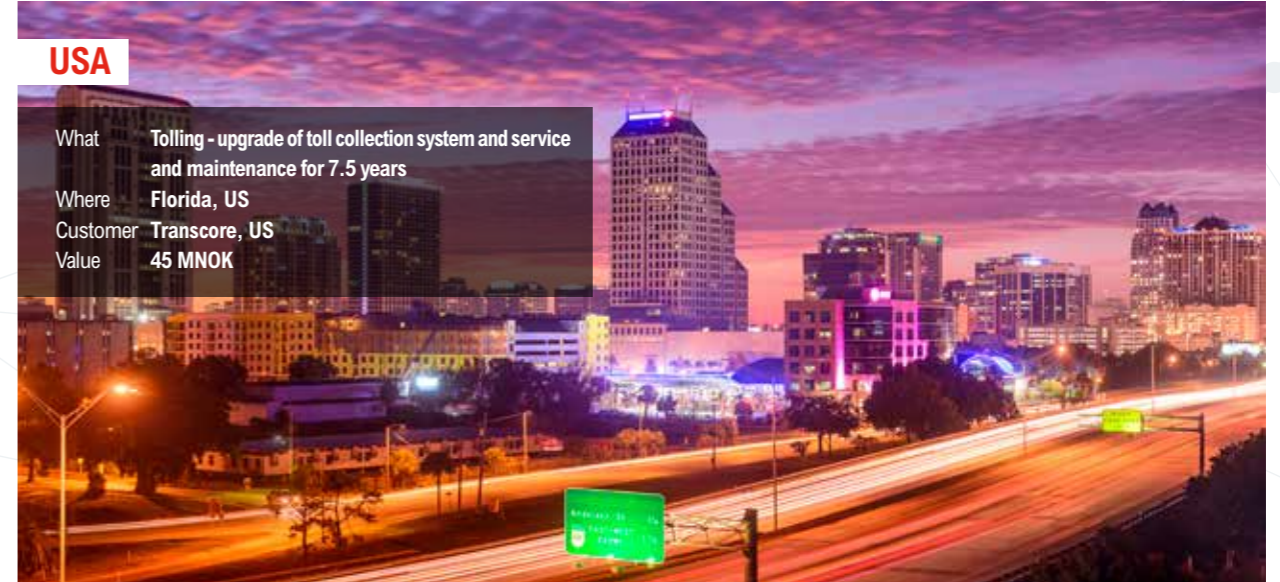
**Thailand**

What Tolling – infrastructure projects and service and maintenance  
 Where Bangkok, Thailand  
 Customer Bangkok Expressway and Metro  
 Value 22 MNOK



**USA**

What Inter-Urban - Traffic Management System  
 Where Virginia, US  
 Customer Virginia Department of Transportation, US  
 Value 200 MNOK



**USA**

What Tolling - upgrade of toll collection system and service and maintenance for 7.5 years  
 Where Florida, US  
 Customer Transcore, US  
 Value 45 MNOK



**Australia**

What Universal ITS station - C-ITS  
 Where Outdoor demonstration at World Congress ITS, Melbourne, Australia  
 Customer RMS  
 Value 4 MNOK



**Norway**

What Parking – Narrowband Internet of Things parking sensor development  
 Where Norway  
 Customer Cooperation with Telenor and Huawei



# Convergence

## Letter from the CEO

Every day millions of people around the world move into cities. More than half the world's population now lives in urban areas, and this development is expected to accelerate rather than slow down. Increasing urbanization presents us with unprecedented transportation challenges. Cities around the world are looking for new and better ways to manage their growing traffic flows to avoid congestion and pollution spiraling out of control. With technologies such as the internet of things, cloud computing, and connected autonomous vehicles acting as enablers for new and more effective transportation solutions, the Intelligent Transportation Solutions (ITS) industry is converging. We are moving from isolated, stand-alone solutions to integrated solutions where information from various systems is combined and used to generate new insights and manage traffic more intelligently.

Q-Free is also converging. Over the past years we have transformed Q-Free from a pure tolling company into an ITS company with an extensive product offering. We are now in the process of bringing the different parts of Q-Free together and finding new ways of combining technology and insights from our various businesses. One such example is parking, where we have used our tolling experience and new, acquired technologies to create barrier-less, ticketless, and cashless parking concepts. Other examples include the combination of infomobility solutions such as weigh-in-motion systems for trucks with electronic tolling systems and weather stations with traffic management centres. Convergence presents us with multiple opportunities to capitalise on the investments we have made to broaden our offering and to position Q-Free as a leading ITS company.

Convergence also implies a certain degree of discipline and caution. Selling everything everywhere will not work for a company our size. Therefore, we have prioritised our target segments carefully: Over the next couple of years, we aim for leading global positions in electronic tolling, parking, and infomobility. In addition, we aim for strong regional positions in North America in urban and inter-urban traffic management. Our emphasis will be on positioning Q-Free as a technology disruptor and innovator in our target segments. We are working on bringing new innovations to market that will change the way traffic is managed and make ITS more intelligent, affordable, and user friendly. One such innovation is our new radar-based parking sensor, which will reduce investment needs for customers and facilitate new business models in parking and traffic management.

With the capital increase late 2016, a record order backlog of 1.4 billion NOK, and a more lean and focused organisation, we are moving forward with a solid platform. In 2017 our focus will be on execution and performance management. Externally, we will work hard to earn new contracts and ensure successful delivery of our major contracts in e.g. Slovenia and the US. Internally we will work to streamline our processes and find cost-effective ways of converting our order backlog into double digit growth. We feel confident that Q-Free will return to profitability in 2017 and move forward with an ambition to finally capture the full potential of the company.

  
Håkon Volldal  
President & CEO, Q-Free ASA

# Industry perspective



## Convergence of the ITS industry

In the past several decades, transport sectors such as parking, tolling, traffic management, and public transport have been segregated into divisions, with minimal interaction. Each application or service has been seen as a separate, isolated ecosystem. In fact, ITS is one of the last areas of Information and Communication Technology where this still holds true. Political jurisdictions have typically procured transport systems in isolation with little regard for interoperability or the value of an integrated approach to transport monitoring and control. The ITS market has also been without standards up till now, with some notable exceptions like electronic fee collection. Thus we have ended up with an expansion of dissimilar transport systems based on vendor lock-ins, which increases cost and reduces usability for the end users.

This situation is rapidly changing. Fixing the problem of urban traffic growth has become a political and tactical imperative around the world. Significant research has gone into urban mobility, and the conclusions are unanimous: we must move toward an interlinked future where information from multiple sources is shared and platforms converge. This future state is called Cooperative ITS (C-ITS) or ITS 2.0. Driven by the emergence of new technologies such as connected autonomous vehicles, cloud computing and big data, and the Internet of Things, the once self-governing and self-interested transport market sectors are now merging functionalities to create a more seamless operational environment and information exchanges.

Significant EU and US investments are planned in the next years to establish large-scale commercial C-ITS pilots. These pilot programs will include major cities and a network of interconnecting cross-border motorways. In addition, national transport budgets now also include plans for C-ITS deployment. Australia already has three C-ITS programs running in Victoria, New South Wales, and Queensland. Another example is Norway, where the next National Transportation Plan has an initial proposal for pilots in excess of 600 MNOK for the period 2018-2021. The major Asian countries are also following the international harmonization and standardization process intently. It remains to be seen how various parliaments will handle the proposals from their administrations, but there is a strong push towards pilot deployment in most countries around the world.

## Implications for Q-Free

Since its inception in 1984, Q-Free has been playing a key role in standardisation of ITS on a global level. In fact, Q-Free was one of the early influencers and adaptors of the CEN DSRC (Dedicated Short-Range Communication) standard for electronic tolling. Today Q-Free still holds leading positions in standardisation and harmonisation bodies. The company actively shapes the future of C-ITS and enables the move towards ITS 2.0.

More specifically, Q-Free will make new C-ITS technologies and applications available for testing and pilots. After successful testing/validation, these technologies and applications could become new product lines or be integrated into existing products when there is a clear demand from the market. Q-Free has already developed the most advanced C-ITS Station in the world. It is based on knowledge accumulated over 10 years of doing international R&D projects, and has gone through four product generations. The current pilot products, which are installed in several markets around the world, are fully based on international standards and are designed to enable large-scale pilots with a minimum of installation and operational challenges.

Another key objective for Q-Free, as we move towards ITS 2.0, is harmonising our own technology base. Up until now, Q-Free has optimised some of the current product lines with technologies from different business units. The next stage is to reduce the number and variants of product platforms. This will lead to higher production volumes and thus lower costs for each platform. The process will also give more cross-company knowledge of the different technologies involved, and therefore ease the task of gathering competence for big projects across all subsidiaries. Roadside controllers are examples of products that could be harmonised across Q-Free's service lines. Another example is a new product for detecting vehicles based on radar and magnetometer sensor technology. This sensor can be embedded in the ground with battery capacity for up to ten years, but still be a full node in a Narrow Band-Internet of Things network. Although the sensor will initially be used for parking, it has many applications across Q-Free's portfolio. Hence it could simplify the company's product range without limiting our offering.

## Summary

The convergence in the ITS industry will take time. Progress is hampered by an abundance of industry players with different agendas and by national governments with complicated ongoing operations under strong legal and financial restrictions. Still, the shift towards an interlinked future where traffic information from multiple data sources is shared across platforms has started. In the end, ITS 2.0 will revolutionise our everyday life. It will make transportation smoother, safer, more environmentally friendly, and cheaper. Q-Free is already playing a leading role in this shift, and we embrace the industry convergence because it only makes Q-Free's future more interesting and exciting.



# Our strategy

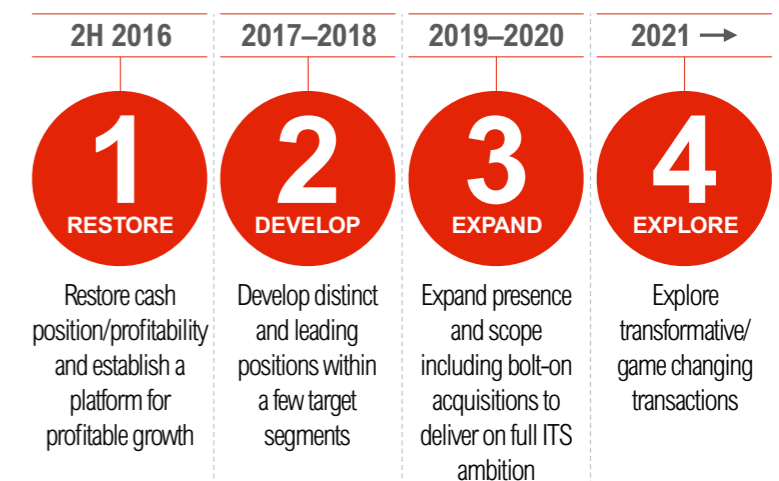


In the second half of 2016, Q-Free has taken a number of actions to pave the way for profitable growth in 2017. The order-backlog has been built to a record-high level, the financial structure has been significantly improved through a private share placement, operational expenses have been reduced, and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

In the coming two years Q-Free will try to capitalise on its high order backlog and convert the significant Slovenia and Virginia Department of Transportation contracts into strong revenue growth. Restoring attractive margins is another key goal for Q-Free. Tight project follow-ups, increased focus on performance management, and continued cost discipline are needed to improve margins and deliver attractive EBITDA and EBIT.

However, to sustain revenue growth and unleash the true potential of the company, Q-Free needs to build distinct and leading positions within selected target segments. Selling everything everywhere will not work. Q-Free believes it can establish itself as a global leader in tolling, parking, and infomobility and as a regional leader in North America in inter-urban/urban traffic management. We will make our mark by pushing innovative offerings such as wireless parking sensors, open traffic management platforms, state-of-the art traffic controller software etc. A growing list of customers and references will help us gain access to new markets.

With a proper financial and industrial foundation in place, Q-Free can, over time consolidate and expand its position by pursuing select M&A opportunities. There is no doubt that the industry will go through a phase of consolidation, and with a stable platform and sound business models in place, Q-Free will be able to scale presence on a different level than in the past.



# Our portfolio

With more than 30 years of experience, Q-Free is recognised as a provider of state-of-the-art ITS solutions and products which address all strategic and operational needs.

Our technology and solutions assist companies and governments in solving challenges arising from urbanisation and increasing traffic.

Our portfolio is based on an open systems approach to help develop and deploy new mobility concepts. Q-Free also offers comprehensive service and maintenance solutions.

## TOLLING



- Electronic Toll Collection
- Truck Tolling
- Congestion Charging Enforcement

## PARKING



- Q-Free ParQ - Parking Management Solution
- Ticketless, Barrierless, Flexible Payment Solutions
- Parking Guidance Systems
- Dynamic Pricing
- Parking Access Control

## INFOMOBILITY



- Weigh in Motion
- Traffic Counters
- Cycle & Pedestrian Detection
- Journey Time Monitoring
- Weather & Air-Quality Monitoring

## INTER-URBAN



- Traffic Management Centre
- Ramp Metering
- Truck Parking

## URBAN



- Traffic Controllers
- Cooperative ITS

OSLO, NORWAY

# Our solutions

## Tolling



Tolls are used to fund and maintain transport infrastructure such as roads, bridges, and tunnels. They are also increasingly applied to reduce traffic congestion or climate emissions. Toll schemes have evolved from charging motorists a flat fee for passing a certain point, to today's schemes where charges can be differentiated based on



time of day, distance travelled, and type of vehicle. Through the introduction of priority lanes, users can also be given the option to pay for increased mobility.

Q-Free pioneered the use of electronic tolling and provides tolling technology based on the Dedicated Short-Range Communication (DSRC) standard. We offer premium solutions and best-in-class service at a competitive price. Our offering includes a wide variety of products and solutions from tags inside cars and roadside equipment such as tag readers, cameras for automated license plate recognition, and lasers for vehicle classification, to our advanced software systems for processing roadside data, billing, and enforcement. Q-Free has designed, deployed, and maintained electronic tolling systems for over 30 years in more than 30 markets around the world.

Our solutions and technologies are scalable from a single road to an entire country or region. We provide free flow or open road tolling concepts that allow for high-speed, barrier-less charging, as well as traditional toll plaza solutions with physical barriers. Our solutions can be configured as truck tolling systems for tolling of trucks only, congestion charging solutions where vehicles are

charged based on time of day or pollution levels, and managed lanes where commuters pay for access to priority lanes or high occupancy vehicles can pass for free.

A variety of technologies are used to adapt to various local needs and regulations. Q-Free utilises DSRC and RFID tags, satellite (GNSS/GPS) technology, Automated License Plate Recognition/ video systems, and GSM/Cellular technologies etc. to create high performing and long-lasting tolling systems. What differentiates Q-Free from other providers, is our unique domain knowledge from implementing and running mission-critical tolling systems under very different conditions for more than three decades, the accuracy and reliability of our systems, and our reliable service operation.

Revenues are typically derived from initial system sales (project sales), service and maintenance agreements for delivered systems including software systems, and product sales related to upgrades/ expansions of existing systems.

## Parking



Well-functioning parking systems are key to effective and efficient transportation. They enable drivers to find available and convenient parking spaces. The result is reduced traffic congestion and climate emissions. In addition, travelers get to where they need to be on time.

We want to position Q-Free as a technology innovator and disruptor offering flexible and cost-effective solutions to professional parking operators. Our focus is on two critical parking technologies: Our complete Parking Management Solution, Q-Free ParQ, and our Parking Guidance solutions (PGS), which includes facility-, level- and single space- counting for indoor and outdoor parking.



Q-Free ParQ is a barrier-less, ticketless, and cashless solution. It allows customers to check and pre-book available parking in advance, access the car park without having to stop at a barrier to collect a ticket, and use a variety of payment solutions. This is made possible by Q-Free's world-leading Automated License Plate Recognition technology, where sophisticated cameras and software systems identify the vehicle registration number. Other means of vehicle identification such as tags (DSRC, RFID and NFC) can also be used. This maximizes operational efficiency and customer convenience. It also guarantees maximum revenue collection. Our Q-Free ParQ solution is cloud-based and provides end-to-end functionality and modules for managing access control, customer subscriptions, dynamic pricing, payments, enforcement, and real time dashboards and reports. Our customers gain insights about parking occupancy trends and can adjust pricing, schemes, and zones based on supply and demand.

Our class-leading PGS solutions use both fixed and wireless sensors to provide real-time information on parking availability. We register vehicles when they enter the parking facility, the level they stop at, and the space they occupy. The driver is guided to available parking spaces by displaying occupancy information on LED signs, web pages or in mobile applications. When integrated with Q-Free ParQ, Customers get access to real-time occupancy information and trends. Our new radar-based parking sensor will revolutionize the PGS market due to unrivalled accuracy, long battery lifetime, low installation costs, and robustness in tough weather conditions. The sensor is designed for the future with Narrow-Band Internet of Things (NB-IoT) connectivity, which means that it can communicate directly to future 4G and 5G telecom networks.

Although Q-Free is a new entrant in parking, we have a lot to offer. With no legacy to protect, we can bring new and innovative concepts to market that reduce costs and improve convenience for our customers. We offer unrivalled flexibility because our system is modular and based on open standards. This allows customers to buy single modules from Q-Free that interface with equipment from other suppliers.

Q-Free generates parking revenues on sale Q-Free ParQ (upfront fee plus annual license fees) and on sale of PGS hardware/sensors. With the anticipated move towards SaaS based solutions, our business model will likely develop into volume- or subscription-based models.

## Infomobility



Access to traffic data will become increasingly important for both traffic agencies and individual commuters. Infomobility solutions aim to collect and distribute accurate and real-time information about various traffic situations and conditions. Examples of typical infomobility solutions include weigh-in-motion systems, vehicle classification and counting systems, journey time systems, pedestrian and bicycle detection and counting systems, and weather detection systems.

Q-Free provides a full suite of infomobility solutions. Our state-of-the-art weigh in motion systems ensure that trucks are weighed on the move without having to stop at dedicated weighing stations. This is important as overloaded trucks represent a safety issue and cause significant wear and tear of highway infrastructure like roads and bridges. By applying Bluetooth technology, we can measure traffic flow speeds and volume and provide estimated travel times to various destinations. Our vehicle, cycle, and pedestrian counting systems provide traffic authorities and regulators with valuable information on what is happening on their roads. This data is used for safety, infrastructure planning, and funding.



We offer high quality, reliable products with an attractive price/ value ratio. All systems are characterized by real-time data capture, high accuracy, high uptime, high flexibility due to modular and interoperable solutions with open architectures, and a high service level to all customers. Moving forward, we expect our infomobility solutions to be integrated with other traffic systems to enhance the

value of these systems and enable new services. Examples include automated regulation of speed limits based on weather conditions, bus/bicycle/pedestrian priority schemes where detection systems are linked to traffic controllers, and tolling systems where toll fees are based on pollution levels.

In infomobility, Q-Free generates revenues on the sale of products and service and maintenance agreements. As for parking, we anticipate that the industry will move towards a more cloud-based future where our revenues will be linked to volume- or subscription-based models, with a high portion of recurring revenues.



## Inter-Urban



Highways are the arteries of our economies and their smooth functioning is essential to almost every aspect of our lives. In the face of ever increasing levels of traffic, jurisdictions around the world continue their efforts to make improvements to safety and environmental performance while reducing congestion. For this, they need intelligent and advanced traffic management systems.

Most countries and states/cities have centralised Traffic Management Centres (TMC) where trained operators respond to incidents such as accidents, fires, and traffic jams. To make the right decision at the right time, operators need access to timely and relevant information. Therefore, highways, tunnels, and bridges are typically monitored by a combination of sensors and cameras to gather required data. Intelligent software applications analyse this data to provide situational awareness and recommend actions to operators.

Q-Free provides TMC operators with traffic management solutions which are based on open standards. This simplifies deployment and eases integration with both new and legacy equipment. An open-architecture further promotes interoperability with a very wide variety of detection, monitoring, control and information systems. Q-Free helps network operators expand their operational capabilities with a centralised intelligent system that supports traffic management, intelligent decision making, and multimodal transportation management.

Our inter-urban traffic management solutions are primarily sold in North America, to customers such as the States of: Virginia, West Virginia, Pennsylvania, Delaware, and Alaska. Revenues are related to software system sales, and service and maintenance contracts, which ensure the systems are up to date, available, and bug-free.

## Urban



Towns and cities have special traffic management challenges. They must balance mobility, which enables economic growth and social interaction, with maintaining urban quality of life in the form of reduced traffic congestion, pollution, and noise.

For urban environments, Q-Free provides traffic and mobility management solutions that are based on common protocols and open standards. Our key products in this segment are smart traffic/intersection control systems. We offer single traffic light controllers and overall software platforms for managing traffic light systems in urban areas. Operators and traffic engineers gain a centralised and robust solution for integrated traffic control and intelligent decision-making.

Our intersection control systems are primarily sold in North America through a network of high quality dealers and system integrators. Q-Free's open platforms integrate well with a variety of required hardware components, such as signal heads, cabinets, and detectors.

Revenues in this segment are generated through hardware (controllers) and software sales. Currently, hardware accounts for 2/3 and SW for 1/3. Hardware is sold and invoiced based on traditional sales contracts, software might be licensed. Service and maintenance contracts for maintaining and improving the software typically cover multiple years. With a shift to cloud-based systems, we expect more of the revenues to become recurring and transaction-based.



OSLO, NORWAY

## Corporate management



**Håkon Vollidal (1976)**

*President & CEO*

**Appointed:** 2016

**Education:** Master of Science degree in Industrial Economics and Technology Management from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway

**Former career:** Tomra Systems ASA and McKinsey & Company

**QFR shares:** 630,828 share options

**Mobile:** +47 977 19 973  
hakon.vollidal@q-free.com



**Roar Østbø (1961)**

*CFO*

**Appointed:** 2005–2006 and 2009

**Education:** Certified Public Accountant from the Norwegian School of Economics and Business

**Former career:** Aqualyng Group, CorrOcean ASA, Reslab AS, Sintef and Arthur Andersen & Co.

**QFR shares:** 138,000 shares and 150,000 synthetic share options

**Mobile:** +47 932 45 175  
roar.ostbo@q-free.com



**Morten Andersson (1957)**

*SVP ELA, acting SVP NA*

**Appointed:** 2012

**Education:** 30 years of experience in the traffic management industry

**Former career:** Peek and Swarco

**QFR shares:** 17,700 shares and 100,000 synthetic share options

**Mobile:** +47 928 41 800  
morten.andersson@q-free.com



**Per Fredrik Ecker (1968)**

*SVP APMEA*

**Appointed:** 2007

**Education:** Second Lieutenant educated in electronics by the Norwegian Army Officers Training School

**Former career:** Siemens Mobile Networks

**QFR shares:** 33,500 shares and 70,000 synthetic share options

**Mobile:** +47 922 97 524  
per.ecker@q-free.com



**Pål Rune Johansen (1969)**

*SVP Nordic*

**Appointed:** 2000–2008 and 2014

**Education:** Master Degree in Mechanical Engineering from Norwegian University of Science and technology, Trondheim, Norway

**Former career:** AF Gruppen ASA and Noca AS

**QFR shares:** 10,000 shares and 70,000 synthetic share options

**Mobile:** +47 959 82 408  
paal.johansen@q-free.com

## Board of Directors



**Charlotte Brogren Karlberg (1963) | Chairman of the Board | Served since 2011**

Charlotte Brogren Karlberg is General Director of Verket for innovationssystem, VINNOVA, a Swedish governmental administration authority, organised under the Ministry of Enterprise and Innovation, Energy and Communication. Brogren Karlberg has previously held management positions in the R&D organisation of ABB. Brogren Karlberg is a Chemical engineer and holds a Ph.D from Lunds Tekniska Högskola (1997). Brogren Karlberg is Chairman of the Board of Industrifonden and HMS AB, and a member of the Board of the Board of Gunnebo AB. Brogren Karlberg is a Swedish citizen and resides in Stockholm, Sweden. Brogren Karlberg has 20,000 QFR shares.



**Tore Valderhaug (1960) | Vice Chairman of the Board | Served since 2016**

Tore Valderhaug is currently a financial advisor. He is a Norwegian State-Authorized Public Accountant with 10 years of external audit experience and close to 20 years' experience as CFO in the Norwegian publicly listed companies Cermaq, EDB Business Partner, ASK Proxima, Ocean Rig and Unitor. Valderhaug has also been CFO and head of business development in the privately held PHARMAQ AS. He is currently a member of the board in the publicly listed companies Nordic Semiconductor ASA and XXL ASA, as well as in April AS. Valderhaug is a Norwegian citizen and resides in Oslo, Norway. Valderhaug owns indirectly through Proventi AS 25,000 shares in Q-Free ASA.



**Ragnhild Wahl (1967) | Board member | Served since 2015**

Ragnhild Wahl is Head of R&D at the Norwegian National Rail Administration. She is furthermore Chairman of the Board of ITS Norge, the interest group for the ITS sector in Norway, and is a member of the Board of IteMA AS and of TRANSPORT 2025, the Research Council of Norway's strategic project on research and innovation within the transport sector. Wahl has previously been Research Director of Transport Research at SINTEF, where she was a central contributor to R&D cooperation between the transportation authorities, industry and other stakeholders. Wahl holds a MSc in industrial economy and holds a Ph.D in transportation and logistics from the Norwegian University of Science and Technology. Ragnhild Wahl is a Norwegian citizen and resides in Trondheim, Norway. Wahl has no QFR shares.



**Snorre Kjesbu (1969) | Board member | Served since 2016**

Snorre Kjesbu is Vice President and General Manager for the Collaboration systems and Video Technology Group (CVTG) in Cisco, responsible for Cisco's global video division. Before joining Cisco, Kjesbu was Senior Vice President for Tandberg's Endpoint Product Division. Prior to Tandberg, he was at ABB responsible for wireless communications. Kjesbu and his team at ABB were awarded the Wall Street Journal Innovation award for their work on wireless sensors in 2002. Kjesbu serves on the board of directors of several IT-companies, and holds more than 20 patents in the area of communications and video conferencing. Kjesbu is a Norwegian citizen and resides in Oslo, Norway. Kjesbu has 25,000 QFR shares.



**Sissel Lillevik Larsen (1961) | Employee elected Board member | Served since 2016**

Sissel Lillevik Larsen has been with Q-Free since 2000, and holds the position as Team Manager for the Solutions Backoffice group. Larsen has more than 30 years of experience within the IT-industry, and has extensive experience within project and solution/product Management. Larsen has previously held leading position in Cubic Transportation Systems. Larsen is a Norwegian citizen and resides in Trondheim, Norway. Larsen has no QFR shares.



**Rune Jøraandstad (1977) | Employee elected Board member | Served since 2016**

Rune Jøraandstad has been with Q-Free since 2009 and holds the position as Global Director Bid Management. Jøraandstad has a MSc in Electronics and Telecommunications from the Norwegian University of Science and Technology in Trondheim, Norway. Jøraandstad is a Norwegian citizen and resides in Trondheim, Norway. Jøraandstad has no QFR shares.

# Board of Directors' report 2016

## The Q-Free Group

The Q-Free Group creates intelligent solutions for efficient, safe, and environmentally friendly transportation. Since its inception in 1984, Q-Free has delivered systems which are operational in Europe, North and South America, the Asia Pacific region, the Middle East, and Africa. Headquartered in Trondheim, Norway, the company has local offices in 19 countries around the world and 416 employees. 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.

## Summary and highlights in 2016

The Board is not satisfied with the financial results in 2016. At the same time, the order-backlog has been built to a record-high level, the financial structure has been significantly improved through a private share placement, gross operational expenses have been reduced by more than 50 MNOK, and the business scope has been narrowed to allow better allocation of resources. The Board is confident that the new CEO together with the management team will be able to deliver profitable growth in 2017 and beyond.

The highlights for 2016 include:

- 877 MNOK in revenues, up 14 % from 767 MNOK in 2015
- 11 MNOK in EBITDA before restructuring charges. Including restructuring charges, 2016 EBITDA ended at -4 MNOK
- 1 575 MNOK in order intake
- 134 MNOK in gross proceeds from private share placement in October
- A 470 MNOK tolling contract, the largest ever, for a nationwide truck tolling system in Slovenia
- A 200 MNOK Inter-urban Traffic Management contract, the largest ever, with Virginia Department of Transportation for a state-wide Traffic Management System
- Divestment of the Security division in early February 2017 (reported as "Discontinued operations" and excluded from the consolidated accounts for 2015 and 2016).

## Orders received and order backlog

Orders received in 2016 amounted to 1 575 MNOK, a record high for the company and 56 percent up compared to 2015 (1 010 MNOK).

Geographically, Europe and Latin America (ELA) accounted for 49 percent of new orders during 2016 (38 percent in 2015), mainly due to the signing of a 470 MNOK contract for a nationwide truck tolling system in Slovenia. This contract includes an initial project delivery, which shall be delivered prior to year-end 2017, and a 10-year service and maintenance agreement. Q-Free also won large tag contracts in Portugal (75-90 MNOK), Chile (26 MNOK), and France (29 MNOK). 18 percent of new orders were signed in the Nordic region (28 percent in 2015), where a new 165 MNOK three-year contract with the Norwegian Public Road Authorities for AutoPASS central system services was the most important win. North America contributed with 29 percent of Q-Free's total order intake in 2016 (25 percent in 2015). A 200 MNOK contract with Virginia Department of Transportation for a statewide traffic management was the single most important contract award to Q-Free in North America. Asia Pacific, Middle East & Africa accounted for 4 percent of total order intake in 2016 (9 percent in 2015).

As a result of the record order intake, the overall order backlog also increased to a record high of NOK 1 405 million by the end of 2016. This was up 88 percent from NOK 710 million 12 months earlier.

Geographically, Europe and Latin America (ELA) accounted for 55 percent of the order backlog, the Nordics for 19 percent, North America for 23 percent and Asia Pacific Middle East & Africa for 3 percent.

615 MNOK of the total order backlog is due for delivery in 2017 compared to 463 MNOK going into 2016.

## Financial review

### Revenues

Group revenues amounted to 877 MNOK, up 14 percent from 767 MNOK in 2015. The impact of the 2015 acquisitions of Intelight and Traffiko was limited, hence most of the growth was organic.

Europe and Latin America contributed with 320 MNOK or 37 percent of Group revenues in 2016, up from 279 MNOK in 2015. Q-Free mainly sells and services tolling, parking, and infomobility solutions in this region, which spans both established Q-Free markets such as Portugal, Chile, and France and new Q-Free markets such as the UK, Slovenia, and Serbia. Only 23 MNOK of the Slovenia contract were booked in 2016.

Revenues in the Nordic region were 229 MNOK, representing 26 percent of Group revenues. In 2015 Q-Free generated 240 MNOK in revenues in this region. Most of Q-Free's revenues

in 2016 was derived from contracts related to the AutoPASS tolling system in Norway and congestion charging systems in Sweden. In addition, Q-Free generated revenues from the parking business through several deployments with APCOA in Sweden.

2016 revenues in APMEA amounted to 95 MNOK, up from 63 MNOK in 2015. This accounted for 11 percent of Q-Free's total revenues. Q-Free's activities in this region consist of selling and servicing tolling, parking, and infomobility solutions. Revenues in 2016 mostly came from upgrades of existing tolling infrastructure in Thailand and various tolling activities in Australia.

North America contributed with 232 MNOK, or 26 percent of Group revenues. This was up from 185 MNOK in 2015. Q-Free has a strong and growing business in this region based on sale of parking guidance solutions, intersection controllers, traffic management center solutions, and license plate recognition applications in tolling systems. Growth compared to 2015 was driven by a new tolling project in Massachusetts, start-up of the VDOT delivery, and parking and infomobility deliveries.

### Gross profit

Gross profit was 581 MNOK compared to 545 MNOK in 2015, an increase of 7 percent year-on-year. The gross margin was down five percentage points from 2015 amid a higher share of revenues from projects in an early phase in 2016 on which Q-Free initially applies a lower than estimated project margin for the projects. In addition, gross margin was negatively impacted by inventory adjustments of -4 MNOK and a change of principle for revenue recognition on work in progress of -8 MNOK in Q-Free UK.

### Operating expenses

Total operating expenses amounted to 585 MNOK, up from 556 MNOK in 2015. Adjusting for restructuring expenses in the fourth quarter of 2015 and in the third quarter of 2016, Q-Free had 570 MNOK in operating expenses in 2016, up 20 percent compared to 476 MNOK in 2015. 14 percentage points were due to increased project costs, full-year effect of acquisitions concluded in 2015, and lower capitalised R&D expenses, and 6 percentage points due to general cost increases.

As a consequence of the high underlying growth in operating expenses during 2016, Q-Free implemented a cost reduction program in the third quarter of 2016 targeting 50 MNOK in reduced gross operational expenses. The program was finalised in October and had a positive impact of approximately 12 MNOK in the fourth quarter of 2016. The net impact of the program in 2017, i.e. after adjusting for inflation, salaries, and overhangs, is expected to be close to 25 MNOK.

### Operating profits

Earnings before interest, taxes, depreciation, and amortisation (EBITDA) ended at -4 MNOK compared to -11 MNOK in 2015. Excluding restructuring charges, the numbers for 2016 and 2015 were 11 MNOK and 69 MNOK.

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

### Net financial items

Full-year net financial items were 3 MNOK versus -22 MNOK in 2015. The improvement is explained by a more favourable exchange rate and less adjustments provisions for earn out compared to 2015.

### Profits

The reported pre-tax loss for 2016 was 56 MNOK versus a loss of 172 MNOK in 2015. Tax expenses amounted to positive 2 MNOK, while payable tax was 7.3 MNOK. In 2015, tax expenses amounted to 16 MNOK.

Having undertaken an assessment of the criteria under IAS 12, Q-Free has chosen not to include deferred tax assets in Norway related to tax losses carried forward of 74 MNOK from 2013, 2014, 2015 and 2016.

## Annual results and year-end appropriations

The result after tax in 2016 was a loss of NOK 53 MNOK compared to a loss of 188 MNOK in 2015. Earnings per share was -1.11 NOK compared to -2.79 NOK in 2015.

The Board of Directors proposes to cover the parent company's loss for the year of NOK 19,608 million from other equity. Subsequent to this, the parent company had no distributable equity at the end of 2016.

The Board of Directors does not propose to distribute any dividends for 2016. The Annual General meeting is scheduled for 24 May 2017.

## Cash flow and liquidity

Net cash flow from operating activities was -73 MNOK versus -22 MNOK in 2015. The weaker cash flow from operating activities is explained by reduced profitability, higher project activity with pre-agreed extended payment terms and increased working capital.

Q-Free has had a strong focus on cash management throughout the entire organisation in the second half of 2016. The cost reduction program, which was initiated in the third quarter of 2016, has also had a positive impact on cash flow from operations.

Net working capital, defined as current assets excluding cash less current liabilities, and excluding short-term overdraft facilities, amounted to 132 MNOK. The corresponding figure at the end of 2015 was 40 MNOK. Net working capital equaled 15 percent of the revenues generated in the last 12 months. The ratio will vary between quarters depending on revenue mix and timing of payments.

Net cash flow from investment activities was -83 MNOK compared to -119 MNOK in 2015. This included 52 MNOK in earn-out payments on past acquisitions paid during 2016. Q-Free invested 32 MNOK in technology and other fixed assets during the year versus 60 MNOK in 2015.

Net cash flow from financing activities was 193 MNOK. This is up from 42 million in 2015, predominantly due to a private share placement that raised 134 MNOK in gross proceeds and net proceeds from short term loans of 65 MNOK.

The cash closing balance was 102 MNOK at the end of 2016, up from 65 MNOK at the end of 2015.

## Balance sheet

Total assets at the end of 2016 were 990 MNOK versus 997 MNOK one year earlier. Total equity ended at 427 MNOK, up from 416 MNOK at the end of 2015. The proceeds from the private placement in October helped to end the year with an equity ratio of 43 percent compared to 42 percent one year earlier.

Current liabilities amounted to 263 MNOK at the end of 2016 compared to 414 MNOK at the end of 2015. This decrease is due to a reclassification of a loan from Danske Bank (NOK 150 million) from short-term liabilities to long term liabilities as at 31 December 2016.

Non-current liabilities were 282 MNOK, an increase versus 167 MNOK at the end of 2015. Future obligations for purchase of shares in Intelight of 94 MNOK, liabilities related to pension schemes of 15 MNOK, and long-term loan to financial institutions of 150 MNOK represent most of the non-current liabilities. Q-Free has a NIBD/EBITDA covenant on its long-term loan.

As part of the restructuring process, Q-Free received a waiver from this covenant in June 2016 covering the remaining part of 2016. A subsequent waiver from this specific covenant has been received covering 2017 and replaced by revised financial covenants based on EBITDA performance and revised NIBD/EBITDA ratios.

Short term interest-bearing debt to financial institutions was 79 MNOK at the end of the period. This is down from 150 MNOK at the end of 2015. Available, unused credit facilities were 154 MNOK at the end of 2016.

The liquidity ratio was 1.6 at the end of 2016, up from 0.9 at the end of 2015.

## Going concern

The Board of Directors confirms that the financial statements have been prepared under the assumption of going concern and that this assumption was realistic at the time of the approval of the statements. It is the Board's opinion that the Profit and Loss Account and Balance Sheet with notes provide accurate information on the operations and the financial position at year-end.

## Organisation

### Personnel

The Q-Free Group had 416 employees at the end of 2016. This was a decrease from 429 employees at the end of 2015 and close to 470 people at the peak in 2016. The decrease can be attributed to the sales process of the security division and corresponding reporting as discontinued operations and the cost reduction program initiated in the third quarter and finalised in the fourth quarter of 2016. This program reduced gross operational expenses by approximately 50 MNOK, and approximately 30 employees were made redundant.

Q-Free has established good working conditions in a non-discriminating, multicultural organisation with operations in close to 20 countries. Sick leave remains at satisfactory low levels. The company is pleased to report no serious occupational incidents or injuries during the year. Please refer to the separate section on Corporate Social Responsibility Statement in this Annual Report for a more detailed review of Q-Free's human rights, labour rights, working conditions, and safety and health policies and performance.

### Management

On 1 August 2016 Håkon Volldal started as CEO in Q-Free. Volldal replaced CFO Roar Østbø, who was appointed as interim CEO on 3 November 2015 when the previous CEO resigned.

The management team has been reorganised in 2016 to support a new strategic plan and a new organisation.

### Board of Directors

The Board received on 14 January 2016 a request from shareholders representing 21 percent of the total shareholding in the Company for an extraordinary general meeting with the following agenda:

- Election of Chairman of the Board
- Election of members of the Board

The Extraordinary general meeting was held on 11 February 2016. After the election of new members, the Board is composed of the following shareholder elected members:

- Charlotte Brogren Karlberg (Chairman)
- Tore Valderhaug (Vice Chairman) (New)
- Ragnhild Wahl (Board member)
- Snorre Kjesbu (Board member) (New)

## Corporate social responsibility and corporate governance

Pursuant to the Norwegian Accounting Act section 3-3c, publicly listed companies shall present their principles for corporate social responsibility and review the performance with respect to human rights, labour rights, working conditions, the external environment, and anti-corruption. Details are provided under the section "Corporate Social Responsibility" in the Annual Report, and published on the company's website on <http://www.q-free.com/investor/corporate-social-responsibility/>.

Pursuant to the Norwegian Accounting Act section 3-3b, listed companies shall also present their principles for corporate governance and review the compliance with the recommendations set out in the Norwegian Code of Practice for Corporate Governance. Details are provided in the Corporate Governance section of the Annual Report, and published on the company's website at <http://www.qfree.com/investor/corporate-governance/>.

## Risk factors

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

### Project risk

Q-Free handles demanding and complex large-scale project deliveries, which may involve considerable risk in terms of timing and cost. Through more than 30 years of experience, Q-Free holds

in-depth knowledge of customer requirements as well as the boundaries of its own project capabilities, and seeks to reduce risk in contract negotiations.

### Political risk

Tolling projects and some projects within Traffic Management are normally directly or indirectly subject to governmental concessions. Q-Free is therefore exposed to political risk from lead identification through contract awards to final project implementation and payment. The entry into multiple new service lines has added new revenue streams less exposed to political risk than tolling.

### Technology risk

Q-Free is exposed to risks related to the quality of own work and the quality of deliveries from subcontractors. Q-Free attempts to mitigate this risk through internal auditing and a non-conformance reporting system ensuring that employees carry out their work in accordance with well-defined processes. Q-Free clearly states its quality expectations in contracts with subcontractors and carries out regular quality reviews.

### Financial risk

Q-Free is exposed for credit risk related to customers' ability to fulfil their financial obligations. This risk is considered to be low, given that the Group's main customers are government controlled entities in Norway or abroad, or relatively large and solid private companies. The company has historically had a low ratio of bad debt to accounts receivables.

Q-Free is also exposed to currency risk in the ordinary business since more than 80 % of revenues was generated outside of Norway. Q-Free also runs businesses outside of Norway and buys a substantial share of required equipment abroad, with payment in foreign currencies which mitigates this risk significantly. This mitigated the net foreign currency exposure to approximately 12 percent of gross revenues in 2016. The Group strategy is to combine estimated future sales and purchases and hedge the net cash flow in the foreign currency by using forward/future contracts.

Q-Free aims to reduce its liquidity risk by holding sufficient cash and credit facilities at any time to be able to finance its operations and planned investments. Following the share issue in 2016, combined with a profitable growth and the implementation of the cost reduction program, the Board of Directors assesses the liquidity at the end of 2016 to be sufficient to cover the company's planned operations and investment requirements.

The group has interest-bearing debt and interest rate risk related to its bullet loan. The Group emphasises predictability at all times if entering any significant interest bearing debt contracts, as changes in the interest level influences the consolidated profit.

#### Risk of corruption

Q-Free ASA operates in some geographies and industries exposed to corruption. Q-Free has established a Code of Conduct, as well as conducted a corruption risk analysis and devised and completed a programme to increase awareness and limit our exposure. For further information, please see the Corporate Social Responsibility report.

#### Outlook

Q-Free aims to capitalise on its high order backlog and successfully convert the significant Slovenia and VDOT contracts into double digit revenue growth in 2017. The company sees numerous opportunities for sustaining growth long-term, as it operates in a market that is growing fast. Several large and mid-sized projects are assumed to be tendered in 2017 and the coming years, both in mature and developing markets. Q-Free is now in a position to leverage its broad product offering to generate growth from multiple regions and segments.

Restoring attractive margins is another key goal for Q-Free in 2017. Continued cost discipline, tight project follow-ups, and increased focus on performance management are key focus areas for Q-Free in its pursuit of improved EBITDA margins.

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

The Board would like to thank all Q-Free employees for their contributions during 2016. Despite an unsatisfactory financial result, the organization has managed to build a strong order backlog and make required adjustments to the cost base, capital structure, and business scope to pave the way for profitable growth in 2017.

Trondheim 30th of March 2017

Charlotte Brogren Karlberg  
Chairman of the Board

Tore Valderhaug  
Vice Chairman of the Board

Ragnhild Wahl  
Board member

Snorre Kjesbu  
Board member

Rune Jøraandstad  
Employee-elected Board member

Håkon Rypern Volldal  
President & CEO

Sissel Nina Lillevik Larsen  
Employee-elected Board member



SANTIAGO, CHILE



# Consolidated financial statements



"2016 leaves us with a record order backlog of 1.4 BNOK and a solid platform on which we can build distinctive and leading positions within a few target segments"

Roar Østbø  
CFO

The consolidated financial statements are presented in Norwegian kroner and all figures are rounded to the nearest thousand (TNOK) unless otherwise specified.

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## Statement of income

for the year ended 31 December 2016

Parent company			Group		
2015	2016	Figures in TNOK	Note	2016	2015*
			<b>Operating revenues</b>		
349 440	416 275	Revenues	5, 7, 30	873 455	763 646
3 239	3 710	Other operating income	8	3 710	3 239
<b>352 679</b>	<b>419 985</b>	<b>Total operating revenues</b>	<b>5</b>	<b>877 165</b>	<b>766 885</b>
			<b>Operating expenses</b>		
138 315	145 556	Cost of goods sold	14, 30	296 481	221 615
123 365	115 291	Personnel expenses	15,16,17,30	308 241	296 356
154 205	135 065	Other operating expenses	27, 29, 30	276 789	259 639
<b>415 885</b>	<b>395 912</b>	<b>Total operating expenses</b>		<b>881 511</b>	<b>777 610</b>
<b>-63 206</b>	<b>24 073</b>	<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>	<b>5</b>	<b>-4 346</b>	<b>-10 725</b>
11 211	10 509	Depreciation of property, plant and equipment	9	15 833	16 564
24 863	6 865	Amortisation of intangible assets	10, 11, 30	38 928	67 482
15 774	0	Impairment of intangible assets	10, 11	0	55 523
<b>-115 054</b>	<b>6 699</b>	<b>Earnings before interest and taxes (EBIT)</b>	<b>5</b>	<b>-59 107</b>	<b>-150 294</b>
			<b>Financial items</b>		
56 963	14 512	Financial income	24, 30	39 711	76 999
35 770	16 733	Financial income Group companies	24	0	0
-56 532	-56 964	Financial expenses	24	-36 225	-98 639
0	-588	Financial expenses Group companies	24	0	0
<b>36 201</b>	<b>-26 307</b>	<b>Total financial items</b>		<b>3 486</b>	<b>-21 640</b>
<b>-78 853</b>	<b>-19 608</b>	<b>Profit before tax</b>	<b>5</b>	<b>-55 621</b>	<b>-171 934</b>
-26 935	0	Taxes	23, 30	2 202	-16 157
<b>-105 788</b>	<b>-19 608</b>	<b>Profit / (-) loss for the year from continuing operations</b>		<b>-53 419</b>	<b>-188 091</b>
<b>0</b>	<b>0</b>	<b>Profit / (-) loss for the year on discontinued operations, net of tax</b>	<b>30</b>	<b>-30 213</b>	<b>-6 607</b>
<b>-105 788</b>	<b>-19 608</b>	<b>Profit / (-) loss for the year</b>		<b>-83 632</b>	<b>-194 698</b>
			Attributable to:		
			Equity holders of the parent		
			-83 632		
			-194 698		
			<b>Distribution of profit / (-) loss for the year:</b>		
-105 788	-19 608	Other equity			
<b>-105 788</b>	<b>-19 608</b>	<b>Total distributed</b>			
			Earnings in NOK per share		
			12	-1,11	-2,79
			Diluted earnings in NOK per share		
			12	-1,11	-2,79
			Earnings in NOK per share from continuing operations		
			12	-0,71	-2,70
			Diluted earnings in NOK per share from continuing operations		
			12	-0,71	-2,70

\* See note 30 Discontinued operations regarding restatement 2015.

# Statement of comprehensive income

for the year ended 31 December 2016

Parent company		Figures in TNOK	Note	Group	
2015	2016			2016	2015
-105 788	-19 608	<b>Profit for the period</b>		-83 632	-194 698
		<b>Other comprehensive income</b>			
		Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
40 781	-1 609	Exchange differences on translation of foreign operations		-45 804	72 983
-3 370	2	Net (loss)/gain on available-for-sale financial investments	25	2	-3 370
<b>37 411</b>	<b>-1 607</b>	<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods:</b>		<b>-45 802</b>	<b>69 613</b>
		Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
-695	248	Re-measurement gain (losses) on defined benefit plans	16	248	-695
0	0	– Income tax effect		0	0
<b>-695</b>	<b>248</b>	<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:</b>		<b>248</b>	<b>-695</b>
<b>36 716</b>	<b>-1 359</b>	<b>Other comprehensive income for the year, net of tax</b>		<b>-45 554</b>	<b>68 918</b>
<b>-69 072</b>	<b>-20 967</b>	<b>Total comprehensive income for the period, net of tax</b>		<b>-129 186</b>	<b>-125 780</b>
		Attributable to :			
		Equity holders of the parent		-129 186	-125 780
		<b>Total comprehensive income for the period</b>		<b>-129 186</b>	<b>-125 780</b>



## Statement of financial position

as at 31 December 2016

Parent company			Group			
2015	2016	Assets	Figures in TNOK	Note	2016	2015
<b>Non - current assets</b>						
0	0	Deferred tax assets		23	17 420	0
36 923	50 297	Product development assets		10, 30	178 746	214 526
0	0	Goodwill		10, 11, 30	316 285	367 465
26 529	17 766	Machinery, fixtures and fittings, etc.		9, 22, 30	33 661	43 854
325 079	299 255	Investments in subsidiaries		6, 18	0	0
200 331	220 138	Loan to group companies		19	0	0
393	395	Investments in other companies		25	395	660
0	0	Other receivables			1 008	1 592
<b>589 255</b>	<b>587 851</b>	<b>Total non - current assets</b>			<b>547 515</b>	<b>628 097</b>
<b>Current assets</b>						
21 522	16 706	Inventories		14, 22, 30	66 327	81 378
0	36 598	Work in progress		7, 22, 30	75 807	44 269
35 206	44 812	Accounts receivables		21, 22, 30	142 425	149 606
77 793	129 399	Accounts receivables on group companies		21, 22	0	0
4 278	3 639	Other current assets		28, 30	31 646	28 616
0	15 970	Cash and cash equivalents		20, 30	101 474	65 349
<b>138 799</b>	<b>247 124</b>	<b>Total current assets</b>			<b>417 679</b>	<b>369 218</b>
<b>0</b>	<b>0</b>	<b>Assets held for sale</b>		30	<b>25 225</b>	<b>0</b>
<b>728 054</b>	<b>834 975</b>	<b>Total assets</b>			<b>990 419</b>	<b>997 315</b>

## Statement of financial position

as at 31 December 2016

Parent company			Group			
2015	2016	Equity and liabilities	Figures in TNOK	Note	2016	2015
<b>Equity attributable to equity holders of the parent</b>						
26 627	33 905	Subscribed share capital		13	33 905	26 627
439 350	578 307	Share premium reserve			578 307	439 350
20 529	20 529	Other paid-in capital			20 529	20 529
-118 740	-146 355	Other equity			-205 841	-70 007
<b>367 766</b>	<b>486 386</b>	<b>Total equity attributable to equity holders of the parent</b>			<b>426 900</b>	<b>416 499</b>
<b>367 766</b>	<b>486 386</b>	<b>Total equity</b>			<b>426 900</b>	<b>416 499</b>
<b>Liabilities</b>						
<b>Non - current liabilities</b>						
0	150 000	Debt to financial institutions		4, 22	150 000	0
2 405	14 743	Other non-current liabilities		4, 6	116 690	135 894
18 775	0	Pension liabilities		16	0	18 775
0	34 095	Loan from group companies		19	0	0
0	0	Deferred tax		23, 30	15 003	12 630
<b>21 180</b>	<b>198 838</b>	<b>Total non - current liabilities</b>			<b>281 693</b>	<b>167 299</b>
<b>Current liabilities</b>						
199 563	13 783	Debt to financial institutions		4, 22	79 457	150 000
22 622	58 108	Accounts payable		4, 30	100 209	77 913
0	0	Advance payments from customers		4, 7	11 677	12 576
19 787	33 010	Debt to group companies		19	0	0
0	0	Tax payable		4, 23	702	2 051
14 830	9 471	Public duties payable		30	16 647	19 713
82 306	35 379	Other current liabilities		4, 6, 26, 30	54 696	151 264
<b>339 108</b>	<b>149 751</b>	<b>Total current liabilities</b>			<b>263 388</b>	<b>413 517</b>
<b>360 288</b>	<b>348 589</b>	<b>Total liabilities</b>			<b>545 081</b>	<b>580 816</b>
<b>0</b>	<b>0</b>	<b>Liabilities held for sale</b>		30	<b>18 438</b>	<b>0</b>
<b>728 054</b>	<b>834 975</b>	<b>Total equity and liabilities</b>			<b>990 419</b>	<b>997 315</b>

Trondheim 30 March 2017

Charlotte Brogren Karlberg  
Chairman of the Board

Ragnhild Wahl  
Board member

Snorre Kjesbu  
Board member

Tore Valderhaug  
Vice Chairman of the Board

Sissel Nina Lillevik Larsen  
Employee-elected Board member

Rune Jøraandstad  
Employee-elected Board member

Håkon Rypern Volldal  
President & CEO

# Statement of changes in equity

for the year ended 31 December 2016

## Parent company

Figures in TNOK

	Note	Exchange differences on translation of foreign operations*						Actuarial gains and losses	Total equity
		Share capital	Share Premium reserve	Other paid-in capital	Other equity	- for-sale reserve	Available - for-sale reserve		
<b>Equity per. 01.01.2015:</b>	13	<b>26 143</b>	<b>426 956</b>	<b>20 529</b>	<b>-40 132</b>	<b>3 304</b>	<b>0</b>	<b>-12 841</b>	<b>423 960</b>
<b>Total comprehensive income for the period *</b>					<b>-105 788</b>	<b>-3 370</b>	<b>40 781</b>	<b>-695</b>	<b>-69 072</b>
Share issue arising from acquisitions	13	484	12 394						12 878
<b>Total equity of the Parent company per 31.12.2015</b>		<b>26 627</b>	<b>439 350</b>	<b>20 529</b>	<b>-145 920</b>	<b>-66</b>	<b>40 781</b>	<b>-13 536</b>	<b>367 766</b>
<b>Equity per. 01.01.2016 :</b>	13	<b>26 627</b>	<b>439 350</b>	<b>20 529</b>	<b>-145 920</b>	<b>-66</b>	<b>40 781</b>	<b>-13 536</b>	<b>367 766</b>
<b>Total comprehensive income for the period *</b>					<b>-19 608</b>	<b>2</b>	<b>-1 609</b>	<b>248</b>	<b>-20 967</b>
Share issue arising from acquisitions	13	497	11 903						12 400
Share issue	13	6 781	127 054		-6 648				127 188
<b>Total equity of the Parent company per 31.12.2016</b>		<b>33 905</b>	<b>578 307</b>	<b>20 529</b>	<b>-172 175</b>	<b>-64</b>	<b>39 172</b>	<b>-13 288</b>	<b>486 386</b>

\* The exchange differences on translation of foreign operation is related to loan to subsidiaries treated as net investments.

## Group

Figures in TNOK

Equity attributable to equity holders of the parent

	Note	Exchange differences on translation of foreign operations*						Actuarial gains and losses	Total equity
		Share capital	Share Premium reserve	Other paid-in capital	Other equity	- for-sale reserve	Available - for-sale reserve		
<b>Equity per. 01.01.2015:</b>	13	<b>26 144</b>	<b>426 956</b>	<b>20 529</b>	<b>14 814</b>	<b>3 305</b>	<b>49 223</b>	<b>-11 570</b>	<b>529 401</b>
Profit for the period							-194 698		-194 698
Other comprehensive income						-3 370	72 983	-695	68 918
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-194 698</b>	<b>-3 370</b>	<b>72 983</b>	<b>-695</b>	<b>-125 780</b>
Share issue arising from acquisitions	13	484	12 394						12 878
<b>Total equity of the Group per 31.12.2015</b>		<b>26 627</b>	<b>439 350</b>	<b>20 529</b>	<b>-179 884</b>	<b>-65</b>	<b>122 206</b>	<b>-12 265</b>	<b>416 499</b>
<b>Equity per. 01.01.2016:</b>	13	<b>26 627</b>	<b>439 350</b>	<b>20 529</b>	<b>-179 884</b>	<b>-65</b>	<b>122 206</b>	<b>-12 265</b>	<b>416 499</b>
Profit for the period							-83 632		-83 632
Other comprehensive income						2	-45 804	248	-45 554
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-83 632</b>	<b>2</b>	<b>-45 804</b>	<b>248</b>	<b>-129 186</b>
Share issue arising from acquisitions	13	497	11 903						12 400
Share issue	13	6 781	127 054		-6 648				127 188
<b>Total equity of the Group per 31.12.2016</b>	13	<b>33 905</b>	<b>578 307</b>	<b>20 529</b>	<b>-270 163</b>	<b>-63</b>	<b>76 402</b>	<b>-12 017</b>	<b>426 900</b>

# Statement of cash flow

for the year ended 31 December 2016

Parent company		Figures in TNOK	Note	Group	
2015	2016			2016	2015*
<b>Cash flow from operations</b>					
-78 853	-19 608	Profit before tax	30	-55 621	-171 934
0	0	Paid taxes	23	-7 337	-19 272
11 211	10 509	Depreciation and impairment of property, plant and equipment	9	15 833	16 564
40 637	6 865	Amortisation and impairment of intangible assets	10, 11, 30	38 928	123 005
-214	-18 527	Pension cost without cash flow effect	16	-18 527	-214
-6 185	-8 831	Dividends from subsidiaries		0	0
-7 091	-7 902	Interests from subsidiaries		0	0
<b>Working capital adjustments:</b>					
-20 463	-61 212	Changes in receivables and prepayments from customers	21, 30	6 282	11 434
742	4 816	Changes in inventory	14, 30	15 051	-33 155
-45 333	48 709	Changes in accounts payables	4, 30	22 296	3 758
13 766	-36 598	Changes in work in progress	7, 30	-31 538	12 634
44 894	12 096	Changes in other balance sheet items	30	-58 051	35 264
<b>-46 890</b>	<b>-69 683</b>	<b>Net cash flow from operations</b>		<b>-72 684</b>	<b>-21 916</b>
<b>Cash flow from investments</b>					
-28 645	-21 985	Investments in tangible and intangible assets	9, 10, 30	-31 941	-60 211
-25 058	-17 865	Acquisition of a subsidiary, net of cash acquired	6	-52 149	-63 434
4 881	0	Other investments	25	0	4 881
0	0	Cash flow from discontinued operations	30	835	23
<b>-48 822</b>	<b>-39 850</b>	<b>Net cash flow from investments</b>		<b>-83 255</b>	<b>-118 741</b>
<b>Cash flow from financing</b>					
50 000	47 878	Proceeds from new loans	22	123 931	50 000
0	-49 563	Down payments of debt to financial institutions	22	-58 220	-8 127
0	127 188	Share issue	6, 13	127 188	0
0	0	Other financial items		0	0
<b>50 000</b>	<b>125 503</b>	<b>Net cash flow from financing</b>		<b>192 899</b>	<b>41 873</b>
-45 712	15 970	Net change in cash and cash equivalents for the year		36 960	-98 784
45 712	0	Cash and cash equivalents per 01.01.		65 349	164 133
0	0	Transferred to Assets held for sale *		-835	0
<b>0</b>	<b>15 970</b>	<b>Cash and cash equivalents per 31.12.</b>	20	<b>101 474</b>	<b>65 349</b>

\* See note 30 Discontinued operations regarding restatement 2015.

## Note 1 | Corporate information

The consolidated financial statements for the year ended 31 December 2016 were approved by the Board at its meeting on 30 March 2017. Q-Free ASA is a limited liability company headquartered in Trondheim, Norway. Q-Free is listed on the Oslo Stock Exchange with the ticker QFR.

The Q-Free group provides world class-leading technology solutions to the global ITS market. Q-Free has delivered systems which are

now operational in Europe, Asia Pacific, Middle East, Africa, North and South America. Q-Free has 416 employees, is headquartered in Trondheim Norway, and has local offices in 20 countries around the world.

For further information, the operating segments are described in Note 5.

## Note 2 | Basis for preparation of the consolidated accounts

### 2.1: General principles

The consolidated financial statements are prepared on a historical cost basis, with the exception of derivative financial instruments which are measured at fair value. The consolidated financial statements are presented in Norwegian kroner and all figures are rounded to the nearest thousand (TNOK).

The consolidated financial statements of Q-Free ASA (the "Parent Company") and all its subsidiaries (The "Group"), have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The below listed principles are used both for the Parent company and The Group. The Group has decided to present the financial statements for both the parent and the group in a parallel presentation since the parent company has significant impact for the group and such presentation adds information for users of the consolidated accounts.

### 2.2: Significant accounting judgements, estimates and assumptions considered when preparing the financial statements

The preparation of the Group's consolidated financial statements has required the management to make estimates and assumptions that effect 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 could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### JUDGEMENTS

##### Product Development costs

Development costs are capitalised in accordance with the accounting policy in Note 3.7 and the capitalised amount is shown in the balance sheet as "Product Development Assets". Initial capitalisation of costs is based on management's judgment that technological and financial feasibility is confirmed, i.e.

when a product development project has reached a defined milestone according to the project management model. In determining the amounts to be capitalised, management makes assumptions on the expected future cash generation of the project, discount rates to be applied, and the expected period of benefits. As at 31 December 2016, the carrying amount of capitalised product development costs was TNOK 178,746 (2015: TNOK 214,526). Further details are given in Note 10 Intangible Assets.

##### Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that management sees convincing evidence for sufficient future taxable profit. A deferred tax asset is only recognised for an amount corresponding to the expected taxable profit. The carrying amount of deferred tax assets is reviewed at each reporting date. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that convincing evidence exists to support that taxable profits will allow the deferred tax asset to be recovered. The carrying value of recognised deferred tax assets as at 31 December 2016 was TNOK 17,420 for Group and TNOK 0,0 for the Parent (2015: deferred tax assets for Group of TNOK 0,0 and TNOK 0,0 for the Parent). Further details regarding deferred taxes are given in note 23.

##### Goodwill

Assessment of the recoverable amount for intangible assets with indefinite lives is based on estimates and judgements made by management, including estimates for the assets' ability to generate future revenues. Changes in the judgements and assumptions may result in an impairment loss. The book value of goodwill for the group at December 31, 2016 was TNOK 316,285 (31.12.2015: TNOK 367,465). The reduction during 2016 is related to the divestment of Prometheus Security Group Global Inc. (PSG) see note 30 "Discontinued operations" for further specifications. Refer to note 11 for description of the annual impairment test, including a description of the key assumptions made.

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are described below. The Group has based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### Revenue recognition in projects

The group uses the percentage of completion method in accounting for projects, which requires the Group to estimate the progress in the projects. Progress is calculated as accrued costs as a percentage of total expected production costs. Total expected costs are estimated based on a combination of historical figures, the follow up of efficiency targets, and budgets. Each project's prognosis is evaluated on a monthly basis to verify that the accounts are based on best possible prognosis. Manhours constitute a large proportion of the total cost. The uncertainty of the estimation of manhours varies with duration and technical complexity of the project. Estimation of projects with long duration and high complexity has significant effect on the financial statement, and the Group management is therefore actively involved in these assessments. Revenue recognition in projects is measured on the basis of accrued production costs as a percentage of total anticipated costs. Total order backlog for the Group as at 31 December 2016 is TNOK 1,405,261. Corresponding figures for 2015 was TNOK 710,202. Further details are given in Note 7.

### Contingent consideration in business combinations

In several of the business combinations that has occurred during the last years, part of the consideration has been contingent based on future performance of the acquired company. At initial recognition the contingent consideration is measured at fair value based on the expectations at the acquisition date, the liability related to contingent consideration is remeasured at each subsequent reporting period. These measurements require the management to make assumptions of the future performance of the acquired companies. Changes and expenses related to contingent consideration is disclosed in Note 6.

### Cash settled share-based payment transactions

The Group measures the cost of equity-related transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value for cash settled share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and

conditions of the grant. This estimate also requires determination and assumptions of the most appropriate inputs to the valuation model, including the expected life of the synthetic option, volatility, and dividend yield. The company's cost of cash settled share based payment is calculated using the Black & Scholes pricing model. For 2016 this adds up to a total cost of TNOK 0,000 (2015: TNOK 0,000). Further information on assumptions and models used for estimating fair value for cash settled share-based payment transactions are disclosed in Note 17.

### Pension funds/liabilities

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves a number of assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at the reporting date according to the recommendation of the Norwegian Accounting Standards Board. Q-Free ASA has terminated the defined benefit pension plans per 31.12.2016. The net employee pension liabilities for the Group as at 31 December 2016 is TNOK 0,000 (2015: TNOK 18,775). Further details are given in Note 16.

### Compensation for conversion to defined contribution plan

The Group terminated the defined benefit pension plan per 31.12.2016. The transition to defined contribution plan may lead to a reduction in retirement pensions for employees compared to the defined benefit plan. The Group has determined to give a wage compensation for lost pension benefits.

The cost of the compensation for the conversion to defined contribution plan, is estimated as the changes of fair value of future payments, using inputs as compensation amount per employee, discount rate, annual growth in salaries, mortality rate, expected turnover and the possibility of changes of the compensation.

The provision for the conversion to defined contribution plan for the Group as at 31 December 2016 is TNOK 17,444 (2015: 0,000). Further information on assumptions for estimating fair value are disclosed in note 15.

### Warranty accruals

The Group estimates probable warranty costs on faulty products based on historical data and an evaluation of the portfolio of delivered products still under warranty. Total provisions for warranty costs as at 31 December 2016 is TNOK 12,831 for the Group. (2015: TNOK 14,263). Further details are given in Note 26.

## Note 3 | Summary of significant accounting policies

### 3.0: Basis of consolidation

The consolidated financial statements comprise the financial statements of Q-Free ASA and its subsidiaries as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, defined as the date on which the group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

### Shares in subsidiaries

Investments in subsidiaries are accounted for according to the cost method in the parent company's accounts. The investments are recognised at their fair value on the date of acquisition. Fair value is attributed to identifiable assets and liabilities. Excess value that cannot be assigned to identifiable assets is classified as goodwill.

### Elimination of transactions

Intra-Group balances, transactions and unrealised gains and losses that arise between Group entities are eliminated at consolidation. Unrealised gains from transactions with associates are eliminated proportionally against the investment. Unrealised losses are eliminated correspondingly, unless they are related to impairment. All intra-Group transactions are eliminated in the consolidation process.

### 3.1: Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the date of acquisition and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree as the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If a business combination is achieved in stages, the fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with

IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, as the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination from the acquisition date allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit, and a part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. In this circumstance, goodwill disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### 3.2: Recognition of revenues

Revenues are recognised when it is probable that transactions will generate future financial benefits that will accrue to the company, and this revenue can be reliably estimated. Sales revenue are presented net of value added tax and discounts. Q-Free's business activities are product and system deliveries as well as service and maintenance and revenues within the tolling business. Q-Free distinguishes between project deliveries, product sales, and services/maintenance revenues. Government grants are classified as "Other income".

### Project deliveries

Revenues relating to system deliveries are recognised in the income statement according to the stage of completion. Stage of project completion is calculated as the percentage of accrued costs to total anticipated costs. Total anticipated costs are estimated on the basis of a combination of historical figures, the follow-up of efficiency targets and best estimates. Any estimated loss on a contract will be recognised in the income statement for the period when the company identifies that the project will lead to a loss.

Change orders are defined as additions to existing contracts. Change orders are recognised when we receive a confirmed order from the customer. Additional contractual services and estimated additional costs are included in the original project prognosis and

recognised as income with a shared profit on the contract and the same degree of completion.

Invoicing normally takes place when contractually agreed milestones are reached. Differences between invoicing and revenue recognition are shown as "Work in Progress" in the balance sheet. Advance payments from the customers are presented under current liabilities.

#### Product sales

Revenues from the sale of products are recognised in the income statement once delivery has taken place, the risk has been transferred, and the company has established a receivable due by customer.

#### Service and maintenance contracts

Services delivered which are not part of a project delivery are recognised as revenue upon the provision of the service and maintenance, as described under project deliveries.

#### Government grants

Government grants are not recognised until it is reasonably certain that the company will comply with the conditions and that it will be granted. The recognition of grant is postponed and amortised over the period when cost incur for items covered by the subsidies. Grants are recognised as deductions from the cost that the grant is meant to cover. Grants received to buy non-current assets are recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset. Government grants are accounted as other operating income when the costs are incurred or as reduction of personnel expenses if the Group has approved projects in the governmental tax relief program "Skattefunn". Further details are given in Note 8.

### 3.3: Foreign currency

#### Functional currency and presentation currency

The consolidated financial statements are presented in NOK, which is the company's functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the balance sheet date. All differences regarding retranslation are included in the profit and loss account.

#### Group companies

The assets and liabilities of foreign operations are translated into NOK at the rate of exchange at the reporting date, and their income statements are translated at the exchange rates at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

### 3.4: Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying financial benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed on each balance sheet date and reflect the best estimate of the liability. When the effect of time is insignificant, the provisions will be equal to the size of the expense required to be released of the liability. When the effect of time is significant, the provisions will be the present value of future payments to cover the liability. Further details are given in Note 26 and Note 31.

### 3.5: Financial instruments

#### Financial assets and liabilities

Financial assets and liabilities consist of shares, derivatives, accounts receivables and other receivables, cash and cash equivalents, loans, accounts payable and other liabilities.

A financial instrument is recognised when the Group becomes party to the instrument's contractual provisions. Upon initial recognition, financial assets and liabilities are measured at fair value plus directly attributable expenses. However, transaction costs relating to the acquisition or incurrence of financial instruments at fair value through profit or loss are recognised in profit or loss as they are incurred. An ordinary purchase or sale of financial assets is recognised and derecognised from the time an agreement is effective. Financial assets are derecognised when the Group's contractual rights to receive cash flows from the assets expire, or when the Group transfers the asset to another party and does not retain control, or transfers practically all risks and rewards associated with the asset. Financial liabilities are derecognised when the Group's contractual obligation has been satisfied, discharged or cancelled.

#### Classification

Q-Free classifies financial assets and liabilities according to IAS 39 in the following categories; financial assets and liabilities at fair value through the profit or loss, financial assets available for sales, loans and receivables, and other liabilities.

Financial assets and liabilities through profit and loss include financial assets held for trading and derivative financial instruments that are not designated as hedging instruments in hedge relationships as defined in IAS39. Subsequent changes in fair value are carried in the statement of financial position at fair value, with changes in fair value recognised in finance income or finance expense in the income statement.

Financial assets available for sale are measured at fair value with changes over other comprehensive income.

After initial measurement loans and receivables are measured at amortised cost, less impairment for expected losses. The Group's other liabilities are, subsequent to initial recognition, measured at amortised cost using the effective interest rate method.

Further details on financial risk management are given in note 4.

#### Impairment of financial assets

The Group assesses at each reporting date whether any objective evidence exists that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

### 3.6: Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation reduces the cost of assets to their estimated residual value, if any, over their estimated useful lives. The cost of assets and the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Depreciation commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the asset as follows:

– Machinery and fixtures:	4 – 5 years
– Equipment:	5 – 10 years
– Building installations:	5 – 7 years, distributed over the remaining rental periods.

The assets' residual values, useful lives and methods of depreciations are reviewed at each financial year end and adjusted prospectively if appropriate.

### 3.7: Intangible assets

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

If the criteria are satisfied, expenses capitalised will include the cost of materials, direct payroll expenses, and a percentage of the allocated administration expenses. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated depreciation and impairments.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful financial lives. Useful lives and amortisation method for intangible assets with finite useful life is reviewed at least annually. The straight-line depreciation method is used for intangible assets as this best reflects the consumption of the assets.

Intangible assets with indefinite lives are impairment tested annually. Assessment of the recoverable amount for intangible assets with indefinite lives is based on estimates and judgements made by management, including estimates for the assets' ability to generate future revenues. Changes in the judgements and assumptions may result in an impairment loss.

#### Research and development

Expenses for research activities are recognised and expensed as they accrue.

Expenses related to product development activities are capitalised if the product development activities comply with defined criteria for capitalisation. Capitalisation assumes it is possible to identify the intangible asset to be developed and demonstrated that it is likely that the development work will be successful, and that the future financial benefits attached to the intangible asset will accrue to the enterprise. Depreciation is carried out using the straight-line method over the estimated useful lifetime. The estimated useful lifetime is continuously evaluated.

If the criteria are satisfied, expenses recognised on the balance sheet will include the cost of materials, direct payroll expenses and a percentage of the directly allocated administration expenses. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated depreciation and impairments.

Expenses related to ongoing efforts to improve a product or enhance a product's quality are defined as product maintenance and expensed as they are incurred.

### 3.8: Impairment of non-financial assets

All non-financial assets are reviewed for each reporting period (quarterly) to determine whether there are indications of impairment. Where indications of impairment exist, recoverable amounts are calculated.

The recoverable amount of an asset or cash-generating unit is its value in use or fair value less costs to sell, whichever is higher. Value in use is calculated as the net present value of future cash flows. The calculation of net present value reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is calculated on the basis

of the estimated future cash flow based on the Group's budget and strategic plans. The budget has been approved by Q-Free's management and Board of Directors.

Impairment is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group that generates a cash inflow that is largely independent of other assets or groups. Impairment related to cash-generating units is intended first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. These assets will normally be property, plant and equipment, and other intangible assets.

### 3.9: Incentive programs for executive management

The group has a share option program for key employees whereby the employees render services as consideration for equity instruments (share options) that expired May 2015 and was replaced by a synthetic based option programme. The group has implemented a five-year share based option programme for the CEO.

The cost of equity-settled and equity-related transactions with employees is measured to fair value at grant date. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The market value of granted share options are measured by using a Black & Scholes model which take into consideration time and conditions of the share options. The cumulative expense recognised for the equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of that period. When options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The cost of equity-related transactions with employees is measured by reference to the fair value of the equity instruments at the date they are granted. The cost of equity-related transactions is recognised over the period in which the performance conditions are fulfilled, and when the estimated fair value exceeds the strike price.

Social security tax related to share options is recorded as a liability and recognised over the estimated option period. It is calculated as the difference between the market value and the exercise value of the granted but not exercised share options.

See further details in Note 17.

### 3.10: Inventories

Work in progress is accounted for at the lowest of cost and net realisable value. For finished goods, the net realisable value is calculated as the selling price less cost to sell. For work in progress and finished products, the acquisition cost is calculated as direct and indirect costs. Inventories are assessed using the FIFO method.

### 3.11: Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, i.e. whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

### 3.12: Investment in shares

Investment in shares is classified as financial assets available for sale. The fair value of investments is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined applying commonly used valuation techniques. For further details see note 25.

### 3.13: Accounts receivable and other receivables

Accounts receivable and other receivables are entered at face value after deduction for provision for impairments on receivables. Provision for impairment on receivables is based on an individual assessment of each receivable and an overall assessment of the total portfolio of receivables.

A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

### 3.14: Pension costs and pension assets and liabilities

Q-Free ASA had a defined benefit pension plan for the employees which ended 31.12.16, together with the ongoing defined contribution pension plan for the employees. The scheme is funded through payments to an insurance company. Both pension plans meet the criteria for OTP. (Obligatorisk Tjeneste Pensjon) Pension cost are calculated according to IAS 19 for both plans. The liability recognised in the balance sheet related to the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is determined by discounting the estimated future cash outflows using the OMF (high quality corporate bonds) interest rate. Net pension cost for the defined benefit plan for the year is determined using the projected unit credit method. Net pension cost is classified as payroll expense in the profit and loss statement. The pension cost of the contribution plan is expensed when paid, see note 16 for further details.

Q-Free ASA has terminated the defined benefit pension plan per 31.12.16. The gain from the closing of the defined benefit plan is recognised in the profit and loss statement when the settlement occurs.

### 3.15: Restructuring provision

During the transformation of Q-Free from a Tolling company into a fully integrated ITS-company, a cost reduction program was implemented with provisions for future costs. The provisions are estimated based on agreed severance packages, and other restructuring costs.

### 3.16: Taxes

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities, with the exception of:

- temporary differences linked to goodwill that are not tax deductible
- temporary differences related to investments in subsidiaries or associates the Group controls, when the temporary differences are to be reversed and this is not expected to take place in the foreseeable future.

Deferred tax assets are recognised when the Group can document future taxable profits to utilise the tax asset. The companies recognise previously unrecognised deferred tax assets to the extent it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer can document it as probable that it can utilise the deferred tax asset.

Deferred tax and deferred tax assets are measured on the basis of the expected future tax rates applicable to the companies in the Group where temporary differences have arisen.

Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

### 3.17: Cash and cash equivalents

Cash includes cash at hand and in bank. Cash equivalents are short-term liquid investments that can be immediately converted into a known amount of cash and have a maximum term to maturity of three months.

### 3.18: Cash flow statement

The cash flow statement is prepared according to the indirect method. Cash is considered as a deposit at call in bank or similar financial institutions. Consented, not full-drawn bank overdrafts is not considered liquid capital. All items in the cash flow statement are net effects from the continued operation unless stated otherwise.

### 3.19: Discontinued operations

A business which is either sold or classified as held for sale and represents a separate major line of business or a separate major geographical area of operations are classified as discontinued operations. Discontinued operations are presented separately from the result from continuing operations in the financial statements and cash flow statements.

Assets and liabilities held for sale is measured at fair value less costs.

### 3.20: Operating segments

For management purposes, the Group is organised into geographical areas based on the location of the customer. Transfer prices between operating segments are based on an arm's length basis, similar to transactions with third parties. Further details on the group operating segments are given in note 5.

### 3.21: Events after the balance sheet date

New information on the company's positions at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that will effect the company's position in the future but do not affect the company's position at the balance sheet date are stated if significant.

### 3.22: Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following IFRSs, IFRICs AND AMENDMENTS.

Standards, Amendments or interpretations	Effective date
Clarification of acceptable methods of depreciation and amortisation (changes in IAS 16 and IAS 38)	01.01.2016
IAS 19 Employee Benefits (Amendments - Defined Benefit Plans: Employee Contributions)	01.02.2016
Annual improvements (2010 – 2012 Cycle) Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38	01.01.2016
Annual improvements (2012-2014 Cycle) Amendments to IFRS 5, IFRS 7, IAS 19, IAS 34	01.01.2016



None of the new standards, amendments and interpretations had any material impact on the measurement and presentations principles applied by Q-Free. None had any material effect on the disclosures included in the financial statements.

### 3.23: Standards issued but not yet effective or adopted by the Group

The standards and interpretations that are issued but not yet effective per the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Significant new Standards, Amendments or interpretations	Effective date
IFRS 9 Financial Instruments	Mandatory adoption on or after 01.01.2018
IFRS 15 Revenue Recognition	Mandatory adoption on or after 01.01.2018
IFRS 16 Leases	Mandatory adoption on or after 01.01.2019

These standards, amendments and interpretations are not expected to have any material impact on the financial position of

the group except IFRS 15 and IFRS 16. IFRS 15 is discussed below. Q-Free has not concluded regarding the possible effects of implementing IFRS 16.

#### IFRS 15 Revenue from Contracts with Customers

IASB has issued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2018. The standard was endorsed by the EU in 2016, and Q-Free will adopt IFRS 15 full retrospectively on the effective date. IFRS 15 is part of the convergence project with FASB to replace IAS 18 and other standards, and the new standard will establish a single, comprehensive framework for revenue recognition. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange of those goods or services.

Q-Free is in the preliminary stages of analysing the impact of IFRS 15 focusing on the core principle. New contracts received during 2017 might have other impacts and implementations is expected to result in extended disclosures regarding types of revenue and related risks.

## Note 4 | Risk management

### Project risk

Q-Free handles demanding and complex large-scale project deliveries, which may involve considerable risk in terms of timing and cost. Through more than 30 years of experience, Q-Free holds in-depth knowledge of customer requirements as well as the boundaries of its own project capabilities, and seeks to reduce risk in contract negotiations.

### Political risk

Tolling projects and some projects within Traffic Management are normally directly or indirectly subject to governmental concessions. Q-Free is therefore exposed to political risk from lead identification through contract awards to final project implementation and payment. The entry into multiple new service lines has added new revenue streams less exposed to political risk than tolling.

### Technology risk

Q-Free is exposed to risks related to the quality of own work and the quality of deliveries from subcontractors. Q-Free attempts to mitigate this risk through internal auditing and a non-conformance reporting system ensuring that employees carry out their work in accordance with well-defined processes. Q-Free clearly states its quality expectations in contracts with subcontractors and carries out regular quality reviews.

### Risk of corruption

Q-Free ASA operates in some geographies and industries exposed to corruption. Q-Free has established a Code of Conduct, as well as conducted a corruption risk analysis and devised and completed a programme to increase awareness and limit our exposure. For further information, please see the Corporate Social Responsibility report.

### Financial risk factors and risk management

Q-Free has centralised management of financial risk. The Board has adopted guidelines for the Group's financial risk management, which are embodied in the corporate Financial Policy. Q-Free seeks to limit financial risk and increase predictability while exploiting finance as a competitive factor.

The Group is exposed to different financial market risks arising from our normal business activities, mainly these:

- Credit risk
- Currency risk
- Liquidity risk
- Interest rate risk
- Assets/liabilities measured at fair value and fair value hierarchy

### a) Credit risk

Risk related to customers' ability to fulfill their financial obligations is generally considered to be low, given that the Group's main customers are government controlled entities in Norway or abroad, or relatively large and solid private companies. The company has historically had a low ratio of bad debt to accounts receivables.

Sovereign risk related to governments failing to honor their debt obligations may have increased in several markets, although Q-Free has to date not incurred any losses on debt to any government related entity in any market.

The Group only conducts business with parties with an acceptable credit record. The Group has guidelines to ensure that outstanding amounts are kept below given credit limits and that sales are made only to customers with no history for significant credit problems.

When entering a new market, Q-Free assess the credit risk in each individual case and utilise appropriate actions like letters of credit, Norwegian Export Credit Agency guarantees, advance payments, or other similar tools to reduce credit risk.

The Group has no significant credit risk linked to any individual contracting party or to contracting parties that may be regarded as a group due to similarities in credit risk. The Group has not provided any guarantees for third parties' liabilities.

An aging analysis of trade receivables as at 31. December 2016 and 2015 is provided in note 21.

### b) Currency risk

Q-Free is also exposed to currency risk in the ordinary business since more than 80 % of revenues was generated outside of Norway. Q-Free also runs businesses outside of Norway and buys a substantial share of required equipment abroad, with payment in foreign currencies which mitigates this risk significantly. This mitigated the net foreign currency exposure to approximately 12 percent of gross revenues in 2016. The Group's most important trading currencies are NOK, USD, GBP and EURO.

The Group strategy is to combine estimated future sales and purchases and hedge the net cash flow in the foreign currency by using forward / future contracts.

Foreign exchange contracts are classified as either other financial assets or other financial liabilities measured as fair value. As at 31.12.16 the Group holds no foreign future contracts of accounted as other financial assets or liabilities, nor did we as at 31.12.15. See section regarding Fair Value for a fair value hierarchy and a specification on valuation technique applied used during the last financial Year.

The following table demonstrates the sensitivity to a reasonable possible change in the EURO, GBP and USD exchange rate for the Group's EBITDA (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward exchange contracts and net investment hedges), with all other variables held constant.

		Increase/decrease in	Effect on profit before tax	Effect on equity
2016	EURO rate	+ 10 %	+ 4 137 TNOK	+ 2 979 TNOK
		- 10 %	- 4 137 TNOK	- 2 979 TNOK
2016	GBP rate	+ 10 %	+ 2 182 TNOK	+ 1 702 TNOK
		- 10 %	- 2 182 TNOK	- 1 702 TNOK
2016	USD rate	+ 10 %	- 11 639 TNOK	- 6 401 TNOK
		- 10 %	+ 11 639 TNOK	+ 6 401 TNOK
2015	EURO rate	+ 10 %	+ 6 625 TNOK	+ 4 770 TNOK
		- 10 %	- 6 625 TNOK	- 4 770 TNOK
2015	GBP rate	+ 10 %	+ 599 TNOK	+ 467 TNOK
		- 10 %	- 599 TNOK	- 467 TNOK
2015	USD rate	+ 10 %	- 5 038 TNOK	- 2 771 TNOK
		- 10 %	+ 5 038 TNOK	+ 2 771 TNOK

### c) Liquidity risk

The Q-Free Group's strategy is to hold sufficient cash, cash equivalents, or credit facilities at any time to be able to finance its operations and planned investments over the next three years. Surplus cash funds are deposited in banks, or invested in money market funds, with the purpose of securing an acceptable, low-risk return on the invested capital. Following the share issue in 2016, combined with an profitable growth and the implementation of

the cost reduction program, the Board of Directors assesses the liquidity at the end of 2016 to be sufficient to cover the company's planned operations and investment requirements.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2016, based on contractual undiscounted payments.

Year ended 31 December 2016:	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	Total Group
Interest bearing loans and borrowings	737	1 028	1 040	67 730	169 204	239 739
Accounts payables	25 315	67 268	7 626			100 209
Public duties payable and taxes	0	17 349	0			17 349
Other liabilities	1 773	27 426	10 034	10 843	121 310	171 386
<b>Total liabilities (excl pension liabilities and deferred tax)</b>	<b>27 825</b>	<b>113 071</b>	<b>18 700</b>	<b>78 573</b>	<b>290 514</b>	<b>528 683</b>

Year ended 31 December 2015:	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	Total Group
Interest bearing loans and borrowings	755	1 073	1 092	2 175	160 281	165 375
Accounts payables	23 374	48 379	6 160			77 913
Public duties payable and taxes	0	21 764	0			21 764
Other liabilities	1 866	50 735	80 394	18 270	135 894	287 158
<b>Total liabilities (excl pension liabilities and deferred tax)</b>	<b>25 995</b>	<b>121 950</b>	<b>87 646</b>	<b>20 445</b>	<b>296 175</b>	<b>552 210</b>

### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages and adjusts its capital structure in light of changes in financial conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of its total equity ratio. The book equity ratio is calculated as total equity divided by total assets as follows:

	As at 31 December	
	2016	2015
Total equity	426 900	416 499
Total assets	990 419	997 315
Book equity ratio	43.1 %	41.8 %

### d) Interest-rate risk

The group currently has interest-bearing debt in form of a bullet loan. Excess liquidity is placed at high-interest bearing accounts,

in order to have quick access to these funds. The Group emphasises predictability at all times if entering any significant interest bearing debt contracts, as changes in the interest level influences the consolidated profit. Actions will be taken to hedge this risk if possible.

A change in interest of 100 basis points (bps) on the date of balance sheet recognition would have increased (reduced) equity and the profit or loss by the amounts shown below. The analysis assumes that the other variables remain constant. The analysis was performed on the same basis as in 2015.

Effect of an interest rate increase of 100 bps:	As at 31 December	
	2016	2015
	Result	Result
Amounts in TNOK		
Investments with floating interest rates	478	889
Loans with variable interest rates	-1 499	-1 375
Profit before tax	-1 021	-486

### e) Assets/liabilities measured at fair value and fair value hierarchy

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. As at 31 December 2016, the Group held the following financial instruments measured at fair value:

– Shares at fair value through other comprehensive income (Included in "Investments in other companies")

– Foreign exchange contracts (Included in either "Other current financial asset" or "Other current financial liabilities")

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

### Assets/liabilities measured at fair value

	(TNOK)			
	31. Dec 2016	Level 1	Level 2	Level 3
Financial assets & liabilities at fair value through profit or loss:				
Available for sale financial investments	395	0	0	395
	31. Dec 2015	Level 1	Level 2	Level 3
Financial assets & liabilities at fair value through profit or loss:				
Available for sale financial investments	660	0	0	660

For details about the change in beginning and closing balances of level 3 measurements, refer to note 24.

### Determination of fair value

The book value of below listed financial assets and liabilities are approximately equal to fair value, as they have ultra-short collection cycles with low inherent risk.

### Financial assets and liabilities:

	Carrying amount 2016	Fair value 2016	Carrying amount 2015	Fair value 2015
Investments in other companies	395	395	660	660
Accounts receivables	142 425	142 425	149 606	149 606
Other receivables	1 008	1 008	1 592	1 592
Other assets	31 646	31 646	28 616	28 616
Cash and cash equivalents	101 474	101 474	65 349	65 349
Accounts payable	100 209	100 209	77 913	77 913
Other liabilities	54 696	54 696	151 264	151 264

## Note 5 | Operating segments

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

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

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

loss in the consolidated financial statements and in accordance with IFRS. The segments are reported in a manner consistent with internal reporting provided to the chief decision makers.

Inter-segment sales are priced along the same lines as sales to external customers, with an appropriate discount being applied to encourage use of group resources at a rate acceptable to local tax authorities. This policy was applied consistently throughout the current and prior period and is according to the Group Transfer Pricing Policy.

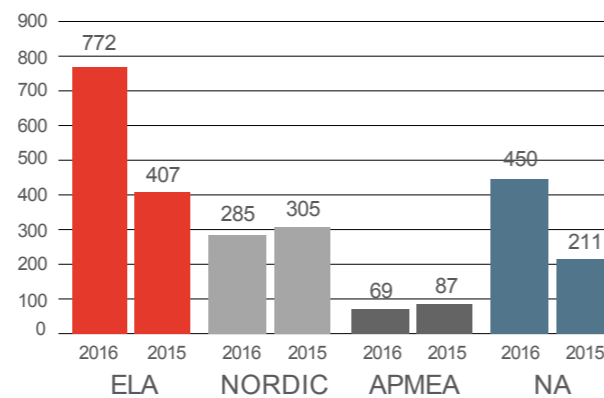
However, financing (including finance costs and finance income), income taxes, assets, and liabilities are managed on a group basis and are not allocated to operating segments.

NOK 1.000	FY 2016						FY 2015					
	ELA	APMEA	NORDIC	NA	Other/Group	TOTAL 2016	ELA	APMEA	NORDIC	NA	Other/Group	TOTAL 2015
<b>Revenues</b>	<b>393 990</b>	<b>138 068</b>	<b>247 283</b>	<b>242 286</b>	<b>-144 462</b>	<b>877 165</b>	<b>326 913</b>	<b>96 542</b>	<b>256 370</b>	<b>197 017</b>	<b>-109 957</b>	<b>766 885</b>
<b>Gross profit</b>	<b>189 955</b>	<b>81 521</b>	<b>186 417</b>	<b>182 448</b>	<b>-59 656</b>	<b>580 692</b>	<b>186 859</b>	<b>41 621</b>	<b>182 557</b>	<b>199 700</b>	<b>-65 466</b>	<b>545 271</b>
Gross margin - %	48.2 %	59.0 %	75.4 %	75.3 %	41.3 %	66.2 %	57.2 %	43.1 %	71.2 %	101.4 %	59.5 %	71.1 %
Operating expenses	144 850	76 896	100 204	226 014	37 067	585 038	138 424	55 629	103 686	160 059	98 197	555 996
<b>EBITDA</b>	<b>45 105</b>	<b>4 625</b>	<b>86 212</b>	<b>-43 566</b>	<b>-96 724</b>	<b>-4 345</b>	<b>48 435</b>	<b>-14 008</b>	<b>78 871</b>	<b>39 641</b>	<b>-163 663</b>	<b>-10 725</b>
EBITDA margin	11.4 %	3.3 %	34.9 %	-18.0 %	67.0 %	-0.5 %	14.8 %	-14.5 %	30.8 %	20.1 %	148.8 %	-1.4 %
Depreciation, amortisation and impairment	16 902	512	18 081	20 594	-1 327	54 762	85 108	7 657	26 931	22 490	-2 617	139 569
<b>SEGMENT - EBIT</b>	<b>28 204</b>	<b>4 113</b>	<b>68 131</b>	<b>-64 160</b>	<b>-95 397</b>	<b>-59 107</b>	<b>-36 673</b>	<b>-21 665</b>	<b>51 940</b>	<b>17 151</b>	<b>-161 046</b>	<b>-150 294</b>
EBIT margin	7.2 %	3.0 %	27.6 %	-26.5 %	66.0 %	-6.7 %	-11.2 %	-22.4 %	20.3 %	8.7 %	146.5 %	-19.6 %
Total financial items (not distributed)						3 486						(21 640)
<b>Profit before tax</b>						<b>-55 621</b>						<b>-171 934</b>
Taxes						2 202						-16 157
Segment profit included in discontinued operations						-30 213						-6 607
<b>Profit before tax after discontinued operations</b>						<b>-83 632</b>						<b>-194 698</b>

Revenues from the largest customer amounted to TNOK 105.203 (12 % of total revenues) in 2016, with the similar figure for 2015 TNOK 114.963 (15 %). The customer is included in the NORDIC region.

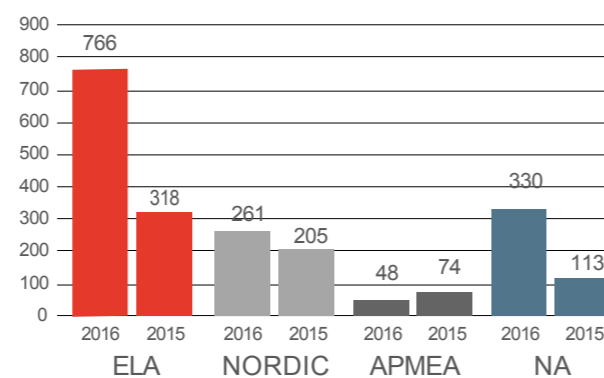
### Operating segments Order intake 2016 and 2015

NOK 1.000	2016		2015	
Order intake		%		%
ELA	771 584	49.0 %	406 500	40.3 %
NORDIC	285 046	18.1 %	304 712	30.2 %
APMEA	69 012	4.4 %	87 050	8.6 %
NA	449 502	28.5 %	211 459	20.9 %
<b>Total</b>	<b>1 575 143</b>		<b>1 009 722</b>	



### Operating segments Order backlog 2016 and 2015

NOK 1.000	2016		2015	
Order backlog		%		%
ELA	765 964	54.5 %	317 690	44.7 %
NORDIC	261 245	18.6 %	205 467	28.9 %
APMEA	47 714	3.4 %	73 766	10.4 %
NA	330 338	23.5 %	113 279	16.0 %
<b>Total</b>	<b>1 405 261</b>		<b>710 202</b>	



### Service line overview 2016 and 2015 Revenues

Service Line	Revenues		
	2016	2015	%
<i>Global Service lines</i>			
Tolling	575 474	490 227	65.6 %
Parking	97 070	58 827	11.1 %
Infomobility	52 475	54 154	6.0 %
<i>Regional Service lines</i>			
Urban	99 188	65 574	11.3 %
Inter Urban	52 958	98 104	6.0 %
<b>Total</b>	<b>877 165</b>	<b>766 885</b>	

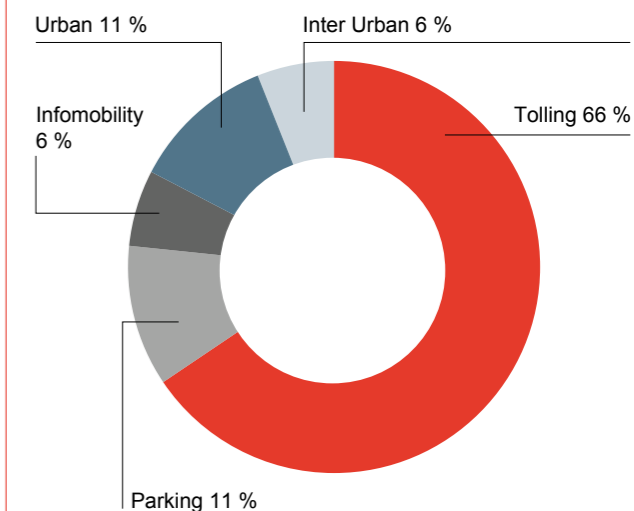
### Service line overview 2016 and 2015 Order intake

Service Line	Order intake		
	2016	2015	%
<i>Global Service lines</i>			
Tolling	1 091 248	710 443	69.3 %
Parking	84 717	73 501	5.4 %
Infomobility	43 425	59 539	2.8 %
<i>Regional Service lines</i>			
Urban	113 109	90 308	7.2 %
Inter Urban	241 648	75 897	15.4 %
<b>Total</b>	<b>1 574 146</b>	<b>1 009 688</b>	

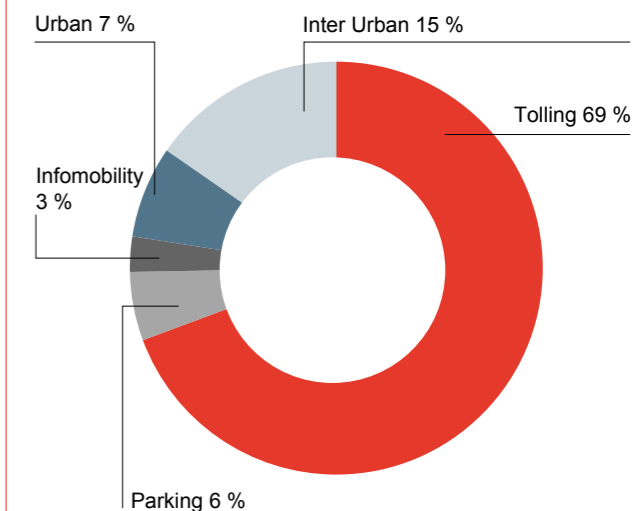
### Service line overview 2016 and 2015 Order backlog

Service Line	Order backlog		
	2016	2015	%
<i>Global Service lines</i>			
Tolling	1 071 000	558 776	76.3 %
Parking	28 976	41 812	2.1 %
Infomobility	25 729	32 951	1.8 %
<i>Regional Service lines</i>			
Urban	31 043	35 651	2.2 %
Inter Urban	247 799	41 012	17.6 %
<b>Total</b>	<b>1 404 548</b>	<b>710 202</b>	

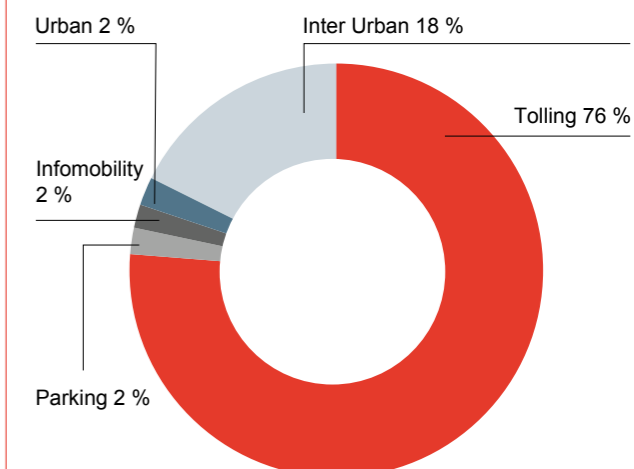
### Revenues split 2016



### Order intake split 2016



### Order backlog split 2016



## Note 6 | Business combinations

### Acquisitions in 2016

Q-Free ASA has not acquired any companies in 2016. The second tranche of the transaction regarding the acquisition of Intelight Inc. was closed in May 13 2016, and Q-Free acquired 9.6 percent to TNOK 7,932. Q-Free ASA has as of this date a shareholdings in the company of 34.0 percent.

Q-Free ASA has paid the following amounts in earn-outs to previous owners in 2016:

- TNOK 4,258 to Traffic Design d.o.o.
- TNOK 11,654 to TDC Systems Ltd.
- TNOK 26,362 to Open Roads Consulting Inc.
- TNOK 1,942 to Traffiko Ltd.

Settlement of earn-outs in shares in 2016 arising from previous acquisitions is TNOK 434 to Traffic Design d.o.o. and TNOK 11,966 to TDC Systems Ltd. During 2016 all earn-out liabilities are settled.

### Acquisitions in 2015

#### Acquisition of Intelight Inc - Arizona, US

This contains additional information about Q-Free's agreement to acquire Intelight Inc in accordance with section 3.4 of continuing obligations for companies listed on Oslo Stock Exchange.

Q-Free ASA has signed a share purchase agreement and a shareholders agreement to acquire 100 percent of the shares in the US traffic controller supplier, Intelight Inc over a five year period. This will be done through a five year option program, giving shareholders option to sell shares at closing in 2015 and in five

subsequent years valid from 2016, giving Q-Free the opportunity to each year add approximately 15 percent of Intelight-shares to the former 10.0 percent shareholding. At end of the 5 year period in the second quarter of 2020, Q-Free has a call option to acquire the rest of the shares.

The first transaction was closed April 21 2015 and Q-Free has of this date a shareholdings in the company of 24.4 percent including the 10.0 percent Q-Free had before the first transaction. The shareholders agreement and the amended bylaws provide control for Q-Free after signing these agreements. Based on this, the full activity of Intelight Inc. is consolidated in the Q2-2015 Q-Free accounts.

The consideration for the first transaction was approximately USD 2.2 million net of cash and debt, and no shares will be issued as part of the consideration. The consideration for the shares in the next five years will be based on a combination of multiples on revenues and EBITDA for Intelight Inc. The total consideration consist of USD 3.3 million in cash, and contingent consideration measure at fair value of USD 10.4 million. The range of possible outcomes for the contingent consideration is a floor on USD 10.5 million and the upper range is unlimited but related to the corresponding EBITDA performance of the company.

The current operations in Intelight Inc are an important part of our ATMS business and will broaden our scope of business, reduce risk, and also prepare the company for convergence of markets into a wider Intelligent Traffic market.

The fair value (TNOK) of the identifiable assets and liabilities of Intelight Inc as at the date of acquisition were:

Assets	Book value	Adjustment	Fair value
TNOK	21. 04. 2015		21. 04. 2015
Technology	0	37 820	37 820
Customer Relationships	0	6 838	6 838
Order Backlog	0	1 548	1 548
Goodwill	0	86 194	86 194
Machinery, fixtures	159	0	159
<b>Total fixed assets</b>	<b>159</b>	<b>132 399</b>	<b>132 558</b>
Inventories	3 980	0	3 980
Accounts receivables	4 585	0	4 585
Cash and equivalents	56	0	56
<b>Current assets</b>	<b>8 621</b>	<b>0</b>	<b>8 621</b>
<b>Total assets</b>	<b>8 780</b>	<b>132 399</b>	<b>141 180</b>

Liabilities and Equity	Book value	Adjustment	Fair value
TNOK	21. 04. 2015		21. 04. 2015
<b>Equity</b>	<b>-11 345</b>	<b>113 917</b>	<b>102 572</b>
Long term debt, net of current portion	6 611	0	6 611
Deferred tax	-5 906	18 482	12 576
<b>Long term liabilities</b>	<b>705</b>	<b>18 482</b>	<b>19 187</b>
Line of Credit - Bank	7 099	0	7 099
Accounts payable	9 425	0	9 425
Note Payable, related party	1 121	0	1 121
Current Portion of long term debt	695	0	695
Other short term liabilities	1 079	0	1 079
<b>Current liabilities</b>	<b>19 420</b>	<b>0</b>	<b>19 420</b>
<b>Total Equity &amp; Liabilities</b>	<b>8 780</b>	<b>132 399</b>	<b>141 180</b>

Three intangible assets are identified as follows:

Customer relationships, technology, and the value of existing order backlog. These three assets explain 35 percent of the total purchase price and the remaining value is allocated to goodwill.

Potential changes in the EBIT-assumption may change the fair value allocation and hence adjust the goodwill arising on acquisition. Goodwill is explained as the estimated value of the work force and the fact that the acquisition is an important transaction in order to position the Group in the ATMS market.

None of these elements complies with the control criteria in IAS 38 for capitalization of intangible assets and is hence included in goodwill.

#### Acquisition of Traffiko Ltd – Valetta, Malta

As of 3rd June 2015, Q-Free ASA acquired the activity of the Maltese parking management solutions company Traffiko Ltd. for EUR 1 million. The transaction includes an earn-out clause with potential pay out maximised to an additional EUR 1 million. The activity of Traffiko Ltd. is consolidated in the Q2-2015 Q-Free accounts.

Traffiko is an intelligent transportation solutions company providing a wide range of advanced traffic applications including secure cloud

hosted web-based applications for car park management, journey time analysis, on-street and off-street traffic related enforcement, access control, tracking, video analytics, traffic scene analysis, and revenue management, based on an integrated platform.

Traffiko was established in 2006 and maintains operations in Malta with customer references in Europe, North America, the Middle East and Australia with more than 650,000 active user accounts. In 2014, Traffiko generated revenues of some NOK 4 million. The company currently has five employees and will be embarking on a recruitment drive during 2015 to scale up further.

Further consideration is dependent on financial performance as part of 2015, 2016 and part of 2017, and is estimated to EUR 0.3 million. Including earn-out payments, the total consideration is capped at EUR 2 million

Traffiko has been a long-term partner to Q-Free for deliveries of a vital part of our parking management system in previous projects. This includes the newly announced APCOA-contract, for instalments of parking management systems to the Parking-garages at the Stockholm Globe Arena. Through this transaction within parking management solutions, Q-Free is now able to deliver a complete range of solutions within this fast growing segment.

Liabilities and Equity	Book value	Adjustment	Fair value
TNOK	03. 06. 2015		03. 06. 2015
Technology	0	8 466	8 466
Goodwill	0	5 080	5 080
<b>Total fixed assets</b>	<b>0</b>	<b>13 546</b>	<b>13 546</b>
Accounts receivables	388	0	388
Cash and equivalents	809	0	809
<b>Current assets</b>	<b>1 197</b>	<b>0</b>	<b>1 197</b>
<b>Total assets</b>	<b>1 197</b>	<b>13 546</b>	<b>14 742</b>

Liabilities and Equity	Book value 03.06.2015	Adjustment	Fair valueTNOK 03.06.2015
<b>Equity</b>	<b>17</b>	<b>10 583</b>	<b>10 599</b>
Deferred tax	0	2 963	2 963
Long term liabilities	0	2 963	2 963
Accounts payable	212	0	212
Accruals	121	0	121
Other short term liabilities	847	0	847
<b>Current liabilities</b>	<b>1 180</b>	<b>0</b>	<b>1 180</b>
<b>Total Equity &amp; Liabilities</b>	<b>1 197</b>	<b>13 546</b>	<b>14 742</b>

We have identified the technology as the intangible asset that the Group is acquiring. The value of the technology explains 63 percent of the total purchase price and the remaining value is allocated as goodwill.

Potential changes in the EBIT-assumption may change the fair value allocation and hence adjust the goodwill arising on acquisition.

Goodwill is explained as the estimated value of the work force and the fact that the acquisition is an important transaction in order to position the Group in the ATMS market.

None of these elements complies with the control criteria in IAS 38 for capitalisation of intangible assets and is hence included in goodwill.

#### Changes related to provisions for Earn-outs

	Current	Non current	Total
Provisions 01.01.2015	47 122	50 556	97 678
Payments in 2015	-36 984	0	-36 984
Share issue in 2015	-12 878	0	-12 878
Adjusted provisions related to acquisitions in 2014	19 808	0	19 808
Provisions related to acquisitions in 2015	0	79 780	79 780
Changes of estimated payments recognised in P&L	-1 535	8 470	6 935
Exchange rate differences earn-out recognised in P&L	3 276	279	3 555
Exchange rate differences earn-out recognised in other comprehensive income	3 508	18 481	21 989
Reclassification to current	29 699	-29 699	0
<b>Provisions 31.12.2015</b>	<b>52 016</b>	<b>127 867</b>	<b>179 883</b>

	Current	Non current	Total
Provisions 01.01.2016	52 016	127 867	179 883
Payments in 2016	-52 148	0	-52 148
Share issue in 2016	-12 400	0	-12 400
Changes of estimated payments recognised in P&L	2 457	-16 580	-14 123
Exchange rate differences earn-out recognised in P&L	-2 625	0	-2 625
Exchange rate differences earn-out recognised in other comprehensive income	0	-4 783	-4 783
Reclassification to current	12 700	-12 700	0
<b>Provisions 31.12.2016</b>	<b>0</b>	<b>93 804</b>	<b>93 804</b>

Remaining provisions relates to the acquisition of Intelight Inc in 2015. The range of possible outcomes for the contingent consideration is a floor on USD 10.5 million and the upper range is unlimited but related to the corresponding EBITDA performance of the company.

Analysis of cash flows on acquisition:	2016	2015
Transaction costs of the acquisition (included in cash flows from operating activities)	0	-2 346
Acquisition of a subsidiary	-52 149	-63 434
<b>Net cash flow on acquisition</b>	<b>-52 149</b>	<b>-65 780</b>

#### Impact of statement of income from business combinations and pro forma figures

Pro forma figures have been prepared for the period from 1 January 2015 until the time of the acquisitions of Intelight Inc and TraffikoLtd in 2015.

The contribution to the Group from the time of the acquisitions of the subsidiaries until 31 December 2015 and possible contribution for 2015 if Q-Free had owned the subsidiaries in 2015:

	Contribution to the Group's P&L for 2016	Possible contribution to the Group's P&L for the total 2016	Pro forma figures 2016 including new subsidiaries full year	Contribution to the Group's P&L for 2015	Possible contribution to the Group's P&L for the total 2015	Pro forma figures 2015 including new subsidiaries full year
Operating revenues	0	0	0	57 487	69 967	816 005
Profit and loss	0	0	0	13 342	11 028	-197 012

## Note 7 | Work in progress

The Group's main business activity is to develop and manufacture products and systems as well as provide service and maintenance based on orders received. The Group reports gross balance sheet values attached to long-term production contracts. Gross amounts due from customers for contract work (Work in progress) are recognised on the balance sheet as assets, and gross amounts due to customers for contract work (Prepayments from customers) are recognised on the balance sheet as liabilities. Work in progress is the net amount of accumulated operating revenues less accumulated invoicing for all ongoing contracts where accumulated operating revenues are higher than accumulated invoicing. Prepayments from customers are the net amounts of accumulated operating revenues less accumulated invoicing for all ongoing contracts where accumulated invoicing is higher than accumulated operating revenues.

Each project is monitored individually and is measured against the updated project prognosis. The estimated accrued contract profit shall not exceed a proportional share of the estimated total contract profit. The proportional share of the contract is based on the degree of completion of the individual contract, which is largely determined by the costs incurred as a ratio of the expected overall cost at the time of valuation. If the profit on a contract cannot be estimated with a reasonable degree of certainty, the project will be recognised without a profit until the uncertainty is manageable. All projects are followed up on an ongoing basis with project costing. In the event a project calculation shows a loss, this loss will be expensed immediately in its entirety.

Parent company			Group	
2015	2016		2016	2015
0	36 598	Work in progress	75 807	44 269
0	0	Prepayments from customers	-11 677	-12 576
0	36 598	Net projects in progress	64 130	31 693

#### Summary of work in progress as at 31.12

2015	2016		2016	2015
135 667	149 020	Contract revenues included in the consolidated financial statement	390 534	272 392
133 160	373 767	Total contract orders	748 406	506 087
88 738	125 025	Accumulated revenues	196 870	363 223
44 422	248 742	Remaining revenues	551 536	142 864
67 319	120 748	Accumulated operating expenses	190 374	252 975
41 379	104 764	Remaining operating expenses	274 194	104 147
0	0	Prepayments received	-11 677	-12 576

## Note 8 | Other operating income

The Group has received government grants of a total of TNOK 3,710 in 2016 (2015: TNOK 3,239). The Group is a partner in several projects under The Research Council of Norway, Innovation Norway and projects initiated by the EU.

Government grants	2016	2015
Projects with contribution from The Research Council of Norway	1 632	1 090
Projects with contribution from Innovation Norway	1 022	0
Contribution from EU initiated projects	1 056	2 149
<b>Total</b>	<b>3 710</b>	<b>3 239</b>

There are no conditions related to the grants that have not been met.

	2016	2015
Grants recognised as other income related to cost in same period	3 710	3 239
Grants accounted as reduction of payroll expenses (Skattefunn). See note 28 for further information	0	676
<b>Total</b>	<b>3 710</b>	<b>3 915</b>

## Note 9 | Property and equipment

Parent company	Machinery and fixtures	Equipment	Total
Acquisition cost as at 01.01.2015	81 572	121 608	203 180
Additions	1 742	1 854	3 597
<b>Acquisition cost as at 31.12.2015</b>	<b>83 314</b>	<b>123 462</b>	<b>206 777</b>
Accumulated depreciation and impairments as at 01.01.2015	73 084	95 953	169 037
Depreciation of the year	3 687	7 524	11 211
<b>Accumulated depreciation and impairments as at 31.12.2015</b>	<b>76 771</b>	<b>103 477</b>	<b>180 248</b>
Net book value as at 01.01.2015	8 488	25 655	34 143
Total changes of the year	-1 944	-5 670	-7 614
<b>As at 31.12.2015</b>	<b>6 544</b>	<b>19 985</b>	<b>26 529</b>
Acquisition cost as at 01.01.2016	83 314	123 462	206 777
Additions	1 563	184	1 747
<b>Acquisition cost as at 31.12.2016</b>	<b>84 877</b>	<b>123 647</b>	<b>208 524</b>
Accumulated depreciation and impairments as at 01.01.2016	76 771	103 477	180 248
Depreciation of the year	3 876	6 633	10 509
<b>Accumulated depreciation and impairments as at 31.12.2016</b>	<b>80 647</b>	<b>110 110</b>	<b>190 757</b>
Net book value as at 01.01.2016	6 544	19 985	26 529
Total changes of the year	-2 313	-6 449	-8 762
<b>As at 31.12.2016</b>	<b>4 230</b>	<b>13 536</b>	<b>17 766</b>

Financial lifetime	4-5 years	5-10 years
Depreciation schedule	Straight line	Straight line

### Securities for bank guarantees and overdraft facility

As at 31.12.16 assets in the parent company valued at TNOK 17,766 ( 2015: 26,529) are pledged as security for guarantee facility in Danske Bank.

Group	Machinery and fixtures	Equipment	Total
Acquisition cost as at 01.01.2015	153 499	121 608	275 107
Additions	5 055	1 854	6 909
Acquisitions of a subsidiary	1 710	0	1 710
<b>Acquisition cost as at 31.12.2015</b>	<b>160 264</b>	<b>123 462</b>	<b>283 726</b>
Accumulative depreciation and impairments as at 01.01.2015	127 355	95 953	223 308
Depreciation of the year	9 040	7 524	16 564
<b>Accumulated depreciation and impairments as at 31.12.2015</b>	<b>136 395</b>	<b>103 477</b>	<b>239 872</b>
Net book value as at 01.01.2015	26 144	25 655	51 799
Total changes of the year	-2 275	-5 670	-7 945
<b>As at 31.12.2015</b>	<b>23 869</b>	<b>19 985</b>	<b>43 854</b>
Acquisition cost as at 01.01.2016	160 264	123 462	283 726
Additions	6 364	184	6 548
Disposals	0	0	0
Transferred to assets held for sale*	-907	0	-907
Exchange rate differences	0	0	0
<b>Acquisition cost as at 31.12.2016</b>	<b>165 721</b>	<b>123 647</b>	<b>289 368</b>
Accumulative depreciation and impairments as at 01.01.2016	136 395	103 477	239 872
Depreciation of the year	9 201	6 633	15 834
<b>Accumulated depreciation and impairments as at 31.12.2016</b>	<b>145 596</b>	<b>110 110</b>	<b>255 706</b>
Net book value as at 01.01.2016	23 869	19 985	43 854
Total changes of the year	-3 744	-6 449	-10 193
<b>As at 31.12.2016</b>	<b>20 125</b>	<b>13 536</b>	<b>33 661</b>

Financial lifetime	4-5 years	5-10 years
Depreciation schedule	Straight line	Straight line

\* See note 30 Discontinued operations for further information.

## Note 10 | Intangible assets

Parent company	Product development		
	Goodwill	assets	Total
Acquisition cost as at 01.01.2015	0	225 985	225 985
Additions	0	25 049	25 049
<b>Acquisition cost as at 31.12.2015</b>	<b>0</b>	<b>251 034</b>	<b>251 034</b>
Accumulated depreciation and impairments as at 01.01.2015	0	173 474	173 474
Depreciation of the year	0	24 863	24 863
Impairment	0	15 774	15 774
<b>Accumulated depreciation and impairments as at 31.12.2015</b>	<b>0</b>	<b>214 111</b>	<b>214 111</b>
Net book value as at 01.01.2015	0	52 511	52 511
Total changes of the year	0	-15 588	-15 588
<b>As at 31.12.2015</b>	<b>0</b>	<b>36 923</b>	<b>36 923</b>
Acquisition cost as at 01.01.2016	0	251 034	251 034
Additions	0	20 239	20 239
<b>Acquisition cost as at 31.12.2016</b>	<b>0</b>	<b>271 273</b>	<b>271 273</b>
Accumulated depreciation and impairments as at 01.01.2016	0	214 111	214 111
Depreciation of the year	0	6 865	6 865
<b>Accumulated depreciation and impairments as at 31.12.2016</b>	<b>0</b>	<b>220 976</b>	<b>220 976</b>
Net book value as at 01.01.2016	0	36 923	36 923
Total changes of the year	0	13 374	13 374
<b>As at 31.12.2016</b>	<b>0</b>	<b>50 297</b>	<b>50 297</b>
Financial lifetime	Impairment tested	5-10 years	
Depreciation schedule	annually (or when impairment indicators exist)	Straight line	

Group	Product development		
	Goodwill	assets	Total
Acquisition cost as at 01.01.2015	227 969	485 992	713 961
Additions	0	54 220	54 220
Acquisitions of a subsidiary	91 274	54 671	145 945
Exchange rate differences	48 222	18 516	66 738
<b>Acquisition cost as at 31.12.2015</b>	<b>367 465</b>	<b>613 399</b>	<b>980 864</b>
Accumulative depreciation and impairments as at 01.01.2015	0	270 956	270 956
Depreciation of the year	0	72 395	72 395
Impairment	0	55 523	55 523
Adjusted for discontinued operations*	0	-4 913	-4 913
<b>Accumulated depreciation and impairments as at 31.12.2015</b>	<b>0</b>	<b>393 961</b>	<b>393 961</b>
Net book value as at 01.01.2015	227 969	215 036	443 005
Total changes of the year	139 496	4 403	143 899
Adjusted for discontinued operations*	0	-4 913	-4 913
<b>As at 31.12.2015</b>	<b>367 465</b>	<b>214 526</b>	<b>581 991</b>
Acquisition cost as at 01.01.2016	367 465	613 399	980 864
Additions**	-5 452	28 314	22 862
Transferred to Assets held for sale*	-22 260	-22 459	-44 719
Exchange rate differences	-23 468	-6 765	-30 233
<b>Acquisition cost as at 31.12.2016</b>	<b>316 285</b>	<b>612 489</b>	<b>928 774</b>
Accumulative depreciation and impairments as at 01.01.2016	0	393 961	393 961
Depreciation of the year	0	38 928	38 928
Transferred to Assets held for sale*	0	-4 058	-4 058
<b>Accumulated depreciation and impairments as at 31.12.2016</b>	<b>0</b>	<b>428 831</b>	<b>428 831</b>
Net book value as at 01.01.2016	367 465	214 526	581 991
Total changes of the year	-51 180	-35 780	-86 960
<b>As at 31.12.2016</b>	<b>316 285</b>	<b>178 746</b>	<b>495 031</b>
Financial lifetime	Impairment tested	5-10 years	
Depreciation schedule	annually (or when impairment indicators exist)	Straight line	

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

The divestment was closed in February 2017, and all contracts, employees and other assets have been transferred to the new owner. Consequently, PSG has been excluded from Q-Free's consolidated accounts on continued operations with effect from fourth quarter 2016 and reported separately as "discontinued

operations". Comparable figures for 2015 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 impairment of intangible assets and goodwill relating to the divestment of PSG is NOK 26.8 million. See note 30 Discontinued operations for further information.

\*\* Q-Free has reclassified NOK 5 million from goodwill to development assets in 2016.

## Development

The group capitalises costs regarding product development activities. Capitalised costs for 2016 consist of product development that prepares the company to be a fully integrated ITS company, providing systems and services within traffic management and these product segments:

- Tolling
- Parking Management Systems
- Infomobility
- Inter-Urban Traffic Management
- Urban Traffic Management

Research expenses in the P&L were immaterial in 2016.

Impairment of Tolling technology of NOK 56 million in 2015 was done due to impairment test showing a recoverable amount less than current balance sheet amount.

Capitalised costs mainly consist of personnel expenses, purchase of materials, as well as external services. Product development assets are depreciated over the products expected lifetime. The estimated useful lifetime is continuously evaluated.

## Note 11 | Impairment testing of goodwill

Goodwill obtained through acquisitions is allocated to the Group's service lines: Parking, Infomobility, Urban and Inter Urban. Impairment is tested against recoverable amounts from future cash flows in all these service lines. Goodwill is tested according to what is defined as the operating segment pursuant to IFRS 8 Operating segments.

### Carrying amount of Goodwill

Figures in TNOK	Group	
	2016	2015
<b>Goodwill obtained through acquisitions</b>		
Q-Free Netherlands BV	33 838	35 822
TCS International Inc.	54 390	55 583
Elcom d.o.o.	7 795	8 252
TDC Systems Ltd.	66 162	81 491
Traffic Design d.o.o.	8 695	9 205
Open Roads Consulting Inc.*	46 022	69 779
Prometheus Security Group Global Inc. (PSG)*	22 260	0
Intelight Inc.	99 383	101 562
Q-Free Traffiko Ltd.**	0	5 771
Divestment of Prometheus Security Group Inc.*	-22 260	0
<b>Total amount of Goodwill recognised in balance sheet as at 31.12:</b>	<b>316 285</b>	<b>367 465</b>

\* Prometheus Security Group Global Inc. (PSG) was demerged from Open Roads Consulting Inc. per 01.01.2016. In October 2016 the Board announced its intention to divest Q-Free's security business PSG, and the divestment was closed in February 2017. See note 30. Discontinued operations for further information.

\*\* Q-Free has reclassified NOK 5 million from goodwill to development assets in 2016.

The total exchange rate differences in other comprehensive income regarding Goodwill is TNOK -23,468 in 2016 (2015: 48,222).

### Impairment testing of goodwill as at 31. December 2016

The Group performed its annual impairment test as at 31 December 2016. The recoverable amount has been determined based on cash flow projections. The projected cash flow is based on budgets and long-term plans, which are subject to the approval of the Board and the corporate management. Long-term plans are equivalent to the Group Strategy and covers a period of five years. Approved budgets and long-term plans are adjusted for cash flows related to investments, restructuring, future product improvements

and new development, where this is considered significant for the impairment test.

The impairment of goodwill in 2016 is TNOK 22,260 and is related to the divestment of Prometheus Security Group Inc. There was no impairment of goodwill in 2015. See note 30 Discontinued operations for further information.

### Key assumptions used in value calculations

The calculation of value in use are most sensitive to the following assumptions:

- Cash flow projections;
- Discount rate;
- Market share during the budget period; and
- Growth rate

• **Cash flow projection** – The projections are based on budgets and on forecasting values that is the outcome of the Group's managerial strategic process. The forecasting values are increased over the budget period for anticipated economics efficiency improvements.

• **Discount rates** – The discount rates are based on a weighted average cost of capital (WACC) method, whereby the cost of equity and the cost of liabilities are weighted according to the estimated capital structure. The discount rates reflect the market's required rates of return at the time of the test. When determining the discount rates the cost of equity consists of risk-free interest as well as an individual risk premium. The risk premium is the entity's systematic risk (beta), multiplied by the market's risk premium. The risk-free interest is estimated on a 10-year Norwegian government covered bond interest rate (OMF) and is based on all cash flows being translated to NOK. The cost of liabilities represents an expected long-term after-tax interest rate for comparable liabilities and consists of risk-free interest and an interest spread. A 10.1 % discount rate is applied in the calculations (2015: 10.2 %)

• **Market share assumptions** – The management uses both industry data for growth rates (as noted below) and assesses how Q-Free's position relative to its competitors might change over the budget period. The management overall expects that the Group's market share will be maintained, although there might be increases or setbacks in certain areas.

• **Growth rate estimates** – Growth rates in the explicit prognosis period are predicated on management's expectations of market trends. A 7.6 % growth rate is applied in the calculations (2015: 11.0 %) that is a prudent estimate compared to the industry's annual compounded growth rate of 15–25 % for the next five years. The growth rate after the five year prognosis period applied in the calculations is 2.0 % (2015: 2.0 %).

### Sensitivity to changes in assumptions

There will always be uncertainty attached to the estimate of value in use. With relatively large changes in the above described key assumptions, the entity could face an impairment situation, although such changes are considered to be outside the probability corridor.

The figures below are based on change in one parameter isolated for the period 2017–2021, and all other parameters unchanged. The column break-even rate indicates the lowest or highest rate that can be used without need for impairment.

Key assumptions	According to impairment test	Break-even rate
Discount rate	10.1 %	11.2 %
Growth rate in the explicit prognosis period	7.6 %	-0.4 %
Growth rate after the five year prognosis period	2.0 %	0.4 %

## Note 12 | Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent

company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potential ordinary shares into ordinary shares.



Figures in TNOK

	2016	2015
Profit for the year from continuing operations	-53 419 193	-188 090 835
Profit for the year on discontinued operations, net of tax	-30 213 360	-6 607 030
<b>Profit for the year</b>	<b>-83 632 553</b>	<b>-194 697 865</b>
Weighted average number of ordinary shares	75 351 168	69 781 209
Weighted average of share options	261 983	373 973
Weighted average number of diluted shares	75 613 151	70 155 182
Earnings in NOK per share from continuing operations	-0,71	-2,70
Diluted earnings in NOK per share from continuing operations	-0,71	-2,70
Earnings in NOK per share from discontinued operations	-0,40	-0,09
Diluted earnings in NOK per share from discontinued operations	-0,40	-0,09
Earnings in NOK per share profit for the year	-1,11	-2,79
Diluted earnings in NOK per share profit for the year	-1,11	-2,79

There have been no transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

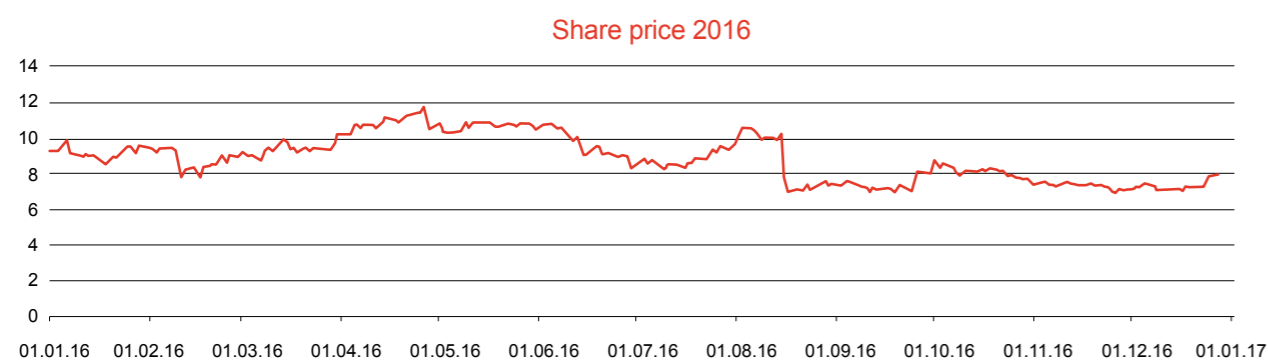
For a specification of the change of number of shares during 2016 and 2015, see note 13.

## Note 13 | Issued capital and reserves

The company has one class of shares and there are no voting restrictions. Per 31.12.16 the number of shares were 89,223,446. Par value per share is NOK 0.38. Total share capital per 31.12.2016

was NOK 33,904,910. The company had 1.909 shareholders as at 31.12.16. As at 31.12.16 the share price listed at OSE was NOK 7.88 per share, equalling a market value of MNOK 703.

	Ordinary shares	
	2016	2015
Shares issued per 01.01	70 070 552	68 798 142
Share issue	19 152 894	1 272 410
<b>Total shares issued per. 31.12.</b>	<b>89 223 446</b>	<b>70 070 552</b>



The company's largest share holders as at 31 December 2016:	Number of shares	Percentage ownership	Voting rights
KAPSCH TRAFFICOM AG	9 900 000	11.10 %	11.10 %
STOREBRAND VEKST VERDIPAPIRFOND	5 171 975	5.80 %	5.80 %
AS ATLANTIS VEST	4 700 000	5.27 %	5.27 %
KLP AKSJENORGE	4 203 709	4.71 %	4.71 %
KOMMUNAL LANDSPENSJONSKASSE	4 049 851	4.54 %	4.54 %
VERDIPAPIRFONDET DNB NORGE (IV)	3 960 543	4.44 %	4.44 %
KAPSCH TRAFFICOM AG	3 850 458	4.32 %	4.32 %
MARK PHILLIPS	3 062 153	3.43 %	3.43 %
FORTE TRØNDER	2 210 765	2.48 %	2.48 %
STATOIL PENSJON	2 100 338	2.35 %	2.35 %
EIKA NORGE	1 646 106	1.84 %	1.84 %
LARS ODDGEIR ANDRESEN	1 633 600	1.83 %	1.83 %
REDBACK AS	1 627 000	1.82 %	1.82 %
ULSMO FINANS AS	1 577 867	1.77 %	1.77 %
VERDIPAPIRFONDET DNB SMB	1 484 881	1.66 %	1.66 %
VERDIPAPIRFONDET STOREBRAND OPTIMA	1 478 301	1.66 %	1.66 %
AUGUST HOLDING AS	1 249 000	1.40 %	1.40 %
MONS HOLDING AS	1 247 434	1.40 %	1.40 %
JPMORGAN CHASE BANK, N.A., LONDON (NOM)	1 216 089	1.36 %	1.36 %
CIPI LAMP UCITS SWEDBANK SMB	1 094 343	1.23 %	1.23 %
Other share holders	31 759 033	35.59 %	35.59 %
<b>Total</b>	<b>89 223 446</b>	<b>100.00 %</b>	<b>100.00 %</b>

Shareholders by size of holding as at 31 December 2016	Number of owners	Number of shares	Holding percentage
Number of shares			
1 – 1 000	752	396 214	0.44 %
1 001 – 10 000	803	3 350 800	3.76 %
10 001 – 100 000	274	9 533 727	10.69 %
100 001 – 200 000	29	4 083 946	4.58 %
200 001 – 500 000	19	6 312 514	7.07 %
500 001 – 1 000 000	12	8 081 832	9.06 %
1 000 001 – 2 000 000	10	14 254 621	15.98 %
2 000 001 – 5 000 000	8	28 137 817	31.54 %
5 000 001 – 15 000 000	2	15 071 975	16.89 %
<b>TOTAL</b>	<b>1 909</b>	<b>89 223 446</b>	<b>100.00 %</b>

Number of shares held by the senior management, CEO, and the Board of directors directly or indirectly:

Name	Position	Shares
Charlotte Brogren Karlberg	Chairmann of the Board	20 000
Tore Valderhaug	Vice Chairman of the Board	25 000
Snorre Kjesbu	Board member	25 000
Roar Østbø	CFO	138 000
Morten Andersson	SVP ELA, Acting SVP NA	17 700
Per Fredrik Ecker	SVP APMEA	33 500
Pål Rune Johansen	SVP Nordic	10 000
<b>Total</b>		<b>269 200</b>

The General assembly approved in May 2016 a five-year stock option program for the CEO to increase the share capital by subscription of new shares in connection with an incentive programme. A four-year synthetic based incentive program for key executives was approved by the General assembly in May 2015. For further information – see note 17.

## Note 14 | Inventory and costs of goods sold

### Inventory

Parent company		Inventory specification:	Group	
2015	2016		2016	2015
16 209	10 240	Raw material and semi manufactured products	54 704	34 526
8 876	5 250	Stock for sub supplier	5 250	8 876
0	3 466	Stock for maintenance contracts	3 466	0
0	0	Work in progress	3 070	0
7 294	6 819	Finished goods	13 894	48 833
-10 857	-9 070	Obsolescence*	-14 059	-10 857
<b>21 522</b>	<b>16 706</b>	<b>Total</b>	<b>66 327</b>	<b>81 378</b>

All inventories are valued at the lower of cost and net realisable value. Inventory write-downs recognised as an expense for the Parent company is TNOK 519 in 2016 (2015: TNOK 10,076) and for the group TNOK 16,982 in 2016 (2015: NOK 10,076), which is recognised in cost of goods sold.

### Costs of goods sold

Parent company		COGS specification:	Group	
2015	2016		2016	2015
137 486	144 886	Purchase of goods	273 409	198 368
87	151	Freight, customs etc.	759	87
0	0	External services handling of COGS	0	0
742	519	Change of inventories*	22 313	33 897
0	0	Adjusted for discontinued operations**	0	-10 737
<b>138 315</b>	<b>145 556</b>	<b>Total</b>	<b>296 481</b>	<b>221 615</b>

\* The effect of the inventory write downs in TDC Systems Ltd. in 2016 is caused by an inventory adjustment of TNOK 4,001 and a work in progress adjustment of TNOK 8,377, while the effect of the write downs related to the impairment of TOLLING technology is TNOK 8,263 in 2015.

\*\* See note 30 Discontinued operations for further information.

## Note 15 | Salaries and personnel related expenses

Parent company		Personnel expenses:	Group	
2015	2016		2016	2015
103 983	91 957	Salaries	267 578	253 203
0	17 444	Compensation for conversion to defined contribution plan	17 444	0
15 184	15 814	Social security costs	33 608	30 834
7 992	-10 132	Pension costs	-4 451	11 439
676	0	Skattefunn (governmental tax relief)	0	676
-19 172	-17 150	Capitalised personnel costs	-21 778	-22 226
14 702	17 358	Other personnel related costs*	15 840	30 493
0	0	Adjusted for discontinued operations**	0	-8 063
<b>123 365</b>	<b>115 291</b>	<b>Total</b>	<b>308 241</b>	<b>296 356</b>
115	114	Average number of employees**	426	398
114	114	Average number of man-years**	420	392

\* The effect of the restructuring cost related to a cost savings program in 2016 is TNOK 13,823, while the effect of the restructuring cost related to the Q-Free ITS transformation programme in 2015 is TNOK 16,459.

\*\* See note 30 Discontinued operations for further information.

### Compensation for conversion to defined contribution plan

Q-Free ASA terminated the defined benefit plan for 27 employees per 31.12.2016, and all employees in Norway are now included in the defined contribution plan. The transition to defined contribution plan may lead to a reduction in retirement pensions for employees compared to the defined benefit plan. The 27 employees involved in this process are given a wage compensation for lost pension benefits, and the provision for future payments as compensation for lost pension benefits in 2016 is TNOK 17,444.

Basis and assumptions for calculation of compensation for conversion to defined contribution plan:

- **Estimated compensation amount** – The estimated compensation amount is based on calculations from actuary using actuarial valuations.

- **Discount rate** – The discount rate is based on a risk free rate stipulated as a normalised yield on 10-year Norwegian government bonds. A 3.5 % discount rate is applied in the calculation.

- **Annual growth in salaries** – The annual growth in salaries is based on the assumptions at the reporting date according to the recommendation of the Norwegian Accounting Standards Board. A 2.5 % annual growth in salaries is applied in the calculation.

- **Mortality rate** – The mortality rate is based on official statistics in Norway per age and net present value is adjusted for the mortality rate per employee.

- **Turnover** – The expected turnover is based on historical turnover within the company.

- **Possibility of changes** – The estimated compensation amount will be reduced if the defined contribution plan changes. In addition there will always be a risk that the Board decides that the compensation could come to an end.

### Main principles for stipulation of salary and other remuneration to leading employees

Q-Free is a leading international Company within its area of business. To maintain and to strengthen its market position, and to reach the objectives the Board has set for the Company, Q-Free is dependent on recruiting and keeping highly competent employees, leaders included. The Company must therefore grant competitive wages to its leading employees. The Board therefore states that the fixed monthly salary for the respective leaders shall represent competitive wages, and that this shall reflect the respective leaders' personal responsibilities and competence.

In addition to the fixed monthly salary, there should be an option to grant a bonus that will depend on the results of the company and on performance of the individual employee. The Board has therefore established a bonus plan for the Company's employees, leaders included. For the CEO such bonus shall be maximum 50 % of the fixed yearly salary, and for the other members of the management team, such bonus shall be maximum 40% of the fixed yearly salary. The bonus shall in general terms be linked to Q-Free's fulfillment of further defined objectives for the period, result targets and/or other established objectives for the Company. These objectives shall each year be established by the Company's Board, and may be linked to financial results, results within research and development, quality objectives and/or further established individual result targets or objectives for the individual leader.

In addition to the fixed monthly salary, bonus according to achieved results and adopted option plans, the agreement with the individual leader can include that he or she may receive minor payment in kind. In individual cases it can also be agreed that the leader concerned shall have a Company car at disposal or receive a fixed car allowance according to the prevailing regulations.

Q-Free has established a collective pension plan for its employees that also include the leading employees. Q-Free has established a group life insurance for the management team.

The Board furthermore specifies that there shall be a mutual period of notice of up to six (6) months for agreements made with leading employees. The severance pay for the CEO shall not exceed twelve (12) months pay, calculated from the CEO's resignation day. In case of mergers/acquisition, resulting in substantial changes in the managerial position, severance pay shall not exceed twelve (12) months, calculated from the CEO's resignation day. In individual cases other arrangements with regards to resignation can be agreed, hereunder agreements of payment after the termination of employment of the leader in question. The Board may depart from the principles above in individual cases.

After a defined period of employment the Board can grant right to education with pay for the leading employees based on an individual assessment of the value such education will have for the Company.

The principles for remuneration have been changed during the last year.

No loans or guarantees have been provided to the Chief Executive Officer, Board members, shareholders, or close associates of these individuals.

Payments to senior management  
and Board of directors 2016:

	2016						
TNOK	Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost	TOTAL
<b>Charlotte Brogren Karlberg</b> , Chairman of the Board 1)			637,1				637,1
<b>Tore Valderhaug</b> , Vice Chairman of the Board 2)			243,5				243,5
<b>Regnhild Wahl</b> , Board member			351,0				351,0
<b>Snorre Kjesbu</b> , Board member 3)			175,5				175,5
<b>Jan Pihl Grimnes</b> , Former Board member 4)			192,5				192,5
<b>Anders Endre Nybø</b> , Former Board member 5)			235,0				235,0
<b>Jeanett Bergan</b> , Chairman of the Nomination committee 6)			60,0				60,0
<b>Thomas Alexander Vogt</b> , Nomination committee			50,0				50,0
<b>Loretzen Andreas Berdal</b> , Nomination committee			20,0				20,0
<b>Cecilie Johnsen</b> , Former Chairman of the Nomination committee 7)			70,0				70,0
<b>Sissel Nina Lillevik Larsen</b> , Employee elected Board member 8)			73,3				73,3
<b>Rune Jøraandstad</b> , Employee elected Board member 9)			40,0				40,0
<b>Anders Hagen</b> , Former Employee elected Board member 10)			101,3				101,3
<b>Håkon Rypem Volldal</b> , Chief Executive Officer 11)	1 334,1			30,3	6,0		1 370,4
<b>Roar Østbø</b> , Former acting Chief Executive Officer and Chief Financial Officer 12)	2 868,4	600,0		81,0	197,2		3 746,6
<b>Per Fredrik Ecker</b> , Senior Vice President Region APMEA	2 639,0			194,5	15,0		2 848,5
<b>Morten Andersson</b> , Senior Vice President ELA, acting Senior Vice President NA	2 116,3			86,0	15,2		2 217,5
<b>Pål Rune Johansen</b> , Senior Vice President Region NORDIC	1 399,7			73,1	15,0		1 487,8
<b>Jos Nijhuis</b> , General Manager Q-Free Netherlands 13)	1 815,4			45,0	132,9		1 993,4
<b>Alan Allegretto</b> , Former VP North America 14)	1 962,5			31,5	100,6		2 094,6
<b>TOTAL</b>	<b>14 135,4</b>	<b>600,0</b>	<b>2 249,2</b>	<b>541,4</b>	<b>482,0</b>	<b>0,0</b>	<b>18 008,0</b>

- 1) Charlotte Brogren Karlberg served as member of the Board until 11.02.2016. Brogren Karlberg serves as Chairman of the Board from 11.02.2016.
- 2) Tore Valderhaug serves as member of the Board from 11.02.2016. Valderhaug serves as Vice Chairman of the Board from 26.05.2016.
- 3) Snorre Kjesbu serves as Board member from 11.02.2016
- 4) Jan Pihl Grimnes served as Board member until 11.02.2016.
- 5) Anders Endre Nybø served as Board member until 11.02.2016.
- 6) Jeanett Bergan, served as member of the Nomination Committee until 11.02.2016. Bergan serves as Chairman of the Nomination Committee from 11.02.2016
- 7) Cecilie Johnsen served as Chairman of the Nomination Committee until 15.01.2016.
- 8) Sissel Lillevik Larsen serves as Employee elected Board member from 01.01.2016.
- 9) Rune Jøraandstad serves as Employee elected Board member from 26.05.2016.
- 10) Anders Hagen served as Employee elected Board member until 26.05.2016.
- 11) Håkon Rypem Volldal serves as CEO from 01.08.2016
- 12) Roar Østbø served as acting CEO and CFO until 31.07.2016. Østbø serves as CFO from 01.08.2016
- 13) Jos Nijhuis served as Chief Technical Officer and part of the management team until 01.11.2016.
- 14) Alan Allegretto served as VP North America until 29.06.2016 and will receive severance pay until 14.03.2017.

Payments to senior management  
and Board of directors 2015:

	2015						
TNOK	Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost	TOTAL
<b>Terje Christoffersen</b> , Former Chairman of the Board 1)			268,0				268,0
<b>Jan Pihl Grimnes</b> , Former Board member 2)			145,5				145,5
<b>Charlotte Brogren Karlberg</b> , Chairman of the Board 3)			112,5				112,5
<b>Anders Endre Nybø</b> 4)			0,0				0,0
<b>Selma Kveim</b> , Former Board member 5)			167,5				167,5
<b>Cecilie Johnsen</b> , Former Chairman of the Nomination committee 6)			60,0				60,0
<b>Petter Qvam</b> , Former member of Nomination committee 5)			30,0				30,0
<b>Thomas Alexander Vogt</b> , Nomination committee			20,0				20,0
<b>Monika Lie Larsen</b> , Former Employee elected Board member 7)			37,5				37,5
<b>Anders Hagen</b> , Employee elected Board member			50,3				50,3
<b>Roar Østbø</b> , Acting Chief Executive Officer and Chief Financial Officer 8)	2 332,6	524,1		78,8	145,2	0,0	3 080,6
<b>Thomas Falck</b> , Former Chief Executive Officer 9), 13)	3 454,6	300,0		76,0	15,2	0,0	3 845,8
<b>Marianne Sandal</b> , Former Vice President RUC 10), 13)	1 907,6	284,7		207,1	15,2	0,0	2 414,6
<b>Per Fredrik Ecker</b> , Vice President Region APMEA	2 531,2	150,6		184,9	15,2	0,0	2 881,9
<b>Stein-Tore Nybodahl</b> , Global Director Human Resources	1 058,3	241,1		180,0	15,2	0,0	1 494,6
<b>Morten Andersson</b> , Chief Officer Operations	1 673,2	404,5		77,3	15,2	0,0	2 170,3
<b>Jos Nijhuis</b> , Chief Technical Officer	1 727,8	137,7		44,1	129,3	0,0	2 038,9
<b>Pål Rune Johansen</b> , Vice President Region NORDIC	1 238,2	146,8		74,4	15,2	0,0	1 474,6
<b>Fredro Bento</b> , Former Vice President ELA 11), 13)	1 464,5	298,3		0,0	7,6	0,0	1 770,4
<b>Frank Kjelsli</b> , Team leader back office	1 046,3	176,7		71,7	15,2	0,0	1 309,9
<b>Henrik Stoltenberg</b> , Former Chief Strategy Officer 12), 13)	2 222,5	405,8		108,2	13,4	0,0	2 749,9
<b>TOTAL</b>	<b>20 656,8</b>	<b>3 070,2</b>	<b>891,3</b>	<b>1 102,5</b>	<b>402,0</b>	<b>0,0</b>	<b>26 122,7</b>

- 1) Terje Christoffersen served at Chairman of the Board until 04.11.2015.
- 2) Jan Pihl Grimnes served as Board member until 11.02.2016.
- 3) Charlotte Brogren Karlberg served as member of the Board until 11.02.2016. Brogren Karlberg serves as Chairman of the Board from 11.02.2016.
- 4) Anders Endre Nybø served from 20.05.2015 until 11.02.2016
- 5) Selma Kveim and Petter Qvam served until 20.05.2015
- 6) Cecilie Johnsen served until 17.01.2016
- 7) Monika Lie Larsen served as Employee elected Board member until 31.12.2015
- 8) Roar Østbø served as Acting CEO and CFO from 03.11.2015
- 9) Thomas Falck served as CEO until 03.11.2015
- 10) Marianne Sandal served until 31.12.2015
- 11) Pedro Bento served until 29.02.2016
- 12) Henrik Stoltenberg served until 31.10.2015
- 13) Former management team will receive severance pay in 2016.

On the 3rd of November 2015, Thomas Falck stepped down as CEO.  
The Board appointed CFO Roar Østbø as interim CEO with immediate effect.

## Note 16 | Pension scheme

Q-Free ASA (the parent company) had a defined benefit and has a defined contribution pension plan for the employees. All employees in Norway are included in pension plans which entitle them to certain benefits for pension in the future. The pension benefits mainly depend on the numbers of years employed, level of salaries at age of retirement, and size of payments. Q-Free ASA terminated the defined benefit plan per 31.12.2016, and all employees in Norway are now included in the defined contribution plan. The 27 employees involved in this process are given a wage compensation, see note 15 for further information. As at 31.12.2016, 113 employees (2015: 81) are included in the

defined contribution pension plan and 0 employees (2015: 34) are included in the defined benefit plan for the parent company.

For the Group, 331 employees are included in the defined contribution pension plan and 0 employees are included in the defined benefit plan at 31.12.2016.

The liability for the Group includes 0 employees in 2016, compared to 34 employees for 2015. The liability for the parent company includes 0 employees in 2016, compared to 34 employees for 2015.

Parent company		Group	
2015	2016	2016	2015
Pension expenses			
3 563	3 064	3 064	3 563
369	444	444	369
339	602	602	339
602	580	580	602
0	-17 645	-17 645	0
4 873	-12 955	-12 955	4 873
3 748	3 511	5 899	7 195
<b>8 621</b>	<b>-9 444</b>	<b>-7 056</b>	<b>12 068</b>
Pension funds / (liabilities)			
-47 164	0	0	-47 164
30 709	0	0	30 709
-16 455	0	0	-16 455
-2 320	0	0	-2 320
<b>-18 775</b>	<b>0</b>	<b>0</b>	<b>-18 775</b>
14,9	0,0	0,0	14,9

## Specification of pension funds & liabilities

Parent company		Group	
2015	2016	2016	2015
Pension liabilities			
48 763	47 164	47 164	48 763
3 563	3 064	3 064	3 563
-367	-367	-367	-367
1 121	1 273	1 273	1 121
-5 916	-653	-653	-5 916
0	-50 481	-50 481	0
<b>47 164</b>	<b>0</b>	<b>0</b>	<b>47 164</b>

Parent company		Group	
2015	2016	2016	2015
Pension funds			
32 730	30 710	30 710	32 730
4 119	4 281	4 506	4 119
-367	-367	-367	-367
753	829	829	753
-6 525	-436	-436	-6 525
0	-35 017	-35 242	0
<b>30 710</b>	<b>0</b>	<b>0</b>	<b>30 710</b>

The Group expects to contribute approximately TNOK 10,600 to its pension plans for 2017 (2016: TNOK 11,400).

### Basis and assumptions for calculations:

	2016	2015
Discount rate	2.60 %	2.70 %
Expected interest on pension funds	2.60 %	2.70 %
Annual growth in salaries	2.50 %	2.50 %
Long term inflation	1.50 %	1.50 %
Increase in national insurance base rate (G)	2.25 %	2.25 %
Expected change in pensions	0.00 %	0.00 %
Social security expenses	14.10 %	14.10 %

The company has assessed that the OMF-rate on high quality corporate bonds can be used as discount rate both in 2016 and 2015 in accordance with IAS 19, because the OMF-market represents a deep market on the relevant terms.

Table K2013BE is used for definition of mortality rate probability for 2016 and 2015.

Expected voluntarily early retirement:		
Before 40 years	2 %	2 %
After 40 years	0 %	0 %

The Group's pension funds are managed by the insurance company DNB Forsikring. For 2015 the dividend yield was 2.4 percent. The funds are distributed as follows:

	2016	2015
Shares	0 %	10 %
Money market funds and bonds	0 %	70 %
Property	0 %	14 %
Other	0 %	6 %
<b>Total</b>	<b>0 %</b>	<b>100 %</b>

### Sensitivity analysis for pension calculation

The sensitivity analysis for pension calculation has not been performed in 2016 since the defined benefit pension plan is terminated as at 31.12.2016.

The sensitivity analyses is based on facts and circumstances as at 31.12.2015, assuming that all other parameters are constant. In practice, this is unlikely to be the case, and changes in some of the assumptions may co-vary. Actual results may deviate from these estimates.

	Discount rate		Annual salary growth		Annual adjustment of pensions		Estimated longevity	
	+ 1 %	- 1 %	+ 1 %	- 1 %	+ 1 %	+ 1 year	- 1 year	
Change in pension liability	-9 237	12 253	7 885	-8 134	5 532	1 744	-1 520	
Change in net pension cost for the period	-640	860	540	-577	351	112	-25	

## Note 17 | Incentive programs for executive management

### Synthetic based option programme – established May 2015

The General meeting in May 2015 approved and granted the Board a right to enter into agreements for synthetic options with leading employees and key personnel to complete incentive program with a maximal duration of four years. The maximal number of synthetic options issued by the Board through this program shall be 2,2 million synthetic options.

Key employees participating in the synthetic-based employee incentive scheme was allocated a respective amount of options, divided into three periods of maturity. For the synthetic program, three vesting and exercise periods applies. Tranche one is vested upon and exercisable within 30 days after the reporting of Q4/2016. Corresponding vesting and exercise periods for tranche two and three is upon and after the reporting of Q4/2017 and Q4/2018, respectively.

The strike price for the options is the volume-weighted average market price for the Q-Free share in the month prior to the allocation. The strike price per share is NOK 13.07 for the whole programme. The employee's right to exercise the options shall, unless the Board in the specific instance decides otherwise, be divided into three tranches. Each tranche has its own maturity date. The employee may exercise the options within a 30-day time

window in each such period, where the payment to the employee shall be the positive difference between the Strike price and the volume weighted average market price for the Q-Free ASA share in the relevant 30-day time window. Each synthetic option not exercised during tranche one and two may be allocated towards tranche two and three, respectively.

The CFO has regulations in the agreement for immediate vesting of the synthetic options if a take-over situation takes place for more than 50% of the QFR shares.

The Board can limit the sum of payment to two (2) times the fixed yearly salary at the time when this limit (maximum payout) is met.

The Board shall, as a principal rule, stipulate that 25 % of the payment shall be used to purchase shares in Q-Free ASA, unless the Board in the specific instance finds that there are grounds to derogate from the principal rule.

The Board stipulates the full terms and conditions of the incentive program, including the terms and conditions for the specific leading employees and key personnel.

The Board has entered into the following agreements with executive employees:

Specification of syntetic share option activity:	2016	2015
Granted synthetic options 01.01	600 000	0
Syntetic share options granted	0	1 355 000
Syntetic share options exercised	0	0
Syntetic share options expired/terminated	0	-755 000
<b>Granted syntetic share options 31.12</b>	<b>600 000</b>	<b>600 000</b>
<b>Vested syntetic share options 31.12</b>	<b>0</b>	<b>0</b>

The syntetic share options split for management 2016 and 2015:

Name	Position	Number of options	Strike price	Agreement in force	Expires
Roar Østbø*	CFO	150 000	NOK 13.07	01.07.2015	30 days after Q4-2018
Morten Andersson*	SVP Region ELA & acting SVP NA	100 000	NOK 13.07	01.07.2015	30 days after Q4-2018
Jos Nijhuis*	GM Q-Free Netherlands	60 000	NOK 13.07	01.07.2015	30 days after Q4-2018
Pål-Rune Johansen*	SVP Region NORDIC	70 000	NOK 13.07	01.07.2015	30 days after Q4-2018
Per Fredrik Ecker*	SVP Region APMEA	70 000	NOK 13.07	01.07.2015	30 days after Q4-2018
Thomas Falck**	Former CEO	525 000	NOK 10.38	01.07.2015	03.11.2015
Marianne Sandal**	Former VP RUC	100 000	NOK 13.07	01.07.2015	15.12.2015
Henrik Stoltenberg**	Former CSO	60 000	NOK 13.07	01.07.2015	01.11.2015
Pedro Bento**	Former VP ELA	70 000	NOK 13.07	01.07.2015	21.12.2015
Frank Kjelsli**	Team leader back office	70 000	NOK 13.07	01.07.2015	30 days after Q4-2018
Stein-Tore Nybrodahl**	Global Director HR	40 000	NOK 13.07	01.07.2015	30 days after Q4-2018

\*) Management 2015 and 2016

\*\*\*) Management 2015

### 2016

The fair value of the liability of the syntetic share options was measured as at the reporting date 31.12.16 and there was no cost recognition. The shareprice was NOK 7.88 as at 31.12.16 and with a strike price on 13.07 management has assessed the potential for exercise to be insignificant.

### 2015

The fair value of the liability of the syntetic share options was measured as at the reporting date 31.12.15 and there was no cost recognition. The shareprice was NOK 9,75 as at 31.12.15 and with a strike price on 13.07 management has assessed the potential for exercise to be insignificant.

### Share based option programme for the CEO – established May 2016

The Company has implemented a five-year option program for the CEO that is distributed upon three tranches (which are vested over three years), and with a maximum number of share options of 630,828, where each tranche may be exercised two years after it has been vested. Each option gives the right to acquire one share in Q-Free at given strike price. Tranche one of 273,973 options is exercisable in the period from 1 August 2019 to 1 August 2022. Tranche two of 195,695 options is exercisable in the period from 1 August 2020 to 1 August 2022. Tranche three of 161,160 options is exercisable in the period from 1 August 2021 to 1 August 2022. The strike price for each tranche shall be based upon the closing price for shares in Q-Free ASA on April 20, 2016 for the first tranche (that is, NOK 10.95 per share), and a mark-up equivalent to 40 % (that is, NOK 15.33 per share) for the second tranche and 70 %

(that is, NOK 18.62 per share) for the third tranche. For each tranche, if Q-Free's share price exceeds NOK 40 at the time of exercise, the strike price is adjusted upwards equal to the difference between the price of one Q-Free share at the time of exercise and NOK 40 per exercised option. If a shareholder, company, business or a group (as per definition in the Norwegian Securities Trading Act § 2-5) acquires control of more than two thirds of the stocks and/or votes in the Company, and the Company is consequently delisted from Oslo Børs, each and all of outstanding options mature. This entails that the CEO can exercise each and all of his options in a period of 30 days from the date final decision of delisting is made. If the options are not exercised within this period, the options expire without any form of compensation.

#### Specification of share option activity:

	2016	2015
Granted share options 01.01	0	0
Share options granted	630 828	0
Share options exercised	0	0
Share options expired/terminated	0	0
<b>Granted share options 31.12</b>	<b>630 828</b>	<b>0</b>
<b>Vested share options 31.12</b>	<b>0</b>	<b>0</b>

### Share based option programme – Expired May 2015

Q-Free ASA in May 2012 established a three year share option program. As part of the work of giving key personnel and management an incentive program through the possibility to subscribe shares in the company, the Board of Directors was authorised to increase the share capital with as much as NOK 769,500, corresponding to 2,025,000 shares (approximately 3 percent), each with a par value of NOK 0.38, through one or more private placements with cash deposits towards key personnel and management in Q-Free ASA. The existing shareholders' preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5 can be disregarded. The authorisation given in 2012 was valid for one year, renewed in May 2013 for one year and renewed in May 2014 for the last year of the programme. The program expired May 2015.

premium. The strike price shall be equal to the average share price for the Q-Free ASA shares on the Oslo Stock Exchange on closing time the last 14 days prior to and the first 14 days subsequent to the ordinary General Meeting in the year prior to the vesting period.

For key personnel and management who are awarded option rights for a period of 3 years, 1/3 of the options will be allocated annually with a vesting period of 1 year, and with the strike price determined as noted above. For newly employed key personnel and management, the strike price will be determined on the day they are granted the options. The share options are paid as cash disbursement.

1,050,000 share options were granted for key personnel as at 31.12.2014, and no options under this program as at 31.12.2015. The programme expired May 2015.

Exercise of the options can be done during pre-defined time periods.

The authorisation regards the implementation of a share options program in Q-Free ASA, which runs over a period of 3 years for key personnel and management. There will not be paid any option

#### Specification of share option activity:

	2016	2015
Granted share options 01.01	1 050 000	1 150 000
Share options granted	0	350 000
Share options exercised	0	0
Share options expired/terminated	-1 050 000	-450 000
<b>Granted share options 31.12</b>	<b>0</b>	<b>1 050 000</b>
<b>Vested share options 31.12</b>	<b>0</b>	<b>700 000</b>

### Modification of grants

**Modification:** Fair value of share options is calculated according to the Black & Scholes pricing model with a reduction of 15 % due to illiquidity of the Q-Free share. Strike price for the granted options was NOK 15.02 both in 2014 and in 2015.

The company's cost of share based payment is calculated using the Black & Scholes pricing model. For 2015 this is nil as it also was in 2014. Costs will be specified in the Statement of changes in Equity.

Granted share options as at May 2015 had the following conditions:

Exercise price	Outstanding Options			Vested options	
	Outstanding Options per 31.12.2015	Weighted average remaining Contractual Life	Weighted Average Exercise Price	Vested options 31.12.2015	Weighted Average Exercise Price
0,00 - 5,00					
5,00 - 10,00					
10,00 - 15,00					
15,00 - 20,00	700 000	0,36	15,11	350 000	15,19
20,00 -	350 000	0,36	21,09	350 000	21,09
<b>TOTAL</b>	<b>1 050 000</b>	<b>0,36</b>	<b>17,10</b>	<b>700 000</b>	<b>18,14</b>

The share options split for management per May 2015:

Name	Position	Granted, not vested options 01.01.2015	Granted options	Exercised options	Expired options	Vested options May 2015	Granted, not vested options May 2015
Thomas Falck*	CEO*	0	0	0	0	0	0
Marianne Sandal	VP RUC	150 000	0	0	-150 000	0	0
Per Fredrik Ecker	VP APMEA	150 000	0	0	-150 000	0	0
Stein-Tore Nybrodahl	HR Manager	150 000	0	0	-150 000	0	0
Roar Østbø	CFO	150 000	0	0	-150 000	0	0
Henrik Stoltenberg	CSO	150 000	0	0	-150 000	0	0
Jos A. G Nijuis	CTO	150 000	0	0	-150 000	0	0
Morten Andersson	VP ATMS	150 000	0	0	-150 000	0	0
<b>Total</b>		<b>1 050 000</b>	<b>0</b>	<b>0</b>	<b>-1 050 000</b>	<b>0</b>	<b>0</b>

\* Thomas Falck had from 1 January 2015 regulations regarding 525,000 syntetic options. The strike price was volumeweighted average price of the Q-Free share in December 2014. See further below.

### The following assumptions are used in the calculation of share options granted in 2015

#### Exercise price for the share option

Weighted average exercise price of options granted was NOK 17.10

#### Dividends

Expected dividend per share is NOK 0 each year.

#### Volatility

Weighted average expected volatility is based on historic volatility and is calculated to be 44.00 percent.

#### Interest rate

Risk free interest rate is used in the model. This equals interest on government bills and bonds, and the weighted average rate used is 4.00 percent for 2015.

#### Lifetime of the share option

All share options are expected to be exercised at expiry date of the option. The assumption is based on exercise behaviour in previous programs.

## Note 18 | Investments in subsidiaries

The financial statements include the financial statements of Q-Free ASA and the subsidiaries listed in the following table:

	Established	Location	Country	Ownership	Voting share	Functional currency
Q-Free Portugal Lda.	1997	Lisboa	Portugal	100 %	100 %	EUR
Q-Free América Latina Ltda.	1998	Sao Paolo	Brasil	100 %	100 %	BRL
Q-Free Australia Pty. Ltd.	1999	Sydney	Australia	100 %	100 %	AUD
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur	Malaysia	100 %	100 %	MYR
Noca Holding AS	2001	Trondheim	Norway	100 %	100 %	NOK
Q-Free Sverige AB	2007	Stockholm	Sweden	100 %	100 %	SEK
Q-Free Thailand Co Ltd.	2007	Bangkok	Thailand	100 %	100 %	THB
Q-Free Netherlands BV	2002	Beilen	The Netherlands	100 %	100 %	EUR
Q-Free Africa Ltd.	2010	Durban	South Africa	74 %	74 %	ZAR
PT Q-Free	2012	Jakarta	Indonesia	100 %	100 %	IDR
Q-Free Chile	2012	Santiago	Chile	100 %	100 %	CLP
TCS International Inc.	2012	Boston	USA	100 %	100 %	USD
Q-Free America Inc.	2012	San Diego	USA	100 %	100 %	USD
ELCOM d.o.o.	1994	Belgrade	Serbia	100 %	100 %	RSD
TDC Systems Ltd	1998	Weston Super-Mare	United Kingdom	100 %	100 %	GBP
Traffic Design d.o.o.	1990	Ljubljana	Slovenia	100 %	100 %	EUR
Open Roads Consulting Inc.**	2000	Virginia	USA	100 %	100 %	USD
Prometheus Security Group Global Inc.**	2016	Texas	USA	100 %	100 %	USD
Q-Free Espana S.L.U.	2014	Madrid	Spain	100 %	100 %	EUR
Q-Free France S.A.R.L.	2014	Paris	France	100 %	100 %	EUR
Intelight Inc.*	2013	Arizona	USA	100 %	34 %	USD
Q-Free Traffiko Ltd	2015	Valetta	Malta	100 %	100 %	EUR
Q-Free LLC	2015	Moscow	Russia	100 %	100 %	RUB
Q-Free Polska sp. z.o.o.	2016	Warszawa	Polen	100 %	100 %	PLN

\* Q-Free ASA has signed a share purchase agreement and a shareholders agreement to acquire 100 percent of the shares in the US traffic controller supplier, Intelight Inc over a five year period. The shareholders agreement and the amended bylaws provide control for Q-Free after signing these agreements. Based on this, the full activity of Intelight Inc. is consolidated in the Q-Free accounts. See Note 6 for further information.

\*\* Prometheus Security Group Inc. (PSG) was demerged from Open Roads Consulting Inc. per 01.01.2016. In October 2016 the Board announced its intention to divest Q-Free's security business PSG and began this process in December 2016. The security division is not a part of Q-Free's core business going forward. The divestment was completed in February 2017, and all contracts, employees and other assets have been transferred to the new owner. See note 30 Discontinued operations for further information.

### Book value in parent company of investments in subsidiaries

	Cost	Book value 31.12.15	Book value 31.12.16	Result after tax last year	Companys equity per 31.12.16
Q-Free Portugal Lda.	204	204	204	5 139	21 423
Q-Free América Latina Ltda.	7 203	4 757	0	-3 058	-5 344
Q-Free Australia Pty. Ltd.	0	0	0	2 564	11 743
Q-Free Sdn. Bhd. Malaysia	1 155	0	0	-2 392	-17 473
Noca Holding AS	4 592	5 956	5 956	212	15 771
Q-Free Sverige AB	0	84	84	-135	1 687
Q-Free Thailand Co Ltd.	0	10 847	10 847	2 228	-7 539
Q-Free Netherlands BV	71 034	76 409	76 409	11 382	52 086
Q-Free Africa Ltd	0	0	0	-630	-1 210
PT Q-Free	0	0	0	-17 126	-66 452
Q-Free Chile	0	28	28	2 258	-11 636
Q-Free America Inc. - Group (*)	6	70 717	70 717	-49 240	26 971
ELCOM d.o.o.	9 445	10 495	0	-40	6 241
TDC Systems Ltd	105 768	105 768	105 768	-20 323	98 200
Traffic Design d.o.o.	29 149	29 149	29 149	-1 122	24 936
Q-Free Espana S.L.U.	25	25	25	-42	333
Q-Free France S.A.R.L.	41	41	41	-882	-2 109
Q-Free LLC	0	0	0	732	875
Q-Free Traffiko Ltd	10 599	10 599	17	-1 664	-2 668
Q-Free Polska sp. z.o.o.	11	0	11	0	11
<b>Total</b>	<b>239 232</b>	<b>325 079</b>	<b>299 255</b>	<b>-72 139</b>	<b>145 846</b>

(\*) Q-Free ASA owns through Q-Free America Inc. indirectly 100 % in TCS International Inc., Open Roads Consulting Inc., Prometheus Security Group Inc. and Intelight Inc.

### The following exchange rates are used when consolidating the group

Currencies:	Currency rate 01.01.2015	Average currency rate 2015	Currency rate 31.12.2015	Average currency rate 2016	Currency rate 31.12.2016
Euro	EUR	9,037	8,953	9,619	9,086
Australian Dollar	AUD	6,088	6,059	6,447	6,225
Malaysian Ringgit	MYR	2,126	2,069	2,052	1,922
Brazilian Real	BRL	2,797	2,446	2,224	2,649
US Dollar	USD	7,433	8,074	8,809	8,620
Pounds Sterling	GBP	11,571	12,342	13,072	11,373
Swedish Kroner	SEK	95,970	95,715	104,750	98,160
South African Rand	ZAR	0,643	0,633	0,565	0,574
Thai Bath	THB	22,563	23,551	24,409	23,806
Chilean Peso	CLP	0,012	0,013	0,012	0,013
Indonesian Rupiah	IDR	0,060	0,060	0,064	0,060
Serbian Dinares	RSD	0,074	0,078	0,078	0,076
Russian Rouble	RUB	12,842	13,240	11,984	12,590
Polish Zloty	PLN	2,109	2,139	2,263	2,130

## Note 19 | Related party disclosures

### Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at arm's length prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

### Related parties

The company received for 2016 invoices for consultancy services from KWC AS that totalled TNOK 267 (ex. VAT), which was paid in August 2016. Vice Chairman of the Board, Tore Valderhaug, was part of the team that delivered the consultancy services to

the Company. All transactions between related parties are based on arm's length principles and the services was according to an agreement between Q-Free ASA and the Board concerning consultancy services. Mr. Valderhaug did not participate in the Board decision of rendering the consultancy services from KWC AS.

There was no transactions between the company and any parties in the Management or in the Board during 2015.

### Associated companies

Q-Free ASA has no ownership in associated companies either in 2016 or in 2015.

## Note 20 | Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate

cash requirements of the Group, and the interest earnings at the respective short-term deposit rates. The Group has a multiple currency account agreement in Danske Bank.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

Parent company		Liquidity funds	Group	
2015	2016		2016	2015
0	15 970	Cash at banks and on hand	99 124	63 279
0	0	Money Market Funds	2 350	2 070
<b>0</b>	<b>15 970</b>	<b>Total cash and cash equivalents</b>	<b>101 474</b>	<b>65 349</b>

As at 31 December 2016, the Group had available TNOK 154,475 (2015: TNOK 187,447) of undrawn bank overdraft and TNOK 11,987 (2015: TNOK 43,199) of undrawn guarantee facilities in which all conditions precedent had been met. Discontinuing operations is not included in these undrawn facilities and guarantees either as at 31.12.15 nor as at 31.15.16.

## Note 21 | Accounts receivables and credit risk

Parent company			Group	
2015	2016		2016	2015
36 065	45 903	Accounts receivables	143 516	150 465
80 564	129 399	Accounts receivables on group companies	0	0
-3 630	-1 091	Provision for impairment on receivables	-1 091	-859
<b>112 999</b>	<b>174 211</b>	<b>Total</b>	<b>142 425</b>	<b>149 606</b>
0	0	Loss on receivables on group companies	0	0
-314	232	Changes in provisions for impairment on receivables	232	-314
<b>-314</b>	<b>232</b>	<b>Total</b>	<b>232</b>	<b>-314</b>

For terms and conditions relating to related party receivables, refer to Note 19. Trade receivables are non-interest bearing and are generally on 30-60 days terms.

As at 31 December, the ageing analysis of trade receivables is as follows:

Amounts per 31.12	Total	Neither past due nor impaired		Past due but not impaired			
		impaired	< 30 days	30 – 60 days	60 – 90 day	90 – 120 day >	>120 days
<b>2016</b>	143 516	86 078	29 806	13 097	2 798	3 913	7 824
<b>2015</b>	150 465	58 577	53 251	18 946	2 019	6 265	11 407

The Group assesses needs for provision for doubtful debt on an individual basis per customer or per project.

Specification of provisions for impairment on receivables	2016	2015
Amount per 01.01.	859	1 173
This years provision for impairment on receivables	232	-314
Loss on receivables	0	0
Provisions utilised during the year	0	0
<b>Amount per 31.12</b>	<b>1 091</b>	<b>859</b>

The maximum risk exposure is represented by the carrying amount of the financial assets, including derivatives, in the balance sheet. Since the other party involved in derivative trades is normally a bank, the credit risk linked to derivatives is regarded as being insignificant.

The Group therefore regards its maximum risk exposure as being the carrying amount of trade receivables as at 31 December 2016, which was NOK 143.5 million (2015: NOK 150.5 million).



## Note 22 | Interest-bearing loans, borrowings and guarantees

Parent company				Group			
2015	2016	Specification	Type	Effective interest rate % - 2016	Maturity	2016	2015
0	150 000	Non-current	Danske Bank		30 April 2018	150 000	0
199 563	0	Current	Danske Bank	2.85 %	30 April 2018	0	150 000
0	13 783	Current	Danske Bank - Line of credit	3.32 %	30 April 2018	13 783	0
0	0	Current	Suntrust Bank - Line of credit*	3.77 %	30 June 2017	14 385	0
0	0	Current	Citi Bank - Line of credit*	2.96 %		51 289	0
<b>199 563</b>	<b>163 783</b>	<b>Total</b>				<b>229 457</b>	<b>150 000</b>

\* Line of Credit from Suntrust Bank and Citi Bank are renewed annually.

### Secured bank loan

The secured bank loan is a mortgage loan that is repayable within 3 years and the interest rate is 3 MND NIBOR + 160 bps.

this covenant in June 2016 covering the remaining part of 2016. A subsequent waiver from this specific covenant has been received covering 2017 and replaced by revised financial covenants based on EBITDA performance and revised NIBD/EBITDA ratios.

Q-Free has a NIBD/EBITDA covenant on its long-term loan. As part of the restructuring process, Q-Free received a waiver from

Off balance sheet commitment:

Parent company		Group		
2015	2016	Specification	2016	2015
106 801	218 013	Guarantees to customers, suppliers and lease contracts	218 687	107 500
<b>Book value of assets securing loans and guarantees:</b>				
0	15 970	Bank deposits	16 645	699
115 772	174 211	Accounts receivable	174 211	115 772
0	36 598	Work in progress	36 598	0
21 522	16 706	Inventories	16 706	21 522
26 529	17 766	Machinery, fixtures and fittings, etc.	17 766	26 529
<b>163 823</b>	<b>261 251</b>	<b>Total</b>	<b>261 926</b>	<b>164 522</b>

Assets from discontinuing operations have not been included in book value of assets securing loans and guarantees either as at 31.12.15 nor as at 31.12.16.

## Note 23 | Taxes

Parent company		Group	
2015	2016	2016	2015
<b>Total tax expenses for the year</b>			
0	0	0	0
0	0	4 294	2 333
0	0	-353	2 159
26 935	0	137	27 016
0	0	-6 280	-18 908
0	0	0	3 557
<b>26 935</b>	<b>0</b>	<b>-2 202</b>	<b>16 157</b>
34 %	0 %	4 %	9 %
<b>Tax payable for the year</b>			
-78 853	-19 608	-55 621	-171 934
16 920	30 987	28 385	12 880
11 034	-41 197	-75 729	20 388
<b>-50 899</b>	<b>-29 818</b>	<b>-102 965</b>	<b>-138 666</b>
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Tax payable for Norwegian companies (25 %)</b>			
<b>Tax payable for foreign companies</b>			
<b>702</b>			
<b>2 051</b>			
<b>Specification of tax payable in the balance sheet</b>			
0	0	0	0
0	0	4 882	4 958
0	0	-4 180	-2 907
<b>0</b>	<b>0</b>	<b>702</b>	<b>2 051</b>
<b>Specification on basis for deferred tax</b>			
<b>Differences evaluated to be offset</b>			
-10 051	-12 093	-30 202	103 443
50 244	71 074	59 282	50 244
-49 640	-34 849	-37 442	-88 705
-276 351	-306 559	-513 495	-407 501
-9 256	-9 641	-9 641	-9 256
<b>-295 054</b>	<b>-292 068</b>	<b>-531 498</b>	<b>-351 775</b>
0	0	-17 420	0
0	0	15 003	12 630
<b>Reconciling the tax cost</b>			
-78 853	-19 608	-55 621	-171 934
-21 290	-4 902	-27 322	-56 884
4 568	7 747	7 519	4 055
43 657	-2 845	17 023	63 747
0	0	578	1 682
0	0	0	3 557
<b>26 935</b>	<b>0</b>	<b>-2 202</b>	<b>16 157</b>

\* Paid withholding tax in foreign subsidiaries.

\*\* See note 30 Discontinued operations for further information.

Deferred tax assets are recognised when the Group can document future taxable profits to utilise the tax asset. The deferred tax asset is recognized for the amount corresponding to the expected taxable profit based on the convincing evidences. The carrying amount of deferred tax assets is reviewed at each reporting date (quarterly) and reduced to the extent that convincing evidences no longer exists for the utilization. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that convincing evidences exists supporting that taxable profits will allow the deferred tax asset to be recovered. The actual outcome of future tax costs may deviate from these estimates.

The Group has a total loss carried forward of TNOK 513.495 as at 31 December 2016 (2015: 407.501), in which TNOK 17.420 are recognised as an asset in the balance sheet as at 31.12.2016 (2015: 0). Undertaken an assessment of the criterias under IAS 12, the group has chosen not to include deferred tax asset in Norway related to tax losses carried forward of TNOK 73.574 as at 31 December 2016 (2015: 69.088). In addition the group has chosen not to include deferred tax asset of TNOK 129.803 as at 31 December 2016 for the Group (2015: 86.229). Of this amount, TNOK 105.228 is related to tax losses carried forward, TNOK 41.401 related to acquisitions in the US and -16.827 is related to other temporary differences.

## Note 24 | Financial items

Figures in TNOK

Parent company		Category	Group	
2015	2016		2016	2015
210	958	Interest income	1 327	3 462
24 274	10 926	Realised exchange rate differences	16 327	37 429
30 561	0	Unrealised exchange rate differences	5 306	34 190
0	2 625	Exchange rate differences earn-out	2 625	0
0	0	Earn-out	14 123	0
1 918	3	Other financial income	3	1 918
<b>56 963</b>	<b>14 512</b>	<b>Financial income</b>	<b>39 711</b>	<b>76 999</b>
7 090	7 902	Financial income from group companies	0	0
28 680	8 831	Paid dividends from subsidiaries	0	0
<b>35 770</b>	<b>16 733</b>	<b>Financial income from Group companies</b>	<b>0</b>	<b>0</b>
<b>92 733</b>	<b>31 245</b>	<b>Total financial income</b>	<b>39 711</b>	<b>76 999</b>
-2 080	-2 814	Interest expenses	-5 627	-5 087
-4 069	-4 670	Interest on debt and borrowings	-5 831	-4 069
-34 455	-5 289	Realised exchange rate differences	-10 332	-53 440
-15 895	-24 601	Unrealised exchange rate differences	-12 554	-24 540
-3 555	0	Exchange rate differences earn-out	0	-3 555
8 278	-2 457	Earn-out	0	-6 935
-1 013	-1 881	Other financial expenses	-1 881	-1 013
<b>-52 789</b>	<b>-41 712</b>	<b>Financial expenses</b>	<b>-36 225</b>	<b>-98 639</b>
0	-588	Financial expenses from group companies	0	0
-3 743	-15 252	Impairment of shares in subsidiaries	0	0
<b>-3 743</b>	<b>-15 840</b>	<b>Financial expenses from Group companies</b>	<b>0</b>	<b>0</b>
<b>-56 532</b>	<b>-57 552</b>	<b>Total financial expenses</b>	<b>-36 225</b>	<b>-98 639</b>
<b>36 201</b>	<b>-26 307</b>	<b>NET FINANCIAL ITEMS</b>	<b>3 486</b>	<b>-21 640</b>

## Note 25 | Available for sale financial investments

Parent company and the Group as at 31 December 2016

Figures in TNOK

	Company's equity	Number of shares	Ownership	Book value	Book value	Included in
				in Parent*	in Group*	comprehensive income
Leiv Eiriksson AS	37 856	9 919	0.99 %	375	375	2
Other				20	20	0
<b>Total</b>				<b>395</b>	<b>395</b>	<b>2</b>

Parent company and the Group as at 31 December 2015

Figures in TNOK

	Company's equity	Number of shares	Ownership	Book value	Book value	Included in
				in Parent *	in Group *	comprehensive income
Leiv Eiriksson AS	37 673	9 919	0.99 %	373	373	-20
Asti AS	0	0	0,00 %	0	0	-3 350
Other				20	287	0
<b>Total</b>				<b>393</b>	<b>660</b>	<b>-3 370</b>

\* The book value of investments in shares is classified as financial investments available for sale. Fair value for the investments reflect our portion of the companys total equity. See note 4 for fair value table and a specification of valuation technique.

## Note 26 | Other current liabilities

Parent company		Category	Group	
2015	2016		2016	2015
10 257	13 047	Accrued wages (Holiday pay and bonus scheme)	22 926	15 735
13 587	12 431	Warranty provisions (see spesification for changes during the year)	12 831	14 263
10 968	4 154	Accrued project costs	12 547	20 894
28 192	0	Current portion contingent consideration*	0	52 016
17 278	4 974	Restructuring provision**	4 974	19 362
2 024	774	Miscellaneous	1 417	28 993
<b>82 306</b>	<b>35 379</b>	<b>Total</b>	<b>54 696</b>	<b>151 264</b>

\* Debt to seller of subsidiaries in 2015 relates to the acquisition of Intelight Inc, Traffiko Ltd, Traffic Design d.o.o., TDC Systems Ltd, and Open Roads Consulting Inc. See Note 6 regarding changes related to provisions for earn-outs.

\*\* The restructuring provision totalling TNOK 4,974 (2015: 19,362) is related to the transformation of Q-Free from a Tolling company into a fully integrated ITS-company, and consist of TNOK 4,974 (2015: TNOK 16,459) regarding personell related expences and TNOK 0 (2015: 2,903) regarding other operating expences, see Note 15 and 27 for further information.

### Warranty provisions

Provision for warranty costs is calculated depending on the remaining guarantee period for various products, and based on the historical effect of defects and a calculation of probability for the defect to occur for the remaining products under warranty. The calculation is made on an individual basis per product, and the assumptions vary for the different products and also take into

account the expected expenses associated with new warranty problems that are identified. Unused accruals for warranties are dissolved at the end of the guarantee-period. All provisions spesified in the table below are classified as current liabilities and is part of other current financial liabilities in the consolidated statement of financial position.

	Parent company		Group	
	Provision for warranty costs	Total current provisions	Provision for warranty costs	Total current provisions
Amount as of 01.01.16	13 587	13 587	14 263	14 263
Unused accruals reversed during 2016	0	0	-276	-276
Accruals utilised during 2016	-1 904	-1 904	-1 904	-1 904
Accruals deposited during 2016	748	748	748	748
<b>Amount as of 31.12.16</b>	<b>12 431</b>	<b>12 431</b>	<b>12 831</b>	<b>12 831</b>
Amount as of 01.01.15	12 657	12 657	16 561	16 561
Unused accruals reversed during 2015	0	0	-3 228	-3 228
Accruals utilised during 2015	-1 921	-1 921	-1 921	-1 921
Accruals deposited during 2015	2 851	2 851	2 851	2 851
<b>Amount as of 31.12.15</b>	<b>13 587</b>	<b>13 587</b>	<b>14 263</b>	<b>14 263</b>

## Note 27 | Other operating expenses

Parent company		Category	Group	
2015	2016		2016	2015
46 664	52 666	External services	131 478	120 867
13 406	11 506	Travel expenses	26 437	24 239
21 794	21 069	Offices supplies	42 109	40 378
3 036	4 627	Insurance	8 969	5 113
3 359	4 498	Freight	7 834	4 288
3 305	2 089	Rent machinery & tools	8 376	8 760
6 635	7 815	Marketing / promotions	15 403	11 727
120	198	Service & Maintenance	6 726	6 193
5 348	4 660	Operating materials	7 664	9 978
46 661	24 060	Loss on receivables on group companies	0	0
304	-2 846	Bad debt losses	-5 705	5 919
3 574	4 722	Other operating expenses	27 499	45 266
0	0	Adjusted for discontinued operations*	0	-23 091
<b>154 205</b>	<b>135 065</b>	<b>Total</b>	<b>276 789</b>	<b>259 639</b>

\* See note 30 Discontinued operations for further information.

## Audit fees

The group has the following audit related fees, included in the "External services" in the above table (All figures excl. VAT).

Parent company		Category	Group	
2015	2016		2016	2015
123	282	Audit services	1 242	957
278	128	Other audit related services	128	278
3	3	Tax services	63	3
166	348	Other, non audit related services	450	246
<b>569</b>	<b>760</b>	<b>Total</b>	<b>1 882</b>	<b>1 484</b>

## Note 28 | Other current assets

Parent company		Category	Group	
2015	2016		2016	2015
676	0	Accrual for Skattefunn grants	0	676
541	541	Prepaid taxes	9 930	11 273
338	382	Prepaid rents	1 576	1 380
1 716	2 002	Prepaid licenses	2 002	1 748
899	708	Other prepaid costs	8 691	1 782
108	7	Misc	9 447	11 757
<b>4 278</b>	<b>3 639</b>	<b>Total</b>	<b>31 646</b>	<b>28 616</b>

## Note 29 | Commitments and contingencies

### Operating lease commitments - Group as lessee

The Group has entered into commercial leases mainly on office rentals but also on certain motor vehicles and items of machinery. These leases have an average life of between 3 and 5 years with no

renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

Parent company		Terms	Group	
2015	2016		2016	2015
11 792	9 204	Within one year	15 431	12 953
47 877	37 368	After one year but not more than five years	38 635	48 578
11 969	9 342	More than five years	9 342	11 969
<b>71 639</b>	<b>55 914</b>	<b>Total</b>	<b>63 408</b>	<b>73 501</b>

During the year ended 31 December 2016 the company recognised expenses in the income statement in respect of operating leases of TNOK 12,020 (2015: TNOK 14,009) for the parent company and TNOK 30,093 (2015: 29,943) for the Group, all figures excluded discontinuing operations.

### Finance lease and hire purchase commitments

The Group has no finance leases or any hired purchase contracts for various items of plant and machinery.

## Note 30 | Discontinued operations

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

The divestment was closed in February 2017, and all contracts, employees and other assets have been transferred to the new owner. Consequently, PSG has been excluded from Q-Free's

consolidated accounts on continued operations with effect from fourth quarter 2016 and reported separately as "discontinued operations". Comparable figures for 2015 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.

Statement of income	Group	
	2016	2015
Revenues	45 045	36 640
Cost of goods sold	13 969	10 737
Personnel expenses	17 228	8 063
Other operating expenses	13 369	23 091
Total operating expenses	44 566	41 891
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	479	-5 251
Amortisation of intangible assets	4 024	4 913
Impairment of intangible assets	26 814	0
Earnings before interest and taxes (EBIT)	-30 359	-10 164
Financial income	146	0
Total financial items	146	0
Profit before tax	-30 213	-10 164
Taxes	0	3 557
<b>Profit / (-) loss for the year on discontinued operations, net of tax</b>	<b>-30 213</b>	<b>-6 607</b>
<b>Earnings in NOK per share from discontinued operations</b>	<b>-0,40</b>	<b>-0,09</b>
<b>Diluted earnings in NOK per share from discontinued operations</b>	<b>-0,40</b>	<b>-0,09</b>

Cash flow from discontinued operations	Group	
	2016	2015
Profit before tax	-30 213	-10 164
Amortisation and impairment of intangible assets	30 838	4 913
Working capital adjustments:		
Changes in receivables and prepayments from customers	3 387	0
Changes in inventory	1 852	0
Changes in accounts payables	-3 144	0
Changes in work in progress	7 686	0
Changes in other balance sheet items	-4 106	9 923
Net cash flow from operations	6 300	4 672
Investments in tangible and intangible assets	-5 465	-4 649
Net cash flow from investments	-5 465	-4 649
Net cash flow from financing	0	0
<b>Cash flow from discontinued operations</b>	<b>835</b>	<b>23</b>

Assets held for sale	Group 2016
Development	9 824
Goodwill	0
Machinery, fixtures and fittings	907
Inventories	1 852
Accounts receivables	4 043
Work in progress	7 686
Other receivables	78
Cash	835
<b>Assets held for sale</b>	<b>25 225</b>
Liabilities held for sale	Group 2016
Deferred tax	1 951
Debt to financial institutions	0
Accounts payable	5 814
Public duties payable	219
Other short term debt	10 454
<b>Liabilities held for sale</b>	<b>18 438</b>

## Note 31 | Contingent liability

Q-Free has an ongoing discussion with one of its customers related to the invoicing principles for Q-Free deliveries prior to 2015. Q-Free has currently not sufficient certainty with regards to the

resolution of these discussions and has therefore no basis for considering any provision in the accounts.

# Statement from the Directors and the CEO

We confirm, to the best of our knowledge, the financial statements for the Company and the Group for the period from 1 January to 31 December 2016 have been prepared in compliance with International financial reporting standards (IFRS) as adopted by EU and that the disclosures in the accounts give a true and fair view of the Company's and the Group's assets, liabilities, financial position and results of operations as a whole, and that the Directors' Report gives a fair view of the development, profit/loss and position of the Company and the Group, along with a description of the main risk and uncertainty factors facing the Company and the Group.

Trondheim 30 March 2017

Charlotte Brogren Karlberg  
Chairman of the Board

Ragnhild Wahl  
Board member

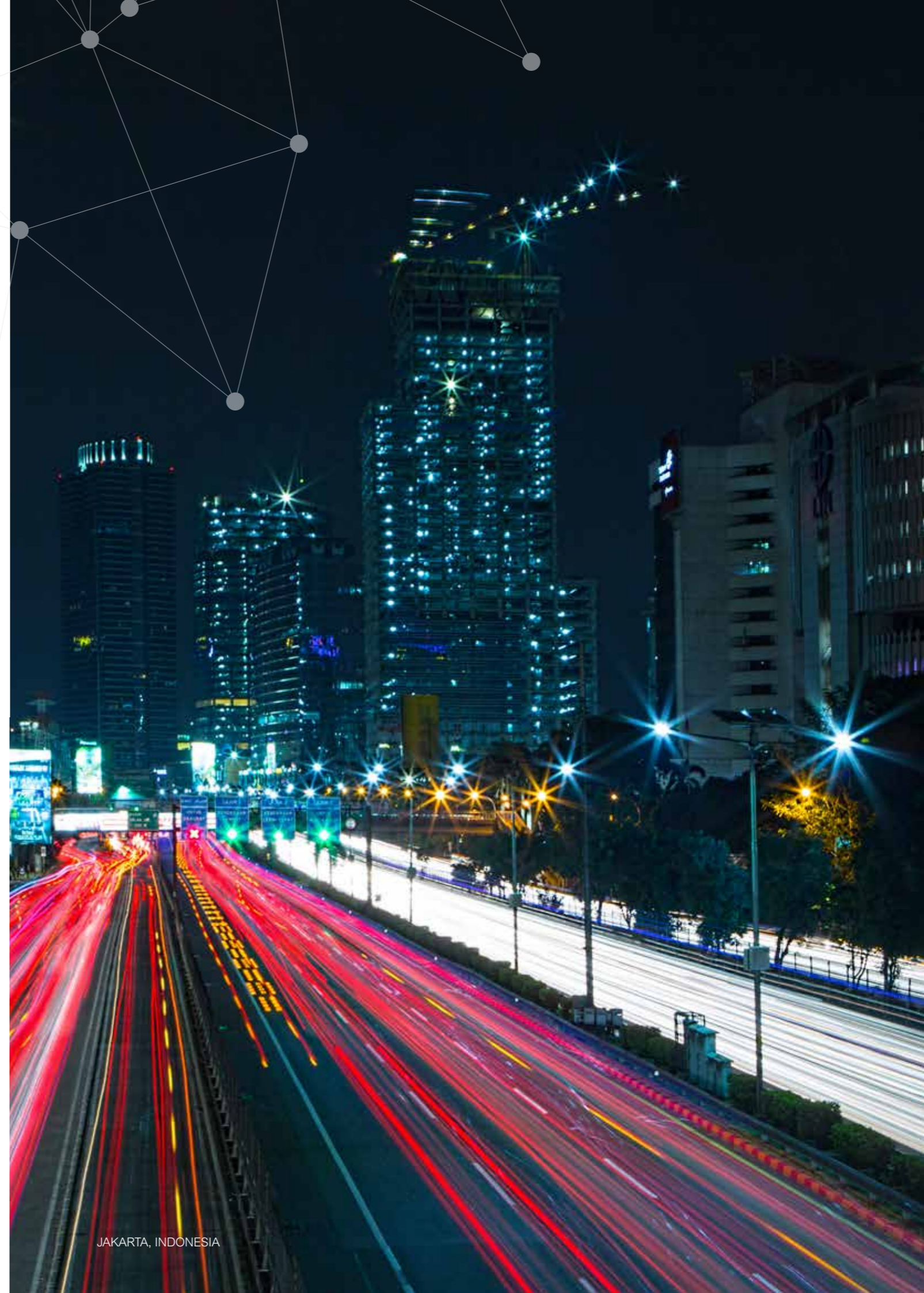
Snorre Kjesbu  
Board member

Tore Valderhaug  
Vice Chairman of the Board

Sissel Nina Lillevik Larsen  
Employee-elected Board member

Rune Jøraandstaad  
Employee-elected Board member

Håkon Rypern Volldal  
President & CEO



To the General Meeting of Q-Free ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Q-Free ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of key audit matters	How the key audit matters were addressed in the audit
<b>Recognition of revenue on long-term projects</b>	
<p>Accounting for revenues long-term projects in the group's financial reporting is dependent on percentage of completion for current projects. Contracts that form a base for the group's project revenue are frequently complex and involve a substantial element of judgements in relations to several factors like percentage of completion and transfer of risk. We refer to Note 2 for further description of the group's accounting policies.</p> <p>In addition to various measurable parameters, the estimated percentage of completion will be the basis for revenue recognition related to the group's contracts. The group's projects represent a significant part of the group's revenues, and assessing the measurement of project revenues therefore, is a significant risk in our audit.</p>	<p>Our audit procedures related to long-term projects include:</p> <ul style="list-style-type: none"> <li>• Revenue of significant project contracts and assessment of any special contract clauses effect on the transfer of risk to the buyer, etc.</li> <li>• Test of controls related to signed contracts and signed alteration contracts</li> <li>• Review of calculation of projects' capitalized costs and an assessment of estimates of remaining costs to final completion.</li> <li>• Review of the deposed and expected warranty costs related to ongoing and recently completed projects.</li> </ul>
<b>Valuation of goodwill and product development assets</b>	
<p>According to IFRS, the group is required to perform an annual impairment test of capitalized goodwill and product development assets. The purpose of the test is to verify if the goodwill and product development assets booked value, exceeds the net present value of future cash flows, i.e. fair value of goodwill and product development assets. In our audit, the annual impairment test is a focus area, as</p>	<p>As a part of our audit, we performed a thorough and detailed review of the model used by management to calculate the fair value of goodwill and product development assets, including assessment of assumptions such as WACC. We also challenged the assumptions for future cash flows provided by management. We evaluated their views on the general market developments as well as the</p>

<p>booked value of goodwill per 31 December 2016 is MNOK 316 and product development assets is MNOK 179. Accordingly, valuation of goodwill and product development assets has been identified as risks in connection with the audit of the group financial statements. We refer to note 11 to the financial statements for further description of the group's goodwill and product development valuation.</p> <p>The impairment test was performed as at 31 December 2016 by the management, resulting in no impairment as at this date.</p>	<p>interpretations and use of these views in light of the requirements to use reasonable and supportable data as set forth in IAS 36. We also evaluated the appropriateness of defining the Cash Generating Units (CGUs) compare to the requirements in IAS 36.</p>
<p><b>Accounting for deferred tax</b></p>	
<p>Several entities in the group have accumulated significant unused tax losses. In addition, several of the subsidiaries have material temporary differences linked to the fixed assets, current assets and liabilities. In the financial statements for 2016, the group reported a tax income of MNOK 2 and a net deferred tax asset of MNOK 2. Deferred tax asset not recognized amounts to MNOK 70 for Q-Free ASA and MNOK 130 for the Group. The complexity and materiality of this matter has lead us to identify this as a significant risk in our audit. We refer to Note 23 to the financial statements.</p>	<p>We obtained a specification of all tax positions for the different entities in the group. We also obtained management assessment of how to account for the tax positions. We performed a review of the tax positions and management assessment to ensure that the treatment and disclosures in the financial statements where in compliance with the requirements in IAS 12.</p>

**Other information**

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Board of Directors and the Managing Director for the Financial Statements**

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

### Opinion on the Board of Directors' report

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Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

### Opinion on Registration and Documentation

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Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 30 March 2017  
BDO AS



John Christian Løvaas  
State Authorised Public Accountant



# Q-Free Corporate governance review 2016

Q-Free aims to protect and enhance shareholders' investments through good corporate governance, and has established principles and guidelines that define the roles and relationships between the shareholders, the Board of Directors and the executive management of the company.

## 1. Implementation of and reporting on Corporate governance

Q-Free is listed on the Oslo Stock Exchange and bases its corporate governance structure on Norwegian legislation.

This review of the company's corporate governance principles and practice is prepared in compliance with Section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance as updated per 30 October 2014. The Code of Practice is available on [www.nues.no](http://www.nues.no).

The principles and implementation of corporate governance is subject to annual reviews and discussions by the company's Board of Directors.

Q-Free has no deviations from the recommendations in the Code of Practice in 2016.

### Corporate vision, values, Code of Conduct and Corporate Social Responsibility

Q-Free's vision is: Changing the movements of life.

Q-Free operates worldwide and our operations are characterised by high ethical standards and trustworthy behaviour, a customer oriented offering and excellence in execution.

Q-Free's core values are summarized as "EPIC", and are founded in a bottom-up process with all employees:

- Excellence
- Passion
- Innovation
- Collaboration

The values support the Company's strategy, guide decisions and attitude internally and externally.

Q-Free has established a Code of Conduct and guidelines for Corporate Social Responsibility (CSR), based on the company's vision and values. The Code of Conduct provides guidelines on how to behave both internally and externally, and contributes to ethical behaviour in the day-to-day business. The company has implemented a reviewed and updated Code of Conduct in 2016.

The Code of Conduct (COC) and CSR principles apply to all members of the Board, executive management and all other employees and representatives of Q-Free. The Code of Conduct is signed by every employee annually. Violation of the COC will be subject to disciplinary action, including possible termination, as well as potential criminal prosecution.

In situations where an employee is aware of any infringement of the COC, he/she shall inform his/ her manager. If there are reasons not to approach the line management, a report of the infringement should be made directly to the HR responsible of Q-Free ASA, Legal department or to the Chairman of the Board of Directors. Incidents may also be reported anonymously if desired.

The company endeavours to make its COC and CSR guidelines known to its partners.

Deviation from the Code of Practice:  
None.

## 2. Business

Q-Free operates worldwide with headquarters in Trondheim, Norway. Q-Free is a leading supplier of ITS solutions.

The company has defined its business activity in §3 of the Articles of Association:

"The Objective of the company is to engage in research, development, production, operation and sale of information technology products and systems plus everything therewith connected."

The Group's objectives and principal strategies are described in the strategy section of the annual report.

Deviation from the Code of Practice:  
None.

## 3. Equity and dividends

### Equity

Q-Free's policy is to maintain a high equity ratio to provide a platform for the company's future expansion and growth. Per 31 December 2016 the company's equity amounted to NOK 427 million, representing an equity ratio of 43.1 percent (41.8). The Board considers the financial situation for Q-Free satisfactory given the company's activities and investment plans.

### Dividend policy

Q-Free has an objective to give the shareholders a stable and competitive long-term return on investment through distribution of dividends and a positive share price development. The company is in a growth phase and is seeking a good combination of investing the free cash flow in new business opportunities and distributing dividends to the shareholders. It is Q-Free' policy to maintain a high equity ratio to provide a platform for the company's expected expansion and growth.

Q-Free has not distributed dividends in the last three years.

### Mandates to the Board

Mandates granted to the Board to increase the company's share capital are restricted to defined purposes and in separate mandates, and thus in accordance with the recommendation. Pursuant to the Code, mandates granted to the Board are limited in time to no later than the date of the next annual General Meeting. The General Meeting is given the opportunity to vote on every purpose covered by the authorisation.

At the Annual General Meeting 26 May 2016, the Board was granted an authorisation to increase the share capital by the subscription on new shares for any strategic purposes within the ITS sector, by way of acquisitions, larger projects etc. The authorisation allows the Board to increase the share capital by up to NOK 2,712,392.50 through the issue of up to 7,137,875 shares, equivalent to approximately 10 percent of the issued shares, each with a par value of NOK 0.38 per share, and with a right to disregard the existing shareholder's preferential rights. The mandate was limited for one year, and valid until the next annual General Meeting but no longer than 30 June 2017.

At the Extraordinary General meeting 19 September 2016, the authorisation issued 26 May was withdrawn. In order to enable the Company to make use of any strategic potentials within the ITS sector, mainly by way of larger projects and tenders etc, the Board was given a new authorisation to increase the share capital, one or more times, with up to NOK 6,780,981.82, by the issuance of up to 17,884,689 shares, equivalent to approximately 25 percent of the company's issued shares, with a right to disregard the shareholder's pre-emptive rights. The authorisation was fully used in a private placement completed on 28 September 2016.

The Board was in the General meeting in 2015 granted a right to enter into agreements for synthetic options with leading employees and key personnel to complete an incentive program with a maximal duration of four years. The maximal number of synthetic options issued by the Board through this program shall be 2.2 million synthetic options.

The Board was in the General meeting 2016 granted a right to establish a five-year stock option program for the Chief Executive Officer with a maximal number of share options of 630,828.

See Note 17 in the 2016 financial statements for further information about the incentive programs.

Deviation from the Code of Practice:  
None.

## 4. Equal treatment of shareholders and transactions with close associates

Q-Free has one class of shares and each share represents one vote. Each share has a nominal value of NOK 0.38. All shareholders will be treated equally and have the same influence.

An increase in the Company's share capital may be proposed if the Board of Directors decides that this would best take care of shareholders' long-term interests. Normally, the Board of Directors will propose that share issues are directed to existing shareholders in accordance with their preferential rights. However, if the Board has been given an authorisation from the general meeting to carry out a private placement for a special purpose, the Board may decide to waive the pre-emption rights of existing shareholders. The justification will then be publicly disclosed in a stock exchange announcement pursuant to the Code.

In 2016 the Board gave two authorisations to increase the share capital and authorised to waive shareholder's preferential rights (cf section 3 above).

One authorisation was approved as part of the earn-out compensation with regards to two acquired companies.

One authorisation was approved in relation to a private placement to raise new equity. The net proceeds were to be used to strengthen the Company's balance sheet and liquidity position, and provide a good basis for further growth for the Company.

The company has developed a policy with regard to transactions with close associates, based on the requirement that any transactions must be at arm's length principle and at market terms. If deemed required, the company will arrange for a valuation obtained from an independent third party.

For information about transactions with related parties, see Note 19 in the 2016 financial statements.

According to the Code of Conduct, members of the Board and the executive management are obliged to notify the Board in case of any material direct or indirect interest in a transaction entered into by the company.

Deviation from the Code of Practice:  
None

## 5. Freely negotiable shares

Q-Free has no form of restriction concerning freely negotiable shares. The Board of Directors does not intend to put forward any proposals to the General Meeting concerning restrictions on freely negotiable shares. The Articles of Association have no restrictions on negotiability.

Deviation from the Code of Practice:  
None

## 6. General meetings

The General Meeting is the company's supreme governing body, and all shareholders are guaranteed participation and the opportunity to exercise their rights. The Annual General Meeting has adopted the Articles of Association where §6 regulates the notice period, right to attend, and agenda proposals.

Shareholders representing at least 5 percent of the shares can call for Extraordinary General Meetings.

### Notification

The Annual General Meeting will be held before the 30th of June according to law. The general meeting is to take place either in Trondheim or in Oslo. The 2017 Annual General Meeting is scheduled for 24 May in Oslo.

A written notice for the general meeting is to be sent to all shareholders, with known addresses, within 21 days prior to the meeting.

The Board may decide that the notice of the General Meeting and related documents will be made available on the company's website only. A shareholder may nevertheless, by application to the company, request for the documents to be distributed by mail.

### Registration and proxies

Shareholders planning to participate at the General Meeting shall notify the company within a deadline set by the Board in the notice. The deadline cannot expire earlier than five days before the date of the general meeting.

The right to attend and vote in general meetings may only be exercised for shares registered in the shareholders' register no later than the fifth workday before the date of the general meeting (the registration date). Shares held on nominee accounts five days before the day of the general meeting do not have the right to vote or attend.

To register for the general meeting a shareholder must submit a written confirmation by mail, fax, e-mail (provided the registration form is a scanned document with signature), or by submission directly to the company's registrar DNB.

Shareholders are entitled to request specific matters to the agenda of a general meeting, by giving a written notice to the Board within seven days before the statutory deadline for the notice of the general meeting. If the notice of the general meeting is already distributed, a new notice shall be issued. Instructions are given in the notice for the Annual General Meeting.

Shareholders who cannot attend the general meeting may vote by proxy. The company will appoint a person that will vote on behalf of shareholders as their proxy unless the shareholder has appointed another person. The proxy form allows for separate voting instructions to be given for each matter to be considered by the meeting and for each of the candidates nominated for election.

### Agenda and execution

The agenda for the general meeting is set by the Board, but the main items are specified in §6 of the Articles of Association. The agenda includes detailed information on the resolutions to be considered and the recommendation from the Nomination Committee. The shareholders attending vote for a Chairperson to lead the general meeting.

The Board of Directors and the person chairing the meeting ensures that appropriate arrangements are made for the general meeting to vote separately on each candidate nominated for election to the company's corporate bodies.

The Chairman of the Board is always present to respond to any questions and queries. The Chairman of the Board and the Chairman of the Nomination Committee assess on a case-by-case basis, based on the agenda of the general meeting, whether all members should participate. The CEO, Auditor and the Chair of the Audit Committee and Compensation Committee will always be present at the Annual General Meetings.

The company announces the minutes for the Annual General Meeting according to stock exchange regulations.

Deviation from the Code of Practice:  
None

## 7. Nomination committee

The company has a Nomination Committee. The general meeting elects the chairperson and members of the Nomination Committee and determines the committee's remuneration.

The Nomination Committee has contact with shareholders, the Board of Directors and CEO as part of its work on proposing candidates for election to the Board. The Nomination Committee is responsible for proposing board member candidates and remuneration to the Board, in addition to proposing members for the committee itself.

The Nomination Committee is established in accordance with the Company's Articles of Association §7, and the Committee's work is determined by instructions approved by the General Meeting in 2016. The instruction emphasises that the composition of the Nomination Committee should be adjusted from time to time, in a way that secures continuity.

### The Nomination Committee composition as at 31.12.2016:

Name	Company	For election
Jeanett Bergan (Chair)	KLP Kapitalforvaltning AS	2017
Thomas Alexander Vogt	Oslo Pensjonsforsikring AS	2018
Andreas Berdal Lorentzen	Storebrand Asset Management	2018

Prior to the Annual General Meeting, a meeting is conducted with the Chairman of the Board to review the Board's evaluation of its own work.

The Nomination Committee will freely and independently of the election period evaluate the composition of the Board. The Nomination Committee emphasises industry and business experience as well as equal gender balance, when proposing new members to the Board. The Nomination Committee proposes the Board member's fees.

The Nominations Committee justifies its recommendations to the General meeting.

The Annual General meeting in 2016 approved an updated version of the instructions for the Nomination Committee. The instructions are published on the Company's website.

### Composition

The Nomination Committee shall consist of three members who are shareholders or representatives acting on behalf of the shareholders. Members of the Nomination Committee are elected for a period of two years, and may be re-elected. The current members of the Nomination Committee's members and their tenure period is available at the company's website [www.q-free.com](http://www.q-free.com).

The members of the Nomination Committee are independent from the company's executive management. Currently, no member of the Nomination Committee is a member of the Board. Q-Free is not aware of the existence of any agreements or business partnerships between the Company and any third parties in which members of its Nomination Committee have direct or indirect interests.

The Nomination Committee's recommendations and report are made available in accordance with the 21-day deadline for the notice calling a general meeting.

Deadline for promoting proposals to the Nomination Committee is available at the Group's website [www.q-free.com](http://www.q-free.com). This deadline is set to allow for necessary reviews, reference checks, etc., prior to the deadline for submitting the notice for the general meeting to the shareholders. The Nomination Committee is not prevented from evaluating other candidates than those proposed.

Deviation from the Code of Practice:  
None

## 8. Corporate assembly and board of directors: composition and independence

The Company does not have a corporate assembly.

### Composition of the Board

Pursuant to the company's Articles of Association § 5, the Board of Directors shall have 5–8 members.

The members of the Board are elected for a period of two years and may be re-elected. The General Meeting elects the Chairman of the Board. The Vice Chairman is elected by the Board for a period of one year.

### Board of Directors composition as at 31.12.2016:

Name	Position	Service since	Elected until AGM	Shareholding Q-Free ASA (direct or indirect)
Charlotte Brogren Karlberg	Chairman	2011	2017	20,000
Tore Valderhaug	Vice Chairman	2016	2018	25,000
Ragnhild Wahl	Board member	2015	2017	0
Snorre Kjesbu	Board member	2016	2018	25,000
Rune Jøraandstad	Employee-elected member of the Board	2016	2018	0
Sissel Lillevik Larsen	Employee-elected member of the Board	2016	2018	0

As at 31 December 2016 the Board of Directors consisted of six members, whereof two elected by and amongst the Group's employees. The Board consist of two shareholder-elected women and two shareholder-elected men, and hence met the gender diversity requirements pursuant to Norwegian legislation.

The Board had two changes in the shareholder elected composition during 2016. Jan Pihl Grimnes and Anders Endre Nybø were replaced by Tore Valderhaug and Snorre Kjesbu on 11 February 2016. Charlotte Brogren Karlberg was elected Chairman on 11 February 2016.

### Participation in Board meetings and Board committees in 2016:

Name	Board meetings	Audit Committee	Compensation Committee	Recruitment Committee
Charlotte Brogren	15	7		4
Tore Valderhaug*	13	6		3
Ragnhild Wahl	14		2	
Snorre Kjesbu*	12		2	
Sissel Lillevik Larsen	15		2	
Rune Jøraandstad**	9			
Jan Pihl Grimnes***	2	1		
Anders Endre Nybø***	2	1		1
Anders Hagen****	6			3

\* Tore Valderhaug and Snorre Kjesbu serves as Board members from 11.02.2016

\*\* Rune Jøraandstaad serves as employee elected Board member from 26.05.2016

\*\*\* Jan Phil Grimnes and Anders Nybø served as Board members until 11.02.2016

\*\*\*\* Anders Hagen served as employee elected Board member until 26.05.2016

An overview of the members of the Board and their competences is available on the company's website [www.q-free.com](http://www.q-free.com) and in the annual report.

### Independence of the Board

Q-Free is not aware of the existence of any agreements or business partnerships between the company and any third parties in which its directors have direct or indirect interests. The members of the Board are independent from the company's management, and the executive management is not represented in the Board.

### Share ownership

An overview of the member's shareholding is available on the company's website, Investor Relations page.

The members of the Board of Directors have no share options or synthetic options in the company.

### Deviation from the Code of Practice:

None

## 9. The work of the Board of directors

### The Board's tasks

The Board of Directors is elected by the shareholders to oversee the executive management and to assure that the long-term interests of the shareholders and other stakeholders are being served.

The Board has the ultimate responsibility for the management of the company and for supervising its day-to-day business, and activities in general. The main responsibility is to determine the company's overall vision, goal and strategy. The Board also ensures that the activities are soundly organised and keeps itself informed about the financial situation of the company, and ensures that the management handles risks faced by the company in an appropriate way.

The Board produces an annual plan for its work, with particular emphasis on objectives, strategy and implementation. This includes reviewing the overall strategy at least once a year, preparing the budget for the next year, evaluating management and competence needed, making continuous financial reviews and risk assessments based on budgets and prognoses, as well as evaluating the work of the Board.

It is important to maintain and continuously enhance sound internal management systems that meet changing financial conditions. Q-Free has a decentralised organisation, where each region and organisational unit reports on a monthly basis. The Group's activities are varied, depending on each unit's position in the value chain, and consequently require differentiated ways of management and follow-up.

### Instructions to the Board

The Board has issued instructions for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties. The guidelines are described in the company's "Instructions for the Board of Q-Free ASA". The purpose of the instruction is to describe the role and functions of the Board and the interaction with the executive management of the company.

In the event that the Chairman is absent, the meeting will be chaired by the Vice Chair.

The Board's proceedings and minutes are in principle confidential unless the Board decides otherwise. This is pursuant to the instructions to the Board.

### Compensation committee

Three members of the Board have been elected by the Board to act as Compensation Committee, for a period of two years.

The Board approved an instruction for the Compensation Committee in 2006, which was further revised in 2008.

The Compensation Committee makes proposals to the Board regarding employment terms and conditions and total remuneration of the CEO and incentive based remuneration for other senior management employees. These proposals are also relevant for other employees entitled to variable salaries. The Board makes comparisons with other companies when deciding the terms and conditions and remuneration of the CEO.

### Compensation Committee composition as at 31.12.2016

Snorre Kjesbu (Chair)  
Ragnhild Wahl  
Sissel Lillevik Larsen

### Recruitment Committee

The Board established in November 2015 a Recruitment Committee for the purpose of a search for new CEO. The Committee's work ended in April 2016.

### Audit committee

The Public Companies Act stipulates that large companies must have an Audit Committee. Two out of six members of the Board have been elected by the Board to the Audit Committee.

The Board approved an instruction for the Audit Committee in 2006, revised in 2008, 2013 and 2015. The Audit Committee's main responsibilities are to supervise the company's internal control systems and to ensure that the auditor is independent and that the annual accounts and quarterly reporting gives a fair view of the company's financial results and financial condition in accordance with generally accepted accounting principles.

The Audit Committee reviews the procedures for risk management and financial controls in the major areas of the Company's business activities. The Audit Committee receives reports on the work of the external auditor and the results of the audit. In addition, the committee reviews the company's work on Corporate Governance.

**Audit Committee composition as at 31.12.2016:**

Tore Valderhaug (Chair)  
Charlotte Brogren Karlberg

**The Board's evaluation of its own work**

The Board of Directors evaluates its performance annually and present the evaluation to the Nomination Committee.

**Deviation from the Code of Practice:**

None

## 10. Risk management and internal control

The Board has the responsibility to ensure that Q-Free has sound internal control and systems for risk management appropriate to the company's business, and has established a Risk Management document reviewed by the Audit Committee. The company's risk management policy is an integral part of the Group's management by objectives and performance management. The model for internal control for financial reporting is reviewed on a regular basis, to ensure that the reporting system addresses the most significant risk factors for the Group, and is organised to reflect the Group's business and procedures at any time.

The management prepares monthly performance reports for review by the Board. In addition, quarterly financial reports are prepared and reported to the financial market in accordance with the requirements from the stock exchange. These quarterly financial reports are presented to the Audit Committee, which reviews the reports prior to the Board meeting. The auditor takes part in the Audit Committee's meetings at least twice a year, and meets with the entire Board in connection with the presentation and approval of the annual financial statements.

The Board presents an in-depth review of the company's financial status in the Directors' Report, including a description of the main elements related to health, safety and environment (HSE) and related risks. The main risk factors are closely monitored by the Executive Management. The Board receives "The Status report Management system" on a regular basis. This includes a review of the most significant risks for the Company and a description of how these risks are addressed.

Q-Free has developed an effective Quality Management (QM) system and is certified in accordance with the NS-EN ISO-9001 Quality System. The company's ISO 9001 Certificate covers all areas of the normal operations.

Q-Free fulfils all environmental requirements imposed by the Norwegian authorities, as well as the EU. Q-Free ASA is certified in accordance with NS-EN ISO 14001:2004. All products introduced after 2005 are produced without the use of lead and other hazardous substances, as defined in the EU's directive on Restriction of Hazardous Substances (RoHS), and shall also be recyclable in line with the EU's directive on Waste Electrical and Electronic Equipment (WEEE). Furthermore, the Group is working actively to encourage our sub-contractors to choose the most environmental-friendly alternatives wherever possible. Q-Free also has a focus on the reduction of natural resources, with the use of electronic document sharing rather than printing on paper, utilising videoconferencing instead of travelling, and coordinating travel activities, are some examples of the company's determination to protect the environment. The use of Q-Frees products and services contribute to reduced traffic congestion and consequently give less pollution. With the exception of our travel related activities, the Group's activities have no negative impact on the external environment.

Q-Free's Environmental Policy is available on [www.q-free.com](http://www.q-free.com).

**Deviation from the Code of Practice:**

None

## 11. Remuneration of the board of directors

The Annual General Meeting approves the Board's remuneration each year.

Remuneration for the period from the Annual General Meeting of 2016 to the Annual General Meeting of 2017:

The Chairman of the Board:  
NOK 416,000

The Vice Chairman of the Board:  
NOK 280,000

Members elected by the shareholders:  
NOK 234,000

Members elected from the employees:  
NOK 80,000

Chairman of sub-committees of the Board:  
NOK 11,000 per day of meeting

**Members of sub-committees of the Board**  
Members elected by the shareholders:  
NOK 8,500 per day of meeting

Members elected from the employees:  
NOK 4,250 per day of meeting

Beyond the scope of Board responsibility, Board members could from time to time take on certain consultancy projects for the company. Such projects are defined by the Board of Directors and occur on a limited basis. Board members are compensated for such work according to separate agreements approved by the Board of Directors.

The Directors' fees are as at 31 December 2016 not linked to performance. The members of the Board have no share options in the company.

For further information about remuneration of the Board see Note 15 in the 2016 financial statements.

**Remuneration of the Nomination committee**  
Remuneration from the Annual General Meeting of 2016 to the Annual General Meeting of 2017:

The Chairman of the Nomination Committee:  
NOK 45,000

All members of the Nomination Committee:  
NOK 30,000

Deviation from the Code of Practice:  
None

## 12. Remuneration of the executive management

Q-Free's remuneration policy has always been to offer salaries adjusted to market conditions to attract the competence needed. The Board has determined and approved special guidelines for the stipulation of salary and other remuneration to executive management, and the structure of the incentive system is presented to the Annual General Meeting for information purposes. The statement of remuneration of executive personnel is given in a separate appendix to the agenda of the Annual General Meeting. The amendment from 2012 Code to the 2014 code regarding advisory and binding guidelines in the statement, are implemented.

The executive management receives a basic salary and are members of the company's pension scheme. An incentive scheme for executives and leading employees with synthetic options was approved in 2015. A share option program for the CEO was approved in 2016. The remuneration to the executive management also includes a performance based bonus scheme. Please see Note 15 and Note 17 in the 2016 financial statements.

The Board adopted a performance based bonus scheme for all employees in 2007, in order to motivate extraordinary performance/achievements. The performance based bonus scheme is linked to budgeted group financial parameters, and to the performance based parameters/ targets for the relevant business unit. The CEO may assign bonuses to individuals or teams for extraordinary performance/achievements, normally limited up to 40 percent of the employee's fixed salary. The Board may assign bonus to the CEO for performance/achievements limited up to 50 percent of his/her fixed salary. The scheme for the executive management follows the overall bonus scheme for the Group, in addition personal goals apply. The synthetic scheme for executive management requires that parts of the bonus payment is used for purchase of shares in the company.

For more information about incentive programs, please see chapter 3 in this document and Note 17 in the 2016 financial statements.

**Evaluation**

The Board set the terms of the CEO's employment, and the Board reviews the salary and other remuneration on an annual basis. The review is based on performance and comparable market conditions of similar positions.

For further information about remuneration of the CEO and other members of the executive management, see Note 15 in the 2016 financial statements.

**Deviation from the Code of Practice:**

None

## 13. Information and communication

Q-Free wants to maintain an open dialogue with the capital market, and holds open presentations for investors, analysts and others on a regular basis. The company aims to maximise shareholders' values, in such a way that the return on investment measured by dividends and increased share price at least match that of alternative investments involving similar risk.

Regular information will be published through the Annual Report and the quarterly reports and open presentations, at the same time as the information is published on the company's website.

Q-Free will also provide information on its major value drivers and risk factors through the interim reporting, which will enable investors to evaluate the company's risk and performance. Q-Free publishes an overview each year of the dates for major events.

The quarterly results are also made available through webcast. The annual report will be published within four months after year-end.

The CEO and CFO are responsible for the investor relations and all communication with the capital market. If required, the Chairman of the Board or appointed members of the Board will assist. All information is communicated within the framework established by securities and accounting legislation and the rules and regulations of the Oslo Børs.

Q-Free follows The Oslo Børs Code of Practice for Investor Relations. All information relevant to the company's shareholders is published on Oslo Stock Exchange, and made available on the company's website [www.q-free.com](http://www.q-free.com).

All IR communication is handled by the CEO and CFO. Q-Free has published responsibility for the company's contact with shareholders and others on the Company's website.

Deviation from the Code of Practice:  
None

## 14. Takeovers

Q-Free Board of Directors will handle takeover bids in accordance with Norwegian law and the Norwegian Code of Practice for Corporate Governance. There are no defence mechanisms against acquisition offers in our articles of association or in any underlying steering document. Neither have we implemented any measures to limit the opportunity to acquire shares in the company.

Deviation from the Code of Practice:  
None

## 15. Auditor

The company's external auditor is appointed by the general meeting and is responsible for the financial audit of the parent company and Group accounts. The auditor is independent of Q-Free ASA.

The external auditor of Q-Free ASA annually presents a plan to the Audit Committee covering the main focus for the audit. The external auditor participates in at least two meetings of the Audit Committee every year, and one Board meeting where the annual accounts are approved. Other meetings are attended by the auditor as requested. The annual audit results include a presentation of any material changes in the company's accounting principles, accounting estimates and report any material matters in case of disagreements between the external auditor and the management.

At least once a year, a meeting is held between the auditor and the Board without the presence of the CEO or other members of executive management. The Audit Committee has a specific obligation to survey the auditor's independence and qualifications, and to propose candidates for external audit of the company to the General Meeting.

In 2013 Q-Free ASA arranged a competitive tendering among several auditor companies, and BDO AS was elected as the new auditor for the company. Independent external auditors have also been appointed for all subsidiaries of Q-Free ASA which have requirements for a statutory audit.

The external auditor has given the Board of Directors a written notification confirming that the requirements for independence are satisfied.

The auditor attends the Annual General Meeting and informs about the auditor's report and remuneration for the year. This year's auditor's report follows the notes in the annual report. For further information about remuneration of the auditor, see Note 27 in the 2016 financial statements.

To the extent that the auditor is providing services beyond the audit, this is discussed separately on case-by-case basis prior to engagement, to ensure that there are no conflict of interest issues and that this is within the framework of the Auditors Act § 4-5. All engagements beyond audit related services are approved by the CEO or CFO prior to start up.

Deviation from the Code of Practice:  
None



PARIS, FRANCE

# Q-Free Corporate social responsibility review 2016

A review of the company's Corporate Social Responsibility was undertaken to align Q-Free's principles and practice with Section 3-3c of the Norwegian Accounting Act. Our strategy with action plans and clearly defined key performance indicators help us to achieve overall Q-Free goals. Our defined values EPIC (Excellence, Passion, Innovation and Collaboration) give our employees a common platform from which to operate. The Q-Free Code of Conduct also aims to provide guidance to our people. This Code of Conduct is signed by every employee and distributed annually, thereby forming together with our Management system the foundation of Q-Free's approach to human rights, fair working environment, health and safety, business ethics and anti-corruption. In situations where an employee becomes aware of any infringement of the Code of Conduct, they have a duty to raise this issue with their manager. If this is not possible, the employee shall report the infringement directly to the HR, Legal or the Chairman of the Board. Incidents may be reported anonymously if desired. Risk management is an important process in Q-Free and a tool to identify and reduce risks in decision making and process management.

## Human rights, fair working environment, and health and safety

Q-Free promotes and respects internationally proclaimed human rights, including those specified by the International Labour Organisation. The company supports the right to freedom of association, and opposes any form of child labour, forced labour, or discrimination. Q-Free actively encourages all representatives, partners and suppliers to follow the same principles.

### Fair and good working environment

Q-Free considers the combined knowledge, competence and experience of our employees as our most valuable assets, and we seek to attract and retain employees with these assets through a fair and good working environment.

The Q-Free group employs a variety of nationalities from a diversity of cultures, both within the parent company, and across the subsidiaries abroad. As a result, the company has developed an international mind-set, whereby we depend upon dedicated employees that treat others with respect and understanding. It is essential that our employees act in accordance with local laws, regulations and etiquettes, while communicating openly and honestly in respect of local values and norms for social conduct. The aim of Q-Free is to offer an engaging workplace with an open and inclusive working environment. We have focus on avoiding the discrimination of individuals or groups based on their age,

gender, disability, race, sexual orientation, ethnic origin, religion, political affiliation, or any other reason. No incidents or violations in relation to our fair and good working environment have been reported of any kind in recent years.

### Equal opportunities

Gender equality and nondiscrimination of male or female employees are important for us. Most of the company's employees work within engineering, technology development, and technical sales, which are disciplines that have traditionally attracted a majority of male applicants. This is reflected in Q-Free's workforce demographics, which currently represents 20 % female and 80 % male employees.

Q-Free will continue its efforts towards improving gender equality in the workplace, ensuring the high quality and competence of our employees, while encouraging the employment of females in a traditionally male driven sector. In particular, we will strive to breakdown any barriers that may have restricted the female applicants in the past, with a view to promoting a more evenly represented workplace.

The parent company of the Q-Free Group fulfils Norwegian legal requirements with respect to the minimum representation of each gender on the Board of Directors, which currently holds 2 male and 2 female shareholder-elected board members respectively.

### Health and Safety

Q-Free gives the highest priority to the health and safety of its employees, with roadside works representing the highest risk. We have completed a health and safety risk assessments for our activities roadside and implemented safety procedures to ensure risk mitigation actions. For installation and roadside projects, a responsible H&S representative is appointed. The H&S representative is a competence in the project organization and also initiates improvements to our safety procedures.

The project personnel have received safety training and equipment training, and use this competence to perform job safety analysis. Our Management system including health and safety has contributed to no serious incidents or injuries have been reported in the recent years.

Sick leave in the parent company was 2.3 percent in 2016, an increase from 1.9 % in 2015. The figure is still well below the national average for comparable workplaces and can be considered a satisfactory level. Q-Free has no similar reports for the subsidiaries at this stage.

## Business ethics and anti-corruption

High ethical standards and business conducts are prerequisites to gaining the trust of our stakeholders, as well as the local, national and international communities. This is a shared responsibility of the organisation and each of its employees and representatives.

The Q-Free Code of Conduct contains guidelines for ethical behavior in both internal and external business relations, and is designed to stimulate ethical awareness as a basis for everyday actions. The Code of Conduct is applicable to Board members, managers, and all other Q-Free employees and representatives. During 2016, the company revised and updated a version of the Code of Conduct

The Code of Conduct clearly states that Q-Free firmly opposes all forms of corruption and bribery, demanding any suspicion of misconduct to be reported. Personal interests or personal gain shall not affect the work of a Q-Free representative, and any action or interest that compromises integrity or objectiveness shall be avoided. The Code of Conduct explicitly governs areas relating to conflicts of interest, gifts and money laundering.

Q-Free has never been accused of, nor involved in, any cases pertaining to any form of corruption or bribery. The Board and Management are not aware of any breach of our Code of Conduct in this regard, and expect the Code of Conduct to govern Q-Free employees in a manner that ensures this continues.

Fair and open competition in all markets is always pursued by Q-Free, with a desire to win contracts on the basis of a competitive offering of products, services and solutions. The company adheres to national and foreign antitrust laws, while the Code of Conduct states that no formal or informal agreements shall be entered into if competition is thereby unfairly restricted.

The company has never been accused of, nor involved in, any cases pertaining to illicit or improper competitive conduct. The Board and Management are not aware of any breach in this respect, and strive to maintain Q-Free's reputation through the implementation of the reviewed and improved Code of Conduct.

As a publicly listed company on the Oslo Børs, Q-Free complies with the laws, regulations and continuing obligations for listed companies concerning the disclosure of information. The Code of Conduct emphasises the confidentiality requirements and prohibits misuse of information about the company, or relating to insider trading, as regulated by the Securities Trading Act.

## External environment

The portfolio of products, services and solutions has continuously been Q-Free's greatest contribution to the environment, which enable the reduction of traffic congestion, decrease pollution, and minimise the amount and severity of traffic incidents. Q-Free is also firmly committed to minimizing the potential environmental impact of its own operations.

Q-Free fulfils all environmental requirements imposed by the Norwegian authorities, as well as the EU. Q-Free ASA is certified in accordance with NS-EN ISO 14001:2004. All products introduced after 2005 are produced without the use of lead and other hazardous substances, as defined in the EU's directive on Restriction of Hazardous Substances (RoHS), and shall also be recyclable in line with the EU's directive on Waste Electrical and Electronic Equipment (WEEE). Furthermore, the Group is working actively to encourage our sub-contractors to choose the most environmental-friendly alternatives wherever possible.

Q-Free also has a focus on the reduction of natural resources, with the use of electronic document sharing rather than printing on paper, utilising videoconferencing instead of travelling, and coordinating travel activities, are some examples of the company's determination to protect the environment.

Q-Free's Environmental Policy is publicly available on the website.



## Articles of Association for Q-Free ASA

**Article 1.** The name of the Company shall be Q-Free ASA. The Company shall be a public limited company.

**Article 2.** The Company's registered place of business shall be in the City of Trondheim.

**Article 3.** The objective of the Company is to engage in research, development, production, operation and sale of information technology products and systems plus everything therewith connected.

**Article 4.** The Company's share capital shall be NOK 33,904,909.49, divided between 89,223,446 shares each of NOK 0.38 face value.

The Company's shares shall be registered in the Norwegian Central Securities Depository (VPS).

**Article 5.** The Board of the Company shall have between three and eight members, as the general meeting shall stipulate. The Board shall represent the Company outwardly, and sign for it. The signature of the Company is also vested in the Chairman of the Board and one other Board member acting jointly.

The Board may grant procuration (registered power of attorney).

**Article 6.** The annual general meeting shall be held before 30 June, either in the City of Trondheim or the City of Oslo.

Invitation to the general meeting shall require at least 21 days' written application to all shareholders with known addresses.

The Board may determine that documents pertaining to matters for discussion at the general meeting shall not be sent to the shareholders when these documents are made available on the Company's Web pages. The same shall apply to documents that by statute must be incorporated into or appended to the invitation to the general meeting. A shareholder may nevertheless, by application to the Company, demand to be sent documents pertaining to matters for discussion at the general meeting.

The right to participate and vote at the general meeting may only be exercised for shares that are entered in the Register of Shareholders (VPS) on the fifth working day prior to the general meeting (the date of registration).

Shareholders who, either in their own persons or by proxies, wish to participate in the general meeting, shall communicate this to the Company within the deadline that the Board has stipulated in the invitation. Such deadlines cannot expire earlier than five days prior to the meeting.

The Ordinary General Meeting shall consider:

1. Adoption of profit and loss account and balance sheet.
2. Application of profit or coverage of loss pursuant to the adopted balance sheet and distribution of dividend.
3. Election of the Board and the Chairman of the Board.
4. Stipulation of the Board's remuneration.
5. Election of members of the Nominations Committee.
6. Stipulation of the compensation to the Nominations Committee.
7. Stipulation of the compensation to the auditor.
8. Other matters that the Board places on the agenda, or that a shareholder wants considered, when such an item is notified in writing to the Board within seven days before the deadline for invitation to the general meeting, together with a proposal for decision or a justification for putting the proposal on the agenda. If the invitation has already taken place, a new invitation shall be made if the deadline for invitation to the general meeting has not passed.
9. Other matters that pursuant to statute pertain to the general meeting.

**Article 7.** The Company shall have a Nominations Committee, whose mission shall be to make recommendations to the general meeting for shareholder-elected members to the Board, and also propose the Board's emoluments.

The Nominations Committee shall consist of three members who shall be shareholders or representatives of shareholders. The members shall be elected by the general meeting. The members of the Nominations Committee shall be elected for two years at a time. The general meeting may decide on instructions for the Nominations Committee.

**Article 8.** Reference is otherwise made to the current companies legislation.

Articles of Association as of 28 September 2016.  
The shareholders of Q-Free ASA

# Addresses

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