ANNUAL REPORT 2018


AUSTRALIA | CANADA | CHILE | DENMARK | FRANCE | MALAYSIA | THE NETHERLANDS | NORWAY
PORTUGAL | RUSSIA | SLOVENIA | SPAIN | SWEDEN | THAILAND | UNITED KINGDOM | USA

CONTENT

Astrid Stevik,
Product Manager DSRC

Silje Færestrand,
General Manager Norway Operations

MISSION VISION VALUES

Increasing urbanization presents us with unprecedented transportation challenges. Cities and people around the world are looking for new and better ways to deal with congestion, accidents and unsustainable pollution levels.

Q-Free's vision and mission reflect our desire to help sustain urban growth and quality of life. Simply put, we want to make it convenient safe and environmentally friendly for people to move from A to B.

Our purpose gives us a strong social cause and a clear long-term goal 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.

Excellence

We aspire for excellence and as a consequence set new standards in everything we do.

Passsion

Dedication and responsibility fuels our passion for solving the future of mobility for citizens on the move.

Innovation

Our curiosity combined with technology puts innovation at the core of our product development.

Collaboration

By sharing knowledge and establishing new partnerships, we customize through collaboration.

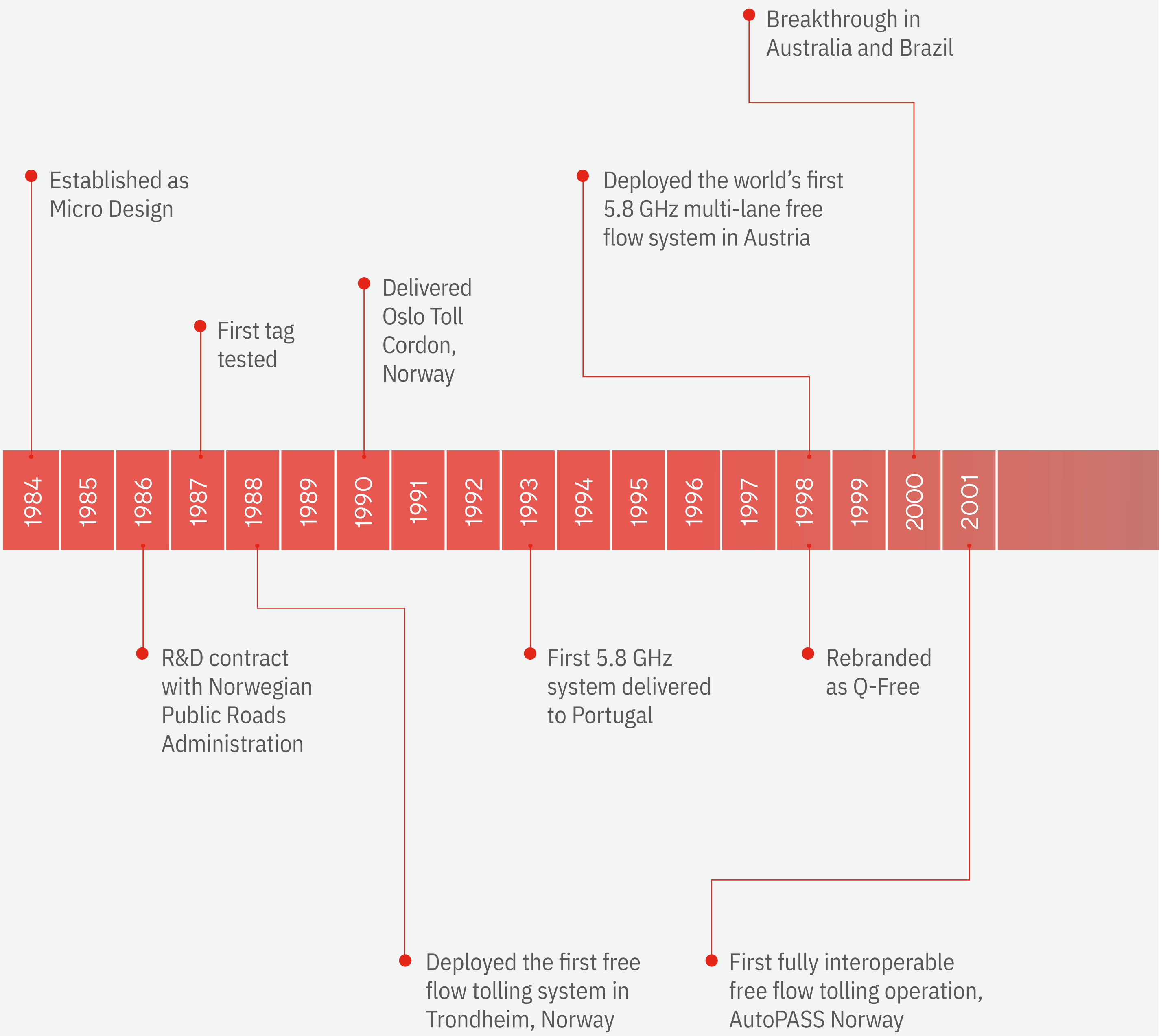
Our mission is to create intelligent solutions for efficient, safe, and environmentally friendly transportation. Fulfilling our mission requires passionate and experienced people. **Meet Audun**.

Audun, our innovative senior R&D engineer, has been working with Q-Free products and projects for 22 years. He has a passion for radio HW and enjoys photography, cooking, outdoor life and spending precious moments with his 4 grandchildren.

The Historical context

1984–2000

COMMERCIAL BREAKTHROUGH



The Historical context

2000-2012

INTERNATIONAL TOLLING EXPANSION

2012-2018

TRANSFORMATION INTO AN ITS COMPANY

- The world's first MLFF system in a tunnel, Australia
- Introduced the world's smallest tag
- Acquisition TDC Traffic Design and Open Roads Sells 53 % of Noca AS
- Delivery phase truck tolling project in Slovenia

  Record year for tag sales

  Successfully piloted (NB-IoT) outdoor sensor
- Acquisition of Elcom
- Stockholm congestion charging system delivered
- IPO on Oslo Børs
- Acquisition of TCS

2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018

- Large tolling contracts in Slovakia, Portugal, Thailand and Norway
- Acquisition of Traffiko and Intelight
- Awarded largest ever tolling (Slovenia) and inter-urban (US) contracts

  Universal ITS station – C-ITS, Melbourne, Australia
- Portfolio restructuring. Closed down Indonesia, Traffiko and Elcom

  Won Great Belt bridge contract in DK

  Deployed connected vehicle SW on GDOT traffic controllers
- Gothenburg congestion charging system delivered
- Acquisition of Dacolian, ALPR

Q-Free at a glance

FOUNDED IN
1984

HEADQUARTERED IN
TRONDHEIM
NORWAY

OFFICES IN
16
COUNTRIES

385
EMPLOYEES

~1 BNOK
IN REVENUES

REFERENCES FROM
50+
MARKETS

32
MILLION TAGS SOLD

43 000
INTRADA
ALPR
LICENSES
OPERATIONAL

INSTALLED THE
WORLD'S FIRST
FREE FLOW
TOLLING
SYSTEM IN
1988

INSTALLED THE
STOCKHOLM
CC SYSTEM IN
2005

INSTALLED
THE SLOVENIA
TRUCK
TOLLING
SYSTEM IN
2018

350+
PARKING GUIDANCE
SYSTEMS

225 000+
SINGLE
SPACE PARKING
SENSORS SOLD

4 000+
TRAFFIC
COUNTERS

1 500+
BICYCLE
COUNTERS

REAL TIME JOURNEY
MONITORING
(BLUETOOTH DETECTION)
1 000+

1 200+
WEIGH IN
MOTION SYSTEMS

~30 000
INTERSECTION
CONTROLLERS

TRAFFIC
MANAGEMENT FOR
>500 000 LANE-MILES
OF ROADWAY

25+
MILLION
PEOPLE SERVED
BY OUR TRAFFIC
MANAGEMENT
SYSTEMS

Key figures

	2014	2015	2016	2017	2018
Profit & loss account (TNOK)					
Operating revenue	788 684	766 885	877 165	973 475	888 647
Cost of goods sold	262 940	203 271	281 489	278 493	227 191
Project contractor expenses	56 923	101 821	120 766	103 934	92 260
Other operating expenses	383 977	472 518	479 256	508 457	498 105
EBITDA	**84 844**	**-10 725**	**-4 346**	**82 591**	**71 091**
EBIT	**8 436**	**-150 294**	**-59 107**	**4 227**	**23 690**
PROFIT BEFORE TAX	**-16 369**	**-171 934**	**-55 621**	**-9 526**	**-1 119**
PROFIT / (-) LOSS FOR THE YEAR	**-26 958**	**-188 091**	**-53 419**	**-11 263**	**-8 079**
GM %	59.4 %	60.2 %	54.1 %	60.7 %	64.1 %
EBITDA %	10.8 %	-1.4 %	-0.5 %	8.5 %	8.0 %
EBIT %	1.1 %	-19.6 %	-6.7 %	0.4 %	2.7 %
Selected balance sheet items (TNOK)					
Intangible fixed assets	414 342	581 991	512 451	470 876	477 213
Tangible fixed assets	51 799	43 854	33 661	22 367	25 420
Cash	164 133	65 349	101 474	113 633	89 700
Total assets	939 794	997 315	990 419	1 070 372	940 146
Equity	485 389	416 499	426 900	414 231	402 397
Gross interest bearing debt	100 000	150 000	229 457	328 691	215 521
Key figures per share (NOK)					
Earnings per share, ordinary	-0.42	-2.79	-1.11	-0.23	-0.09
Earnings per share, diluted	-0.42	-2.79	-1.11	-0.23	-0.09
Cashflow	0.92	-0.31	-0.96	-0.57	1.77
Book equity	7.08	5.97	5.67	4.64	4.51
Market cap as at 31.12 (MNOK)	688	683	703	718	687
Average no of shares	68 574	69 781	75 351	89 223	89 223
Other key figures					
Order backlog	481 192	710 202	1 404 548	1 049 477	1 128 178
Order intake	889 792	1 009 722	1 575 143	615 510	972 080
Return on Invested Capital (ROIC)	0.84	0.77	0.89	0.91	0.95
Net interest bearing debt (NIBD)	-64 133	84 651	127 983	215 058	125 821
Cash flow from operations	63 310	-21 916	-72 684	-50 714	158 283
Operational investment	69 074	60 211	31 941	30 113	43 480
Equity ratio	52 %	42 %	43 %	39 %	43 %
Gearing	10.6 %	15.0 %	23.2 %	30.7 %	22.9 %
Number of employees	399	429	416	415	385
Price / book value	1.42	1.64	1.65	1.73	1.71

LETTER FROM THE CEO

Håkon Volldal
President & CEO, Q-Free ASA

Leaving a successful 2017 behind us with all-time high revenues and solid profits due to the large tolling contract in Slovenia, we knew it would be challenging to maintain performance in 2018. The company had low order intake in the second half of 2017 and entered 2018 with a relatively small contract backlog. Our focus in 2018 has therefore been twofold; significantly increase order intake so we can grow revenues again and continue the optimization of our portfolio/cost base.

Revenues in 2018 declined YoY as expected due to low tolling project revenues. Still, a very positive development in 2018 was the 10 percent growth in non-tolling businesses, which accounted for 46 percent of total 2018 revenues. Q-Free also experienced a significant increase in order intake. The combined value of contracts signed during the year increased by 58 percent compared to 2017, and all quarters had a positive book-to-bill ratio. We also saw a continued shift from project-based revenues towards more recurring revenues. Q-Free therefore enters 2019 with a 70 MNOK higher backlog and a more promising opportunity pipeline than the company had entering 2018. In 2019 the ambition is to grow revenues by more than 10 percent organically.

Profitability in 2018 was negatively impacted by one-off expenses related to planned portfolio restructurings. We closed down Malta, Serbia and Indonesia during the year. Although these decisions reduced 2018 EBITDA by 18 MNOK, the cost savings going forward will be substantial. For example, Q-Free expects that the exit from Indonesia will deliver more than 15 MNOK in annual cost reductions from 2019 and onwards. Adjusted for one-off expenses, Q-Free delivered an EBITDA margin of 10 percent in 2018 - in line with last year’s 11 percent margin. This proves that the underlying business delivered satisfactory results in 2018 and that there is potential for margin expansion once revenues start to increase.

Q-Free is now in the third stage of its strategic plan – “integrate and expand”. The company’s current portfolio covers products and systems in several large and growing ITS segments. Going forward Q-Free can, as one of very few players, combine its offerings within these various segments to create solutions and packages that deliver on new market needs and trends. One example is the integration of signal processing and truck parking in our Open TMS Traffic Management system. Another example is the combination of parking and infomobility components to provide solar-powered parking guidance solutions in remote locations. In 2018 we also developed a new software platform for data collection and processing, which today is used together with our new outdoor parking sensor. Going forward, we plan to also use this platform in other business areas such as infomobility, tolling and urban. To facilitate and expedite the planned integration, we created a global CTO role and organization towards the end of 2018.

Most of Q-Free’s customers need to address three main challenges: mobility, safety and sustainability. With our new solutions Q-Flow (for improved mobility), Q-Safe (for increased traffic safety) and Q-Clean (for environmentally-friendly transportation), customers and partners can initiate programs that address these challenges, either stand-alone or in combination. Q-Free’s solutions are built on future-proof, scalable platforms that will yield results from day 1. Moreover, these solutions represent a holistic approach to complex issues. For example, safety is not fixed with one single system or product. To increase safety on our roads we need to combine smart intersection controllers, red light and speed enforcement, bicycle priority schemes, weigh in motion solutions etc. It is when these systems work in parallel that we can expect real improvements.

With Q-Flow, Q-Safe and Q-Clean Q-Free will be an attractive partner for cities, municipalities and counties around the world. Rather than offering single products and services, Q-Free will over time become a program partner for these customers. We can also team up with other ITS players and work with them to deploy state-of-the-art technology as part of major infrastructure programs. In an industry that gradually will be reinvented through electric cars, connected and autonomous vehicles and new advances in big data and artificial intelligence, Q-Free is ready to lead the way.

Håkon Volldal
President & CEO, Q-Free ASA

INDUSTRY PERSPECTIVE

New mobility challenges

Every week 1.5 million people move from rural to urban areas. More than 50 percent of the world's population now lives in cities, and according to the UN the share is expected to increase to almost 70 percent by 2050. The importance of cities is demonstrated by a few key metrics: 50 percent of global GDP is generated by the 300 largest metropolitan areas in the world, cities are responsible for 75 percent of global energy consumption and responsible for 80 percent of CO_2 emissions.

With increasing urbanisation comes new and unprecedented mobility challenges. Congestion is already a worldwide hassle, and the associated costs are high. For example, research conducted by INRIX shows that London clocked a remarkable 227 hours stuck in congestion in 2018, costing each driver GBP 1680 annually. On a global level 1.2 million people lose their lives in traffic accidents each year. The World Health Organization has stated that 80 percent of urban areas are exposed to pollution levels that exceed their guidelines. In sum, transportation is no longer efficient, safe and clean.

The Intelligent Transport Systems (ITS) industry provides solutions to address fundamental mobility challenges. Electronic tolling, smart parking, advanced traffic management, variable message signs, speed/red light enforcement and a host of other ITS products and solutions help reduce congestion, improve road safety and reduce pollution. The benefits have been documented in numerous studies and reports. In Q-Free we are "technology optimists". We believe that ITS is essential to sustained urban growth and quality of life.

A promising future

The ITS industry will be heavily impacted by 3 disruptive forces: electrification, self-driving vehicles and ride sharing. Each force has the potential to dramatically change the future of transportation, in combination they can revolutionize the future of mobility. Research conducted by the Boston Consulting Group in 2016 shows that the impact of replacing conventional vehicles with electric "robo-taxis" will be profound: number of vehicles on the roads might decrease by almost 60 percent, number of accidents might go down by approximately 90 percent, and emissions from cars might be reduced by 85 percent.

There is no reason to doubt that transportation in the future will look very different than it did in 2018. However, the transition from today's traffic situation to a future dominated by clean, safe and efficient robo-taxis will not happen overnight. Even though the automotive industry is changing fast and new enabling technologies such as big data, cloud/edge-computing, and the internet of things fuel a constant stream of smart mobility innovations, we tend to overestimate the effect of technology in the short term and underestimate the effect in the long run. To replace almost 1.3 billion conventional cars and commercial vehicles with electric vehicles will take time. Similarly, changing private car ownership attitudes and making ridesharing the preferred transport mode for urban citizens will take time.

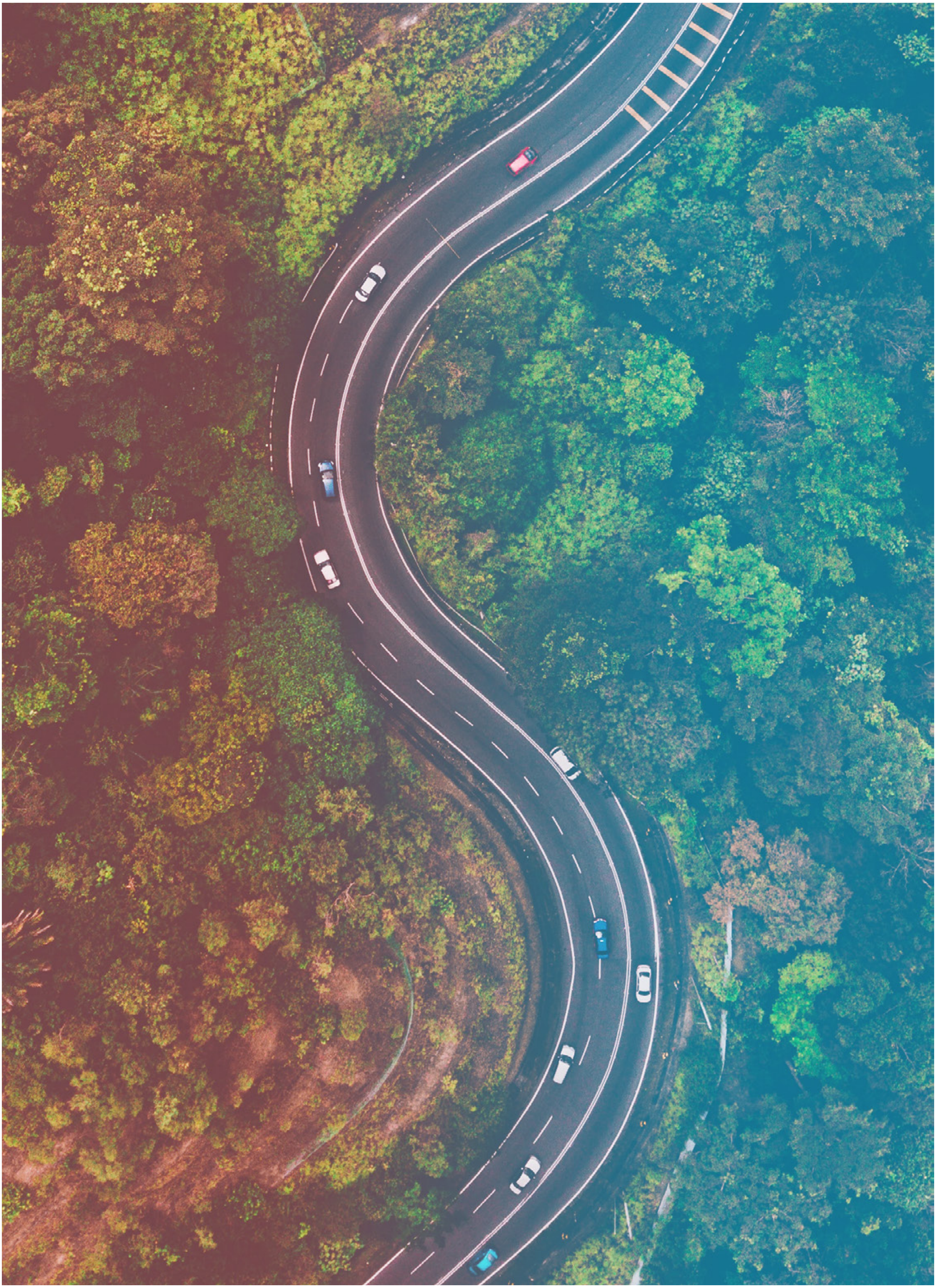
How to get there

In Q-Free we embrace new technology. After all, our mission is to create intelligent solutions for efficient, safe, and environmentally friendly transportation based on innovative technology and open platforms. We will therefore continue our pioneering work in ITS standardization and Cooperative ITS (C-ITS) to support a future where smart robo-taxis (or something else) have replaced today's vehicle fleets. Nevertheless, we also offer mobility solutions that can be implemented with great benefits today and in the next few years to help cities bridge the gap between where they are and where they want to be.

Q-Free has one of the broadest and most interesting portfolios in the ITS industry. Our scope covers electronic toll collection, parking, traffic management, intersection control systems, smart infomobility solutions etc. Our breadth of sensors, software systems and domain know-how put us in a position where we can offer unique solutions to mobility challenges in a short timeframe. We can offer stand-alone congestion charging and intersection control systems that will immediately remove traffic jams and accidents. More interestingly, we can combine and merge our solutions to give our customers more insights and better tools to address mobility challenges across transport sectors and public bodies. We can achieve this by collecting data from various sensors and sources and presenting the data in new and innovative ways to facilitate faster and better decision-making.

Summary

Effective and efficient transportation is a key requirement for sustainable urban growth. In Q-Free we have made this our purpose: We want to change the movements of life by offering solutions for efficient, safe and environmentally friendly transportation. We go to work every day trying to find new and better ways for billions of people to commute. Q-Free is in the fortunate positon that what is good for our company is also good for society. Knowing that we as a company help address one of the biggest global challenges makes us humble and inspired.



OUR STRATEGY

Q-Free pursues a strategy that is divided into four distinct phases. The first phase, "Restore", was initiated in the second half of 2016. In this phase the company took several actions to pave the way for future profitable growth: The capital structure was strengthened through a private share placement, cash management was improved, operational expenses were reduced, and the business scope was narrowed to allow better allocation of capital and resources. These initiatives have had a significant positive impact on Q-Free's financial performance, as demonstrated by the 2017 and 2018 financials.

The second phase of our plan, "Develop", had as its main purpose to build leading and distinctive market positions in selected target segments. Selling everything everywhere rarely works for a mid-sized company. In 2017 and 2018 Q-Free established itself as a top provider in the tolling, urban and inter-urban segments and a serious contender in parking and infomobility. Our offerings are competitive, and we have unique selling points. Profitability has also improved significantly across all business areas during the period.

In phase three, "Integrate and expand", a key goal will be to integrate our offerings technically and commercially to drive growth and make Q-Free relevant and valuable for customers and partners. Q-Free has one of the most exciting technology portfolios in the industry and can provide solutions and packages that deliver on new market needs and trends. With Q-Flow (for improved mobility), Q-Safe (for increased traffic safety) and Q-Clean (for environmentally-friendly transportation), customers and partners can initiate programs that address overall challenges, either stand-alone or in combination.

With a proper financial and industrial foundation in place, Q-Free can over time move into the fourth and final phase of its current plan. In the "Transform" phase, Q-Free will either consolidate and expand its market position by pursuing select M&A and partnership opportunities or become part of a bigger ecosystem.

2H 2016	2017–2018	2019–2020	2021 →
1	2	3	4
RESTORE	DEVELOP	INTEGRATE AND EXPAND	TRANSFORM
Restore a healthy capital structure and establish a platform for profitable growth	Develop distinct and leading positions within a few target segments	Integrate offerings technically and commercially and expand presence to deliver on full ITS ambition	Transform Q-Free through game changing partnerships/-transactions

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 that address all strategic and operational needs of its customers. 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.

Products & Systems

Tolling

- DSRC Tags & Readers
- ALPR/ANPR Solutions
- Electronic Toll Collection
- Congestion Charging

Parking

- Parking Guidance
- Parking Access Control

Infomobility

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

Urban

- Traffic Controllers
- Centralized Traffic Controller SW
- Co-Operative ITS

Inter-urban

- Advanced Traffic Management
- Traffic Information
- Ramp Metering
- Truck Parking

Solutions & Programs

Q-FLOW

Optimize how people and goods move

- Advanced traffic management
- Parking guidance and way-finding
- Smart traffic controllers
- Electronic tolling and congestion charging
- Traffic counters and classifiers
- Journey time monitoring
- Ramp metering

Q-SAFE

Make roads and travel safe

- Incident detection and management
- Traffic information
- Weigh in motion
- ALPR enforcement
- Weather monitoring
- Parking access control
- Truck parking
- Cooperative ITS
- Connected vehicles

Q-CLEAN

Stimulate sustainable transportation

- Electronic tolling and congestion charging
- Parking guidance and way-finding
- Smart traffic controllers
- Bicycle priority schemes
- Air quality monitoring

Q-HUB: data capture, analysis and reporting


Q-FLOW
Optimize how people and goods move


Q-SAFE
Make roads and travel safe

Q-CLEAN

Stimulate sustainable transportation

OUR BUSINESSES

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 and/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 used. 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: tags (transponders) inside cars, tag readers, cameras for automated license plate recognition, lasers for vehicle classification, advanced software systems for processing of roadside data, billing systems, and enforcement solutions. 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 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 heavy vehicles 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 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 or new batches of tags.

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 facility owners and professional parking operators. Our focus is on Parking Guidance solutions (PGS), which includes facility-, level- and single space-counting for indoor and outdoor parking.

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's SW Visual Control Center, customers get access to real-time occupancy information and trends.

Our new radar-based parking sensor will revolutionise 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 of 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.

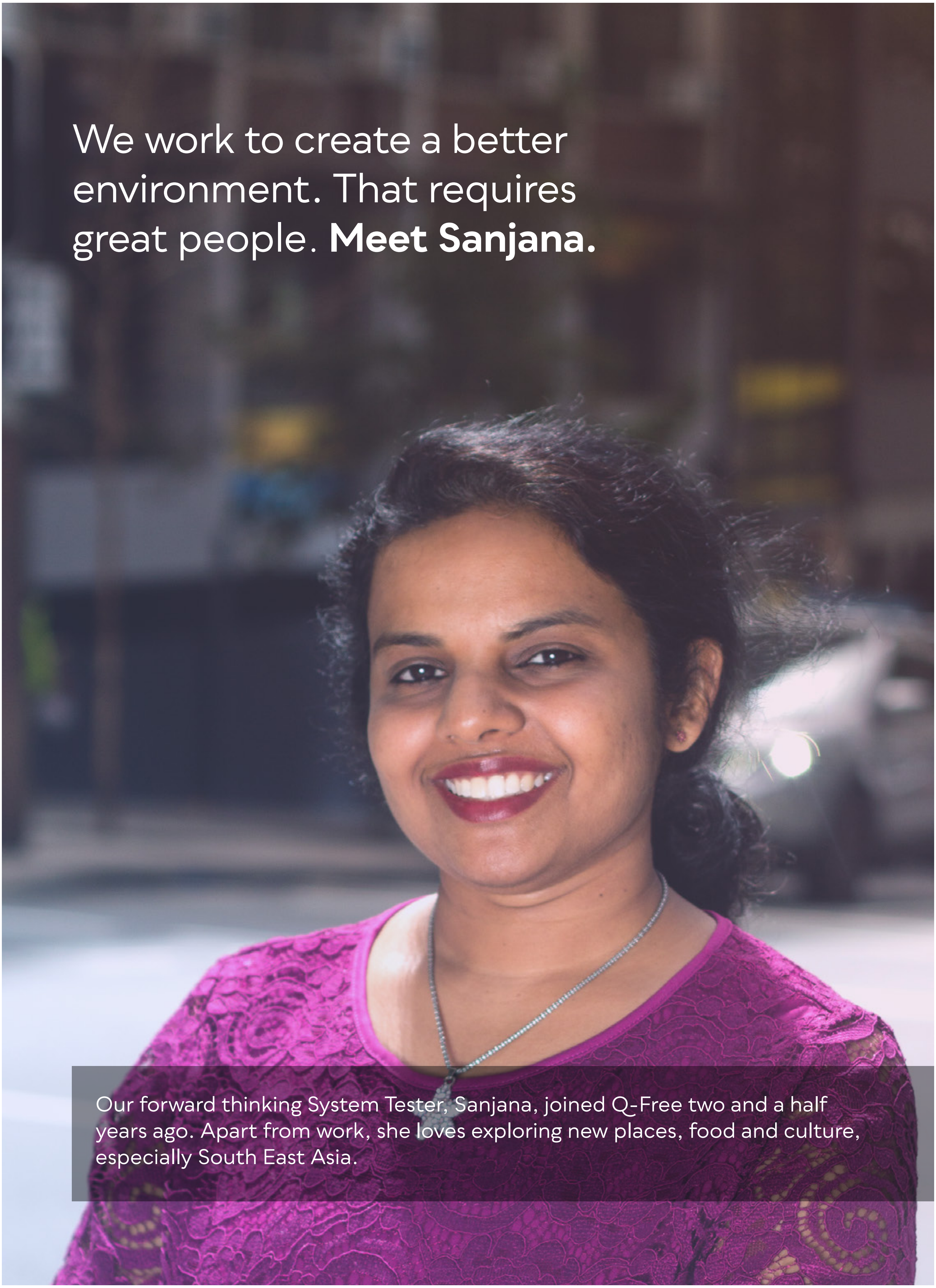
Urban

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. 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.



We work to create a better environment. That requires great people. **Meet Sanjana.**

Our forward thinking System Tester, Sanjana, joined Q-Free two and a half years ago. Apart from work, she loves exploring new places, food and culture, especially South East Asia.

Corporate management

Håkon Volldal (1976) | **President & CEO** | Mobile: +47 977 19 973 | hakon.volldal@q-free.com

Håkon Volldal, a Norwegian citizen, has held the position as President & CEO in Q-Free since August 2016. Prior to joining Q-Free, Volldal spent more than 12 years with Tomra Systems ASA where he held several senior positions such as Director M&A, VP Investor Relations, SVP Business Development, and finally Executive Vice President and Head of business area Collection Solutions. Volldal has also worked as a management consultant for McKinsey & Company. He graduated with a Master of Science degree in Industrial Economics and Technology Management from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway. Volldal owns indirectly through Bright Future AS 125,000 shares and holds 869,970 share options in Q-Free ASA.

Tor Eirik Knutsen (1974) | **CFO** | Mobile: +47 950 50 062 | tor.eirik.knutsen@q-free.com

Tor Eirik Knutsen has held the position as CFO since October 2017. Prior to joining Q-Free, Knutsen was Group CFO for Norsk Mineral AS. During his career, Knutsen has been part of high-performing technology companies. He has previously worked as EVP & CFO of Conax and Financial Director and Business Development Director in Tomra Systems ASA. His work experience also includes various positions with Deloitte and Cap Gemini. A native Norwegian, Knutsen received his Master of Science Business degree from the Norwegian School of Economics (NHH) in Norway. Knutsen is based in Oslo, Norway, and owns 12,500 shares and holds 594,548 share options in Q-Free ASA.

Jan-Erik Sandberg (1978) | **CTO** | Mobile: +47 911 61 228 | jan-erik.sandberg@q-free.com

Jan-Erik Sandberg started working at Q-Free in 2018. Sandberg has over 20 years of experience with building and managing large scale international software solutions, across several industries. Before joining Q-Free, he worked as Chief Operating Officer at Visma Retail Software. As part of several global technical communities, he is an international author on modern software process and technology. He has previously also held positions at companies such as DNV GL, BEKK and Ementor. Sandberg is a Norwegian citizen and based in Oslo, Norway, and holds 402,438 share options in Q-Free ASA.

Fredrik Nordh (1974) | **SVP Europe** | Mobile: +46 70 625 80 46 | fredrik.nordh@q-free.com

Fredrik Nordh joined Q-Free as Senior Vice President Europe in September 2017. Nordh has held several leading positions within Tomra Group (2003-2017), most recently the position as SVP Head of Nordic Collection Solutions. Nordh has also been Nordic Business Controller at LG Electronics and held several finance, IT, and logistics positions at S.C. Johnson. A native Swede, Nordh received his M.Sc. Business and Economics from University of Uppsala in Sweden. Nordh is based in Stockholm, Sweden, and owns 40,000 shares and holds 527,256 share options in Q-Free ASA.

Morten Andersson (1957) | **SVP Americas** | Mobile: +47 928 41 800 | morten.andersson@q-free.com

Morten Andersson has been with Q-Free since 2012. Andersson has held several leading positions in traffic technology companies such as Peek and Swarco, and has more than 30 years of industry experience. Andersson, a Norwegian native, is based in the United States and holds 270,249 share options in Q-Free ASA.

Pål-André Almlie (1968) | **VP Supply Chain Management** | Mobile: +47 928 22 002 | paal.almlie@q-free.com

Pål-André Almlie has been with Q-Free since 2007. He has extensive international supply chain management experience. Prior to joining Q-Free, he held management roles within the medical and IT industries. Almlie has a Bachelor degree in Business & Administration from the Norwegian School of Economics (1994). Almlie is a Norwegian citizen based in Oslo, Norway, and owns 26,500 shares in Q-Free ASA.

Board of Directors

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

Tore Valderhaug is 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. In addition to his position in Q-Free ASA, he is currently a member of the board in the publicly listed company Salmones Camanchaca S.A., as well as in the privately held Companies Optimar AS, inApril AS and Remøy Group. Valderhaug is a Norwegian citizen and resides in Oslo, Norway. Valderhaug owns indirectly through Proventi AS 25,000 shares in Q-Free ASA.

Trond Valvik (1980) | **Vice Chair of the Board** | Served since 2017

Trond Valvik is Investment Director and responsible for the business area of Direct Investments in Atlantis Vest. Atlantis Vest is the investment company of the Rieber family in Bergen, Norway, and is Q-Free's largest shareholder. Valvik has previously been Partner in the Private Equity company Borea Opportunity. Working with investments and exercising active ownership for several years, Valvik possess significant Board experience from different industries. Valvik also has operational experience as interim leader in various companies in connection to restructuring and change processes, e.g. in the field of IT and software, where he acted as Group CEO of Software Innovation for a period. Valvik also has experience from transaction support and audit in EY. Valvik holds a MSc Business degree from the Norwegian School of Economics (NHH).

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

Ragnhild Wahl is head of R&D at Norwegian Railway Directorate. She was previously head of R&D at Norwegian National Rail Administration, and research director at SINTEF Transport Research. Wahl has more than 20 years' experience with ITS and research management. She was for 9 years member of the boards of the Research Council of Norway's strategic programs on transport research and innovation. Wahl is member of the board of ITS Norway and was until March 2019 chair of the board. ITS Norway is the member association for the Norwegian ITS sector. Wahl holds several positions in transport insight and strategy processes. Wahl is currently member of the board of Itema AS. Wahl holds a MSc in industrial economy and a PhD in transportation and logistics from the Norwegian University of Science and Technology (NTNU). Ragnhild Wahl is a Norwegian citizen and resides in Trondheim, Norway. Wahl has no shares in Q-Free ASA.

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

Snorre Kjesbu is the Executive Vice President at Bang & Olufsen (B&O), where he is responsible for product creation and fulfillment. Before joining B&O he was the Vice President and General Manager for the Collaboration systems and Video Technology Group (CVTG) in Cisco, and 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 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. He is frequently invited to speak at key events and was a guest lecturer at the Stanford Network Research Center at Stanford University. Kjesbu is a Norwegian citizen and resides in Oslo, Norway. Kjesbu has 39,505 shares in Q-Free ASA.

Ingeborg Molden Hegstad (1976) | **Board member** | Served since 2018

Ingeborg Hegstad has since 2015 been a partner in the consulting company Imsight, offering business, strategy and leadership advisory to executives, teams and organizations. She has 12 years of experience from McKinsey & Company where she was Associate Partner working with retail, telecom and IT. Hegstad has also been a management consultant at Egon Zehnder, where she worked with executive search, coaching of executives and teams, organizational development and board work. She has extensive experience from working internationally, with organizations and executives in many countries in Europe and Asia. Hegstad holds a Master of Business and Administration from Norwegian Business School BI (2000). She is also a member of the board of Cxense ASA. Ingeborg Molden Hegstad resides in Oslo, Norway. Hegstad owns indirectly through Imsight AS 24,600 shares in Q-Free ASA.

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 shares in Q-Free ASA.

Olav Gulling (1980) | **Employee elected Board member** | Served since 2018

Olav Gulling has been with Q-Free since 2006, and holds the position as VP of Products. Gulling holds a MSc in computer science from the Norwegian University of Science and Technology (NTNU). Olav Gulling is a Norwegian citizen and resides in Trondheim, Norway. Gulling has no shares in Q-Free ASA.

Board of Directors' report 2018

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 products and solutions in Europe, North and South America, the Asia Pacific region, the Middle East and Africa. Headquartered in Trondheim, Norway, the company has offices in 16 countries and 385 employees. Q-Free ASA is listed on the Oslo Stock Exchange under the ticker QFR.

Summary and highlights in 2018

The Board is satisfied with the financial development in 2018 and the progress that has been made on further streamlining the company and reducing complexity. The underlying performance was solid driven by strong growth in the non-tolling business and good cost control. However, reported financial figures were somewhat negatively impacted by one-time expenses related to portfolio restructurings (close-down of Malta and Indonesia and divestment of Serbia).

The order intake in 2018 was significantly higher than in 2017 with a book-to-bill ratio of 1.1. Q-Free therefore enters 2019 with a 79 MNOK higher order backlog and a more promising opportunity pipeline than the company had entering 2018.

The highlights for 2018 include:

- 889 MNOK in revenues, down 9 % from 973 MNOK in 2017
- 89 MNOK in EBITDA before non-recurring items. Including non-recurring items, the 2018 EBITDA ended at 71 MNOK
- 972 MNOK in order intake, 1 087 MNOK including the estimated value of two frame agreements in Norway and France
- Order backlog of 1 128 MNOK, up from 1 049 MNOK at the end of 2017
  – Completion of the Slovenia Truck Tolling project, the largest single project ever delivered by Q-Free
  – The backlog is still at a high level compared to historical levels

In Q4 2018, Q-Free decided to exit its operations in Jakarta. The Jakarta business had a negative EBITDA contribution of approximately 20 MNOK in 2018. The company made a provision in Q4-18 of 13.5 MNOK for estimated additional one-time close-down costs. The company also booked 4.3 MNOK in one-time costs during 2018 related to the close-down of Serbia and Malta.

Financial review

(2017 in brackets)

Revenues

Group revenues amounted to 889 MNOK (973 MNOK), down 9 percent compared to 2017. The reduction is mainly explained by 117 MNOK in reduced revenue recognition from the Slovenia tolling project compared to 2017. This was partly compensated by 10 percent growth in the non-tolling segments.

Gross profit

Gross contribution ended at 569 MNOK, down from 591 MNOK in 2017. Gross margin in 2018 improved by 3 percentage points. The improvement was driven by favourable product mix effects and portfolio adjustments.

Operating expenses

Reported operating expenses amounted to 498 MNOK (508 MNOK), down 2 % compared to 2017. Expenses were negatively impacted by 18 MNOK in one-off costs related to portfolio adjustments (13 MNOK for Jakarta, 3 MNOK for Malta and 2 MNOK for Serbia). Adjusted for non-recurring items, operating expenses in 2018 and 2017 were nominally at the same level (480 MNOK).

Operating profits

Earnings before interest, taxes, depreciation, and amortization (EBITDA) ended at 71 MNOK (83 MNOK), down 14 % compared to 2017. Excluding non-recurring items Q-Free reported an EBITDA of 89 MNOK (110 MNOK) with a corresponding EBITDA margin of 10 % (11 %).

Reported operating profit (EBIT) was 24 MNOK (4 MNOK). Adjusting for non-recurring items and impairments, EBIT for 2018 ended at 42 MNOK (54 MNOK). The operations in Jakarta reported a negative EBIT of 20 MNOK in 2018 excluding one-time close-down costs.

Segment financial review

Tolling revenues ended at 481 MNOK (601 MNOK), a year over year decline of 20 %. The decrease is mainly explained by 117 MNOK in lower revenue recognition from the truck tolling project in Slovenia that went live on 1 April 2018. Tolling delivered EBITDA of 84 MNOK (133 MNOK), a year over year reduction of 37 % amid lower revenues. Q-Free had a low backlog in Tolling entering 2018 coming off its largest tolling delivery ever in Slovenia in 2017. During 2018 Q-Free has delivered substantial growth in Tolling order intake and a more promising opportunity pipeline than the company had entering 2018.

The Parking segment reported revenues of 52 MNOK (56 MNOK), a year over year reduction of 7 %. EBITDA ended at -13 MNOK (-8 MNOK). Profitability in Parking has during 2018 been negatively impacted by ongoing investments in the next generation parking guidance solutions. The new outdoor sensor was launched in Q4-18, and the first contracts have already been obtained. Q-Free enters 2019 with an upgraded product portfolio and expects both sales and profitability to improve going forward.

Infomobility revenues ended at 78 MNOK (64 MNOK), a YoY growth of 22 %. The increase is explained by strong momentum in sales to existing customers in Europe. EBITDA ended at 10 MNOK (5 MNOK), a significant improvement from 2017 explained by increased revenues. Future growth is expected to be driven by geographical expansion, in particular in the US. The business is also strengthening its distribution in Europe and in the APMEA region.

Urban revenues were 157 MNOK (139 MNOK), a YoY growth of 13 %. In 2018 the urban business segment continued to strengthen and broaden its market presence in the US driven by solid demand for traffic controller solutions. EBITDA ended at 30 MNOK in 2018 (2 MNOK). The significant improvement compared to 2017 was driven by high-margin software agreements that were signed and delivered during the year. The divestment of Elcom in Q1-18 also had a positive full-year EBITDA impact. Q-Free has over the last quarters developed a strong order pipeline and is also working on opportunities to expand the footprint outside Americas.

The Inter-Urban business reported revenues of 121 MNOK (113 MNOK), a YoY growth of 7 %. The continued growth in the Inter Urban segment is explained by increased progress on the ongoing delivery of the statewide advanced traffic management system (ATMS) to Virginia Department of Transport combined with some growth in Slovenia. EBITDA ended at 16 MNOK, in line with 2017. The segment has a strong order backlog moving into 2019. To maintain the positive revenue momentum Q-Free is working to sign up new customers and projects.

Net financial items

Full-year net financial items were -25 MNOK (-14 MNOK). 22 MNOK of the net finance costs in 2018 were related to the remaining Intelight Inc. share purchase obligation compared to 1 MNOK in 2017. The increase is explained by significant improved operational performance in Intelight Inc. (see note 29).

Profits

The reported pre-tax loss for 2018 was 1 MNOK (10 MNOK). The tax expense in 2018 ended at 7 MNOK (2 MNOK).

Having undertaken an assessment of the criteria under IAS 12, Q-Free has also for the 2018 accounts not included deferred tax assets in Norway related to tax losses carried forward of 50 MNOK (66 MNOK) for the period 2013-2016. In addition, the Group has not included net deferred tax asset of 98 MNOK (102 MNOK) as of 31 December 2018. Of this amount, 72 MNOK (98 MNOK) is related to tax losses carried forward, 11 MNOK (19 MNOK) to acquisitions in the US and 15 MNOK (-15 MNOK) to other temporary differences.

Changes in accounting policies

The Q-Free Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments as of 1 January 2018 without any material implementation effect.

Annual results and year-end appropriations

The result after tax in 2018 was a loss of 8 MNOK (loss of 11 MNOK). Earnings per share was -0.09 NOK (-0.23 NOK).

The Board of Directors proposes to allocate the parent company's profit for the year of NOK 2.6 million to retained earnings.

The Board of Directors does not propose to distribute any dividends for 2018 at The Annual General meeting that is scheduled for 28 May 2019.

Cash flow and liquidity

Net cash flow from operating activities was 158 MNOK (-51 MNOK). The significant improvement is mainly explained by the collection of receivables from the Slovenia truck tolling project. Q-Free has in general had a strong focus on cash and working capital management during 2018 to improve cash flow from operations.

Net working capital amounted to 138 MNOK (247 MNOK) at the end of 2018. The significant working capital reduction is explained by collection of receivables in Slovenia. Net working capital as of 31.12.18 equaled 16 percent of the revenues generated in the last 12 months compared to 25 % per 31.12.2017

Net cash flow from investment activities was -67 MNOK (-31 MNOK). 23 MNOK of the increase is explained by acquisition of around 20 % of the shares in Intelight Inc. The remaining increase is due to high activity level during the year related to the launch of the new outdoor parking sensor (ParQSense) and the Q-Free HUB SW platform launched towards the end of 2018.

Net cash flow from financing activities was -117 MNOK (92 MNOK). The significant decline is explained by repayment of loans drawn up as part of financing the Slovenia tolling project. The cash closing balance was 90 MNOK (114 MNOK) at the end of 2018.

In 2018 Q-Free secured new long-term financing with a longer and more flexible facility, maturity and covenant profile compared to the previous funding arrangement.

Balance sheet

Total assets at the end of 2018 were 940 MNOK (1070 MNOK). Total equity ended at 402 MNOK (414 MNOK). The equity ratio was 43 % (39 %).

Current liabilities amounted to 298 MNOK (440 MNOK) at the end of 2018. The decrease compared to 2017 is mainly explained by reallocation of interest-bearing debt from current to non-current. The remaining current part of the Intelight share purchase obligation is estimated at 69 MNOK (22 MNOK).

Non-current liabilities were 240 MNOK (216 MNOK), an increase of 24 MNOK. The non-current part of the Intelight share purchase obligation is estimated at 25 MNOK (68 MNOK). Other non-current liabilities include pension schemes of 15 MNOK, 196 MNOK in debt to financial institutions and 4 MNOK in deferred tax.

Short term interest-bearing debt to financial institutions was 20 MNOK (204 MNOK) at year end. Available, unused credit facilities were 84 MNOK (114 MNOK) at the end of 2018.

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 385 (415) employees at the end of 2018. Most of the personnel reduction is explained by portfolio adjustments during the year such as the close-down of the offices in Malta and Jakarta and the divestment of Serbia.

Q-Free has established good working conditions in a non-discriminating, multicultural organisation with operations in 16 countries. Sick leave remains at a satisfactory low level. The company is pleased to continue to report no serious lost time accidents or injuries during the year. Please refer to the separate 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

The management team has been reorganized in 2018 to support the strategic plan Q-Free pursues. The most notable change during the year was the consolidation of development activities and departments under a CTO organization to support technology integration across Q-Free's various business areas.

Board of Directors

The Board of Directors comprises five shareholder-elected members: Tore Valderhaug (Chair), Trond Valvik (Vice Chair), Ragnhild Wahl, Snorre Kjesbu and Ingeborg Molden Hegstad, and the employee-elected representatives Olav Gulling and Rune Jøraandstad.

During 2018 the following changes to the Board were completed:
Ingeborg Molden Hegstad was elected as board member by the shareholders at the Annual general meeting in May 2018. Ingeborg Molden Hegstad replaced Charlotte Brogren Karlberg, who resigned in 2017. Olav Gulling was in May 2018 elected as board member by the employees replacing Sissel Lillevik Larsen.

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/corporatesocial 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 outlines 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 risks in terms of functionality, timing and cost. However, Q-Free has significant experience with and a good understanding of how these risks can be mitigated in contract negotiations and during the delivery period.

Political risk

In tolling and sometimes in urban and inter-urban projects Q-Free is exposed to political risk in the form of delayed or cancelled public tender processes and contract awards. Project implementation and payment are normally less risky as governments usually honor their obligations. The entry into multiple traffic technology segments 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 and supplier audits.

Financial risk

Q-Free is exposed to 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 on accounts receivables.

Q-Free is exposed to currency risk in the ordinary business since more than 85 % 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 somewhat mitigates this risk. The net foreign currency exposure in 2018 was mainly related to EUR (EBITDA) and USD, EUR and GBP (Assets/Equity). The Group strategy is to hedge a share of the net cash flow and balance sheet exposure 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. The Board of Directors assesses the available liquidity at the end of 2018 to be sufficient to finance the company's ordinary operations and operational investments for 2019. The Board emphasizes the impact the estimated Intelight share purchase obligation might have on Q-Free's short term liquidity (see note 29). The Board continuously evaluates potential measures to finance any such share purchase.

The group has interest-bearing debt and interest rate risk related to its term loan, revolving credit facility and credit lines. At the current interest rate level, the interest risk is considered low.

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 revised and completed a programme to increase awareness and limit our exposure. For further information, please see the Corporate Social Responsibility report.

Outlook

2018 was a transitional year for Q-Free where reported financial figures were negatively impacted by a planned strategic shift in our tolling business and expenses related to value-enhancing restructuring of the business portfolio. The close-down of Serbia, Malta and Indonesia will deliver substantial cost savings with full-year impact in 2019. However, the underlying performance was solid. Adjusted for expenses related to portfolio restructurings, Q-Free delivered an EBITDA margin of 10 percent, in line with last year's 11 percent margin. This proves that the underlying business delivered satisfactory results in 2018 and that there is potential for margin expansion once revenues start to increase. In 2018 Q-Free also managed, for the first time in more than a decade, to deliver positive EBIT coming off a big project delivery in the prior year.

The order intake in 2018 was significantly higher than in 2017. All quarters had a positive book-to-bill ratio. Q-Free therefore enters 2019 with a higher backlog and a more promising opportunity pipeline than the company had entering 2018. For the full fiscal year 2019 the ambition is therefore to grow revenues by more than 10 percent organically and increase profitability substantially. Given the delivery schedule for 2019 contracts, performance is expected to be soft in the first half and strong in the second half.

Q-Free is now in the third stage of its strategic plan – "integrate and expand". The company's current portfolio covers products and systems in several large and growing ITS segments. Going forward Q-Free can, as one of very few players, combine its offerings within these various segments to create solutions and packages that deliver on new market needs and trends. Examples include signal integration in ATMS, truck parking modules in ATMS, smart city platforms and connected vehicle solutions.

Most of Q-Free's customers need to address three main challenges: mobility, safety and sustainability. With our new solutions Q-Flow (for improved mobility), Q-Safe (for increased traffic safety) and Q-Clean (for environmentally-friendly transportation), customers and partners can initiate programs that address these challenges, either stand-alone or in combination. Q-Free's solutions are built on future-proof, scalable platforms that will yield results from day 1. Moreover, these solutions represent a holistic approach to complex issues. For example, safety is not fixed with one single system or product. To increase safety on our roads we need to combine smart intersection controllers, red light and speed enforcement, bicycle priority schemes, weigh in motion etc. It is when these systems work in parallel that we can expect real improvements.

With Q-Flow, Q-Safe and Q-Clean Q-Free will be an attractive partner for cities, municipalities and counties around the world. Rather than offering single products and services, Q-Free will over time become a program partner for these customers. We can also team up with other ITS players and work with them to deploy state-of-the-art technology as part of major infrastructure programs. In an industry that gradually will be reinvented through electric cars, connected and autonomous vehicles and new advances in big data and artificial intelligence, Q-Free is ready to lead the way.

Trondheim, 1 April 2019

Tore Valderhaug
Chair of the Board

Trond Valvik
Vice Chair of the Board

Ragnhild Wahl
Board member

Snorre Kjesbu
Board member

Ingeborg Molden Hegstad
Board member

Olav Gulling
Employee-elected Board member

Rune Jøraandstad
Employee-elected Board member

Håkon Rypern Volldal
President & CEO

Consolidated financial statements Q-Free Group

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

Consolidated statement of profit or loss

Q-Free Group

Amounts in TNOK	Note	2018	2017
Revenue from customers	10	888 647	973 475
Total operating revenue		**888 647**	**973 475**
Cost of goods sold	16	227 191	278 493
Project contractor expenses	11	92 260	103 934
Employee benefit expenses	11, 12, 13	332 484	318 730
Other operating expenses	23	165 621	189 727
Total operating expenses		**817 556**	**890 884**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**71 091**	**82 591**
Depreciation of property, plant and equipment	24	10 168	15 017
Amortisation of intangible assets	15	36 955	41 471
Impairment of intangible assets and PP&E	15, 24	278	21 876
Earnings before interest and taxes (EBIT)		**23 690**	**4 227**
Financial income	8	24 970	29 583
Financial expenses	8	-49 779	-43 336
Net financial items		**-24 809**	**-13 753**
Profit before tax		**-1 119**	**-9 526**
Tax expense	22	-6 960	-1 737
Profit / (-) loss for the year from continuing operations		**-8 079**	**-11 263**
Profit / (-) loss for the year on discontinued operations, net of tax		**-**	**-9 462**
Profit / (-) loss for the year		**-8 079**	**-20 725**
Earnings per share	27	-0,09	-0,23
Diluted earnings per share		-0,09	-0,23
Earnings per share from continuing operations		-0,09	-0,13
Diluted earnings per share from continuing operations		-0,09	-0,13

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

Q-Free Group

Amounts in TNOK	Note	2018	2017
Profit / (-) loss for the year		**-8 079**	**-20 725**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss insubsequent periods:			
Currency translation differences, net of tax		-4 148	7 965
Net loss on available-for-sale (IAS 39) FVOPL (IFRS 9) investments	30	71	-8
Net other comprehensive income to be reclassified to profit or loss insubsequent periods		**-4 077**	**7 957**
Other comprehensive income for the year, net of tax		**-4 077**	**7 957**
Total comprehensive income for the period, net of tax		**-12 156**	**-12 768**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of financial position

Q-Free Group

Amounts in TNOK

ASSETS	Note	2018	2017
Deferred tax assets	4, 22	14 795	16 864
Intangible assets	15	145 136	148 632
Goodwill	4, 14	317 282	305 380
Property, plant and equipment	24	25 420	22 367
Investments in other companies	30	-	387
Non-current receivables		627	2 147
TOTAL NON-CURRENT ASSETS		**503 260**	**495 777**
Inventories	16	71 996	65 453
Contract assets	4, 10, 17	82 320	227 154
Accounts receivable	17	160 819	130 487
Other current assets	18	32 051	37 868
Cash and cash equivalents	19	89 700	113 633
TOTAL CURRENT ASSETS		**436 886**	**574 595**
TOTAL ASSETS		**940 146**	**1 070 372**

Amounts in TNOK

EQUITY AND LIABILITIES	Note	2018	2017
Subscribed share capital		33 905	33 905
Share premium		578 307	578 307
Other paid-in capital		20 950	20 628
Retained earnings		-230 765	-218 609
TOTAL EQUITY		**402 397**	**414 231**
Non-current borrowings	5, 7	196 000	125 000
Non-current financial liabilities	29	39 658	85 986
Deferred tax liabilities	22	4 261	4 956
Total non-current liabilities		**239 919**	**215 942**
Current borrowings	5, 7	19 521	203 691
Advance payments from customers	10	14 339	11 693
Accounts payable	20	95 992	89 272
Taxes payable	22	2 758	3 342
Public duties payable		19 584	14 541
Current financial liabilities	29	71 995	25 124
Other current liabilities	21	73 641	92 536
Total current liabilities		**297 830**	**440 199**
TOTAL LIABILITIES		**537 749**	**656 141**
TOTAL EQUITY AND LIABILITIES		**940 146**	**1 070 372**

The accompanying notes are an integral part of the consolidated financial statements.

Trondheim, 1 April 2019

Tore Valderhaug
Chair of the Board

Trond Valvik
Vice Chair of the Board

Ragnhild Wahl
Board member

Snorre Kjesbu
Board member

Ingeborg Molden Hegstad
Board member

Olav Gulling
Employee-elected Board member

Rune Jøraandstad
Employee-elected Board member

Håkon Rypern Volldal
President & CEO

Consolidated statement of cash flows

Q-Free Group

Amounts in TNOK	Note	2018	2017
Cash flow from operations			
Profit before tax		-1 119	-9 526
Paid taxes	22	-9 082	-7 570
Depreciation and impairment of property, plant and equipment	24	10 446	15 017
Amortisation and impairment of intangible assets	15	36 955	63 347
Accrued interest expense		548	-703
Net loss on available-for-sale (IAS 39) FVOPL (IFRS 9) investments	30	458	-8
Share-based payment expense	13	322	99
Working capital adjustments:			
Changes in inventory		-6 543	874
Changes in contract assets		144 834	-151 347
Changes in accounts receivable		-30 332	11 938
Changes in advance payments from customers		2 646	16
Changes in accounts payable		6 720	-10 937
Changes in other items		2 430	38 086
Net cash flow from operations		**158 283**	**-50 714**
Cash flow from investing activities			
Investments in PP&E and intangible assets	15, 24	-43 480	-30 113
Acqusition of a subsidiary, net of cash acquired		-23 210	-33
Net cash flow from discontinued operations		-	-835
Cash flow from investing activities		**-66 690**	**-30 981**
Cash flow from financing activities			
Cash proceeds from borrowings	7	221 354	137 476
Repayment of borrowings	7	-338 601	-40 614
Other financial items		-	-5 220
Cash flow from financing activities		**-117 247**	**91 642**
Effect on cash and cash equivalents of changes in foreign exchange rates		**1 721**	**1 377**
Net change in cash and cash equivalents for the year		**-23 933**	**11 324**
Cash and cash equivalents per 01.01.		113 633	101 474
Transferred to Assets held for sale			835
Cash and cash equivalents per 31.12.	19	**89 700**	**113 633**

The accompanying notes are an integral part of the consolidated financial statements.

Statement of changes in equity

Q-Free Group

Amounts in TNOK	Subscribed share capital	Share premium	Other paid-in capital	Retained earnings	Available-for-sale reserve (IAS 39)/ FVOPL (IFRS 9)	Currency translation differences, net of tax	Actuarial gains and losses	Total equity
Total equity 01.01.2017	**33 905**	**578 307**	**20 529**	**-270 163**	**-63**	**76 402**	**-12 017**	**426 900**
Profit / (-) loss for the year				-20 725				-20 725
Other comprehensive income					-8	7 965	-	7 957
Total comprehensive income for the period	**-**	**-**	**-**	**-20 725**	**-8**	**7 965**	**-**	**-12 768**
Share-based payment expense			99					99
Reclassification of actuarial gains and losses				-12 017			12 017	-
Total equity 31.12.2017	**33 905**	**578 307**	**20 628**	**-302 905**	**-71**	**84 367**	**-**	**414 231**
Total equity 01.01.2018	**33 905**	**578 307**	**20 628**	**-302 905**	**-71**	**84 367**	**-**	**414 231**
Profit / (-) loss for the year				-8 079				-8 079
Other comprehensive income					71	-4 148		-4 077
Total comprehensive income for the period	**-**	**-**	**-**	**-8 079**	**71**	**-4 148**	**-**	**-12 156**
Share-based payment expense			322					322
Total equity 31.12.2018	**33 905**	**578 307**	**20 950**	**-310 984**	**-**	**80 219**	**-**	**402 397**

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 / Corporate information

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. The Group financial statements consist of the Q-Free ASA parent financial statements, as well as the subsidiaries as listed in Note 26 Subsidiaries.

The Q-Free Group (Q-Free or the Group) provides leading technology solutions to the global ITS market. Over the past years, Q-Free has delivered systems projects and products in Europe, Asia Pacific, the Middle East and North and South America. Q-Free Group has 385 employees, working out of local offices in 16 countries around the world. Q-Free Group's corporate headquarters is located in Trondheim, Norway.

The Q-Free Group consolidated financial statements for the year ended 31 December 2018 were approved by the Board of Directors at its meeting on 1 April 2019.

Note 2 / Basis for preparation

The consolidated financial statements are prepared on a historical cost basis, except for certain assets, liabilities and financial instruments which are measured at fair value. Preparation of financial statements including note disclosures requires management to make estimates and assumptions that affect amounts reported. Actual results may differ. See Note 4 Critical accounting judgements and changes accounting policies.

The functional currency of Q-Free ASA is the Norwegian krone (NOK). The Q-Free group accounts are presented in NOK.

As a result of rounding adjustments, the figures in one or more columns included in the financial statements may not add up to the total of that column.

Presentation and classification of items in the financial statements is consistent for the periods presented, except as noted below:

Consolidated statement of profit or loss

Project contractor expense defined as external consultants and/or services that are consumed under project executions and service and maintenance work are now presented separately in the Consolidated statement of profit or loss. Project contractor expense was previously classified as a part of Other operating expenses and Cost of goods sold.

The table below shows the changes regarding reclassification of the 2017 reported figures.

Table 2.1: Consolidated statement of profit or loss reclassification

Operating expenses	2017 before reclassification	Reclassification	2017 reclassified
Cost of goods sold	287 833	-9 340	**278 493**
Personnel expenses	318 730	-318 730	**-**
Employee benefit expenses	-	318 730	**318 730**
Project contractor expense	-	103 934	**103 934**
Other operating expenses	284 321	-94 594	**189 727**
Total operating expenses	**890 884**	**-**	**890 884**

Consolidated statement of financial position

In the consolidated statement of financial position Other current liabilities previously included current financial liabilities. In 2018 Other current liabilities have been reclassified into the line items Current financial liabilities and Other current liabilities, as shown in the table below.

Table 2.2: Consolidated statement of financial position reclassification

	2017 before reclassification	Reclassification	2017 reclassified
Current financial liabilities	-	25 124	**25 124**
Other current liabilities	117 660	-25 124	**92 536**
Total	**117 660**	**-**	**117 660**

Consolidated statement of cash flows

Operating cash flows from Changes in receivables and prepayments from customers have been reclassified into Changes in accounts receivable and Changes in advance payments from customers in the 2018 Consolidated statements of cash flows. The reclassification of the 2017 figures is shown in the table below.

Table 2.3: Consolidated statement of cash flows reclassification

	2017 before reclassification	Reclassification	2017 reclassified
Changes in accounts receivable	-	11 938	**11 938**
Changes in advance payments from customers	-	16	**16**
Changes in receivables and prepayments from customers	11 954	-11 954	**-**
Total	**11 954**	**-**	**11 954**

The following line items have been renamed in the 2018 Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of financial position and statement of cash flows. No figures as of 31 December 2017 have been remeasured or restated.

New name – annual report 2018	Old name – annual report 2017
Consolidated statement of profit or loss	
Impairment of intangible assets and PP&E	Impairment of intangible and fixed assets
Tax expense	Taxes
Consolidated statement of comprehensive income	
Currency translation differences, net of tax	Exchange differences on translation of foreign operations
Net loss on available-for-sale (IAS 39) FVOPL (IFRS 9) investments	Net (loss)/gain on available-for-sale financial investments
Consolidated statement of financial position	
Intangible assets	Product development assets
Property, plant and equipment	Machinery, fixtures and fittings, etc.
Non-current receivables	Other receivables
Contract assets	Work in progress
Retained earnings	Other equity
Non-current borrowings	Debt to financial institutions (non-current)
Non-current financial liabilities	Other non-current liabilities
Deferred tax liabilities	Deferred tax
Current borrowings	Debt to financial institutions (current)
Consolidated statement of cash flows	
Net loss on available-for-sale (IAS 39) FVOPL (IFRS 9) investments	Shares valued at fair value
Share-based payment expense	Cost of share-based payment
Changes in contract assets	Changes in work in progress

Note 3 / Significant accounting policies

The consolidated financial statements of Q-Free ASA and its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and Norwegian authorities and are effective as of 31 December 2018. Q-Free also provides the disclosures as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Q-Free's 2018 financial reporting, including all comparative figures. See Note 2. Basis of presentation and Note 4 Critical accounting judgments and new accounting policies for additional information related to the presentation, classification and measurement of Q-Free's financial reporting.

Basis of consolidation

The consolidated financial statements include Q-Free ASA (parent) and subsidiaries. Subsidiaries are entities in which Q-Free has the power to govern the financial and operating policies of the entity (control). Control is achieved through 100% ownership for all but a few of the Q-Free Group subsidiaries, and Q-Free has more than 50% of the voting power in all fully consolidated subsidiaries. Subsidiaries are fully consolidated from the date control commences until the date control ceases.

Intercompany transactions and balances have been eliminated. Profits and losses resulting from intercompany transactions have been eliminated.

Business combinations

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 *Business combinations.* Consideration is the sum of the fair values, as of the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the entity. 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 are expensed and included in Other operating 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. If a business combination is completed 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 is 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 is recognised in profit or loss. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity.

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. Goodwill is not amortised, but is tested for impairment annually in the fourth quarter and more frequently if indicators of possible impairment are observed, in accordance with IAS 36 *Impairment of Assets.* For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units, or groups of cash generating units, that is expected to benefit from the synergies of the combination.

Goodwill is monitored for internal management purposes on segment level.

Foreign currency

The consolidated financial statements are presented in NOK, which is the parent company's functional 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 appropriate exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated as of the reporting date exchange rate. All differences regarding translation are included in financial income or financial expense in the statement of profit or loss.

The assets and liabilities of foreign operations are translated into NOK at the rate of exchange at the reporting date, and their profit or loss statements are translated at the exchange rates at the dates of the transactions. The exchange differences arising on the translation for consolidation purposes are recognised in Other comprehensive income as Currency translation differences, net of tax. On disposal of a subsidiary the cumulative translation adjustment of the disposed entity is recognised in the statement of profit or loss as part of the gain or loss on disposal.

Financial instruments

Financial assets and liabilities includes investments in shares, accounts receivable and other current assets, cash and cash equivalents, borrowings, accounts payable and current financial liabilities.

A financial instrument is recognised when the Group becomes party to the instrument's contractual terms. Upon initial recognition, financial assets at amortised cost are measured at fair value plus transaction costs. Transaction costs relating to the acquisition of financial assets 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 represent a contractual obligation by Q-Free to deliver cash in the future, and are classified as either current or non-current. Financial liabilities include borrowings and accounts payable. Financial liabilities are initially recognised at fair value including transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Financial liabilities are derecognised when the obligation is discharged through payment or when Q-Free is legally released from the primary responsibility for the liability.

A financial asset or a group of financial assets is impaired using the expected credit loss 3-stage model (ECL) or the practical expedient of lifetime ECL for accounts receivable in accordance with IFRS 9.

Revenue recognition

Q-Free recognises revenue from customers in accordance with IFRS 15 *Revenue from contracts with customers.* Q-Free delivers products and system projects to their customers, and offers service and maintenance for the hardware sold. Revenue for products is recognised at a point in time, when control passes over, whereas for system projects and service and maintenance over time. For the overtime revenue recognition Q-Free uses an input based percentage of completion method. See Note 10 Revenue, contract assets and advanced payments from customers for additional information related to revenue recognition.

Employee benefit expenses and pension expense

Payments to employees, such as wages, salaries, social security contributions, paid annual leave, as well as bonus agreements are accrued in the period in which the associated services are rendered by the employee. Contributions to defined contribution plans are recognized in the statement of profit or loss in the period in which they accrue.

Share-based compensation

The cost of equity-settled share-based payment transactions with employees is measured at fair value at the grant date. The cost of equity-settled share-based 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 using a Black-Scholes model which takes into consideration the vesting period 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 expense recognized for the reporting represents the change in total cumulative expense to be recognised measured at the beginning and end of the reporting 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.

Social security tax related to share-based payments is recognised as a liability in the statement of financial position. For additional details see Note 12 Management and board of directors' remuneration.

Intangible assets

Intangible assets acquired individually or in a group are recognized at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred. Following initial recognition, intangible assets are carried at historical cost less any accumulated amortisation and any accumulated impairment losses.

All the intangible assets currently held by Q-Free are assessed as having finite lives. Intangible assets with finite lives are amortised over their estimated useful life. Useful lives and the amortisation method is reviewed annually. The straight-line depreciation method is used as this best reflects the consumption pattern of the assets.

Expenses related to product development activities are capitalised if the product development activities comply with the defined criteria for capitalisation. Capitalisation assumes it is possible to identify the intangible asset and demonstrate that it is probable that the development work will be successful, and that the future financial benefits attached to the intangible asset will accrue to Q-Free.

If the criteria are satisfied, capitalised amounts will include the cost of materials and direct payroll expenses. Capitalised development costs are subsequently recognised at historical cost less accumulated amortization and accumulated impairment losses.

Property, plant and equipment

Property, plant and equipment (PP&E) is recognised at acquisition cost. The carrying value of PP&E is the historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is measured on a straight-line basis over the estimated useful lives of the asset as follows:

- Leasehold improvements: 5 years with a maximum useful life no greater than the lease term
- Project-related equipment: 5 years
- Office equipment: 3-5 years

The assets' residual values, useful lives and method of deprecation are reviewed annually and adjusted prospectively if appropriate. Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with IAS 36 *Impairment of Assets.*

Leased assets

Leases which transfer to Q-Free substantially all the risks and benefits incidental to ownership of the leased item are identified using the guidance in IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement Contains a Lease.* Such arrangements are capitalized as finance leases and included under Property, plant and equipment at the fair value of the leased asset, or, if lower, the present value of the minimum lease payments as of the later of date of inception of the lease or getting access to the services of the asset. The assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Currently Q-Free does not have any leased assets under a finance lease arrangement. All leases are therefore currently classified as operating leases with lease payments recognized as an expense over the term of the lease.

Impairment of non-financial assets

All non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with IAS 36 *Impairment of Assets.*

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 board and management approved budgets and strategic plans for the Group.

An impairment is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount. A CGU is the smallest identifiable group that generates a cash inflow that is largely independent of other assets or groups. The CGU level for Q-Free is the segment. Impairment related to CGUs is first to reduce the carrying amount of any goodwill allocated to the segment and then to reduce the carrying amount of the other assets in the segment on a pro-rata basis. These assets will normally be property, plant and equipment, and other intangible assets.

Taxes

Taxes payable is based on taxable profit for the year which excludes items of income or expense that are taxable or deductible in other years. Taxable profit also excludes items that are never taxable or deductible. Q-Free's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred income tax expense is calculated using the liability method in accordance with IAS 12 *Income Taxes.* Deferred tax assets and liabilities are classified as non-current in the statement of financial position and are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. Temporary differences related to intercompany profits are deferred using the buyer's tax rate. Deferred tax assets are reviewed for recoverability every balance sheet date, and the amount probable of recovery is recognized.

Deferred income tax expense represents the change in deferred tax asset and liability balances during the year, except for the deferred tax related to items recognized in Other comprehensive income or resulting from a business combination or disposal.

Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective or are substantively enacted. Uncertain tax positions are recognized in the financial statements based on management's expectations.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are not provided on undistributed earnings of subsidiaries when the timing of the reversal of this temporary difference is controlled by Q-Free and is not expected to happen in the foreseeable future. This is applicable for the majority of Q-Free's subsidiaries.

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 passage of time is insignificant to the expense estimate, the provision will be recognized at nominal value. When the effect of time is significant, the provision will be the discounted present value of the estimated future payments required to settle the liability.

Inventories

Inventories are measured at the lower of cost and net realisable value. The net realisable value is calculated as the selling price less cost to sell. For manufactured products, the acquisition cost is calculated as direct and indirect costs.

Accounts receivable

Accounts receivable are initially recognised at fair value when the Group has an unconditional right to receive the consideration and the payment is only dependent on the passage of time. Accounts receivable are subsequently measured at amortised cost less any loss allowance. Accounts receivable are managed as held for collection and meet the criteria for solely payment of principal and interest (SPPI). The loss allowance is based on the lifetime expected credit loss model and adjusted for market and economic conditions based on management judgement.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position includes cash, bank deposits and all other monetary instruments with a maturity of less than three months from the date of acquisition, and are measured at amortised cost.

Statement of cash flows

The statement of cash flows is prepared according to the indirect method. Interest and dividends received as well as interest paid is included in cash flows from operating activities. Dividends paid is included in cash flows from financing activities.

Operating segments

Q-Free identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments. For management reporting purposes, the Group is organised into segments based on product deliveries. Transfer prices between operating segments are based on an arm's length transaction basis.

Investment in other companies

Investment in other companies is classified as a financial asset available-for-sale under IAS 39 in 2017 and as a fair value over profit and loss (FVOPL) financial asset in 2018 under IFRS 9. The fair value of the financial asset is level 3 as the investment is in a non-listed company. As of year-end 2018 this investment was determined to have a fair value of null and the change in fair value was recognized in the statement of profit or loss. See also Note 30 Investment in other companies.

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 is classified as a discontinued operation. Discontinued operations are presented separately from the result from continuing operations in the statement of profit or loss and the statement of cash flows. Assets and liabilities held for sale are measured at fair value less costs to sell.

Events after the balance sheet date

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

Note 4 / Critical accounting judgements and changes in accounting policies

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make estimates and judgements that affect the reported amounts of revenues, expenses, assets and liabilities. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future reporting periods.

Management has based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. The following accounting policies represent areas that are considered more critical, involving a higher degree of judgment and complexity.

Complex project revenue and contract asset recognition

Q-Free Group delivers ITS systems solutions in many different locations world-wide, and at different levels of project size, duration and complexity. Projects that are of a shorter duration and/or lower complexity (due to the delivery of previously developed systems, for example) are generally straight-forward and do not require significant management judgement related to the recognition and measurement of project progress or project contract assets. Significant management judgement is, however, exercised over the life of the more complex projects.

Measurement and recognition of revenue and contract assets for complex projects with longer duration and a significant degree of new development (green field projects) requires management to make judgements based on their expectations of future customer behaviour, expected future costs, system viability and delivery in accordance with customer expectations. Revenue recognition requires an assessment of the possibility of breach of contract and acceptance of the delivery by the customer, as the customer of complex projects is very often a governmental unit with the ability to refuse acceptance or change the requirements during the project lifetime.

Contract assets represent Q-Free’s right to consideration in exchange for goods or services that Q-Free has transferred to the customer when that right is conditioned on something other than the passage of time. In some cases complex project contracts have generous terms towards the customer which can give rise to be a significant contract risk for Q-Free as a supplier. Assessment of the risk of the customer accepting the project deliveries requires management judgement and affects the timing and recognition of the contract asset (and correspondingly the project revenue) for these projects. Management makes assessments regarding what should be delivered within the contract, changes in project scope and/or time schedule changes that can affect the total cost structure and margin. Judgment is required related to estimating the probability of a possible or perceived breach of contract by the customer, rejection of the deliveries or progress made to-date or significant project specification changes not covered in the original transaction price agreement.

Contract management can be challenging, as there often are discussions regarding what deliveries are within the contract and which change orders are or are not to be included in the contract. Complex contracts usually include discussions during the lifetime of the project regarding changes and potential liability assessments related to errors and/or delays. All of these management assessments affect the timing and recognition of contract assets / revenue and may not reflect the actual outcome of future reporting periods.

Goodwill impairment testing
In accordance with IAS 36 Impairment of Assets, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances give an indication of possible goodwill impairment. Q-Free preforms an impairment test of goodwill annually in the fourth quarter.

Management monitors each cash-generating unit (CGU) for impairment indicators. Each of the Group's reporting segments is defined as the lowest cash-generating unit level. Goodwill valuation is dependent on segment profitability, which is measured using a 12-month rolling metric for Revenue and EBIDTA. If the profitability measures indicate that the segment is not performing in accordance with budgets and management expectations, the segment is tested for impairment.

An impairment loss is recognised for the amount by which the CGU's carrying amount exceeds its recoverable amount. Management defines the recoverable amount as the estimated value in use. The value in use is the net present value of the estimated cash flows before tax. The discount rate used is the weighted average cost of capital (WACC) before tax, calculated for each CGU. A possible impairment of goodwill is determined by assessing the recoverable amount of the CGU to which the goodwill relates. For additional information, refer to Note 14 Goodwill.

Deferred tax assets
Valuation of deferred tax assets is dependent on Management's assessment of future recoverability of the deferred benefit. Expected recoverability may result from expected taxable income in the future, planned transactions or planned tax optimizing measures, all of which may be uncertain. In certain tax jurisdictions deferred tax assets may or may not be recognised when there are tax loss carryforwards.

Management recognises a deferred tax asset based on a tax loss carryforward position only to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Management exercises significant judgement in assessing if it is probable that future income will be available to utilise the deferred tax asset. The assessment is based on the order backlog, prior years' profitability margins, and the progress and margins realised to date on existing on-going projects. Deferred tax asset recognition is reassessed at each reporting date and additional deferred tax assets are recognised only 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 of 31 December 2018 was TNOK 14 795 and represents 13 % of the total possible deferred tax asset that could have been recognised based on unutilised tax losses and estimated reversal of temporary differences (TNOK 16 864 as of 31 December 2017; 14 % of the total possible deferred tax asset). For additional information related to taxes see Note 22 Taxes.

New accounting policies adopted as of 1 January 2018

Q-Free Group adopted the following new standards as of 1 January 2018:

- IFRS 15 Revenue from Contracts with Customers; effective date 1 January 2018
- IFRS 9 Financial Instruments, effective date 1 January 2018

IFRS 15 Revenue from Contracts with Customers
Q-Free Group has adopted IFRS 15 Revenue from Contracts with Customers as of 1 January 2018. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. The new standard establishes a new set of principles that shall be applied to report information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 was adopted by the Group using the modified retrospective transition method without any material implementation effect to the consolidated statement of financial position and statement of changes in equity. All product deliveries and systems projects have the same accounting treatment under IFRS 15 as with the previous standards.

Contracts with customers were analysed based on the following performance obligations:

Product deliveries - Revenue from the sale of products is recognised at a point in time, either on delivery to the customer or at the point of shipping depending on when the specifics of a particular contract result in control of the goods being passed to the customer.

Service & Maintenance - Revenue relating to Service & Maintenance contracts is recognised over time. Revenue is recognised based on the passage of time as the service and maintenance are performed.

System projects - Revenue relating to system projects is recognised over time since the assets delivered within the project contract have no alternative use and the Group is entitled to payment for work performed over the duration of the contract. In most contracts there are two performance obligations, which is system delivery (both hardware installations and software deliveries) and Service & Maintenance. Revenue is recognised by measuring progress towards completion of the performance obligation, and input methods like cost incurred will be used to measure progress. In some contracts, variable consideration may affect the timing of revenue recognition.

IFRS 9 Financial instruments
The Q-Free Group has adopted IFRS 9 *Financial instruments* as of 1 January 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement.* The new standard sets out new requirements for the accounting of financial instruments in the areas of classification, impairment and hedge accounting.

Q-Free Group has adopted IFRS 9 in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* using the full retrospective approach with no material effect in the Group's consolidated statement of financial position and statement of changes in equity. During 2018 and 2017 the Group did not engage in hedge accounting and all material balances related to financial instruments were recognised at amortised cost. All financial assets are classified at amortised cost under IFRS 9 as these financial assets meet the criteria for the business model Hold to collect and payments of solely principal and interest (SPPI), except for an immaterial financial asset classified as available-for-sale that is at fair value over profit or loss at implementation and recognised at a fair value of null as of year-end 2018. See Note 30 Investments in other companies for additional information. In 2018 Q-Free Group applies an expected credit loss model (ECL) when calculating impairment losses on accounts receivable and contract assets, using the practical expedient in IFRS 9 of a lifetime ECL approach.

New pronouncements not yet adopted

As of the date of authorization of these financial statements, the following standards and interpretations relevant to Q-Free have been issued by the IASB:

- IFRS 16 Leases; effective date 1 January 2019
- IFRIC 23 Uncertainty over income tax treatments; effective date 1 January 2019

As of the date of issue of Q-Free's financial statements, all of these standards and interpretations were endorsed by the EU.

IFRS 16 Leases
Adoption of IFRS 16 Leases will result in the Group recognising right of use assets and lease liabilities for all material contracts that are, or contain, a lease. For leases currently classified as operating leases under current accounting requirements the Group does not recognise related assets or liabilities, and instead recognises the lease payments on a straight-line basis over the lease term. In accordance with IFRS 16 the Group will recognise the right of use assets and lease liabilities in the statement of financial position, and instead of recognising an operating expense for its operating lease payments, the Group will recognise financial interest expense related to the lease liabilities and depreciation expense on the right of use assets.

The leases that will be recognized in the statement of financial position as at 1 January 2019 as finance leases are the office and warehouse leases as well as car rental leases. Leases of IT and office equipment fall within the definition of short-term and/or low value and will remain as operating leases. Q-Free Group will adopt IFRS 16 using the retrospective approach with the modification allowed by IFRS 16 and will not restate prior year comparative figures. Implementing IFRS 16 will not have any effect on 1 January 2019 equity. The range of possible outcomes for the estimated right of use assets and lease liability on 1 January 2019 is from MNOK 80 to MNOK 100.

IFRIC 23 Uncertainty over income tax treatments
The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty,
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored,
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment,
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

IFRIC 23 does not include any new disclosure requirements. The general requirement to provide information about judgements and estimates made in preparing the financial statements is applicable. Q-Free will adopt IFRIC 23 on 1 January 2019 with no significant implementation effect.

Note 5 / Risk management

Financial risk factors and risk management

The responsibility for funding, cash management and financial risk management is handled centrally by the finance department in Q-Free.

Guidelines for the finance activities are determined by the financial strategy, which is reviewed and approved by the Board. The central treasury department acts as the corporate bank and is responsible for all external borrowing and hedging transactions in interest rates and currencies. Q-Free aims to limit its exposure to financial risk.

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

- Credit risk
- Currency risk
- Liquidity risk
- Interest rate risk

The Group currently has a low exposure to variability in the P&L and equity due to changes in fair value, as all financial instruments as of year-end 2018 are held at amortised cost. An overview of the Group's financial instruments is presented at the end of this note.

a) Credit risk
Risk related to a customer's ability to fulfil their financial obligations is generally considered to be low, given that the Group's customers are primarily government controlled entities, or relatively large and financial stable private companies. The Group overall has a historically low level of credit losses on accounts receivable.

Sovereign risk related to governments failing to honor their payment obligations may have increased in several markets, although Q-Free Group has not incurred any losses during 2018 or 2017 on government related accounts receivable in any of the existing markets.

The Group only sells products or enters into long-term contracts with customers (private or government) with an acceptable credit record/ rating and low credit risk. The Group assess regularly that outstanding customer balances are kept below Group policy credit limits and new sales are only made to customers with no history for significant credit problems.

When entering a new market, Q-Free assesses the credit risk in each individual case and utilises appropriate actions, including letters of credit, Norwegian Export Credit Agency (GIEK) guarantees, advance payments, or other similar measures to reduce customer specific credit risk.

The Group has no significant credit risk linked to any individual customer or to contracting parties that may be regarded as a group due to similarities in credit risk.

All cash balances are held in bank accounts that have been evaluated to meet Q-Free Group credit risk policies and Group cash balances are evaluated as of 31 December 2018 to have low credit risk.

Additional information related to accounts receivable and an aging analysis as of 31 December 2018 and 2017 is provided in Note 17 Accounts receivable.

b) Currency risk
Q-Free Group companies are exposed to currency risk in the ordinary course of business when sales or expenses are incurred in a currency other than the functional currency of the company. The Group's most important trading currencies are NOK, USD, GBP and EUR, and during the reporting period most of the Q-Free entities have engaged in transactions with currency exposure risk. The Group's policy is to denominate payment terms in customer and supplier contracts whenever possible in the local currency.

Funding for subsidiary companies in the Group is provided by Q-Free ASA to the entities in their local currency. Therefore Q-Free ASA, as the parent company, has currency risk related to the long-term funding of the operating entities with functional currencies other than NOK. These currency exchange gains and losses are in the statement of profit or loss presented as financial income/financial expenses.

Q-Free Group is also exposed to currency risk on the net investment in each of the subsidiaries made by Q-Free ASA. These currency exchange gains and losses are in the statement of comprehensive income presented as currency translation differences, net of tax.

As of 31 December 2018 and 2017, the Group did not own any foreign currency derivatives or have any explicit economic hedges in place to manage currency risk. Management is currently working to finalize a detailed currency risk strategy to address the exchange gains and losses from transactions in currencies other than the functional currency

The following table gives the estimated sensitivity to the average change over the last 5 years in the EURO, GBP and USD exchange rate as compared to the Norwegian krone for the Group's profit before tax (due to currency changes in the Group's monetary assets and liabilities), with all other variables held constant.

Table 5.1 The split of revenues and the balance sheet as of 31 December in currencies

	Revenues		Assets	
	2018	**2017**	**2018**	**2017**
USD	34 %	27 %	44 %	32 %
EUR	25 %	34 %	17 %	14 %
GBP	7 %	34 %	14 %	12 %
NOK	18 %	1 %	16 %	30 %
OTHER	16 %	5 %	9 %	11 %

Table 5.2 The split of the balance sheet as of 31 December in currencies was distributed between the balance lines as follows

	2018				
	USD	**EUR**	**GBP**	**NOK**	**OTHER**
Deferred tax assets	0 %	41 %	49 %	1 %	9 %
Intangible assets	33 %	2 %	15 %	50 %	0 %
Goodwill	63 %	15 %	22 %	0 %	0 %
Property, plant and equipment	28 %	8 %	6 %	51 %	8 %
Non-current receivables	32 %	0 %	0 %	0 %	68 %
Total non-current assets	**51 %**	**11 %**	**20 %**	**17 %**	**1 %**
Inventories	33 %	15 %	26 %	25 %	0 %
Contract assets	69 %	0 %	1 %	30 %	0 %
Accounts receivable	27 %	37 %	5 %	10 %	22 %
Other current assets	12 %	27 %	2 %	17 %	42 %
Cash and cash equivalents	30 %	27 %	4 %	0 %	37 %
Total current assets	**35 %**	**24 %**	**7 %**	**15 %**	**19 %**
TOTAL ASSETS	**44 %**	**17 %**	**14 %**	**16 %**	**9 %**
Total non-current liabilities	12 %	0 %	0 %	87 %	0 %
Total current liabilities	42 %	10 %	3 %	36 %	9 %
TOTAL LIABILITIES	**29 %**	**6 %**	**1 %**	**59 %**	**5 %**

	2017				
	USD	EUR	GBP	NOK	OTHER
Deferred tax assets	12 %	40 %	42 %	1 %	5 %
Intangible assets	42 %	4 %	17 %	37 %	0 %
Goodwill	62 %	15 %	23 %	0 %	0 %
Property, plant and equipment	17 %	11 %	8 %	50 %	15 %
Investments in other companies	0 %	0 %	0 %	100 %	0 %
Non-current receivables	2 %	9 %	0 %	0 %	88 %
Total non-current assets	**52 %**	**12 %**	**21 %**	**14 %**	**1 %**
Inventories	29 %	17 %	24 %	19 %	11 %
Contract assets	9 %	0 %	0 %	88 %	3 %
Accounts receivable	38 %	27 %	8 %	8 %	19 %
Other current assets	8 %	15 %	1 %	12 %	65 %
Cash and cash equivalents	-3 %	33 %	3 %	19 %	47 %
Total current assets	**16 %**	**16 %**	**5 %**	**43 %**	**20 %**
TOTAL ASSETS	**32 %**	**14 %**	**12 %**	**30 %**	**11 %**
Total non-current liabilities	34 %	0 %	0 %	65 %	0 %
Total current liabilities	38 %	6 %	3 %	46 %	8 %
TOTAL LIABILITIES	**37 %**	**4 %**	**2 %**	**52 %**	**6 %**

A 10 percent weaker/stronger NOK would normally lead to a 12-15 percent increase/decrease in EBITDA. Currency fluctuations would in addition affect the book value of assets and liabilities in Q-Free's foreign subsidiaries. A 10 percent weakening/strengthening in the value of the NOK would have increased/decreased equity by approximately TNOK 57,055 as per balance 31 December 2018. (This analysis assumes all other variables remain constant.) Such changes in alue would however only have limited Profit and loss impact as they are mainly booked as translation differences against equity.

Table 5.3 Currency risk sensitivity analysis - isolated currency rate changes impact on earnings before interest, taxes, depreciation and amortisation (EBITDA)

	2018		2017	
Amounts in TNOK	Income	Total operating expenses	Income	Total operating expenses
10 % currency change USD/NOK	30 391	-32 450	25 917	-28 269
10 % currency change EUR/NOK	22 194	-5 767	32 729	-15 852
10 % currency change GBP/NOK	6 116	-4 595	33 375	-33 155

Table 5.4 Currency risk sensitivity analysis - isolated currency rate changes impact on equity

	2018		2017	
Amounts in TNOK	Increase	Decline	Increase	Decline
10 % currency change USD/NOK	25 734	-25 734	10 716	-10 716
10 % currency change EUR/NOK	13 058	-13 058	12 345	-12 345
10 % currency change GBP/NOK	12 492	-12 492	12 255	-12 255

c) Liquidity risk
Liquidity risk is the risk that Q-Free will not be able to meet its financial obligations as they fall due. The Group manages liquidity through an ongoing review of future commitments. Management's strategy is to hold sufficient cash, cash equivalents, or undrawn credit facilities at any time to be able to finance Group operations, planned investments and obligations. 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. Excess liquidity is placed in higher-interest bearing accounts, in order to earn a better return but still have quick access to these funds. The Board of Directors assesses the available liquidity at the end of 2018 to be sufficient to finance the company's ordinary operations and operational investments for 2019. The board emphasizes the impact the estimated Intelight share purchase obligation might have on Q-Free's short term liquidity (see note 29 Non-current financial liabilities). The board continuously evaluates potential measures to finance any such share purchase.

Additional information related to borrowings and undrawn bank overdraft as of 31 December 2018 and 2017 is provided in Note 7 Borrowings and Note 19 Cash and cash equivalents.

The tables below summarise the maturity profile of the Group's financial liabilities as of 31 December 2018 and 2017, based on contractual undiscounted payments, including estimated future interest payments.

Table 5.5 Financial liability maturity schedule

Year ended 31 December 2018 :	On demand	Less than 3 months	3–6 months	6–12 months	1–2 years	2–5 years	6 years - maturity	Total
Non-current borrowings	582	1 444	8 960	10 339	20 423	170 621	-	212 369
Non-current financial liabilities	-	-	-	-	28 687	8 184	2 787	39 658
Current borrowings	-	159	161	19 802	-	-	-	20 122
Accounts payable	16 952	79 040	-	-	-	-	-	95 992
Current financial liabilities	-	682	69 949	1 364	-	-	-	71 995
Total financial liabilities	**17 534**	**81 325**	**79 070**	**31 505**	**49 110**	**178 805**	**2 787**	**440 136**

Year ended 31 December 2017 :	On demand	Less than 3 months	3–6 months	6–12 months	1–2 years	2–5 years	6 years - maturity	Total
Non-current borrowings	34	848	25 857	26 356	52 063	25 689	-	130 847
Non-current financial liabilities	-	-	-	-	39 400	42 225	4 362	85 987
Current borrowings	-	1 364	121 379	962	83 691	-	-	207 396
Accounts payable	15 176	50 885	20 533	2 678	-	-	-	89 272
Current financial liabilities	-	681	23 081	1 362	-	-	-	25 124
Other financial liabilities	-	6 956	6 956	6 956	-	-	-	20 868
Total financial liabilities	**15 210**	**60 734**	**197 806**	**38 314**	**175 154**	**67 914**	**4 362**	**559 494**

d) Interest-rate risk
The Group is exposed to interest rate risk in the form of changing interest rates on borrowings with floating interest rates. The Group has interest-bearing debt and interest rate risk related to its long-term bank borrowings and short-term credit lines. Management emphasises predictability at all times if entering into any significant new interest bearing debt contracts, as changes in the interest level affect profit before taxes. Management regularly evaluates the need for active hedging of interest rate risk. As of 31.12.18 and 31.12.2017, the Group did not own any interest rate derivatives or have any explicit economic hedges in place to manage interest rate risk.

A change in interest rates of 100 basis points (bps) on the date of balance sheet recognition would have increased (reduced) 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 2017.

Table 5.6 Interest rate risk sensitivity anlaysis

Amounts in TNOK	31. December	
Effect of an interest rate increase of 100 bps:	**2018**	**2017**
Investments with floating interest rates	908	1 054
Loans with floating interest rates	-2 755	-3 050
Profit before tax	**-1 847**	**-1 997**

e) Financial instruments by measurement category
The following tables lists all financial instruments by measurement category in accordance with IFRS 9 as of 31 December for 2018 and in accordance with IAS 39 as of 31 December 2017.

Table 5.7 Financial instruments by category

31 December 2018	Amortised cost	Fair value	Non financial instruments	Total
Financial assets				
Investments in other companies		-		-
Non-current receivables	627			627
Accounts receivable	160 819			160 819
Other current assets			32 051	32 051
Cash and cash equivalents	89 700			89 700
Total	**251 146**	**-**	**32 051**	**283 197**
Financial liabilities				
Non-current borrowings	196 000			196 000
Non-current financial liabilities	630	38 245	783	39 658
Current borrowings	19 521			19 521
Accounts payable	95 992			95 992
Current financial liabilities		71 995		71 995
Other current liabilities			73 641	73 641
Total	**312 143**	**110 240**	**74 424**	**496 807**

31 December 2017	Amortised cost	Fair value	Non financial instruments	Total
Financial assets				
Investments in other companies		387		387
Non-current receivables	2 147			2 147
Accounts receivable	130 487			130 487
Other current assets			37 868	37 868
Cash and cash equivalents	113 633			113 633
Total	**246 267**	**387**	**37 868**	**284 522**
Financial liabilities				
Non-current borrowings	125 000			125 000
Non-current financial liabilities	2 623	83 363		85 986
Current borrowings	203 691			203 691
Accounts payable	89 272			89 272
Current financial liabilities		25 124		25 124
Other current liabiliites	20 868		71 668	92 536
Total	**441 454**	**108 487**	**71 668**	**621 609**

Note 6 / Capital Management

Q-Free's capital management policy is to support long-term growth in EBITDA and Cash Flow from Operations. The Board aims to maintain a healthy balance between liabilities and equity. Q-Free assesses its operational gearing (Net Interest Bearing Debt/Earnings Before Interest, Taxes and depreciation/ amortisation) and the Groups equity ratio. The Groups target is to have an equity ratio of 40 % or more and maximum operational gearing of 3.0.

Q-Free manages its liquidity and funding centrally to cover short and long-term capital needs. The Group is currently implementing a global cash pool where all whole owned subsidiaries participates to the extent permitted by country legislation. The cash pool arrangements facilitate netting of cash positions within the Group reducing the external financing need and interest cost, and centralising management of aggregated positions at the mother company. See also note 5 Risk management for additional information related to liquidity and foreign exchange risk management.

The following table shows the change in Q-Free's capital management KPIs for 2018/as of 31.12.2018 as compared to prior year.

Q-Free's capital management measures

KPI	2018	2017	% change 2017 to 2018
EBITDA	71 091	82 591	-14 %
NIBD	125 821	215 058	-41 %
Operational gearing	1,8	2,6	-32 %
Equity ratio	43 %	39 %	11 %
Cash flow from operations	158 283	-50 714	412 %

Note 7 / Borrowings

Specification	Type	Effective interest rate % - 2018	Maturity	2018	2017
Non-current	Term loan	2.98 %	6 December 2021	100 000	-
Non-current	Revolving Credit Facility (RCF) *	2.98 %	6 December 2021	96 000	-
Current	Credit line **	2.48 %	6 December 2019	19 521	
Non-current	Danske Bank - Serial loan	3.48 %	6 December 2018	-	125 000
Current	Danske Bank - Line of credit	3.28 %	6 December 2018	-	120 000
Current	Citi Bank - Line of credit	4.60 %	6 December 2018	-	83 691
Total				**215 521**	**328 691**

* Share of RCF will be converted to 5 year term loan if RCF is used to fund acquisition of shares in Intelight Inc. with an annual amortisation of 20 %.

** Credit line are renewed annually. See note 19 Cash and cash equivalents for more information regarding undrawn bank overdraft.

Term loan and covenants

The term loan is repayable with an annual amortisation of MNOK 15. The interest rate is 3MND NIBOR + 170 bps.

Q-Free has a NIBD/EBITDA and Equity Ratio covenant on it's bank arrangements.

Net Interest Bearing Debt to EBITDA ratio ("Leverage Ratio") shall at no time be more than 3.00:1, and total Equity to Total Assets ("Equity Ratio") shall at no time be less than 35.00 %.

See Alternative Performance Measures section for "NIBD" and "EBITDA" definitions.

Note 8 / Financial items

Amounts in TNOK

Financial items	**2018**	**2017**
Interest income	1 106	3 518
Realised exchange rate differences	21 594	17 160
Unrealised exchange rate differences	2 270	8 905
Financial income	**24 970**	**29 583**
Interest expense	-2 730	-5 650
Interest on borrowings	-7 542	-11 104
Realised exchange rate differences	-18 236	-18 393
Unrealised exchange rate differences	4 965	-1 475
Fair value change in contingent consideration and other liabilities *	-22 407	-4 273
Other financial expense	-3 829	-2 441
Financial expense	**-49 779**	**-43 336**
NET FINANCIAL ITEMS	**-24 809**	**-13 753**

* Change in contingent consideration and other liabilities in 2018 is explained by a revised estimate on liability for purchase of remaining shares on Intelight Inc of TNOK 21,707 and liability related to pension schemes of TNOK 700. The estimated liability to acquire the remaining shares in Intelight Inc as at 31.12.18 is TNOK 93,813.

Note 9 / Operating segments

The Group discloses operating segment information under IFRS 8 Operating Segments, which requires the company to identify segments according to the organisation and reporting structure used by management. Operating segments are components of a business that are evaluated regularly by the chief operating decision maker for the purpose of assessing performance and allocating resources. The Group's chief operating decision maker is the members of the corporate management team.

Q-Free has changed its segment reporting as of the first quarter of 2018 to better reflect how the Group is organised and improve the transparency of its reporting.

The operating segments are determined based on how resources and investments are allocated within the Group, as well as on differences in the nature of the operations, solutions, products and services. The Group manages its operations in five segments:

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 and/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 used. Q-Free offers DSRC tags and readers, ALPR and image based solutions, as well as electronic toll collection systems (Multilane free-flow, truck tolling, congestion charging) within this segment.

PARKING

Within the parking segment, the Group offers fixed and wireless sensors to provide real-time information on parking availability. These parking guidance systems register vehicles when they enter the parking facility, the level they stop at, and the space they occupy. This gives Q-Free customers access to real-time occupancy information and trends. Furthermore, this segment includes Parking Access control software (ALPR).

INFOMOBILITY

Typical Infomobility solutions include traffic, bicycle and pedestrian detection and counting, weigh in motion, Journey time monitoring, and weather and air-quality monitoring.

URBAN

Urban offers traffic and mobility management solutions that are based on common protocols and open standards. The products in this segment are smart traffic/intersection control systems. Furthermore, Q-Free offers centralised traffic controller software and cooperative ITS solutions.

INTER-URBAN

Within this segment Q-Free offers intelligent and advanced traffic management systems, which give cities/states timely and relevant information in order to monitor traffic and respond to incidents such as accidents, fires, and traffic jams. Products within this segment are: Advanced Traffic Management systems, Traffic Information Systems, Ramp Metering, and Truck Parking.

Global Functions do not represent a separate segment but are expenses that are not relevant to allocate to one or more of the five segments. Group functions include corporate services, such as management and Group finance services at the Q-Free headquarters. These expenses are reported in a separate column as shown in the following table.

Segment performance is reported to the chief operating decision maker and evaluated based on four measures, Revenue, Gross Contribution, EBITDA and EBIT, and is measured consistently with operating profit or loss in the consolidated financial statements.

Gross Contribution is defined as revenues reduced by cost of goods sold and contractors. Contractors are included in the Gross Contribution measure as this expense is heavily correlated with project and service revenues. Contractors are external consultants and / or services that are consumed under project executions and service and maintenance work.

EBITDA is defined as income before financial income or expense, taxes, and any depreciation, amortisation and impairment. EBIT / EBITDA is used in the income statement as a summation line for other accounting lines.

	TOLLING		PARKING		INFOMOBILITY		URBAN		INTER-URBAN		Global functions		TOTALS 31.12.	
Amounts in TNOK	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
EUROPE	376 160	446 158	26 266	26 935	68 506	46 071	1 164	13 864	21 255	19 390	-	-	493 350	552 419
APMEA	54 186	68 955	5 191	6 979	3 871	10 546	-	-	-	-	-	-	63 248	86 480
AMERICAS	51 103	85 696	20 252	22 254	5 323	7 391	155 932	125 622	99 439	93 613	-	-	332 049	334 576
Revenues	**481 448**	**600 810**	**51 709**	**56 168**	**77 700**	**64 008**	**157 096**	**139 486**	**120 694**	**113 003**	**-**	**-**	**888 647**	**973 475**
COGS	113 671	157 010	18 015	17 766	25 684	24 509	65 286	77 809	3 612	2 412	922	-1 012	227 191	278 493
Contractors	59 876	72 247	6 908	3 241	1 529	1 070	6 745	6 526	17 200	20 850	3	-	92 260	103 934
Gross Contribution	**307 902**	**371 552**	**26 786**	**35 162**	**50 487**	**38 429**	**85 064**	**55 151**	**99 881**	**89 741**	**-925**	**1 012**	**569 196**	**591 048**
Gross margin - %	64.0 %	61.8 %	51.8 %	62.6 %	65.0 %	60.0 %	54.1 %	39.5 %	82.8 %	79.4 %			64.1 %	60.7 %
Total OPEX	224 081	238 244	39 965	42 740	40 425	33 631	54 938	53 610	83 402	73 657	37 484	38 752	480 295	480 634
EBITDA before non-recurring items	**83 820**	**133 309**	**-13 179**	**-7 578**	**10 063**	**4 798**	**30 126**	**1 541**	**16 480**	**16 084**	**-38 409**	**-37 740**	**88 901**	**110 414**
EBITDA margin	17.4 %	22.2 %	-25.5 %	-13.5 %	13.0 %	7.5 %	19.2 %	1.1 %	13.7 %	14.2 %			10.0 %	11.3 %
Depreciation	9 088	12 345	5 597	16 087	9 089	10 280	13 361	29 609	10 267	10 043	-	-	47 401	78 364
EBIT before non-recurring items	**74 733**	**120 964**	**-18 775**	**-23 665**	**974**	**-5 482**	**16 765**	**-28 068**	**6 213**	**6 041**	**-38 409**	**-37 740**	**41 500**	**32 050**
EBIT margin	15.5 %	20.1 %	-36.3 %	-42.1 %	1.3 %	-8.6 %	10.7 %	-20.1 %	5.1 %	5.3 %			4.7 %	3.3 %

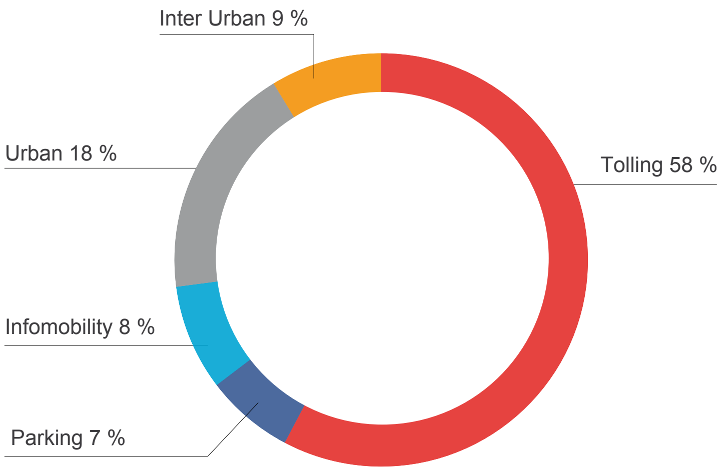
OPEX is exclusive non-recurring items of TNOK 17,810 in 2018 regarding restructuring costs (Tolling TNOK 13,460, Parking TNOK 2,500 and Urban TNOK 1,850) and 27,823 in 2017 regarding settlement of dispute (Tolling).

The Group do not have any revenues from customer over 10 % of Groups total revenues in 2018, whereas in 2017 revenues from the largest customer amounted to TNOK 166,629 (17 % of Groups total revenues in 2017) and were included in the Tolling segment.

Order intake

Segment	2018	2017	%
TOLLING	561 207	305 217	57.7 %
PARKING	67 251	41 893	6.9 %
INFOMOBILITY	80 429	57 884	8.3 %
URBAN	178 515	129 861	18.4 %
INTER URBAN	84 678	80 656	8.7 %
Total	**972 080**	**615 510**	

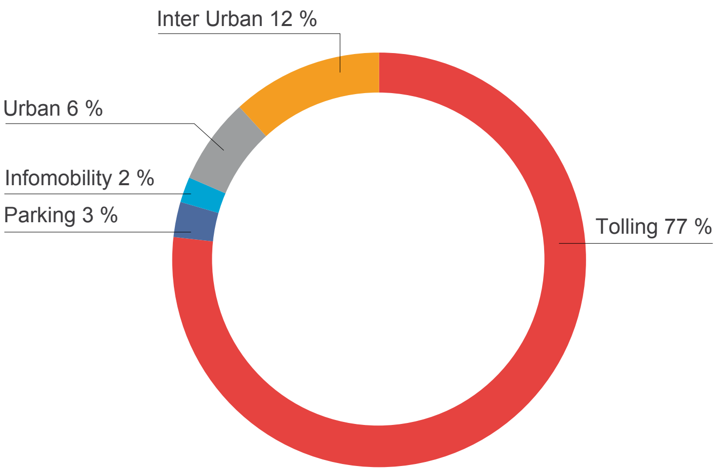
Order intake split 2018



Order backlog

Segment	2018	2017	%
TOLLING	866 017	778 482	76.8 %
PARKING	31 016	15 166	2.7 %
INFOMOBILITY	22 389	18 775	2.0 %
URBAN	75 722	40 303	6.7 %
INTER URBAN	133 034	196 752	11.8 %
Total	**1 128 178**	**1 049 477**	

Order backlog split 2018



Note 10 / Revenue, contract assets and advanced payments from customers

Disaggregation of revenue

In accordance with IFRS 15 management analyses the revenue contracts with customers and disaggregates the revenue into the following product / project categories, which depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors:

- Product deliveries
- Service & Maintenance
- System projects

Revenue from customers is disaggregated in the table below by geographical location, by type of product or project category, by the timing of the reception of revenue, and by segment.

Table 10.1 Disaggregation of revenue from contracts with customers

31 December 2018

Amounts in TNOK	TOLLING	PARKING	INFOMOBILITY	URBAN	INTER-URBAN	Total
EUROPE	376 160	26 266	68 506	1 164	21 255	493 350
APMEA	54 186	5 191	3 871	-	-	63 248
AMERICAS	51 103	20 252	5 323	155 932	99 439	332 049
Revenue from contracts with customers	**481 448**	**51 709**	**77 700**	**157 096**	**120 694**	**888 647**
At a point in time revenue recognition						
Product deliveries (not related to projects)	176 523	14 216	32 574	138 300	4 847	366 460
Total at a point in time revenue recognition	**176 523**	**14 216**	**32 574**	**138 300**	**4 847**	**366 460**
Over time revenue recognition						
Service & Maintenance	139 405	6 034	5 487	974	9 229	161 129
System Projects (includes over-time product deliveries related to projects)	165 520	31 459	39 639	17 822	106 618	361 058
Total over time revenue recognition	**304 925**	**37 493**	**45 126**	**18 796**	**115 847**	**522 187**

31 December 2017

Amounts in TNOK	TOLLING	PARKING	INFOMOBILITY	URBAN	INTER-URBAN	Total
EUROPE	446 158	26 935	46 071	13 864	19 390	552 419
APMEA	68 955	6 979	10 546	-	-	86 480
AMERICAS	85 696	22 254	7 391	125 622	93 613	334 576
Revenue from contracts with customers	**600 810**	**56 168**	**64 008**	**139 486**	**113 003**	**973 475**
At a point in time revenue recognition						
Product deliveries (not related to projects)	177 186	22 613	31 454	138 165	11 674	381 092
Total at a point in time revenue recognition	**177 186**	**22 613**	**31 454**	**138 165**	**11 674**	**381 092**
Over time revenue recognition						
Service & Maintenance	153 569	5 238	6 858	1 263	7 484	174 412
System Projects (includes over-time product deliveries related to projects)	270 055	28 317	25 696	58	93 845	417 971
Total over time revenue recognition	**423 624**	**33 555**	**32 554**	**1 321**	**101 329**	**592 383**

Revenue recognition

Product deliveries

Under the revenue category “Product deliveries” Q-Free delivers hardware products to their customers. These type of products are offered within the Tolling, Infomobility and Urban segments. A customer contract includes either one single delivery or a series of deliveries of the products specified. Each delivery contains one or more products, and each product or batch order of the same product constitute one performance obligation, since the customer can benefit from each good on its own or together with other resources already available. The fixed transaction price is separately stated for each product or batch of products within the contract. In some customer contracts Q-Free offers prospective volume discounts to the customers. In these situations the transaction price contains a variable component. That only affects future revenue recognition. Management uses the expected value method to determine the total amount of consideration for the contract. Revenue from the sale of products is recognised at a point in time, either on delivery to the customer or at the point of shipping depending on when the specifics of a particular contract result in control of the goods being passed to the customer.

Service & Maintenance

Revenue relating to Service & Maintenance contracts is recognised over time, in accordance with IFRS 15. Revenue is recognised as the Service & Maintenance is performed, since the customer simultaneously receives and benefits from the delivery. Service & Maintenance is defined as one performance obligation, but is often negotiated together with System projects in the same customer contract. In this case the transaction price between the performance obligation Service & Maintenance and project delivery has to be allocated, since the contract contains more than one performance obligation. See discussion below regarding the definition of performance obligations, as well the allocation of transaction price between Service & Maintenance and project deliveries. The transaction price for Service & Maintenance is usually a fixed price for the entire period of the service, unless the contract is linked to a service line agreement with special requirements. In that case the transaction price can be variable and management uses the expected value method to estimate the amount consideration.

Service & Maintenance on Q-Free products is offered to customers within all segments.

System projects

Q-Free offers system projects within the Tolling, Parking, Infomobility and Inter-Urban segments. Each project is tailored to the customer’s needs and will vary from contract to contract. Some projects contain completely new concepts and products, for which Q-Free capitalizes internal development costs (see Note 15 Intangible assets). The length of the projects also varies from project to project. However, the main characteristics for determining a customer contract and revenue recognition under the IFRS 15 requirements are the same for all projects and are as described below:

Contracts with customers within System projects are set up in writing and are signed by both parties typically.

Projects consist of the delivery of hardware, installations, software, Service & Maintenance, as well as options for additional deliveries.

- Options to acquire additional deliveries within the project are a separate performance obligation only if they provide a material right to the customer, i.e. if the price for the additional deliveries is significantly lower than the market price. If the option does not contain a material right, the option is not a separate performance obligation and is combined with the hardware, installations and software into one single performance obligation. Q-Free did not have any material rights in their 2018 contracts related to System projects.
- Hardware, installations and software together form one performance obligation, since they together secure a combined output, which is the project delivery, and the customer cannot benefit from each individual item on its own.
- Service & Maintenance are one separate performance obligation, since the customer can benefit from those services on its own or together with other resources already available and the promise is separately identifiably from other promises.

The transaction price for the whole project is a fixed amount and is stated in each individual contract. A variable component can be included in the contract for late deliveries or performance bonuses. Management uses critical judgment, as well as the expected value method to estimate the amount of consideration to which Q-Free is entitled, as Q-Free has a large a number of contracts with similar characteristics and experience with this type of projects.

The stand-alone selling price is used as a basis for the allocation of the transaction price to the different performance obligations, for example the allocation between Service & Maintenance and the other performance obligations in the project customer contract. In cases where no stand-alone selling price is readily available, management uses a cost plus margin method to determine the stand alone selling prices to be used in the transaction price allocations.

Revenue relating to system projects is recognised over time since Q-Free develops an asset for their customers that has no alternative use and is delivered at the customer’s location. Q-Free is also entitled to payment for work performed up to any point in time during the life of the contract. Revenue is recognised by measuring progress towards completion of the performance obligation. The method used to measure the progress and percentage of completion of each individual project is an input method which determines costs incurred to date and compares these costs to the expected overall cost for the project. Judgement is used in determining cost incurred to date and in estimating total project cost.

If the estimated life time of a project is more than 12 months, management takes into consideration the financing component of the contract.

Significant ongoing projects

The following table shows the total amount of contractually agreed transaction prices which are allocated to performance obligations that have not been satisfied as of year-end. This amount belongs to the outstanding part of the projects and will be recognised as revenue in future periods, when the performance obligations have been satisfied.

Table 10.2 Total amount of the transaction price for all ongoing system projects not yet recognised

Amounts in TNOK	2018
Total amount of the transaction price for all ongoing system projects not yet recognised	487 782

Upon implementation of IFRS 15, management has decided to use the practical expedient under IFRS 15.C5 and not disclose 2017 comparative figures for the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

Management expects that 49 % of the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognised as revenue during the next financial year and 22 % in the 2020 financial year. The remaining 29 % is expected to be recognised in the 2021 financial year. The amount disclosed above does not include variable consideration which is constrained.

Revenues in the Tolling segment ended at 481 MNOK (601 MNOK), a YoY decline of 20 %. The decrease is mainly explained by 117 MNOK in lower revenue recognition from the nationwide truck tolling project in Slovenia that was delivered in 1st half 2018.

Contract assets and advance payments from customers

Contract assets and advance payments from customers are disclosed in the Statement of financial position.

Contract assets
Upon adoption of IFRS 15, Work in progress in its entirety is now recognised as an IFRS 15 contract asset, as per the opening balance sheet of 1 January 2018 in the amount of TNOK 227 154.

Contract assets are recognised whenever a performance obligation is satisfied before consideration is received. Contract assets are assessed for impairment in accordance with IFRS 9. As of 31 December 2018, contract assets have been reviewed for impairment, and are impaired in an amount of TNOK 0.

Advance payments from customers
Advance payments from customers is recognized if Q-Free receives consideration or if it has the unconditional right to receive consideration in advance of performance.

The following table shows the revenue recognised in 2018, with 2017 comparatives, that relates to advance payments from customers.

Table 10.3 Revenue recognised from advance payments from customers

Amounts in TNOK	2018	2017
Revenue recognised in this period that was included in advance payments from customers at the beginning of the period:		
Tolling	5 417	8 764
Parking	142	138
Infomobility	6 134	2 775
Total revenue recognised from advance payments from customers	**11 693**	**11 677**

Note 11 / Employee benefit expenses

Amounts in TNOK

Employee benefit expenses	2018	2017
Salaries	291 258	272 693
Social security costs	33 236	33 358
Pension costs (contribution plan)	13 754	10 315
Skattefunn (governmental tax relief)	-	1 325
Capitalised personnel costs	-16 932	-14 667
Other personnel related costs	11 168	15 705
Total	**332 484**	**318 730**
Average number of employees	390	416
Average number of man-years	386	412

Pension cost

The parent company has a defined contribution pension plan for the Norwegian employees. As of 31 December 2018, 114 employees in Norway (2017: 116) are included in the defined contribution pension plan.

The parent company contributes with 5.0 % of salaries between 0 - 7.1 G and 8.0 % of salaries between 7.1 - 12 G to the defined contribution pension plan, total TNOK 5,560 (2017: 4,203) per contributed year.

Conversion to defined pension plan

The Parent company terminated the defined benefit plan per 31 December 2016, and all employees in Norway are now included in the defined contribution plan. The 27 employees involved in this process were given a wage compensation for lost pension benefits.

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

The provision for future payments as compensation for lost pension benefits in 2018 is TNOK 16,427 (2017: TNOK 17,982). The revised estimate per 31 December 2018 is TNOK 16,427, of which TNOK 13,699 is classified as non-current liabilities and TNOK 2,728 is classified as current liabilities

Compensation for conversion to defined contribution plan	2018	2017
Non-current financial liabilities	13 699	15 258
Current financial liabilities	2 728	2 724
Total pension liability 31.12.	**16 427**	**17 982**

Expenses related to compensation for conversion to defined contribution plan	2018	2017
Pension cost - change in estimated compensation amount	777	-
Pension cost - change in discount rate	-350	2 501
Financial expense - time effect at present value calculation	700	719
Total expenses related to conversion from defined benefit plan	**1 127**	**3 220**

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 10-year Norwegian government bonds. A discount rate of 1.9 % is applied in the calculation (2017: 1.6 %).
- **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. An annual growth of 2.5 % in salaries is applied in the calculation (2017: 2,5 %).
- **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.

Note 12 / Management and Board of directors remuneration

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 Group, 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 performance based bonus system for managers. For the CEO, such bonus shall be at most 75 % of the fixed yearly salary, whereof at least 25 % of the net bonus payment shall be used to buy shares in Q-Free ASA. For the other members of the management team, such bonus shall be at most 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.

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. Any severance pay for leading executives may not exceed six (6) months, and must be submitted to the Chair of the Board for treatment. 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. It is specified that the Company does not enter into employment contracts with leading employees on severance pay on their own voluntary termination. A limited exception is the CEO who, under certain conditions, has such a right by mergers/acquisitions.

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 2018:	2018						
Amounts in TNOK	Salary	Bonus	Director's remuneration	Contribution to pension plan	Other remuneration	Share-based payment expense *	TOTAL
Tore Valderhaug, Chair of the Board			493				493
Trond Valvik, Vice Chair of the Board			340				340
Ragnhild Wahl, Board member			243				243
Snorre Kjesbu, Board member			256				256
Ingeborg Molden Hegstad, Board member [1]			-				-
Rune Jøraandstad, Employee elected Board member			80				80
Olav Gulling, Employee elected Board member [2]			-				-
Sissel Nina Lillevik Larsen, Employee elected Board member [3]			84				84
Heidi Finskas, Chair Nomination committee			45				45
Øystein Elgan, Nomination committee			30				30
Fredrik Thoresen, Nomination committee [4]							-
Andreas Berdal Lorentzen, Nomination comittee [5]			30				30
Håkon Rypern Volldal, Chief Executive Officer	3 326	1 049		73	12	62	4 522
Tor Eirik Knutsen, Chief Financial Officer	2 133	60		74	12	102	2 380
Per Fredrik Ecker, Senior Vice President APMEA	2 801	125		75	70		3 071
Morten Andersson, Senior Vice President AMERICAS	2 115	386		269	429	68	3 267
Fredrik Nordh, Senior Vice President EUROPE	1 944	68		426	123	90	2 652
Arvid Strømme, Vice President Service Line Tolling [6]	1 093	138		69	12		1 312
Kristina Hafreager Bergstad, Vice President Service Line Parking [7]	721	123		39	7		891
Pål-Andre Almlie, Vice President Supply Chain Management	1 182	192		66	12		1 452
Jan-Erik Sandberg, CTO [8]	1 096			74	12		1 181
TOTAL	**16 411**	**2 141**	**1 600**	**1 165**	**688**	**322**	**22 328**

1) Ingborg Molden Hegstad serves as Board member from 29.05.2018
2) Olav Gulling serves as Employee elected Board member from 29.05.2018
3) Sissel Nina Lillevik Larsen served as Employee elected Board member until 29.05.2018
4) Fredrik Thoresen serves as member of the Nomination Committee from 29.05.2018.
5) Andreas Berdal Lorentzen served as member of the Nomination Committee until 29.05.2018
6) Arvid Strømme served as Vice President Service Line Tolling until 22.01.2019
7) Kristina Hafreager Bergstad served as Vice President Service Line Parking until 31.08.2018
8) Jan-Erik Sandberg served as Vice President Global Platforms from 01.09.2018 and Chief Technology Officer from 22.01.2019

* Share-based payment expense is the expense recognised in 2018. See note 13 for further information.

Payments to senior management and Board of directors 2017: Amounts in TNOK	2017						
	Salary	Bonus	Director's remuneration	Contribution to pension plan	Other remuneration	Share-based payment expense *	TOTAL
Tore Valderhaug, Chair of the Board[1)]			217				217
Trond Valvik, Vice Chair of the Board [2)]			0				0
Ragnhild Wahl, Board member			126				126
Snorre Kjesbu, Board member			139				139
Sissel Nina Lillevik Larsen, Employee elected Board member			44				44
Rune Jøraandstad, Employee elected Board member			40				40
Heidi Finskas, Chair Nomination committee [3)]			0				0
Andreas Berdal Lorentzen, Nomination comittee			30				30
Øystein Elgan, Nomination committee [4)]			0				0
Charlotte Brogren Karlberg, former Chair and member of the Board [5)]			208				208
Jeanett Bergan, former Chair of the Nomination comittee [6)]			45				45
Thomas Alexander Vogt, former member of the Nomination comittee [7)]			30				30
Håkon Rypern Volldal, Chief Executive Officer	3 075	606		67	11	34	3 794
Tor Eirik Knutsen, Chief Financial Officer [8)]	551			18	3	26	598
Per Fredrik Ecker, Senior Vice President APMEA	2 801			69	12		2 883
Morten Andersson, Senior Vice President AMERICAS	2 599			75	16	17	2 707
Fredrik Nordh, Senior Vice President EUROPE [9)]	571			134	31	23	759
Arvid Strømme, Vice President Service Line Tolling	1 071			65	11		1 148
Kristina Hafreager Bergstad, Vice President Service Line Parking	964			59	11		1 034
Pål-Andre Almlie, Vice President Supply Chain Management	1 153			61	12		1 227
Roar Østbø, former Chief Financial Officer [10)]	2 659			75	192		2 926
Pål Rune Johansen, former Senior Vice President Region NORDIC [11)]	1 397			69	10		1 476
TOTAL	**16 843**	**606**	**879**	**693**	**311**	**99**	**19 430**

1) Tore Valderhaug served as Vice Chair of the Board until 24.05.2017, and serves as Chair of the Board from 24.05.2017.
2) Trond Valvik serves as Vice Chair of the Board from 24.05.2017.
3) Heidi Finskas serves as Chair of the Nomination Committee from 24.05.2017.
4) Øystein Elgan serves as member of the Nomination Committee from 24.05.2017
5) Charlotte Brogren Karlberg served as Chair of the Board until 24.05.2017, and as member of the Board until 26.10.2017.
6) Jeanett Bergan served as Chair of the Nomination Committe until 24.05.2017.
7) Thomas Alexander Vogt served as member of the Nomination Committee until 24.05.2017.
8) Tor Eirik Knutsen serves as CFO from 02.10.2017.
9) Fredrik Nordh serves as SVP EUROPE from 18.09.2017.
10) Roar Østbø served as CFO until 31.05.2017.
11) Pål Rune Johansen served as SVP Nordic until 18.09.2017.

* Share-based payment expense is the expense recognised in 2017. See note 13 for further information.

Note 13 / Share based compensation

SHARE BASED OPTION PROGRAMME FOR THE CEO - ESTABLISHED MAY 2018

The Parent 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 869,970, 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 377,836 options is exercisable in the period from 3 June 2021 to 3 June 2024. Tranche two of 269,881 options is exercisable in the period from 3 June 2022 to 3 June 2024. Tranche three of 222,255 options is exercisable in the period from 3 June 2023 to 3 June 2024. The strike price for the first tranche is calculated based on average volume weighted price for the Q-Free share in the month prior to the allocation (that is NOK 7.94 per share), and a mark-up equivalent to 40 % (that is, NOK 11.12 per share) for the second tranche and 70 % (that is, NOK 13.50 per share) for the third tranche. The agreement includes clauses to limit the maximum profit. 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.

The market value of granted share options is TNOK 271, and the cumulative expense recognised per 31 December 2018 is TNOK 96 (2017: TNOK 34). The weighted average share price included in the calculation of market value is NOK 7.8 and the volatility is 10.5 %.

Specification of share option activity:	**2018**
Granted share options 01.01	-
Share options granted	869 970
Share options exercised	-
Share options expired/terminated	-
Granted share options 31.12	**869 970**
Vested share options 31.12	**-**

Name	Position	Tranche	Number of options	Strike price	Agreement in force	Expires
Håkon Rypern Volldal	CEO	Tranche 1	377 834	NOK 7.94	03.06.2018	03.06.2024
		Tranche 2	269 881	NOK 11.12	03.06.2018	03.06.2024
		Tranche 3	222 255	NOK 13.50	03.06.2018	03.06.2024

SHARE BASED OPTION PROGRAMME FOR LEADING EXECUTIVES - ESTABLISHED MAY 2017

The Parent company has implemented a five-year option program for leading Executives that is distributed upon three tranches (which are vested over three years), and with a maximum number of share options of 2,500,000, where each tranche may be exercised two years after it has been vested. No consideration will be paid for the share options. Tranche one of 604,578 options is exercisable in the period from 1 October 2020 to 1 October 2023. Tranche two of 431,841 options is exercisable in the period from 1 October 2021 to 1 October 2023. Tranche three of 355,634 options is exercisable in the period from 1 October 2022 to 1 October 2023.The strike price for the first tranche is calculated based on average volume weighted price for the Q-Free share in the month prior to the allocation (that is NOK 8.52 per share). Strike price for the second tranche has a mark-up equivalent to 40 % (that is NOK 11.93 per share), and 70 % (that is 14.48) for the third tranche. The agreements include clauses to limit the maximum profit. If the share price for one Q-Free ASA share at the time of exercise of share options is higher than NOK 40 per share, the strike price shall be adjusted up with the difference between the share price for one Q-Free ASA share for the above-mentioned time and NOK 40 per exercised share option.

There is a change with effect from 1 April 2019 in the share based option programme for leading executives. 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 leading executives 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.

The Board had power to offer share options under this program to leading executives who previously has been awarded synthetic share options under the program approved in 2015 (3.1), provided leading executives gave up their synthetic options. The synthetic share option program ended 16 March 2019, hence this clause is no longer in force.

The market value of granted share options is TNOK 774, and the cumulative expense recognised per 31 December 2018 is TNOK 325 (2017: TNOK 65). The weighted average share price included in the calculation of market value is NOK 8.5 and the volatility is 17.6 %.

Specification of share option activity:	2018	2017
Granted share options 01.01	1 392 053	-
Share options granted	-	1 392 053
Share options exercised	-	-
Share options expired/terminated	-	-
Granted share options 31.12	**1 392 053**	**1 392 053**
Vested share options 31.12	**-**	**-**

The share options split for leading Executives as per 31.12.2018:

Name	Position	Tranche	Number of options	Strike price	Agreement in force	Expires
Tor Eirik Knutsen	CFO	Tranche 1	258 216	NOK 8.52	02.10.2017	02.10.2023
		Tranche 2	184 440	NOK 11.93	02.10.2017	02.10.2023
		Tranche 3	151 892	NOK 14.48	02.10.2017	02.10.2023
Morten Andersson	SVP AMERICAS	Tranche 1	117 371	NOK 8.52	02.10.2017	02.10.2023
		Tranche 2	83 836	NOK 11.93	02.10.2017	02.10.2023
		Tranche 3	69 042	NOK 14.48	02.10.2017	02.10.2023
Fredrik Nordh	SVP EUROPE	Tranche 1	228 991	NOK 8.52	02.10.2017	02.10.2023
		Tranche 2	163 565	NOK 11.93	02.10.2017	02.10.2023
		Tranche 3	134 700	NOK 14.48	02.10.2017	02.10.2023

Per 1 April 2019 the Parent company has granted a total of 402,438 share options to Jan-Erik Sandberg, CTO, in accordance with the incentive program for leading executives established in May 2017.

SHARE BASED OPTION PROGRAMME FOR THE CEO - ESTABLISHED MAY 2016 AND CANCELLED/ REPLACED MAY 2018

The Parent company had 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. The agreement includes clauses to limit the maximum profit. 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.

The market value of granted share options is TNOK 68, and the cumulative expense recognised per 31 December 2018 is TNOK 57 (2017: TNOK 34). The weighted average share price included in the calculation of market value is NOK 9.5 and the volatility is 17.6 %.

Specification of share option activity:	2018	2017
Granted share options 01.01	630 628	630 628
Share options granted	-	-
Share options exercised	-	-
Share options expired/terminated	-630 628	-
Granted share options 31.12	**-**	**630 628**
Vested share options 31.12	**-**	**-**

The share option split for the CEO under the cancelled program:

Name	Position	Tranche	Number of options	Strike price	Agreement in force	Expires
Håkon Rypern Volldal	CEO	Tranche 1	273 973	NOK 10.95	01.08.2016	03.06.2018
		Tranche 2	195 695	NOK 15.33	01.08.2016	03.06.2018
		Tranche 3	161 160	NOK 18.62	01.08.2016	03.06.2018

SYNTHETIC BASED OPTION PROGRAMME - ESTABLISHED MAY 2015 AND EXPIRED 16 MARCH 2019

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 an incentive program with a maximal duration of four years. The agreements under this program were in force from 2015, and the program was then closed for further grants.

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 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.

Specification of syntetic share option activity:	2018	2017
Granted synthetic options 01.01	280 000	600 000
Syntetic share options granted	-	-
Syntetic share options exercised	-	-
Syntetic share options expired/terminated	-	320 000
Granted syntetic share options 31.12	**280 000**	**280 000**
Vested syntetic share options 31.12	**186 667**	**93 333**

The syntetic share options split for management as per 31.12.2018:

Name	Position	Number of options	Strike price	Agreement in force	Expires
Per Fredrik Ecker	SVP APMEA	70 000	NOK 13.07	01.07.2015	30 days after Q4-2018 presentation

The deviation of granted synthetic share options as per 31.12.2018 and management number of granted syntetic share options a per 31.12.2018 is due to organisational changes and exchange of incentive program during the program.

The fair value of the liability of the syntetic share options was measured as at the reporting date 31.12.18 and there was no cost recognition. The shareprice was NOK 7.70 as at 31.12.18 and with a strike price on 13.07 management has assessed the potential for exercise to be insignificant.

The fair value of the liability of the syntetic share options was measured as at the reporting date 31.12.17 and there was no cost recognition. The shareprice was NOK 8.05 as at 31.12.17 and with a strike price on 13.07 management has assessed the potential for exercise to be insignificant.

Note 14 / Goodwill

In accordance with IAS 36, goodwill is reviewed at least annually for impairment and, in addition, whenever impairment indicators are determined to be present. Management has elected to perform the annual impairment test of goodwill in the fourth quarter. The carrying amount is not recoverable if it exceeds the higher of the asset's or cash generating unit's fair value less costs to sell or the value in use. An impairment loss is recognized in the amount that the carrying value exceeds its recoverable amount.

See also Note 4 Critical estimates, significant judgements and new accounting standards for additional information regarding goodwill impairment testing.

Cash generating units

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units (CGUs), or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

On 1 January 2018 Q-Free reorganized its internal management reporting structure thus changing the operating segments of the group. The change in operating segments changed the composition of the cash generating units to which goodwill was allocated, which resulted in a reallocation of goodwill. The goodwill has been reallocated based on the relative fair values of operations in the original cash generating units to which goodwill was allocated.

From 1 January 2018, Q-Free Group has reported the following segments:
- Tolling
- Parking
- Infomobility
- Urban
- Inter-Urban

Goodwill is monitored for internal management purposes on these segment levels, and the goodwill was reallocated to the segments in the following manner:

Amounts in TNOK	**Reallocated goodwill**	**Goodwill**
CGU / Segment	**1 January 2018**	**31 December 2018 ***
Tolling	36 646	37 048
Parking	9 674	10 106
Infomobility	40 310	42 110
Urban	113 943	119 031
Inter-Urban	104 806	109 486
Total	**305 380**	**317 782**

* The difference from 1 January 2018 to 31 December 2018 is due to currency exchange differences of TNOK 11,902 occurring upon consolidation.

Recoverable amount

The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Q-Free determines the recoverable amount per segment (CGU) based on cash flow projections with an annual estimated growth rate of 2 % for all segments. The projected cash flow is based on the most recent financial target document approved by the board, and the overall financial plan for the next 3-year period. These cash flow projections express the best judgment of management.

Management targets for the 2018 testing of goodwill are based on the following inputs to the model:

- Order backlog
- 12-month rolling P&L figures for the next 3 years
- Two analyst forecasts versus management's forecast for 2018–2020
- Target customer contracts for 2019
- Expected COGS development
- OPEX forecast for the next 3 years

The discount rate for each segment is defined as the weighted average cost of capital (WACC) for a similar business in the same business environment. For 2018 the WACC has been estimated to be between 9.5 % and 10.4 %. The WACC estimated for each segment is given in the table below:

Segment	WACC
Tolling	9.7 %
Parking	10.4 %
Infomobility	9.5 %
Urban	10.2 %
Inter-Urban	10.0 %

Goodwill impairment test

Management has compared the recoverable amount per segment to the carrying amount of the goodwill per segment. For all CGUs the test resulted in the recoverable amount being higher than carrying amount of the goodwill. Therefore, the impairment test for goodwill shows no need for impairment for any of the CGUs in 2018.

During the fourth quarter of 2017 it was decided to initiate processes to exit unprofitable businesses and product lines, which in 2017 resulted in a goodwill impairment of TNOK 8,442 and an intangible asset impairment of TNOK 11,329.

Note 15 / Intangible assets

	Capitalized development cost	Acquired intangible assets	Total
Acquisition cost 01.01.2017	115 173	146 001	261 174
Additions	24 285	-	24 285
Foreign currency translation effect	13	-1 612	-1 599
Acquired cost 31.12.2017	**139 471**	**144 389**	**283 860**
Accumulative amortisation and impairment 01.01.2017	17 239	65 189	82 428
Amortisation of the year	20 498	20 973	41 471
Impairment	10 450	879	11 329
Accumulated amortisation and impairment 31.12.2017	**48 187**	**87 041**	**135 228**
Carrying value 31.12.2017	**91 284**	**57 348**	**148 632**

	Capitalized development cost	Acquired intangible assets	Total
Acquisition cost 01.01.2018	139 471	144 389	283 860
Additions	30 366	-	30 366
Foreign currency translation effect	1 544	1 549	3 093
Acquired cost 31.12.2018	**171 381**	**145 938**	**317 319**
Accumulative amortisation and impairment 01.01.2018	48 187	87 041	135 228
Amortisation of the year	18 133	18 822	36 955
Accumulated amortisation and impairment 31.12.2018	**66 320**	**105 863**	**172 183**
Carrying value 31.12.2018	**105 061**	**40 075**	**145 136**

Estimated lifetime	average 5 years	average 5 years
Amortisation schedule	Straight line	Straight line

Capitalized development cost

Development costs are capitalised in accordance with the accounting policy in Note 3 Significant accounting policies and the capitalised amount less accumulated amortisation is presented in the statement of financial position as “Intangible assets”. Initial recognition of the capitalised cost is based on management's judgment that technological and financial feasibility has been confirmed. This confirmation normally occurs when a Systems project that includes product development has reached a defined milestone according to the project management model. In determining the amount to be capitalised, management makes a judgement as to the level of expected future cash flows from the product, the discount rate to be applied, and the expected product lifetime.

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

Capitalised development costs as of 31 December 2018 consist of product development that supports the Group to deliver fully integrated ITS projects, products, systems and services in the following segments:

- Tolling: DSRC tags and readers, ALPR and image based solutions, Electronic toll collection systems (Multilane free-flow, truck tolling, congestion charging, etc.).
- Parking: Parking Guidance Systems and Parking Access control SW (ALPR)
- Infomobility: Traffic, bicycle & pedestrian detection and counting, Weigh in motion, Journey time monitoring, Weather & air-quality monitoring.
- Urban: Local intersection/traffic controllers, Centralised traffic controller SW, Cooperative ITS solutions.
- Inter-Urban: Advanced Traffic Management systems, Traffic Information Systems, Ramp Metering, Truck Parking.

As of 31 December 2018, the net carrying amount of capitalised development costs was TNOK 145,136 (2017: TNOK 148,632).

Acquired intangible assets

Acquired intangible assets consist of technology, customer relationships and order backlog based on fair value assessments at the date of the acquisition. The carrying value 31.12.18 mainly consist of technology within the following segments:

Parking:	TNOK 2,456
Infomobility:	TNOK 5,428
Urban:	TNOK 24,360
Inter-Urban:	TNOK 7,831

Q-Free has not identified any impairment indicators regarding the technology within these segments.

Note 16 / Inventory and costs of goods sold

Amounts in TNOK

Inventory specification:	2018	2017
Raw material and semi manufactured products	43 705	45 658
Finished goods	28 877	16 921
Inventory for maintenance contracts	13 495	18 273
Provision for obsolescense	-14 081	-15 399
Total	**71 996**	**65 453**

All inventories are valued at the lower of cost and net realisable value. Change in inventory write-down to net realisable value recognised as an income for the Group TNOK 1,318 in 2018 (2017: TNOK 2,730), which is recognised in cost of goods sold.

Amounts in TNOK

COGS specification:	2018	2017
Inventory transferred to customers	219 330	269 897
Freight, customs etc.	7 459	7 262
Warranty cost	1 720	-1 396
Write-down to net realisable value	-1 318	2 730
Total	**227 191**	**278 493**

Note 17 / Accounts receivable

	2018	2017
Accounts receivable	161 910	132 947
Loss allowance	-1 091	-2 460
Total	**160 819**	**130 487**

There is no single customer who represents a large share of the accounts receivable and therefore pose a material credit risk. The accounts receivable are spread across all of the segments and in different countries.

Accounts receivable are denominated in different currencies spread across the different operating segments. The table below shows the distribution in NOK of the different currencies. There is no one single customer who represents a significant share of the account receivables. Accounts receivable are generally not guaranteed, and the Group continually evaluates the credit risk associated with the receivables. The balance in accounts receivable as of 31 December 2018 is the maximum exposure for the Group.

Distribution by currency

Amounts in TNOK	31 December 2018	31 December 2017
Amounts Receivables EUR	59 118	34 680
Amounts Receivables USD	43 148	49 729
Amounts Receivables GBP	8 337	10 737
Amounts Receivables SEK	7 950	4 232
Amounts Receivables AUD	8 807	5 681
Amounts Receivables NOK	16 779	10 160
Amounts Receivables other	16 680	15 268
Total	**160 819**	**130 487**

On 1 January 2018 the Group adopted IFRS 9 and now measures the impairment loss on accounts receivable using a lifetime expected credit loss (ECL) model. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due.

The expected credit loss rates in the provision matrix are based on the payment profiles of sales over a period of 24 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information based on macroeconomic factors affecting the estimated ability of the customers to settle the receivables. Management has identified the probability of a customers' bankruptcy and geographic location of the customer to be the most relevant factors, and accordingly adjusts the historical loss rates appropriately.

Amounts in TNOK

Aging of gross trade receivables	Total	Not due	< 30 days	30-90 days	60-90 days	>90 days
31 December 2018	161 910	118 883	26 606	7 024	5 190	4 207
Loss allowance	-1 091	-	-229	-500	-	-362
Net value 2018	**160 819**					
31 December 2017	132 947	86 767	18 308	8 374	11 975	7 523
Loss allowance*	-2 460					
Net value 2017	**130 487**					

* Loss allowance for 2017 measured under the rules for IAS 39 and is not allocated to the various aging buckets.

On 1 January 2018 the Group adopted IFRS 9, and now measure the loss allowance for accounts receivable at an amount equal to lifetime expected credit losses. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle the receivables. The Group has identified the probability of a customer's bankruptcy and geographic location to be the most relevant factors, and accordingly adjusts the historical loss rates appropriately.

IFRS 9 does not require a restatement of comparative figures. Therefore, the loss allowance for 2017 is not restated. Adoption of IFRS 9 did not give a material difference in the loss allowance ending balances or estimated credit losses for the year.

Note 18 / Other current assets

Amounts in TNOK

Other current assets	**2018**	**2017**
Accrual for Skattefunn grants	-	1 325
Prepaid taxes	8 902	7 874
Outstanding public duties	1 549	3 064
Prepaid rent	1 172	1 668
Prepaid software licenses	3 817	2 200
Prepaid insurance	2 737	874
Prepaid system project expenses	5 278	1 378
Other prepaid expenses	3 719	9 308
Other receivables	4 877	10 177
Total	**32 051**	**37 868**

Note 19 / 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.

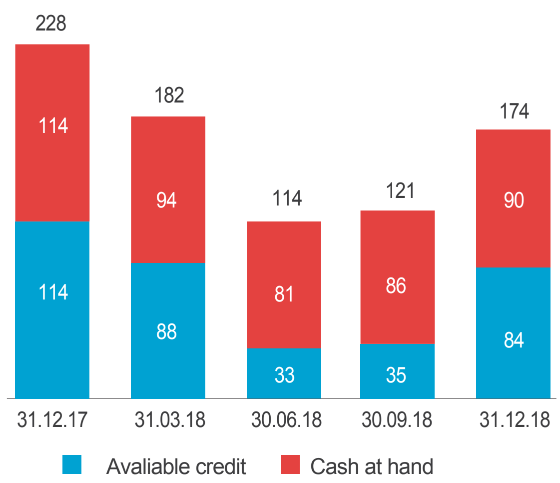
For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

Amounts in TNOK

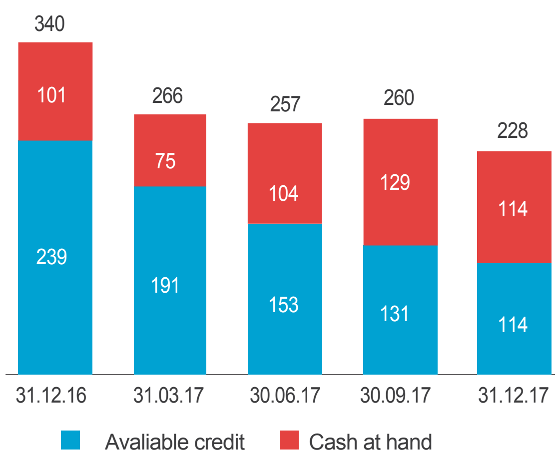
Liquidity funds	**2018**	**2017**
Cash at banks and on hand	86 806	112 034
Money Market Funds	2 894	1 599
Total cash and cash equivalents	**89 700**	**113 633**

As of 31 December 2018, the Group had available TNOK 84,478 (2017: TNOK 113,930) of undrawn bank overdraft and TNOK 34,248 (2017: TNOK 95) of undrawn guarantee facilities in which all conditions precedent had been met.

Cash and credit facilities development during 2018



Cash and credit facilities development during 2017



Note 20 / Accounts payable

Amounts in TNOK

Accounts payable	2018	2017
Accounts payable USD	38 423	40 338
Accounts payable NOK	32 827	19 043
Accounts payable EUR	10 599	13 615
Accounts payable GBP	6 147	3 994
Accounts payable SEK	4 320	5 649
Accounts payable AUD	1 953	2 139
Accounts payable other	1 723	4 494
Total	**95 992**	**89 272**

Note 21 / Other current liabilities

Amounts in TNOK

Other current liabilities	2018	2017
Accrued wages (holiday pay and bonus scheme)	33 148	32 207
Warranty provisions (see spesification for changes during the year)	13 155	11 435
Accrued expense	10 291	12 091
Settlement of Dispute with NPRA*	-	20 868
Restructuring provision **	13 460	3 538
Miscellaneous	3 587	12 397
Total	**73 641**	**92 536**

* On 19 September 2017 Q-Free ASA and the Norwegian Public Roads Administration (NPRA) settled a dispute related to invoicing of services for the central system for toll collection in Norway from 2006 to July 2016. Per the settlement agreement, Q-Free will pay TNOK 27,823 to the NPRA. The settlement amount is paid in four instalments over a period of 12 months, one per each of the next four quarters. TNOK 20 868 was settled during 2018.

** The restructuring provision totalling TNOK 13,460 is related to close-down cost of PT Q-Free Indonesia (Jakarta operations). Restructuring expense was included in employee benefit expense (TNOK 5,818) and other operationg expense (TNOK 7,642).

Warranty provision

The Group estimates probable warranty expense on sales based on historical data and an evaluation of the portfolio of delivered products still under warranty.

Provision for warranty expense 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 claims that are identified. Unused accruals for warranties are reversed at the end of the guarantee-period. All provisions specified in the table below are classified as current liabilities and are presented as part of Other current liabilities in the consolidated statement of financial position.

Amounts in TNOK	Warranty provision
Amount 01.01.17	12 831
Utilised during 2017	-2 672
Additions during 2017	1 276
Total 31.12.17	**11 435**
Amount 01.01.18	11 435
Utilised during 2018	-1 242
Additions during 2018	2 962
Total 31.12.18	**13 155**

Note 22 / Taxes

	2018	2017
Total tax expense for the period		
Taxes payable on this years profit for foreign companies	5 278	6 308
Adjusted allocated tax from last year	-	20
Change in deferred tax for Norwegian companies	72	17
Change in deferred tax for foreign companies	1 610	-4 608
Total	**6 960**	**1 737**
Tax rate	NA	18 %
Taxes payable for the year		
Profit before tax	-1 119	-9 526
Permanent differences	-39 080	40 161
Change in temporary differences	138 219	-29 568
Utilisation of previously unrecognised tax losses	-92 574	-18 782
Basis for taxes payable	**5 446**	**-17 715**
Specification of taxes payable		
Taxes payable on this years profit, Norwegian companies	-	-
Taxes payable on this years profit, foreign companies	5 278	4 973
Advance tax payment, foreign companies *	-9 082	-7 570
Carried forward tax compensation	-2 342	-1 935
Advance tax payment, foreign companies, reclassified to Other current assets	8 908	7 874
Total taxes payable	**2 762**	**3 342**
Specification of deferred tax assets (-) / deferred tax liabilities (+)		
Differences evaluated to be offset:		
Property, plant and equipment	-9 766	-2 487
Non-current receivables	2 326	8 966
Current assets	-4 666	5 531
Liabilities	-8 143	-8 645
Tax losses carry -forward	-86 518	-115 711
Other differences	-1 557	-1 629
Total	**-108 324**	**-113 975**
Unrecognised deferred tax assets	**97 790**	**102 067**
Net recognised deferred tax assets (-) / deferred tax liabilities (+)	**-10 534**	**-11 908**
Recognised deferred tax assets (-)	**-14 795**	**-16 864**
Recognised deferred tax liabilities (+)	**4 261**	**4 956**
Reconciling the tax expense		
Earnings before tax	-1 119	-9 526
Calculated tax at domestic tax rate per country	-4 247	-19 364
Tax result permanent differences and tax rate difference	-8 875	9 961
Use of previously unrecognised loss carried forward (-) / Increase in valuation allowance **	20 214	9 144
Adjusted allocated tax from last year	-132	1 996
Tax expense	**6 960**	**1 737**

* Paid withholding tax in foreign subsidiaries.
** Change in tax rate for the Group is TNOK 973 (2017: 11,627), and is mainly relating to changes in tax rate in the US and Norway.

Deferred tax assets are recognised when the Group can document future taxable profits to utilise the tax asset per company. 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 carrying value of recognised deferred tax assets as of 31 December 2018 was TNOK 14,795 and represents 13 % of the total possible deferred tax asset that could have been recognised based on unutilised tax losses and estimatedreversal of temporary differences (TNOK 16,864 as of 31 December 2017; 14 % of the total possible deferred tax asset).

Undertaken an assessment of the criterias under IAS 12, the Group has not included deferred tax asset in Norway related to tax losses carried forward of TNOK 49,972 as at 31 December 2018 (2017: 66,433). In addtion the group has not included deferred tax asset of TNOK 97,790 as at 31 December 2018 for the Group (2017: 102,067). Of this amount, TNOK 71,449 (2017: 98,178) is related to tax losses carried forward, TNOK 11,420 (2017: 18,811) related to aquisitions in the US and TNOK 14,921 (2017: -14,922) is related to other temporary differences.

For additional information related to recognition of deferred tax assets, please see Note 4 Critical accounting judgements and changes in accounting policies.

Note 23 / Other operating expenses

Amounts in TNOK

Other operating expenses	**2018**	**2017**
External services	30 581	30 109
Travel expense	25 046	24 959
Office supplies	42 470	41 226
Insurance	4 901	7 369
Freight	1 516	1 183
Rent machinery & tools	13 555	11 545
Marketing / promotions	11 259	10 864
Service & Maintenance	7 541	9 895
Operating materials	8 205	8 735
Settlement of Dispute with NPRA*	-	27 823
Credit losses	1 672	2 261
Other	18 875	13 758
Total	**165 621**	**189 727**

Project contractor expenses

Project contractor expenses include costs for external consultants and / or services that are consumed under project executions and service and maintenance work. These expenses are not included as part of other operating expenses.

Audit fees

The Group has the following audit related fees, provided by our elected auditor, included in the “External services” in the table above (all figures excl. VAT).

Category	**2018**	**2017**
Audit services	1 935	2 407
Other audit related services	206	20
Tax services	40	32
Other, non audit related services	184	233
Total	**2 365**	**2 693**

Note 24 / Property, plant and equipment

Amounts in TNOK	Leasehold improvement	Project related equipment	Office equipment	Total
Accumulated acquisition cost				
Acquisition cost 01.01.2017	8 683	13 254	32 641	54 578
Additions	-1 495	3 123	4 200	5 828
Foreign currency translation effect	-	25	-25	-
Acquried cost 31.12.2017	**7 188**	**16 402**	**36 816**	**60 406**
Accumulated depreciation and impairment				
Accumulated depreciation and impairments 01.01.2017	3 472	1 121	16 323	20 916
Depreciation of the year	695	6 098	8 224	15 017
Impairment of the year	-	-	2 105	2 105
Accumulated depreciation and impairments 31.12.2017	**4 167**	**7 218**	**26 653**	**38 038**
Carrying value 31.12.2017	**3 021**	**9 183**	**10 164**	**22 368**

	Leasehold improvement	Project related equipment	Office equipment	Total
Accumulated acquisition cost				
Acquisition cost 01.01.2018	7 188	16 402	36 816	60 406
Additions	879	7 363	4 872	13 114
Disposals	-	-6 898	-	-6 898
Foreign currency translation effect	219	254	63	536
Acquired cost 31.12.2018	**8 286**	**17 121**	**41 751**	**67 158**
Accumulated depreciation and impairment				
Accumulated depreciation and impairments 01.01.2018	4 167	7 218	26 653	38 038
Depreciation of the year	720	5 713	3 736	10 168
Impairment of the year	-	-	278	278
Accumulated depreciation disposals	-	-6 898	-	-6 898
Foreign currency translation effect	163	337	-348	152
Accumulated depreciation and impairments 31.12.2018	**5 050**	**6 370**	**30 318**	**41 738**
Carrying value 31.12.2018	**3 236**	**10 751**	**11 433**	**25 420**
Estimated lifetime	average 5 years	average 5 years	3-5 years	
Depreciation schedule	Straight line	Straight line	Straight line	

Q-Free is continously looking to reduce the complexity of its business and realloate resources from underperforming businesses to businesses with higher value creation potential. During the fourth quarter of 2017 it was decided to initiate processes to exit unprofitable businesses and product lines, which resulted in an impairment of TNOK 2,105 of office equipment in Elcom d.o.o.

Note 25 / Lease commitments

Operating lease commitments

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:

Amounts in TNOK

Terms	**2018**	**2017**
Within one year	23 849	14 420
After one year but not more than five years	51 265	37 472
More than five years	3 828	9 214
Total	**78 942**	**61 106**

During the year ended 31 December 2018 the company recognised expenses in the income statement in respect of operating leases of TNOK 21,729 (2017: 33,039) for the Group, all figures excluded discontinuing operations.

As of 31 December 2018 the Group has no finance leases or any hired purchase contracts for various items of property, plant and equipment.

As of 31 December 2018 the Group has not entered into any contracts as lessor.

As of 31 December 2018 and 2017 there were no contingent liabilities.

Guarantees

Q-Free Group obtains bank guarantees given to their customers, primarily for long-term projects. As of year-end 2018 the amount of guarantees is TNOK 95,752 (2017: TNOK 229,905). Payment of the guarantees by the bank is triggered upon the non-performance of Q-Free, primarily of the missing of milestones or failure to complete the project. The fees paid to the banks for these guarantees is included in Financial expenses.

Collateral

Book value of assets securing loans and guarantees :	**2018**	**2017**
Shares in subsidiaries	291 102	-
Cash and cash equivalents	-	9 476
Accounts receivable	44 163	131 693
Contract assets	24 806	200 717
Inventories	17 895	12 351
Property, plant and equipment	12 936	11 148
Total	**390 902**	**365 385**

All the Group's shares in any material subsidiary which have acceded as Guarantor to the cash-pool and loan agreement are held as collateral.

Note 26 / Subsidiaries

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

	Year acquired by Q-Free Group	Location	Primary segment	Ownership	Voting share	Functional currency
Q-Free Portugal Lda.	1997	Lisboa, Portugal	Tolling	100 %	100 %	EUR
Q-Free Australia Pty. Ltd.	1999	Sydney, Australia	Tolling	100 %	100 %	AUD
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur, Malaysia	Tolling	100 %	100 %	MYR
Noca Holding AS	2001	Trondheim, Norway	Tolling	100 %	100 %	NOK
Q-Free Sverige AB	2007	Stockholm, Sweden	Tolling	100 %	100 %	SEK
Q-Free Thailand Co Ltd.	2007	Bangkok, Thailand	Tolling	100 %	100 %	THB
Q-Free Netherlands BV	2009	Beilen, The Netherlands	Tolling	100 %	100 %	EUR
Q-Free Chile	2012	Santiago, Chile	Tolling	100 %	100 %	CLP
TCS International Inc. *	2012	Boston, USA	Parking	100 %	100 %	USD
Q-Free America Inc.	2012	San Diego, CA, USA	Urban	100 %	100 %	USD
Q-Free (Bristol) UK Ltd	2014	Weston Super-Mare, UK	Infomobility	100 %	100 %	GBP
Q-Free Traffic Design d.o.o.	2014	Ljubljana, Slovenia	Inter-Urban	100 %	100 %	EUR
Open Roads Consulting Inc. *	2014	Virginia, USA	Inter-Urban	100 %	100 %	USD
Q-Free Espana S.L.U.	2014	Madrid, Spain	Tolling	100 %	100 %	EUR
Q-Free France S.A.R.L.	2014	Paris, France	Parking	100 %	100 %	EUR
Intelight Inc. *	2015	Arizona, USA	Urban	53 %	53 %	USD
Q-Free LLC	2015	Moscow, Russia	Tolling	100 %	100 %	RUB
Q-Free Polska sp. z.o.o.	2016	Warsaw, Poland	Tolling	100 %	100 %	PLN
Q-Free Norge AS	2018	Trondheim, Norway	Tolling	100 %	100 %	NOK
Q-Free Denmark Aps	2018	Korsør, Denmark	Tolling	100 %	100 %	NOK
Subsidiaries under liquidation:						
Q-Free América Latina Ltda.	1998	Sao Paolo, Brasil	Tolling	100 %	100 %	BRL
Q-Free Africa Ltd.	2010	Durban, South Africa	Tolling	74 %	74 %	ZAR
Q-Free Traffiko Ltd	2015	Valetta, Malta	Parking	100 %	100 %	EUR
PT Q-Free Indonesia	2012	Jakarta, Indonesia	Tolling	100 %	100 %	IDR
Divested subsidiaries in 2018:						
ELCOM d.o.o.	2013	Belgrade, Serbia	Inter-Urban	100 %	100 %	RSD

In 2015 Q-Free ASA, on behalf of Q-Free America (100 % owned subsidiary) 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 the Group after signing these agreements. Based on this, the full activity of Intelight Inc. was consolidated in the Group accounts from 2015. The agreements is considered to give the Group present ownership interest of 100 %, thus no non-controlling interest is recognised. See Note 29 Non-current financial liabilities for further information.

In Q4 2018, Q-Free decided to exit its operations in Jakarta (PT Q-Free Indonesia). The Jakarta businesses contributed with a negative EBITDA of around MNOK 20 in 2018. The company made a provision in Q4-18 of TNOK 13,460 for estimated additional one-time close-down costs.

Elcom d.o.o. was sold in March 2018 and the one-time close-down costs in 2018 was TNOK 1,857.

Q-Free Traffiko Ltd is under liqidation and the one-time close-down costs in 2018 was TNOK 2,615.

Segments represent the primary segment that the company operates in, given the fact that there is more than one operating segment in which the company has its operations.

* Owned indirectly by Q-Free ASA through Q-Free America Inc.

Note 27 / 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.

Amounts in TNOK	2018	2017
Profit for the year from continuing operations	-8 078 974	-11 262 781
Profit for the year on discontinued operations, net of tax	-	-9 461 985
Profit for the year	-8 078 974	-20 724 766
Weighted average number of ordinary shares	89 223 446	89 223 446
Weighted average of share options	2 215 119	991 351
Weighted average number of diluted shares	91 438 565	90 214 797
Earnings in NOK per share from continuing operations	**-0,09**	**-0,13**
Diluted earnings in NOK per share from continuing operations	**-0,09**	**-0,13**
Earnings in NOK per share from discontinued operations	**-**	**-0,11**
Diluted earnings in NOK per share from discontinued operations	**-**	**-0,11**
Earnings in NOK per share profit for the year	**-0,09**	**-0,23**
Diluted earnings in NOK per share profit for the year	**-0,09**	**-0,23**

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 in number of shares during 2018 and 2017, see note 13 Share based compensation.

Note 28 / Related parties

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

There was no transactions between the company and any parties in the Management or in the Board during 2018.

Associated companies

Q-Free ASA has no ownership in associated companies either in 2018 or in 2017.

Note 29 / Non-current financial liabilities

Non-current financial liabilities consist of contingent consideration and accrued pension liabilities. See note 11 Employee benefit expenses for more information.

Contingent consideration

In several of the business combinations over the past few 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 contingent consideration liability is recognised at fair value in the statement of financial position and the fair value is remeasured at each subsequent reporting period. These measurements require management to make assumptions regarding the future performance of the acquired companies.

Q-Free ASA has not acquired any companies in 2018 and 2017.

Contingent consideration arises from the acquisition of Intelight Inc. The fourth tranche of the transaction regarding the acquisition of Intelight Inc. was closed in May 11 2018, and Q-Free America Inc. acquired 20.3 percent to TNOK 23,210 (2017: TNOK 33). As of 31 December 2018 Q-Free America Inc. had accumulated a shareholding in Intelight Inc. of 53.5 percent (2017: 33.2 %).

As of 31 December 2018 the remaining contingent consideration is related to the share purchase agreement of Intelight Inc.

Changes in contingent consideration

Amounts in TNOK	Current	Non-current	Total
Contingent consideration 01.01.2017	-	93 804	93 804
Cash payments in 2017	-33	-	-33
Fair value changes of contingent consideration	-	1 053	1 053
Exchange rate differences	-	-4 319	-4 319
Reallocation to other current liabilities	22 433	-22 433	-
Contingent consideration 31.12.2017	**22 400**	**68 105**	**90 505**

	Current	Non-current	Total
Contingent consideration 01.01.2018	22 400	68 105	90 505
Cash payments in 2018	-23 210	-	-23 210
Fair value changes of contingent consideration	-	21 707	21 707
Exchange rate differences	-	4 811	4 811
Reallocation to other current liabilities	70 077	-70 077	-
Contingent consideration 31.12.2018	**69 267**	**24 546**	**93 813**

The range of possible outcomes for the contingent consideration classified as current liabilities is from USD 0 to USD 8.0 million.

The remaining contingent consideration is related to the share purchase agreement of Intelight Inc. The estimated floor regarding the share purchase obligation of Intelight Inc. per 31 December 2018 is TNOK 55,000 - 65,000.

Acquisition of Intelight Inc. – Arizona, US

Q-Free acquired in Q4 2013 9.7 percent of the shares in the US traffic controller supplier, Intelight Inc. At that time the investment was seen as and treated as a financial investment.

In Q1 2015 Q-Free ASA, on behalf of Q-Free America (100% owned subsidiary), signed a share purchase agreement and a shareholders agreement to acquire the remaining 90.3 percent of the shares in Intelight. The agreements say that the sellers have the right to sell the remaining outstanding shared and exercise 715.000 synthetic options at a strike of 1 USD per option over a period of 5 years. The initial transaction was closed in April 2015 where the sellers could sell up to 15 %. Thereafter the sellers can sell up to 15 % of their remaining shares per year over a period of 5 years. If the options are in the money, the owners of options can exercise up to 15 % of their options per year. At the end of the 5 year period, in Q2 2020, Q-Free has the right and obligation to acquire all remaining outstanding shares and to cash in all remaining options (if the options are in the money).

The consideration for the shares is based on reported revenues and EBITDA for Intelight Inc. per year multiplied by agreed multiples adjusted for normalized working capital and debt. Q-Free ASA is obligated to acquire the shares and to cash in the options that the sellers have the right to sell per year. Q-Free has no right to influence the process, and there is no opening in the agreement giving Q-Free the right to acquire more shares than offered per year.

The initial transaction was closed in April 2015. The consideration for the initial transaction was approximately USD 2.2 million net of cash and debt.

Following the initial transaction Q-Free had accumulated a shareholding of 23.8 percent (including the 9.7 percent Q-Free acquired in Q4 2013). The signed shareholders agreement and the amended bylaws provided control for Q-Free. Based on this, the full activity of Intelight Inc. was with effect from Q2 2015 consolidated in the Q-Free group accounts. The agreement is considered to give the group present ownership interest of 100 %, thus no non-controlling interest is recognized.

Following the initial transaction the total estimated consideration to acquire 100 % of the shares in Intelight was estimated to 13.7 million USD whereof 3.3 million USD cash payment for the already acquired 23.8 percent plus 10.4 million USD in estimated contingent liability to acquire the remaining 76.2 percent. The estimated contingent liability was calculated based on a fair assessment of future revenue and EBITDA scenarios.

The second tranche was closed in May 2016 where Q-Free America acquired additional 9.3 percent for a consideration of TNOK 7,932. Q-Free America Inc. had as of this date accumulated a total shareholding in Intelight Inc of 33.1 percent.

The third tranche was closed in May 2017 where Q-Free America acquired additional 0.1 percent for a consideration of TNOK 33. Q-Free America Inc. had as of this date accumulated a total shareholding in Intelight Inc of 33.2 percent.

The fourth tranche was closed in May 2018 where Q-Free America acquired additional 20.3 percent for a consideration of TNOK 23,210. Q-Free America Inc. had as of this date accumulated a total shareholding in Intelight Inc of 53.5 percent.

Note 30 / Investments in other companies

Amounts in TNOK

31 December 2017

	Company's equity	Number of shares	Ownership	Book value in Parent	Book value in Group	Included in comprehensive income
Leiv Eiriksson AS	37 049	9 919	0.99 %	367	367	-8
Other				20	20	0
Total				**387**	**387**	**-8**

The investment in shares is classified as financial investment available for sale and are measured at fair value in 2017. Upon adoption of IFRS 9, the investment in shares was reclassified as fair value over P&L. During Q4 the fair value was determined to be zero. Hence, all amounts are reclassified over the Profit or loss. The fair value of the investment as of 31 December is zero.

Note 31 / Subsequent events

For information on changes in share option programme for leading executives in 2019, please see Note 13 Share based compensation.

Note 32 / Discontinued operations

The divestment of Q-Free's security business Prometheus Security Group Global Inc. (PSG) was closed in February 2017, and all contracts, employees and other assets have been transferred to the new owner. Consequently, PSG has been excluded from the Group's consolidated accounts on continued operations with effect from fourth quarter 2016 and reported separately as “discontinued operations”. The fair value of the assets and liabilities relating to PSG is classified as assets and liabilities held for sale.

The discontinued operations were concluded in 2017. There is no impact in 2018.

Statement of income	**2017**
Revenues	884
Cost of goods sold	1 572
Personnel expenses	1 136
Other operating expenses	2 493
Total operating expenses	5 201
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	-4 317
Amortisation of intangible assets	-
Impairment of intangible assets	5 145
Earnings before interest and taxes (EBIT)	-9 462
Financial income	-
Total financial items	-
Profit before tax	-9 462
Taxes	-
Profit / (-) loss for the year on discontinued operations, net of tax	**-9 462**
Earnings in NOK per share from discontinued operations	-0,11
Diluted earnings in NOK per share from discontinued operations	-0,11

Cash flow from discontinued operations	**2 017**
Profit before tax	-9 462
Amortisation and impairment of intangible assets	5 145
Working capital adjustments :	
Changes in receivables and prepayments from customers	-3 387
Changes in inventory	-1 852
Changes in accounts payables	3 144
Changes in work in progress	-7 686
Changes in other balance sheet items	8 357
Net cash flow from operations	-5 741
Investments in tangible and intangible assets	-
Other investments	6 303
Net cash flow from investments	6 303
Down payments of debt	-1 397
Net cash flow from financing	-1 397
Cash flow from discontinued operations	-835
Cash and cash equivalents per 01.01.	835
Cash and cash equivalents from discontinued operations	0

Alternative Performance Measures

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

Gross contribution:

Defined as Revenue from customers reduced with Cost of goods sold and Project contractor expenses. Project contractor expenses are included in Gross Contribution since they are heavily correlated with project and service revenues.

Project contractor expenses:

Project contractor expenses include costs for external consultants and / or services that are consumed under project executions and service and maintenance work.

Gross margin:

Defined as Revenue from customers reduced with Cost of goods sold and Project contractor expenses in percentage of revenues.

Amounts in TNOK

Gross contribution and gross margin	2018	2017
Revenue from customers	888 647	973 475
Cost of goods sold	-227 191	-278 493
Project contractor expenses	-92 260	-103 934
Gross contribution	**569 196**	**591 048**
Gross margin	**64.1 %**	**60.7 %**

EBITDA / EBIT:

The Group considers EBITDA / EBIT to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation for Earnings Before Interest, Taxes, Depreciation and Amortisation. The Group uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which are part of the financial statements for 2018. The same applies for EBIT.

EBITDA margin:

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

Amounts in TNOK

EBITDA margin	2018	2017
Revenue from customers	888 647	973 475
EBITDA	71 091	82 591
EBITDA margin	**8.0 %**	**8.5** %

EBIT margin:

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

Amounts in TNOK

EBIT margin	2018	2017
Revenue from customers	888 647	973 475
EBIT	23 690	4 227
EBIT margin	**2.7 %**	**0.4** %

Non-recurring items:

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

Amounts in TNOK

Non-recurring items	2018	2017
Settlement of dispute	0	27 823
Restructuring costs	17 810	0
Non-recurring items in EBITDA	**17 810**	**27 823**
Impairment	0	21 876
Non-recurring items in EBIT	**17 810**	**49 699**

Net Interest Bearing Debt (NIBD):

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

Amounts in TNOK

Net Interest Bearing Debt	2018	2017
Non-current borrowings to financial institutions	196 000	125 0003
Current borrowings to financial institutions	19 521	203 691
Gross Interests bearing Debt	**215 521**	**328 691**
Cash and cash equivalents	89 700	113 633
Net Interest Bearing Debt	**125 821**	**215 058**

Net working capital:

Defined as Current assets excluding Cash less Current liabilities, and excluding Current borrowings and the Intelight share purchase liability classified as Current financial liabilities.

Amounts in TNOK

Net Working Capital	2018	2017
Inventories	71 996	65 453
Contract assets	82 320	227 154
Accounts receivable	160 819	130 487
Other current Assets	32 051	37 868
Current Assets	**347 186**	**460 962**
Advance payments from customers	14 339	11 693
Accounts payable	95 992	89 272
Taxes payable	2 758	3 342
Public duties payable	19 584	14 541
Current financial liabilities	71 995	25 124
Other current liabilities	73 641	92 536
Intelight share purchase liability	-69 267	-22 401
Current liabilities (excl Currrent borrowings to financial institutions)	**209 042**	**214 107**
Net Working Capital	**138 144**	**246 855**

Working capital ratio:

Defined as Current assets excluding Cash less Current liabilities, and excluding Current borrowings and the Intelight share purchase liability classified as Current financial liabilities in percentages of last 12 months Revenue from customers.

Amounts in TNOK

Working Capital ratio	2018	2017
12 months Revenue from customers	888 647	973 475
Net Working Capital	138 144	246 855
Working Capital ratio	**15.5 %**	**25.4 %**

Equity ratio:

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

Amounts in TNOK

Equity ratio	2018	2017
Total equity	402 397	414 231
Total assets	940 146	1 070 372
Equity ratio	**42.8 %**	**38.7 %**

Order intake :

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

Order backlog :

Order backlog is defined as total amount of signed contracts to be delivered in future periods.
The order backlog is calculated as shown below:

Last periods backlog	
+	Received new orders
÷	This periods revenues
+ / ÷	Currency adjustments .
*=	End backlog reporting period

Financial Statements Q-Free ASA

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Statement of profit or loss

Q-Free ASA

Amounts in TNOK	Note	2018	2017
Revenue	2	25 799	34 136
Revenue from customers	2	284 532	461 967
Total revenue		**310 331**	**496 103**
Cost of goods sold		85 342	139 176
Project contractor expenses		43 999	61 821
Employee benefit expenses	8	102 474	126 351
Other operating expenses	9	68 034	163 577
Total operating expenses		**299 849**	**490 925**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**10 482**	**5 178**
Depreciation of property, plant and equipment		5 937	10 508
Amortisation of intangible assets		8 057	9 669
Earnings before interest and taxes (EBIT)		**-3 512**	**-14 999**
Financial income	7	34 042	21 940
Financial expenses	7	-27 965	-27 132
Financial items, net		**6 077**	**-5 192**
Profit before tax		**2 565**	**-20 191**
Tax expense		-	-541
Profit / (-) loss for the year		**2 565**	**-20 732**

The accompanying notes are an integral part of the consolidated financial statements.

Statement of comprehensive income

Q-Free ASA

Amounts in TNOK	Note	2018	2017
Profit / (-) loss for the year		**2 565**	**-20 732**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net loss on available-for-sale (IAS 39) FVPL (IFRS 9) investments		71	-8
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**71**	**-8**
Other comprehensive income for the year, net of tax		**71**	**-8**
Total comprehensive income for the period, net of tax		**2 636**	**-20 740**

The accompanying notes are an integral part of the consolidated financial statements.

Statement of financial position

Q-Free ASA

Amounts in TNOK

ASSETS	Note	31.12.2018	31.12.2017
Intangible assets		-	55 320
Property, plant and equipment		-	11 148
Investments in subsidiaries	5	569 106	299 255
Non-current receivables - subsidiaries	4	174 939	211 382
Investments in other companies		-	387
TOTAL NON-CURRENT ASSETS		**744 045**	**577 492**
Inventories		-	12 351
Contract assets	2	-	200 717
Other current assets	11	25 873	136 255
Cash and cash equivalents	12	17 317	-
TOTAL CURRENT ASSETS		**43 190**	**349 323**
TOTAL ASSETS		**787 235**	**926 815**

Amounts in TNOK

EQUITY AND LIABILITIES	Note	31.12.2018	31.12.2017
Subscribed share capital		33 905	33 905
Share premium		578 307	578 307
Other paid-in capital		20 950	20 628
Retained earnings		-182 278	-167 096
TOTAL EQUITY		**450 884**	**465 744**
Non-current bank borrowings	3	196 000	125 000
Non-current borrowings subsidiaries	4	33 377	32 127
Other non-current liabilities		-	15 258
Total non-current liabilities		**229 377**	**172 385**
Current bank borrowings	3	61 626	127 107
Current borrowings subsidiaries	4	24 395	18 567
Other current liabilities	13	20 953	143 012
Total current liabilities		**106 974**	**288 686**
TOTAL LIABILITIES		**336 351**	**461 071**
TOTAL EQUITY AND LIABILITIES		**787 235**	**926 815**

The accompanying notes are an integral part of the consolidated financial statements.

Trondheim, 1 April 2019

Tore Valderhaug
Chair of the Board

Trond Valvik
Vice Chair of the Board

Ragnhild Wahl
Board member

Snorre Kjesbu
Board member

Ingeborg Molden Hegstad
Board member

Olav Gulling
Employee-elected Board member

Rune Jøraandstad
Employee-elected Board member

Håkon Rypern Volldal
President & CEO

Statement of cash flows

Q-Free ASA

Amounts in TNOK	Note	2018	2017
Cash flow from operations			
Profit before tax		2 565	-20 191
Depreciation and impairment of property, plant and equipment		5 937	10 508
Amortisation and impairment of intangible assets		8 057	9 669
Interest income from subsidiaries		-10 617	-10 820
Accrued interest expense		548	-703
Net loss on available-for-sale (IAS 39) FVOPL (IFRS 9) investments		458	-8
Share-based payment expense		322	99
Working capital adjustments:			
Changes in inventory		12 351	4 355
Changes in contract assets		200 717	-164 119
Changes in accounts receivable		105 820	42 518
Changes in accounts payables		-64 943	-2 748
Changes in other items		-221 033	47 696
Net cash flow from operations		**40 182**	**-83 744**
Cash flow from investments			
Investments in PP&E and intangible assets		-28 384	-18 582
Net cash flow from investments		**-28 384**	**-18 582**
Cash flow from financing			
Cash proceeds from bank borrowings	3	250 519	111 356
Repayment of bank borrowings	3	-245 000	-25 000
Net cash flow from financing		**5 519**	**86 356**
Effect on cash and cash equivalents of changes in foreign exchange rates		**-**	**-**
Net change in cash and cash equivalents for the year		**17 317**	**-15 970**
Cash and cash equivalents per 01.01.	12	-	15 970
Cash and cash equivalents per 31.12.	12	**17 317**	**-**

The accompanying notes are an integral part of the consolidated financial statements.

Statement of changes in equity

Q-Free ASA

Amounts in TNOK

	Subscribed share capital	Share premium	Other paid-in capital	Retained earnings	Available-for-sale - reserve (IAS 39)/ FVOPL (IFRS 9)	Actuarial gains and losses	Total equity
Total equity 01.01.2017	**33 905**	**578 307**	**20 529**	**-133 004**	**-63**	**-13 288**	**486 386**
Profit / (-) loss for the year				-20 732			-20 732
Other comprehensive income					-8		-8
Total comprehensive income for the period	**-**	**-**	**-**	**-20 732**	**-8**	**-**	**-20 740**
Share-based payment expense			99				99
Reclassification of actuarial gains and losses				-13 288		13 288	-
Total equity 31.12.2017	**33 905**	**578 307**	**20 628**	**-167 024**	**-71**	**-**	**465 745**
Total equity 01.01.2018	**33 905**	**578 307**	**20 628**	**-167 024**	**-71**	**-**	**465 745**
Profit / (-) loss for the year				2 565			2 565
Other comprehensive income					71		71
Total comprehensive income for the period	**-**	**-**	**-**	**2 565**	**71**	**-**	**2 636**
Share-based payment expense			322				322
Change in equity due to demerger process				-17 819			-17 819
Total equity 31.12.2018	**33 905**	**578 307**	**20 950**	**-182 278**	**-**	**-**	**450 884**

The accompanying notes are an integral part of the consolidated financial statements.

Note 1 / Corporate Information and accounting policies

Corporate information

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. In 2018 Q-Free ASA was restructured. Effective as of 1 November 2018, Q-Free Norge AS was demerged from Q-Free ASA. Q-Free Norge AS is the operational company going forward in Norway and as of 1 November 2018 Q-Free ASA will function solely as the Q-Free Group parent holding company. The 2018 financial statements for Q-Free ASA include the results from Norwegian operations for the time period 1 January 2018 to 31 October 2018 and 31 December 2018 statement of financial position reflects the Q-Free ASA only financial position.

The financial statements have been prepared on a historical cost basis except for certain assets, liabilities and financial instruments, which are measured at fair value. Preparation of financial statements including note disclosures requires management to make estimates and assumptions that affect amounts reported. Actual results may differ. For further information refer also to the Q-Free Group Annual Report 2018.

Presentation and classification of items in the financial statements is consistent for the periods presented, except as noted below:

Statement of profit or loss

In connection with the implementation of IFRS 15, Revenue from customers are presented separately from Revenue. After the restructuring of Q-Free ASA revenue consists primarily of group management fees.

The table below shows the changes regarding reclassification of the 2017 previously reported figures.

Table 1.1: Reclassification of Revenue

Revenue	2017 before reclassification	Reclassification	2017 reclassified
Revenue	496 103	-461 967	**34 136**
Revenue from customers	-	461 967	**461 967**
Total revenue	**496 103**	**-**	**496 103**

Project contractor expense defined as external consultant expense and/or services that are consumed under project executions and service and maintenance work are now presented separately in the Statement of profit or loss. Project contractor expense was previously classified as a part of Other operating expenses and Cost of goods sold.

The table below shows the changes regarding reclassification of the 2017 reported figures.

Table 1.2: Reclassification of Operating expenses

Operating expenses	2017 before reclassification	Reclassification	2017 reclassified
Cost of goods sold	150 918	-11 742	**139 176**
Project contractor expenses	-	61 821	**61 821**
Personnel expenses	139 029	-139 029	**0**
Employee benefit expenses	-	126 351	**126 351**
Other operating expenses	200 978	-37 401	**163 577**
Total operating expenses	**490 925**	**-**	**490 925**

In the 2018 financial statements the following financial items have been reclassified: Financial income and Financial income Group companies have been reclassified into the line item Financial income. Financial expenses and Financial expenses Group companies have been reclassified into the line item Financial expenses.

The table below shows the changes regarding reclassification of the 2017 previously reported figures.

Table 1.3: Reclassification of Financial items

Financial items	2017 before reclassification	Reclassification	2017 reclassified
Financial income	9 396	12 571	**21 940**
Financial income Group companies	12 571	-12 571	**-**
Financial expenses	-26 235	-897	**-27 132**
Financial expenses Group companies	-897	897	**-**
Financial items, net	**-5 192**	**-**	**-5 192**

Statement of financial position

In the Statement of financial position the line items Accounts receivable, Accounts receivable on group companies and Other current assets have been reclassified into the single line item Other current assets. The reclassification of the 2017 previously reported figures is shown in the table below.

Table 1.4: Reclassification of Other current assets

Other current assets	2017 before reclassification	Reclassification	2017 reclassified
Accounts receivables	22 804	-22 804	**-**
Accounts receivable on group companies	108 889	-108 889	**-**
Other current assets	4 562	131 693	**136 255**
Total	**136 255**	**-**	**136 255**

Debt to group companies have been reclassified to Current borrowings subsidiaries and Other current liabilities. The reclassification of the 2017 previously reported figures is shown in the table below.

Table 1.5: Reclassification of Current borrowings subsidiaries

Current borrowings subsidiaries	2017 before reclassification	Reclassification	2017 reclassified
Debt to group companies	38 181	-38 181	**-**
Other current liabilities	-	19 614	**19 614**
Current borrowings subsidiaries	-	18 567	**18 567**
Total	**38 181**	**-**	**38 181**

Accounts payable, Public duties payable and Other current liabilities have been reclassified into the single line item Other current liabilities. The reclassification of the 2017 previously reported figures is shown in the table below.

Table 1.6: Reclassification of Other current liabilities

Other current liabilities	2017 before reclassification	Reclassification	2017 reclassified
Accounts payable	50 189	-50 189	**-**
Public duties payable	8 313	-8 313	**-**
Other current liabilities	64 896	58 502	**123 398**
Total	**123 398**	**-**	**123 398**

Statement of cash flows

Operating cash flows from Changes in receivables and prepayments from customers have been reclassified into Changes in accounts receivable and Changes in advance payments from customers in the 2018 Statements of cash flows. The reclassification of the 2017 previously reported figures is shown in the table below.

Table 1.7: Statement of cash flows reclassification

	2017 before reclassification	Reclassification	2017 reclassified
Changes in accounts receivable	-	42 518	**42 518**
Changes in advance payments from customers	-	-	**-**
Changes in receivables and prepayments from customers	42 518	-42 518	**-**
Total	**42 518**	-	**42 518**

The following line items have been renamed in the 2018 Statement of profit or loss, Statement of comprehensive income, Statement of financial position and Statement of cash flows. No figures as of 31 December 2017 have been remeasured or restated.

New name – annual report 2018	Old name – annual report 2017
Statement of profit or loss	
Employee benefit expenses	Personnel expenses
Tax expense	Taxes
Statement of comprehensive income	
Net loss on available-for-sale (IAS 39) FVOPL investments	Net (loss)/gain on available-for-sale financial (IFRS 9) investments
Statement of financial position	
Intangible assets	Product development assets
Property, plant and equipment	Machinery, fixtures and fittings, etc.
Non-current receivables – subsidiaries	Loan to group companies
Contract assets	Work in progress
Retained earnings	Other equity
Non-current bank borrowings	Debt to financial institutions (non-current)
Non-current borrowings subsidiary	Loan to group companies
Current bank borrowings	Debt to financial institutions (current)
Current borrowings subsidiary	Debt to group companies
Statement of cash flows	
Interest income from subsidiaries	Interests from subsidiaries
Net loss on available-for-sale (IAS 39) FVOPL (IFRS 9) investments	Shares valued at fair value
Share-based payment expense	Cost of share-based payment
Changes in contract assets	Changes in work in progress
Changes in other items	Changes in other balance sheet items
Cash proceeds from bank borrowings	Proceeds from new loans
Repayment of bank borrowings	Down payments of debt to financial institutions

Significant accounting policies

The financial statements of Q-Free ASA are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and Norwegian authorities and are effective as of 31 December 2018. Q-Free also provides the disclosures as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Q-Free ASA's 2018 financial reporting, including all comparative figures. Note disclosures have not been provided for assets or liabilities with null balances as of 31 December 2018, as these assets are no longer owned by Q-Free ASA and are included in the 31 December 2018 statement of financial position for Q-Free Norge AS. See also in the Q-Free Group Annual Report 2018 Note 2 Basis of presentation, Note 3 Significant accounting policies and Note 4 Critical accounting judgments and new accounting policies for additional information related to the presentation, classification and measurement of Q-Free ASA's financial reporting.

Shares in subsidiaries

Shares in subsidiaries are presented according to the cost method in accordance with IAS 27 *Separate Financial Statements.* Dividends from subsidiaries are recognized in the year for which it is proposed by the subsidiary to the extent that Q-Free ASA can control the decision of the subsidiary through its share holdings. Shares in subsidiaries are reviewed for impairment in accordance with IAS 36 *Impairment of Assets* whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value of the investment.

Foreign currency

The financial statements are presented in NOK, which is Q-Free ASA's functional currency. Transactions in foreign currencies are initially recorded at the appropriate exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated as of the reporting date exchange rate. All differences regarding translation are included in financial income or financial expense in the statement of profit or loss.

Revenue recognition

Q-Free ASA recognises revenue from customers in accordance with IFRS 15 *Revenue from contracts with customers.* Q-Free ASA delivers products and system projects to their customers, and offers service and maintenance for the hardware sold. Revenue for product sales is recognised at a point in time, when control transfers to the customer, whereas for system projects and service and maintenance revenue recognition is over time. Over time revenue recognition for system projects is estimated using an input based percentage of completion method, and service and maintenance is based on as the services are delivered.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position includes cash, bank deposits and all other monetary instruments with a maturity of less than three months from the date of acquisition, and are measured at amortised cost.

Statement of cash flows

The statement of cash flows is prepared according to the indirect method. Interest and dividends received as well as interest paid is included in cash flows from operating activities. Dividends paid is included in cash flows from financing activities.

Share-based compensation

Q-Free ASA accounts for share-based payment in accordance with IFRS 2 *Share-Based Payments.* See Note 3 Significant accounting policies in the Q-Free Group Annual Report 2018 for additional information.

Risk management

For information about risk management in Q-Free ASA see Note 5 Financial risk management in the Q-Free Group Annual Report 2018.

Income taxes

Deferred income tax expense is calculated using the liability method in accordance with IAS 12 *Income Taxes*. Under the liability method, deferred tax assets and liabilities are measured based on the differences between the carrying values of assets and liabilities for financial reporting and their tax basis which are considered temporary in nature. The tax effect of equity transactions, such as group contribution given, is recognized as a part of the equity transaction and do not affect the income tax expense. Other changes in deferred income tax assets and liability balances during the year represent the deferred income tax expense. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates are enacted.

Intercompany long-term receivables and payables

Long-term receivables

The terms on intercompany loans to subsidiaries are formally regulated by contractual lending agreements. These intercompany long-term receivables are financial assets within the scope of IFRS 9 *Financial Instruments.* Intercompany long-term receivables are managed within a business model with the objective of collecting the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

At initial recognition loans are measured at fair value plus directly attributable transaction costs. Loans are subsequently measured at amortised cost using the effective interest rate method and are subject to impairment under the general expected credit loss model.

Loans denominated in foreign currencies are translated at the functional currency spot rates at the reporting date. Currency differences arising on settlement or translation are recognised in profit or loss.

Events after the balance sheet date

New information at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that will affect Q-Free ASA in the future but do not affect Q-Free ASA at the balance sheet date are disclosed if significant.

Note 2 / Revenue, contract assets and advanced payments from customers

From 1 January 2018 to 31 October 2018 Q-Free ASA had revenue from customers, since the Norwegian operations were a part of Q-Free ASA. Upon the restructuring on 1 November 2018, Q-Free ASA was split into Q-Free ASA and Q-Free Norge AS. As of this date Q-Free ASA no longer has Norwegian operations. Therefore, the revenue disclosures in this note are for the time period 1 January 2018 to 31 October 2018.

Disaggregation of revenue

In accordance with IFRS 15 management analyses the revenue contracts with customers and disaggregates the revenue into the following product / project categories, which depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors:

- Product deliveries
- Service & Maintenance
- System projects

Revenue from customers is disaggregated in the table below by geographical location, by type of product or project category, by the timing of the reception of revenue, and by segment.

Table 2.1 Disaggregation of revenue from contracts with customers

31 December 2018

Amounts in TNOK	TOLLING	PARKING	INFOMOBILITY	URBAN	INTER-URBAN	Total
EUROPE	243 870	3 623	-	-	-	247 493
APMEA	20 635	-	-	-	-	20 635
AMERICAS	16 404	-	-	-	-	16 404
Revenue from contracts with customers	**280 909**	**3 623**	**-**	**-**	**-**	**284 532**
At a point in time revenue recognition						
Product deliveries (not related to projects)	131 854	282	-	-	-	132 136
Total at a point in time revenue recognition	**131 854**	**282**	**-**	**-**	**-**	**132 136**
Over time revenue recognition						
Service & Maintenance	41 089	168	-	-	-	41 257
System Projects (includes over-time product deliveries related to projects)	107 966	3 173	-	-	-	111 139
Total over time revenue recognition	**149 055**	**3 341**	**-**	**-**	**-**	**152 396**

31 December 2017

Amounts in TNOK	TOLLING	PARKING	INFOMOBILITY	URBAN	INTER-URBAN	Total
EUROPE	431 394	1 713	1 363	-	-	434 470
APMEA	26 209	-	399	-	-	26 608
AMERICAS	889	-	-	-	-	889
Revenue from contracts with customers	**458 492**	**1 713**	**1 762**	**-**	**-**	**461 967**
At a point in time revenue recognition						
Product deliveries (not related to projects)	165 448	843	1 762	-	-	168 053
Total at a point in time revenue recognition	**165 448**	**843**	**1 762**	**-**	**-**	**168 053**
Over time revenue recognition						
Service & Maintenance	44 227	272	-	-	-	44 499
System Projects (includes over-time product deliveries related to projects)	248 817	598	-	-	-	249 415
Total over time revenue recognition	**293 044**	**870**	**-**	**-**	**-**	**293 914**

Revenue recognition

Product deliveries

Under the revenue category "Product deliveries" Q-Free delivers hardware products to their customers. These type of products are offered within the Tolling, Infomobility and Parking segments. A customer contract includes either one single delivery or a series of deliveries of the products specified. Each delivery contains one or more products, and each product or batch order of the same product constitute one performance obligation, since the customer can benefit from each good on its own or together with other resources already available. The fixed transaction price is separately stated for each product or batch of products within the contract. In some customer contracts Q-Free offers prospective volume discounts to the customers. In these situations the transaction price contains a variable component. That only affects future revenue recognition. Management uses the expected value method to determine the total amount of consideration for the contract. Revenue from the sale of products is recognised at a point in time, either on delivery to the customer or at the point of shipping depending on when the specifics of a particular contract result in control of the goods being passed to the customer.

Service & Maintenance

Revenue relating to Service & Maintenance contracts is recognised over time, in accordance with IFRS 15. Revenue is recognised as the Service & Maintenance is performed, since the customer simultaneously receives and benefits from the delivery. Service & Maintenance is defined as one performance obligation, but is often negotiated together with System projects in the same customer contract. In this case the transaction price between the performance obligation Service & Maintenance and project delivery has to be allocated, since the contract contains more than one performance obligation. See discussion below regarding the definition of performance obligations, as well the allocation of transaction price between Service & Maintenance and project deliveries. The transaction price for Service & Maintenance is usually a fixed price for the entire period of the service, unless the contract is linked to a service line agreement with special requirements. In that case the transaction price can be variable and management uses the expected value method to estimate the amount consideration.

Service & Maintenance on Q-Free products is offered to customers within all segments.

System projects

Q-Free offers system projects within the Tolling, Parking, Infomobility and Inter-Urban segments. Each project is tailored to the customer's needs and will vary from contract to contract. Some projects contain completely new concepts and products, for which Q-Free capitalizes internal development costs (see Note 15 Intangible assets). The length of the projects also varies from project to project. However, the main characteristics for determining a customer contract and revenue recognition under the IFRS 15 requirements are the same for all projects and are as described below:

Contracts with customers within System projects are set up in writing and are signed by both parties typically.

Projects consist of the delivery of hardware, installations, software, Service & Maintenance, as well as options for additional deliveries.

- Options to acquire additional deliveries within the project are a separate performance obligation only if they provide a material right to the customer, i.e. if the price for the additional deliveries is significantly lower than the market price. If the option does not contain a material right, the option is not a separate performance obligation and is combined with the hardware, installations and software into one single performance obligation. Q-Free did not have any material rights in their 2018 contracts related to System projects.
- Hardware, installations and software together form one performance obligation, since they together secure a combined output, which is the project delivery, and the customer cannot benefit from each individual item on its own.
- Service & Maintenance are one separate performance obligation, since the customer can benefit from those services on its own or together with other resources already available and the promise is separately identifiably from other promises.

The transaction price for the whole project is a fixed amount and is stated in each individual contract. A variable component can be included in the contract for late deliveries or performance bonuses. Management uses critical judgment, as well as the expected value method to estimate the amount of consideration to which Q-Free is entitled, as Q-Free has a large number of contracts with similar characteristics and experience with this type of projects.

The stand-alone selling price is used as a basis for the allocation of the transaction price to the different performance obligations, for example the allocation between Service & Maintenance and the other performance obligations in the project customer contract. In cases where no stand-alone selling price is readily available, management uses a cost plus margin method to determine the stand alone selling prices to be used in the transaction price allocations.

Revenue relating to system projects is recognised over time since Q-Free develops an asset for their customers that has no alternative use and is delivered at the customer's location. Q-Free is also entitled to payment for work performed up to any point in time during the life of the contract. Revenue is recognised by measuring progress towards completion of the performance obligation. The method used to measure the progress and percentage of completion of each individual project is an input method which determines costs incurred to date and compares these costs to the expected overall cost for the project. Judgement is used in determining cost incurred to date and in estimating total project cost.

If the estimated life time of a project is more than 12 months, management takes into consideration the financing component of the contract.

Significant ongoing projects

Upon the restructuring on 1 November 2018, all contracts with customers was transferred to Q-Free Norge AS.

Contract assets and advance payments from customers

Contract assets and advance payments from customers are disclosed in the Statement of financial position.

Contract assets

Upon adoption of IFRS 15,Work in progress in its entirety is now recognised as an IFRS 15 contract asset, as per the opening balance sheet of 1 January 2018 in the amount of TNOK 200,717.

Contract assets are recognised whenever a performance obligation is satisfied before consideration is received. Contract assets are assessed for impairment in accordance with IFRS 9. As of 1 November 2018, contract assets have been reviewed for impairment, and are impaired in an amount of TNOK 0.

Upon the restructuring on 1 November 2018, all contract assets was transferred to Q-Free Norge AS.

Advance payments from customers

Advance payments from customers is recognized if Q-Free receives consideration or if it has the unconditional right to receive consideration in advance of performance. Q-Free has not received any advance payments from customer in 2018 or 2017.

Note 3 / Bank borrowings

Specification	Type	Effective interest rate % - 2018	Maturity	2018	2017
Non-current	Term loan	2.98 %	6 December 2021	100 000	-
Non-current	Revolving Credit Facility (RCF) *	2.98 %	6 December 2021	96 000	-
Current	Credit line **	2.48 %	6 December 2019	61 626	-
Non-current	Danske Bank - Serial loan	3.48 %	6 December 2018	-	125 000
Current	Danske Bank - Line of credit	3.28 %	6 December 2018	-	120 000
Total				**257 626**	**245 000**

* Share of RCF will be converted to 5 year term loan if RCS is used to fund acquisition of shares in Intelight Inc. with an annual amortisation of 20 %.

** Credit line are renewed annually. See note 12 Cash and cash equivalents for more information regarding undrawn bank overdraft.

Serial loan and covenants

The term loan is repayable with an annual amortisation of MNOK 15. The interest rate is 3MND NIBOR + 170 bps.

Q-Free has a NIBD/EBITDA and Equity Ratio covenant on it's bank arrangements.

Net Interest Bearing Debt to EBITDA ratio (“Leverage Ratio”) shall at no time be more than 3.00:1, and total Equity to Total Assets (“Equity Ratio”) shall at no time be less than 35.00 %.

See Alternative Performance Measures section for “NIBD” and “EBITDA” definitions.

Financial liability maturity schedule

Year ended 31 December 2018 :	On demand	Less than 3 months	3–6 months	6–12 months	1–2 years	2–5 years	6 years - maturity	Total
Non-current bank borrowings	582	1 444	8 960	10 339	20 423	170 621	-	212 369
Non-current borrowings subsidiaries	-	340	344	695	1 382	4 134	33 377	40 272
Current bank borrowings	-	298	302	44 836	-	-	-	45 436
Current borrowings subsidiaries	-	-	-	24 395	-	-	-	24 395
Other financial liabilities	-	4 860						4 860
Total financial liabilities	**582**	**6 942**	**9 606**	**80 265**	**21 805**	**174 755**	**33 377**	**327 332**

Year ended 31 December 2017 :	On demand	Less than 3 months	3–6 months	6–12 months	1–2 years	2–5 years	6 years - maturity	Total
Non-current bank borrowings	34	848	25 857	26 356	52 063	25 689	-	130 847
Non-current borrowings subsidiaries	-	266	269	544	1 078	3 238	31 389	36 784
Current bank borrowings	-	1 364	121 379	962	83 691	-	-	207 396
Current borrowings subsidiaries	-	-	-	18 567	-	-	-	18 567
Other financial liabilities	15 176	54 627	-	-	-	-	-	69 803
Total financial liabilities	**15 210**	**57 105**	**147 505**	**46 429**	**136 832**	**28 927**	**31 389**	**463 397**

Note 4 / Intercompany loans receivable and payables

The following table shows a breakdown of the balance sheet line item “Non-current receivables - subsidiaries”:

Amounts in TNOK			2018		
	Book value	**Maturity date**	**Interest rate**	**Impairment stage**	**Loss allowance**
Q-Free America Inc.	136 643	Undetermined	3 MND LIBOR + 3.0%	Stage 1	-
TDC Systems Ltd	17 429	Undetermined	3 MND LIBOR + 3.0%	Stage 1	-
Q-Free France S.A.R.L	10 161	Undetermined	3 MND LIBOR + 3.0%	Stage 1	-
Q-Free Thailand Co. Ltd.	7 170	Undetermined	3 MND LIBOR + 2.0%	Stage 1	-
Q-Free Sverige AB	2 853	Undetermined	3 MND LIBOR + 3.0%	Stage 1	-
Q-Free Espana S.L.U.	497	Undetermined	3 MND LIBOR + 3.0%	Stage 1	-
Q-Free Chile	156	Undetermined	3 MND LIBOR + 3.0%	Stage 1	-
Noca Holding AS	30	Undetermined	3 MND LIBOR + 3.0%	Stage 1	-
Q-Free Sdn. Bhd. Malaysia	15 447	Undetermined	3 MND LIBOR + 3.0%	Stage 2	-15 447
PT Q-Free Indonesia	4 247	Undetermined	3 MND LIBOR + 2.0%	Stage 2	-4 247
Q-Free America Latina Ltda.	2 474	Undetermined	3 MND LIBOR + 2.0%	Stage 2	-2 474
Total	**197 107**				**-22 168**

Description of general impairment model for intercompany loans

Under the general impairment model Q-Free ASA recognises an allowance for expected credit losses for all intercompany loans.

Credit losses are measured based on the difference between all contractual cash flows that are due in accordance with the loan agreement and all the cash flows expected to be received, discounted at the original effective interest rate.

At initial recognition intercompany loans are assessed to be performing (stage 1), i.e. the subsidiary has low risk of default and a strong capacity to meet contractual cash flows.

The loss allowance (stage 1) recognised is based on expected credit losses that result from default events that are possible within the next 12 months (12-month expected credit loss).

Q-Free ASA monitors the credit risk associated with intercompany loans to evaluate if there has been a significant increase in credit risk since initial recognition.

If there has been a significant increase in credit risk (underperforming loan), the loss allowance recognised is based on expected credit losses resulting from all possible default events over the remaining life of the loan (lifetime expected credit loss).

The definition of default used in the model is: when the counterparty fails to make contractual payments within 60 days of when they fall due.

To assess whether there is a significant increase in credit risk, management compares the risk of default occuring on the loan at the reporting date with the risk of default as at the date of initial recognition.

The parent company uses the following indicators in the assessment:

- An actual or expected significant change in the operating results of the subsidiaries since the loan was first recognised.This includes assessments of whether there are any actual or expected declines in revenue or margins, increasing operating risks, working capital deficiencies, decreasing asset quality or increased balance sheet leverage that would result in a significant change in the subsidiaries ability to meet its debt obligations.

- An actual or expected significant adverse change in the regulatory, economic or technological environment of the subsidiaries.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the assessment.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 60 days past due in making a contractual payment.

Loans are written off when there is no reasonable expectation of recovery, such as when a subsidiary fails to engage in a repayment plan.

Non-current borrowings subsidiaries

The counterparties regarding Non-current borrowings subsidiaries are Q-Free Netherlands BV and Noca Holding AS. The interest rate is respectivly 3 MND LIBOR + 3.0 % and 3 MND NIBOR + 3.0 %.

Note 5 / Subsidiaries

The following is a list of Q-Free ASA's subsidiaries:

Amounts in TNOK

	Year acquired by Q-Free Group	Location	Primary segment	Ownership	Voting share	Functional currency	Book value 31.12.18
Q-Free Portugal Lda.	1997	Lisboa, Portugal	Tolling	100 %	100 %	EUR	204
Q-Free Australia Pty. Ltd.	1999	Sydney, Australia	Tolling	100 %	100 %	AUD	-
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur, Malaysia	Tolling	100 %	100 %	MYR	-
Noca Holding AS	2001	Trondheim, Norway	Tolling	100 %	100 %	NOK	5 956
Q-Free Sverige AB	2007	Stockholm, Sweden	Tolling	100 %	100 %	SEK	84
Q-Free Thailand Co Ltd.	2007	Bangkok, Thailand	Tolling	100 %	100 %	THB	10 847
Q-Free Netherlands BV	2009	Beilen, The Netherlands	Tolling	100 %	100 %	EUR	76 409
Q-Free Chile	2012	Santiago, Chile	Tolling	100 %	100 %	CLP	28
TCS International Inc. *	2012	Boston, USA	Parking	100 %	100 %	USD	-
Q-Free America Inc.	2012	San Diego, CA, USA	Urban	100 %	100 %	USD	216 887
Q-Free (Bristol) UK Ltd	2014	Weston Super-Mare, UK	Infomobility	100 %	100 %	GBP	105 768
Q-Free Traffic Design d.o.o.	2014	Ljubljana, Slovenia	Inter-Urban	100 %	100 %	EUR	29 149
Open Roads Consulting Inc. *	2014	Virginia, USA	Inter-Urban	100 %	100 %	USD	-
Q-Free Espana S.L.U.	2014	Madrid, Spain	Tolling	100 %	100 %	EUR	25
Q-Free France S.A.R.L.	2014	Paris, France	Parking	100 %	100 %	EUR	41
Intelight Inc. *	2015	Arizona, USA	Urban	53 %	53 %	USD	-
Q-Free LLC	2015	Moscow, Russia	Tolling	100 %	100 %	RUB	-
Q-Free Polska sp. z.o.o.	2016	Warsaw, Poland	Tolling	100 %	100 %	PLN	11
Q-Free Norge AS	2018	Trondheim, Norway	Tolling	100 %	100 %	NOK	123 617
Q-Free Denmark Aps	2018	Korsør, Denmark	Tolling	100 %	100 %	NOK	64
Subsidiaries under liquidation:							
Q-Free América Latina Ltda.	1998	Sao Paolo, Brasil	Tolling	100 %	100 %	BRL	-
Q-Free Africa Ltd.	2010	Durban, South Africa	Tolling	74 %	74 %	ZAR	-
Q-Free Traffiko Ltd	2015	Valetta, Malta	Parking	100 %	100 %	EUR	17
PT Q-Free Indonesia	2012	Jakarta, Indonesia	Tolling	100 %	100 %	IDR	-
Divested subsidiaries in 2018:							
ELCOM d.o.o.	2013	Belgrade, Serbia	Inter-Urban	100 %	100 %	RSD	-
Total							**569 106**

In 2015 Q-Free ASA, on behalf of Q-Free America (100% owned subsidiary) 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 the Group after signing these agreements. Based on this, the full activity of Intelight Inc. was consolidated in the Group accounts from 2015. The agreements is considered to give the Group present ownership interest of 100 %, thus no non-controlling interest is recognised. See Q-Free Group Annual Report 2018 Note 29 Non-current financial liabilities for further information.

In Q4 2018, Q-Free decided to exit its operations in Jakarta (PT Q-Free Indonesia). The Jakarta businesses contributed with a negative EBITDA of around MNOK 20 in 2018. The company made a provision in Q4-18 of TNOK 13,460 for estimated additional one-time close-down costs.

Elcom d.o.o. was sold in March 2018 and the one-time close-down costs in 2018 was TNOK 1,857.

Q-Free Traffiko Ltd is under liqidation and the one-time close-down costs in 2018 was TNOK 2,615.

Segments represent the primary segment that the company operates in, given the fact that there is more than one operating segment in which the company has its operations.

* Owned indirectly by Q-Free ASA through Q-Free America Inc.

Note 6 / Shareholders

The share capital of Q-Free ASA as of 31 December 2018 was NOK 33,904,910 consisting of 89,223,446 ordinary shares at NOK 0.38 per share. As of 31 December 2018 there were 1,461 shareholders. Q-Free ASA has one class of shares and there are no voting restrictions.

The table shows shareholders holding one percent or more of the total 89,223,446 shares outstanding as of 31 December 2018.

The company's largest share holders as at 31 December 2018:	Number of shares	Percentage ownership	Voting rights
AS ATLANTIS VEST	19 482 473	21.84 %	21.84 %
KAPSCH TRAFFICCOM AG	9 900 000	11.10 %	11.10 %
ARCTIC FUNDS PLC	5 234 604	5.87 %	5.87 %
VERDIPAPIRFONDET DNB NORGE (IV)	4 950 814	5.55 %	5.55 %
KLP AKSJENORGE	4 308 576	4.83 %	4.83 %
KOMMUNAL LANDSPENSJONSKASSE	4 204 716	4.71 %	4.71 %
KAPSCH TRAFFICCOM AG	3 850 458	4.32 %	4.32 %
STOREBRAND VEKST VERDIPAPIRFOND	2 066 757	2.32 %	2.32 %
MARK JOHN PHILLIPS	1 957 384	2.19 %	2.19 %
LARS ODDGEIR ANDRESEN	1 633 600	1.83 %	1.83 %
ULSMO FINANS AS	1 583 600	1.77 %	1.77 %
AUGUST HOLDING AS	1 245 000	1.40 %	1.40 %
TROND WIKBORG	1 003 332	1.12 %	1.12 %
VERDIPAPIRFONDET DNB SMB	976 437	1.09 %	1.09 %
VERDIPAPIRFONDET STOREBRAND OPTIMA	941 711	1.06 %	1.06 %
SANTANDER SECURITIES SERVICES, S.A	933 616	1.05 %	1.05 %
Other share holders	24 950 368	27.96 %	27.96 %
Total	**89 223 446**	**100.00 %**	**100.00 %**

The company's largest shareholders as of 31 December 2017:	Number of shares	Percentage ownership	Voting rights
AS ATLANTIS VEST	15 968 718	17.90 %	17.90 %
KAPSCH TRAFFICCOM AG	9 900 000	11.10 %	11.10 %
VERDIPAPIRFONDET DNB NORGE (IV)	4 871 045	5.46 %	5.46 %
KLP AKSJENORGE	4 241 192	4.75 %	4.75 %
KOMMUNAL LANDSPENSJONSKASSE	4 137 333	4.64 %	4.64 %
ARCTIC FUNDS PLC	3 959 760	4.44 %	4.44 %
KAPSCH TRAFFICCOM AG	3 850 458	4.32 %	4.32 %
MARK PHILLIPS	2 450 867	2.75 %	2.75 %
STOREBRAND VEKST VERDIPAPIRFOND	1 919 628	2.15 %	2.15 %
JPMORGAN CHASE BANK, N.A., LONDON	1 800 000	2.02 %	2.02 %
LARS ODDGEIR ANDRESEN	1 633 600	1.83 %	1.83 %
EIKA NORGE	1 623 389	1.82 %	1.82 %
ULSMO FINANS AS	1 560 000	1.75 %	1.75 %
FORTE TRØNDER	1 281 900	1.44 %	1.44 %
AUGUST HOLDING AS	1 249 000	1.40 %	1.40 %
VERDIPAPIRFONDET DNB SMB	1 093 511	1.23 %	1.23 %
VERDIPAPIRFONDET STOREBRAND OPTIMA	1 000 184	1.12 %	1.12 %
TROND WIKBORG	846 876	0.95 %	0.95 %
Other share holders	25 835 985	28.96 %	28.96 %
Total	**89 223 446**	**100.00 %**	**100.00 %**

Shareholders by size of holding as at 31 December 2018 Number of shares	Number of owners	Number of shares	Holding percentage
1 – 1 000	644	313 244	0.35 %
1 001 – 10 000	554	2 290 323	2.57 %
10 001 – 100 000	201	6 694 428	7.50 %
100 001 – 200 000	17	2 422 337	2.71 %
200 001.– 500 000	17	5 753 053	6.45 %
500 001 – 1 000 000	15	10 328 747	11.58 %
1 000 001 – 2 000 000	5	7 422 916	8.32 %
2 000 001 – 5 000 000	5	19 381 321	21.72 %
5 000 001 – 10 000 000	2	15 134 604	16.96 %
10 000 001 – 20 000 000	1	19 482 473	21.84 %
TOTAL	**1 461**	**89 223 446**	**100.00 %**

Shareholders by size of holding as at 31 December 2017 Number of shares	Number of owners	Number of shares	Holding percentage
1 – 1 000	679	344 531	0.39 %
1 001 – 10 000	627	2 605 683	2.92 %
10 001 – 100 000	221	7 668 942	8.60 %
100 001 – 200 000	18	2 643 071	2.96 %
200 001.– 500 000	17	6 089 272	6.82 %
500 001 – 1 000 000	11	7 331 362	8.22 %
1 000 001 – 2 000 000	9	13 161 212	14.75 %
2 000 001 – 5 000 000	6	23 510 655	26.35 %
5 000 001 – 10 000 000	1	9 900 000	11.10 %
10 000 001 – 20 000 000	1	15 968 718	17.90 %
TOTAL	**1 590**	**89 223 446**	**100.00 %**

Number of shares held by the senior management, CEO and the Board of directors, represented, directly or indirectly as per 31.12.2018:

Name	Position	Shares 2018	Shares 2017
Tore Valderhaug *	Chair of the Board	25 000	25 000
Snorre Kjesbu	Board member	39 505	39 505
Ingeborg Molden Hegstad **	Board member	24 600	-
Håkon Volldal ***	CEO	125 000	100 000
Tor Eirik Knutsen	CFO	12 500	7 500
Morten Andersson	SVP AMERICAS	-	17 700
Per Fredrik Ecker	SVP APMEA	33 500	33 500
Fredrik Nordh	SVP EUROPE	40 000	40 000
Pål-Andre Almlie	VP Supply Chain Management	26 500	26 500
Total		**326 605**	**289 705**

* Indirectly through Proventi AS
** Indirectly through Imsight AS
*** Indirectly through Bright Future AS

Trond Valvik holds a position as Investment Director in AS Atlantis Vest, which currently owns 19,482,473 (21.84 %) shares in Q-Free ASA.

Incentive programs for the CEO and leading excutives, see Note 12 Management and board of directors remuneration in the consolidated financial statements.

Note 7 / Financial items

Amounts in TNOK	2018	2017
Interest income	861	3 228
Realised exchange rate differences	14 238	6 034
Unrealised exchange rate differences	-	107
Financial income	**15 099**	**9 369**
Financial income subsidiaries	10 617	10 820
Dividend income subsidiaries	8 326	1 751
Total financial income subsidiaries	**18 943**	**12 571**
Total financial income	**34 042**	**21 940**
Interest expense	-3 187	-4 927
Interest bank borrowings	-5 839	-6 662
Realised exchange rate differences	-11 242	-8 985
Unrealised exchange rate differences	-808	5 653
Fair value change in other liabilities *	-525	-3 220
Other financial expenses	-3 247	-2 441
Financial expenses	**-24 848**	**-20 582**
Interest expense - loan from subsidiary	-1 256	-897
Unrealised exchange rate differences	-2 099	-5 653
Impairment of shares in subsidiaries	238	-
Total financial expenses subsidiaries	**-3 117**	**-6 550**
Total financial expenses	**-27 965**	**-27 132**
FINANCIAL ITEMS, NET	**6 077**	**-5 192**

* Change in other liabilities in 2018 is explained by a revised estimate on liability related to pension schemes of TNOK 525 (2017: TNOK 3,220).

Note 8 / Employee benefit expenses

Amounts in TNOK

Employee benefit expenses	**2018**	**2017**
Salaries	85 573	104 582
Social security costs	13 544	15 587
Pension costs (contribution plan)	4 764	4 203
Skattefunn (governmental tax relief)	-	1 325
Capitalised personnel costs	-11 172	-11 905
Other personnel related costs	9 765	12 558
Total	**102 474**	**126 351**
Average number of employees	96	115
Average number of man-years	96	114

From 1 January 2018 to 31 October 2018 Q-Free ASA had employee benefit expenses for the entire Norwegian operations. Upon the restructuring on 1 November 2018, Q-Free ASA was split into Q-Free ASA (Holding company) and Q-Free Norge AS (Norwegian operations). As of this date most of the employees was transferred to Q-Free Norge AS with the exception of 3 employees, which represent 2.3 % of employee benefit in 2018.

For information on the management and Board of directors remuneration, please see Note 12 Management and Board of directors remuneration and Note 13 Share based compensation in the consolidated financial statements.

Pension cost

The parent company has a defined contribution pension plan for the Norwegian employees. All employees in Norway are included in defined contribution pension plans. At year end 2018 Q-Free ASA has 3 employees which are included in defined contribution pension plans.

The parent company contributes with 5.0 % of salaries between 0 - 7.1 G and 8.0 % of salaries between 7.1 - 12 G to the defined contribution pension plan, total TNOK 4,408 (2017: 4,203) per contributed year.

Conversion to defined pension plan

For information on the conversion to defined pension plan, please see Note 11 Employee benefit expenses in the consolidated financial statements.

Note 9 / Other operating expenses

Amounts in TNOK

Other operating expenses	2018	2017
External services	11 424	14 437
Travel expense	6 555	11 045
Office supplies	18 452	21 948
Insurance	2 444	3 344
Freight	305	301
Rent machinery & tools	1 111	1 204
Marketing / promotions	5 293	6 025
Service & Maintenance	46	76
Operating materials	4 064	4 844
Impairment non-current receivables - subsidiaries	5 978	43 627
Impairment current receivables - subsidiaries	3 348	17 814
Settlement of Dispute with NPRA*	-	27 823
Credit losses	-	423
Other	9 014	10 666
Total	**68 034**	**163 577**

Project contractor expenses

Project contractor expenses include costs for external consultants and / or services that are consumed under project executions and service and maintenance work. These expenses are not included as part of other operating expenses.

Audit fees

Q-Free ASA has the following audit related fees, provided by our elected auditor, included in the "External services" in the table above (all figures excl. VAT).

Audit fees	2018	2017
Audit services	575	738
Other audit related services	206	20
Tax services	-	4
Other, non audit related services	124	166
Total	**905**	**928**

Operating lease commitments

Q-Free ASA 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 Q-Free ASA by entering into these leases.

Upon the restructuring on 1 November 2018, Q-Free ASA was split into Q-Free ASA and Q-Free Norge AS. As of this date Q-Free ASA no longer has Norwegian operations. Therefore, all lease agreements related to the Norwegian operations was transferred to Q-Free Norge AS.

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

Amounts in TNOK

Terms	2018	2017
Within one year	-	9 078
After one year but not more than five years	-	36 857
More than five years	-	9 214
Total	**-**	**55 149**

Note 10 / Taxes

Amounts in TNOK	2018	2017
Total tax expense for the period		
Adjusted allocated tax from last year	-	541
Total	**-**	**541**
Tax rate	0 %	3 %
Taxes payable for the year		
Total ordinary profit before tax	2 565	-15 134
Permanent differences	-28 643	41 420
Change in temporary differences	86 028	-8 565
Utilisation of previously unrecognised tax losses	-59 950	-17 721
Basis for taxes payable	**-**	**-**
Specification of taxes payable		
Taxes payable on this years profit	-	-
Total taxes payable	**-**	**-**
Specification of deferred tax assets (-) / deferred tax liabilities (+)		
Differences evaluated to be offset:		
Property, plant and equipment	-	-3 470
Non-current receivables	2 326	8 966
Current assets	-2 254	8 318
Liabilities	-	-7 458
Tax losses carry -forward	-20 792	-66 433
Other differences	-833	-1 629
Total	**-21 553**	**-61 706**
Unrecognised deferred tax assets	**21 553**	**61 706**
Recognised deferred tax assets (-) / deferred tax liabilities (+)	**-**	**-**
Reconciling the tax expense		
Earnings before tax	2 565	-15 134
Calculated tax at 23 % (2017: 24 %)	590	-3 632
Tax result permanent differences and tax rate difference	-6 588	9 941
Use of previously unrecognised loss carried forward (-) / Increase in valuation allowance	5 998	-6 309
Adjusted allocated tax from last year	-	541
Tax expense	**0**	**541**

In 2018 Q-Free ASA was restructured. Effective as of 1 November 2018, Q-Free Norge AS was demerged from Q-Free ASA. Tax positions related to the transferred assets, rights and liabilities from Q-Free ASA to Q-Free Norge AS shall continue unchanged in the respective companies. Tax positions which are not related to specific assets, rights and obligations are distributed in accordance with the Norwegian Tax Act section 11-8, third and fourth paragraph.

Note 11 / Other current assets

Amounts in TNOK

Other current assets	2018	2017
Accounts receivable	3 196	22 804
Current receivables - subsidiaries	22 677	108 889
Accrual for Skattefunn grants	-	1 325
Prepaid rent	-	362
Prepaid software licenses	-	2 200
Other prepaid costs	-	675
Total	**25 873**	**136 255**

Note 12 / Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates.

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

Amounts in TNOK

Liquidity funds	2018	2017
Cash at banks and on hand	17 317	-
Total cash and cash equivalents	**17 317**	-

As of 31 December 2018, Q-Free ASA had available TNOK 42,373 of undrawn bank overdraft and TNOK 34,248 of undrawn guarantee facilities in which all conditions precedent had been met.

Note 13 / Other current liabilities

Amounts in TNOK Other current liabilities	2018	2017
Accounts payable	219	50 189
Accounts payable - subsidiaries	4 641	19 614
Public duties payable	2 177	8 313
Accrued wages (Holiday pay and bonus scheme)	10 151	22 454
Warranty provisions (see specification for changes during the year)	-	10 909
Accrued expenses	3 765	7 094
Settlement of Dispute with NPRA*	-	20 868
Restructuring provision	-	3 538
Other	-	34
Total	**20 953**	**143 012**

* On 19 September 2017 Q-Free ASA and the Norwegian Public Roads Administration (NPRA) settled a dispute related to invoicing of services for the central system for toll collection in Norway from 2006 to July 2016. Per the settlement agreement, Q-Free will pay TNOK 27,823 to the NPRA. The settlement amount is paid in four instalments over a period of 12 months, one per each of the next four quarters. TNOK 20,868 was settled during 2018.

Warranty provision

Q-Free ASA estimates probable warranty expense on sales based on historical data and an evaluation of the portfolio of delivered products still under warranty.

Provision for warranty expense 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 claims that are identified. Unused accruals for warranties are reversed at the end of the guarantee-period. All provisions specified in the table below are classified as current liabilities and are presented as part of Other current liabilities in the consolidated statement of financial position.

Amounts in TNOK	Warranty provision
Amount 01.01.17	12 431
Utilised during 2017	-2 272
Additions during 2017	750
Total 31.12.17	**10 909**
Amount 01.01.18	10 909
Utilised during 2018	-1 035
Additions during 2018	1 359
Transferred to Q-Free Norge AS 01.11.18	-11 233
Total 31.12.18	**-**

Note 14 / Financial instruments

Financial instruments by category

31 December 2018	Amortised cost	Fair value	Non financial instruments included in the line item	Total
Financial assets				
Non-current receivables - subsidiaries	174 939	-	-	174 939
Other current assets	25 873	-	-	25 873
Cash and cash equivalents	17 317	-	-	17 317
Total	**218 129**	**-**	**-**	**218 129**
Financial liabilities				
Non-current bank borrowings	196 000	-	-	196 000
Non-current borrowings subsidiaries	33 377	-	-	33 377
Current bank borrowings	61 626	-	-	61 626
Current borrowings subsidiaries	24 395	-	-	24 395
Other current liabiliites	4 860	-	16 093	20 953
Total	**320 258**	**-**	**16 093**	**336 351**

31 December 2017	Amortised cost	Fair value	Non financial instruments included in the line item	Total
Financial assets				
Non-current receivables - subsidiaries	211 382	-	-	211 382
Investments in other companies	-	387	-	387
Other current assets	131 693	-	4 562	136 255
Total	**343 075**	**387**	**4 562**	**348 024**
Financial liabilities				
Non-current bank borrowings	125 000	-	-	125 000
Non-current borrowings subsidiaries	32 127	-	-	32 127
Current bank borrowings	127 107	-	-	127 107
Current borrowings subsidiaries	38 181	-	-	38 181
Other current liabiliites	90 621	-	32 777	123 398
Total	**413 036**	**-**	**32 777**	**445 813**

Note 15 / Subsequent events

For information on the management and Board of directors remuneration, please see Note 12 Management and Board of directors remuneration and Note 13 Share based compensation in the consolidated financial statements.

Statement from the Directors and the CEO

We confirm, to the best of our knowledge, the financial statements for the period from 1 January to 31 December 2018 have been prepared in accordance with IFRS as adopted by EU, with such additional information as required by the Accounting Act, and give a true and fair view of the Group and the Company's consolidated assets, liabilities, financial position and results of operations.

We confirm that the Board of Directors' report provides a true and fair view of the development and performance of the business and the position of the Group and the Company, together with a description of the key risks and uncertainty factors that the company is facing.

Trondheim, 1 April 2019

Tore Valderhaug
Chair of the Board

Trond Valvik
Vice Chair of the Board

Ragnhild Wahl
Board member

Snorre Kjesbu
Board member

Ingeborg Molden Hegstad
Board member

Olav Gulling
Employee-elected Board member

Rune Jøraandstad
Employee-elected Board member

Håkon Rypern Volldal
President & CEO

BDO AS
Klæbuveien 127B
7031 Trondheim

Independent Auditor's Report

To the General Meeting in Q-Free ASA

Report on the Audit of the Financial Statements

Opinion

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

The financial statements comprise:	In our opinion:
• The financial statements of the parent company, which comprise the balance sheet as at 31 December 2018, income statement, statement of comprehensive income, statement of changes in equity and cash flows 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 2018, and income statement, statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.	• 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 Q-Free ASA as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with 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 Q-Free ASA as at 31 December 2018, 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, including 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 and the Group 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 2018. 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 the key audit matter	How the key audit matter was addressed in the audit
Recognition of revenue on long-term projects 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 3 for further description of the group's accounting policies. 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.	Our audit procedures related to long-term projects include: • Revenue of significant project contracts and assessment of any special contract clauses effect on the transfer of risk to the buyer, etc. • Test of controls related to signed contracts and signed alteration contracts. • Review of calculation of projects' capitalized costs and an assessment of estimates of remaining costs to final completion. • Review of the deposed and expected warranty costs related to ongoing and recently completed projects.
Valuation of goodwill According to IFRS, the group is required to perform an annual impairment test of capitalized goodwill. The purpose of the test is to verify if the goodwill's booked value, exceeds the net present value of future cash flows, i.e. fair value of goodwill. In our audit, the annual impairment test is a focus area, as booked value of goodwill per 31 December 2018 is MNOK 317. We refer to Note 14 to the financial statements for further description of the group's goodwill valuation. The impairment test performed as at 30 September 2018 by the management shows no need for impairment for any of the cash generating units in 2018.	As a part of our audit, we performed a thorough and detailed review of the models used by management to reallocate goodwill and calculate the fair value of goodwill, 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 interpretations and use of these views in light of the requirements to use reasonable and supportable data as set forth in IAS 36.

Foretaksregisteret: NO 993 606 650 MVA.

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 and other information in the Annual Report, 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 Company or 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to:
https://revisorforeningen.no/revisjonsberetninger

Foretaksregisteret: NO 993 606 650 MVA.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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 in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

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 and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 5 April 2019
BDO AS

John Christian Løvaas
State Authorised Public Accountant

We deploy solutions that make it more convenient to travel from A to Z. This requires people who are devoted and tech savvy. **Meet Jeff**.

Jeff, our dedicated Project Manager, has been with Q-Free for 7 years. Outside of work, you might find him running, gardening, camping, or gazing up at the night sky. Jeff also loves the ocean and being in, on or under the water.

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 Object of the Company is, by itself or through ownership in other companies, to engage in research, development, production, operations and sale of information technology products and systems plus everything therewith connected.

Article 4. The Company's share capital shall be NOK 33,904,909.48 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, in either 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 annual 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 17 August 2018
The shareholders of Q-Free ASA

Corporate governance review 2018

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 Børs and bases its corporate governance structure on Norwegian legislation.

The aim of the Norwegian Code of Practice for Corporate Governance is to ensure that companies that are listed on regulated markets in Norway practice corporate governance that clarifies the role of the shareholders, the board of directors, and the day-to-day management beyond what follows from legislation.

This review of the company's corporate governance principles and practice is prepared in compliance with the Norwegian Code of Practice for Corporate Governance as updated per 17 October 2018.

The Norwegian Code of Practice for Corporate Governance is available on 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 2018.

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 values support the Company's strategy and guide decisions and attitudes internally and externally. The core values are:

- Excellence
- Passion
- Innovation
- Collaboration

Q-Free has established a Code of Conduct, guidelines for Corporate Social Responsibility (CSR) and an Anti-Corruption policy, all 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 revised and updated its Code of Conduct in 2018.

The Code of Conduct (COC) and CSR principles apply to all members of the Board, managers, employees, contracted consultants, representatives and everyone else acting on behalf of Q-Free.

The company endeavours to make its COC and CSR guidelines known to its partners and are also publicly available on www.q-free.com.

Deviation from the Code of Practice: None.

2. Business

Q-Free is a leading global supplier of ITS (Intelligent Transportation Systems) products and solutions. Q-Free operates worldwide with headquarters in Trondheim, Norway, and with offices in 16 countries and presence on all continents.

The company has clearly described its operations in the Articles of Association:

"The Objective of the company is, by itself or through ownership in other companies, to engage in research, development, production, operations and sale of information technology products and systems plus everything therewith connected."

The company's Articles of Association are available at www.q-free.com.

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

The Board of Directors annually defines clear objectives, strategies and risk profiles for the Company's business activities to assure that the long-term interests and value creation of the shareholders are being served. This includes reviewing the overall strategy at least once a year, preparing the target for the next year, evaluating management and competence needed, making continuous financial reviews and risk assessments based on targets and prognosis, as well as evaluating the work of the Board.

The Company has guidelines for how it integrates considerations related to its stakeholder into its value creation. The Reporting of Corporate Social Responsibility, Code of Conduct and Anti-corruption policies are reviewed annually by the Board of Directors.

Deviation from the Code of Practice: None.

3. Equity and dividends

Q-Free ASA's share capital totals NOK 33,904,909.48, divided into 89,223,446 shares, each with a par value of NOK 0.38. The shares are freely traded at the Oslo Børs.

Equity

Q-Free's policy is to maintain a satisfying equity ratio to provide a platform for the company's expected expansion and growth. If needed to finance growth, specific projects or transactions, the Board of Directors can propose for the General Meeting that the Board is given mandates to issue new equity. Per 31 December 2018 the Group's equity amounted to NOK 402 million, representing an equity ratio of 42.8 percent. The Board has a continuous focus on adapting the company's objectives, strategy and risk profile to the company's capital situation. See note 6 in the 2018 Financial statement for further information about the Company's capital structure management.

Dividend policy

Q-Free has an objective to give the shareholders a stable and competitive long-term return on investment. The company is in a growth phase and current strategy is to invest the free cash flow to position Q-Free for future 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 29 May 2018, 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, mainly by way of larger projects, tenders and equity financing of Share Purchase Agreements obligations. The authorisation mandates the Board to increase the share capital with as much as NOK 3,390,490.72 by the issue of as much as 8,922,344 shares, equivalent to approximately 10 % of the issued shares, each with a par value of NOK 0.38 per share with a right to disregard the existing shareholder's preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5. The mandate was limited for one year, and valid until the next Annual General Meeting but nevertheless no longer than 30 June 2019.

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. This program was cancelled and replaced with a new program for the CEO 29 May 2018. The principles for the cancelled program was equivalent to the ongoing program except for the determination of the strike price for the first tranche. The new program granted the Board a right to establish a five-year stock option program for the CEO with a maximal number of share options of 869,970.

The Board was in the Annual General Meeting in 2017 granted a right to establish a five-year stock option program for leading executives with a maximal number of share options of 2,500,000.

The Board was in the Annual 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 agreements under this program were in force from 2015, and the program was then closed for further grants. The program expired 16 March 2019.

See Note 13 in the 2018 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. Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital are justified and publicly disclosed in a stock exchange announcement pursuant to the Code.

In 2018 the Board was given an authorization by the general meeting to increase the share capital with as much as 10 % of the issued shares, with a right to disregard the existing shareholder's preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5. The authorization has not been used.

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 28 in the 2018 financial statements.

Deviation from the Code of Practice: None

5. Freely negotiable shares

Q-Free has no form of restrictions limiting any party's ability to own, trade or vote for the shares in the company, and has no intension to put forward any such proposals to the General Meeting. The Articles of Association have no restrictions on free 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 given 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.

Notification

The Annual General Meeting must according to the law be held before the 30th of June. The general meeting is to take place either in Trondheim or in Oslo. The 2019 Annual General Meeting is scheduled for 28 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 supporting information and 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.

The Board ensures that resolutions and supporting information distributed are sufficiently detailed, comprehensive and specific to allow shareholders to form a view on all matters to be considered at the meeting.

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 (VPS) no later than the fifth workday before the date of the general meeting (the registration date) according to the §6 of the Articles of Association.

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 Nordea Bank.

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 attending shareholders vote for a Chairperson to lead the general meeting and are hence able to vote for an independent Chairperson for the general meeting.

The Board of Directors and the person chairing the meeting ensure 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 Chair of the Board, Chair of the Nomination Committee, Chair of the Audit Committee, Chair of the Remuneration Committee, the CEO and auditor are present to respond to any questions and queries. The Chair of the Board and the Chair 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 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 chair and members of the Nomination Committee and determines the committee's remuneration.

The Nomination Committee has contact with shareholders, the Board of Directors and the 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 justifies the reason for proposing each candidate separately.

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. The instruction emphasises that the composition of the Nomination Committee should be adjusted from time to time, in a way that secures continuity. The Annual General meeting in 2018 approved an updated version of the instructions for the Nomination Committee. The instructions are published on the Company's website.

Composition

The Committee shall consist of three members chosen by the General Assembly based on recommendation from the Committee, with a term of office of two years. The Chair of the Committee shall be chosen by the General Assembly. The term of office for the Committee is two years.

The members shall be shareholders or representatives of shareholders. At least two of the members shall be independent of the board of directors and the management of day-to-day operations. The Chief Executive Officer is not eligible to be a member of the Committee.

The members of the Committee should be changed regularly, while still securing continuity for the Committee.

The composition and tenure of the Nomination Committee's members including deadlines for proposing candidates are available at the company's website.

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 Company does not have a corporate assembly.

The Nomination Committee composition as at 31.12.2018:

Name	Company	For election
Heidi Finskas	KLP Kapitalforvaltning AS	2019
Øystein Elgan	AS Atlantis Vest	2019
Fredrik Thoresen	Storebrand Asset Management	2020

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 Nomination Committee recommends the Board composition to the General Meeting and ensures that the composition of the Board of directors supports the common interests of all shareholders and meet the company's need for expertise, capacity and diversity as well as ensuring that the Board can function effectively as a collegiate body.

The members of the Board are elected for a period of two years and may be re-elected. The General Meeting elects the Chair of the Board. The Vice Chair is elected by the Board for a period of one year. An overview of the members of the Board and their competences is available on the company's website www.q-free.com and in the annual report.

As at 31 December 2018 the Board of Directors comprised of seven members, whereof two elected by and amongst the Group's employees. The Board consist of two shareholder-elected women and three shareholder-elected men, hence the gender diversity requirement pursuant to Norwegian legislation is fulfilled. The Board had one change in the shareholder-elected composition during 2018, Ingeborg Molden Hegstad was elected as new member of the Board.

The Vice Chair, Trond Valvik, holds the position as Investment Director in the company's largest shareholder, AS Atlantis Vest. The other board members including the Chair of the Board are independent of the company's main shareholders.

Board of Directors Composition as at 31.12.2018:

Name	Position	Service since	Elected until AGM	Shareholding Q-Free ASA (direct or indirect)
Tore Valderhaug	Chair	2016	2019	25 000
Trond Valvik*	Vice Chair	2017	2019	0
Ragnhild Wahl	Board member	2015	2019	0
Snorre Kjesbu	Board member	2016	2018	39 505
Ingeborg Molden Hegstad	Board member	2018	2020	24 600
Olav Gulling	Board member member of the Board	2018	2020	0
Rune Jøraandstad	Employee-elected member of the Board	2016	2020	0

* Valvik holds the position as Investment Director in AS Atlantis Vest, which as per 31.12.2018 owned 19,482,473 (21.84 %) shares in Q-Free ASA.

Participation in Board meetings in 2018:

Name	Board meetings
Tore Valderhaug	17
Trond Valvik	17
Ragnhild Wahl	17
Snorre Kjesbu	17
Ingeborg Molden Hegstad*	9
Olav Gulling**	10
Rune Jøraandstad	17
Sisel Lillevik Larsen***	7

* Ingeborg Molden Hegstad serves as board member from 29 May 2018
** Olav Gulling serves as employee-elected board member from 29 May 2018
** Sissel Lillevik Larsen served as employee-elected board member until 29 May 2018

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.

The members of the Board of Directors have no share options or synthetic options in the company. Members are encouraged to own shares in the company.

Deviation from the Code of Practice: None

9. The work of the Board of directors

Instructions
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 purpose of the instructions are to describe the role and functions of the Board and the interaction with the executive management of the company.

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

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.

In matters of a material character in which the Chair of the board is, or has been, personally involved, the Board's consideration of such matters will be chaired by some other member of the Board.

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

Remuneration committee
Two members of the Board have been elected by the Board to act as Remuneration Committee, for a period of two years.

The Board approved an instruction for the Remuneration Committee in 2006, which was further revised in 2008 and 2019.

The Remuneration 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.

Remuneration Committee composition as at 31.12.2018
Ingeborg Molden Hegstad (Chair)
Rune Jøraandstad

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 31.12.2018:
Tore Valderhaug (Chair)
Trond Valvik

Technology Board Committee
The Board established a new committee late 2018.The Technology Board Committee shall act as an advisory board supporting and providing technology advice and a link between the technology leadership to Q-Free CEO and Board. The Technology board is going to be an outside in technology discussion partner for the Q-Free technology leadership team.

The Board approved an instruction for the Technology Board Committee in 2018.

Technology Board Committee composition as at 31.12.2018:
Snorre Kjesbu (Chair)
Ragnhild Wahl
Olav Gulling

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 annually 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 Audit Committee receives a status of QA and HSE 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-Free's 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.

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. The remuneration of the board reflects the board's responsibility, expertise, time commitment and the complexity of the company's activities.

Remuneration for the period from the Annual General Meeting of 2018 to the Annual General Meeting of 2019:

The Chair of the Board:
NOK 416,000

The Vice Chair of the Board:
NOK 280,000

Members elected by the shareholders:
NOK 234,000

Members elected by the employees:
NOK 80,000

Chair 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 2018 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 12 in the 2018 financial statements.

Remuneration of the Nomination committee
Remuneration from the Annual General Meeting of 2018 to the Annual General Meeting of 2019:

The Chair 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 and with clear aspects of which of the guidelines are advisory and binding. The general meeting votes separately on each of the aspects of the guidelines. The guidelines for remuneration help to ensure convergence of the financial interests of the executive personnel and the shareholders.

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. The agreements under this program were in force from 2015, and the program was then closed for further grants. The synthetic program has in March 2019 expired. A share option program for the CEO was approved in 2016 and renewed/replaced in 2018. A share option program for leading executives was approved in 2017. The remuneration to the executive management also includes a performance-based bonus scheme. Please see Note 12 and Note 13 in the 2018 financial statements. All performance-related remuneration is subject to an absolute limit.

The Board has adopted a performance-based bonus scheme for all managers in order to motivate extraordinary performance/achievements. The performance-based bonus scheme is linked to relevant financial KPI's including personal goals. The Board may assign bonus to the CEO for performance/achievements limited up to 75 percent of his/her fixed salary. Apart from the bonus level, the scheme for managers generally follows the overall bonus scheme for the CEO, including personal goals.

For more information about incentive programs, please see chapter 3 in this document and Note 13 in the 2018 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 12 in the 2018 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. The quarterly results are also made available through webcast. 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 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. This is regulated in the company's Chart of Authority. If required, the Chair 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 Børs and made available on the company's website www.q-free.com.

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 the articles of association or in any underlying steering document. Neither have the company 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 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 23 in the 2018 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

Nearly 1.2 Million people die in road crashes each year. We work hard to make traveling a positive social experience, not a safety challenge. This requires passionate people.

Meet Lance.

Lance, our dynamic Senior Solutions Architect, joined Q-Free in 2009. He's passionate about cars, and wants to transform driving from a practical need into part of the enjoyment of travel.

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Corporate social responsibility review 2018

Q-Free's corporate social responsibility has the following primary focus areas: contribute to reducing the negative climate and environmental impact of transportation; be a professional and attractive employer; and ensure we conduct our business responsibly.

Stakeholder analysis

The most important stake¬holders to Q-Free include its shareholders, customers, employees, and suppliers in addition to local/central authorities in markets where Q-Free operates. Q-Free conducts regular stakeholder analyses and engages in dialogues with its key stakeholders to gain insights on key needs, opportunities, and expectations. In general, the expectations on Q-Free from stakeholders are relatively stable over time.

Q-Free shall contribute to reducing the negative climate and environmental impact of transportation

At Q-Free we are proud to provide intelligent traffic technology solutions that enable shorter travel times, safer streets and cleaner air. In sum, Q-Free contributes to improved quality of life and a more sustainable environment.

Stockholm is a good example of how Q-Free's products contribute to positive climate and environmental changes. Three years after it implemented a congestion charging system from Q-Free for vehicles crossing the city's inner boundary, Stockholm received the European Green Capital award by the EU Commission in 2010. Traffic into central areas was reduced by 20%. In addition to a decrease in overall traffic volumes, 24 % of commuting trips changed from cars to transit, and the commercial traffic in the city center decreased by 15 %. The large reduction in traffic volume led to reduced greenhouse gas emissions from traffic of 10-15% as well as increased traffic safety.

Q-Free has stepped up its environmental management efforts in recent years. The ownership of environmental management has improved within top and middle management through clear, annual environmental goals that are measured and acted upon. We regularly assess the environmental impact of our activities and through environmental aspect analyses and other processes. Based on this assessment, we have established an action plan to continuously reduce our negative footprint and maximize the positive effects our solutions have on the environment.

It is important for us to minimize the direct negative impact our operations have on the environment by ensuring that our company designs, manufactures, sells and delivers its products and services with the smallest possible ecological footprint. As an example we can mention that in the transition from our transceiver RSE650 to RSE651, Q-Free was able to reduce the number of electronic components with 35 %, reduce the total weight of material with 33 % and remove the battery.

Q-Free fulfills all environmental requirements imposed by the Norwegian authorities, as well as the EU. Q-Free's environmental management and operations are certified in accordance with ISO 14001:2015. 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's Environmental Policy is publicly available on the website.

Q-Free shall be a professional and attractive employer

Q-Free considers the knowledge and experience of our employees as one of our most valuable assets. To further develop our employees we seek to provide continuous on the job training. This is reflected in our core processes, but also in our code of conduct and values (Excellence, Passion, Innovation and Collaboration) which provide clear requirements for employee performance and behavior - both internally in the workplace and in interactions with customers, business contacts, and others who are affected by our operations.

Work environment

We seek to attract and retain employees through offering a fair and good workplace with an open and inclusive working environment. Twice a year Q-Free conducts an employee satisfaction survey focusing on identity, energy, working environment and strategy. Our last survey in 2018 showed an increase in the average score from an already high level. The scores vary within the Group, and Q-Free works regularly to maintain and implement actions to improve the working environment across the Group.

Q-Free promotes and respects internationally accepted human rights, including those specified by the International Labor Organization. We support the right to freedom of association, and opposes any form of child labor, forced labor, or discrimination. Q-Free actively encourages all representatives, partners and suppliers to follow the same principles.

Q-Free employs a variety of nationalities from a diversity of cultures. As a result, Q-Free 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. We focus on avoiding 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.

Co-operation

Q-Free maintains close and constructive co-operation with employee representatives with respect to ongoing administrative procedures as well as to more extensive change processes. We seek to further develop this model of co-operation between employee representatives and management to ensure good working conditions, stable operations, and cost-effectiveness throughout the group.

Equal opportunities

Gender equality and non-discrimination of male or female employees are important to us. Most of our 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 ASA workforce demographics, which currently consists of 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 break down any barriers that may have restricted female applicants in the past, with a view to promoting a more evenly represented workplace.

The gender diversity requirements pursuant to Norwegian legislation is fulfilled. The Board of Directors holds 3 males and 2 female shareholder-elected board members.

Health and Safety efforts

Q-Free gives the highest priority to the health and safety of its employees. Roadside works represents the highest risk. Our Management system, which includes health and safety, has contributed to no serious incidents or injuries in recent years.

The Health and safety committee conducts meetings regularly and reviews health and safety performance. Management and safety representatives are members of this committee.

Health and safety risk assessments are documented and followed up for our roadside activities, and safety procedures are implemented to ensure risk mitigation. For installation and roadside projects, a responsible H&S representative is appointed. The H&S representative ensures qualified competence in the project organisation and initiates improvements to our safety procedures.

The project personnel have received safety training and equipment training and use this competence to perform job safety analyses.

Sick leave in Q-Free ASA was 1.55% in 2018. This is a very satisfactory level and well below the national average for comparable workplaces and below our internal target for 2018. Q-Free has no similar reports for its subsidiaries at this stage.

Q-Free fulfils H&S requirements imposed by the Norwegian authorities, as well as the EU. For H&S, we are also working towards compliance with ISO 45001and to be certified in accordance with this standard.

Q-Free shall conduct its business responsibly

Ethics guidelines

High ethical standards and business conducts are prerequisites for running a sustainable company and to gaining the trust of our key stakeholders as well as local, national and international communities. This is a shared responsibility between the company itself and each of Q-Free's employees and representatives.

The Q-Free Code of Conduct contains guidelines for ethical behavior in both internal and external business settings and is designed to guide and stimulate ethical awareness as a basis for everyday actions and behavior. The Code of Conduct is applicable to Board members, managers, employees, contracted consultants, representatives and everyone else acting on behalf of Q-Free.

Anti-corruption

The Code of Conduct clearly states that Q-Free has a zero tolerance for all forms of corruption and bribery. It also demands that any suspicion of misconduct is reported. Personal interests or personal gains 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.

Fair and open competition in all markets is always pursued by Q-Free. We have a desire to win contracts based on a competitive offering of products, services and solutions. Q-Free 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.

Q-Free identifies and monitors corporate risks including corruption and conducts analyses to define and evaluate how to address and mitigate these risks.

Insider trading rules

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

Supplier monitoring

Q-Free monitors and evaluates its suppliers. It is very important to us that our suppliers follow and comply with our high corporate social responsibility standards and conduct their business responsibly. As part of the process of selecting suppliers, we evaluate product quality/performance, labor practices and human rights, financial performance, management system, environmental performance, information security and health and safety. Our agreements allow for audits of each supplier, and corporate social responsibility is part of these audits.

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Register of business
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