ANNUAL REPORT 2017

Q FREE

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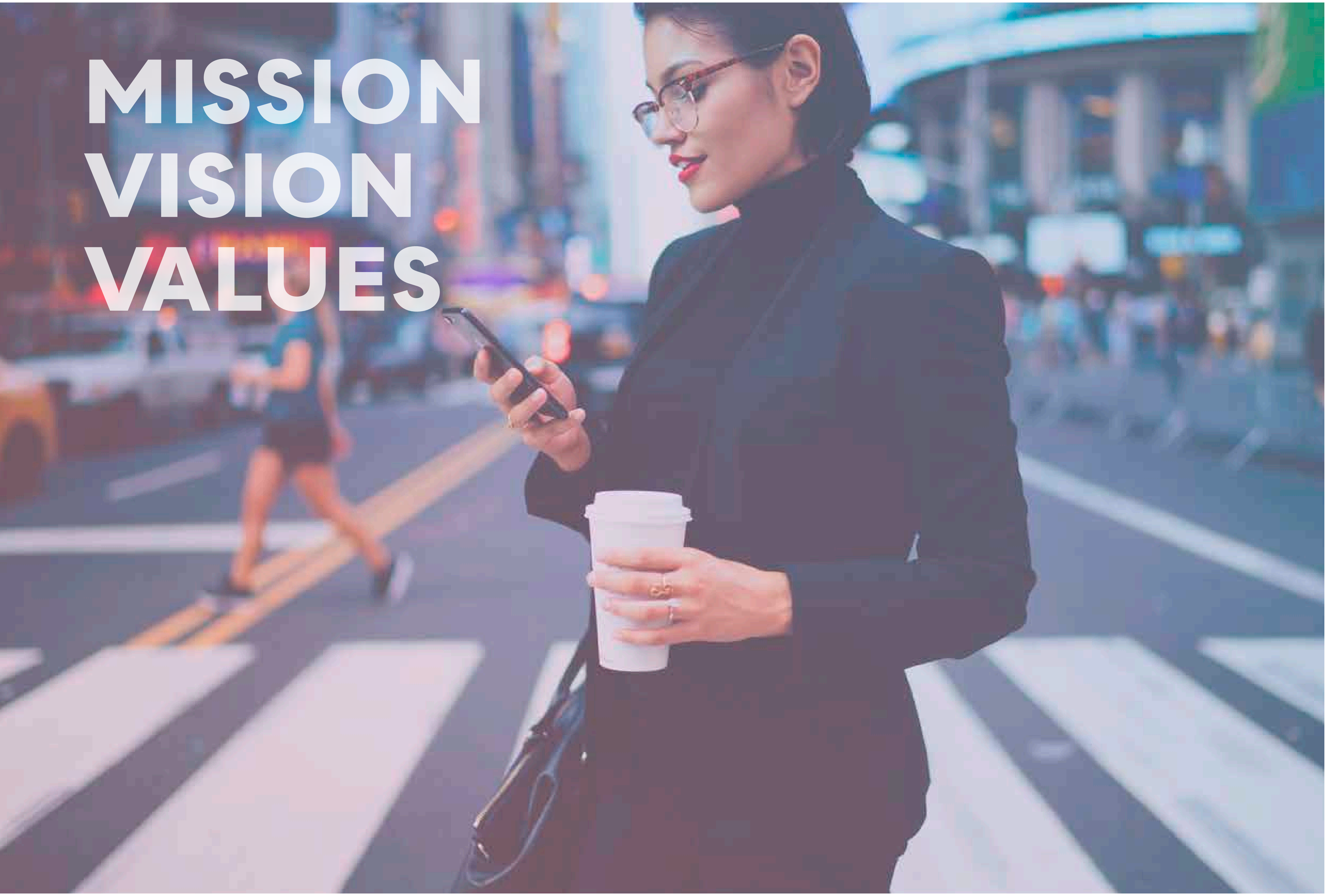
MISSION VISION VALUES



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 billions of people to move from A to B.

Our purpose gives us a strong social cause and long-term aim for our business and a clear roadmap for our employees, partners and customers.

Our Vision

Changing the movements of life.

Our Mission

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

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.


HARMONIZING
HUMANS & TECHNOLOGY

The
Historical context

1984–2000
COMMERCIAL BREAKTHROUGH

2000-2012
INTERNATIONAL TOLLING EXPANSION

2012-2017
TRANSFORMATION INTO AN ITS COMPANY

Established as Micro Design

First tag tested

Delivered Oslo Toll Cordon, Norway

Deployed the world's first 5.8 GHz multi-lane free flow system in Austria

Breakthrough in Australia and Brazil

IPO on Oslo Børs

The world's first MLFF system in a tunnel, Australia

Introduced the world's smallest tag

Stockholm congestion charging system delivered

Acquisition TDC Traffic Design and Open Roads Sells 53 % of Noca AS

Acquisition of Elcom

Acquisition of TCS

Delivery phase truck tolling project in Slovenia

Record year for tag sales

Successfully piloted (NB-IoT) outdoor sensor

1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

R&D contract with Norwegian Public Roads Administration

Deployed the first free flow tolling system in Trondheim, Norway

First 5.8 GHz system delivered to Portugal

Rebranded as Q-Free

First fully interoperable free flow tolling operation, AutoPASS Norway

Large tolling contracts in Slovakia, Portugal, Thailand and Norway

Acquisition of Dacolian, ALPR

Gothenburg congestion charging system delivered

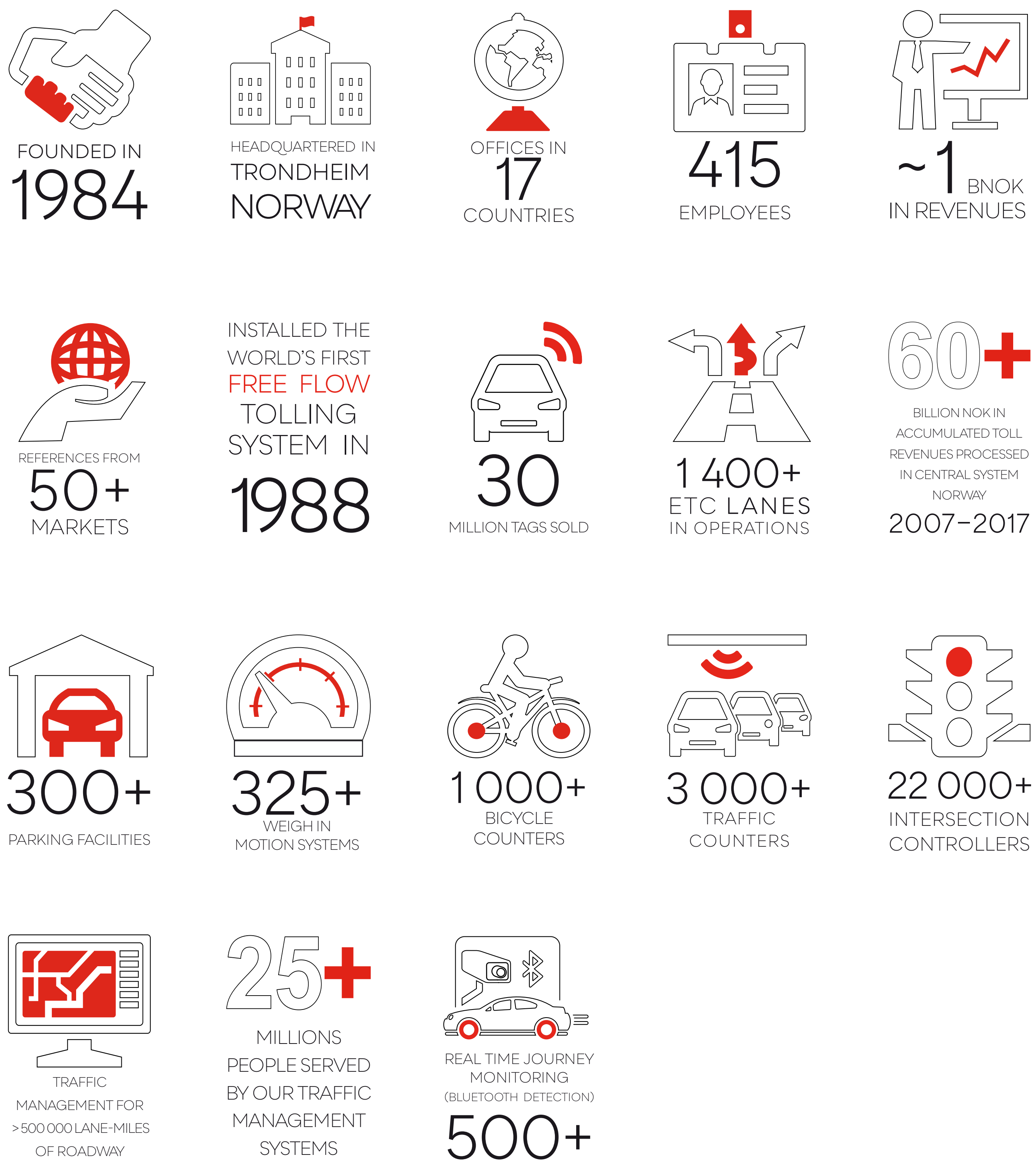
Acquisition of Traffiko and Inteligh

Developed the world's first outdoor radar based parking sensor with NB-IoT technology (Narrowband Internet of Things)

Awarded largest ever tolling (Slovenia) and inter-urban (US) contracts

Universal ITS station – C-ITS, Melbourne, Australia

Q-Free at a glance



Key figures

	2013	2014	2015 *	2016	2017
Profit & loss account (TNOK)					
Operating revenue	606 072	788 684	766 885	877 165	973 475
Cost of goods sold	224 791	282 173	221 615	296 481	287 833
Operating expenses	413 080	421 667	555 995	585 030	603 051
EBITDA **	**-31 799**	**84 844**	**-10 725**	**-4 346**	**82 591**
EBIT **	**-94 713**	**8 436**	**-150 294**	**-59 107**	**4 227**
PROFIT BEFORE TAX	**-97 959**	**-16 369**	**-171 934**	**-55 621**	**-9 526**
PROFIT AFTER TAX	**-110 770**	**-26 958**	**-188 091**	**-53 419**	**-11 263**
GM % **	62.9 %	64.2 %	71.1 %	66.2 %	70.4 %
EBITDA % **	-5.2 %	10.8 %	-1.4 %	-0.5 %	8.5 %
EBIT % **	-15.6 %	1.1 %	-19.6 %	-6.7 %	0.4 %
Selected balance sheet items (TNOK)					
Intangible fixed assets	236 279	414 342	581 991	512 451	470 876
Tangible fixed assets	63 071	51 799	43 854	33 661	22 367
Cash	271 477	164 133	65 349	101 474	113 633
Total assets	894 344	939 794	997 315	990 419	1 070 372
Equity	504 526	485 389	416 499	426 900	414 231
Gross interest bearing debt	100 000	100 000	150 000	229 457	328 691
Key figures per share (NOK)					
Earnings per share, ordinary	-1.65	-0.42	-2.79	-1.11	-0.23
Earnings per share, diluted	-1.65	-0.42	-2.79	-1.11	-0.23
Cashflow	-0.48	0.92	-0.31	-0.96	-0.55
Book equity	7.42	7.08	5.97	5.67	4.64
Market cap as at 31.12 (MNOK)	952	688	683	703	718
Average no of shares	67 972	68 574	69 781	75 351	89 223
Other key figures					
Order backlog **	379 194	481 192	710 202	1 404 548	1 049 477
Order Intake **	548 060	889 792	1 009 722	1 575 143	615 510
Return on Invested Capital (ROIC)	0.68	0.84	0.77	0.89	0.91
Net interest bearing debt (NIBD) **	-171 477	-64 133	84 651	127 983	215 058
Cash flow from operations	-32 567	63 310	-21 916	-72 684	-49 337
Operational investment	37 738	69 074	60 211	31 941	30 113
Equity ratio **	56 %	52 %	42 %	43 %	39 %
Gearing	11.2 %	10.6 %	15.0 %	23.2 %	30.7 %
Number of employees	291	399	429	416	415
Price/book value	1.89	1.42	1.64	1.65	1.73

* See note 30 Discontinued operations regarding restatement 2015.

** See Alternative Performance Measures for definitions.

2017 SUCCESSES

WHAT	WHERE	CUSTOMER
Tolling – Tag frame agreement	France	VINCI Autoroutes
Tolling – Multi lane free flow project	Gipuzkoa, Spain	BIDEGI
Tolling – Tag frame agreement	Russia	Northern Capital Highway
Tolling – AutoPASS for ferries	Norway	Fjord 1
Tolling – Option for extended operation of Central System AutoPASS	Norway	Norwegian Public Roads Administration
Tolling – Tag contract	Thailand	EXAT
Tolling – ALPR for Central Florida Expressway	Florida, USA	Transcore
Infomobility – UK frame agreement	UK	
Inter Urban – ATMS contract extension	Pennsylvania, USA	PennDOT

6 European Business Awards Sponsored by RSM NATIONAL WINNER 2017/18

Over the last few years Q-Free has evolved from a house of brands, consisting of seven recently acquired companies with distinct ITS expertise, to one brand with a broad toolbox of modular and robust products. This unique toolbox, together with our domain knowledge and experience, enables us to create new solutions that meet the rapidly evolving needs of a modern world.

In 2017 we have focused our scope and presence, strengthened our organization with new competence in key positions, and developed new offerings. These and many other initiatives made last year one of our best years terms of financial performance and created a positive impact for millions of citizens. We

1. Installed the world's most modern truck tolling system in Slovenia
2. Delivered millions of tags in e.g. Portugal, Thailand, France and Chile
3. Successfully piloted our (NB-IoT) outdoor sensor
4. Released the first phases of a state-of-the-art traffic management system in the US
5. Installed thousands of traffic controllers in the US
6. Won the 2017/2018 National European Business Award for Social Responsibility and Environmental Awareness

In addition to our internal improvements, we also made progress on our mission to enhance travelers' quality of life. With rapid urbanization, there is an increase in number of commuters and complex traffic environments, but traffic should not be a stumbling block for urban development. At Q-Free, we use our entrepreneurial spirit to provide sustainable and cost-efficient products and solutions that reduce congestion, accidents and pollution and promote smooth connectivity between people, companies, cities and the environment. As an expression of the responsibility Q-Free feels towards using our ingenuity to manage this challenge, we implemented our new vision «Changing the movements of life» in 2017.

At Q-Free we strive to be better than yesterday, both as a company and on a societal level. With this in mind, we are convinced that what we achieved in 2017 is only the beginning and that the best is yet to come for us and our broad group of stakeholders.

LETTER FROM THE CEO

2017 was a successful year for Q-Free. We managed to convert some of our record-high order backlog into double digit revenue growth and EBITDA margin. The solid financial performance was clearly helped by the restructuring we did in the second half of 2016. Beyond meeting key performance metrics, we also managed to progress the delivery of the nationwide truck tolling system in Slovenia to its final phase (it went live on April 1st 2018), delivered the first phase of the state-wide traffic management system in Virginia, and had a record year in terms of tag sales.

Although the company is still exposed to volatility in order intake and project activity, Q-Free has a more stable platform than in previous years. This can be attributed to two key developments. First, the base of recurring revenues is increasing due to long-term service and maintenance agreements in the tolling business combined with increasing product sales in other business areas and transaction-based models for license-plate recognition. Second, Q-Free has demonstrated good cost control and reduced operating expenses as a share of revenues by 10 percentage points since summer 2016.

In 2018 we will continue our efforts to build leading positions in target segments. A prerequisite for this will be to further reduce the complexity of our operations and reallocate resources from underperforming businesses to businesses with higher value creation potential. The exit from Serbia (Elcom) and parking management, which we announced in the fourth quarter of 2017, are important steps in this process. We believe we are now well positioned to defend our top 3 positons in tolling and inter-urban and build top 5 market positions in urban, parking guidance and infomobility.

Operating in an industry that addresses one of the most critical and demanding global challenges, urban mobility, we know that the future is exciting for Q-Free. The demand for intelligent transportation systems will continue to grow, and Q-Free is well positioned to capture its fair share of the growth. The momentum in several of our businesses is good, and we remain confident that a broad product portfolio, a growing list of references and a strong purpose will present Q-Free with significant opportunities in 2018 and beyond. Q-Free helped millions of people travel more efficiently, safely and environmentally friendly in 2017. Together with our customers and clients we will continue to “change the movements of life” in 2018.

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 CO2 emissions.

With increasing urbanisation comes new and unprecedented mobility challenges. Congestion is already a worldwide hassle, and the associated costs are high. Research conducted by INRIX shows that the average American wastes 42 hours in peak traffic every year and the cost to the US economy was 300 billion USD in 2016. 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 therefore 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 2030 will look very different than it did in 2017. 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 are fuelling 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 ICE 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.

First things first

In Q-Free we embrace new technology and new concepts. 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, smart infomobility solutions etc. Our breadth of sensors, software systems and domain know-how puts us in a positon where we can offer unique solutions to mobility challenges in a short time frame. 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.

For example, in 2017 we started to integrate signal processing (intersection control) in our Open TMS traffic management system. We also developed truck parking as a feature in our Open TMS traffic management solution. In 2018 we will launch our new outdoor parking sensor on a software platform (IoT Hub) that allows data collection and processing from other ITS devices. Seamless data exchange between platforms and systems will open new opportunities for traffic regulators and administrators.

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

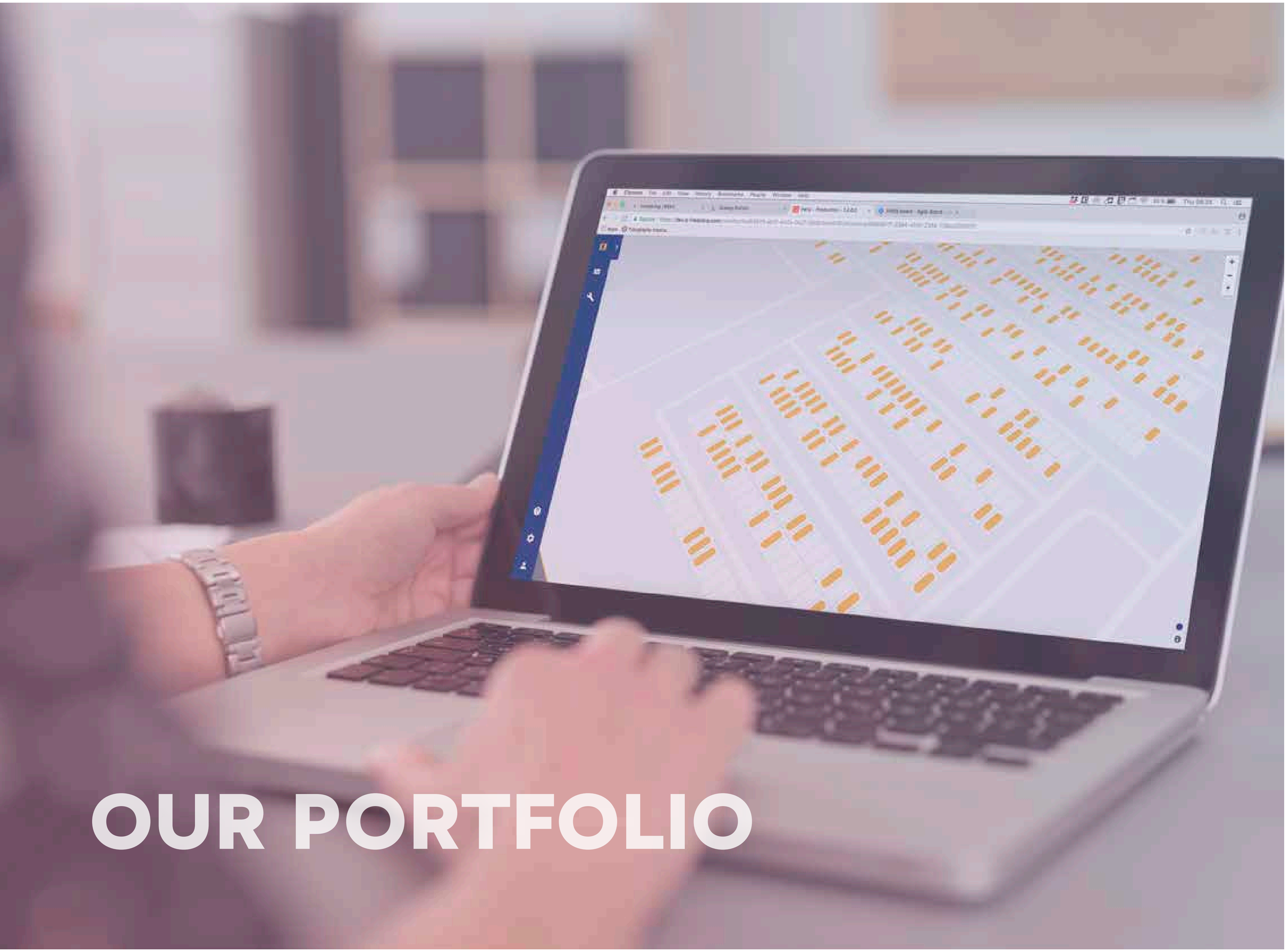
Q-Free pursues a strategy that is divided into four distinct phases. The first phase, “Restore”, was completed in the second half of 2016. In this phase the company took several actions to pave the way for future profitable growth: The capital structure was strengthened through a private share placement, 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 double-digit revenue growth and EBITDA margin in 2017.

“Develop”, which is the second phase in our plan, is about building leading and distinctive market positons in selected target segments. This will help the company sustain revenue growth and unleash its true potential as a global player in the Intelligent Transportation Systems ITS) industry. However, selling everything everywhere will not work. In 2017 and 2018 Q-Free believes it can establish itself as a global leader in tolling, parking, and infomobility and as a regional leader in inter-urban and urban traffic management in North America. We will make our mark by pushing innovative offerings such as wireless parking sensors, open traffic management platforms, state-of-the art traffic controller software etc.

In phase three, “Integrate and expand” Q-Free will capitalize on its growing list of customers and references to scale its businesses. There are several expansion opportunities in all target segments related to geographical presence, offerings and positions in the value chain. Another key goal in this phase will be integrate our offering technically and commercially. Q-Free has one of the most exciting technology portfolios in the industry and can provide solutions that few other companies can match. One example is the integration of signal processing and truck parking in our Open TMS Traffic Management system.

The ITS industry will no doubt go through a phase of consolidation. 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 consolidate and expand its market position by pursuing select M&A and partnership opportunities. This will further strengthen its leadership position in target segments.

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.

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

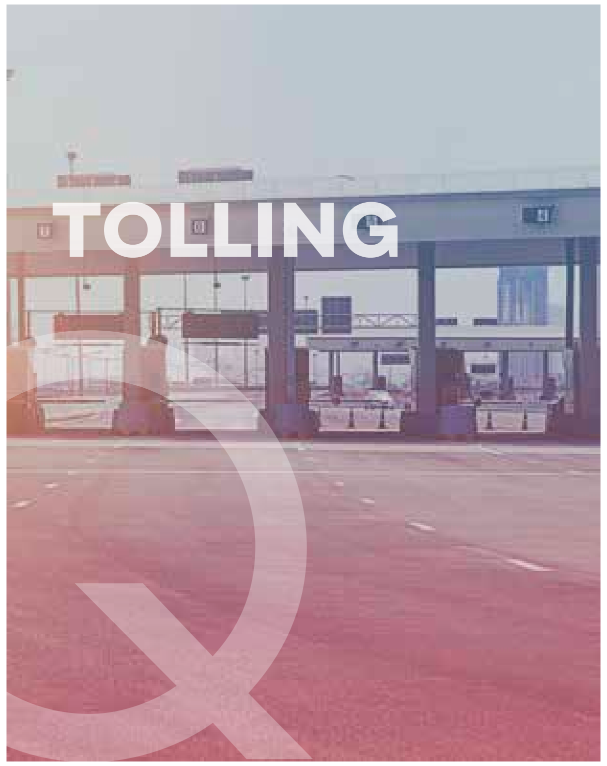
URBAN

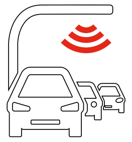
TRAFFIC CONTROLLERS
CENTRALIZED TRAFFIC CONTROLLER SW
CO-OPERATIVE ITS

INTER-URBAN

ADVANCED TRAFFIC MANAGEMENT
TRAFFIC INFORMATION
RAMP METERING
TRUCK PARKING

Our solutions





TOLLING

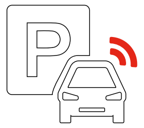
Tolls are used to fund and maintain transport infrastructure such as roads, bridges, and tunnels. They are also increasingly applied to reduce traffic congestion and/or climate emissions. Toll schemes have evolved from charging motorists a flat fee for passing a certain point, to today's schemes where 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 tags, satellite (GNSS/GPS) technology, Automated License Plate Recognition/video systems, and GSM/Cellular technologies etc. to create high performing and long-lasting tolling systems. What differentiates Q-Free from other providers, is our unique domain knowledge from implementing and running mission-critical tolling systems under very different conditions for more than three decades, the accuracy and reliability of our systems, and our reliable service operation.

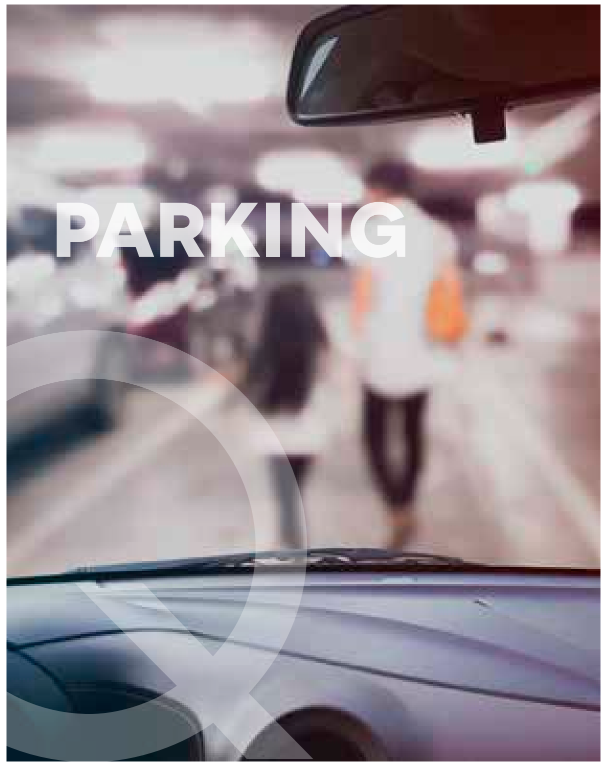
Revenues are typically derived from initial system sales (project sales), service and maintenance agreements for delivered systems including software systems, and product sales related to upgrades/expansions of existing systems or new batches of tags.

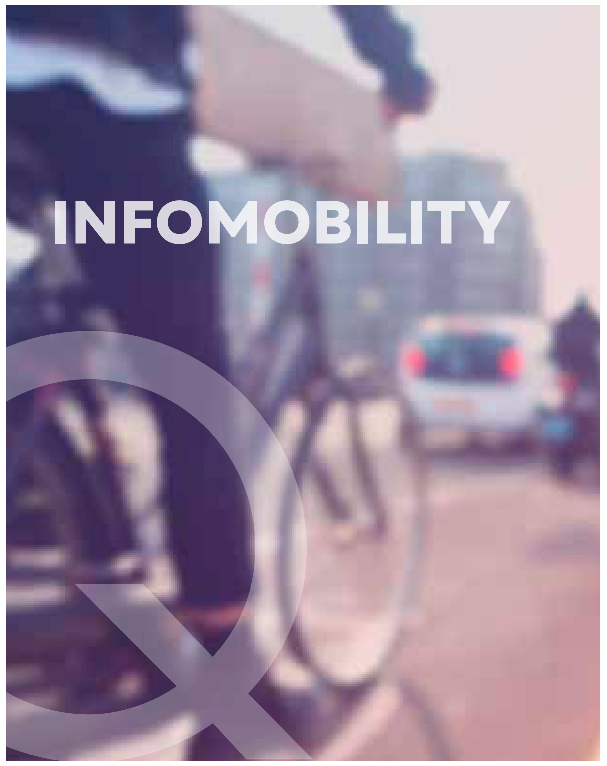


PARKING

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, travellers 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.



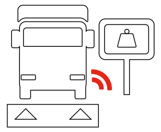


Our class-leading PGS solutions use both fixed and wireless sensors to provide real-time information on parking availability. We register vehicles when they enter the parking facility, the level they stop at, and the space they occupy. The driver is guided to available parking spaces by displaying occupancy information on LED signs, web pages or in mobile applications. When integrated with Q-Free ParQ, Customers get access to real-time occupancy information and trends.

Our new radar-based parking sensor will revolutionize the PGS market due to unrivalled accuracy, long battery lifetime, low installation costs, and robustness in tough weather conditions. The sensor is designed for the future with Narrow-Band Internet of Things (NB-IoT) connectivity, which means that it can communicate directly to future 4G and 5G telecom networks.

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

Q-Free generates parking revenues on sale 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.

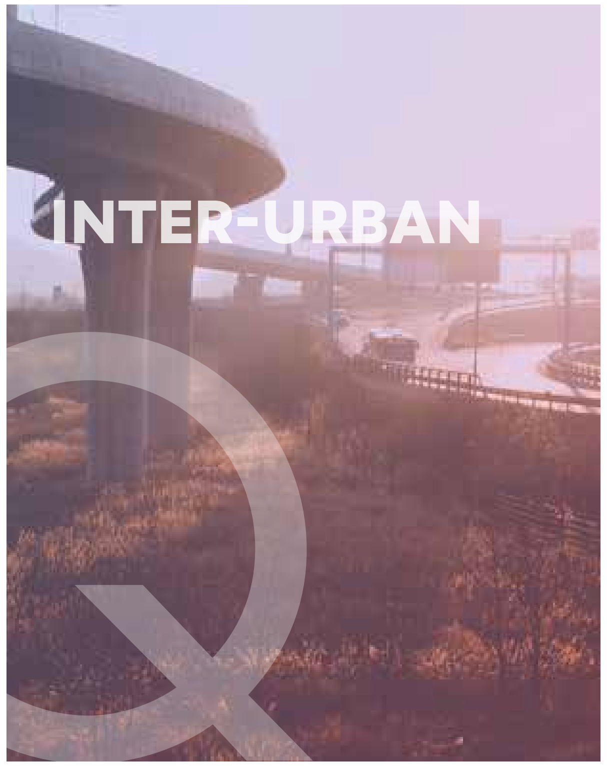
We offer high quality, reliable products with an attractive price/value ratio. All systems are characterized by real-time data capture, high accuracy, high uptime, high flexibility due to modular and interoperable solutions with open architectures, and a high service level to all customers. Moving forward,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

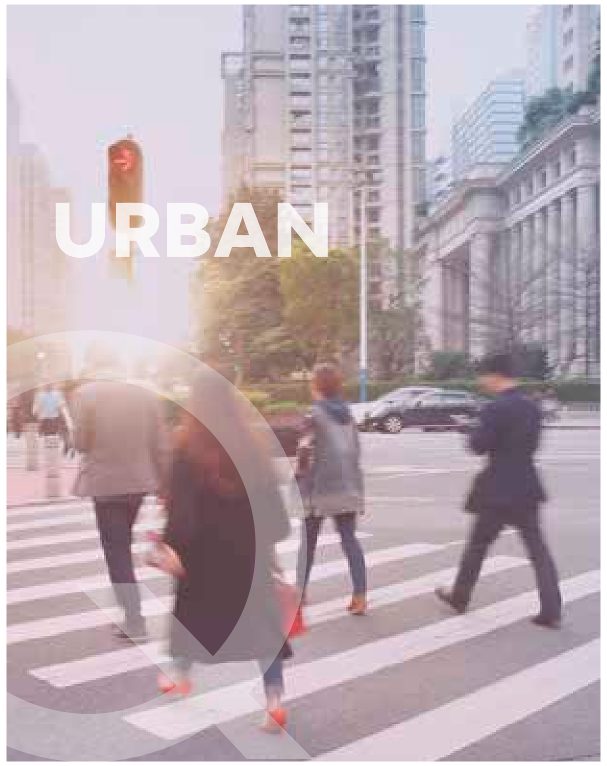
Highways are the arteries of our economies and their smooth functioning is essential to almost every aspect of our lives. In the face of ever increasing levels of traffic, jurisdictions around the world continue their efforts to make improvements to safety and environmental performance while reducing 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. Currently, hardware accounts for 2/3 and SW for 1/3. Hardware is sold and invoiced based on traditional sales contracts, software might be licensed. Service and maintenance contracts for maintaining and improving the software typically cover multiple years. With a shift to cloud-based systems, we expect more of the revenues to become recurring and transaction-based.

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 100,000 shares and holds 630,828 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 7,500 shares and holds 594,548 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.

Per Fredrik Ecker (1968) | SVP Asia Pacific, Middle East and Africa | Mobile: +47 922 97 524 | per.ecker@q-free.com

Per Fredrik Ecker has been with the company since 2007 and has filled several leading positions in Q-Free. Prior to joining Q-Free, Ecker was Sales Director in Siemens Mobile Networks (1992-2007). As a Second Lieutenant, Ecker was educated in electronics by the Norwegian Army Officers Training School. Ecker is a Norwegian native, based in Indonesia, and owns 33,500 shares and holds 70,000 synthetic share options in Q-Free ASA.

Arvid Strømme (1964) | VP Service Line Tolling | Mobile: +47 911 93 313 | arvid.stromme@q-free.com

Arvid Strømme has been employed in Q-Free since 2015, and has more than 20 years of experience from technology-based international business. Strømme has previously held leading positions in Stentofon AS, Det Norske Veritas, Stento ASA, Zenitel, Elotec, and Doble Lemke GmbH. Strømme received his M.Sc. Data and Electronics degree from the Norwegian University of Science and Technology (NTNU) in Trondheim, Norway, and an MBA in Strategic Management from the Norwegian School of Econonics (NHH), Norway. Strømme is a Norwegian citizen and based in Trondheim, Norway.

Kristina Bergstad (1976) | VP Service Line Parking | Mobile: +47 482 88 708 | kristina.bergstad@q-free.com

Kristina Bergstad has been with Q-Free since 2009 and has held several key positions within the Group. Bergstad has over 15 years of international management and project management experience within the field of IT and Technology across several industries. She has previously worked for companies such as Telenor, Wallenius Wilhelmsen Logistics, ErgoGroup and the Norwegian Public Roads Administration. Bergstad is a Norwegian citizen and based in Oslo, Norway.

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) | Vice Chairman 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 companies Nordic Semiconductor ASA, Salmones Camanchaca S.A. and XXL ASA, as well as in the privately held Companies in April 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 Chairman 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. 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). Valvik represents 17,844,644 (20 %) shares in Q-Free ASA, through his position in AS Atlantis Vest.

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 department of Transport Research. She is Chairman of the Board of ITS Norway, the member association for the ITS sector in Norway, since 2008. Wahl is currently member of the Board of Itema AS and of TRANSPORT 2025, the Research Council of Norway's strategic program on research and innovation within the transport sector. 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 Vice President and General Manager for the Collaboration systems and Video Technology Group (CVTG) in Cisco. He is responsible Cisco's global video division. Before joining Cisco, Kjesbu was Senior Vice President for Tandberg's Endpoint Product Division. Prior to Tandberg, he was at ABB responsible for wireless communications. Kjesbu and his team at ABB were awarded the Wall Street Journal Innovation award for their work on wireless sensors in 2002. Kjesbu serves on the board of directors of several IT-companies, and holds more than 20 patents in the area of communications and video conferencing. 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.

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

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

Board of Directors' report 2017

The Q-Free Group

The Q-Free Group creates intelligent solutions for efficient, safe and environmentally friendly transportation. Since its inception in 1984, Q-Free has delivered systems, which are operational in Europe, North and South America, the Asia Pacific region, the Middle East and Africa. Headquartered in Trondheim, Norway, the company has local offices in 18 countries and 415 employees. Q-Free ASA is listed on the Oslo Stock Exchange under the ticker QFR.

Summary and highlights in 2017

Q-Free experienced strong financial and operational improvements in 2017. The company managed to convert a record high order backlog into profitable growth. Strong cost control throughout the year also ensured a significant improvement in profitability. The board is satisfied with the financial development in 2017 and the progress that has been made on further streamlining the company and reducing complexity.

The highlights for 2017 include:

- 973 MNOK in revenues, up 11 % from 877 MNOK in 2016
- 110 MNOK in EBITDA before non-recurring items. Including non-recurring items, the 2017 EBITDA ended at 83 MNOK.
- 616 MNOK in order intake, 791 MNOK if the potential value of two frame agreements in the UK and Norway are included.
- Order backlog of 1 049 MNOK, down from 1 405 MNOK in 2016. The backlog is still at a high level compared to historical levels.

The divestment of Q-Free's security business Prometheus Security Group Global Inc. was closed in February 2017.

In Q4 2017, Q-Free decided to exit its operations in Serbia and Malta. These businesses contributed with a negative EBITDA of around 20 MNOK in 2017 and are not expected to perform in accordance with the company's growth and profitability targets going forward. The decision led to an impairment of 22 MNOK in Q4 2017.

Financial review

(2016 in brackets)

Revenues

Group revenues were 973 MNOK (877 MNOK), which implies an organic growth of 11 percent compared to 2016. Growth was driven by the Tolling, Infomobility, Urban and Inter-Urban service lines.

Service line financial review

Tolling revenues ended at 601 MNOK (575 MNOK), a YoY growth of 5%. The increase is mainly explained by the progress on the nationwide truck tolling project in Slovenia and strong global tag sales.

The Parking business reported revenues of 56 MNOK (97 MNOK), a YoY reduction of 42 %. The main reasons for the decline were lower sales of ALPR licenses for access control and limited sales of parking management systems. As a consequence of falling sales and a desire to reduce the complexity of Q-Free's operations, Q-Free decided in Q4 2017 to exit the revenue management segment and close down its subsidiary Q-Free Traffiko Ltd in Malta. A process to sell the assets and transfer customer relationships is ongoing. The parking management business reported revenues of 22 MNOK in 2017 and an EBITDA of – 9,1 MNOK. Going forward Q-Free will focus its parking offering on the next generation parking guidance solutions where Q-Free experiences a growing interest for its solutions.

Infomobility revenues ended at 64 MNOK (52 MNOK), a YoY growth of 23%. The increase is explained by strong momentum in sales to North America through newly appointed distributors. The Infomobility business also delivered strong growth in the UK and was awarded a new 75 MNOK frame agreement.

Urban revenues were 139 MNOK (99 MNOK), a YoY growth of 40 %. The business gained significant momentum during the year helped by the launch of the new traffic controller, MaxTime 2.0, and new contracts with many new states and cities in the USA. In March 2018, the Serbian subsidiary Elcom d.o.o. was sold for a consideration of 10 000 EUR. Elcom's products include traffic light controllers, LED streetlights and system solutions for different traffic applications based on own and third-party products The motivation for the sale was weak financial performance along with a desire to reduce the complexity of Q-Free's operations. Elcom generated revenues of 8 MNOK in 2017 and an EBITDA of –10,3 MNOK, predominantly reported under the urban segment.

The Inter-Urban business reported revenues of 113 MNOK (54 MNOK), a YoY growth of 107 %. The strong growth is mainly explained by the ongoing delivery of a state-wide web-based traffic management system to Virginia Department of Transport (VDOT).

Regional financial review

Europe and Latin America (ELA) continued to be Q-Free's largest region with 43 % of global revenues. Q-Free's product and solutions offering in the region comprises Tolling, Parking and Infomobility, which spans both established Q-Free markets such as Portugal, Chile and France and new Q-Free markets such as the UK, Slovenia and Russia. In 2017 the region reported revenues of 443 MNOK (320 MNOK), a YoY growth of 38%. The growth is mainly explained by the delivery of the 470 MNOK Slovenia Truck Tolling project, whereof 167 MNOK were recognised as revenues in 2017. The region also reported strong tag sales to France, Portugal and Chile.

The Nordic region reported revenues of 168 MNOK (229 MNOK), a YoY decline of 27% due to limited tolling installations/upgrades in Norway. Most of Q-Free's revenues in 2017 were derived from contracts related to the AutoPASS tolling system in Norway and congestion charging systems in Sweden (Gothenburg and Stockholm).

Region Asia Pacific, Middle East and Africa (APMEA) reported revenues of 86 MNOK (95 MNOK), a YoY decline of 9 % due to somewhat reduced tag revenues from Thailand compared to 2016. Q-Free's activities in this region consist of selling and servicing Tolling, Parking, and Infomobility solutions. Revenues in 2017 mostly came from upgrades of existing tolling infrastructure in Thailand and various tolling activities in Australia.

Region North America reported revenues of 277 MNOK (232 MNOK), a YoY growth of 19%. North America accounted for 28 % of global revenues. Q-Free has a strong and growing business in this region based on sale of parking guidance solutions, intersection controllers, traffic management center solutions, and license plate recognition applications in tolling systems. Growth compared to 2016 was driven by the delivery of the 217 MNOK VDOT project, out of which 58 MNOK was recognised in 2017. The region also reported strong growth from the Urban and Tolling solutions.

Q-Free will with effect from January 2018 change its reporting to provide more details per service line and also reflect the combination of the previous geographical regions into the revised segments EUROPE, AMERICAS and APMEA.

Gross profit

Gross profit ended at 686 MNOK (581 MNOK), an increase of 18 percent YoY. The gross margin improved by 4 percentage points from 2016 due to positive product mix effects and increased margin from the tolling business. Some of the improvement is also explained by inventory write downs in 2016 of 15 MNOK and a reclassification of 16 MNOK from operating expenses to COGS in the 2016 figures.

Operating expenses

Reported operating expenses amounted to 603 MNOK (585 MNOK), up 3 % compared to 2016.

During the third quarter Q-Free settled a dispute with the Norwegian Public Roads Administration (NPRA) over invoices related to CS Norway services up until July 2016. The agreed settlement amount was 27.8 MNOK payable in four instalments over the coming 12 months. The amount is booked as operating expenses and classified as a non-recurring item.

Adjusting for non-recurring items and restructuring expenses in 2016, Q-Free had 575 MNOK (570 MNOK) in operating expenses in 2017, up 1 percent compared to 2016. Operating expenses were down approximately 3 percent in 2017 when adjusting for the reclassification effect described above under gross profit and include one-off costs related to the exit of the operations in Serbia and Malta.

In 2016 Q-Free implemented a cost reduction program where the net impact of the program in 2017, i.e. after adjusting for inflation, salaries, and overhangs, was expected to be close to 25 MNOK. Entering 2018 the cost run rate is in line with this expectation. The exit of the operations in Serbia and Malta will impact the cost base positively in 2018.

Operating profits

Earnings before interest, taxes, depreciation, and amortisation (EBITDA) ended at 83 MNOK (-4 MNOK), a significant improvement compared to 2016. Excluding non-recurring items Q-Free reports an EBITDA of 110 MNOK (11 MNOK) and a corresponding EBITDA-margin of 11.3 % (1.3 %).

Reported operating profit (EBIT) was 4 MNOK (-59 MNOK). Adjusting for non-recurring items and an impairment of 22 MNOK in relation to the exit of the operations in Serbia and Malta, EBIT for 2017 ended at 54 MNOK (-43 MNOK). The operations in Serbia and Malta reported a negative EBIT of 21 MNOK in 2017 excluding impairment.

Net financial items

Full-year net financial items were -14 MNOK (3 MNOK). The negative change is mainly explained by higher financial costs due to increased interest bearing debt and unfavourable currency fluctuations.

Profits

The reported pre-tax loss for 2017 was 10 MNOK (-56 MNOK). Tax expenses amounted to 2 MNOK (2 MNOK), while payable tax was 3 MNOK.

Having undertaken an assessment of the criteria under IAS 12, Q-Free has also for the 2017 accounts chosen not to capitalize deferred tax assets in Norway related to tax losses carried forward of 98 MNOK from 2013, 2014, 2015, 2016 and 2017. In addition, the group has chosen not to include net deferred tax asset of 102 MNOK as at 31 December 2017 for the Group. Of this amount, 129 MNOK is related to tax losses carried forward, 19 MNOK related to acquisitions in the US and -46 MNOK is related to other temporary differences.

Annual results and year-end appropriations

The result after tax in 2017 was a loss of 11 MNOK (loss of 53 MNOK). Reported result after tax including discontinued operations showed a loss of 20 MNOK (loss of 84 MNOK). Earnings per share was -0.23 NOK (-1.11 NOK).

The Board of Directors proposes to cover the parent company's loss for the year of NOK 15.7 million from other equity.

The Board of Directors does not propose to distribute any dividends for 2017. The Annual General meeting is scheduled for 29 May 2018.

Cash flow and liquidity

Net cash flow from operating activities was -49 MNOK (-73 MNOK). This is mainly explained by the payment conditions on the Slovenia Truck Tolling project. This contract is almost fully financed by Q-Free until final delivery has been approved and is also the main reason for the increase in Work in progress in the balance sheet from 76 MNOK to 227 MNOK during the year. The company expects to collect around 200 MNOK from Slovenia in Q2 2018 when the project is expected to be completed. Q-Free has had a strong focus on cash and working capital management throughout the entire organisation in 2017 to mitigate some of the negative effect caused by the Slovenia project.

Net working capital, defined as current assets excluding cash less current liabilities, and excluding short-term overdraft facilities, amounted to 224 MNOK (132 MNOK). The increase of 92 MNOK is explained by the Slovenia Truck Tolling project. Net working capital equalled 23 percent of the revenues generated in the last 12 months.

Net cash flow from investment activities was -31 MNOK (-83 MNOK). The reduction of 52 MNOK is mainly explained by 52 MNOK in earn-out payments on past acquisitions paid in 2016. Q-Free invested 30 MNOK (32 MNOK) in technology and other fixed assets during the year.

Net cash flow from financing activities was 92 MNOK (193 MNOK). The reduction of 101 MNOK is mainly explained by the private share placement in 2016 that raised 134 MNOK in gross proceeds.

The cash closing balance was 114 MNOK (102 MNOK) at the end of 2017.

Balance sheet

Total assets at the end of 2017 were 1 070 MNOK (990 MNOK). Total equity ended at 414 MNOK (427 MNOK). The equity ratio was 39% (43%).

Current liabilities amounted to 440 MNOK (263 MNOK) at the end of 2017. The 177 MNOK change is to a large extent explained by 125 MNOK in increased short-term interest bearing debt as a 120 MNOK credit line has been drawn up to fund the Slovenia Truck Tolling project. The remaining increase is explained by a reallocation of 22 MNOK in the Intelight share purchase obligation from non-current to current liabilities, 21 MNOK in remaining payables for the NPRA settlement and an increase in payables.

Non-current liabilities were 216 MNOK (282 MNOK), a reduction of 66 MNOK. The reduction is mainly explained by a 25 MNOK down payment of the serial loan and 22 MNOK reallocation of the Intelight obligation to current liabilities. The remaining non-current liability to purchase shares in Intelight is estimated at 68 MNOK. Other non-current liabilities include pension schemes of 15 MNOK, long term serial loan to financial institutions of 125 MNOK and a 5 MNOK deferred tax liability.

Short term interest-bearing debt to financial institutions was 204 MNOK (79 MNOK) at year end. Available, unused credit facilities were 114 MNOK (239 MNOK) at the end of 2017.

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 415 (416) employees at the end of 2017. Taking in to account the revenue growth in 2017, the stable number of employees is reflecting the continued strong cost control in 2017.

Q-Free has established good working conditions in a non-discriminating, multicultural organisation with operations in 18 countries. Sick leave remains at satisfactory low levels. The company is pleased to report no serious lost time accidents or injuries during the year. Please refer to the separate section on Corporate Social Responsibility Statement in this Annual Report for a more detailed review of Q-Free's human rights, labour rights, working conditions, and safety and health policies and performance.

Management

The management team has been reorganised in 2017 to support a new strategic plan and a new organisation. Roar Østbø resigned from the position as CFO in May 2017, and Tor Eirik Knutsen was appointed CFO in October 2017. Fredrik Nordh was appointed SVP EUROPE in September 2017, and Morten Andersson was appointed SVP AMERICAS. VP Service Line Tolling, Arvid Strømme, VP Service Line Parking, Kristina Bergstad and VP Supply Chain Management, Pål-Andre Almlie became members of the management team in 2017.

Board of Directors

The Board of Directors comprises four shareholder-elected members: Tore Valderhaug (Chairman), Trond Valvik (Vice Chairman), Ragnhild Wahl and Snorre Kjesbu, and the employee-elected representatives Sissel Lillevik Larsen and Rune Jøraandstad.

During 2017 the following changes to the Board were completed: Trond Valvik was elected as new member of the Board, Tore Valderhaug, who previously was Vice Chairman, was elected as new Chairman. Shareholder-elected member of the Board, Charlotte Brogren Karlberg resigned from the position as per 26 October 2017. The Nomination Committee concluded to postpone the by-election to the Annual General Meeting in 2018. The gender diversity requirements pursuant to Norwegian legislation will again be fulfilled after the by-election at the Annual General Meeting 2018.

Corporate social responsibility and corporate governance

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

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

Risk factors

Q-Free is an international technology company exposed to a number of different risk factors. This section 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 risk in terms of timing and cost. Through more than 30 years of experience, Q-Free holds in-depth knowledge of customer requirements as well as the boundaries of its own project capabilities, and seeks to reduce risk in contract negotiations.

Political risk

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

Technology risk

Q-Free is exposed to risks related to the quality of own work and the quality of deliveries from subcontractors. Q-Free attempts to mitigate this risk through internal auditing and a non-conformance reporting system ensuring that employees carry out their work in accordance with well-defined processes. Q-Free clearly states its quality expectations in contracts with subcontractors and carries out regular quality reviews 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 80 % of revenues was generated outside of Norway. Q-Free also runs businesses outside of Norway and buys a substantial share of required equipment abroad, with payment in foreign currencies which mitigates this risk significantly. The net foreign currency exposure in 2017 was, due to the reasons commented above, only approximately 10 percent of gross revenues. The Group strategy is to combine estimated future sales and purchases and hedge the net cash flow in the foreign currency by using forward/future contracts.

Q-Free aims to reduce its liquidity risk by holding sufficient cash and credit facilities at any time to be able to finance its operations and planned investments. The Board of Directors assesses the liquidity at the end of 2017 to be sufficient to cover the company's planned operations and investment requirements. For the sake of good order, the Board emphasises the significant impact the scheduled payment from Slovenia expected in second quarter of 2018 will have on Q-Free's liquidity situation and capital structure.

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

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

Outlook

Q-Free has delivered five quarters in a row with strong YoY revenue growth and EBITDA improvements. The company met its key financial targets of double-digit revenue growth and EBITDA margin in 2017. The solid financial performance was positively impacted by the restructuring done in the second half of 2016 and strong cost control in 2017.

Although the company is still exposed to volatility in order intake and project activity, the base of recurring revenues is increasing. The momentum in several of Q-Free's businesses has been good, and the company remains confident that its unique product portfolio, a growing list of references, and a strong purpose will present it with significant opportunities in 2018 (and beyond). Q-Free has a strong pipeline of potential contracts, and the tender activity is high in all parts of the organization. The company aims to close several important contracts in the first half of 2018 to support a solid revenue base for 2018 and onwards.

With the recent progress on the Slovenia Truck Tolling contract, Q-Free expects to collect close to 200 MNOK in receivables in Q2-18. This will significantly improve the company's capital structure and available financing.

In 2018 Q-Free will continue its efforts to build leading positions in target segments. The company believes it is well positioned to defend its top 3 position in tolling and Inter-Urban and build a top 5 market position in urban, parking guidance and infomobility. A prerequisite for success will be to further reduce the complexity of Q-Free's operations and reallocate resources from underperforming businesses to businesses with higher value creation potential.
The decision to exit Malta and Serbia is a part of this process.

The future holds a lot of exciting opportunities for Q-Free. The company operates in a growing industry which addresses one of the most critical and demanding global challenges in the years ahead: sustainable urban mobility. The demand for intelligent transportation systems will continue to grow, and Q-Free is well positioned to capture its fair share of the growth going forward.

Trondheim, 4 April 2018

Tore Valderhaug
Chairman of the Board

Trond Valvik
Vice Chairman of the Board

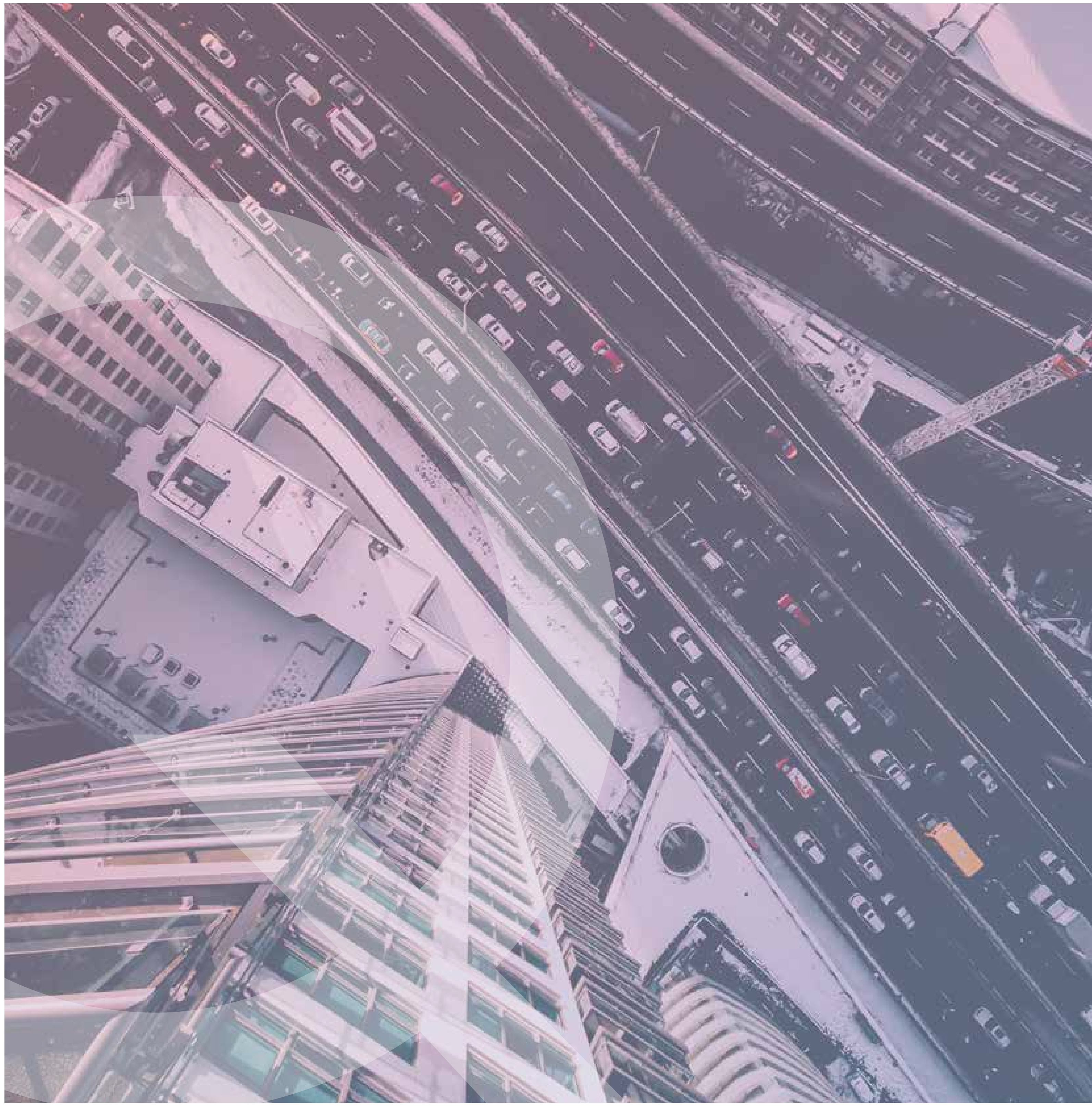
Ragnhild Wahl
Board member

Snorre Kjesbu
Board member

Sissel Nina Lillevik Larsen
Employee-elected Board member

Rune Jøraandstad
Employee-elected Board member

Håkon Rypern Volldal
President & CEO



Consolidated financial statements

"2017 showed strong revenue and EBITDA growth. We managed to convert a record high order backlog into double digit EBITDA margin and implemented actions that will further reduce operational complexity. We enter 2018 with a solid order backlog, a healthy and large order pipeline and a product platform with high value creation potential".

Tor Eirik Knutsen
CFO

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

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Statement of income

for the year ended 31 December 2017

Parent company				Group	
2016*	**2017**	Figures in TNOK	**Notes**	**2017**	**2016**
		Operating revenues			
416 275	496 103	Revenues	5, 7, 30	973 475	873 455
3 710	0	Other operating income	8	0	3 710
419 985	**496 103**	**TOTAL OPERATING INCOME**	**5**	**973 475**	**877 165**
		Operating expenses			
145 556	150 918	Cost of goods sold	14, 30	287 833	296 481
115 291	139 029	Personnel expenses	8, 15, 16, 17, 30	318 730	308 241
135 065	200 978	Other operating expenses	21, 27, 29, 30	284 321	276 789
395 912	**490 925**	**TOTAL OPERATING EXPENSES**		**890 884**	**881 511**
24 073	**5 178**	**Earnings before interest, taxes, depreciation and amortisation (EBITDA) ****	**5**	**82 591**	**-4 346**
10 509	10 508	Depreciation of property, plant and equipment	9	15 017	15 833
6 865	9 669	Amortisation of intangible assets	10, 11, 30	41 471	38 928
0	0	Impairment of intangible and fixed assets	9, 10, 11	21 876	0
6 699	**-14 999**	**Earnings before interest and taxes (EBIT) ****	**5**	**4 227**	**-59 107**
		Financial items			
14 512	9 369	Financial income	24, 30	29 583	39 711
16 733	12 571	Financial income Group companies	24	0	0
-58 573	-26 235	Financial expenses	24	-43 336	-36 225
-588	-897	Financial expenses Group companies	24	0	0
-27 916	**-5 192**	**TOTAL FINANCIAL ITEMS**		**-13 753**	**3 486**
-21 217	**-20 191**	**Profit before tax**	**5**	**-9 526**	**-55 621**
0	-541	Taxes	23, 30	-1 737	2 202
-21 217	**-20 732**	**Profit / (-) loss for the year from continuing operations**		**-11 263**	**-53 419**
0	**0**	**Profit / (-) loss for the year on discontinued operations, net of tax**	**30**	**-9 462**	**-30 213**
-21 217	**-20 732**	**Profit / (-) loss for the year**	**5**	**-20 725**	**-83 632**
		Earnings in NOK per share	12	-0,23	-1,11
		Diluted earnings in NOK per share	12	-0,23	-1,11
		Earnings in NOK per share from continuing operations	12	-0,13	-0,71
		Diluted earnings in NOK per share from continuing operations	12	-0,13	-0,71

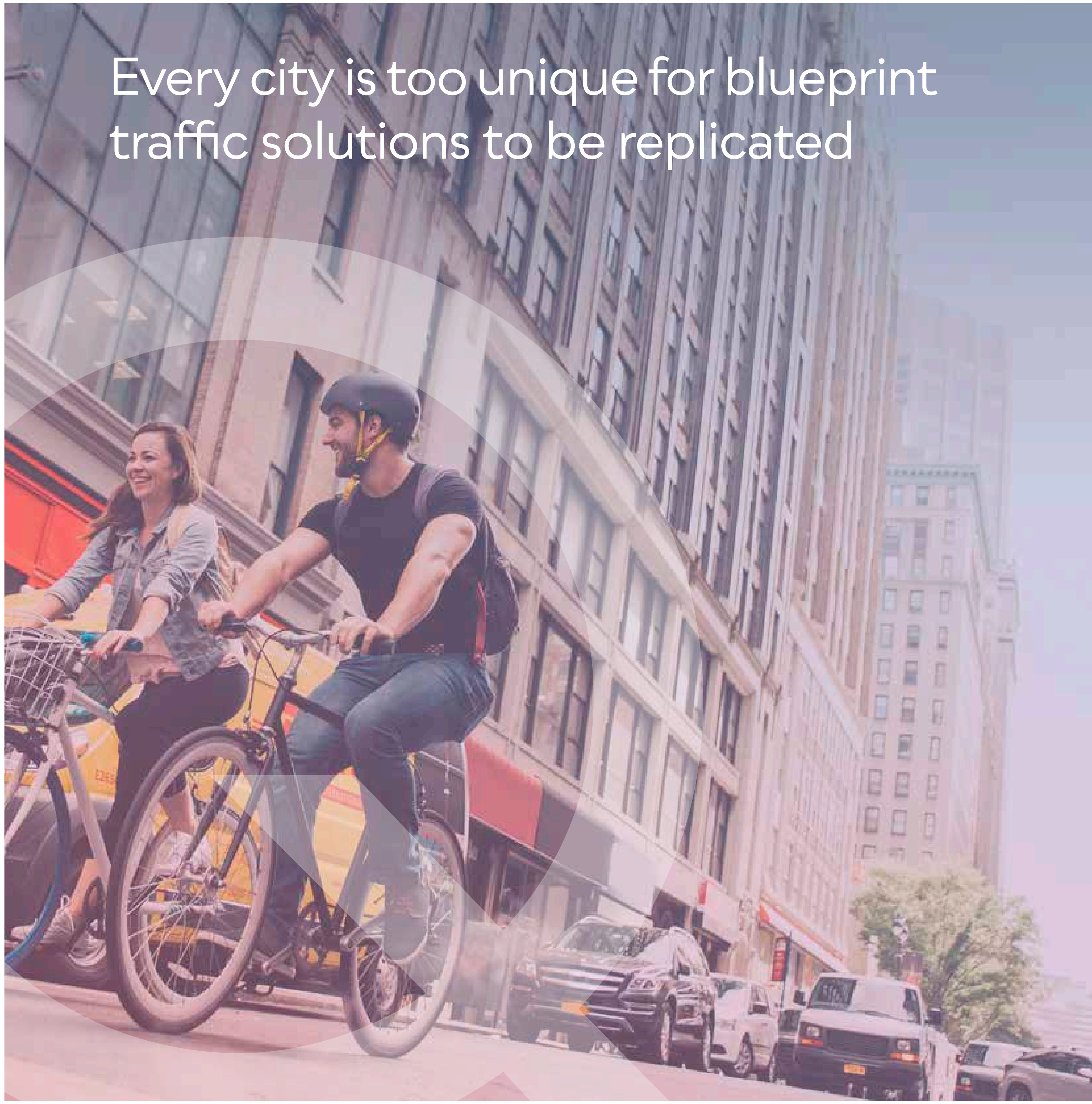
* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to statement of changes in equity.

** See Alternative Performance Measures for definitions.

Statement of comprehensive income

for the year ended 31 December 2017

Parent company				Group	
2016	2017	Figures in TNOK	Note	2017	2016
-21 217	-20 732	**Profit for the period**		-20 725	-83 632
		Other comprehensive income			
		Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
0	0	Exchange differences on translation of foreign operations		7 965	-45 804
2	-8	Net (loss)/gain on available-for-sale financial investments	25	-8	2
2	**-8**	**Net other comprehensive income to be reclassified to profit or loss in subsequent periods:**		**7 957**	**-45 802**
		Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
248	0	Re-measurement gain (losses) on defined benefit plans	16	0	248
0	0	– Income tax effect		0	0
248	**0**	**Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:**		**0**	**248**
250	**-8**	**Other comprehensive income for the year, net of tax**		**7 957**	**-45 554**
-20 967	**-20 740**	**Total comprehensive income for the period, net of tax**		**-12 768**	**-129 186**



Statement of financial position

as at 31 December 2017

Parent company 2016	Parent company 2017	Assets (Figures in TNOK)	Notes	Group 2017	Group 2016
		Non – current assets			
0	0	Deferred tax assets	23	16 864	17 420
50 297	55 320	Product development assets	10, 30	148 632	178 746
0	0	Goodwill	10, 11, 30	305 380	316 285
17 766	11 148	Machinery, fixtures and fittings, etc.	9, 22, 30	22 367	33 661
299 255	299 255	Investments in subsidiaries	6, 18	0	0
220 138	211 382	Loan to group companies	19	0	0
395	387	Investments in other companies	4, 25	387	395
0	0	Other receivables	4	2 147	1 008
587 851	**577 492**	**TOTAL NON – CURRENT ASSETS**		**495 777**	**547 515**
		Current assets			
16 706	12 351	Inventories	14, 22, 30	65 453	66 327
36 598	200 717	Work in progress	7, 22, 30	227 154	75 807
44 812	22 804	Accounts receivables	4, 21, 22, 30	130 487	142 425
129 399	108 889	Accounts receivables on group companies	4, 21, 22	0	0
3 639	4 562	Other current assets	4, 28, 30	37 868	31 646
15 970	0	Cash and cash equivalents	4, 20, 30	113 633	101 474
247 124	**349 323**	**TOTAL CURRENT ASSETS**		**574 595**	**417 679**
0	**0**	**ASSETS HELD FOR SALE**	**30**	**0**	**25 225**
834 975	**926 815**	**TOTAL ASSETS**		**1 070 372**	**990 419**

Parent company 2016	Parent company 2017	Equity and liabilities (Figures in TNOK)	Notes	Group 2017	Group 2016
		Equity attributable to equity holders of the parent			
33 905	33 905	Subscribed share capital	13	33 905	33 905
578 307	578 307	Share premium reserve		578 307	578 307
20 529	20 628	Other paid-in capital		20 628	20 529
-146 355	-167 096	Other equity		-218 609	-205 841
486 386	**465 744**	**Total equity attributable to equity holders of the parent**		**414 231**	**426 900**
486 386	**465 744**	**TOTAL EQUITY**		**414 231**	**426 900**
		Liabilities			
		Non – current liabilities			
150 000	125 000	Debt to financial institutions	4, 22	125 000	150 000
14 743	15 258	Other non-current liabilities	4, 6, 16	85 986	116 690
34 095	32 127	Loan to group companies	19	0	0
0	0	Deferred tax	23, 30	4 956	15 003
198 838	**172 385**	**TOTAL NON – CURRENT LIABILITIES**		**215 942**	**281 693**
		Current liabilities			
13 783	127 107	Debt to financial institutions	4, 22	203 691	79 457
58 108	50 189	Accounts payable	4, 30	89 272	100 209
0	0	Advance payments from customers	4, 7	11 693	11 677
33 010	38 181	Debt to group companies	19	0	0
0	0	Tax payable	4, 23	3 342	702
9 471	8 313	Public duties payable	30	14 541	16 647
35 379	64 896	Other current liabilities	4, 6, 26, 30	117 660	54 696
149 751	**288 686**	**TOTAL CURRENT LIABILITIES**		**440 199**	**263 388**
348 589	**461 071**	**TOTAL LIABILITIES**		**656 141**	**545 081**
0	**0**	**LIABILITIES HELD FOR SALE**	**30**	**0**	**18 438**
834 975	**926 815**	**TOTAL EQUITY AND LIABILITIES**		**1 070 372**	**990 419**

Trondheim, 4 April 2018

Tore Valderhaug
Chairman of the Board

Ragnhild Wahl
Board member

Snorre Kjesbu
Board member

Trond Valvik
Vice Chairman of the Board

Sissel Nina Lillevik Larsen
Employee-elected Board member

Rune Jøraandstad
Employee-elected Board member

Håkon Rypern Volldal
President & CEO

Statement of changes in equity

for the year ended 31 December 2017

Parent Figures in TNOK

	Note	Share capital	Share Premium reserve	Other paid-in capital	Other equity	Available-for-sale reserve	Exchange differences on translation of foreign operations*	Actuarial gains and losses	Total equity
Equity per. 01.01.2016	**13**	**26 627**	**439 350**	**20 529**	**-145 920**	**-66**	**40 781**	**-13 536**	**367 766**
Correction of error *					40 781		-40 781		0
Equity per 01.01.2016 (restated)		**26 627**	**439 350**	**20 529**	**-105 139**	**-66**	**0**	**-13 536**	**367 766**
Total comprehensive income for the period					-21 217	2	0	248	-20 967
Share issue arising from acquisitions	13	497	11 903						12 400
Share issue	13	6 781	127 054		-6 648				127 188
Total equity of the Parent per 31.12.2016		**33 905**	**578 307**	**20 529**	**-133 003**	**-64**	**0**	**-13 288**	**486 386**
Equity per. 01.01.2017	**13**	**33 905**	**578 307**	**20 529**	**-133 003**	**-64**	**0**	**-13 288**	**486 386**
Total comprehensive income for the period					-20 732	-8	0	0	-20 740
Cost of share-based payment	17			99					99
Reclassification					-13 288			13 288	0
Total equity of the Parent per 31.12.2017		**33 905**	**578 307**	**20 628**	**-167 023**	**-72**	**0**	**0**	**465 744**

* The Company has in its separate financial statement historically recognised exchange differences on foreign currency loans to subsidiaries in other comprehensive income and as a translation reserve in equity, when the loan is considered to form a part of the net investment in the subsidiary. According to IAS 21 such exchange differences shall be recognised in profit and loss in the separate financial statement of the parent company. The translation reserve as of 1. January 2016, has thus been reclassified to other equity. The 2016 statement of income and statement of comprehensive income has been restated. An exchange loss on loans to subsidiaries of TNOK 1,609 is reclassified from other comprehensive income to financial expense in the profit and loss statement in 2016. This applies to the parent company financial statement only, and does not affect the consolidated financial statements.

Group Figures in TNOK

Equity attributable to equity holders of the parent

	Note	Share capital	Share Premium reserve	Other paid-in capital	Other equity	Available - for-sale reserve	Exchange differences on translation of foreign operations*	Actuarial gains and losses	Total equity
Equity per. 01.01.2016	**13**	**26 627**	**439 350**	**20 529**	**-179 884**	**-65**	**122 206**	**-12 265**	**416 499**
Profit for the period					-83 632				-83 632
Other comprehensive income						2	-45 804	248	-45 554
Total comprehensive income for the period		**0**	**0**	**0**	**-83 632**	**2**	**-45 804**	**248**	**-129 186**
Share issue arising from acquisitions	13	497	11 903						12 400
Share issue	13	6 781	127 054		-6 648				127 188
Total equity of the Group per 31.12.2016		**33 905**	**578 307**	**20 529**	**-270 163**	**-63**	**76 402**	**-12 017**	**426 900**
Equity per. 01.01.2017	**13**	**33 905**	**578 307**	**20 529**	**-270 163**	**-63**	**76 402**	**-12 017**	**426 900**
Profit for the period					-20 725				-20 725
Other comprehensive income						-8	7 965	0	7 957
Total comprehensive income for the period		**0**	**0**	**0**	**-20 725**	**-8**	**7 965**	**0**	**-12 768**
Cost of share-based payment	17			99					99
Reclassification					-12 017			12 017	0
Total equity of the Group per 31.12.2017	**13**	**33 905**	**578 307**	**20 628**	**-302 905**	**-71**	**84 367**	**0**	**414 231**

Statement of cash flow

for the year ended 31 December 2017

Parent company				Group	
2016*	2017	Figures in TNOK	Notes	2017	2016
		Cash flow from operations			
-21 217	-20 191	Profit before tax	30	-9 526	-55 621
0	0	Paid taxes	23	-7 570	-7 337
10 509	10 508	Depreciation and impairment of property, plant and equipment	9	15 017	15 833
6 865	9 669	Amortisation and impairment of intangible assets	10, 11, 30	63 347	38 928
-18 527	0	Pension cost without cash flow effect	16	0	-18 527
-8 831	0	Dividends from subsidiaries		0	0
-7 902	-10 820	Interests from subsidiaries		0	0
0	-8	Shares valued at fair value	25	-8	0
0	99	Cost of share-based payment	17	99	0
		Working capital adjustments:			
-61 212	42 518	Changes in receivables and prepayments from customers	21, 30	11 954	6 282
4 816	4 355	Changes in inventory	14, 30	874	15 051
48 709	-2 748	Changes in accounts payables	4, 30	-10 937	22 296
-36 598	-164 119	Changes in work in progress	7, 30	-151 347	-31 538
13 705	46 993	Changes in other balance sheet items	30	38 760	-58 051
-69 683	**-83 744**	**Net cash flow from operations**		**-49 337**	**-72 684**
		Cash flow from investments			
-21 985	-18 582	Investments in tangible and intangible assets	9, 10, 30	-30 113	-31 941
-17 865	0	Acqusition of a subsidiary, net of cash acquired	6	-33	-52 149
0	0	Other investments	25	0	0
0	0	Cash flow from discontinued operations	30	-835	835
-39 850	**-18 582**	**Net cash flow from investments**		**-30 981**	**-83 255**
		Cash flow from financing			
47 878	111 356	Proceeds from new loans	22	137 476	123 931
-49 563	-25 000	Down payments of debt to financial institutions	22	-40 614	-58 220
127 188	0	Share issue	6, 13	0	127 188
0	0	Other financial items		-5 220	0
125 503	**86 356**	**Net cash flow from financing**		**91 642**	**192 899**
15 970	**-15 970**	**Net change in cash and cash equivalents for the year**		**11 324**	**36 960**
0	15 970	Cash and cash equivalents per 01.01.		101 474	65 349
0	0	Transferred to Assets held for sale *		835	-835
15 970	**0**	**Cash and cash equivalents per 31.12.**	**20**	**113 633**	**101 474**

* Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustments made, refer to statement of changes in equity.

Note 1 Corporate information

The consolidated financial statements for the year ended 31 December 2017 were approved by the Board at its meeting on 4 April 2018. 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 Q-Free Group provides leading technology solutions to the global ITS market. Q-Free has delivered systems which are now operational in Europe, Asia Pacific, Middle East, Africa, North and South America. Q-Free has 415 employees, is headquartered in Trondheim Norway, and has local offices in 18 countries around the world.

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

Note 2 Basis for preparation of the consolidated accounts

2.1: General principles

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

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

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

The preparation of the Group's consolidated financial statements has required the management to make estimates and assumptions that effect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

JUDGEMENTS

Product Development costs

Development costs are capitalised in accordance with the accounting policy in Note 3.7 and the capitalised amount is shown in the balance sheet as "Product Development Assets". Initial capitalisation of costs is based on management's judgment that technological and financial feasibility is confirmed, i.e. when a product development project has reached a defined milestone according to the project management model. In determining the amounts to be capitalised, management makes assumptions on the expected future cash generation of the project, discount rates to be applied, and the expected period of benefits. As at 31 December 2017, the carrying amount of capitalised product development costs was TNOK 148,632 (2016: TNOK 178,746). Further details are given in Note 10 Intangible Assets.

Estimates and assumptions

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

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that management sees convincing evidence for sufficient future taxable profit. A deferred tax asset is only recognised for an amount corresponding to the expected taxable profit. The carrying amount of deferred tax assets is reviewed at each reporting date. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that convincing evidence exists to support that taxable profits will allow the deferred tax asset to be recovered. The carrying value of recognised deferred tax assets as at 31 December 2017 was TNOK 16,864 for the Group and TNOK 0,0 for the Parent (2016: deferred tax assets for Group of TNOK 17,420 and TNOK 0,0 for the Parent). Further details regarding deferred taxes are given in note 23.

Revenue recognition in projects
The group uses the percentage of completion method in accounting for projects, which requires the Group to estimate the progress in the projects. Progress is calculated as accrued costs as a percentage of total expected project costs. Total expected costs are estimated based on a combination of historical figures, the follow up of efficiency targets, and budgets. Each project's prognosis is evaluated on a monthly basis to verify that the accounts are based on best estimate. Man-hours constitute a large proportion of the total cost. The uncertainty of the estimation of man-hours varies with duration and technical complexity of the project. Estimation of projects with long duration and high complexity has significant effect on the financial statement, and the Group management is therefore actively involved in these assessments. Revenue recognition in projects is measured on the basis of accrued project costs as a percentage of total anticipated costs. Further details are given in Note 7.

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

Share-based payment transactions
The Group measures the cost of share-based payment transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating fair value for both share-based payment and cash settled share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination and assumptions of the most appropriate inputs to the valuation model, including the expected life of the share-based payment transactions, volatility and dividend yield. The company's cost of both share based payment and cash settled share based payment is calculated using the Black & Scholes pricing model. For 2017 this adds up to a total cost of TNOK 99 (2016: TNOK 0). Further information on assumptions and models used for estimating fair value for share-based payment and cash settled share-based payment transactions are disclosed in Note 17.

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

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

The provision for the conversion to defined contribution plan for the Group as at 31 December 2017 is TNOK 17,982 (2016: 17,444). Further information on assumptions for estimating fair value are disclosed in note 15.

Warranty accruals
The Group estimates probable warranty costs on faulty products based on historical data and an evaluation of the portfolio of delivered products still under warranty. Total provisions for warranty costs as at 31 December 2017 is TNOK 11,435 for the Group. (2016: TNOK 12,831). Further details are given in Note 26.

Note 3 Summary of significant accounting policies

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

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

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

Shares in subsidiaries
Investments in subsidiaries are accounted for according to the cost method in the parent company's accounts.

The investments in subsidiaries for the Group are recognised at their fair value on the date of acquisition. Fair value is attributed to identifiable assets and liabilities. Excess value that cannot be assigned to identifiable assets is classified as goodwill.

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

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

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

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

3.2: Recognition of revenues
Revenues are recognised when it is probable that transactions will generate future financial benefits that will accrue to the company, and this revenue can be reliably estimated. Sales revenue are presented net of value added tax and discounts. Q-Free's business activities are product and system deliveries as well as service and maintenance revenues within the ITS market. Q-Free distinguishes between project deliveries, product sales, and services/maintenance revenues. Government grants are accounted as other operating income when the cost are incurred or as reduction of personnel expenses if the Group has approved projects in the governmental tax relief program "Skattefunn".

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

Change orders are defined as additions to existing contracts. Change orders are recognised as order backlog when we receive a confirmed order from the customer. Additional contractual services and estimated additional costs are included in the original project prognosis and recognised as income with a shared profit on the contract and the same degree of completion.

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

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

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

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

3.3: Foreign currency

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

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

3.4: Provisions

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

3.5: Financial instruments

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

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

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

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

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

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

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

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

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

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

3.6: Property, plant and equipment

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

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

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

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

3.7: Intangible assets

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

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

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

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

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

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

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

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

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

3.8: Impairment of non-financial assets

All non-financial assets are reviewed for each reporting period (quarterly) to determine whether there are indications of impairment. Where indications of impairment exist, recoverable amounts are calculated. Goodwill and intangible asset with an indefinite useful life is also subject to an annual impairment test.

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 budget and strategic plans for the Group.

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

3.9: Incentive programs for executive management

The group has a share option program for key employees whereby the employees render services as consideration for equity instruments (share options) and a syntetic based option programme. The group has implemented a five-year share based option programme for the CEO and leading Executives.

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

The cost of cash-settled share-based payment transactions with employees is measured by reference to the fair value of the liability at grant date. Until the liability is settled, the fair value of the liability is remeasured at each end of the reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. The fair value of the liability is measured by using a Black & Scholes model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees render service during the period.

Social security tax related to share options is recorded as a liability and recognised over the estimated option period.

See further details in Note 17.

3.10: Inventories

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

3.11: Leases

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

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

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

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

3.12: Investment in shares

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

3.13: Accounts receivable and other receivables

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

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

3.14 : Pension costs and pension assets and liabilities

The Parent company has a defined contribution pension plan for the employees. The Parent's obligation under the pension scheme is covered through contribution to an insurance company. The pension plan meet the criteria for OTP (Obligatorisk Tjeneste Pensjon). Pension cost are calculated according to IAS 19. The pension cost of the contribution plan is expensed when paid and classified as payroll expense in the profit and loss statement, see note 16 for further details.

The Parent company has terminated the defined benefit pension plan per 31.12.16. The gain from the closing of the defined benefit plan was recognised in the 2016 profit and loss statement.

3.15: Restructuring provision

During the transformation of Q-Free from a Tolling company into a fully integrated ITS-company in 2016, a cost reduction program was implemented with provisions for future costs. The provisions are estimated based on agreed severance packages, and other restructuring costs.

3.16: Taxes

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

- temporary differences that arises from initial recognition of goodwill

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

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

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

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

3.17: Cash and cash equivalents

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

3.18: Cash flow statement

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

3.19: Discontinued operations

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

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

3.20: Operating segments

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

3.21: 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 effect the company's position in the future but do not affect the Group's position at the balance sheet date are stated if significant.

3.22: Changes in accounting policy and disclosures

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

Standards, Amendments or interpretations	Effective date
Disclosure Initiative (Amendments to IAS 7)	01.01.2017

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

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

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

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to 31 December 2017 that Q-Free Group has decided not to adopt early. The most significant of these are:

Significant new Standards, Amendments or interpretations	Effective date
IFRS 15 Revenue from Contracts with customers	Mandatory adoption on or after 01.01.2018
IFRS 9 Financial Instruments	Mandatory adoption on or after 01.01.2018
IFRS 16 Leases	Mandatory adoption on or after 01.01.2018

Q-Free Group has been working with implementation of these three key new standardsand and is able to provide the following information regarding their likely impact:

IFRS 15 Revenue from Contracts with Customers
The Q-Free Group has conducted an analysis of possible impact of IFRS 15, which replaces among others IAS 18 Revenue and IAS 11 Construction Contracts. The contracts have been analysed based on the following split of the revenues.

Product sales
Revenues from the sale of products will be 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. The Q-Free Group has concluded that the adoption of IFRS 15 is consistent with current practise and will not have any effects on contracts relating to product sales.

Service and maintenance contracts
Revenues relating to service and maintenance contracts will be recognised over time. Revenue is recognised by measuring progress towards completion of the performance obligation, and input methods like cost incurred will be used to measure progress. The Q-Free Group has concluded that the adoption of IFRS 15 is consistent with current practise and will not have any effects on service and maintenance contracts.

Project deliveries
Revenues relating to project deliveries will be recognised over time since an asset that has no alternative use is being developed and the Group is entitled to payment for work performed at any time. In most contracts there will be two performance obligations, which is system delivery (both hardware installations and software deliveries) and service and 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 remuneration may affect the timing of revenue recognition, but the preliminary calculated effects are insignificant. The Q-Free Group has concluded that the adoption of IFRS 15 is consistent with current practise and will not have any significant effects on contracts relating to project deliveries.

Estimated impact
The estimated impact on equity from implementing IFRS 15 per 1 January 2018, is immaterial and no transition adjustment is expected adjusted against equity.

IFRS 9 Financial Instruments
The Q-Free Group has identified that the adoption of IFRS 9, which replaces IAS 39 Financial Instruments Recognition and Measurement from 1 January 2018, will impact its consolidated financial statement in three key areas:

– The Group will need to apply an expected credit loss model when calculating impairment losses on its trade receivables and contracts assets. This will probably result in increased impairment provisions and greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provisions. The Q-Free Group does not expect any significant effects on implementing IFRS 9.

– The Group has decided to classify all of its equity investments as being fair value through other comprehensive income under IFRS 9, which are currently classified as available for sale. This will mean that all changes in the fair value of such assets up to the point of disposal will be recorded in other comprehensive income. Therefore, in contrast to the current accounting treatment, the income statement will not reflect gains or losses on disposal because gains and losses recognised in other comprehensive income will not be recycled to profit or loss on any such disposal.

– Due to simplifications being introduced in IFRS 9's hedge accounting model, the Group may find that it is able to hedge account where there has not previously been able to, and this could result in changes in when gains and losses on derivatives and certain hedged items are recognised in profit or loss.

Estimated impact
The estimated impact on equity from implementing IFRS 9 per 1 January 2018, is immaterial and no transition adjustment is expected adjusted against equity.

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

The Group are in a process of identifying contracts that may contain leases for the purposes of IFRS16, but which are not currently considered to be lease contracts under the group's current accounting policy. It is therefore not possible to quantify at this stage what the effect on the Group would be if contracts are to be accounted for as leases for the first time under IFRS 16.

Note 4 Risk management

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

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

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

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

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

The Group is exposed to different financial market risks arising from our normal business activities, mainly these:
a) Credit risk
b) Currency risk
c) Liquidity risk
d) Interest rate risk
e) Assets/liabilities measured at fair value and fair value hierarchy

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

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

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

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

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

An aging analysis of trade receivables as at 31. December 2017 and 2016 is provided in note 21.

b) Currency risk
Q-Free is also exposed to currency risk in the ordinary business since more than 85 % of revenues is generated outside of Norway. Q-Free also runs businesses outside of Norway and buys a substantial share of required equipment abroad, with payment in foreign currencies which mitigates this risk significantly. This mitigate a net foreign currency exposure to approximately 10 percent of gross revenues in 2017. The Group's most important trading currencies are NOK, USD, GBP and EURO.

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

Foreign exchange contracts are classified as either other financial assets or other financial liabilities measured as fair value. As at 31.12.17 the Group holds no foreign future contracts of accounted as other financial assets or liabilities, nor did we as at 31.12.16. See section regarding Fair Value for a fair value hierarchy and a specification on valuation technique applied used during the last financial Year.

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

	Increase/decrease in		Effect on profit before tax		Effect on equity	
2017	EURO rate	+ 10 %	+ 9 062	TNOK	+ 6 796	TNOK
		- 10 %	- 9 062	TNOK	- 6 796	TNOK
2017	GBP rate	+ 10 %	+ 737	TNOK	+ 656	TNOK
		- 10 %	- 737	TNOK	- 656	TNOK
2017	USD rate	+ 10 %	- 3 975	TNOK	- 2 623	TNOK
		- 10 %	+ 3 975	TNOK	+ 2 623	TNOK
2016	EURO rate	+ 10 %	+ 4 137	TNOK	+ 2 979	TNOK
		- 10 %	- 4 137	TNOK	- 2 979	TNOK
2016	GBP rate	+ 10 %	+ 2 182	TNOK	+ 1 702	TNOK
		- 10 %	- 2 182	TNOK	- 1 702	TNOK
2016	USD rate	+ 10 %	- 11 639	TNOK	- 6 401	TNOK
		- 10 %	+ 11 639	TNOK	+ 6 401	TNOK

c) Liquidity risk
The Q-Free Group's strategy is to hold sufficient cash, cash equivalents, or credit facilities at any time to be able to finance its operations and planned investments over the next three years. Surplus cash funds are deposited in banks, or invested in money market funds, with the purpose of securing an acceptable, low-risk return on the invested capital. The Board of Directors assesses the liquidity at the end of 2017 to be sufficient to cover the company's planned operations and investment requirements. For the sake of good order, the Board emphasises the significant impact the scheduled payment from Slovenia expected in second quarter of 2018 will have on Q-Free's liquidity situation and capital structure. See note 7 and note 22 for further details.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2017, based on contractual undiscounted payments.

Year ended 31 December 2017:	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	Total Group
Interest bearing loans and borrowings	34	848	145 857	26 356	160 725	333 820
Accounts payables	15 176	50 885	20 533	2 678		89 272
Public duties payable and taxes	0	17 883	0			17 883
Other liabilities	1 088	30 204	48 833	26 626	96 895	203 646
Group total liabilities (excl pension liabilities and deferred tax)	**16 298**	**99 820**	**215 223**	**55 660**	**257 620**	**644 621**

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

The table below summarises the maturity profile of the Parent company's financial liabilities as at 31 December 2017, based on contractual undiscounted payments.

Parent company year ended 31 December 2017:	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	Total Parent
Interest bearing loans and borrowings	34	848	145 857	26 356	84 141	257 236
Accounts payables and Group loans	13 600	30 172	6 370	47	70 308	120 497
Public duties payable and taxes	0	8 313	0			8 313
Other liabilities	923	14 903	24 250	13 912	26 166	80 154
Parent total liabilities (excl pension liabilities and deferred tax)	**14 557**	**54 236**	**176 477**	**40 315**	**180 615**	**466 200**

Parent company year ended 31 December 2016:	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	Total Parent
Interest bearing loans and borrowings	737	1 028	1 040	2 056	169 204	174 065
Accounts payables and Group loans	20 872	27 389	9 847		67 105	125 213
Public duties payable and taxes	0	9 471	0			9 471
Other liabilities	969	6 164	6 161	9 655	27 173	50 122
Parent total liabilities (excl pension liabilities and deferred tax)	**22 578**	**44 052**	**17 048**	**11 711**	**263 482**	**358 871**

Capital management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.
The Group manages and adjusts its capital structure in light of changes in financial conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

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

	As at 31 December	
	2017	**2016**
Total equity	414 231	426 900
Total assets	1 070 372	990 419
Book equity ratio	38.7 %	43.1 %

d) Interest-rate risk
The group has interest-bearing debt and interest rate risk related to its serial loan and short term credit lines. Excess liquidity is placed at high-interest bearing accounts, in order to have quick access to these funds. The Group emphasises predictability at all times if entering any significant interest bearing debt contracts, as changes in the interest level influences the consolidated profit. Actions will be taken to hedge this risk if possible.

A change in interest of 100 basis points (bps) on the date of balance sheet recognition would have increased (reduced) 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 2016.

Effect of an interest rate increase of 100 bps:	As at 31 December	
Amounts in TNOK	**2017**	**2016**
	Result	Result
Investments with floating interest rates	1 054	478
Loans with variable interest rates	-3 051	-1 499
Profit before tax	**-1 997**	**-1 021**

e) Assets/liabilities measured at fair value and fair value hierarchy
The fair value of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. As at 31 December 2017, the Group held the following financial instruments measured at fair value:
– Shares at fair value through other comprehensive income (Included in "Investments in other companies").

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

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

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

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

Assets/liabilities measured at fair value (TNOK)

	31. Dec 2017	Level 1	Level 2	Level 3
Financial assets & liabilities at fair value through profit or loss:				
Available for sale financial investments	387	0	0	387

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

For details about the change in beginning and closing balances of level 3 measurements, refer to note 25.

Determination of fair value

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

Financial assets and liabilities:

	Carrying amount 2017	Fair value 2017	Carrying amount 2016	Fair value 2016
Investments in other companies	387	387	395	395
Accounts receivables	130 487	130 487	142 425	142 425
Other receivables	2 147	2 147	1 008	1 008
Other assets	37 868	37 868	31 646	31 646
Cash and cash equivalents	113 633	113 633	101 474	101 474
Accounts payable	89 272	89 272	100 209	100 209
Other liabilities	117 660	117 660	54 696	54 696

Note 5 Operating segments

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

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

Group management (chief operating decision makers) monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements and in accordance with IFRS. The segments are reported in a manner consistent with internal reporting provided to the chief decision makers.

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

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

	FY 2017						FY 2016					
NOK 1.000	ELA	APMEA	NORDIC	NA	Other/ Group	TOTAL 2017	ELA	APMEA	NORDIC	NA	Other/ Group *	TOTAL 2016
Revenues	554 999	118 517	182 580	273 869	-156 490	973 475	393 990	138 068	247 283	241 884	-144 060	877 165
Gross profit	325 005	66 720	150 656	191 210	-47 949	685 642	189 955	81 521	207 662	165 222	-63 676	580 684
Gross margin – %	58.6 %	56.3 %	82.5 %	69.8 %	30.6 %	70.4 %	48.2 %	59.0 %	84.0 %	68.3 %	44.2 %	66.2 %
Operating expenses	188 438	64 530	115 718	175 719	58 647	603 052	144 930	76 896	121 450	205 384	36 370	585 031
EBITDA *	**136 567**	**2 190**	**34 938**	**15 491**	**-106 596**	**82 591**	**45 025**	**4 625**	**86 212**	**-40 163**	**-100 046**	**-4 346**
EBITDA margin *	24.6 %	1.8 %	19.1 %	5.7 %	68.1 %	8.5 %	11.4 %	3.3 %	34.9 %	-16.6 %	69.4 %	-0.5 %
Depreciation, amortisation and impairment	35 195	548	22 987	19 634	0	78 365	16 902	512	18 081	19 266	0	54 761
SEGMENT – EBIT *	**101 372**	**1 643**	**11 951**	**-4 143**	**-106 596**	**4 226**	**28 123**	**4 113**	**68 131**	**-59 429**	**-100 046**	**-59 107**
EBIT margin *	18.3 %	1.4 %	6.5 %	-1.5 %		0.4 %	7.1 %	3.0 %	27.6 %	-24.6 %	69.4 %	-6.7 %
Total financial items (not distributed)						-13 753						3 486
Profit before tax						**-9 527**						**-55 621**
Taxes						-1 737						2 202
Segment profit included in discontinued operations						-9 462						-30 213
Profit before tax after discontinued operations						**-20 726**						**-83 632**

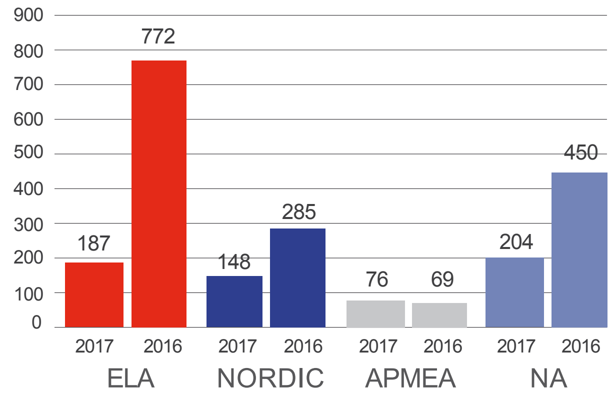
* See Alternative Performance Measures for definitions.

Revenues from the largest customer amounted to TNOK 166,629 (17 % of Groups total revenues) in 2017 and was included in the ELA region, while the similar figure for 2016 is TNOK 105,203 (12 %) and included in the NORDIC region.

Operating segments
Order intake 2017 and 2016

NOK 1.000

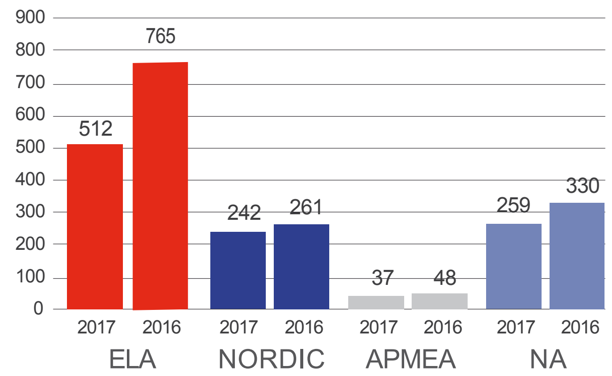
Order intake	**2017**	**%**	**2016**	**%**
ELA	187 344	30.4 %	771 583	49.0 %
NORDIC	148 109	24.1 %	285 046	18.1 %
APMEA	75 937	12.3 %	69 012	4.4 %
NA	204 120	33.2 %	449 502	28.5 %
Total	**615 510**		**1 575 143**	



Operating segments
Order backlog 2017 and 2016

NOK 1.000

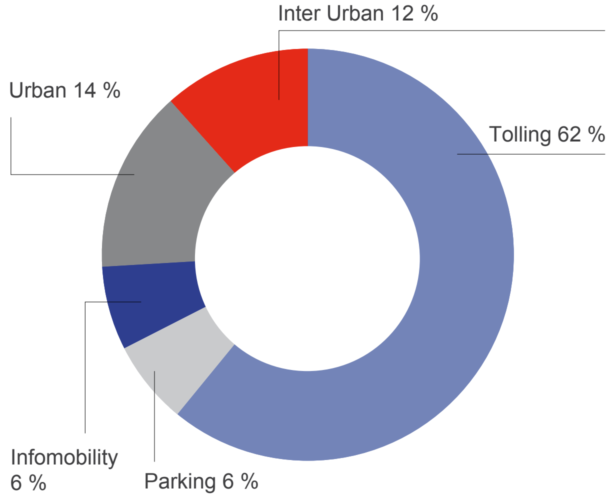
Order backlog	**2017**	**%**	**2016**	**%**
ELA	511 646	48.8 %	765 251	54.5 %
NORDIC	241 782	23.0 %	261 245	18.6 %
APMEA	37 225	3.5 %	47 714	3.4 %
NA	258 825	24.7 %	330 338	23.5 %
Total	**1 049 477**		**1 404 548**	



Service line overview 2017 and 2016
Revenues

	Service Line	Revenues 2017	2016	%
Global Service lines	Tolling	600 805	574 474	61.7 %
	Parking	56 170	97 070	5.8 %
	Infomobility	64 009	52 475	6.6 %
Regional Service lines	Urban	139 487	99 188	14.3 %
	Inter Urban	113 004	53 958	11.6 %
	Total	**973 475**	**877 165**	

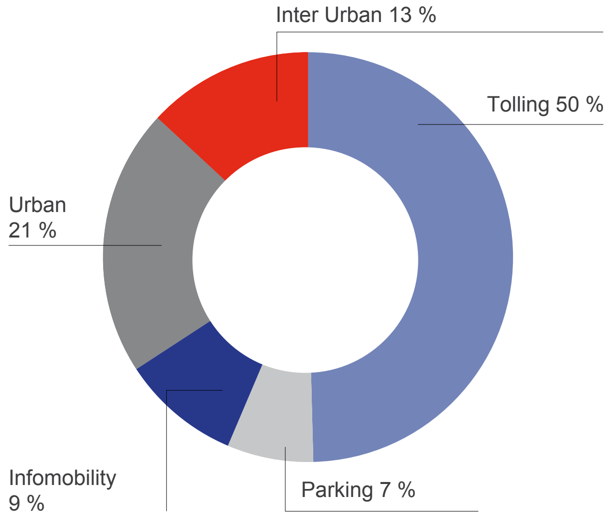
Revenues split 2017



Service line overview 2017 and 2016
Order intake

	Service Line	Order intake 2017	2016	%
Global Service lines	Tolling	305 217	1 092 245	49.6 %
	Parking	41 893	84 717	6.8 %
	Infomobility	57 884	43 425	9.4 %
Regional Service lines	Urban	129 861	113 109	21.1 %
	Inter Urban	80 656	241 648	13.1 %
	Total	**615 510**	**1 575 143**	

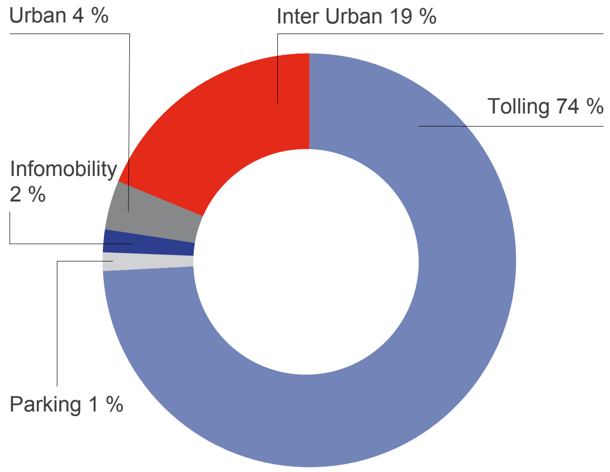
Order intake split 2017



Service line overview 2017 and 2016
Order backlog

	Service Line	Order backlog 2017	2016	%
Global Service lines	Tolling	778 482	1 071 000	74.2 %
	Parking	15 166	28 976	1.4 %
	Infomobility	18 775	25 729	1.8 %
Regional Service lines	Urban	40 303	31 043	3.8 %
	Inter Urban	196 752	247 799	18.7 %
	Total	**1 049 477**	**1 404 548**	

Order backlog split 2017



Note 6 Business Combinations

Acquisitions in 2017 and 2016

Q-Free ASA has not acquired any companies in 2017 and 2016. The third tranche of the transaction regarding the acquisition of Intelight Inc. was closed in May 12 2017, and Q-Free acquired 0.1 percent to TNOK 33 (2016: TNOK 7,932). Q-Free ASA had as of 31 December 2017 accumulated a shareholding in Intelight Inc. of 33.2 percent.

During 2016 all earn-out liabilities are settled. The remaining provision per 31 December 2017 is related to the share purchase agreement of Intelight Inc.

Q-Free ASA paid the following amounts in earn-outs to previous owners in 2016:
– TNOK 4,258 to Traffic Design d.o.o.
– TNOK 11,654 to TDC Systems Ltd.
– TNOK 26,362 to Open Roads Consulting Inc.
– TNOK 1,942 to Traffiko Ltd.

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

Changes related to provisions for earn-outs and share purchase agreement

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

	Current	Non current	Total
Provisions 01.01.2017 *	0	93 804	93 804
Payments in 2017	-33	0	-33
Changes of estimated payments recognised in P&L	0	1 053	1 053
Exchange rate differences share purchase agreement recognised in other comprehensive income	0	-4 319	-4 319
Reallocation to current	22 433	-22 433	0
Provisions 31.12.2017 *	**22 400**	**68 105**	**90 505**

* The remaining provision is related to the share purchase agreement of Intelight Inc. The estimated floor regarding the share purchase agreement of Intelight Inc. per 31 December 2017 is TNOK 50,000–60,000.

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 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 acquired additional 9.3 percent for a consideration of TNOK 7,932. Q-Free ASA 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 acquired additional 0.1 percent for a consideration of TNOK 33. Q-Free ASA had as of this date accumulated a total shareholding in Intelight Inc of 33.2 percent.

Note 7 Work in progress

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

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

Parent company			Group	
2016	**2017**		**2017**	**2016**
36 508	200 717	Work in progress *	227 154	75 807
0	0	Prepayments from customers	-11 693	-11 677
36 508	**200 717**	**Net projects in progress**	**215 461**	**64 130**

* The Slovenia Truck Tolling project is almost fully financed by the Parent until final delivery has been approved and is also the main reason for the increase in Work in progress in the balance sheet from 76 MNOK to 227 MNOK during the year. The Slovenia Truck Tolling project has a value of MNOK 171 per 31 December 2017 (2016: MNOK 23) in work in progress. The Parent company expects to collect around 200 MNOK from Slovenia in Q2 2018 when the project is expected to be completed.

Summary of work in progress as at 31.12

2016	2017		2017	2016
149 020	243 807	Contract revenues included in the consolidated financial statement	417 971	390 534
373 767	383 068	Total contract orders	684 749	748 406
125 025	129 932	Accumulated revenues	199 237	196 870
248 742	253 136	Remaining revenues	485 511	551 536
104 764	86 178	Remaining operating expenses	237 719	274 194
0	0	Prepayments received	-11 693	-11 677

Note 8 Other operating income

The Group has received government grants of a total of TNOK 0 in 2017 (2016: TNOK 3,710). The Group was a partner in several projects under The Research Council of Norway, Innovation Norway and projects initiated by the EU in 2016.

Government grants	**2017**	**2016**
Projects with contribution from The Research Council of Norway	0	1 632
Projects with contribution from Innovation Norway	0	1 022
Contribution from EU initiated projects	0	1 056
Total	**0**	**3 710**

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

Classification government grants	**2017**	**2016**
Grants recognised as other income related to cost in same period	0	3 710
Grants accounted as reduction of payroll expenses (Skattefunn). See note 28 for further information	1 325	0
Total	**1 325**	**3 710**

Note 9 Property and Equipment

Parent company	Machinery and fixtures	Equipment	Total
Acquisition cost as at 01.01.2016	83 314	123 462	206 777
Additions	1 563	184	1 747
Acquisition cost as at 31.12.2016	**84 877**	**123 647**	**208 524**
Accumulated depreciation and impairments as at 01.01.2016	76 771	103 477	180 248
Depreciation of the year	3 876	6 633	10 509
Accumulated depreciation and impairments as at 31.12.2016	**80 647**	**110 110**	**190 757**
Net book value as at 01.01.2016	6 544	19 985	26 529
Total changes of the year	-2 313	-6 449	-8 762
As at 31.12.2016	**4 230**	**13 536**	**17 766**
Acquisition cost as at 01.01.2017	84 877	123 647	208 524
Additions	2 244	1 647	3 890
Acquisition cost as at 31.12.2017	**87 121**	**125 293**	**212 414**
Accumulated depreciation and impairments as at 01.01.2017	80 647	110 110	190 757
Depreciation of the year	4 268	6 240	10 508
Accumulated depreciation and impairments as at 31.12.2017	**84 915**	**116 351**	**201 265**
Net book value as at 01.01.2017	4 230	13 536	17 766
Total changes of the year	-2 024	-4 593	-6 618
As at 31.12.2017	**2 206**	**8 943**	**11 148**
Financial lifetime	4–5 years	5–10 years	
Depreciation schedule	Straight line	Straight line	

Securities for bank guarantees and overdraft facility

As at 31.12.17 assets in the parent company valued at TNOK 11,148 (2016: 17,766) are pledged by Danske Bank.

Group	Machinery and fixtures	Equipment	Total
Acquisition cost as at 01.01.2016	160 264	123 462	283 726
Additions	6 364	184	6 548
Transferred to assets held for sale *	-907	0	-907
Acquisition cost as at 31.12.2016	**165 721**	**123 647**	**289 368**
Accumulative depreciation and impairments as at 01.01.2016	136 395	103 477	239 872
Depreciation of the year	9 201	6 633	15 834
Accumulated depreciation and impairments as at 31.12.2016	**145 596**	**110 110**	**255 706**
Net book value as at 01.01.2016	23 869	19 985	43 854
Total changes of the year	-3 744	-6 449	-10 193
As at 31.12.2016	**20 125**	**13 536**	**33 661**
Acquisition cost as at 01.01.2017	165 721	123 647	289 368
Additions	4 181	1 647	5 828
Acquisition cost as at 31.12.2017	**169 902**	**125 293**	**295 196**
Accumulative depreciation and impairments as at 01.01.2017	145 596	110 110	255 706
Depreciation of the year	8 777	6 240	15 017
Impairment of the year **	2 105	0	2 105
Accumulated depreciation and impairments as at 31.12.2017	**156 478**	**116 350**	**272 828**
Net book value as at 01.01.2017	20 125	13 536	33 661
Total changes of the year	-6 701	-4 593	-11 294
As at 31.12.2017	**13 424**	**8 943**	**22 367**
Financial lifetime	4-5 years	5-10 years	
Depreciation schedule	Straight line	Straight line	

* See note 30 Discontinued operations for further information.

** 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 maschinery and fixtures in Elcom d.o.o.

Note 10 Intangible assets

Parent company	Goodwill	Product development assets	Total
Acquisition cost as at 01.01.2016	0	251 034	251 034
Additions	0	20 239	20 239
Acquisition cost as at 31.12.2016	**0**	**271 273**	**271 273**
Accumulated amortisation and impairment as at 01.01.2016	0	214 111	214 111
Amortisation of the year	0	6 865	6 865
Accumulated amortisation and impairment as at 31.12.2016	**0**	**220 976**	**220 976**
Net book value as at 01.01.2016	0	36 923	36 923
Total changes of the year	0	13 374	13 374
As at 31.12.2016	**0**	**50 297**	**50 297**
Acquisition cost as at 01.01.2017	0	271 273	271 273
Additions	0	14 692	14 692
Acquisition cost as at 31.12.2017	**0**	**285 965**	**285 965**
Accumulated amortisation and impairment as at 01.01.2017	0	220 976	220 976
Amortisation of the year	0	9 669	9 669
Accumulated amortisation and impairments as at 31.12.2017	**0**	**230 645**	**230 645**
Net book value as at 01.01.2017	0	50 297	50 297
Total changes of the year	0	5 023	5 023
As at 31.12.2017	**0**	**55 320**	**55 320**
Financial lifetime	Impairment tested annually	5–10 years	
Amortisation schedule	(or when impairment indicators exist)	Straight line	

Group	Goodwill	Product development assets	Total
Acquisition cost as at 01.01.2016	367 465	613 399	980 864
Additions	-5 452	28 314	22 862
Transferred to assets held for sale **	-22 260	-22 459	-44 719
Exchange rate differences	-23 468	-6 765	-30 233
Acquisition cost as at 31.12.2016	**316 285**	**612 489**	**928 774**
Accumulative amortisation and impairment as at 01.01.2016	0	393 961	393 961
Amortisation of the year	0	38 928	38 928
Transferred to Assets held for sale **	0	-4 058	-4 058
Accumulated amortisation and impairment as at 31.12.2016	**0**	**428 831**	**428 831**
Net book value as at 01.01.2016	367 465	214 526	581 991
Total changes of the year	-51 180	-35 780	-86 960
As at 31.12.2016	**316 285**	**178 746**	**495 031**
Acquisition cost as at 01.01.2017	316 285	612 489	928 774
Additions	0	24 285	24 285
Exchange rate differences	-2 463	-1 599	-4 062
Acquisition cost as at 31.12.2017	**313 822**	**635 175**	**948 997**
Accumulative amortisation and impairment as at 01.01.2017	0	428 831	428 831
Amortisation of the year	0	41 471	41 471
Impairment *	8 442	11 329	19 771
Accumulated amortisation and impairment as at 31.12.2017	**8 442**	**481 631**	**490 073**
Net book value as at 01.01.2017	316 285	178 746	495 031
Total changes of the year	-10 905	-30 114	-41 019
As at 31.12.2017	**305 380**	**148 632**	**454 010**
Financial lifetime	Impairment tested annually	5–10 years	
Amortisation schedule	(or when impairment indicators exist)	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 8,442 of goodwill and TNOK 11,329 of technology in Elcom d.o.o. (Serbia) and Q-Free Traffico Ltd. (Malta).

** See note 30 Discontinued operations for further information.

Development

The Group capitalises costs regarding product development activities. Capitalised costs for 2017 consist of product development that prepares the company to be a fully integrated ITS company, providing products, systems and services for the following service lines and markets:

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

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.

Research expenses in the P&L were immaterial in 2017.

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

Note 11 Impairment testing of Goodwill

Carrying amount of Goodwill

Figures in TNOK	Group	
Goodwill obtained through acquisitions	**2017**	**2016**
Q-Free Netherlands BV	36 646	33 838
TCS International Inc.	51 772	54 390
Elcom d.o.o. *	0	7 795
TDC Systems Ltd.	69 141	66 162
Traffic Design d.o.o.	9 417	8 695
Open Roads Consulting Inc. **	43 806	46 022
Prometheus Security Group Inc. **	0	22 260
Intelight Inc.	94 598	99 383
Divestment of Prometheus Security Group Inc. **	0	-22 260
Total amount of Goodwill recognised in balance sheet as at 31.12:	**305 380**	**316 285**

* 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 8,442 of goodwill in Elcom d.o.o. The changes in carrying amount from 31 December 2016 and the impairment is relating to exchange rate differences.

** Prometheus Security Group Inc. (PSG) was demerged from Open Roads Consulting Inc. per 01.01.2016. The divestment was completed in February 2017. See note 30 Discontinued operations for further information.

The total exchange rate differences in other comprehensive income regarding Goodwill is TNOK -2,463 in 2017 (2016: -23,468).

Impairment testing of Goodwill

The Group performed its annual impairment test as at 30 September 2017. The recoverable amount has been determined based on cash flow projections converted into the presentation currency (NOK). The projected cash flow is based on budgets and long-term plans, which are subject to the approval of the Board and the corporate management. Long-term plans are equivalent to the Group Strategy and covers a period of five years. Approved budgets and long-term plans are adjusted for cash flows related to investments, restructuring, future product improvements and new development, where this is considered significant for the impairment test.

The impairment of goodwill in 2017 is TNOK 8,442 and is related to the decition to exit unprofitable businesses and product lines in Elcom d.o.o.

The impairment of goodwill in 2016 was TNOK 22,260 and is related to the divestment of Prometheus Security Group Inc. See note 30 Discontinued operations for further information.

Key assumptions used in value calculations

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

- Cash flow projections
- Discount rate
- EBITDA margin *
- Growth rate

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

• **Discount rates** – The discount rates are based on a weighted average cost of capital (WACC) method, whereby the cost of equity and the cost of liabilities are weighted according to the estimated capital structure. The discount rates reflect the market's required rates of return at the time of the test. When determining the discount rates the cost of equity consists of risk-free interest as well as an individual risk premium. The risk premium is the entity's systematic risk (beta), multiplied by the market's risk premium. The risk-free interest is estimated on a 10-year Norwegian government bond yield and is based on all cash flows being translated to NOK. The cost of liabilities represents an expected long-term after-tax interest rate for comparable liabilities and consists of risk-free interest and an interest spread. A discount rate of 7.9 % is applied in the calculations (2016: 10.1 %).

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

• **Revenue growth rate estimates** – Growth rates in the explicit prognosis period are predicated on management's expectations of market trends. A growth rate of 7.3 % is applied in the calculations (2016: 7.6 %) that is a prudent estimate compared to the industry's annual compounded growth rate of 15-25 % for the next five years. The growth rate after the five year prognosis period applied in the calculations is 2.0 % (2016: 2.0 %).

Sensitivity to changes in assumptions

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

The figures below are based on change in one parameter isolated for the period 2018-2022, and all other parameters unchanged. The column break-even rate indicates the lowest or highest rate that can be used without need for impairment.

Key assumptions	**According to impairment test**	**Break-even rate**
Discount rate	7.9 %	11.2 %
EBITDA margin in the explicit prognosis period *	14.5 %	10.1 %
Revenue growth rate in the explicit prognosis period	8.7 %	-0.9 %
Growth rate after the five year prognosis period	2.0 %	-4.1 %

* See Alternative Performance Measures for EBITDA-definition.

Note 12 Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potential ordinary shares into ordinary shares.

Figures in TNOK

	2017	**2016**
Profit for the year from continuing operations	-11 262 781	-53 419 193
Profit for the year on discontinued operations, net of tax	-9 461 985	-30 213 360
Profit for the year	**-20 724 766**	**-83 632 553**
Weighted average number of ordinary shares	89 223 446	75 351 168
Weighted average of share options	991 351	261 983
Weighted average number of diluted shares	90 214 797	75 613 151
Earnings in NOK per share from continuing operations	**-0.13**	**-0.71**
Diluted earnings in NOK per share from continuing operations	**-0.13**	**-0.71**
Earnings in NOK per share from discontinued operations	**-0.11**	**-0.40**
Diluted earnings in NOK per share from discontinued operations	**-0.11**	**-0.40**
Earnings in NOK per share profit for the year	**-0.23**	**-1.11**
Diluted earnings in NOK per share profit for the year	**-0.23**	**-1.11**

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 2017 and 2016, see note 13.

Note 13 Issued capital and reserves

The company has one class of shares and there are no voting restrictions. Per 31.12.17 the number of shares were 89,223,446. Par value per share is NOK 0.38. Total share capital per 31.12.2017 was NOK 33,904,910. The company had 1.590 shareholders as at 31.12.17. As at 31.12.17 the share price listed at OSE was NOK 8.05 per share, equalling a market value of MNOK 718.

	Ordinary shares	
	2017	2016
Shares issued per 01.01	89 223 446	70 070 552
Share issue	0	19 152 894
Total shares issued per. 31.12.	**89 223 446**	**89 223 446**

Stock price 2017

The company's largest share holders as at 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 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 31.12.2017:

Name	Position	Shares
Tore Valderhaug*	Chairmann of the Board	25 000
Trond Valvik**	Vice Chairman of the Board	15 968 718
Snorre Kjesbu	Board member	39 505
Håkon Volldal***	CEO	100 000
Tor Eirik Knutsen	CFO	7 500
Morten Andersson	SVP AMERICAS	17 700
Per Fredrik Ecker	SVP APMEA	33 500
Fredrik Nordh	SVP EUROPE	40 000
Pål-Andre Almlie	VP Supply Chain Management	26 500
Total		**16 258 423**

* Indirectly through Proventi AS
** Represented through position in AS Atlantis Vest
*** Indirectly through Bright Future AS

Incentive programs for the CEO and leading excutives, see note 17.

Note 14 Inventory and costs of goods sold

Inventory

Parent company			Group	
2016	2017	Inventory specification:	2017	2016
10 240	9 590	Raw material and semi manufactured products	57 611	54 704
5 250	2 670	Stock at sub suppliers	2 670	5 250
3 466	2 340	Stock for maintenance contracts	2 340	3 466
0	0	Work in progress	0	3 070
6 819	6 600	Finished goods	18 231	13 894
-9 070	-8 849	Obsolescence *	-15 399	-14 059
16 706	**12 351**	**Total**	**65 453**	**66 327**

All inventories are valuated at the lower of cost and net realisable value. Inventory write-downs recognised as an expense for the Parent company is TNOK 558 in 2017 (2016: TNOK 519) and for the group TNOK 2,730 in 2017 (2016: NOK 16,982), which is recognised in cost of goods sold.

Costs of goods sold

Parent company			Group	
2016	2017	COGS specification:	2017	2016
144 886	150 322	Purchase of goods	283 322	273 409
151	39	Freight, customs etc.	151	759
519	558	Change of inventories *	4 359	22 313
145 556	**150 918**	**Total**	**287 833**	**296 481**

* The effect of the inventory write downs related to the impairment in Elcom d.o.o is TNOK 2,172 in 2017, while the effect of the inventory write downs in TDC Systems Ltd. in 2016 is caused by an inventory adjustment of TNOK 4,001 and a work in progress adjustment of TNOK 8,377.

Note 15 Salaries and personnel related expenses

Parent company			Group	
2016	2017	Personnel expenses:	2017	2016
91 957	104 582	Salaries	272 693	267 578
17 444	0	Compensation for conversion to defined contribution plan	0	17 444
15 814	15 587	Social security costs	33 358	33 608
-10 132	4 203	Pension costs	10 315	-4 451
0	1 325	Skattefunn (governmental tax relief)	1 325	0
-17 150	-11 905	Capitalised personnel costs	-14 667	-21 778
17 358	25 236	Other personnel related costs *	15 705	15 840
115 291	**139 029**	**Total**	**318 730**	**308 241**
114	115	Average number of employees	416	426
114	114	Average number of man-years	412	420

* The effect of the restructuring cost related to a cost savings program in 2016 was TNOK 13,823.

Compensation for conversion to defined contribution plan

The Parent company terminated the defined benefit plan for 27 employees per 31.12.2016, and all employees in Norway are now included in the defined contribution plan. The transition to defined contribution plan may lead to a reduction in retirement pensions for employees compared to the defined benefit plan.

The 27 employees involved in this process are given a wage compensation for lost pension benefits, and the provision for future payments as compensation for lost pension benefits in 2016 was TNOK 17,444. The revised estimate per 31 December 2017 is TNOK 17,982. The changes is mainly due to a change in discount rate.

Figures in TNOK

Parent company			Group	
2016	2017	Compensation for conversion to defined contribution plan	2017	2016
14 743	15 258	Non-current liabilities	15 258	14 743
2 701	2 724	Current liabilities	2 724	2 701
17 444	**17 982**	**Total liabilities per 31.12.**	**17 982**	**17 444**

Parent company			Group	
2016	2017	Expenses related to compensation for conversion to defined contribution plan	2017	2016
0	-2 682	Personnel expenses - change in provisions due to salary payments	-2 682	0
17 444	0	Personnel expenses - compensation for conversion to defined contribution plan	0	17 444
0	2 501	Financial expenses - change in discount rate	2 501	0
0	719	Financial expenses - time effect at present value calculation	719	0
17 444	**538**	**Total expenses**	**538**	**17 444**

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

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

• **Discount rate** – The discount rate is based on a risk free rate stipulated as a 10-year Norwegian government bonds. A discount rate of 1.6 % is applied in the calculation (2016: 3.5 %).

• **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 (2016: 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.

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 bonus plan for the Company's employees, leaders included. For the CEO such bonus shall be maximum 75 % of the fixed yearly salary, and for the other members of the management team, such bonus shall be maximum 40 % of the fixed yearly salary. The bonus shall in general terms be linked to Q-Free's fulfillment of further defined objectives for the period, result targets and/or other established objectives for the Company. These objectives shall each year be established by the Company's Board, and may be linked to financial results, results within research and development, quality objectives and/or further established individual result targets or objectives for the individual leader.

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

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

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

The Company does not enter into employment contracts with leading executives giving entitlement to payment of dismissal allowance in the event that the emloyee volountarily terminates his or her employment with the Company. A limited exception is the CEO who, under the given conditions, has such right related to mergers and acquisitions of the Company. 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 2017:

TNOK	2017 Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost*	TOTAL
Tore Valderhaug, Chairman of the Board [1]			217				217
Trond Valvik, Vice Chairman 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 Chairman and member of the Board [5]			208				208
Jeanett Bergan former Chairman 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]	552			18	3	26	598
Per Fredrik Ecker, Senior Vice President APMEA	2 801			69	13		2 883
Morten Andersson, Senior Vice President AMERICAS	2 599			75	16	17	2 708
Fredrik Nordh, Senior Vice President EUROPE [9]	571			134	31	23	759
Arvid Strømme, Vice President Service Line Tolling	1 071			66	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	13		1 227
Roar Østbø, former Chief Financial Officer [10]	2 659			75	193		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 Chairman of the Board until 24.05.2017, and serves as Chairman from 24.05.2017.
2) Trond Valvik serves as Vice Chairman 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 Chairman of the Board until 24.05.2017, and as member of the Board until 26.10.2017.
6) Jeanett Bergan served as Chairman 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 option cost is the expense recognised in 2017. See note 17 for further information.

Payments to senior management and Board of directors 2016:

TNOK	2016 Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost	TOTAL
Charlotte Brogren Karlberg, Chairman of the Board [1]			637				637
Tore Valderhaug, Vice Chairman of the Board [2]			244				244
Regnhild Wahl, Board member			351				351
Snorre Kjesbu, Board member [3]			176				176
Jan Pihl Grimnes, Former Board member [4]			193				193
Anders Endre Nybø, Former Board member [5]			235				235
Jeanett Bergan, Chairman of the Nomination comittee [6]			60				60
Thomas Alexander Vogt, Nomination comittee			50				50
Andreas Berdal Lorentzen, Nomination comittee			20				20
Cecilie Johnsen, Former Chairman of the Nomination comittee [7]			70				70
Sissel Nina Lillevik Larsen, Employee elected Board member [8]			73				73
Rune Jøraandstad, Employee elected Boad member [9]			40				40
Anders Hagen, Former Employee elected Board member [10]			101				101
Håkon Rypern Volldal, Chief Executive Officer [11]	1 334			30	6		1 370
Roar Østbø, Former acting Chief Executive Officer and Chief Financial Officer [12]	2 868	600		81	197		3 747
Per Fredrik Ecker, Senior Vice President Region APMEA	2 639			195	15		2 849
Morten Andersson, Senior Vice Presiden ELA, acting Senior Vice President NA	2 116			86	15		2 218
Pål Rune Johansen, Senior Vice President Region NORDIC	1 400			73	15		1 488
Jos Nijhuis, General Manager Q-Free Netherlands [13]	1 815			45	133		1 993
Alan Allegretto, Former VP North America [14]	1 963			32	101		2 095
TOTAL	**14 135**	**600**	**2 249**	**541**	**482**	**0**	**18 008**

1) Charlotte Brogren Karlberg served as member of the Board until 11.02.2016. Brogren Karlberg serves as Chairman of the Board from 11.02.2016.
2) Tore Valderhaug serves as member of the Board from 11.02.2016. Valderhaug serves as Vice Chairman of the Board from 26.05.2016.
3) Snorre Kjesbu serves as Board member from 11.02.2016.
4) Jan Pihl Grimnes served as Board member until 11.02.2016.
5) Anders Endre Nybø served as Board member until 11.02.2016.
6) Jeanett Bergan, served as member of the Nomination Committe until 11.02.2016. Bergan serves as Chairman of the Nomination Committe from 11.02.2016
7) Cecilie Johnsen served as Chairman of the Nomination Committee until 15.01.2016.
8) Sissel Lillevik Larsen serves as Employee elected Board member from 01.01.2016.
9) Rune Jøraandstad serves as Employee elected Board member from 26.05.2016.
10) Anders Hagen served as Employee elected Board member until 26.05.2016.
11) Håkon Rypern Volldal serves as CEO from 01.08.2016.
12) Roar Østbø served as acting CEO and CFO until 31.07.2016. Østbø serves as CFO from 01.08.2016.
13) Jos Nijhuis served as Chief Technical Officer and part of the management team until 01.11.2016.
14) Alan Allegretto served as VP North America until 29.06.2016 and will receive severance pay until 14.03.2017.
13) Former management team will receive severance pay in 2016.

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

Note 16 Pension scheme

The parent company has a defined contribution pension plan for the employees. All employees in Norway are included in pension plans which entitle them to certain benefits for pension in the future. The Parent company terminated the defined benefit plan per 31.12.2016, and all employees in Norway are now included in the defined contribution plan. The 27 employees involved in this process are given a wage compensation for lost pension benefits, and the provision for future payments as compensation for lost pension benefits in 2016 was TNOK 17,444. The revised estimate per 31 December 2017 is TNOK 17,982, of which TNOK 15,258 is classified as non-current liabilities and TNOK 2,724 is classified as current liabilities. The changes is mainly due to a change in discount rate. See note 15 for further information. As at 31.12.2017, 116 employees (2016: 113) are included in the defined contribution pension plan.

Figures in TNOK

Parent company			Group	
2016	**2017**	**Pension expenses**	**2017**	**2016**
3 064	0	Current service cost	0	3 064
444	0	Interest cost	0	444
602	0	Administrative expenses pension scheme	0	602
580	0	Accrued social security expenses	0	580
-17 645	0	Gain from closing of the defined benefit plan	0	-17 645
-12 955	0	Net pension expenses defined benefit plan	0	-12 955
3 511	4 203	Net pension expenses defined contribution plan	10 315	5 899
-9 444	**4 203**	**Net pension expenses**	**10 315**	**-7 056**

Specification of pension funds & liabilities

Parent company			Group	
2016	**2017**	**Pension liabilities:**	**2017**	**2016**
47 164	0	Liabilities per 01.01.	0	47 164
3 064	0	Service costs	0	3 064
-367	0	Benefits paid	0	-367
1 273	0	Interest cost	0	1 273
-653	0	Actuarial gains/losses in other comprehensive income	0	-653
-50 481	0	Liability settlement	0	-50 481
0	**0**	**Total liabilities per 31.12.**	**0**	**0**

Parent company			Group	
2016	**2017**	**Pension funds:**	**2017**	**2016**
30 710	0	Funds per 01.01.	0	30 710
4 281	0	Net contribution paid	0	4 506
-367	0	Benefits paid	0	-367
829	0	Estimated return on assets	0	829
-436	0	Actuarial gains/losses in other comprehensive income	0	-436
-35 017	0	Asset settlement	0	-35 242
0	**0**	**Total funds per 31.12.**	**0**	**0**

The Group expects to contribute approximatly TNOK 10,600 to its pension plans for 2018 (2017: TNOK 10,315).

Basis and assumptions for calculations

	2017	2016
Discount rate	NA	2.60 %
Expected interest on pension funds	NA	2.60 %
Annual growth in salaries	NA	2.50 %
Long term inflation	NA	1.50 %
Increase in national insurance base rate (G)	NA	2.25 %
Expected change in pensions	NA	0.00 %
Social security expenses	NA	14.10 %

Note 17 Incentive programs for executive management

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.

The Board has 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 give up their synthetic options.

The market value of granted share options is TNOK 774, and the cumulative expense recognised per 31 December 2017 is TNOK 65 (2016:0). 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:	**2017**
Granted share options 01.01	0
Share options granted	1 392 053
Share options exercised	0
Share options expired/terminated	0
Granted share options 31.12	**1 392 053**
Vested share options 31.12	**0**

The share options split for leading Executives as per 31.12.2017:

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

Share based option programme for the CEO – established May 2016

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 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 2017 is TNOK 34 (2016:0). 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	2017	2016
Granted share options 01.01	630 828	0
Share options granted	0	630 828
Share options exercised	0	0
Share options expired/terminated	0	0
Granted share options 31.12	**630 828**	**630 828**
Vested share options 31.12	**0**	**0**

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	01.08.2022
		Tranche 2	195 695	NOK 15.33	01.08.2016	01.08.2022
		Tranche 3	161 160	NOK 18.62	01.08.2016	01.08.2022

Synthetic based option programme – established May 2015

The General meeting in May 2015 approved and granted the Board a right to enter into agreements for synthetic options with leading employees and key personnel to complete 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.

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

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

Specification of syntetic share option activity	2017	2016
Granted share options 01.01	600 000	600 000
Syntetic share options granted	0	0
Syntetic share options exercised	0	0
Syntetic share options expired/terminated	320 000	0
Granted syntetic share options 31.12	**280 000**	**600 000**
Vested syntetic share options 31.12	**93 333**	**209 998**

The syntetic share options split for management as per 31.12.2017:

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 31.12.2017 and management number of granted syntetic share options a per 31.12.2017 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 31.12.17 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.

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

Note 18 Investments in subsidiaries

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

	Etablished	Location	Country	Ownership	Voting share	Functional currency
Q-Free Portugal Lda.	1997	Lisboa	Portugal	100 %	100 %	EUR
Q-Free América Latina Ltda.	1998	Sao Paolo	Brasil	100 %	100 %	BRL
Q-Free Australia Pty. Ltd.	1999	Sydney	Australia	100 %	100 %	AUD
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur	Malaysia	100 %	100 %	MYR
Noca Holding AS	2001	Trondheim	Norway	100 %	100 %	NOK
Q-Free Sverige AB	2007	Stockholm	Sweden	100 %	100 %	SEK
Q-Free Thailand Co Ltd.	2007	Bangkok	Thailand	100 %	100 %	THB
Q-Free Netherlands BV	2002	Beilen	The Netherlands	100 %	100 %	EUR
Q-Free Africa Ltd.	2010	Durban	South Africa	74 %	74 %	ZAR
PT Q-Free	2012	Jakarta	Indonesia	100 %	100 %	IDR
Q-Free Chile	2012	Santiago	Chile	100 %	100 %	CLP
TCS International Inc.	2012	Boston	USA	100 %	100 %	USD
Q-Free America Inc.	2012	San Diego	USA	100 %	100 %	USD
ELCOM d.o.o. **	1994	Belgrade	Serbia	100 %	100 %	RSD
TDC Systems Ltd	1998	Weston Super-Mare	United Kingdom	100 %	100 %	GBP
Traffic Design d.o.o.	1990	Ljubljana	Slovenia	100 %	100 %	EUR
Open Roads Consulting Inc.	2000	Virginia	USA	100 %	100 %	USD
Q-Free Espana S.L.U.	2014	Madrid	Spain	100 %	100 %	EUR
Q-Free France S.A.R.L.	2014	Paris	France	100 %	100 %	EUR
Intelight Inc. *	2013	Arizona	USA	100 %	33 %	USD
Q-Free Traffiko Ltd	2015	Valetta	Malta	100 %	100 %	EUR
Q-Free LLC	2015	Moscow	Russia	100 %	100 %	RUB
Q-Free Polska sp. z.o.o.	2016	Warszawa	Polen	100 %	100 %	PLN

* Q-Free ASA has signed a share purchase agreement and a shareholders agreement to acquire 100 percent of the shares in the US traffic controller supplier, Intelight Inc over a five year period. The shareholders agreement and the amended bylaws provide control for the Group after signing these agreements. Based on this, the full activity of Intelight Inc. is consolidated in the Group accounts. The agreements is considered to give the Group present ownership interest of 100 %, thus no non-controlling interest is recognised. See Note 6 for further information.

** Elcom d.o.o. is sold in March 2018. The negative accounting effect of the transaction was taken as part of the impairment booked in Q4 2017. See Note 9, 10, 11 and 14 for further information.

Book value in parent company of investments in subsidiaries

Figures in TNOK	Cost	Book value 31.12.16	Book value 31.12.17	Result after tax last year	Companys equity per 31.12.17
Q-Free Portugal Lda.	204	204	204	-1 931	20 722
Q-Free América Latina Ltda.	7 203	0	0	-4 769	-7 610
Q-Free Australia Pty. Ltd.	0	0	0	743	12 754
Q-Free Sdn. Bhd. Malaysia	1 155	0	0	369	-18 146
Noca Holding AS	4 592	5 956	5 956	328	16 099
Q-Free Sverige AB	0	84	84	761	2 621
Q-Free Thailand Co Ltd.	0	10 847	10 847	-1 392	-9 148
Q-Free Netherlands BV	71 034	76 409	76 409	13 688	72 341
Q-Free Africa Ltd	0	0	0	-915	-2 124
PT Q-Free	0	0	0	-15 696	-78 817
Q-Free Chile	0	28	28	6 609	-4 889
Q-Free America Inc.– Group (*)	6	70 717	70 717	-6 132	6 214
ELCOM d.o.o.	9 445	0	0	-23 913	-27 651
TDC Systems Ltd	105 768	105 768	105 768	1 640	25 269
Traffic Design d.o.o.	29 149	29 149	29 149	10 155	18 541
Q-Free Espana S.L.U.	25	25	25	-83	310
Q-Free France S.A.R.L.	41	41	41	-298	-2 604
Q-Free LLC	0	0	0	832	2 112
Q-Free Traffiko Ltd	10 599	17	17	-17 985	-21 738
Q-Free Polska sp. z.o.o.	11	11	11	0	11
Total	**239 232**	**299 255**	**299 255**	**-37 989**	**4 267**

(*) Q-Free ASA ownes through Q-Free America Inc. indirectly 100 % in TCS International Inc., Open Roads Consulting Inc. and Intelight Inc.

The following exchange rates are used when consolidating the group

Currencies		Currency rate 01.01.2016	Average currency rate 2016	Currency rate 31.12.2016	Average currency rate 2017	Currency rate 31.12.2017
Euro	EUR	9,619	9,290	9,086	9,327	9,840
Australian dollar	AUD	6,447	6,247	6,225	6,334	6,412
Malaysian Ringgit	MYR	2,052	2,028	1,922	1,922	2,027
Brazilian real	BRL	2,224	2,420	2,649	2,591	2,477
US Dollar	USD	8,809	8,399	8,620	8,263	8,205
Pounds Sterling	GBP	13,072	11,373	10,613	10,639	11,091
Swedish kroner	SEK	104,750	98,160	95,120	96,800	99,960
South African Rand	ZAR	0,565	0,574	0,629	0,621	0,665
Thai bath	THB	24,409	23,806	24,085	24,355	25,153
Chilean peso	CLP	0,012	0,013	0,013	0,013	0,013
Indonesian Rupiah	IDR	0,064	0,060	0,064	0,062	0,061
Serbian Dinares	RSD	0,078	0,076	0,073	0,078	0,083
Russian Rouble	RUB	11,984	12,590	14,131	14,158	14,181
Polish Zloty	PLN	2,263	2,130	2,060	2,191	2,356

Note 19 Related party disclosures

Terms and conditions of transactions with related parties

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

Related parties

There was no transactions between the company and any parties in the Management or in the Board during 2017.

The company received for 2016 invoices for consultancy services from KWC AS that totalled TNOK 267 (ex. VAT), which was paid in August 2016. Chairman of the Board, Tore Valderhaug, was part of the team that delivered the consultancy services to the Company. All transactions between related parties are based on arm's length principles and the services was according to an agreement between Q-Free ASA and the Board concerning consultancy services. Mr. Valderhaug did not participate in the Board decicion of rendering the consultancy services from KWC AS.

Associated companies

Q-Free ASA has no ownership in associated companies either in 2017 or in 2016.

Note 20 Cash and cash equivalents

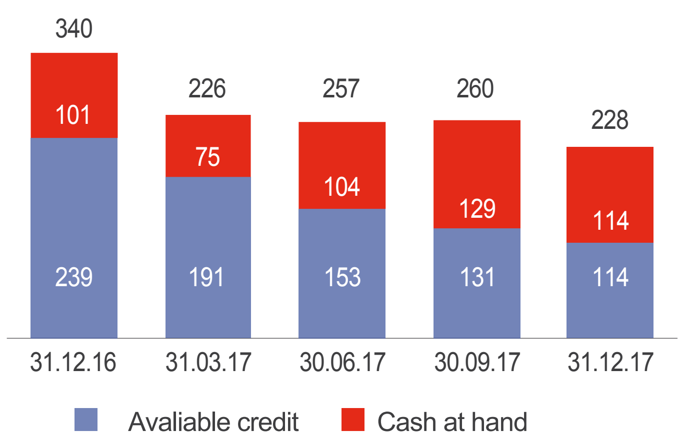
Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and the interest earnings at the respective short-term deposit rates. The Group has a multiple currency account agreement in Danske Bank.

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

Parent company			Group	
2016	**2017**	**Liquidity funds**	**2017**	**2016**
15 970	0	Cash at banks and on hand	112 034	99 124
0	0	Money Market Funds	1 599	2 350
15 970	**0**	**Total cash and cash equivalents**	**113 633**	**101 474**

As at 31 December 2017, the Group had available TNOK 113,930 (2016: TNOK 238,818) of undrawn bank overdraft and TNOK 95 (2016: TNOK 11,987) of undrawn guarantee facilities in which all conditions precedent had been met.

Cash and credit facilities development during 2017



Note 21 Accounts receivables and credit risk

Parent company			Group	
2016	**2017**		**2017**	**2016**
45 903	24 252	Accounts receivables	132 947	143 516
129 399	126 253	Accounts receivables on group companies	0	0
-1 091	-1 448	Provision for impairment on receivables	-2 460	-1 091
0	-17 364	Provision for impairment on group receivables *	0	0
174 211	**131 693**	**Total**	**130 487**	**142 425**
0	17 364	Loss on receivables on group companies *	0	0
232	357	Changes in provisions for impairment on receivables	1 368	232
232	**17 721**	**Total**	**1 368**	**232**

* 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 a provision for impairment on group receivables in the Parent company of TNOK 17,364.

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

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

		Neither past due not	Past due but not impaired				
Amounts per 31.12	Total	impaired	< 30 days	30 – 60 days	60 – 90 day	90 – 120 day >	>120 days
2017	132 947	86 767	18 308	8 374	11 975	2 700	4 823
2016	143 516	86 078	29 806	13 097	2 798	3 913	7 824

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

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

Specification of provisions for impairment on receivables	**2017**	**2016**
Amount per 01.01.	1 091	859
This years provision for impairment on receivables	5 548	232
Loss on receivables	-3 727	0
Provisions utilised during the year	-453	0
Amount per 31.12	**2 460**	**1 091**

The maximum risk exposure is represented by the carrying amount of the financial assets, including derivatives, in the balance sheet. Since the other party involved in derivative trades is normally a bank, the credit risk linked to derivatives is regarded as being insignificant. The Group therefore regards its maximum risk exposure as being the carrying amount of trade receivables as at 31 December 2017, which was NOK 132.9 million (2016: NOK 143.5 million).

Note 22 Interest-bearing loans, borrowings and guarantees

Parent company						Group	
				Effective interest			
2016	2017	Specification	Type	rate % – 2017	Maturity	2017	2016
150 000	125 000	Non-current	Danske Bank - Serial loan	2,75 %	31 Dec.2020	125 000	150 000
13 783	120 000	Current	Danske Bank - Line of credit *	3,02 %	30 April 2018	120 000	13 783
0	0	Current	Suntrust Bank - Line of credit **	n.a.		0	14 385
0	0	Current	Citi Bank - Line of credit **	2,73 %		83 691	51 289
163 783	**245 000**		**Total**			**328 691**	**229 457**

* Line of Credit from Danske Bank is linked to the funding of the Slovenia Truck Tolling project. The credit line will be repaid when the payment for the Slovenia Truck Tolling project is collected.

** Line of Credit from Citi Bank are renewed annually.

Serial loan and covenants

The serial loan is repayable with 50 MNOK in 2018, 50 MNOK in 2019 and 25 MNOK in 2020.The interest rate is 3 MND NIBOR + 195 bps.

Q-Free has a NIBD/EBITDA covenant on it's bank arrangements with Danske Bank. During the fourth quarter 2017 Q-Free received a waiver from this covenant, confirming that non-recurring items on 27,8 MNOK are disregarded in the covenant calculation.

Non-recurring items consist of the settlement of dispute with the Norwegian Public Roads Administration (NPRA). See note 26 and 27 for further details and see Alternative Performance Measures section for "NIBD" and "EBITDA" definitions.

Off balance sheet commitment:

Parent company			Group	
2016	2017	Specification	2017	2016
218 013	229 210	Guarantees to customers, suppliers and lease contracts	229 905	107 500
		Book value of assets securing loans and guarantees:		
15 970	0	Bank deposits	9 476	16 645
174 211	131 693	Accounts receivable	131 693	174 211
36 598	200 717	Work in progress	200 717	36 598
16 706	12 351	Inventories	12 351	16 706
17 766	11 148	Machinery, fixtures and fittings, etc.	11 148	17 766
261 251	**355 909**	**Total**	**365 385**	**261 926**

Assets from discontinuing operations was not included in book value of assets securing loans and guarantees as at 31.12.17.

Note 23 Taxes

Parent company			Group	
2016	2017		2017	2016
		Total tax expenses for the year		
0	0	Tax payable on this years profit for Norwegian companies	0	0
0	0	Tax payable on this years profit for foreign companies	6 308	4 294
0	541	Adjusted allocated tax from last year	20	-353
0	0	Change in deferred tax for Norwegian companies	17	137
0	0	Change in deferred tax for foreign companies	-4 608	-6 280
0	**541**	**Total**	**1 737**	**-2 202**
0 %	3 %	Tax rate	18 %	4 %
		Tax payable for the year		
-19 608	-15 134	Total ordinary profit before tax	-9 526	-55 621
30 987	42 745	Permanent differences	41 486	28 385
-41 197	-145 455	Change in temporary differences	-166 458	-75 729
0	0	Utilisation of previously unrecognised tax losses	-1 061	0
-29 818	**-117 844**	**Basis for tax payable**	**-135 559**	**-102 965**
0	**0**	**Tax payable for Norwegian companies (24 %)**	**0**	**0**
		Tax payable for foreign companies	**0**	**702**
		Specification of tax payable in the balance sheet		
0	0	Tax payable on this years profit, Norwegian companies	0	0
0	0	Tax payable on this years profit, foreign companies *	4 973	4 882
0	0	Advance tax payment, foreign companies	-1 631	-4 180
0	**0**	**Total tax payable**	**3 342**	**702**
		Specification on basis for deferred tax		
		Differences evaluated to be offset:		
-12 093	-15 089	Fixed assets	-35 380	-30 202
43 546	38 984	Other non current assets	38 984	43 546
27 528	173 056	Current assets	161 239	15 736
-34 849	-32 428	Liabilities	-36 074	-37 442
-306 559	-424 404	Tax losses carry -forward	-641 749	-513 495
-9 641	-7 081	Other differences	-7 081	-9 641
-292 068	**-266 962**	**Total**	**-520 061**	**-531 498**
0	**0**	**Deferred tax assets (-)**	**-16 864**	**-17 420**
0	**0**	**Total tax assets (-) / deferred tax (+)**	**4 956**	**15 003**
		Reconciling the tax cost		
-19 608	-15 134	Earnings before tax	-9 526	-55 621
-4 902	-3 632	Calculated tax at 24 %	-19 364	-27 322
7 747	10 259	Tax result permanent differences and tax rate difference	10 279	7 519
-2 845	-6 627	Use of previously unrecognised loss carried forward (-) / Increase in valuation allowance **	8 826	17 023
0	541	Adjusted allocated tax from last year	1 996	578
0	**541**	**Tax expenses**	**1 737**	**-2 202**

* Paid withholding tax in foreign subsidiaries.

** Change in tax rate for the Group is TNOK 11,627 (2016: 2,936), 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 Group has a total loss carried forward of TNOK 641,749 as at 31 December 2017 (2016: 513,495), in which TNOK 16,864 are recognised as an asset in the balance sheet as at 31.12.2017 (2016: 17,420). 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 97,613 as at 31 December 2017 (2016: 73,574). In addtion the group has not included deferred tax asset of TNOK 101,762 as at 31 December 2017 for the Group (2016: 129,803). Of this amount, TNOK 129,358 (2016: 105,228) is related to tax losses carried forward, TNOK 18,811 (2016: 41,401) related to aquisitions in the US and -46,407 (2016: -16,827) is related to other temporary differences.

Note 24 Financial items

Figures in TNOK

Parent company 2016	Parent company 2017	Category	Group 2017	Group 2016
958	3 228	Interest income	3 518	1 327
10 926	6 034	Realised exchange rate differences	17 160	16 327
0	107	Unrealised exchange rate differences	8 905	5 306
2 625	0	Exchange rate differences earn-out	0	2 625
0	0	Change in earn-out and other liabilities *	0	14 123
3	0	Other financial income		3
14 512	**9 369**	**Financial income**	**29 583**	**39 711**
7 902	10 820	Financial income from group companies	0	0
8 831	1 751	Paid dividends from subsidiaries	0	0
16 733	**12 571**	**Financial income from Group companies**	**0**	**0**
31 245	**21 940**	**Total financial income**	**29 583**	**39 711**
-2 814	-4 927	Interest expenses	-5 650	-5 627
-4 670	-6 662	Interest on debt and borrowings	-11 104	-5 831
-5 289	-8 985	Realised exchange rate differences	-18 393	-10 332
-26 210	0	Unrealised exchange rate differences	-1 475	-12 554
0	0	Exchange rate differences earn-out	0	0
-2 457	-3 220	Change in earn-out and other liabilities *	-4 273	0
-1 881	-2 441	Other financial expenses	-2 441	-1 881
-43 321	**-26 235**	**Financial expenses**	**-43 336**	**-36 225**
-588	-897	Financial expenses from group companies	0	0
-15 252	0	Impairment of shares in subsidiaries	0	0
-15 840	**-897**	**Financial expenses from Group companies**	**0**	**0**
-59 161	**-27 132**	**Total financial expenses**	**-43 336**	**-36 225**
-27 916	**-5 192**	**NET FINANCIAL ITEMS**	**-13 753**	**3 486**

* Change in earn-out and other liabilities in 2017 is explained by a revised estimate on liability for purchase of remaining shares on Intelight Inc and liability related to pension schemes. The estimated liability to acquire the remaining shares in Intelight Inc. as at 31.12.17 is TNOK 90,505. For further information see Note 6 and 18.

Note 25 Available for sale financial investments

Parent company and the Group as at 31 December 2017 — Figures in TNOK

	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**

Parent company and the Group as at 31 December 2016 — Figures in TNOK

	Company's equity	Number of shares	Ownership	Book value in Parent *	Book value in Group *	Included in comprehensive income
Leiv Eiriksson AS	37 856	9 919	0,99 %	375	375	2
Other				20	20	0
Total				**395**	**395**	**2**

* The investment in shares is classified as financial investment available for sale and are measured at fair value. See note 4 for fair value table and a specification of valuation technique.

Note 26 Other current liabilities

Parent company 2016	Parent company 2017	Category	Group 2017	Group 2016
13 047	22 454	Accrued wages (Holiday pay and bonus scheme)	34 931	22 926
12 431	10 909	Warranty provisions (see spesification for changes during the year)	11 435	12 831
4 154	7 094	Accrued project costs	12 091	12 547
0	0	Intelight share purchase liability *	22 401	0
0	20 868	Settlement of Dispute with NPRA**	20 868	0
4 974	3 538	Restructuring provision ***	3 538	4 974
774	34	Miscellaneous	12 397	1 417
35 379	**64 896**	**Total**	**117 660**	**54 696**

* See note 6 regarding changes related to provisions for the liability. The range of possible outcomes for the contingent consideration classified as current liabilities is from USD 0 to USD 5.3 million.

** 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.

*** The restructuring provision totalling TNOK 3,558 (2016: 4,974) is related to the transformation of Q-Free from a Tolling company into a fully integrated ITS-company, and consist of TNOK 3,558 (2016: 4,974) regarding personnell related expences, see Note 15 and 27 for further information.

Warranty provisions

Provision for warranty costs is calculated depending on the remaining guarantee period for various products, and based on the historical effect of defects and a calculation of probability for the defect to occur for the remaining products under warranty. The calculation is made on an individual basis per product, and the assumptions vary for the different products and also take into account the expected expenses associated with new warranty problems that are identified. Unused accruals for warranties are dissolved at the end of the guarantee-period. All provisions spesified in the table below are classified as current liabilities and is part of other current financial liabilities in the consolidated statement of financial position.

	Parent company		Group	
	Provision for warranty costs	Total current provisions	Provision for warranty costs	Total current provisions
Amount as of 01.01.16	13 587	13 587	14 263	14 263
Unused accruals reversed during 2016	0	0	-276	-276
Accruals utilised during 2016	-1 904	-1 904	-1 904	-1 904
Accruals deposited during 2016	748	748	748	748
Amount as of 31.12.16	**12 431**	**12 431**	**12 831**	**12 831**
Amount as of 01.01.17	12 431	12 431	12 831	12 831
Unused accruals reversed during 2017	0	0		0
Accruals utilised during 2017	-2 272	-2 272	-2 672	-2 672
Accruals deposited during 2017	750	750	1 276	1 276
Amount as of 31.12.17	**10 909**	**10 909**	**11 435**	**11 435**

Note 27 Other operating expenses

Parent company			Group	
2016	**2017**	**Category**	**2017**	**2016**
52 666	57 003	External services	117 397	131 478
11 506	11 045	Travel expenses	24 959	26 437
21 069	21 948	Offices supplies	41 226	42 109
4 627	3 344	Insurance	7 369	8 969
4 498	5 205	Freight	8 489	7 834
2 089	1 204	Rent machinery & tools	11 545	8 376
7 815	6 025	Marketing / promotions	10 864	15 403
198	76	Service & Maintenance	9 895	6 726
4 660	4 844	Operating materials	8 735	7 664
24 060	61 441	Loss on receivables on group companies	0	0
0	27 823	Settlement of Dispute with NPRA*	27 823	0
-2 846	423	Bad debt losses	2 261	-5 705
4 722	598	Other operating expenses	13 758	27 499
135 065	**200 978**	**Total**	**284 321**	**276 789**

* 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.

Audit fees

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

Parent company			Group	
2016	**2017**	**Category**	**2017**	**2016**
282	738	Audit services	2 407	1 242
128	20	Other audit related services	20	128
3	4	Tax services	32	63
348	166	Other, non audit related services	233	450
760	**929**	**Total**	**2 693**	**1 882**

Note 28 Other current assets

Parent company			Group	
2016	2017	Category	2017	2016
0	1 325	Accrual for Skattefunn grants	1 325	0
541	0	Prepaid taxes	7 874	9 930
382	362	Prepaid rents	1 668	1 576
2 002	2 200	Prepaid licenses	2 200	2 002
708	675	Other prepaid costs	14 624	8 691
7	0	Miscl	10 177	9 447
3 639	**4 562**	**Total**	**37 868**	**31 646**

Note 29 Commitments and contingencies

Operating lease commitments – Group as lessee

The Group has entered into commercial leases mainly on office rentals but also on certain motor vehicles and items of machinery. These leases have an average life of between 3 and 5 years with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

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

Parent company			Group	
2016	2017	Terms	2017	2016
9 204	9 078	Within one year	14 420	15 431
37 368	36 857	After one year but not more than five years	37 472	38 635
9 342	9 214	More than five years	9 214	9 342
55 914	**55 149**	**Total**	**61 106**	**63 408**

During the year ended 31 December 2017 the company recognised expenses in the income statement in respect of operating leases of TNOK 11,317 (2016: TNOK 12,020) for the parent company and TNOK 33,039 (2016: 30,093) for the Group, all figures excluded discontinuing operations.

Finance lease and hire purchase commitments

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

Note 30 Discontinued operations

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

	Group	
Statement of income	**2017**	**2016**
Revenues	884	45 045
Cost of goods sold	1 572	13 969
Personnel expenses	1 136	17 228
Other operating expenses	2 493	13 369
Total operating expenses	5 201	44 566
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	-4 317	479
Amortisation of intangible assets	0	4 024
Impairment of intangible assets	5 145	26 814
Earnings before interest and taxes (EBIT)	-9 462	-30 359
Financial income	0	146
Total financial items	0	146
Profit before tax	-9 462	-30 213
Taxes	0	0
Profit / (-) loss for the year on discontinued operations, net of tax	**-9 462**	**-30 213**
Earnings in NOK per share from discontinued operations	**-0,11**	**-0,40**
Diluted earnings in NOK per share from discontinued operations	**-0,11**	**-0,40**

Cash flow from discontinued operations	Group 2017	2016
Profit before tax	-9 462	-30 213
Amortisation and impairment of intangible assets	5 145	30 838
Working capital adjustments:		
Changes in receivables and prepayments from customers	-3 387	3 387
Changes in inventory	-1 852	1 852
Changes in accounts payables	3 144	-3 144
Changes in work in progress	-7 686	7 686
Changes in other balance sheet items	8 357	-4 106
Net cash flow from operations	-5 741	6 300
Investments in tangible and intangible assets	0	-5 465
Other investments	6 303	0
Net cash flow from investments	6 303	-5 465
Down payments of debt	-1 397	0
Net cash flow from financing	-1 397	0
Cash flow from discontinued operations	-835	835
Cash and cash equivalents per 01.01.	835	0
Cash and cash equivalents from discontinued operations	0	835

Assets held for sale	Group 2017	2016
Development	0	9 824
Goodwill	0	0
Machinery, fixtures and fittings	0	907
Inventories	0	1 852
Accounts receivables	0	4 043
Work in progress	0	7 686
Other receivables	0	78
Cash	0	835
Assets held for sale	**0**	**25 225**

Liabilities held for sale	Group 2017	2016
Deferred tax	0	1 951
Debt to financial institutions	0	0
Accounts payable	0	5 814
Public duties payable	0	219
Other short term debt	0	10 454
Liabilities held for sale	**0**	**18 438**

Alternative Performance Measures

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

Gross profit

Defined as revenues reduced with cost of goods sold.

Gross margin

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

Reconciliation

Figures in TNOK

Gross profit and gross margin	Group 2017	2016
Revenues	973 475	877 165
Cost of goods sold	-287 833	-296 481
Gross profit	**685 642**	**580 684**
Gross margin	**70.4 %**	**66.2 %**

EBITDA / EBIT

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

EBITDA margin

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

Figures in TNOK

EBITDA margin	Group 2017	2016
Revenues	973 475	877 165
EBITDA	82 591	-4 346
EBITDA margin	**8.5 %**	**-0.5 %**

EBIT margin

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

Figures in TNOK

EBIT margin	Group 2017	2016
Revenues	973 475	877 165
EBIT	4 227	-59 107
EBIT margin	**0.4 %**	**-6.7 %**

Non-recurring items

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

Figures in TNOK	Group	
Non-recurring items	**2017**	**2016**
Settlement of dispute	27 823	0
Restructuring expenses	0	15 423
Non-recurring items in EBITDA	**27 823**	**15 423**
Impairment	21 876	0
Non-recurring items in EBIT	**49 699**	**15 423**

Adjusted EBITDA / EBIT

Adjusted EBITDA / EBIT is defined as EBITDA / EBIT excluding non-recurring items.

Figures in TNOK	Group	
Adjusted EBITDA	**2017**	**2016**
EBITDA	82 591	-4 346
Settlement of dispute	27 823	0
Restructuring expenses	0	15 423
Adjusted EBITDA	**110 414**	**11 077**

Figures in TNOK	Group	
Adjusted EBIT	**2017**	**2016**
EBIT	4 227	-59 107
Settlement of dispute	27 823	0
Restructuring expenses	0	15 423
Impairment	21 876	0
Adjusted EBIT	**53 926**	**-43 684**

Adjusted EBITDA-margin

Defined as Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) excluding non-recurring items in percentage of revenues.

Figures in TNOK	Group	
Adjusted EBITDA margin	**2017**	**2016**
Revenues	973 475	877 165
Adjusted EBITDA	110 414	11 077
Adjusted EBITDA margin	**11.3 %**	**1.3 %**

Adjusted EBIT margin

Defined as Earnings Before Interest and Taxes (EBIT) excluding non-recurring items in percentage of revenues.

Figures in TNOK	Group	
Adjusted EBIT margin	**2017**	**2016**
Revenues	973 475	877 165
Adjusted EBIT	53 926	-43 684
Adjusted EBIT margin	**5.5 %**	**-5.0 %**

Net Interest Bearing Debt (NIBD)

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

Figures in TNOK	Group	
Net Interest Bearing Debt	**2017**	**2016**
Serial loan to Danske Bank	125 000	150 000
Current debt to financial institutions	203 691	79 457
Gross Interests bearing Debt	**328 691**	**229 457**
Cash at hand and equivalents	113 633	101 474
Net Interests Bearing Debt	**215 058**	**127 983**

Net working capital

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

Figures in TNOK	Group	
Net Working Capital	**2017**	**2016**
Inventories	65 453	66 327
Accounts receivables	130 487	142 425
Work in progress	227 154	75 807
Other receivables	37 868	31 646
Other Current Assets	**460 962**	**316 205**
Accounts payable	89 272	100 209
Tax payable	3 342	702
Public duties payable	14 541	16 647
Advance payments customers	11 693	11 677
Other short term debt	117 660	54 696
Current liabilities (excl debt to financials institutions)	**236 508**	**183 931**
Net Working Capital	**224 454**	**132 274**

Working capital ratio

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

Figures in TNOK	Group	
Working Capital ratio	**2017**	**2016**
12 months Revenues	973 475	877 165
Net Working Capital	224 454	132 274
Working Capital ratio	**23.1 %**	**15.1 %**

Liquidity ratio

Liquidity ratio is defined as Current Assets (incl Cash) diveded with Current Liabilities.

Figures in TNOK	Group	
Liquidity ratio	**2017**	**2016**
Current Assets (incl Cash)	574 595	417 679
Current Liabilities	440 199	263 388
Liquidity ratio	**1.31**	**1.59**

Equity ratio

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

Figures in TNOK	Group	
Equity ratio	**2017**	**2016**
Total equity	414 231	426 900
Total assets	1 070 372	990 419
Equity ratio	**38.7 %**	**43.1 %**

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.

Statement from the Directors and the CEO

We confirm, to the best of our knowledge, the financial statements for the Company and the Group for the period from 1 January to 31 December 2017 have been prepared in compliance with International financial reporting standards (IFRS) as adopted by EU and that the disclosures in the accounts give a true and fair view of the Company's and the Group's assets, liabilities, financial position and results of operations as a whole, and that the Director's Report gives a fair view of the development, profit/loss and position of the Company and the Group, along with a description of the main risk and uncertainty factors facing the Company and the Group.

Trondheim 4 April 2018

Tore Valderhaug
Chairman of the Board

Ragnhild Wahl
Board member

Snorre Kjesbu
Board member

Trond Valvik
Vice Chairman of the Board

Sissel Nina Lillevik Larsen
Employee-elected Board member

Rune Jøraandstaad
Employee-elected Board member

Håkon Rypern Volldal
President & CEO

The gap between how people would like to commute and how they actually move around must be closed

Tlf: 73 99 15 00
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BDO AS
Klæbuveien 127B
7031 Trondheim

To the General Meeting of Q-Free ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

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

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

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

Description of key audit matters	*How the key audit matters were addressed in the audit*
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 2 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 2017 is MNOK 305. We	As a part of our audit, we performed a thorough and detailed review of the model used by management to calculate the fair value of goodwill, 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

refer to Note 11 to the financial statements for further description of the group's goodwill valuation. The impairment test performed as at 30 September 2017 by the management resulting in MNOK 8 impairment.	light of the requirements to use reasonable and supportable data as set forth in IAS 36.

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Trondheim, 4 April 2018
BDO AS

John Christian Løvaas
State Authorised Public Accountant

Independent Auditor's Report 2017 Q-Free ASA - Page 5 of 5

Corporate governance review 2017

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

1. Implementation of and reporting on Corporate governance

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

This review of the company's corporate governance principles and practice is prepared in compliance with Section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance as updated per 30 October 2014.

The Norwegian Code of Practice for Corporate Governance is based on company, accounting, stock exchange and securities legislation, as well as the Stock Exchange Rules, as in force at 1 October 2014, and includes provisions and guidance that in part elaborate on existing legislation and in part cover areas not addressed by legislation. The Code of Practice 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 2017.

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 implemented a revised and updated Code of Conduct in 2017.

The Code of Conduct (COC) and CSR principles apply to all members of the Board, executive management, employees and representatives of Q-Free. The COC is electronically signed by all employees through mandatory e-learning courses when new updates apply. Violation of the COC will be subject to disciplinary action, including possible termination, as well as potential criminal prosecution.

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

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

Deviation from the Code of Practice: None.

2. Business

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

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

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

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

Deviation from the Code of Practice: None.

3. Equity and dividends

Equity
Q-Free's policy is to maintain a high equity ratio to provide a platform for the company's 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 2017 the Group's equity amounted to NOK 414 million, representing an equity ratio of 38.7 percent. The Board considers the financial situation for Q-Free satisfactory given the company's activities and investment plans.

Dividend policy
Q-Free has an objective to give the shareholders a stable and competitive long-term return on investment through distribution of dividends and a positive share price development. The company is in a growth phase and is seeking a good combination of investing the free cash flow in new business opportunities and distributing dividends to the shareholders.

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 24 May 2017, the Board was granted an authorisation to increase the share capital by the subscription on new shares for any strategic purposes within the ITS sector, by way of larger projects and tenders etc. 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, and 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 2018.

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 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.

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.

See Note 17 in the 2017 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 2017 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 19 in the 2017 financial statements.

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

Deviation from the Code of Practice: None

5. Freely negotiable shares

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

Deviation from the Code of Practice: None

6. General meetings

The General Meeting is the company's supreme governing body, and all shareholders are 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.

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

Notification

The Annual General Meeting must according to the law be be held before the 30th of June. The general meeting is to take place either in Trondheim or in Oslo. The 2018 Annual General Meeting is scheduled for 29 May in Oslo.

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

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

Registration and proxies

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

The right to attend and vote in general meetings may only be exercised for shares registered in the shareholders' register (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 DNB.

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

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

Agenda and execution

The agenda for the general meeting is set by the Board, but the main items are specified in §6 of the Articles of Association. The agenda includes detailed information on the resolutions to be considered and the recommendation from the Nomination Committee. The attending shareholders vote for a Chairperson to lead 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 Chairman of the Board is always present to respond to any questions and queries. The Chairman of the Board and the Chairman of the Nomination Committee assess on a case-by-case basis, based on the agenda of the general meeting, whether all members should participate. The CEO, Auditor and the Chair of the Audit Committee and Compensation Committee will always be present at the Annual General Meetings.

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

Deviation from the Code of Practice: None

7. Nomination committee

The company has a Nomination Committee. The general meeting elects the 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 CEO as part of its work on proposing candidates for election to the Board. The Nomination Committee is responsible for proposing board member candidates and remuneration to the Board, in addition to proposing members for the committee itself.

The Nomination Committee is established in accordance with the Company's Articles of Association §7, and the Committee's work is determined by instructions approved by the General Meeting. 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 2016 approved an updated version of the instructions for the Nomination Committee. The instructions are published on the Company's website.

Composition

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

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 31.12.2017:

Name	Company	For election
Heidi Finskas	KLP Kapitalforvaltning AS	2019
Øystein Elgan	AS Atlantis Vest	2019
Andreas Berdal Lorentzen	Holta Invest	2018

Composition of the Board

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

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

Independence of the Board

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

Share ownership

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

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

Deviation from the Code of Practice: None

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.

Board of Directors Composition as at 31.12.2017:

Name	Position	Service since	Elected until AGM	Shareholding Q-Free ASA (direct or indirect)
Tore Valderhaug	Chairman	2016	2019	25 000
Trond Valvik*	Vice Chairman	2017	2019	15 968 718
Ragnhild Wahl	Board member	2015	2019	0
Snorre Kjesbu	Board member	2016	2018	39 505
Sissel Lillevik Larsen	Employee-elected member of the Board	2016	2018	0
Rune Jøraandstad	Employee-elected member of the Board	2016	2018	0

* Represented through position in AS Atlantis Vest.

As at 31 December 2017 the Board of Directors comprises six members, whereof two elected by and amongst the Group's employees. The Board consist of one shareholder-elected women and three shareholder-elected men.

The Board had three changes in the shareholder-elected composition during 2017. Trond Valvik was elected as new member of the Board, Tore Valderhaug, who previously was Vice Chairman, was elected as new Chairman. Shareholder-elected member of the Board, Charlotte Brogren Karlberg, resigned from the position as per 26 October 2017. The Nomination Committee concluded to postpone the by-election to the Annual General Meeting in 2018. The gender diversity requirements pursuant to Norwegian legislation will again be fulfilled after the by-election at the Annual General Meeting 2018.

An overview of the members of the Board and their competences including shareholding is available on the company's website www.q-free.com and in the annual report.

Independence of the Board

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

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

Deviation from the Code of Practice: None

9. The work of the Board of directors

The Board's tasks

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

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

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

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

Instructions to the Board

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

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

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

Compensation committee

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

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

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

Compensation Committee composition as at 31.12.2017

Snorre Kjesbu (Chair)
Ragnhild Wahl
Sissel Lillevik Larsen

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 31.12.2017:

Tore Valderhaug (Chair)
Trond Valvik

The Board's evaluation of its own work

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

Deviation from the Code of Practice: None

10. Risk management and internal control

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

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

The Board presents an in-depth review of the company's financial status in the Directors' Report, including a description of the main elements related to health, safety and environment (HSE) and related risks. The main risk factors are closely monitored by the Executive Management. The 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-Frees products and services contribute to reduced traffic congestion and consequently give less pollution. With the exception of our travel related activities, the Group's activities have no negative impact on the external environment.

Q-Free's Environmental Policy is available on www.q-free.com.

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 2017 to the Annual General Meeting of 2018:

The Chairman of the Board:
NOK 416,000

The Vice Chairman of the Board:
NOK 280,000

Members elected by the shareholders:
NOK 234,000

Members elected from the employees:
NOK 80,000

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

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

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

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

The Directors' fees are as at 31 December 2017 not linked to performance. The members of the Board have no share options in the company.

For further information about remuneration of the Board see Note 15 in the 2017 financial statements.

Remuneration of the Nomination committee
Remuneration from the Annual General Meeting of 2017 to the Annual General Meeting of 2018:

The Chairman of the Nomination Committee:
NOK 45,000

All members of the Nomination Committee:
NOK 30,000

Deviation from the Code of Practice: None

12. Remuneration of the executive management

Q-Free's remuneration policy has always been to offer salaries adjusted to market conditions to attract the competence needed. The Board has determined and approved special guidelines for the stipulation of salary and other remuneration to executive management, and the structure of the incentive system is presented to the Annual General Meeting for information purposes. The statement of remuneration of executive personnel is given in a separate appendix to the agenda of the Annual General Meeting. The amendment from 2012 Code to the 2014 Code regarding advisory and binding guidelines in the statement, are implemented. The 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. A share option program for the CEO was approved in 2016. 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 15 and Note 17 in the 2017 financial statements. All performance-related remuneration is subject to an absolute limit.

The Board adopted a performance based bonus scheme for all employees in 2007, in order to motivate extraordinary performance/achievements. The performance based bonus scheme is linked to relevant financial KPI's. The CEO may assign bonuses to individuals or teams for extraordinary performance/achievements, limited up to 40 percent of the employee's fixed salary. The Board may assign bonus to the CEO for performance/achievements limited up to 75 percent of his/her fixed salary. The scheme for the executive management generally follows the overall bonus scheme for the Group, in addition, personal goals apply. The synthetic scheme for executive management requires that parts of the bonus payment is used for purchase of shares in the company.

For more information about incentive programs, please see chapter 3 in this document and Note 17 in the 2017 financial statements.

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

For further information about remuneration of the CEO and other members of the executive management, see Note 15 in the 2017 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. If required, the Chairman of the Board or appointed members of the Board will assist.

All information is communicated within the framework established by securities and accounting legislation and the rules and regulations of the Oslo Børs.

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

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.

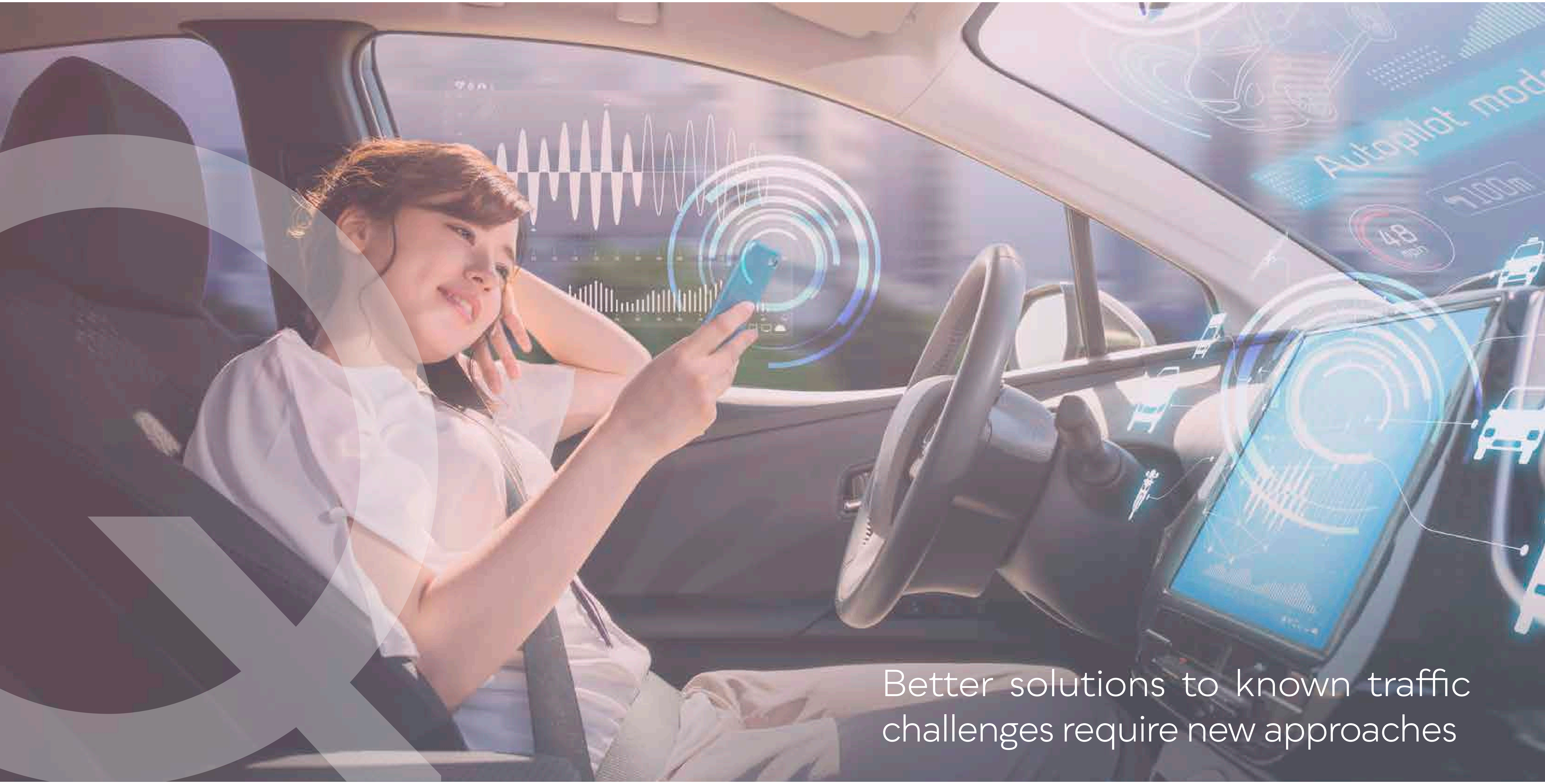
In 2013 Q-Free ASA arranged a competitive tendering among several auditor companies, and BDO AS was elected as the new auditor for the company. Independent external auditors have also been appointed for subsidiaries of Q-Free ASA which have requirements for a statutory audit.

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 27 in the 2017 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



Better solutions to known traffic challenges require new approaches

Corporate social responsibility review 2017

Human rights, fair working environment and health and safety

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

Fair and good working environment

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

Q-Free employs a variety of nationalities from a diversity of cultures, both within the parent company, and across the subsidiaries abroad. 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. The aim of Q-Free is to offer an engaging workplace with an open and inclusive working environment. We have focus on avoiding the discrimination of individuals or groups based on their age, gender, disability, race, sexual orientation, ethnic origin, religion, political affiliation, or any other reason. No incidents or violations in relation to our fair and good working environment have been reported of any kind in recent years.

Equal opportunities

Gender equality and non-discrimination of male or female employees are important for 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 represents 16,4 % female and 83,6 % male employees.

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

The Board of Directors holds 3 male and 1 female shareholder-elected board members respectively. Shareholder-elected member of the Board, Charlotte Brogren Karlberg, resigned from the position as per 26 October 2017. The gender diversity requirements pursuant to Norwegian legislation will again be fulfilled after the by-election at the Annual General Meeting 2018.

Health and Safety

Q-Free gives the highest priority to the health and safety of its employees, with roadside works representing the highest risk. Our Management system including health and safety has contributed to no serious incidents or injuries have been reported in the recent years.

The Health and safety committee are meeting regularly, and reviewing health and safety performance. Management and safety representatives are members of this committee.

Health and safety risk assessments is documented and followed up for our activities roadside, 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 is a competence in the project organization and also initiates improvements to our safety procedures.

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

Sick leave in Q-Free ASA was 1.1% in 2017, a reduction from 2.3 % in 2016. The figure is well below the national average for comparable workplaces and can be considered a very satisfactory level. Q-Free has no similar reports for the subsidiaries at this stage.

Business ethics and anti-corruption

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

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

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

Fair and open competition in all markets is always pursued by Q-Free, with a desire to win contracts on the basis of a competitive offering of products, services and solutions. 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 analysis to define and evaluate how to address and mitigate these risks.

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

External environment

The portfolio of products, services and solutions has continuously been Q-Free's greatest contribution to the environment, which enable the reduction of traffic congestion, decrease pollution, and minimise the amount and severity of traffic incidents.

Q-Free is committed to minimizing the potential environmental impact of our operations. In our environmental aspect analysis, we have assessed the environmental impact of our activities. Based on this assessment we have established an action plan to continuous reduce negative impact on the environment.

Q-Free fulfils all environmental requirements imposed by the Norwegian authorities, as well as the EU. Q-Free ASA is certified in accordance with 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's Environmental Policy is publicly available on the website.

Articles of association

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

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

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

Article 4. The Company's share capital shall be NOK 33,904,909.48, 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, either in the City of Trondheim or the City of Oslo.

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

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

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

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

The Ordinary General Meeting shall consider:

1. Adoption of profit and loss account and balance sheet.
2. Application of profit or coverage of loss pursuant to the adopted balance sheet and distribution of dividend.
3. Election of the Board and the Chairman of the Board.
4. Stipulation of the Board's remuneration.
5. Election of members of the Nominations Committee.
6. Stipulation of the compensation to the Nominations Committee.
7. Stipulation of the compensation to the auditor.
8. Other matters that the Board places on the agenda, or that a shareholder wants considered, when such anitem 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 invitationhas already taken place, a new invitation shall be made if the deadline for invitation to the general meeting hasnot passed.
9. Other matters that pursuant to statute pertain to the general meeting.

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

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

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

Articles of Association as of 28 September 2016.

The shareholders of Q-Free ASA

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The current pace of urbanization and technological change requires open and inter-connected traffic systems

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Nothing happens until something moves

– Albert Einstein

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