



# Q-FREE

ANNUAL REPORT

# 2019

THE PRIME MOVER IN  
TRAFFIC TECHNOLOGY



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# MISSION VISION VALUES

Increasing urbanization presents us with unprecedented transportation challenges. Around the world, cities and people 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. Today, like every day since we were founded in 1984, we strive to be The Prime-Mover in traffic technology. To achieve this, we provide cutting-edge traffic management and tolling solutions that make it convenient, safe, and environmentally-friendly for people to move from point A to B. Our purpose gives us a strong social cause and a clear long-term goal for our employees, partners, and customers.

### Our vision: Changing the movements of life

**Our Mission: Creating intelligent solutions for efficient, safe, and environmentally-friendly transportation based on innovative technology and open platforms.**

### > OUR VALUES

Our values are the principles we base our daily conduct on to help us become better today than yesterday, and even better tomorrow.

#### Excellence

We strive for excellence and therefore try to set new standards in everything we do.

#### Passion

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

#### Innovation

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

#### Collaboration

By sharing knowledge and establishing new partnerships we can customize our solutions through collaboration.

# Q-FREE AT A GLANCE

All our decisions revolve around creating and providing sustainable technology solutions to help cities and urban communities around the world.

## OUR COMPANY



FOUNDED IN  
**1984**



HEADQUARTERED IN  
TRONDHEIM  
NORWAY



OFFICES IN  
**16**  
COUNTRIES

## OUR PEOPLE



**396**  
EMPLOYEES



**35**  
NATIONALITIES



**18%**  
FEMALE  
**82%**  
MALE

## OUR SCALE



**~1** BNOK  
IN REVENUES

LISTED ON  
**OSLO STOCK  
EXCHANGE IN**

**2002**



REFERENCES FROM  
**50+**  
MARKETS

## OUR PRODUCTS AND SOLUTIONS



**~2000 TOLL LANES**



**~35 000**  
INTERSECTION  
CONTROLLERS



TRAFFIC  
MANAGEMENT FOR  
>500 000 LANE-MILES

**50 000**  
INTRADA  
**ALPR**  
LICENSES





# IN THE FUTURE ...

...most people will have chosen a life in the cities, driven by the promise of prosperity, in a place where mobility and progress are not limited by infrastructure.





**WE WILL...**

...use our solutions and expertise to shape communities where people and goods flow safely and sustainably, together with our ambitious partners and clients.

Together we are changing the movements of life.



**“What is good for our company  
is also good for society.”**

**HÅKON VOLLDAL**  
**PRESIDENT & CEO, Q-FREE**

# SUSTAINABLE GROWTH

Q-Free’s sole purpose is to solve challenges related to mobility, safety and sustainability in traffic. In close collaboration with ambitious partners and clients, we are making our cities, communities and societies better.

We are confident that we can combine this strong purpose with profitable growth for the company. What is good for Q-Free is also good for society and we are in a favorable position to capitalize on the megatrends described in our industry outlook section.

In 2016, Q-Free created a strategic plan that has delivered good results. After completing the initial restructuring in the second half of 2016, the company delivered 16 percent higher average annual revenues in 2017-2019 than in 2014-2016. EBITDA has also been positive in three consecutive years for the first time since 2007-2009. Nevertheless, operating in a rapidly changing mobility market requires adjustments to internal plans and strategies going forward.

The growing traffic technology market presents Q-Free with numerous attractive opportunities. Still, capital and resources must be channeled towards segments where Q-Free has distinct competitive advantages and can achieve the highest possible returns. Despite divestments of three businesses (Prometheus, Traffiko and Elcom) and exit from six markets (Brazil, South Africa, Malta, Serbia, Indonesia and Malaysia) during the past three years, Q-Free’s business scope has remained broad.

To fully benefit from the positive market momentum, Q-Free therefore aims to further simplify its portfolio. The company will seek to divest its parking and infomobility assets and focus on tolling and traffic management. An exit

from parking and infomobility does not mean that these market segments are unattractive, but rather that Q-Free has stronger market positions and can deliver higher shareholder returns in tolling and traffic management.

In 2020 alone, tolling and traffic management contracts with an estimated value of almost 2 billion NOK are planned to be awarded. Hence, the growth potential in Q-Free’s two target segments is significant. A more focused approach will enable Q-Free to capture its fair share of these contracts and profitably scale its leading solutions in existing and new markets.

Q-Free has a large addressable market driven by several strong megatrends and





**“Q-Free has a large addressable market driven by several strong megatrends and leading technology offerings.”**

leading technology offerings. We believe our new and focused approach will enable us to fully capitalize on this and leave a larger positive footprint – to the benefit of society in general and Q-Free’s customers, shareholders, employees, and suppliers.

HÅKON VOLLDAL  
PRESIDENT & CEO, Q-FREE

#### OUR STRATEGY IS DIVIDED INTO THREE DISTINCT PHASES:

##### 1H 2020

**1**

##### Focus >

**Reduce business complexity to improve execution and resource allocation**

- Slim down portfolio by divesting Parking and Infomobility
- Run company through 2 autonomous business units – Tolling and Traffic Management
- Optimize and focus resources and investments

##### 2H 2020–2021

**2**

##### Lead >

**Strengthen reputation as the #1 technology provider in tolling and traffic management and presence in existing markets**

- Tolling: Maintain lead in DSRC, cost optimize single gantry solution, become first-mover in road user charging
- Traffic Management: Advance our central signal management and statewide traffic management platforms and expand stand-alone product enhancements

##### 2022–2023

**3**

##### Scale >

**Scale standardized solutions to selected new markets**

- Tolling: Target selected greenfield tolling markets and commercialize new RUC technology
- Traffic Management: Become a clear top 3 player in terms of revenues in North America and target selected international greenfield markets



# NEW MOBILITY CHALLENGES

1.5 million people move from rural to urban areas every week. 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 carbon emissions.

With increasing urbanization comes new and unprecedented mobility challenges:

**1.** We are stuck in traffic. Congestion is already a worldwide hassle, and the associated costs are high. For example, research conducted by INRIX shows that London citizens clocked a remarkable 227 hours stuck in congestion in 2018, costing each driver GBP 1680 annually.

**2.** We are killed by traffic. On a global level 1.35 million people lose their lives in traffic accidents each year. Even more people are seriously injured.

**3.** We are exposed to bad air quality caused by traffic. The World Health Organization has stated that 80 percent of urban populations are exposed to pollution levels that exceed guidelines. Traffic is a major reason for this. In short, transportation is no longer efficient, safe and clean.

The Intelligent Transportation Systems (ITS) industry provides solutions to address these three fundamental traffic challenges. Electronic tolling, advanced traffic management, smart traffic

controllers, ramp metering 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.

## A PROMISING FUTURE

The ITS industry will be heavily impacted by three disruptive forces: electrification, self-driving vehicles and ride sharing. Each force has the potential to dramatically change the future of transportation and revolutionize the future of mobility. Research conducted by the Boston Consulting Group shows that the impact of replacing conventional vehicles with electric "robo-taxis" will be profound: number of vehicles on the roads might decrease by almost





60 percent, number of accidents might go down by approximately 90 percent, and emissions from cars might be reduced by 85 percent.

There is no reason to doubt that transportation in the future will look very different than it does today. 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 fuel a constant stream of smart mobility innovations, we tend to overestimate the effect of technology in the short term and underestimate the effect in the long run. For example, replacing almost 1.3 billion conventional cars and commercial vehicles with electric vehicles will take time. Similarly, changing private car ownership attitudes and making ridesharing the preferred transport mode for urban citizens will take time.

#### HOW TO GET THERE

In Q-Free we are "technology optimists". We believe that ITS is essential to sustained urban growth and quality of life. 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 work to support a future where smart and green robo-taxis (or something else) have replaced

today's vehicle fleets. However, we also offer mobility solutions that can be implemented with great benefits today and help cities bridge the gap between where they actually are now and where they want to be.

**“We want to change the movements of life by offering solutions for efficient, safe and environmentally-friendly transportation.”**

Our breadth of sensors, software systems and domain know-how put us in a favorable position. We can offer stand-alone tolling/congestion charging, traffic management and intersection control systems that will immediately reduce traffic jams, accidents and carbon emissions. Moreover, we can give our customers insights and better tools to address mobility challenges across transport modes and public bodies. We can achieve this by collecting data from various sensors and sources and presenting the data in new and innovative ways to facilitate faster and better decision-making.

#### SUMMARY

Effective and efficient transportation is a key requirement for sustainable urban growth. At 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 position that what is good for our company is also good for society. Knowing that as a company we help address one of the biggest global challenges humbles and inspires us.



# MEETING THE NEW REALITIES

All our decisions revolve around creating and providing sustainable technology solutions to help cities and urban communities around the world.

## TOPICS

**URBANIZATION:**  
Cities under pressure

**ENVIRONMENT AND CLIMATE:**  
A global challenge

**MOBILITY:**  
The new era of transportation

**COMPETENCE:**  
The war for talent

## RISKS

> Limited ability to scale urban transportation infrastructure with increasing populations

> Increased greenhouse gas emissions and polluted cities

> Challenging to keep up with rapidly changing customer demands and new mobility solutions

> Increased competition in recruiting the “smart brains”

> Difficult to obtain expertise for complex technological challenges

## Q-FREE DOES

... Improve utilization of existing infrastructure through its advanced traffic management solutions

... Shift traffic from roads to mass-transit solutions through its tolling solutions

... Reduce road traffic through tolling/congestion charging solutions

... Invest heavily in R&D and new solutions

... Build long-lasting, scalable, and transformative partnership and explore new ways of working

... Offer a strong purpose and a strong social cause

... Offer competitive compensation and exciting career opportunities

... Build its solutions based on open standards and widely-used technology stacks and hence recruit from broad talent pools



# Q-FREE AND THE SUSTAINABILITY GOALS

Since its inception, Q-Free has been a major contributor to resolving the challenges of modern transportation.

Still, more action is required. In 2019, we moved away from a portfolio based on business segments to structuring our offerings into three purpose-based programs: Q-Flow, Q-Clean, and Q-Safe.

Our next step is to use these programs as an accelerator for incorporating our selected Sustainable Development Goals (SDG's) into our strategy. The chosen goals are:

- SDG 3: Good health and well-being
- SDG 8: Decent work and economic growth
- SDG 9: Industry, innovation and infrastructure
- SDG 11: Sustainable cities and communities

These goals fit our vision, mission, values, market position, current strategy, and identity perfectly, and are not only guiding stars for us: They are also a confirmation that there is consensus in what we view as important when building a new and better world for all.

With time we may expand our approach and incorporate additional goals as we learn and grow.

We aim to focus and measure our contribution towards the achievements of the SDGs and continue to create sustainable business opportunities. At the same time, we will secure the long-term future of our business by demonstrating our ambitions to our stakeholders and by securing that society continues to give us the license we need to operate.

Our open approach to technology platforms and partnerships will continue to be central to our way of working. Q-Free cannot drive the enormous transformation that is needed to achieve the SDGs alone, and will collaborate with ambitious partners and clients to shape the next generation of traffic solutions.

## UNIVERSAL CALL TO ACTION

The Sustainable Development Goals – shorthand as “SDGs” and also known as the Global Goals – were adopted by all United Nations Member States in 2015 to mobilize all countries to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

The 17 goals are integrated – that is, they recognize that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.

With the launch of the SDGs, improved traffic solutions were stated as a global focus area, aiming to provide all citizens with access to safe, affordable and sustainable transport by 2030, while reducing the number of global deaths and injuries from road traffic accidents by half by 2020. Q-Free's operations are directly contributing to these global goals.





# SUSTAINABLE VALUE CREATION

In the following pages we present our programs – Q-Flow, Q-Clean and Q-Safe – in relation to our sustainability goals, our mission and supporting projects and pilots.



## History

- Prime mover in traffic technology since 1984
- Business: Developing and providing traffic technology solutions
- Culture: Value driven. Innovative. Market demand oriented. Technology. Resilient.



## 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.

## Values

Excellence/Passion/  
Innovation/Collaboration

## Sustainability goals:

Our focus as technology partner  
3: Good health and wellbeing  
8: Decent work and economic growth  
9: Industry, innovation, and infrastructure  
11: Sustainable cities and communities



## Q-Flow

Regional Freeway Management and Advanced Traffic Management (ATMS) Corridor Management Traffic Signal Operations and Management Electronic Toll Collection

## Q-Clean

Congestion Charging and Road User Charging Urban Geofencing Lane Closure Management

## Q-Safe

Incident Detection and Management Wrong-Way Applications Connected Intersections Enforcement Solutions



## Society

- Optimize how people and goods move
- Make roads and travel safe
- Stimulate sustainable transportation customers

## Quality

- Proven and innovative solutions

## Employees

- Exciting work
- Career options
- Equality and diversity

## Shareholders

- Value creation
- ROI
- Investment in future solutions

# SOLUTIONS & PROGRAMS

Together we create sustainable cities where people and goods safely flow through traffic infrastructure.



## Q-FLOW

### OPTIMIZE HOW PEOPLE AND GOODS MOVE

- Regional Freeway Management and Advanced Traffic Management System (ATMS)
- Corridor Management
- Traffic Signal Operation and Management
- Electronic Toll Collection



## Q-CLEAN

### STIMULATE SUSTAINABLE TRANSPORTATION

- Congestion Charging and Road User Charging
- Urban Geofencing
- Lane Closure Management



## Q-SAFE

### MAKE ROADS AND TRAVEL SAFE

- Incident Detection and Management
- Wrong-way Applications
- Connected Intersections
- Enforcement Solutions (ALPR, Tachograph)



# OPTIMIZE HOW PEOPLE AND GOODS MOVE



Q-FLOW

The best-in-class countries have citizens that waste “only” 20 hours a year in traffic, while many countries see two and three times as much time lost. Time that should have been spent at home with family and friends or at work creating value.

Imagine a world without congestion, where free-flowing traffic has led to both better air quality and reduced driver

frustration. Through development and implementation of Intelligent Traffic Technology, Q-Free has for many years played an important role in addressing these worldwide societal challenges. Our tolling and traffic management solutions have proven again and again that they have a significant positive impact on traffic flow.

In 2019, Q-Free collaborated with partners and clients all over the world, moving towards a common goal of reducing and eliminating congestion, from Australia to Thailand, Spain, Chile, North America, and Scandinavia.

**“Imagine a world without congestion where free-flowing traffic has led to both better air quality and reduced driver frustration.”**



## HOW WE WALK THE TALK

> **Process management:** Our robust management system and culture of continuous improvement, verified through the ISO 9001 certification process, ensure the quality of our products and project deliveries

> **Employee Engagement:** In our employee survey conducted in Q3 2019, 4 out of 5 team members ranked themselves as highly motivated and engaged. Q-Free hired its first Employee Engagement Manager in 2019. This to work even more systematically with the entire employee journey, and to remain attractive as an employer.



# Q-FLOW CASES FROM OUR PORTFOLIO

## **MULTI-LANE FREE FLOW, GREAT BELT BRIDGE, DENMARK**

In 2019, Q-Free delivered an upgrade to the tolling system at the Great Belt Bridge in Denmark, which greatly improved the traffic flow at the tolling lanes. Opened in 1998, the Great Belt Bridge crosses the strait between the Danish islands of Zealand and Funen. Since its first day of operation, the bridge has included a tolling system, which allows electronic payment by a DSRC tag or manually using cash or a credit card. In all cases, vehicles are stopped by a barrier in the lane until payment is complete.

The bridge serves an average of 35000 vehicles per day, with peaks of up to 52 000. An upgrade of the bridge's road tolling system was essential to cater to the increased traffic volumes and to speed up the flow and throughput. The operator at the Great Belt Bridge (A/S Storebælt) selected Q-Free to implement this upgrade and decided

to retain barriers as a guarantee of payment. However, with the new Q-Free tolling system time spent waiting at the tolling station has been reduced and traffic flow has improved. The capacity of the tolling system has increased by 50 percent, which comes from the Q-Free solution converting some manual lanes into Express Lanes and the successful implementation of the video-based Pay-by-Plate solution, which currently has 500 000 accounts. Today, 80 percent of all passages use the Express lanes.

“The implementation of the upgraded tolling system at the Great Belt Bridge in Denmark, has enhanced the flow capacity through the tolling gates, considerably. Especially through the introduction of Express lanes with automatic payment for tag and number plate subscribers, an increased allowed speed of 50 km/h has improved the flow. Also the introduction of Stop & Go lanes (Card & Cash) has increased capacity and decreased the need for

staff by introducing a contactless card terminal and self-service cash machine. To increase customer service and toll assistants' safety most manned support of our customers will be remote from our surveillance room.” says Ole Lykke Christensen, COO at Sund & Bælt and responsible for Tolling Operations

## **ELECTRONIC TOLLING COLLECTION (ETC), FAST LANES, BANGKOK, THAILAND**

The city of Bangkok is one of the three most polluted cities on the planet. The fine particulate matter PM2.5 index reaches three times the recommended level of safe breathing from the World Health Organization two months a year. The main reason for the pollution is traffic congestion. At Q-Free, we have the right solution to reduce the wait time and improve air quality at tolling gates. The implementation of our ETC fast lanes has seen a reduction of the PM2.5 pollution by a factor of five. Moreover, the wait time at the toll gate plaza was





reduced from 15 seconds to 3 seconds. Q-Free has installed 200 fast lanes citywide, each with a throughput of 1 200 cars per hour – serving a total of 240 000 cars per hour and 5.7 million cars per day. By reducing the wait time from 15 to 3 seconds per traveler a total of 420 000 hours are saved per year.

#### **ELECTRONIC FERRY PAYMENT COLLECTION, NORWAY**

Q-Free has helped improve the flow at ferry harbors in Norway by replacing manual lane payments with highly-effective automatic payment systems. Q-Free will deliver automatic systems at 15 ferry connections with a total of 32 harbors. The new automatic payment systems are already operational at three ferry crossings in Norway and the rest will be installed before 2022.

The new Q-Free automatic payment systems allow vehicle owners to pay for ferry crossings without stopping, using an on-board transponder and automatic verification of vehicle details (licence plate number, vehicle class). Not only does this benefit the ferry passengers, but it also speeds up the whole boarding process and allows ferries to depart on schedule as well as operators to focus on their main task; safety.

#### **RIDESHARE BRISBANE AIRPORT, AUSTRALIA**

Q-Free has delivered an Electronic

Access Fee Collection System (EAFCS) to Brisbane airports for access control and charging, and to control congestion of commercial vehicles at the airport precinct.

In 2019, Q-Free installed the new “holding area” subsystem to the System (EAFCS) which is designed for Rideshare drivers, to provide an area where they are required to park before progressing to the passenger pick-up area. DSRC tags and readers, together with boom gates and variable message signs enable the system to enforce the correct queueing behaviour. The main objective of the holding area is to reduce congestion on roads around the airport terminals, currently caused by Rideshare drivers circling or parking illegally in the airport precinct.

Brisbane Airport was one of the first airports in Australia to enable ride share pick up services, including Uber.

#### **EVENT MANAGEMENT, GA, UNITED STATES**

In 2019, the New England Patriots triumphed over the Los Angeles Rams to take home their sixth Super Bowl victory. The event drew in over 70 000 attendees plus hundreds of athletes, media, and support personnel to ensure fans in the stadium and across the globe could enjoy the championship game.

Using Q-Free local and central traffic management systems, Georgia was able to safely and efficiently manage the enormous crowds of pedestrians and vehicles descending on the Mercedes-Benz Stadium in Atlanta, Georgia.

Leading up to the event, the Georgia Department of Transportation was able to refine their traffic management approach for stadium events, cutting travel times in half – reducing the average time to clear fans from the stadium from two hours to roughly 45 minutes. In addition to the travel time savings and reduction in harmful greenhouse gas emissions, this enables the city to minimize the number of police officers standing in roadways directing traffic.

#### **RAMP METERING, NC, UNITED STATES**

Ramp meters are traffic signals installed on freeway on-ramps to control the frequency at which vehicles enter the flow of traffic on the freeway. They are proven to reduce mainline congestion and overall delay, while increasing mobility through the freeway network and traffic throughput by breaking up platoons of vehicles entering the freeway and competing for the same limited gaps in traffic. This also helps reduce collisions and congestion, having a positive impact on safety and the environment.





Q-Free deployed the first four ramp meters in North Carolina to improve traffic flow along the heavily-traveled northern arc of the I-540 in the Raleigh area. The forecasted total net benefits of the Q-Free Intelight ramp meter solution is expected to exceed 7.5 million USD over the next decade.

**Decreased Delay Benefits**

- \$9.6 million in driver delay savings over 10 years
- 13 hours of delay savings over 10 years for the average daily commuter vehicle
- 8.5% annual decrease in vehicle hours of delay
- \$38 a year in delay savings for the average daily commuter vehicle

**Travel Time Reductions**

- 84% of commuters experienced shorter drive times
- Up to 2 minutes (7.3%) decrease in drive time per day for a commuter

**Congestion and Volume Improvements**

- 9% decrease in reoccurring congestion
- 12 minute decrease in congested period per day
- Overall increase in driver volumes

**“At Q-Free, we have the right solution to reduce the wait time and improve air quality at tolling gates.”**





# STIMULATE SUSTAINABLE TRANSPORTATION



Q-CLEAN

Greener and cleaner transportation is key to tackling the greatest challenge of our generation: climate change. A fortunate side effect of creating greener transportation is cleaner air, meaning intelligent traffic technology can impact both our quality of life locally and our global climate legacy.

As we finally see a stop in the growth of emissions from transportation across

the globe, road vehicles still account for roughly 18 percent of direct global CO<sub>2</sub> emission from fuel combustion. This must be reduced. Electronic tolling and congestion charging solutions allow for the collection of funds directly from those who pollute and make it possible to invest these funds in sustainable transportation infrastructure. Stockholm's congestion charging system is a great example of this. Smart traffic signal operations and freeway management solutions also help reduce emissions from unnecessary miles driven and stop-and-go traffic.

After 36 years as a leading provider of tolling technology, we are delighted to see that our fundamental solutions are still in high demand. At the same time, our

offering is in constant development. For example, in 2019 Q-Free was involved in the Geosum project in Norway, where Urban Geofencing, a kind of digital tolling zone, was applied to create low emission zones and incentivize drivers to make more sustainable transportation choices.



## HOW WE WALK THE TALK

- > **Aspect analysis:** The environmental aspect analysis, regularly reviewed by our managers, is our tool to monitor our environmental impact and document improvements.
- > **ISO 14001:** This certification is important to Q-Free in order to emphasize our positive role externally and ensure we “walk the talk” internally.

- > **Reduced air travels:** In the last three years we in Q-Free have lowered our CO<sub>2</sub> emissions by 299 tons through reduced air travels.
- > **Greener logistics:** Our supply chain has increased sea freight when possible instead of shipping by air. 5.7% of our On Board Units (OBUs) were shipped by sea in 2019, and the goal for next year is 10%. Environment has also become a more important part of the supplier evaluation.



# Q-CLEAN CASES FROM OUR PORTFOLIO

## CONGESTION CHARGING, STOCKHOLM & GOTHENBURG, SWEDEN

Q-Free has improved the air quality in Sweden with its systems for the Congestion Tax projects in Stockholm (2006) and Gothenburg (2013). Q-Free systems identify eligible vehicles in the cities using video technology, and the corresponding tax is levied depending on the time of day.

Research has verified that both systems contributed to reduced levels of congestion and better air quality. Since the launch of the Stockholm system the number of passages within the congestion zone has been reduced by approximately 20%, carbon dioxide emissions have gone down by over 3%, air-borne pollutants are down around 13% and nitrogen oxides (NOx) has been reduced by around 9%.

A report from 2019 declared that congestion taxing has contributed greatly to improved air quality in Stockholm.

## GEOFENCE, OSLO & TRONDHEIM, NORWAY

Q-Free is piloting a new system to make cities cleaner: The Geofence project in Norway. The pilot is using Q-Free technology in hybrid vehicles to inform users when they enter or leave a Low Emission Zone. The users can decide from information displayed on an in-vehicle smart phone whether to switch from petrol/diesel to electricity depending on their GPS position. Results have shown that this information has encouraged hybrid vehicle users to drive on electricity for 93% of the journey, up from 82%. We see a future in which informed users can take more conscious decisions that have a positive impact on air quality in our cities.

## TRUCK TOLLING, SLOVENIA

DARS d.d. awarded the consortium Q-Free ASA and Telekom Slovenije the contract for the Truck Tolling System on highways and expressways in Slovenia. The system called DarsGo has reduced

fuel consumption for heavy vehicles, and thus reduced CO<sub>2</sub> and other air pollutants (NOx and PM<sub>2.5</sub>). In the old toll system, the stopping and re-starting of vehicles at the toll station resulted in an increase in fuel consumption by an average of 0.65 liters per stop. In its first 9 months the new toll system reduced fuel consumption by 115,000 MWh or 414 TJ, which is 6% of the total fuel consumption of heavy vehicles in Slovenia. There have also been significant savings in emissions ranging from 5 to 7% of total heavy vehicle emissions:

- reducing carbon dioxide (CO<sub>2</sub>) emissions by 29,986,000 kg;
- a reduction of 84,000 kg of nitrogen oxides (NOX gases);
- reduction of particulate matter (PM<sub>2.5</sub>) by 1700 kg.



# MAKE ROADS AND TRAVEL SAFE



Q-SAFE

In journeys, as in all aspects of life, safety comes first. When we are safe we can enjoy our life, our travels, and our local communities. At Q-Free we never stop innovating; we never stop making new partnerships – stern in our belief that the better and more available we make intelligent traffic technology, the more impact we can have.

The need for traffic technology is critical.

Road traffic is the main cause of death for people aged 18–29 years old, killing 1.35 million people every year and impacting the lives of millions more. In their 2018 report on road safety, the World Health Organization stressed that the price paid for mobility is too high, especially when proven measures exist.

Citizens, authorities, governments, and organizations all share this sentiment, but sadly, we are nowhere near the results we aim for. The SDG 3.6 target of halving road traffic deaths by 2020 is not yet in sight – in fact the number is still growing.

We are, however, positioned to truly change the movements of life all over the world, as some of our projects from 2019 show.

**“Road traffic is the main cause of death for people aged 18–29 years old, killing 1.35 million people every year.”**



## HOW WE WALK THE TALK

> **ISO 45001:** Safety at work is a top priority for Q-Free, and in 2019 the management team decided to certify our Management system in accordance with ISO 45001.

> **Accidents:** 2019 was another year without accidents in Q-Free.

> **H&S Engagement:** Q-Free has many activities related to H&S and has well established H&S committees, all with regular meeting to discuss long-term and short-term risks and opportunities.

> **Security information Management:** We are investing time and effort in information security management, and are aiming for ISO 270001 certification for Q-free Norway in 2021.





# Q-SAFE CASES FROM OUR PORTFOLIO

## DIGITAL TACHOGRAPH VERIFICATION, POLAND

Human error is a major contributing factor to accidents on our roads. Accidents are less likely with alert and rested truck drivers. The digital tachograph has helped truck drivers to keep to the rules on driving-times and rest-periods for a decade, and in June 2019, the new EC legislation regarding the Smart Digital tachograph took effect. For all new heavy vehicles and buses registered after this time, the tachograph has to be smart, meaning that it has a DSRC interface to download the encrypted tachograph data from trucks and buses.

Q-Free supplies this secure DSRC interface that allows national authorities to do qualified pre-screenings and enforcement of vehicles in breach with the system rules. The Q-Free readers are also a useful tool for garages that are certified to qualify and calibrate the

Smart Tachographs. Q-Free offers a fit-for purpose DSRC reader portfolio to both garages and authorities.

There are high volumes of heavy vehicle traffic through Eastern Europe. Through good cooperation between Q-Free and the Polish company MATT, a wide range of garages in Poland are now able to securely verify the Smart Tachographs in trucks that come in for periodic controls or general checks.

The secure and smart monitoring of drivers' hours ensures that truck drivers adhere to the legal number of hours between rests, and exhausted drivers are kept off the roads.

## LANE CLOSURE MANAGEMENT, VA, UNITED STATES

In 2018, work zones in the United States claimed over 600 lives. In the state of Virginia alone, there were nearly seven crashes per day, injuring 1,256 people

and killing nine. Q-Free developers created a solution to make work zones safer. This solution automates processes previously done manually and improves the scheduling of work zone activities, lane closures, and special events.

Deployed in Virginia, Q-Free's lane closure and advisory management system – now known as LaneAware – allows the state to better manage adherence to business rules through automated work zone conflict management as well as local management and resolution of conflicts. LaneAware also allows agency staff to publicly share real-time information about work zone activities.

Within the first year, LaneAware effectively managed 43 693 valid lane closures and identified more than 45 709 initial conflicts – notifying agency personnel and helping to mitigate unnecessary risks to the motoring public.



# MORE PRIME-MOVER PROJECTS SINCE 1984

Four decades of prime-mover projects, improving the movements of millions of people in urban communities around the world.

## 1986

### > R&D contract for a new toll collection system, Norway

Q-Free's commercial adventure was initiated when the company (back then it was called Micro Design) engaged in an R&D program with the Norwegian Public Roads Administration for a new electronic toll collection system.

## 1993

### > World's first DSRC 5.8 GHz tolling system in Porto, Portugal

Q-Free passed a test of the DSRC 5.8 GHz-system in Portugal, which led to the Q-Free-system being installed at four tolling stations in Porto. This was the world's first test in accordance to the new international standard.

## 2006

### > Central System delivery in Norway

Q-Free won the contract with the Norwegian Public Road Administration (NPRA) to deliver the new central system for electronic toll collection (ETC). The contract replaced all of the central systems for ETC in Norway and created one national system (AutoPASS).

## 1988

### > World's first Multi-Lane Free-Flow system in Trondheim, Norway

Q-Free delivered the first free-flow tolling station in Norway and has been leading the way in DSRC development and standardization ever since.

## 1996

### > World's first DSRC 5.8 GHz Multi-Lane Free-Flow system, Austria

Q-Free delivered the world's first multi-lane free-flow system using DSRC 5.8GHz for the Ökopunkt system in Austria. The system was implemented to manage the environmental impact of heavy vehicles on the Austrian motorways. Q-Free delivered DSRC readers and On-Board Units, which detected passages made by trucks and recorded their use of allocated eco-points.

## 2009

### > GPS Truck Tolling system in Slovakia

Q-Free was awarded a large contract with Sky Toll for the delivery of the central system and enforcement systems for the GPS-based truck tolling system in the Slovak Republic. The project was unique by international standards as the state-of-the-art satellite tolling technology in addition to highways and expressways, also covered large sections of other major routes.

## 1990

### > Toll ring in Oslo, Norway

Q-Free implemented the Oslo Ring toll system in December 1990. The project was comprised of 18 tolling stations. Q-Free delivered on-board units, detection systems and data systems both at the lane level and central systems.

## 2004

### > World's first Multi-Lane Free-Flow tunnel system in Australia

Q-Free was subcontracted by BHBB JV to supply the Multi-Lane Free-Flow (MLFF) system, tag administration and casual user back-office system for the Sydney Cross City Tunnel. This was the first MLFF tolling system to be installed underground.

## 2009–2011

### > Major infrastructure upgrade in Portugal

In the period between 2009 and 2011, Q-Free received several major orders in Portugal to convert concessions from shadow tolling to fully operational Multi Lane Free Flow tolling systems. Q-Free also delivered a central back-office system to Ascendi.



Photo of Q-Free tolling installation in Trondheim, Norway, 1988.

## 2012

### > Statewide ATMS contract, Pennsylvania, USA

Q-Free was selected to implement PennDOT's NextGen Advanced Traffic Management System (ATMS) platform, using its innovative OpenTMS platform. Over the course of three deployment phases, Q-Free transitioned 11 District Traffic Management Centers over to a new, fully integrated and web-based statewide ATMS.

### > Electronic Toll System in Massachusetts, USA

Q-Free was awarded a multi-year, multi-million-dollar contract with MassDOT to provide a tolling system that would accurately read license plates and also process the images with a Manual Image Review (MIR) system. The system processes a peak volume of 600 000 license plate video transactions each day with a plate read accuracy rate of 99.5%, all while reading complex multi-state U.S. license plates.

### > Intelligent tolling solutions in Bangkok, Thailand

Q-Free won the contract with Don Muang Tollway to deliver tolling solutions comprising DSRC antennas and ALPR enforcement, cash/card/QR code payment solutions and a new IT infrastructure for the tollway from Central Bangkok to Don Muang Airport.

### > ALPR tolling contract in Florida, USA

Q-Free was chosen to deliver its Intrada ALPR system to help improve system-wide license plate recognition for Florida Turnpike Enterprise (FTE) tolling. In total, the Intrada system used by FTE is contracted to read a peak volume of 2.6 million daily license plate video transactions at a minimum automation rate of 73% with an accuracy read rate of 99.98%.

### > Automatic Customs Border Control, Norway

Q-Free started the delivery of ALPR-cameras for the NPRA, Norwegian Customs, and the Norwegian Police for more than 200 border control stations, international ferry ports and mobile police patrols for increased border control.

## 2013

### > Intrada for Far Eastern Electronic Toll Collection, Taiwan

Q-Free delivered its Intrada ALPR SW for the Far Eastern Electronic Toll Collection (FETC) ALPR back office. This encompassed a nationwide tolling scheme and processed over a million tolling passages daily.

## 2018

### > Connected Intersections contract, Georgia, USA

Q-Free deployed its innovative Connected Vehicle software, MAXTIME Connected Vehicle (CV), within a highly urbanized area broadcasting Signal Phase and Timing (SPAT) and other data to connected vehicles.

## 2016

### > Statewide ATMS contract, Virginia, USA

Q-Free started delivery of a fully centralized web-based solution accessible across five Transportation Operations Centers. The system is implemented on a high-availability, fully redundant architecture, including a secondary hosting site (in Atlanta, GA), designed for 99.99% annual uptime.

## 2019

### > Multi-Lane Free-Flow project in Queensland, Australia

Q-Free was awarded the contract with Transurban, one of the world's largest toll-road operators. The contract scope was to fully replace the existing tolling roadside equipment for Airportlink M7, Go Between Bridge, Clem7, and BP Larapinta in Queensland, Australia, with Q-Free's multi-lane free flow tolling solution.



# OUR Q-FREE TECHSPERTS

Why is it so exciting to be in the transportation industry right now? What are we most passionate about? Explore part of Q-Free's portfolio and competitive edge from behind the scenes. Visit <https://techsperts.q-free.com/> to explore our more of our powerful traffic solutions.



**BILL RAPP**  
Executive Vice President  
Tolling, USA  
[bill.rapp@q-free.com](mailto:bill.rapp@q-free.com)

## THE RISE OF TOLLING

North American traffic continues to grow each year – creating congestion and wear on the transportation infrastructure. Taxes, such as the gas tax, have proven to be an inadequate source of funding exemplified in the noticeable shortfalls in both state and Federal budgets, which are unable to fund the current North American transportation infrastructure in terms of maintaining existing infrastructure and building new transportation facilities.

Tolling systems exist so that user fees can raise revenue for public transportation authorities. The funds are then used to build, improve, manage, and maintain public transportation facilities like roads, bridges, and tunnels based on overall public policy and need.

Q-Free's Intrada is the most efficient and precise image processing solution for a tolling operation. It provides tolling authorities reduced expenses and maximized revenues with the ability to scale to any size toll traffic operation.

**"I would describe Q-Free's tolling solutions as accurate, reliable, and cost effective"**



**SILJE TROSETH**  
Vice President  
Asia & Pacific  
[silje.troseth@q-free.com](mailto:silje.troseth@q-free.com)

## TOLLING IN AUSTRALIA

Q-Free has made a bit of a "come-back" in Tolling in Australia. After 10 years of a locked market, it has finally opened up for us, and we recently won two significant projects. It is great to be given the opportunity to bid, and the responsibility to deliver great solutions. Now, the hard work starts!

**"Our customers get financing to new infrastructure and road network maintenance."**

Q-Free provides a range of state-of-the-art tolling solutions for urban and open roads. Our systems are innovative, flexible, modular, and non-intrusive to look at and bring immediate and long-term benefits to various stakeholders. Our customers get financing to new infrastructure and road network maintenance, while road-users are provided with safer and more efficient commutes and travels.



**MATS BJERKE**  
R&D Engineer, Norway  
[mats.bjerke@q-free.com](mailto:mats.bjerke@q-free.com)

## C-ITS

Cooperative Intelligent Transport Systems (C-ITS) focus on the communication and exchange of real time data between the infrastructure and the road users, such as cars, pedestrians, and cyclists. In short, C-ITS is the architecture and technology platform for future ITS services and provides the framework for all new ITS deployments. C-ITS opens up many possibilities and allows more dynamic traffic management, with safe, efficient, and environmentally-friendly transportation as the purpose of every application.

In 2019, Q-Free contributed in a large pilot as a part of the Geofencing for Smart Urban Mobility project. The concept is to exploit the combination of C-ITS and geofencing to develop new ITS services for traffic management and dissemination of information to road users directly in the dashboard. The results from the pilot project were promising, and we aim to further develop and improve what we like to call the Road as a Service.

**"We aim to develop and improve what we like to call the Road as a Service."**



**MARCO SINNEMA**  
Product Manager Intrada,  
Netherlands  
marco.sinnema@q-free.  
com

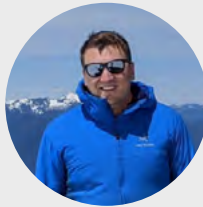
### CONQUERING THE WORLD

ALPR is detecting and identifying vehicles through camera and video analytics software. Q-Free is a world-leading supplier of this technology, and with the Intrada product portfolio, it can automatically read license plates from cars all over the world.

The primary role of ALPR in such systems is enabling automation in the video handling processes as well as bringing driver convenience in the urban landscape.

In the continuously moving traffic market, it's not only very important to keep up with the very best technology but also to grow the right partnerships to excel and progress. As such, Q-Free works in close cooperation with partners to address the needs of end-customers and assures a perfect fit through the ALPR portfolio in terms of features and performance.

**“ALPR is present in almost all kinds of traffic systems nowadays – ranging from tolling and law enforcement to infomobility, security and parking applications”**



**TOM STILES**  
Executive Vice President  
Urban, USA  
tom.stiles@q-free.com

### OPEN STANDARDS IN DRIVING INNOVATION

The primary goal of open standards is to provide interoperability between various products, and Q-Free is a leader in the industry for true support for open standards.

Open standards prevent product vendors from locking agencies into a single solution because the manufacturer-specific protocols or interfaces will not communicate or cannot be installed on other vendor's systems. System-wide replacements are often cost prohibitive for agencies and, therefore, the agency cannot mix the best products for various applications.

We have publicly posted our controller/device protocols online for all to download. Furthermore, we have produced and are leading an industry-wide #FREEtheMIBS advocacy campaign for vendors, customers, and experts to learn about and show their support for improved interoperability.

This open culture is the core of Q-Free's business model and has arguably had the biggest impact on our growth and success.



**EDWARD HIRST**  
Bid Manager, Norway  
edward.hirst@q-free.com

### CONGESTION CHARGING SCHEMES

Congestion Charging is a tool used by urban authorities to reduce the level of congestion caused by vehicles travelling inside the city. It is a means of introducing a decision-making process with drivers when they contemplate making a trip into the city.

Q-Free can offer a solution that gives a small footprint in cities, thus reducing any harmful impact on the cityscape. Our equipment can be mounted on poles, gantries, bridges to make the most of existing structures. The resulting reduction in congestion shows the society the benefits from better air quality as well as improved mobility.

The overall impact of our solution on society will depend on the nature of the scheme itself and how it is planned to be used by the authorities. This includes the size and location of the charge, the enforcement regime and how the revenue from the scheme will be used. Q-Free's solution is designed to follow the customer's requirements.

**“The aim of congestion charging is not to stop people from entering cities but to influence how, if and when they go.”**



# KEY FIGURES 2019

Profit & Loss Account (TNOK)	2015	2016	2017	2018	2019
Operating revenue	766 885	877 165	973 475	888 647	962 317
Cost of goods sold	203 271	281 489	278 493	227 191	304 556
Project contractor expenses	101 821	120 766	103 934	92 260	118 372
Other operating expenses	472 518	479 256	508 457	498 105	466 746
<b>EBITDA</b>	<b>-10 725</b>	<b>-4 346</b>	<b>82 591</b>	<b>71 091</b>	<b>72 643</b>
<b>EBIT</b>	<b>-150 294</b>	<b>-59 107</b>	<b>4 227</b>	<b>23 690</b>	<b>-54 381</b>
<b>PROFIT BEFORE TAX</b>	<b>-171 934</b>	<b>-55 621</b>	<b>-9 526</b>	<b>-1 119</b>	<b>-50 050</b>
<b>PROFIT / (-) LOSS FOR THE YEAR</b>	<b>-188 091</b>	<b>-53 419</b>	<b>-11 263</b>	<b>-8 079</b>	<b>-49 981</b>
GM %	60.2%	54.1%	60.7%	64.1%	56.1%
EBITDA %	-1.4%	-0.5%	8.5%	8.0%	7.5%
EBIT %	-19.6%	-6.7%	0.4%	2.7%	-5.7%
<b>Selected balance sheet items (TNOK)</b>					
Intangible fixed assets	581 991	512 451	470 876	477 213	415 079
Tangible fixed assets	43 854	33 661	22 367	25 420	78 785
Cash	65 349	101 474	113 633	89 700	31 051
Total assets	997 315	990 419	1 070 372	940 146	883 168
Equity	416 499	426 900	414 231	402 397	357 502
Gross interest bearing debt	150 000	229 457	328 691	215 521	232 022
<b>Key figures per share (NOK)</b>					
Earnings per share, ordinary	-2,79	-1,11	-0,23	-0,09	-0,56
Earnings per share, diluted	-2,79	-1,11	-0,23	-0,09	-0,56
Cashflow	-0,31	-0,96	-0,57	1,77	0,28
Book equity	5,97	5,67	4,64	4,51	4,01
Market cap as at 31.12 (MNOK)	683	703	718	687	607
Average no of shares	69 781	75 351	89 223	89 223	89 223
<b>Other key figures</b>					
Order backlog	710 202	1 404 548	1 049 477	1 128 178	1 080 426
Order Intake	1 009 722	1 575 143	615 510	972 080	950 195
Return on Invested Capital (ROIC)	0,77	0,89	0,91	0,95	1,09
Net interest bearing debt (NIBD)	84 651	127 983	215 058	125 821	200 971
Cash flow from operations	-21 916	-72 684	-50 714	158 283	24 662
Operational investment	60 211	31 941	30 113	43 480	34 485
Equity ratio	42%	43%	39%	43%	40%
Gearing	15.0%	23.2%	30.7%	22.9%	26.3%
Number of employees	429	416	415	385	396
Price / book value	1,64	1,65	1,73	1,71	1,70



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





# OUR RESULTS 2019

THE PRIME MOVER IN  
TRAFFIC TECHNOLOGY



# CORPORATE MANAGEMENT



**Håkon Volldal** (1976) | **President & CEO** | **Mobile: +47 977 19 973** | [hakon.volldal@q-free.com](mailto: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 152,500 shares and holds 869,970 share options in Q-Free ASA.



**Trond Christensen** (1971) | **Interim CFO** | **Mobile: +47 481 02 754** | [trond.christensen@q-free.com](mailto:trond.christensen@q-free.com)

Christensen has held the position as Interim CFO since November 2019. Christensen has several years' experience as a state authorized public accountant. Christensen also has more than 10 years of experience as CFO/CEO and has worked for companies such as Jotun, Komplet, Brubakken and Leonhard Nilsen & Sønner. Since 2014 he has worked with consulting and management for hire. Christensen is a Siviløkonom (four year programme in economics and business administration) from Norwegian Business School BI, and holds a Master in Accounting from Norwegian School of Economics (NHH) in Norway. Christensen is Norwegian citizen based in Trondheim and Oslo, Norway. Christensen has no shares in Q-Free ASA.



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

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



**Fredrik Nordh** (1974) | **EVP Tolling** | **Mobile: +46 70 625 80 46** | [fredrik.nordh@q-free.com](mailto: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) | **EVP Traffic Management** | **Mobile: +47 928 41 800** | [morten.andersson@q-free.com](mailto: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.



**Idunn Hals Bjelland-de Garcia** (1983) | **SVP Brand, Communication & Marketing** | **Mobile: +47 902 38 107** | [idunn.bjelland@q-free.com](mailto:idunn.bjelland@q-free.com)

Idunn Bjelland joined Q-Free as our Global Marketing & Communications Director in September 2017. Before joining Q-Free she held the position as Product Manager in Amedia AS and worked as Market Developer and Marketing Manager in Tomra Systems ASA. She has extensive experience with brand- and market oriented process management.

Bjelland holds a Master's degree in Corporate Social Responsibility from Universidad Regiomontana, Mexico, and a Bachelor's degree in Innovation and Entrepreneurship from Kristiania University College, Norway. Bjelland is based in Oslo, Norway and holds no shares in Q-Free ASA.



# BOARD OF DIRECTORS' REPORT 2019

The Q-Free Group

## THE Q-FREE GROUP

The Q-Free Group creates intelligent solutions for efficient, safe, and environmentally friendly transportation. Since its inception in 1984, Q-Free has delivered products and solutions in Europe, North and South America, the Asia Pacific region, the Middle East, and Africa. Headquartered in Trondheim, Norway, the company has offices in 16 countries and 396 employees. Q-Free ASA is listed on the Oslo Stock Exchange under the ticker QFR.

## SUMMARY AND HIGHLIGHTS IN 2019

The Board acknowledges that 2019 was a challenging year where Q-Free did not fully meet its financial targets. Several postponements of planned deliveries and low margins on some contracts awarded in 2018 negatively impacted the company's performance. However, the Board is pleased to see that even in a challenging year, revenues grew and the company delivered a positive EBITDA. After completing a restructuring in the second half of 2016, Q-Free has in the 2017–2019 period delivered 16 percent higher average annual revenues than in the 2014–2016 period. EBITDA has also been positive in three consecutive years for the first time since 2007–2009.

The highlights for 2019 include:

- 962 MNOK in revenues, up 8% YoY

driven by tolling, parking and inter-urban segments

- 73 MNOK in EBITDA (8% margin) compared to 71 MNOK in 2018
- 950 MNOK in order intake (excluding frame agreements) compared to 972 MNOK in 2018
- 1 080 MNOK in order backlog (excluding frame agreements), versus 1 128 MNOK at the end of 2018

## FINANCIAL REVIEW

(2018 in brackets)

### Revenues

Group revenues amounted to 962 MNOK (889 MNOK), up 8 percent compared to 2018. The increase was related to growth in the tolling, parking, and inter-urban segments.

### Gross profit

Gross contribution ended at 539 MNOK (569 MNOK). Gross margin in 2019 decreased by 3 percentage points compared to 2018. The reduction was driven by lower margins on tags and certain tolling system project deliveries.

### Impairment Considerations

Following a decision to divest the parking and infomobility assets, the company has conducted an impairment analysis and concluded that a write-down is necessary.

For parking, immaterial assets have been impaired by MNOK 32. In addition,

a 3 MNOK provision has been made for potentially obsolete inventory and other obligations. These considerations were included in the preliminary Q4–19 report.

After reporting the preliminary Q4–19 results, the company has obtained new information related to the market value of its infomobility assets. Based on this information, goodwill related to infomobility has been impaired by MNOK 26. This impairment was not included in the preliminary Q4–19 report.

### Operating expenses

Reported operating expenses amounted to 467 MNOK (498 MNOK), down 6% compared to 2018. Expenses were positively impacted by 9 MNOK in reduced pension obligations in Norway and negatively impacted by 4.5 MNOK in fees related to structural processes.

### Operating profits

Earnings before interest, taxes, depreciation, and amortization (EBITDA) ended at 73 MNOK (71 MNOK), up 3% compared to 2018. Excluding non-recurring items, Q-Free reported an EBITDA of 71 MNOK (89 MNOK) with a corresponding EBITDA margin of 7.4% (10%).

Reported operating profit (EBIT) was -54 MNOK (24 MNOK). Adjusted for non-recurring items and impairments, EBIT for 2019 ended at 2 MNOK (42 MNOK).

### Segment financial review

Tolling revenues ended at 536 MNOK (481 MNOK), a YoY increase of 11%, mainly due to project deliveries in Denmark and Australia and high tag revenues. EBITDA ended at 77 MNOK (84 MNOK), a year-on-year reduction of 8 %. The reduced EBITDA is due to lower margins on tags and low margin on certain project deliveries.

The Parking segment reported revenues of 71 MNOK (52 MNOK), a YoY increase of 38%. The increase was mainly due to a high share of pass-through subcontractor revenues with low or no margin in certain projects. EBITDA ended at - MNOK (-13 MNOK). Q-Free has decided to divest its parking assets. Following this decision, the segment has been charged 3 MNOK in provision for potentially obsolete inventory and related obligations.

Infomobility revenues ended at 78 MNOK (78 MNOK), flat versus 2018. EBITDA ended at 5 MNOK (10 MNOK). The segment has invested significantly in preparing for growth in the US and APMEA region. However, this has not yet resulted in significant sales increase.

Urban revenues came in at 143 MNOK (157 MNOK), a YoY reduction of 9%. The reduction was mainly due to delays in planned and expected high-margin project deliveries to 2020. Hence, EBITDA was also negatively impacted and ended at 4 MNOK in 2019 (30 MNOK). Despite a weak 2019, Q-Free still considers this segment to be very attractive going forward.

The Inter-Urban business reported revenues of 134 MNOK (121 MNOK), a YoY growth of 11%. The continued growth in revenues is explained by increased progress on the ongoing delivery of the statewide advanced traffic management system (ATMS) to Virginia Department of Transportation and other projects. EBITDA ended at 24 MNOK (16 MNOK), a YoY improvement of 50%.

### Net financial items

Full-year net financial items were 4 MNOK (-25 MNOK). 8 MNOK of the net finance costs in 2019 were related to a reduction of the remaining Intelight Inc. share purchase obligation compared to an expense of 22 MNOK in 2018. The reduction is explained by reduced financial performance in Intelight Inc. (see note 29).

### Profits

The reported pre-tax loss for 2019 was 50 MNOK (1 MNOK). The tax expense in 2019 ended at 0 MNOK (7 MNOK).

Having undertaken an assessment of the criteria under IAS 12, Q-Free has also for the 2019 accounts not included deferred tax assets in Norway related to tax losses carried forward of 52 MNOK (50 MNOK) for the period 2013–2019. In addition, the Group has not included net deferred tax asset of 118 MNOK (98 MNOK) as of 31 December 2019. Of this amount, 94 MNOK (72 MNOK) is related to tax losses carried forward, 6 MNOK (11 MNOK) to acquisitions in the US and 18 MNOK (15 MNOK) to other temporary differences.

### ANNUAL RESULTS AND YEAR-END APPROPRIATIONS

The result after tax in 2019 was a loss of 50 MNOK (loss of 8 MNOK). Earnings per share was -0.56 NOK (-0.09 NOK).

The Board of Directors proposes to allocate the parent company's loss for the year of NOK 50 million to retained earnings.

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

### CASH FLOW AND LIQUIDITY

Net cash flow from operating activities was 25 MNOK (158 MNOK). The significant decrease is mainly explained by the collection of 200 MNOK from the Slovenia truck tolling project in 2018. Q-Free has in general had a strong

focus on cash and working capital management during 2019 to improve cash flow from operations.

Net working capital amounted to 134 MNOK (138 MNOK) at the end of 2019. Net working capital as of 31.12.19 equaled 16% of the revenues generated in the last 12 months compared to 16% for the corresponding period as of 31.12.18.

Net cash flow from investment activities was -80 MNOK (-67 MNOK). The change versus 2018 is explained by a payment of MNOK 45 for acquisition of Intelight shares (23 MNOK). Reference is made to note 29 for more details. Investment in PP&E has been reduced from MNOK 43 in 2018 to MNOK 35 in 2019.

Net cash flow from financing activities was -3 MNOK (-117 MNOK). The significant YoY change is due to repayment of project debt in 2018 related to the Slovenia truck tolling delivery.

See further comments below regarding subsequent events – financing.

### BALANCE SHEET

Total assets at the end of 2019 were 883 MNOK (940 MNOK). Total equity ended at 358 MNOK (402 MNOK). The equity ratio was 42% (43%).

Current liabilities amounted to 328 MNOK (298 MNOK) at the end of 2019. The remaining current part of the Intelight share purchase obligation is estimated at 33 MNOK (43 MNOK).

Non-current liabilities were 197 MNOK (240 MNOK). The non-current part of the Intelight share purchase obligation is estimated at 0 MNOK (25 MNOK). Other non-current liabilities amounted to 160 MNOK in debt to financial institutions and 37 MNOK in leasing liability.

Short term interest-bearing debt to financial institutions was 72 MNOK (20 MNOK) at year end. Available, unused credit facilities were 53 MNOK (84 MNOK) at the end of 2019.



**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.

**ORGANIZATION****Personnel**

The Q-Free Group had 396 (385) employees at the end of 2019. The increase was related to ramp-ups in Australia and Thailand due to previously announced project wins.

Q-Free has established good working conditions in a non-discriminating, multicultural organization with operations in 16 countries. Sick leave remains at a satisfactory low level. The company is pleased to continue to report no serious lost time accidents or injuries during the year. Please refer to the separate Corporate Social Responsibility Statement in this Annual Report for a more detailed review of Q-Free's human rights, labor rights, working conditions, and safety and health policies and performance.

**Management**

Following the internal reorganization announced in February this year, the Group management team has been changed, and now consists of President & CEO, a CFO, a CTO, a SVP Brand, Marketing & Communication and two Executive Vice President heading the two divisions Tolling and Traffic Management. The two divisions have established their individual management teams. The purpose of this change is to ensure better focus on the customer and core business activities.

**Board of Directors**

The Board of Directors currently comprises four shareholder-elected members – Trond Valvik (Active Chair), Trine Strømsnes, Snorre Kjesbu, and

Ingeborg Molden Hegstad – and two employee-elected representatives – Olav Gulling and Rune Jøraandstad.

During 2019 the following changes to the Board were completed:

Trine Strømsnes was elected as board member by the shareholders at the Annual general meeting in May 2019. She replaced Ragnhild Wahl.

On January 14, 2020 Tore Valderhaug resign as chair of the Board.

**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, labor 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 [https://www.q-free.com/investor\\_relations/corporate-social-responsibility/](https://www.q-free.com/investor_relations/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 [https://www.q-free.com/investor\\_relations/corporate-governance/](https://www.q-free.com/investor_relations/corporate-governance/).

**RISK FACTORS**

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

**Project risk**

Q-Free handles demanding and complex large-scale project deliveries, which may involve considerable risks in terms of functionality, timing and cost. However, Q-Free has significant experience with and a good understanding of how these risks can be mitigated in contract negotiations and during the delivery period.

**Political risk**

In tolling and sometimes in urban and inter-urban projects Q-Free is exposed to political risk in the form of delayed or cancelled public tender processes and contract awards. Project implementation and payment are normally less risky as governments usually honor their obligations even if procurement processes can be affected by governmental regulations.

**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 70% of revenues was generated outside of Norway. Q-Free also runs businesses outside of Norway and buys a substantial share of required equipment abroad, with payment in foreign currencies which somewhat mitigates this risk. The net foreign currency exposure in 2019 was mainly related to EUR (EBITDA) and USD, EUR and GBP (Assets/Equity).

Q-Free aims to reduce its liquidity risk by holding sufficient cash and credit facilities at any time to be able to finance its operations and planned investments. The Board of Directors assesses the available liquidity at the end of 2019 to be insufficient to finance the company's ordinary operations,

operational investments for 2019 as well as the obligation to cover the estimated share purchase obligation for Intelight shares (SEE NOTE 29). As a subsequent event, Q-Free has therefore placed an 80 MNOK convertible bond and negotiated a new financial agreement with its main bank. The bond, and consequently also the new loan agreement, is subject to approval by the Extraordinary General Meeting scheduled for 18 May 2020. See section "Subsequent Events" for more information. The Board will continue to evaluate the Group's financial structure going forward and consider further measures to strengthen the financial position if needed.

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

#### **Risk of corruption**

Q-Free ASA operates in some geographies and industries exposed to corruption. Q-Free has established a Code of Conduct, as well as conducted a corruption risk analysis and revised and completed a program to increase awareness and limit our exposure. The risk has been reduced the last couple of years by exiting certain countries. For further information, please see the Corporate Social Responsibility report.

### **SUBSEQUENT EVENTS**

#### **New operational structure**

With effect from first quarter 2020 the segment reporting will be changed from five segments to two divisions. Tolling continues as a separate business area. Urban will be integrated into a new Traffic Management business area. Q-Free will seek to divest the Parking and Infomobility businesses, and consequently these units will be classified as discontinued operations/ assets held for sale as of Q1 2020.

#### **Impairment of goodwill related to infomobility segment**

In the preliminary Q4-19 report, Q-Free

announced an impairment of MNOK 32 in Parking assets related to the decision to seek divestment of the business area.

The Infomobility segment will also be classified for divestment. Based on updated expectations and information about the market value of the assets held for sale, Q-Free has decided to make an impairment of Infomobility-related goodwill of MNOK 26. This impairment was not included in the preliminary Q4-19 report. See further comments in note 14.

#### **New financial agreement with main bank**

Subject to completion of the convertible bond offering described below, Q-Free's main bank Nordea Bank has agreed to provide additional financing and revise the covenant structure to ensure that the Company is able to meet its financial obligations. The new added facility amounts to 82 MNOK and is partly guaranteed by GIEK as part of the Norwegian government's COVID-19 support packages. Furthermore, the entire bank engagement is prolonged to June 2022 and has a new covenant structure with improved operational headroom in the coming quarters. The new covenant structure has a holiday until Q4-2020. At the end of Q4-2020 the covenant structure requires 12M reported EBITDA to exceed MNOK 30 and pr. end of Q1-2021 12M rolling EBITDA should exceed MNOK 45. Starting Q2-2021, covenant is based on measurement of leverage ratio (NIBD (excluding convertible bond) / EBITDA) that should not be higher than 3.50 in Q2-2021 before being reduced quarterly by 0.25x until a normalised level in Q1-2022. In addition, there is a minimum equity ratio covenant of 35%, where equity ratio is defined as equity plus subordinated convertible bond divided on total assets.

#### **Convertible bond offering to strengthen liquidity**

To further strengthen its operational liquidity and fulfil applicable conditions

under the new financing agreement with Nordea Bank, Q-Free successfully placed subordinated unsecured bonds due 2023 convertible into new and/or existing shares of the company with a total size of NOK 80 million.

The Bonds will bear interest at 6 months NIBOR + 4.00% percentage points per annum with deferral optionality, have a tenor of three years and an initial conversion price of NOK 4.3669 equal to a premium of 25% over the volume weighted average price of the Shares on the Oslo Stock Exchange the 22 April 2020 of NOK 3.4935. The Bonds will not be listed.

Subject to approval by an extraordinary general meeting of the Company, completion of the Bond issue is expected to take place on 19 May 2020. The extraordinary meeting is scheduled for 18 May 2020.

#### **Effect of COVID-19 pandemic**

Q-Free has been impacted by the COVID-19 pandemic. Early on, Q-Free introduced travel restrictions and requested all employees who could work from home to do so. Some physical offices were later completely closed to reduce the risk of spreading the virus. Q-Free is diligently following the situation and will act in accordance with advice from relevant authorities. The company generates most of its revenues from local and central governments and is therefore not directly exposed to the private sector challenges. Nevertheless, the company expects to be negatively impacted by a slowing economy and strict regulations related to travel, which reduces sales activities and ongoing project work. The main financial risks for the company are related to transactional revenues from toll road traffic in Norway, delayed revenue recognition on ongoing tolling and traffic management projects, and potential delays on product deliveries due to component shortages and long lead times. Adverse fluctuations in currency-rates (especially NOK vs EUR and USD) might also affect future



balance-sheet values. Q-Free has established emergency task-forces on different levels of the organization that continuously monitor the situation and consider relevant measures to deal with potential challenges.

### OUTLOOK

The growing traffic technology market presents Q-Free with numerous attractive opportunities. However, capital and resources must be channeled towards segments where Q-Free has distinct competitive advantages and can achieve the highest returns. Despite divestments of 3 businesses (Prometheus, Traffiko and Elcom) and exit from 6 markets (Brazil, South Africa, Malta, Serbia, Indonesia and Malaysia)

during the past 3 years, Q-Free's business scope has been broad.

To fully benefit from the positive market momentum Q-Free therefore aims to further simplify its portfolio. The company will seek to divest its parking and infomobility assets and focus on tolling and traffic management. The latter will be a combined urban and inter-urban business driven by the growing demand from customers for integrated ATMS and signal processing solutions. An exit from parking and infomobility does not mean that these market segments are unattractive, but rather that Q-Free has stronger market positions and can deliver higher shareholder returns in tolling and traffic management.

In 2020 only, tolling and traffic management contracts with a combined value of more than 2 billion NOK will be awarded (unless timing is negatively impacted by the COVID-19 pandemic). Hence, the growth potential in Q-Free's two target segments is significant. A more focused approach will enable Q-Free to capture its fair share of these contracts and profitably scale its leading solutions in existing and to new markets. Reduced portfolio complexity also means that internal processes, systems, and resources can be streamlined. This will increase productivity and enable further cost savings.

*Trondheim, 28 April 2020*

**Trond Valvik**

(Sign.)

Acting Chair of the Board

**Snorre Kjesbu**

(Sign.)

Board member

**Ingeborg Molden Hegstad**

(Sign.)

Board member

**Trine Strømsnes**

(Sign.)

Board member

**Olav Gulling**

(Sign.)

Employee-elected Board member

**Rune Jøraandstad**

(Sign.)

Employee-elected Board member

# BOARD OF DIRECTORS



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

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



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

Ingeborg Hegstad has 20 years of experience from professional services, working mainly with leadership and management consulting. She spent 12 years in McKinsey & Company where she was Associate Partner working across the retail-, telecom- and IT sectors. Hegstad has also experience from Egon Zehnder, where she worked with executive search and coaching, organizational development and board advisory. Since 2015 Hegstad has been a partner in the consulting company Imsight, offering strategy and leadership advisory to executives, teams and organizations. She served as Board Director of Cxense ASA in 2017-2019.

Hegstad holds a Master of Business and Administration from Norwegian Business School BI (2000). Ingeborg Molden Hegstad resides in Oslo, Norway. Hegstad owns indirectly through Imsight AS 24,600 shares in Q-Free ASA.



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

Snorre Kjesbu is the Executive Vice President, Head of Product Design Creation & Fulfillment in Bang & Olufsen (B&O), where he is responsible for product creation and fulfillment. Before joining B&O he was the Vice President and General Manager for the Collaboration systems and Video Technology Group (CVTG) in Cisco, and Senior Vice President for Tandberg's Endpoint Product Division. Prior to Tandberg, he was at ABB responsible for wireless communications. Kjesbu and his team at ABB were awarded the Wall Street Journal Innovation award in 2002.

Kjesbu serves on the board of directors of several IT-companies, and holds more than 20 patents in the area of communications and video conferencing. He is frequently invited to speak at key events and was a guest lecturer at the Stanford Network Research Center at Stanford University. Kjesbu is a Norwegian citizen and resides in Oslo, Norway. Kjesbu has 39,505 shares in Q-Free ASA.



**Trine Strømsnes | (1969) Board member | Served since 2019**

Trine Strømsnes is Country Manager of Cisco Norway. Throughout her career in Cisco, Trine Strømsnes has held several roles within sales, business development, sales management and marketing. She was COO for Norway and Partner Leader for Norway and Northern Europe, responsible for developing and execution of Go-to-Market Strategy and tactics for Partner Operation. She has also been Director Marketing, responsible for developing and executing Marketing for Countries in Northern Europe, Regional Sales Manager for Public Sector in Norway, as well as Manager Sales Business Development in Public Sector team in Europe. Trine Strømsnes is an experienced leader with a passion for identifying innovative approaches to how technology can be utilised to create true value. Strømsnes is a Norwegian citizen, and resides in Oslo, Norway. Strømsnes 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.



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

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



# CONSOLIDATED FINANCIAL STATEMENTS

## Q-FREE GROUP

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

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## Q-FREE GROUP

Amounts in TNOK	Note	2019	2018
Revenue from customers	10	962 317	888 647
<b>Total operating revenue</b>		<b>962 317</b>	<b>888 647</b>
Cost of goods sold	16	304 556	227 191
Project contractor expenses	11	118 372	92 260
Employee benefit expenses	11,12,13	328 788	332 484
Other operating expenses	23	137 958	165 621
<b>Total operating expenses</b>		<b>889 674</b>	<b>817 556</b>
<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>		<b>72 643</b>	<b>71 091</b>
Depreciation of property, plant and equipment	24	29 128	10 168
Amortisation of intangible assets	15	39 564	36 955
Impairment of intangible assets and PP&E	15, 24	58 332	278
<b>Total depreciation, amortisation and impairment</b>		<b>127 024</b>	<b>47 401</b>
<b>Earnings before interest and taxes (EBIT)</b>		<b>-54 381</b>	<b>23 690</b>
Financial income	8	35 914	24 970
Financial expenses	8	-31 583	-49 779
<b>Net financial items</b>		<b>4 331</b>	<b>-24 809</b>
<b>Profit before tax</b>		<b>-50 050</b>	<b>-1 119</b>
Tax expense	22	69	-6 960
<b>Profit / (-) loss for the period</b>		<b>-49 981</b>	<b>-8 079</b>
Earnings per share	27	-0,56	-0,09
Diluted earnings per share		-0,56	-0,09



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## Q-FREE GROUP

Amounts in TNOK	Note	FY 2019	FY 2018
<b>Profit / (-) loss for the period</b>		<b>-49 981</b>	<b>-8 079</b>
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation differences, net of tax		4 852	-4 148
Net loss on available-for-sale FVOCI (IFRS 9) investments	30		71
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>4 852</b>	<b>-4 077</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>4 852</b>	<b>-4 077</b>
<b>Total comprehensive income for the period, net of tax</b>		<b>-45 129</b>	<b>-12 156</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## Q-FREE GROUP

Amounts in TNOK

<b>ASSETS</b>	<b>Note</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Deferred tax assets	22	15 564	14 795
Intangible assets	15	114 245	145 136
Goodwill	4, 14	285 270	317 282
Property, plant and equipment	1, 24	78 785	25 420
Non-current receivables		382	627
<b>TOTAL NON-CURRENT ASSETS</b>		<b>494 246</b>	<b>503 260</b>
Inventories	16	76 143	71 996
Contract assets	4, 10, 17	103 957	82 320
Accounts receivable	17	140 265	160 819
Other current assets	18	37 506	32 051
Cash and cash equivalents	19	31 051	89 700
<b>TOTAL CURRENT ASSETS</b>		<b>388 922</b>	<b>436 886</b>
<b>TOTAL ASSETS</b>		<b>883 168</b>	<b>940 146</b>



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## Q-FREE GROUP

Amounts in TNOK

EQUITY AND LIABILITIES	Note	31.12.2019	31.12.2018
Subscribed share capital		33 905	33 905
Share premium		578 307	578 307
Other paid-in capital		21 183	20 950
Retained earnings		-275 893	-230 765
<b>TOTAL EQUITY</b>		<b>357 502</b>	<b>402 397</b>
Non-current borrowings	7	160 000	196 000
Non-current financial liabilities	1,7,25	37 197	39 658
Deferred tax liabilities	22		4 261
<b>Total non-current liabilities</b>		<b>197 197</b>	<b>239 919</b>
Current borrowings	7	72 022	19 521
Advance payments from customers		4 253	14 339
Accounts payable		117 609	95 992
Taxes payable		3 531	2 758
Public duties payable		20 167	19 584
Current financial liabilities	1, 7	54 414	71 995
Other current liabilities	25	56 473	73 641
<b>Total current liabilities</b>		<b>328 469</b>	<b>297 830</b>
<b>TOTAL LIABILITIES</b>		<b>525 666</b>	<b>537 749</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>883 168</b>	<b>940 146</b>

Trondheim, 28 April 2020

**Trond Valvik**

(Sign.)

Acting Chair of the Board

**Snorre Kjesbu**

(Sign.)

Board member

**Ingeborg Molden Hegstad**

(Sign.)

Board member

**Trine Strømsnes**

(Sign.)

Board member

**Olav Gulling**

(Sign.)

Employee-elected Board member

**Rune Jøraandstad**

(Sign.)

Employee-elected Board member

# CONSOLIDATED STATEMENT OF CASH FLOWS

## Q-FREE GROUP

Amounts in TNOK	FY 2019	FY 2018
<b>Cash flow from operations</b>		
Profit before tax	-50 050	-1 119
Paid taxes	-8 034	-9 082
Depreciation and impairment of property, plant and equipment	29 128	10 446
Amortization and impairment of intangible assets	97 896	36 955
Accrued interest expense	-173	548
Net loss on available-for-sale (IAS 39) FVOPL (IFRS 9) investments		458
Share-based payment expense	348	322
<i>Working capital adjustments:</i>		
Changes in inventory	- 4 147	-6 543
Changes in contract assets	-26 738	144 834
Changes in accounts receivable	20 554	-30 332
Changes in advance payments from customers	-10 086	2 646
Changes in accounts payable	21 617	6 720
Changes in other items	-45 653	2 430
<b>Net cash flow from operations</b>	<b>24 662</b>	<b>158 283</b>
<b>Cash flow from investing activities</b>		
Investments in PP&E and intangible assets	-35 454	-43 480
Acquisition of a subsidiary, net of cash acquired	-44 765	-23 210
<b>Cash flow from investing activities</b>	<b>-80 219</b>	<b>-66 690</b>
<b>Cash flow from financing activities</b>		
Cash proceeds from borrowings	73 033	221 354
Repayment of borrowings	-56 533	-338 601
Other financial items	-19 801	
<b>Cash flow from financing activities</b>	<b>-3 301</b>	<b>-117 247</b>
<b>Effect on cash and cash equivalents of changes in foreign exchange rates</b>	<b>209</b>	<b>1 721</b>
<b>Net change in cash and cash equivalents for the period</b>	<b>-58 649</b>	<b>-23 933</b>
Cash and cash equivalents beginning of period	89 700	113 633
<b>Cash and cash equivalents end of period</b>	<b>31 051</b>	<b>89 700</b>



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Q-FREE GROUP

Amounts in TNOK	Subscribed share capital	Share premium	Other paid-in capital	Retained earnings	Available for-sale reserve FVOCI (IFRS 9)	Currency translation differences, net of tax	Total equity
<b>Total equity 31.12.2018</b>	<b>33 905</b>	<b>578 307</b>	<b>20 950</b>	<b>-310 984</b>		<b>80 219</b>	<b>402 397</b>
Profit / (-) loss for the year				-49 981			-49 981
Other comprehensive income						4 812	4 812
<b>Total comprehensive income for the period</b>	<b>33 905</b>	<b>578 307</b>	<b>20 950</b>	<b>-360 965</b>		<b>85 031</b>	<b>357 228</b>
Share-based payment expense			273				273
<b>Total equity 31.12.2019</b>	<b>33 905</b>	<b>578 307</b>	<b>21 223</b>	<b>-360 965</b>		<b>85 031</b>	<b>357 502</b>
<b>Total equity 01.01.2017</b>	<b>33 905</b>	<b>578 307</b>	<b>20 628</b>	<b>-302 905</b>	<b>-71</b>	<b>84 367</b>	<b>414 231</b>
Profit / (-) loss for the period				-8 079			-8 079
Other comprehensive income					71	-4 148	-4 077
<b>Total comprehensive income for the period</b>	<b>33 905</b>	<b>578 307</b>	<b>20 628</b>	<b>-310 984</b>		<b>80 219</b>	<b>402 075</b>
Share-based payment expense			322				322
<b>Total equity 31.12.2018</b>	<b>33 905</b>	<b>578 307</b>	<b>20 950</b>	<b>-310 984</b>		<b>80 219</b>	<b>402 397</b>

**NOTE 1 / Corporate information**

Q-Free ASA is a Norwegian public limited liability company and has been listed on the Oslo Stock Exchange under the ticker QFR since 2002. The Group financial statements consist of the Q-Free ASA parent financial statements, as well as the subsidiaries as listed in Note 26 Subsidiaries.

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

The Q-Free Group consolidated financial statements for the year ended 31 December 2019 were approved by the Board of Directors at its meeting on 27 April 2020.

**NOTE 2 / Basis for preparation**

Q-Free ASA has prepared the consolidated financial statements for 2019 in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

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

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

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

Presentation and classification of items in the financial statements is consistent for the periods presented.

**NOTE 3 / Significant accounting policies**

The following description of accounting principles applies to Q-Free's 2019 financial reporting, including all comparative figures. See Note 2 Basis of presentation and Note 4 Critical accounting judgments and new accounting policies for additional information related to the presentation, classification and measurement of Q-Free's financial reporting.

**Basis of consolidation**

The consolidated financial statements include Q-Free ASA (parent) and subsidiaries. Subsidiaries are defined as companies in which Q-Free, directly or indirectly, has control. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity. Where voting rights are relevant, the Group is deemed to have control where it holds, directly or indirectly, more than half of the voting rights in an entity, unless Q-Free through agreements does not have corresponding voting rights in relevant decision-making bodies. Subsidiaries are fully consolidated from the date control commences until the date control ceases.

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

**Business combinations**

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 Business combinations. Consideration is the sum of the fair values, as of the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the entity. For each business combination, the Group measures the non-controlling interest



### NOTE 3 / Significant accounting policies, cont.

in the acquiree as the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed and included in Other operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If a business combination is completed in stages, the fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, as the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Goodwill is not amortised, but is tested for impairment annually in the fourth quarter and more frequently if indicators of possible impairment are observed, in accordance with IAS 36 Impairment of Assets. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

Goodwill is monitored for internal management purposes on segment level.

#### Foreign currency

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

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

#### Financial instruments

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

A financial instrument is recognised when the Group becomes party to the instrument's contractual terms. Upon initial recognition, financial assets at amortised cost are measured at fair value plus transaction costs. Transaction costs relating to the acquisition of financial assets at fair value through profit or loss are recognised in profit or loss as they are incurred. An ordinary purchase or sale of financial assets is recognised and derecognised from the time an agreement is effective. Financial assets are derecognised when the Group's contractual rights to receive cash flows from the assets expire, or when the Group transfers the asset to another party and does not retain control, or transfers practically all risks and rewards associated with the asset.

Financial liabilities represent a contractual obligation by Q-Free to deliver cash in the future, and are classified as either current or non-current. Financial liabilities include borrowings and accounts payable. Financial liabilities are initially recognised at fair value including transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Financial liabilities

**NOTE 3 / Significant accounting policies, cont.**

are derecognised when the obligation is discharged through payment or when Q-Free is legally released from the responsibility for the liability.

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

**Revenue recognition**

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

**Employee benefit expenses and pension expense**

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

**Share-based compensation**

The cost of equity-settled share-based payment transactions with employees is measured at fair value at the grant date. The cost of equity-settled share-based transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The market value of granted share options are measured using a Black-Scholes model which takes into consideration the vesting period and conditions of the share options. The cumulative expense recognised for the equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense recognized for the reporting represents the change in total cumulative expense to be recognised measured at the beginning and end of the reporting period.

When options are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

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

**Intangible assets**

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

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

Expenses related to product development activities are capitalised if the product development activities comply with the defined criteria for capitalisation. Capitalisation assumes it is possible to



### NOTE 3 / Significant accounting policies, cont.

identify the intangible asset and demonstrate that it is probable that the development work will be successful, and that the future financial benefits attached to the intangible asset will accrue to Q-Free.

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

#### Property, plant and equipment

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

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

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

#### Leased assets – accounting periods prior to 1 January 2019

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

#### Implementation of IFRS 16 Leases

The Group has adopted IFRS 16 Leases from 1 January 2019 retrospectively using the modified transition approach in accordance with IFRS 16.C5(b) and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The leases recognized upon adoption of IFRS 16 consist of office building contracts and car rental agreements. All other leases relating to IT and other office equipment are of low value or short-term leases. The term for the office leases is mainly between 2-9 years and for the car rentals is 1-3 years as of 1 January 2019. Office leases in several group locations include CPI and/or step-rent adjustments to the lease payments on an annual basis and have extension options for additional multiple rental periods of 1-5 years in duration.

For leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*, the lease liability upon adoption of IFRS 16 is measured as the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The associated right-of use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet at 31 December 2018.

### NOTE 3 / Significant accounting policies, cont.

In applying IFRS 16 for the first time, the Group has used the following practical expedients as permitted by IFRS 16:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made when applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.
- The reclassifications and adjustments arising from the new leasing rules are recognized in the 1 January 2019 opening balance sheet.
- Total lease liability amounted to TNOK 64,143 as of 1 January 2019). Current lease liabilities are presented within Current financial liabilities, and amounted to TNOK 22,442 as of 1 January 2019. Non-current lease liabilities are presented within Non-current financial liabilities, and amounted to TNOK 41,701 as of 1 January 2019).
- Right-of-use assets are presented within Property, plant and equipment and amounted to TNOK 64,143 as of 1 January 2019).
- The recognized right-of-use assets relate to the following types of assets as of 1 January 2019:
- Office buildings TNOK 61,103.
- Motor vehicles TNOK 3,040
- EBIT and EBITDA for the 2019 increased with TNOK 1,264 and TNOK 21,993, respectively, as a result of the change in accounting policy. Interest expenses increased with TNOK 2,191 as a result of implementing IFRS 16. The net effect on profit for the period is TNOK -927

#### **Changes in accounting policies as of 1 January 2019 due to the implementation of IFRS 16 Leases**

In connection with the adoption of IFRS 16 as of 1 January 2019 the accounting policy for leases has been updated. The new policy is given below, and replaces the lease accounting policy given in the 2018 Annual Report:

In accordance with the implementation of IFRS 16, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group (the commencement date). Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured initially at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses, as well as any required adjustments due to a remeasurement of the lease liability.

### NOTE 3 / Significant accounting policies, cont.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an operating expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less at the commencement date of the lease. Low-value assets are relating to IT and other office equipment.

Comparison of Operating lease commitments 31.12.2018, in accordance with IAS 17, as shown in Note 25 compared with Lease Liability in accordance with IFRS 16.

Lease Commitments of commercial leases mainly on office buildings 31.12.2018 (See Note 25)	TNOK 78.942
Discounted value (average rate 4%, 5 year)	TNOK 64.884
Lease Liability associated with assets at low value/ short term lease	TNOK 0.741
Lease Liability 01.01.2019	TNOK 64.143

#### Impairment of non-financial assets

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

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

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

#### Taxes

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

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

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

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

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



### NOTE 3 / Significant accounting policies, cont.

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

#### Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying financial benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed on each balance sheet date and reflect the best estimate of the liability. When the passage of time is insignificant to the expense estimate, the provision will be recognized at nominal value. When the effect of time is significant, the provision will be the discounted present value of the estimated future payments required to settle the liability.

#### Inventories

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

#### Accounts receivable

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

#### Cash and cash equivalents

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

#### Statement of cash flows

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

#### Operating segments

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

#### Investment in other companies

Investment in other companies is classified as fair value over other comprehensive income (FVOCI). The fair value of the financial asset is level 3 as the investment is in a non-listed company. As of year-end 2018 this investment was determined to have a fair value of null and the change in fair value was recognized in the statement of profit or loss for 2018. This has not been restated in 2019. See also Note 30 Investment in other companies.

#### Discontinued operations

A business which is either sold or classified as held for sale and represents a separate major line of business or a separate major geographical area of operations is classified as a discontinued operation. Discontinued operations are presented separately from the result from continuing operations in the statement of profit or loss and the statement of cash flows. Assets and liabilities held for sale are measured at the lower of cost and fair value less costs to sell.

### **NOTE 3 / Significant accounting policies, cont.**

#### **Events after the balance sheet date**

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

### **NOTE 4 / Critical accounting judgements and changes in accounting policies**

#### **Critical accounting judgements and key sources of estimation uncertainty**

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

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

#### ***Complex project revenue and contract asset recognition***

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

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

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

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

#### ***Goodwill impairment testing***

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

#### **NOTE 4 / Critical accounting judgments and changes in accounting policies**

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

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

##### ***Deferred tax assets***

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

Management recognises a deferred tax asset based on a tax loss carryforward position only to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Management exercises significant judgement in assessing if it is probable that future income will be available to utilise the deferred tax asset. The assessment is based on the order backlog, prior years' profitability margins, and the progress and margins realised to date on existing on-going projects. Deferred tax asset recognition is reassessed at each reporting date and additional deferred tax assets are recognised only to the extent that convincing evidence exists to support that taxable profits will allow the deferred tax asset to be recovered.

The carrying value of recognised deferred tax assets as of 31 December 2019 was TNOK 15 564 and represents 13% of the total possible deferred tax asset that could have been recognised based on unutilised tax losses and estimated reversal of temporary differences (TNOK 14 795 as of 31 December 2018; 13% of the total possible deferred tax asset). For additional information related to taxes see Note 22 Taxes.

#### **New accounting policies adopted as of 1 January 2019**

##### ***IFRS 16 Leases***

The Group has adopted IFRS 16 Leases from 1 January 2019 retrospectively using the simplified transition approach in accordance with IFRS 16.C5(b) and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard.

The leases recognized upon adoption of IFRS 16 consist of office building contracts and car rental agreements. All other leases relating to IT and other office equipment are of low value or short-term leases. The average term for the office leases is 2-9 years and the average term for the car rentals is 1–3 years as of 1 January 2019. Office leases in several group locations include CPI and/or step-rent adjustments to the lease payments on an annual basis and have extension options for additional multiple rental periods of 1-5 years in duration.

For leases which had previously been classified as operating leases under the principles of IAS 17 Leases, the lease liability upon adoption of IFRS 16 is measured as the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The associated right-of use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet at 31 December 2018.

In applying IFRS 16 for the first time, the Group has used the following practical expedients as permitted by IFRS 16:



#### NOTE 4 / Critical accounting judgments and changes in accounting policies

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made when applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The reclassifications and adjustments arising from the new leasing rules are recognized in the 1 January 2019 opening balance sheet.

#### **IFRIC 23 Uncertainty over income tax treatments**

The group has adopted IFRIC 23 Uncertainty income tax treatments from 1 January 2019. The interpretation explains how to recognise, and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

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

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

#### NOTE 5 / Risk management

#### **Financial risk factors and risk management**

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

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

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

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

The Group currently has a low exposure to variability in the P&L and equity due to changes in fair value, as all financial instruments as of year-end 2019 are held at amortised cost. An overview of the Group's financial instruments is presented at the end of this note.

## NOTE 5 / Risk management, cont.

### **a) Credit risk**

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

Sovereign risk related to governments failing to honor their payment obligations may have increased in several markets, although Q-Free Group has not incurred any losses during 2019 or 2018 on government related accounts receivable in any of the existing markets .

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

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

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

All cash balances are held in bank accounts that have been evaluated to meet Q-Free Group credit risk policies and Group cash balances are evaluated as of 31 December 2019 to have low credit risk.

Additional information related to accounts receivable and an aging analysis as of 31 December 2019 and 2018 is provided in Note 17 Accounts receivable.

### **b) Currency risk**

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

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

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

As of 31 December 2019 the Group owns foreign currency derivatives to manage the currency risk in certain tolling projects. The currency exchange gains and losses from these derivatives are in the statement of profit or loss presented as financial income/financial expenses. As of 31 December 2019, the Group did not own any material foreign currency derivatives or have any material explicit economic hedges in place to manage currency risk.

Management is currently working to finalize a detailed currency risk strategy to address the exchange gains and losses from transactions in currencies other than the functional currency.

Table 5.1 and 5.2 give the split of revenues and balance sheet items in currencies, and table 5.3 and 5.4 give the estimated sensitivity to the average change over the last 2 years in the EURO, GBP and USD exchange rate as compared to the Norwegian krone for the Group's EBITDA (due to currency changes in the Group's monetary assets and liabilities), with all other variables held constant.

**NOTE 5 / Risk management****Table 5.1 The split of revenues and the balance sheet as of 31 December in currencies**

2019	Revenues		Assets	
	2019	2018	2019	2018
USD	31%	34%	48%	44%
EUR	18%	25%	19%	17%
GBP	5%	7%	15%	14%
NOK	29%	18%	7%	16%
OTHER	17%	16%	11%	9%

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

	2019				
	USD	EUR	GBP	NOK	OTHER
Deferred tax assets	0%	14%	56%	23%	7%
Intangible assets	31%	1%	18%	50%	0%
Goodwill	62%	15%	23%	0%	0%
Property, plant and equipment	19%	7%	5%	57%	12%
Non-current receivables	12%	0%	8%	0%	79%
<b>Total non-current assets</b>	<b>50%</b>	<b>11%</b>	<b>22%</b>	<b>16%</b>	<b>1%</b>
Inventories	41%	16%	20%	17%	6%
Contract assets	67%	-6%	1%	19%	19%
Accounts receivable	31%	35%	6%	12%	17%
Other current assets	15%	5%	2%	59%	18%
Cash and cash equivalents	77%	178%	10%	-268%	103%
<b>Total current assets</b>	<b>45%</b>	<b>29%</b>	<b>7%</b>	<b>-3%</b>	<b>22%</b>
<b>TOTAL ASSETS</b>	<b>48%</b>	<b>19%</b>	<b>15%</b>	<b>7%</b>	<b>11%</b>
Total non-current liabilities	0%	0%	0%	99%	0%
Total current liabilities	42%	3%	2%	46%	7%
<b>TOTAL LIABILITIES</b>	<b>28%</b>	<b>2%</b>	<b>1%</b>	<b>65%</b>	<b>5%</b>

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



**NOTE 5 / Risk management, cont.**

A 10 percent weaker/stronger NOK would normally lead to a 5-10 percent increase/decrease in EBITDA. Currency fluctuations would in addition affect the book value of assets and liabilities in Q-Free's foreign subsidiaries. A 10 percent weakening/strengthening in the value of the NOK would have increased/decreased equity by approximately TNOK 62,654 as per balance 31 December 2019. (This analysis assumes all other variables remain constant.) Such changes in value would however only have limited Profit and loss impact as they are mainly booked as translation differences against equity.

**Table 5.3 Currency risk sensitivity analysis – isolated currency rate changes impact on earnings before interest and taxes (EBITDA)**

Amounts in TNOK	2019		2018	
	Income	Total operating expenses	Income	Total operating expenses
10% currency change USD/NOK	29 612	-36 340	30 391	-32 450
10% currency change EUR/NOK	16 915	-7 792	22 194	-5 767
10% currency change GBP/NOK	4 814	-4 704	6 116	-4 595

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

Amounts in TNOK	2019		2018	
	Income	Total operating expenses	Income	Total operating expenses
10% currency change USD/NOK	27 863	-27 863	25 734	-25 734
10% currency change EUR/NOK	15 321	-15 321	13 058	-13 058
10% currency change GBP/NOK	12 475	-12 475	12 492	-12 492

**c) Liquidity risk**

Liquidity risk is the risk that Q-Free will not be able to meet its financial obligations as they fall due. The Group manages liquidity through an ongoing review of future commitments. Management's strategy is to hold sufficient cash, cash equivalents, or undrawn credit facilities at any time to be able to finance Group operations, planned investments and obligations. Surplus cash funds are deposited in banks, or invested in money market funds, with the purpose of securing an acceptable, low-risk return on the invested capital. Excess liquidity is placed in higher-interest bearing accounts, in order to earn a better return but still have quick access to these funds.

The Board of Directors emphasizes the impact the estimated Intelight share purchase obligation along with general working capital fluctuations might have on Q-Free's short term liquidity (see note 29 Non-current financial liabilities). To secure the Group's ability to fulfill the purchase obligation and strengthen the general liquidity, Q-Free has, as a subsequent event, placed an 80 MNOK convertible bond and negotiated a new financial agreement with its main bank. The bond, and consequently also the new loan agreement, is subject to approval by the Extraordinary General Meeting scheduled for 18 May 2020. See Note 31 Subsequent Events for more information. The Board will continue to evaluate the Group's financial structure going forward and consider further measures to strengthen the financial position if needed.

Additional information related to borrowings and undrawn bank overdraft as of 31 December 2019 and 2018 is provided in Note 7 Borrowings and Note 19 Cash and cash equivalents.

The tables below summarise the maturity profile of the Group's financial liabilities as of 31 December 2019 and 2018, based on contractual undiscounted payments, including estimated future interest payments.

**NOTE 5 / Risk management, cont.****Table 5.5 Financial liability maturity schedule**

Year ended 31 December 2019:	On demand	Less than 3 months	3–6 months	6–9 months	9–12 months	1–2 years	2–5 years	6 years – maturity	Total
Non-current borrowings						171 269			171 269
Non-current financial liabilities						3 555	33 642		37 197
Current borrowings	298	2 168	11 269	7 421	62 046				83 201
Accounts payable	24 551	93 058							117 609
Current financial liabilities		5 441	38 092		10 882				54 415
<b>Total financial liabilities</b>	<b>24 849</b>	<b>100 667</b>	<b>49 361</b>	<b>7 421</b>	<b>72 928</b>	<b>174 824</b>	<b>33 642</b>		<b>463 691</b>

Year ended 31 December 2018:	On demand	Less than 3 months	3–6 months	6–9 months	1–2 years	2–5 years	6 years – maturity	Total
Non-current borrowings	532	1 244	3 910	2 339	23 423	180 921		212 369
Non-current financial liabilities					28 687	8 184	2 787	39 658
Current borrowings		159	161	19 802				20 122
Accounts payable	16 952	79 040						95 992
Current financial liabilities		682	69 949	1 364				71 995
<b>Total financial liabilities</b>	<b>17 484</b>	<b>81 125</b>	<b>74 020</b>	<b>23 505</b>	<b>52 110</b>	<b>189 105</b>	<b>2 787</b>	<b>440 136</b>

**d) Interest-rate risk**

The Group is exposed to interest rate risk in the form of changing interest rates on borrowings with floating interest rates. The Group has interest-bearing debt and interest rate risk related to its long-term bank borrowings and short-term credit lines. Management emphasises predictability at all times if entering into any significant new interest bearing debt contracts, as changes in the interest level affect profit before taxes. Management regularly evaluates the need for active hedging of interest rate risk. As of 31.12.19 and 31.12.2018, the Group did not own any interest rate derivatives or have any explicit economic hedges in place to manage interest rate risk.

A change in interest rates of 100 basis points (bps) on the date of balance sheet recognition would have increased (reduced) the profit or loss by the amounts shown below. The analysis assumes that the other variables remain constant. The analysis was performed on the same basis as in 2018.

**Table 5.6 Interest rate risk sensitivity analysis**

Effekt of an interest rate increase of 100 bps:

Amounts in TNOK

	31. December	
Effect of an interest rate increase of 100 bps:	2019	2018
Investments with floating interest rates	548	908
Loans with floating interest rates	-2 535	-2 755
<b>Profit before tax</b>	<b>-1 987</b>	<b>-1 847</b>

**e) Financial instruments by measurement category**

The following tables lists all financial instruments by measurement category in accordance with IFRS 9 as of 31 December for 2019 and in accordance with IFRS 9 as of 31 December 2018.

**NOTE 5 / Risk management, cont.****Table 5.7 Financial instruments by category**

31 December 2019	Amortised cost	Fair value Level 3	Fair value Level 2	Total
<b>Financial assets</b>				
Investments in other companies				
Non-current receivables	382			382
Accounts receivable	140 265			140 265
Other current assets				
Cash and cash equivalents	31 051			31 051
<b>Total</b>	<b>171 698</b>			<b>171 698</b>
<b>Financial liabilities</b>				
Non-current borrowings	160 000			160 000
Non-current financial liabilities	37 197			37 197
Current borrowings	72 022			72 022
Accounts payable	117 609			117 609
Current financial liabilities	21 763	32 651		54 414
Other current liabilities	56 473			56 473
<b>Total</b>	<b>408 591</b>	<b>32 651</b>		<b>441 758</b>

31 December 2018	Amortised cost	Fair value Level 3	Total
<b>Financial assets</b>			
Investments in other companies			
Non-current receivables	627		627
Accounts receivable	160 819		160 819
Other current assets			
Cash and cash equivalents	89 700		89 700
<b>Total</b>	<b>251 146</b>		<b>251 146</b>
<b>Financial liabilities</b>			
Non-current borrowings	196 000		196 000
Non-current financial liabilities	630	38 245	38 875
Current borrowings	19 521		19 521
Accounts payable	95 992		95 992
Current financial liabilities			71 995
Other current liabilities		71 995	
<b>Total</b>	<b>312 143</b>	<b>110 240</b>	<b>422 383</b>

**The levels of fair measurement**

Financial instruments are categorised within different levels based on the quality of the market data for the individual instruments.

**Level 1: Valuation based on quoted prices in an active market**

Classified as level 1 are financial instruments valued by using quoted prices in active markets for identical assets or liabilities. Instruments in this category include listed shares and mutual funds, Treasury bills and commercial paper traded in active markets.

**Level 2: Valuation based on observable market data**

Classified as level 2 are financial instruments which are valued by using inputs other than quoted prices, but where prices are directly or indirectly observable for the assets or liabilities, including quoted prices in non-active markets for identical assets or liabilities.



## NOTE 5 / Risk management, cont.

### Level 3: Valuation based on other than observable market data

Classified as level 3 are financial instruments which cannot be valued based on directly observable prices. For these instruments other valuation techniques are used, such as valuation of assets and liabilities in companies, estimated cash flows and other models where key parameters are not based on observable market data. Included in this category are loans to customers and instruments where credit margins constitute a major part of adjustments to market value. The share purchase obligation for the shares in Intelight Inc. is included in this category in 2019 and 2018.

## NOTE 6 / Capital management

Q-Free's capital management policy is to support long-term growth in EBITDA and Cash Flow from Operations. The Board aims to maintain a healthy balance between liabilities and equity. Q-Free assesses its operational gearing (Net Interest Bearing Debt/Earnings Before Interest, Taxes and depreciation/ amortisation) and the Group's equity ratio. The Group's target is to have an equity ratio of 40% or more and maximum operational gearing of 3.0. The capital management measures may be subject to changes due to the financing of the company. See note 31 Subsequent events of changes in the first quarter of 2020.

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

The following table shows the change in Q-Free's capital management KPIs for 2019/as of 31.12.2019 as compared to prior year.

### Q-Free's capital management measures

KPI	2019	2018	% change 2018 to 2019
EBITDA	72 643	71 091	2%
NIBD	200 970	125 821	60%
Operational gearing	2,8	1,8	56%
Equity ratio	40,5%	42,8%	-7%
Cash flow from operations	24 662	158 283	-73%

## NOTE 7 / Borrowings

Type	Effective interest rate%	Maturity	31.12.2019	31.12.2018
<b>Non-current</b>				
Nordea – Term loan	5,02%	06.12.2021	70 000	100 000
Nordea – Term loan	5,07%	06.12.2021	34 730	
Nordea – Revolving Credit Facility (RCF) *	4,97%	06.12.2021	55 269	96 000
<b>Total non-current borrowings</b>			<b>160 000</b>	<b>196 000</b>
<b>Current</b>				
Nordea Term loan	5,02%	06.12.2021	15 000	
Nordea Term loan	5,07%	06.12.2021	10 000	
Nordea – Credit line **	3,62%	06.12.2021	47 021	19 521
<b>Total current borrowings</b>			<b>72 022</b>	<b>19 521</b>
<b>Total borrowings</b>			<b>232 021</b>	<b>215 521</b>

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

\*\* Credit line is renewed annually.

**NOTE 7 / Borrowings,  
cont.****Debt covenants as of 31.12.2019**

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

Net Interest Bearing Debt to EBITDA ratio ("Leverage Ratio") shall at no time be more than 3.00:1, and total Equity to Total Assets ("Equity Ratio") shall at no time be less than 35.00 percent. Q-Free was in compliance with its loan covenants as of Q4-19

The effective interest rate of total borrowings is dependent on whether Q-Free is compliant with its loan covenants, and if any revised covenant structures apply.

**New financial agreement with main bank**

Subject to completion of the convertible bond offering described below, Q-Free's main bank Nordea Bank has agreed to provide additional financing and revise the covenant structure to ensure that the Company is able to meet its financial obligations. The new added facility amounts to 82 MNOK and is partly guaranteed by GIEK as part of the Norwegian government's COVID-19 support packages. Furthermore, the entire bank engagement is prolonged to June 2022 and has a new covenant structure with improved operational headroom in the coming quarters. The new covenant structure has a holiday until Q4-2020. At the end of Q4-2020 the covenant structure requires 12M reported EBITDA to exceed MNOK 30 and pr. end of Q1-2021 12M rolling EBITDA should exceed MNOK 45. Starting Q2-2021, covenant is based on measurement of leverage ratio (NIBD (excluding convertible bond) / EBITDA) that should not be higher than 3.50 in Q2-2021 before being reduced quarterly by 0.25x until a normalised level in Q1-2022. In addition, there is a minimum equity ratio covenant of 35%, where equity ratio is defined as equity plus subordinated convertible bond divided on total assets.

**Convertible bond offering to strengthen liquidity**

To further strengthen its operational liquidity and fulfill applicable conditions under the new financing agreement with Nordea Bank, Q-Free successfully placed subordinated unsecured bonds due 2023 convertible into new and/or existing shares of the company with a total size of NOK 80 million.

The Bonds will bear interest at 6 months NIBOR + 4.00% percentage points per annum with deferral optionality, have a tenor of three years and an initial conversion price of NOK 4.3669 equal to a premium of 25% over the volume weighted average price of the Shares on the Oslo Stock Exchange the 22 April 2020 of NOK 3.4935. The Bonds will not be listed.

Subject to approval by an extraordinary general meeting of the Company, completion of the Bond issue is expected to take place on 19 May 2020. The extraordinary meeting is scheduled for 18 May 2020.

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

**NOTE 8 / Financial items**

Amounts in TNOK

<b>Financial items</b>	<b>FY 2019</b>	<b>FY 2018</b>
Interest income	134	1 106
Interest on loans and receivables		
Realised exchange rate differences*	9 462	21 594
Unrealised exchange rate differences*	8 723	2 270
Fair value change in contingent consideration and other liabilities**	17 596	
<b>Financial income</b>	<b>35 914</b>	<b>24 970</b>
Interest expense	-5 394	-2 730
Interest on borrowings	-7 763	-7 542
Realised exchange rate differences	-10 186	-18 236
Unrealised exchange rate differences	-3 786	4 965
Fair value change in contingent consideration and other liabilities **	644	-22 407
Other financial expense ***	-5 098	-3 829
<b>Financial expense</b>	<b>-31 583</b>	<b>-49 779</b>
<b>NET FINANCIAL ITEMS</b>	<b>4 331</b>	<b>-24 809</b>

\* The most significant items in realised and unrealised exchange rate differences arise in the Norwegian operations with MNOK 8 and MNOK 7 respectively.

\*\* Change in contingent consideration and other liabilities in 2019 is explained by a revised estimate on the liability for the purchase of the remaining shares of Intelight Inc. of TNOK 17,596 (Americas region – US). The estimated liability to acquire the remaining shares in Intelight Inc as at 31.12.19 is TNOK 32,651.

\*\*\* Other financial expenses increased with TNOK 2,191 as a result of implementing IFRS 16.

**NOTE 9 / Operating segments**

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

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

**TOLLING**

Tolls are used to fund and maintain transport infrastructure such as roads, bridges, and tunnels. They are also increasingly applied to reduce traffic congestion and/or climate emissions. Toll schemes have evolved from charging motorists a flat fee for passing a certain point, to today's schemes where charges can be differentiated based on time of day, distance travelled, and type of vehicle used. Q-Free offers DSRC tags and readers, ALPR and image based solutions, as well as electronic toll collection systems (Multilane free-flow, truck tolling, congestion charging) within this segment.

**PARKING**

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

**INFOMOBILITY**

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



**NOTE 9 / Operating segments, cont.****URBAN**

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

**INTER-URBAN**

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

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

The segment reporting will be changed from five to two segments effective first quarter 2020. See note 31 Subsequent events.

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

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

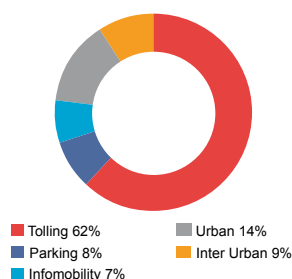
EBITDA is defined as income before financial income or expense, taxes, and any depreciation, amortisation and impairment. EBIT / EBITDA is used in the income statement as a summation line for other accounting lines.

Order intake is defined as total amount of all signed new contracts received in a defined period. Order backlog is defined as total amount of signed contracts to be delivered in future periods.

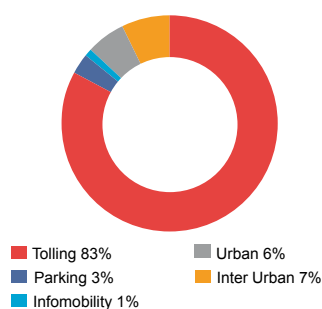
See also section on Alternative Performance Measures.

**NOTE 9 / Operating segments, cont.****Table 9.1 Operating segments**

Amounts in TNOK	Tolling		Parking		Info Mobility		Urban		Inter-Urban		Global functions		Totals 31.12.	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
EUROPE	401 360	376 160	25 065	26 266	67 059	68 506	439	1 164	43 564	21 255			537 486	493 350
APMEA	74 884	54 186	2 102	5 191	2 114	3 871							79 100	63 248
AMERICAS	60 213	51 103	43 630	20 252	8 904	5 323	142 710	155 932	90 274	99 439			345 731	332 049
<b>Revenues</b>	<b>536 457</b>	<b>481 448</b>	<b>70 797</b>	<b>51 709</b>	<b>78 078</b>	<b>77 700</b>	<b>143 148</b>	<b>157 096</b>	<b>133 838</b>	<b>120 694</b>			<b>962 317</b>	<b>888 647</b>
COGS	169 321	113 671	23 875	18 015	23 962	25 684	69 660	65 286	17 732	3 612			304 556	226 269
Contractors	77 551	59 876	22 144	6 908	1 374	1 529	5 600	6 745	11 703	17 200			118 371	92 257
<b>Gross Contr.</b>	<b>289 585</b>	<b>307 902</b>	<b>27 778</b>	<b>26 786</b>	<b>52 742</b>	<b>50 487</b>	<b>67 889</b>	<b>85 064</b>	<b>104 403</b>	<b>99 881</b>			<b>539 389</b>	<b>570 121</b>
Gross margin -%	54,0%	64,0%	39,2%	51,8%	67,6%	65,0%	47,4%	54,1%	78,0%	82,8%			56,0%	64,2%
Total OPEX	212 322	237 541	32 670	42 465	47 792	40 425	64 165	56 788	80 807	83 402	28 998	38 409	466 746	481 220
<b>EBITDA</b>	<b>77 263</b>	<b>70 361</b>	<b>-4 892</b>	<b>-15 679</b>	<b>4 950</b>	<b>10 063</b>	<b>3 724</b>	<b>28 276</b>	<b>23 596</b>	<b>16 480</b>	<b>-28 998</b>	<b>-38 409</b>	<b>72 643</b>	<b>71 091</b>
EBITDA margin	14,4%	14,6%	-6,9%	-30,3%	6,3%	13,0%	2,6%	18,0%	17,6%	13,7%			7,5%	7,9%
Depreciation	20 779	9 088	7 920	5 597	10 896	9 089	16 516	13 361	12 582	10 267			68 692	47 401
Impairment			31 883		26 449								58 332	
<b>EBIT</b>	<b>56 484</b>	<b>61 273</b>	<b>-44 695</b>	<b>-21 276</b>	<b>-32 395</b>	<b>974</b>	<b>-12 792</b>	<b>14 915</b>	<b>11 014</b>	<b>6 213</b>	<b>-28 998</b>	<b>-38 409</b>	<b>-54 381</b>	<b>23 690</b>
EBIT margin	10,5%	12,7%	-63,1%	-41,1%	-41,5%	1,3%	-8,9%	9,5%	8,2%	5,1%			-5,6%	2,7%

**Order intake split 2019**

Segment	Order intake		
	2019	2018	%
TOLLING	582 451	561 207	62%
PARKING	73 608	67 251	8%
INFOMOBILITY	68 750	80 429	7%
URBAN	136 199	178 515	14%
INTER URBAN	87 515	84 678	9%
<b>Total</b>	<b>948 523</b>	<b>972 080</b>	

**Order backlog split 2019**

Segment	Order backlog		
	2019	2018	%
TOLLING	894 730	866 017	83%
PARKING	34 268	31 016	3%
INFOMOBILITY	11 134	22 389	1%
URBAN	60 264	75 722	6%
INTER URBAN	80 029	133 034	7%
<b>Total</b>	<b>1 080 425</b>	<b>1 128 178</b>	

**NOTE 10 / Revenues**

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

- Product deliveries
- Service & Maintenance
- System projects

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

**Table 10.1 Disaggregation of revenue from contracts with customers****31 December 2019**

	TOLLING	PARKING	INFO MOBILITY	URBAN	INTER URBAN	Total
Amounts in TNOK	2019	2019	2019	2019	2019	2019
EUROPE	401 360	25 065	67 059	439	43 564	537 486
APMEA	74 884	2 102	2 114			79 100
AMERICAS	60 213	43 630	8 904	142 710	90 274	345 731
<b>Revenue from customers</b>	<b>536 457</b>	<b>70 797</b>	<b>78 078</b>	<b>143 148</b>	<b>133 838</b>	<b>962 317</b>
<b>At a point in time revenue recognition</b>						
Product deliveries (not related to projects)	183 402	4 837	47 846	86 814	4 539	327 438
<b>Total at a point in time revenue recognition</b>	<b>183 402</b>	<b>4 837</b>	<b>47 846</b>	<b>86 814</b>	<b>4 539</b>	<b>327 438</b>
<b>Over time revenue recognition</b>						
Service & Maintenance	143 622	7 478	1 532	33 020	5 686	191 338
System Projects (includes over-time product deliveries related to projects)	209 432	58 482	28 699	23 314	123 612	443 542
<b>Total over time revenue recognition</b>	<b>353 054</b>	<b>65 959</b>	<b>30 232</b>	<b>56 335</b>	<b>129 299</b>	<b>634 879</b>

**31 December 2018**

	TOLLING	PARKING	INFO MOBILITY	URBAN	INTER URBAN	Total
Amounts in TNOK	2018	2018	2018	2018	2018	2018
EUROPE	376 160	26 266	68 088	1 164	21 255	492 932
APMEA	54 186	5 191	3 871			63 248
AMERICAS	51 103	20 252	5 741	155 932	99 439	332 467
<b>Revenue from customers</b>	<b>481 448</b>	<b>51 709</b>	<b>77 700</b>	<b>157 096</b>	<b>120 694</b>	<b>888 647</b>
<b>At a point in time revenue recognition</b>						
Product deliveries (not related to projects)	176 546	14 193	32 574	138 300	4 847	366 461
<b>Total at a point in time revenue recognition</b>	<b>176 546</b>	<b>14 193</b>	<b>32 574</b>	<b>138 300</b>	<b>4 847</b>	<b>366 461</b>
<b>Over time revenue recognition</b>						
Service & Maintenance	139 406	6 034	5 487	974	9 229	161 130
System Projects (includes over-time product deliveries related to projects)	165 496	31 481	39 639	17 822	106 617	361 056
<b>Total over time revenue recognition</b>	<b>304 902</b>	<b>37 516</b>	<b>45 126</b>	<b>18 796</b>	<b>115 846</b>	<b>522 186</b>



## NOTE 10 / Revenues, cont.

### Revenue recognition

#### *Product deliveries*

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

#### *Service & Maintenance*

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

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

#### *System projects*

Q-Free offers system projects within the Tolling, Parking, Infomobility and Inter-Urban segments. Each project is tailored to the customer's needs and will vary from contract to contract. Some projects contain completely new concepts and products, for which Q-Free capitalizes internal development costs (see Note 15 Intangible assets).

The length of the projects also varies from project to project. However, the main characteristics for determining a customer contract and revenue recognition under the IFRS 15 requirements are the same for all projects and are as described below: Contracts with customers within System projects are set up in writing and are signed by both parties typically. Projects consist of the delivery of hardware, installations, software, Service & Maintenance, as well as options for additional deliveries.

- Options to acquire additional deliveries within the project are a separate performance obligation only if they provide a material right to the customer, i.e. if the price for the additional deliveries is significantly lower than the market price. If the option does not contain a material right, the option is not a separate performance obligation and is combined with the hardware, installations and software into one single performance obligation. Q-Free did not have any material rights in their 2019 contracts related to System projects.
- Hardware, installations and software together form one performance obligation, since they together secure a combined output, which is the project delivery, and the customer cannot benefit from each individual item on its own.
- Service & Maintenance are one separate performance obligation, since the customer can benefit from those services on its own or together with other resources already available and the promise is separately identifiably from other promises.

**NOTE 10 / Revenues,  
cont.**

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

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

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

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

**Significant ongoing projects**

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

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

Amounts in TNOK	2019
Total amount of the transaction price for all ongoing system projects not yet recognised	452 330

Management expects that 70% of the transaction price allocated to the unrecognised contracts as of 31 December 2019 will be recognised as revenue during the next financial year and 30% in the 2021 financial year. The amount disclosed above does not include variable consideration which is constrained.

**Contract assets and advance payments from customers**

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

**Contract assets**

Contract assets are recognised whenever a performance obligation is satisfied before consideration is received. Contract assets are assessed for impairment in accordance with IFRS 9. As of 31 December 2019, contract assets have been reviewed for impairment, and are impaired in an amount of TNOK 0.

**Advance payments from customers**

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

**NOTE 10 / Revenue, cont.** The following table shows the revenue recognised in 2019, with 2018 comparatives, that relates to advance payments from customers.

**Table 10.3 Revenue recognised from advance payments from customers.**

	Advance payments	Advance payments	Advance payments	
	31.12.2019	Recognised in the period 31.12.2018	Recognised in the period 01.01.2018	
Amounts in TNOK				
Tolling	2 221	9 944 12 165	-6 748 5 417	
Parking		1 251 1 251	-1 109 142	
Infomobility	2 032	-1 110 922	5 212 6 134	
<b>Total revenue recognised from advance payments from customers</b>	<b>4 253</b>	<b>10 085 14 338</b>	<b>-2 645 11 693</b>	

**NOTE 11 / Employee benefit expenses**

<b>Employee benefit expenses</b>		
Amounts in TNOK	<b>2019</b>	<b>2018</b>
Salaries	277 239	291 258
Social security costs	30 442	33 236
Pension costs (contribution plan)	12 205	13 754
Skattefunn (governmental tax relief)		
Capitalised personnel costs	-14 728	-16 932
Other personnel related costs	23 631	11 168
<b>Total</b>	<b>328 788</b>	<b>332 484</b>
Average number of employees	396	390
Average number of man-years	396	386

**Pension cost**

The Norwegian companies have a defined contribution pension plan for the Norwegian employees. As of 31 December 2019, 110 employees in Norway (31 December 2018: 114) are included in the defined contribution pension plan.

The parent company contributes with 5% of salaries between 0 – 7.1 G and 8% of salaries between 7.1 – 12 G to the defined contribution pension plan, total TNOK 4 911 in 2019 (2018 total TNOK 5,560).

**Conversion to defined pension plan**

The Parent company terminated the defined benefit plan per 31 December 2016, and all employees in Norway were from then included in the defined contribution plan. The 27 employees involved in this process were given a wage compensation for lost pension benefits. The cost of the compensation for the conversion to a defined contribution plan was estimated as the changes in fair value of future payments, using inputs such as compensation amount per employee, discount rate, annual growth rate in salaries, mortality rate, expected turnover and the possibility of future changes in pension compensation.

The wage compensation for lost pension benefits for the 27 employees involved was terminated on 31 December 2019. The provision for future payments as compensation for lost pension benefits on 31 December 2019 is TNOK 0 (2018 TNOK 16,427).

<b>Compensation for conversion to defined contribution plan</b>	<b>2019</b>	<b>2018</b>
Non-current financial liabilities		13 699
Current financial liabilities		2 728
<b>Total pension liability 31.12.</b>		<b>16 427</b>



## NOTE 11 / Employee benefit expenses

Expenses related to compensation for conversion to defined contribution plan	2019	2018
Change in provisions due to salary payments	-2 445	-2 682
Pension cost – change in estimated compensation amount	-13 982	777
Pension cost – change in discount rate	-3	-350
Financial expense – time effect at present value calculation	298	700
<b>Total expenses related to conversion from defined benefit plan</b>	<b>-13 687</b>	<b>1 127</b>

## NOTE 12 / Management and Board of directors remuneration

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

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

In addition to the fixed monthly salary, there should be an option to grant a bonus that will depend on the results of the company and on performance of the individual employee. The Board has therefore established a performance based bonus system for managers. For the CEO, such bonus shall be at most 75% of the fixed yearly salary, whereof at least 25% of the net bonus payment shall be used to buy shares in Q-Free ASA. For the other members of the management team, such bonus shall be at most 40% of the fixed yearly salary. The bonus shall in general terms be linked to Q-Free's fulfillment of further defined objectives for the period, result targets and/or other established objectives for the Company. These objectives shall each year be established by the Company's Board, and may be linked to financial results, results within research and development, quality objectives and/or further established individual result targets or objectives for the individual leader.

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

Q-Free has established a collective pension plan for its employees that also include the leading employees.

The Board furthermore specifies that there shall be a mutual period of notice of up to six (6) months for agreements made with leading employees. Any severance pay for leading executives may not exceed six (6) months, and must be submitted to the Chair of the Board for treatment. The severance pay for the CEO shall not exceed twelve (12) months pay, calculated from the CEO's resignation day. In case of mergers/acquisition, resulting in substantial changes in the managerial position, severance pay shall not exceed twelve (12) months, calculated from the CEO's resignation day. It is specified that the Company does not enter into employment contracts with leading employees on severance pay on their own voluntary termination. A limited exception is the CEO who, under certain conditions, has such a right by mergers/acquisitions.

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

The main principles for remuneration have not been changed in 2019. In October 2019, some changes were made in the management bonus scheme. The changes have not resulted in increased cost in 2019, and have as of today not resulted in increased liabilities for Q-Free Group.

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

**NOTE 12 / Management and Board of directors remuneration, cont.****Payments to senior management and Board of directors 2019:**

Amounts in TNOK	2019					Share-based payment expense *	Total
	Salary	Bonus	Director's remuneration	Contribution to pension plan	Other remuneration		
Tore Valderhaug, Chair of the Board <sup>1)</sup>			482				482
Trond Valvik, Vice Chair of the Board <sup>2)</sup>			331				331
Ragnhild Wahl, Board member <sup>3)</sup>			243				243
Snorre Kjesbu, Board member			256				256
Ingeborg Molden Hegstad, Board member			278				278
Trine Strømsnes, Board member <sup>4)</sup>							
Rune Jøraandstad, Employee elected Board member			84				84
Olav Gulling, Employee elected Board member			84				84
Heidi Finskas, Chair Nomination committee			45				45
Øystein, Elgan, Nomination committee			30				30
Fredrik Thoresen, Nomination committee			30				30
Håkon Rypen Volldal, Chief Executive Officer	3 427	1 533		76	12	11	5 059
Tor Eirik Knutsen, Former Chief Financial Officer <sup>5)</sup>	2 373	613		76	12	102	3 177
Per Fredrik Ecker, Former Senior Vice President APMEA <sup>6)</sup>	824			19	3		845
Morten Andersson, Senior Vice President AMERICAS	2 389	773		304	377	68	3 912
Fredrik Nordh, Senior Vice President EUROPE	2 001	614		437	114	90	3 257
Arvid Strømme, Vice President Service Line Tolling <sup>7)</sup>	89			6	5		99
Pål-Andre Almlie, Vice President Supply Chain Management	1 282	194		73	12		1 561
Jan-Erik Sandberg, CTO	1 363	146		76	12	32	1 629
Silje Troseth, Vice President APMEA <sup>8)</sup>	1 435	199		127			1 761
<b>TOTAL</b>	<b>15 183</b>	<b>4 072</b>	<b>1 863</b>	<b>1 194</b>	<b>547</b>	<b>303</b>	<b>23 163</b>

<sup>1)</sup> Tore Valderhaug served as Chair of the Board until 14.01.2020<sup>2)</sup> Trond Valvik serves as Acting Chair of the Board from 14.01.2020 until 28.05.2020<sup>3)</sup> Ragnhild Wahl served as Board member until 28.05.2019<sup>4)</sup> Trine Strømsnes serves as Board member from 28.05.2019<sup>5)</sup> Tor Eirik Knutsen resigned on 31.10.2019, and served Q-Free until 31.12.2019<sup>6)</sup> Per Fredrik Ecker served as SVP APMEA until 12.03.2019<sup>7)</sup> Arvid Strømme served as Vice President Service Line Tolling until 22.01.2019. The given amounts is related to this period.<sup>8)</sup> Silje Troseth served as Interim SVP APMEA from 01.04.2019

\* Share-based payment expense is the expense recognised in 2019. See note 13 for further information

**NOTE 12 / Management and Board of directors remuneration, cont.****Payments to senior management and Board of directors 2018:**

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

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

\* Share-based payment expense is the expense recognised in 2019. See note 13 for further information



### NOTE 13 / Share based compensation

#### SHARE BASED OPTION PROGRAMME FOR THE CEO – ESTABLISHED MAY 2018

The Parent company has implemented a five-year option program for the CEO that is distributed upon three tranches (which are vested over three years), and with a maximum number of share options of 869,970, where each tranche may be exercised two years after it has been vested. Each option gives the right to acquire one share in Q-Free at given strike price. Tranche one of 377,834 options is exercisable in the period from 3 June 2021 to 3 June 2024. Tranche two of 269,881 options is exercisable in the period from 3 June 2022 to 3 June 2024. Tranche three of 222,255 options is exercisable in the period from 3 June 2023 to 3 June 2024. The strike price for the first tranche is calculated based on average volume weighted price for the Q-Free share in the month prior to the allocation (that is NOK 7.94 per share), and a mark-up equivalent to 40% (that is, NOK 11.12 per share) for the second tranche and 70% (that is, NOK 13.50 per share) for the third tranche. The agreement includes clauses to limit the maximum profit. For each tranche, if Q-Free's share price exceeds NOK 40 at the time of exercise, the strike price is adjusted upwards equal to the difference between the price of one Q-Free share at the time of exercise and NOK 40 per exercised option. If a shareholder, company, business or a group (as per definition in the Norwegian Securities Trading Act § 2-5) acquires control of more than two thirds of the stocks and/or votes in the Company, and the Company is consequently delisted from Oslo Børs, each and all of outstanding options mature. This entails that the CEO can exercise each and all of his options in a period of 30 days from the date final decision of delisting is made. If the options are not exercised within this period, the options expire without any form of compensation.

There is a change with effect from 12 July 2019 in the shareoption program for the CEO where it is specified a right to adjustments of the Strike if the Company sells parts of the business (sale of shares owned by Q-Free ASA or defined assets), and all or part of the received sales proceeds are paid out as dividends. This right applies for both share based option program for leading executives and CEO.

The market value of granted share options is TNOK 89, and the cumulative expense recognised per 31 December 2019 is TNOK 35 (2018: TNOK 96). The weighted average share price included in the calculation of market value is NOK 7.8 and the volatility is 10.5%.

Specification of share option activity:	2019	2018
Granted share options 01.01	869 970	
Share options granted		869 970
Share options exercised		
Share options expired/terminated		
<b>Granted share options 31.12</b>	<b>869 970</b>	<b>869 970</b>
<b>Vested share options 31.12</b>	<b>377 834</b>	

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

#### SHARE BASED OPTION PROGRAMME FOR LEADING EXECUTIVES – ESTABLISHED MAY 2017

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

### NOTE 13 / Share based compensation, cont.

include clauses to limit the maximum profit. If the share price for one Q-Free ASA share at the time of exercise of share options is higher than NOK 40 per share, the strike price shall be adjusted up with the difference between the share price for one Q-Free ASA share for the above-mentioned time and NOK 40 per exercised share option.

There is a change with effect from 1 April 2019 in the share based option programme for leading executives. If a shareholder, company, business or a group (as per definition in the Norwegian Securities Trading Act § 2-5) acquires control of more than two thirds of the stocks and/or votes in the Company, and the Company is consequently delisted from Oslo Børs, each and all of outstanding options mature. This entails that the leading executives can exercise each and all of his options in a period of 30 days from the date final decision of delisting is made. If the options are not exercised within this period, the options expire without any form of compensation. Furthermore, with effect from 12 July 2019, it is specified a right to adjustments of the Strike if the Company sells parts of the business (sale of shares owned by Q-Free ASA or defined assets), and all or part of the received sales proceeds are paid out as dividends.

The market value of granted share options is TNOK 285, and the cumulative expense recognised per 31 December 2019 is TNOK 233 (2018: TNOK 325). 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:	2019	2018
Granted share options 01.01	1 392 053	1 392 053
Share options granted	402 438	
Share options exercised		
Share options expired/terminated		
<b>Granted share options 31.12</b>	<b>1 794 491</b>	<b>1 392 053</b>
<b>Vested share options 31.12</b>	<b>604 578</b>	

The share options split for leading Executives as per 31.12.2019:

Name	Position	Tranche	Number of options	Strike price	Agreement in force	Expires
Tor Eirik Knutsen*	Former CFO	Tranche 1	258 216	NOK 8.52	02.10.2017	31.01.2020
		Tranche 2	184 440	NOK 11.93	02.10.2017	31.01.2020
		Tranche 3	151 892	NOK 14.48	02.10.2017	31.01.2020
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
Jan Erik Sandberg	CTO	Tranche 1	174 781	NOK 8.01	01.04.2019	31.03.2025
		Tranche 2	124 844	NOK 11.21	01.04.2019	31.03.2025
		Tranche 3	102 813	NOK 13.62	01.04.2019	31.03.2025

\* Tor Eirik Knutsen resigned from his position as per 31.12.2019. Tranche 1 was at the date of resignation vested. The agreement regulated that vested options may be exercised within 1 month after resignation. The vested options were not exercised.

### SYNTHETIC BASED OPTION PROGRAMME – ESTABLISHED MAY 2015 AND EXPIRED 14 March 2019

The General meeting in May 2015 approved and granted the Board a right to enter into agreements for synthetic options with leading employees and key personnel to complete an incentive program with a maximal duration of four years. The agreements under this program were in force from 2015, and the program was then closed for further grants. Key employees participating in the synthetic-based employee incentive scheme was allocated a respective amount of options, divided into three

**NOTE 13 / Share based compensation, cont.**

periods of maturity. For the synthetic program, three vesting and exercise periods applies. Tranche one is vested upon and exercisable within 30 days after the reporting of Q4/2016. Corresponding vesting and exercise periods for tranche two and three is upon and after the reporting of Q4/2017 and Q4/2018, respectively.

The strike price for the options is the volume-weighted average market price for the Q-Free share in the month prior to the allocation. The strike price per share is NOK 13.07 for the whole programme. The employee's right to exercise the options shall, unless the Board in the specific instance decides otherwise, be divided into three tranches. Each tranche has its own maturity date. The employee may exercise the options within a 30-day time window in each such period, where the payment to the employee shall be the positive difference between the Strike price and the volume weighted average market price for the Q-Free ASA share in the relevant 30-day time window. Each synthetic option not exercised during tranche one and two may be allocated towards tranche two and three, respectively.

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

Specification of syntetic share option activity:	2019	2018
Granted synthetic options 01.01	280 000	280 000
Syntetic share options granted		
Syntetic share options exercised		
Syntetic share options expired/terminated	280 000	
<b>Granted syntetic share options 31.12</b>		<b>280 000</b>
<b>Vested and expired syntetic share options 31.12</b>	<b>280 000</b>	<b>186 667</b>

The synthetic share option program for management expired 14.03.2019:

Name	Position	Number of options	Strike price	Agreement in force	Expires
Per Fredrik Ecker	SVP APMEA	70 000	NOK 13.07	01.07.2015	14.03.2019

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

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

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

**NOTE 14 / Goodwill**

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

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



**NOTE 14 / Goodwill,**  
cont.**Cash generating units**

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

From 1 January 2018, Q-Free Group has reported the following segments:

- Tolling,
- Parking,
- Infomobility,
- Urban, and
- Inter-Urban.

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

CGU / Segment (Amounts in TNOK)	Goodwill 31 December 2019	Goodwill 31 December 2018 *
Tolling	37 535	37 048
Parking		10 106
Infomobility	16 214	42 110
Urban	120 596	119 031
Inter-Urban	110 925	109 486
<b>Total</b>	<b>285 270</b>	<b>317 782</b>

\* The difference from 31 December 2018 to 31 December 2019 is due to recognised impairment losses of TNOK 36,688 and currency exchange differences of TNOK 4,176 occurring upon consolidation.

**Recoverable amount**

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

Management targets for the 2019 testing of goodwill are based on the following inputs to the model:

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

The discount rate for each segment is defined as the weighted average cost of capital (WACC) for a similar business in the same business environment. For 2019 the WACC has been estimated to be between 8.6% and 9.1%.

Segment	WACC
Tolling	8,7%
Parking	9,0%
Infomobility	8,7%
Urban	8,6%
Inter-Urban	9,1%

**NOTE 14 / Goodwill,  
cont.**
**Goodwill impairment test**

Management has compared the recoverable amount per segment to the carrying amount of the goodwill per segment. For Tolling, Urban and Inter-Urban, the test resulted in the recoverable amount being higher than carrying amount of the goodwill. Therefore, the impairment test for goodwill shows no need for impairment for the abovementioned CGUs in 2019. Sensitivity analysis have also been performed showing a sufficient headroom in the assessment to give confidence that effects of a temporary slowdown in the segment or effects of Covid-19 situation does not alter the conclusion. For Parking, the test resulted in the recoverable amount being lower than carrying amount of the goodwill due to the current market conditions. The recognised impairment losses for the CGU is given in the table below. Based on updated expectations and information arising after the release of the preliminary full year 2019 results in 2020, management performed a revised test for Infomobility. The revised test resulted in the recoverable amount being lower than carrying amount of the goodwill due to the current market conditions. The recognised impairment losses for the CGU is given in the table below. See also note 31 Subsequent events.

Recognised impairment losses – Parking	2019	2018
<b>Goodwill 1 January</b>		
Acquisition through a business combination	10 106	9 674
Impairment losses	-10 239	
Exchange rate differences	133	432
<b>Goodwill 31 December</b>		<b>10 106</b>
<b>Recognised impairment losses – Infomobility</b>	<b>2019</b>	<b>2018</b>
<b>Goodwill 1 January</b>		
Acquisition through a business combination	42 110	40 310
Impairment losses	-26 449	
Exchange rate differences	553	1 800
<b>Goodwill 31 December</b>	<b>16 214</b>	<b>42 110</b>

**NOTE 15 / Intangible  
assets**

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

**NOTE 15 / Intangible assets , cont.**

	Capitalized development cost	Acquired intangible assets	Total
Acquisition cost 01.01.2019	171 381	145 938	317 319
Additions	28 971	22	28 993
Foreign currency translation effect	880	443	1 323
<b>Acquired cost 31.12.2019</b>	<b>201 232</b>	<b>146 403</b>	<b>347 635</b>
Accumulative amortisation and impairment 01.01.2019	66 320	105 863	172 183
Amortisation of the year	22 732	16 831	39 563
Impairment	21 644		21 644
<b>Accumulated amortisation and impairment 31.12.2019</b>	<b>110 696</b>	<b>122 694</b>	<b>233 390</b>
<b>Carrying value 31.12.2019</b>	<b>90 536</b>	<b>23 709</b>	<b>114 245</b>
Estimated lifetime	average 5 years	average 5 years	
Amortisation schedule	Straight line	Straight line	

**Capitalized development cost**

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

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

Capitalised development costs as of 31 December 2019 consist of product development that supports the Group to deliver fully integrated ITS projects, products, systems and services in the following segments:

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

As of 31 December 2019, the net carrying amount of capitalised development costs was TNOK 90,536 (2018: TNOK 105,061).

**Acquired intangible assets**

Acquired intangible assets consist of technology, customer relationships and order backlog based on fair value assessments at the date of the acquisition. The carrying value 31.12.19 consist of technology within the following segments:



**NOTE 15 / Intangible assets, cont.**

– Parking:	TNOK	0
– Infomobility:	TNOK	2,849
– Urban:	TNOK	16,666
– Inter-Urban:	TNOK	4,193

Q-Free identified impairment indicators regarding the technology within the Parking segment. The recognised impairment is given in the table above.

**NOTE 16 / Inventory and costs of goods sold**

Amounts in TNOK			
<b>Inventory specification:</b>		<b>2019</b>	<b>2018</b>
Raw material and semi manufactured products		46 007	43 705
Finished goods		27 605	28 877
Inventory for maintenance contracts		13 915	13 495
Provision for obsolescence		-11 384	-14 081
<b>Total</b>		<b>76 143</b>	<b>71 996</b>

All inventories are valued at the lower of cost and net realisable value. Change in inventory write-down to net realisable value recognised as an income for the Group TNOK 2,679 in 2019 (2018: TNOK 1,318), which is recognised in cost of goods sold.

Amounts in TNOK			
<b>COGS specification:</b>		<b>2019</b>	<b>2018</b>
Inventory transferred to customers		299 455	219 330
Freight, customs etc.		8 445	7 459
Warranty cost		-647	1 720
Write-down to net realisable value		-2 697	-1 318
<b>Total</b>		<b>304 556</b>	<b>227 191</b>

**NOTE 17 / Accounts receivable**

	<b>2019</b>	<b>2018</b>
Accounts receivable	140 581	161 910
Loss allowance	-316	-1 091
<b>Total</b>	<b>140 265</b>	<b>160 819</b>

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

Accounts receivable are denominated in different currencies spread across the different operating segments. The table below shows the distribution in NOK of the different currencies. There is no one single customer who represents a significant share of the account receivables. Accounts receivable are generally not guaranteed, and the Group continually evaluates the credit risk associated with the receivables. The balance in accounts receivable as of 31 December 2019 is the maximum exposure for the Group.

**NOTE 17 / Accounts receivable, cont.****Distribution by currency**

Amounts in TNOK	31 December 2019	31 December 2018
Amounts Receivables EUR	48 513	59 118
Amounts Receivables USD	43 373	43 148
Amounts Receivables GBP	7 769	8 337
Amounts Receivables SEK	3 974	7 950
Amounts Receivables AUD	5 483	8 807
Amounts Receivables NOK	16 927	16 779
Amounts Receivables other	14 226	16 680
<b>Total</b>	<b>140 265</b>	<b>160 819</b>

The Group measures the impairment loss on accounts receivable using a lifetime expected credit loss (ECL) model according to IFRS 9. To measure the expected credit losses, accounts receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected credit loss rates in the provision matrix are based on the payment profiles of sales over a period of 24 months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information based on macroeconomic factors affecting the estimated ability of the customers to settle the receivables. Management has identified the probability of customers' bankruptcy and geographic location of the customer to be the most relevant factors, and accordingly adjusts the historical loss rates appropriately.

\* Based on project progress, amounts older than 90 days are expected to be collected. Management's assessment is that the recognised loss allowance is sufficient to cover the carrying amounts of accounts receivables older than 90 days.

**Aging of gross trade receivables**

Amounts in TNOK	Total	Not due	< 30 days	30-90 days	60-90 days	>90 days
31 December 2019	140 581	101 081	16 281	3 887	1 833	17 499*
Loss allowance	-316					-316
<b>Net value 2019</b>	<b>140 265</b>					
31 December 2018	161 910	118 883	26 606	7 024	5 190	4 207
Loss allowance	-1 091		-229	-500		-362
<b>Net value 2018</b>	<b>160 819</b>					

**NOTE 18 / Other current assets****Other current assets**

Amounts in TNOK	2019	2018
Prepaid taxes	16 057	8 902
Outstanding public duties	-1 869	1 549
Prepaid rent	1 450	1 172
Prepaid software licenses	1 518	3 817
Prepaid insurance	1 482	2 737
Prepaid system project expenses	206	5 278
Other prepaid expenses	3 676	3 719
Other receivables	14 987	4 877
<b>Total</b>	<b>37 506</b>	<b>32 051</b>

## NOTE 19 / Cash and cash equivalents

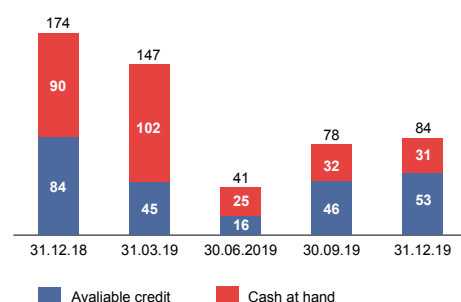
Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and the interest earnings at the respective short-term deposit rates.

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

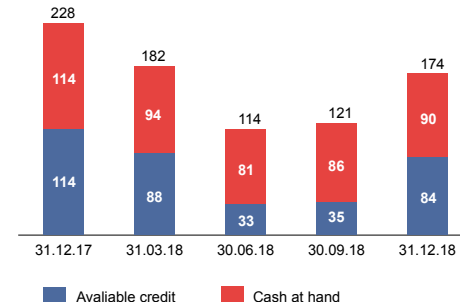
Liquidity funds		
Amounts in TNOK	<b>2019</b>	<b>2018</b>
Cash at banks and on hand	31 051	86 806
Money Market Funds		2 894
<b>Total cash and cash equivalents</b>	<b>31 051</b>	<b>89 700</b>

As of 31 December 2019, the Group had available TNOK 52,978 (2018: TNOK 84,478) of undrawn bank overdraft and TNOK 15,075 (2018: TNOK 34,248) of undrawn guarantee facilities in which all conditions precedent had been met.

**Cash and credit facilities development during 2019**



**Cash and credit facilities development during 2018**



## NOTE 20 / Accounts payable

Amounts in TNOK		
<b>Accounts payable</b>	<b>2019</b>	<b>2018</b>
Accounts payable USD	53 138	38 423
Accounts payable NOK	35 354	32 827
Accounts payable EUR	12 098	10 599
Accounts payable GBP	4 285	6 147
Accounts payable SEK	2 900	4 320
Accounts payable DKK	2 408	1 953
Accounts payable AUD	5 319	
Accounts payable other	2 107	1 723
<b>Total</b>	<b>117 609</b>	<b>95 992</b>

**NOTE 21 / Other current liabilities**

Amounts in TNOK		
<b>Other current liabilities</b>	<b>2019</b>	<b>2018</b>
Accrued wages (holiday pay and bonus scheme)	17 223	33 148
Warranty provisions (see specification for changes during the year)	12 508	13 155
Accrued expense	22 172	10 291
Restructuring provision *	914	13 460
Miscellaneous	3 656	3 587
<b>Total</b>	<b>56 473</b>	<b>73 641</b>

\* The restructuring provision totalling TNOK 13,460 in 2018 was related to close-down cost of PT Q-Free Indonesia (Jakarta operations).

**Warranty provision**

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

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

Amounts in TNOK	<b>Warranty provision</b>
Amount 01.01.18	11 435
Utilised during 2018	-1 242
Additions during 2018	2 962
<b>Total 31.12.18</b>	<b>13 155</b>
Amount 01.01.19	13 155
Utilised during 2019	-4 491
Additions during 2019	3 844
<b>Total 31.12.19</b>	<b>12 508</b>



**NOTE 22 / Taxes**

	2019	2018
<b>Total tax expense for the period</b>		
Taxes payable on this years profit for foreign companies	4 395	5 278
Adjusted allocated tax from last year		
Change in deferred tax for Norwegian companies	30	72
Change in deferred tax for foreign companies	-4 493	1 610
<b>Total</b>	<b>-68</b>	<b>6 960</b>
<b>Tax rate</b>	<b>NA</b>	<b>NA</b>
<b>Taxes payable for the year</b>		
Profit before tax	-50 049	-1 119
Permanent differences	64 755	-39 080
Change in temporary differences	-17 838	138 219
Utilisation of previously unrecognised tax losses	11 066	-92 574
<b>Basis for taxes payable</b>	<b>7 934</b>	<b>5 446</b>
<b>Specification of taxes payable</b>		
Taxes payable on this years profit, Norwegian companies		
Taxes payable on this years profit, foreign companies	4 394	5 278
Advance tax payment, foreign companies *	-11 588	-9 082
Carried forward tax compensation	-3 039	-2 342
Advance tax payment, foreign companies, reclassified to Other current assets	13 764	8 904
<b>Total taxes payable</b>	<b>3 531</b>	<b>2 758</b>
<b>Specification of deferred tax assets (-) / deferred tax liabilities (+)</b>		
<i>Differences evaluated to be offset:</i>		
Property, plant and equipment	-19 094	-9 766
Non-current receivables	3 201	2 326
Current assets	-5 274	-4 666
Liabilities	-1 295	-8 143
Tax losses carry -forward	-109 594	-86 518
Other differences	-2 189	-1 557
<b>Total</b>	<b>-134 245</b>	<b>-108 324</b>
<b>Unrecognised deferred tax assets</b>	<b>118 681</b>	<b>97 790</b>
<b>Net recognised deferred tax assets (-) / deferred tax liabilities (+)</b>	<b>-15 564</b>	<b>-10 534</b>
<b>Recognised deferred tax assets (-)</b>	<b>-15 564</b>	<b>-14 795</b>
<b>Recognised deferred tax liabilities (+)</b>		<b>4 261</b>
<b>Reconciling the tax expense</b>		
Earnings before tax	-50 049	-1 119
Calculated tax at domestic tax rate per country	-10 697	-4 247
Tax result permanent differences and tax rate difference	12 976	-8 875
Use of previously unrecognised loss carried forward (-) / Increase in valuation allowance **	-2 260	20 214
Adjusted allocated tax from last year	-87	-132
<b>Tax expense</b>	<b>-69</b>	<b>6 960</b>

\* Paid withholding tax in foreign subsidiaries.

**NOTE 22 / Taxes, cont.**

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

The carrying value of recognised deferred tax assets as of 31 December 2019 was TNOK 15,564 and represents 12% of the total possible deferred tax asset that could have been recognised based on unutilised tax losses and estimated reversal of temporary differences (TNOK 14,795 as of 31 December 2018; 13% of the total possible deferred tax asset).

Undertaken an assessment of the criterias under IAS 12, the Group has not included deferred tax asset in Norway related to tax losses carried forward of TNOK 52,076 as at 31 December 2019 (2018: 47,746). In addition the group has not included deferred tax asset of TNOK 118,681 as at 31 December 2019 for the Group (2018: 97,790). Of this amount, TNOK 93,694 (2018: 71,449) is related to tax losses carried forward, TNOK 6,255 (2018: 11,420) related to acquisitions in the US and TNOK 18,731 (2018: 14,921) is related to other temporary differences.

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

**NOTE 23 / Other operating expenses**

Amounts in TNOK		
Other operating expenses	2019	2018
External services	35 586	30 581
Travel expenses	25 354	25 046
Office expenses	21 283	42 470
Insurance	4 221	4 901
Freight	1 167	1 516
Rent machinery & tools	11 166	13 555
Marketing / promotions	7 933	11 259
Service & Maintenance	4 539	7 541
Operating materials	7 593	8 205
Credit losses	-673	1 672
Other	19 788	18 875
<b>Total</b>	<b>137 958</b>	<b>165 621</b>

**Project contractor expenses**

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

**Audit fees**

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

Category	2019	2018
Audit services	2 060	1 935
Other audit related services	13	206
Tax services		40
Other, non audit related services		184
<b>Total</b>	<b>2 073</b>	<b>2 365</b>

**NOTE 24 / Property, plant and equipment**

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

	Right-of-use-asset	Leasehold improvement	Project related equipment	Office equipment	Total
<b>Accumulated acquisition cost</b>					
Acquisition cost 01.01.2019	64 143	8 286	17 121	41 751	131 301
Additions	12 573	454	1 688	3 350	18 065
Acquisitions of a subsidiary					
Disposals					
Foreign currency translation effect		2	38	48	88
<b>Acquired cost 31.12.2019</b>	<b>76 716</b>	<b>8 742</b>	<b>18 847</b>	<b>45 149</b>	<b>149 454</b>
<b>Accumulated depreciation and impairment</b>					
Accumulated depreciation and impairments 01.01.2019		5 050	6 370	30 318	41 738
Depreciation of the year	20 728	718	3 009	4 668	29 128
Impairment of the year					
Accumulated depreciation disposals					
Foreign currency translation effect	-196			4	-192
<b>Accumulated depreciation and impairments 31.12.2019</b>	<b>20 532</b>	<b>5 768</b>	<b>9 379</b>	<b>34 990</b>	<b>70 669</b>
<b>Carrying value 31.12.2019</b>	<b>56 184</b>	<b>2 974</b>	<b>9 468</b>	<b>10 159</b>	<b>78 785</b>

Estimated lifetime	1-9 years	average 5 years	average 5 years	3-5 years
Depreciation schedule	Straight line	Straight line	Straight line	Straight line

The leases recognized upon adoption of IFRS 16 consist of office buildings contracts, TNOK 61.103, and car rental agreements, TNOK 3.040. All other leases relating to IT and other office equipment are of low value or short-term leases. The average term for the office leases is 2-9 years and the average term for the car rentals is 1-3 years as of 1 January 2019. See note 3 for implementation of IFRS 16 and note 25 for associated Lease liability.

## NOTE 25 / Lease commitments/Lease liability

### Operating lease commitments (Before implementing IFRS 16)

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 In accordance with IAS 17:

Terms	2019	2018
Amounts in TNOK		
Within one year		23 849
After one year but not more than five years		51 265
More than five years		3 828
<b>Total</b>		<b>78 942</b>

During the year ended 31 December 2018 the company recognised expenses in the income statement in respect of operating leases of TNOK 21,729.

As of 31 December 2019 the Group has no finance leases or any hired purchase contracts for various items of property, plant and equipment.

As of 31 December 2019 the Group has not entered into any contracts as lessor.

As of 31 December 2019 and 2018 there were no contingent liabilities.

Lease Liability In accordance with IFRS 16

Terms	2019
Amounts in TNOK	
As at 01.01.2019	64 143
Additional/Disposal	12 573
Payments	19 801
<b>Lease Liability 31.12.2019</b>	<b>56 915</b>

Current Lease Liability amounted to TNOK 21,763 and are presented within Current financial liabilities.

Non-current Lease Liability amounted to TNOK 35,152 and are presented within Non-Current financial liabilities.

### Guarantees

Q-Free Group obtains bank guarantees given to their customers, primarily for long-term projects. As of year-end 2019 the amount of guarantees is TNOK 76,959 (2018: TNOK 95,752). Payment of the guarantees by the bank is triggered upon the non-performance of Q-Free, primarily of the missing of milestones or failure to complete the project. The fees paid to the banks for these guarantees is included in Financial expenses.



**NOTE 25 / Lease commitments/Lease liability, cont.****Collateral****Book value of assets securing loans and guarantees:**

	2019	2018
Shares in subsidiaries	446 062	291 102
Cash and cash equivalents		
Accounts receivable	78 497	44 163
Contract assets	81 945	24 806
Inventories	48 626	17 895
Property, plant and equipment	18 289	12 936
<b>Total</b>	<b>673 419</b>	<b>390 902</b>

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

**NOTE 26 / Subsidiaries**

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

	Year acquired by Q-Free Group	Location	Primary segment	Ownership	Voting share	Functional currency
Q-Free Portugal Lda.	1997	Lisboa, Portugal	Tolling	100%	100%	EUR
Q-Free Australia Pty. Ltd.	1999	Sydney, Australia	Tolling	100%	100%	AUD
Noca Holding AS	2001	Trondheim, Norway	Tolling	100%	100%	NOK
Q-Free Sverige AB	2007	Stockholm, Sweden	Tolling	100%	100%	SEK
Q-Free Thailand Co Ltd.	2007	Bangkok, Thailand	Tolling	100%	100%	THB
Q-Free Netherlands BV	2009	Beilen, The Netherlands	Tolling	100%	100%	EUR
Q-Free Chile	2012	Santiago, Chile	Tolling	100%	100%	CLP
TCS International Inc. *	2012	Boston, USA	Parking	100%	100%	USD
Q-Free America Inc.	2012	San Diego, CA, USA		100%	100%	USD
Q-Free (Bristol) UK Ltd	2014	Weston Super-Mare, UK	Infomobility	100%	100%	GBP
Q-Free Traffic Design d.o.o.	2014	Ljubljana, Slovenia	Inter-Urban	100%	100%	EUR
Open Roads Consulting Inc. *	2014	Virginia, USA	Inter-Urban	100%	100%	USD
Q-Free Espana S.L.U.	2014	Madrid, Spain	Tolling	100%	100%	EUR
Q-Free France S.A.R.L.	2014	Paris, France	Parking	100%	100%	EUR
Intelight Inc. *	2015	Arizona, USA	Urban	75%	75%	USD
Q-Free LLC	2015	Moscow, Russia	Tolling	100%	100%	RUB
Q-Free Polska sp. z.o.o.	2016	Warsaw, Poland	Tolling	100%	100%	PLN
Q-Free Norge AS	2018	Trondheim, Norway	Tolling	100%	100%	NOK
Q-Free Denmark Aps	2018	Korsør, Denmark	Tolling	100%	100%	NOK

**Subsidiaries under liquidation:**

Q-Free América Latina Ltda.	1998	Sao Paulo, Brasil	Tolling	100%	100%	BRL
Q-Free Africa Ltd.	2010	Durban, South Africa	Tolling	74%	74%	ZAR
Q-Free Traffiko Ltd	2015	Valetta, Malta	Parking	100%	100%	EUR
PT Q-Free Indonesia	2012	Jakarta, Indonesia	Tolling	100%	100%	IDR
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur, Malaysia	Tolling	100%	100%	MYR

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

In 2015 Q-Free ASA, on behalf of Q-Free America (100% owned subsidiary) signed a share purchase agreement and a shareholders agreement to acquire 100 percent of the shares in the US traffic controller supplier, Intelight Inc over a five year period. The shareholders agreement and the amended bylaws provide control for the Group after signing these agreements. Based on this, the full activity of Intelight Inc. was consolidated in the Group accounts from 2015. The agreements is considered to give the Group present ownership interest of 100%, thus no non-controlling interest is recognised. See Note 29 Non-current financial liabilities for further information.

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

## NOTE 27 / Earnings per share

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

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

Amounts in TNOK	2019	2018
Profit for the year from continuing operations	-49 981	-8 079
Profit for the year on discontinued operations, net of tax		
Profit for the year	-49 981	-8 079
Weighted average number of ordinary shares	89 223	89 223
Weighted average of share options	2 555	2 215
Weighted average number of diluted shares	91 779	91 439
<b>Earnings in NOK per share from continuing operations</b>	<b>-0,56</b>	<b>-0,09</b>
<b>Diluted earnings in NOK per share from continuing operations</b>	<b>-0,56</b>	<b>-0,09</b>
<b>Earnings in NOK per share from discontinued operations</b>		
<b>Diluted earnings in NOK per share from discontinued operations</b>		
<b>Earnings in NOK per share profit for the year</b>	<b>-0,56</b>	<b>-0,09</b>
<b>Diluted earnings in NOK per share profit for the year</b>	<b>-0,56</b>	<b>-0,09</b>

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 2019 and 2018, see note 13 Share based compensation.

## NOTE 28 / Related parties

### Terms and conditions of transactions with related parties

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

### Related parties

There were no transactions between the company and any parties in the Management or in the Board during 2019.

### Associated companies

Q-Free ASA has no ownership in associated companies either in 2019 or in 2018.

## NOTE 29 / Non-current financial liabilities

Non-current financial liabilities consist of contingent consideration and finance lease liability. See note 25 Lease commitments for more information.

### Contingent consideration

In several of the business combinations over the past few years part of the consideration has been contingent based on future performance of the acquired company. At initial recognition the contin-

## NOTE 29 / Non-current financial liabilities, cont.

gent consideration is measured at fair value based on the expectations at the acquisition date. The contingent consideration liability is recognised at fair value in the statement of financial position and the fair value is remeasured at each subsequent reporting period. These measurements require management to make assumptions regarding the future performance of the acquired companies.

Q-Free ASA has not acquired any companies in 2019 and 2018.

Contingent consideration arises from the acquisition of Intelight Inc. The fifth tranche of the transaction regarding the acquisition of Intelight Inc. was closed in May 11 2019, and Q-Free America Inc. acquired 21.8 percent to TNOK 44,884 (2018: TNOK 23,21). As of 31 December 2019 Q-Free America Inc. had accumulated a shareholding in Intelight Inc. of 75.3 percent (2018: 53.5%).

As of 31 December 2019 the remaining contingent consideration is related to the share purchase agreement of Intelight Inc.

### Changes in contingent consideration

Amounts in TNOK	Current	Non-current	Total
Contingent consideration 01.01.2018	22 400	68 105	90 505
Cash payments in 2018	-23 210		-23 210
Fair value changes of contingent consideration		21 707	21 707
Exchange rate differences		4 811	4 811
Reallocation to other current liabilities	70 077	-70 077	
<b>Contingent consideration 31.12.2018</b>	<b>69 267</b>	<b>24 546</b>	<b>93 813</b>
	<b>Current</b>	<b>Non-current</b>	<b>Total</b>
Contingent consideration 01.01.2019	69 267	24 546	93 813
Cash payments in 2019	-44 884		-44 884
Fair value changes of contingent consideration	-16 952		-16 952
Exchange rate differences	674		674
Reallocation to other current liabilities	24 546	-24 546	
<b>Contingent consideration 31.12.2019</b>	<b>32 651</b>		<b>32 651</b>

The remaining contingent consideration is related to the share purchase agreement of Intelight Inc. The sixth and final tranche of the transaction is scheduled for closing in May 2020.

### Acquisition of Intelight Inc. – Arizona, US

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

In Q1 2015 Q-Free ASA, on behalf of Q-Free America (100% owned subsidiary), signed a share purchase agreement and a shareholders agreement to acquire the remaining 90.3 percent of the shares in Intelight. The agreements say that the sellers have the right to sell the remaining outstanding shares 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.

**NOTE 29 / Non-current financial liabilities, cont.**

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 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.

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

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

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

The fifth tranche was closed in May 2019 where Q-Free America acquired additional 21.8 percent for a consideration of TNOK 44,884. Q-Free America Inc. had as of this date accumulated a total shareholding in Intelight Inc of 75.3 percent.

**NOTE 30 / Investments in other companies**

31 December 2019	Company's equity	Number of shares	Ownership	Book value in Parent	Book value in Group	Included in comprehensive income
Amounts in TNOK						
Leiv Eiriksson AS	37 049	9 919	0,99%	367	367	-367
Other				20	20	-20
Fair value adjustments				-387	-387	387
<b>Total</b>						

The investment in shares was reclassified as fair value over OCI. During Q4 2018 the fair value was determined to be zero. Hence, all amounts are reclassified over the Profit or loss. The fair value of the investment as of 31 December is zero.

**NOTE 31 / Subsequent events**
**New operational structure**

With effect from Q1 2020 the segment reporting has been changed from five to two segments. Tolling continues as a separate business area. Urban and Inter-Urban are integrated into a new Traffic Management business area. Q-Free will seek to divest the Parking and Infomobility businesses, and consequently these units are classified as assets held for sale as of Q1 2020.

**Impairment of goodwill related to Infomobility segment**

In the preliminary Q4-19 report, Q-Free announced a 32 MNOK impairment of Parking assets related to the decision to seek divestment of the business area, but no impairment was announced related to Infomobility. Based on new information and expectations about the market value of the Infomobility assets held for sale, Q-Free has decided to make a 26 MNOK impairment of Infomobility-related goodwill. This impairment was not included in the preliminary Q4-19 report. See further comments in note 14.



**NOTE 31 / Subsequent events, cont.**
**New financial agreement with main bank**

Subject to completion of the convertible bond offering described below, Q-Free's main bank Nordea Bank has agreed to provide additional financing and revise the covenant structure to ensure that the Company is able to meet its financial obligations. The new added facility amounts to 82 MNOK and is partly guaranteed by GIEK as part of the Norwegian government's COVID-19 support packages. Furthermore, the entire bank engagement is prolonged to June 2022 and has a new covenant structure with improved operational headroom in the coming quarters. The new covenant structure has a holiday until Q4-2020. At the end of Q4-2020 the covenant structure requires 12M reported EBITDA to exceed MNOK 30 and pr. end of Q1-2021 12M rolling EBITDA should exceed MNOK 45. Starting Q2-2021, covenant is based on measurement of leverage ratio (NIBD (excluding convertible bond) /EBITDA) that should not be higher than 3.50 in Q2-2021 before being reduced quarterly by 0.25x until a normalised level in Q1-2022. In addition, there is a minimum equity ratio covenant of 35%, where equity ratio is defined as equity plus subordinated convertible bond divided on total assets.

**Convertible bond offering to strengthen liquidity**

To further strengthen its operational liquidity and fulfil applicable conditions under the new financing agreement with Nordea Bank, Q-Free successfully placed subordinated unsecured bonds due 2023 convertible into new and/or existing shares of the company with a total size of NOK 80 million.

The Bonds will bear interest at 6 months NIBOR + 4.00% percentage points per annum with deferral optionality, have a tenor of three years and an initial conversion price of NOK 4.3669 equal to a premium of 25% over the volume weighted average price of the Shares on the Oslo Stock Exchange the 22 April 2020 of NOK 3.4935. The Bonds will not be listed.

Subject to approval by an extraordinary general meeting of the Company, completion of the Bond issue is expected to take place on 19 May 2020. The extraordinary meeting is scheduled for 18 May 2020.

**Effect of COVID-19 pandemic**

Q-Free has been impacted by the COVID-19 pandemic. Early on, Q-Free introduced travel restrictions and requested all employees who could work from home to do so. Some physical offices were later completely closed to reduce the risk of spreading the virus. Q-Free is diligently following the situation and will act in accordance with advice from relevant authorities. By mid- March there was no direct impact on the business itself. The company generates most of its revenues from local and central governments and is therefore not directly exposed to the private sector challenges. Nevertheless, the company expects to be negatively impacted by a slowing economy and strict regulations related to travel, which reduces sales activities and ongoing project work. The main financial risks for the company are related to transactional revenues from toll road traffic in Norway, delayed revenue recognition on ongoing tolling and traffic management projects, and potential delays on product deliveries due to component shortages and long lead times. Adverse fluctuations in currency-rates (especially NOK vs EUR and USD) might also affect future balance-sheet values. Q-Free has established emergency task-forces on different levels of the organization that continuously monitor the situation and consider relevant measures to deal with potential challenges.

## Alternative performance measures

### Alternative performance measures

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

#### Gross contribution:

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

#### Project contractor expenses:

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

#### Gross margin:

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

Gross contribution and gross margin	2019	2018
Revenue from customers	962 317	888 647
Cost of goods sold	-304 556	-227 191
Project contractor expenses	-118 372	-92 260
<b>Gross contribution</b>	<b>539 389</b>	<b>569 196</b>
<b>Gross margin</b>	<b>56,1%</b>	<b>64,1%</b>

#### EBITDA / EBIT:

The Group considers EBITDA / EBIT to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation for Earnings Before Interest, Taxes, Depreciation and Amortisation. The Group uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which are part of the financial statements for 2019. The same applies for EBIT.

#### EBITDA margin:

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

EBITDA margin	2019	2018
Revenue from customers	962 317	888 647
EBITDA	72 643	71 091
<b>EBITDA margin</b>	<b>7,6%</b>	<b>8,0%</b>

#### EBIT margin:

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

EBIT margin	2019	2018
Revenue from customers	962 317	888 647
EBIT	-54 381	23 690
<b>EBIT margin</b>	<b>-5,6%</b>	<b>2,7%</b>

## Alternative performance measures

### Non-recurring items:

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

Non-recurring items	2019	2018
Termination of wage compensation for lost pension benefits	-9 125	
Restructuring costs	7 500	17 810
<b>Non-recurring items in EBITDA</b>	<b>-1 625</b>	<b>17 810</b>
<b>Impairment losses</b>	<b>58 332</b>	
<b>Non-recurring items in EBIT</b>	<b>56 707</b>	<b>17 810</b>

### Net Interest Bearing Debt (NIBD):

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

Net Interest Bearing Debt	31.12.2019	31.12.2018
Non-current borrowings from financial institutions	160 000	196 000
Current borrowings from financial institutions	72 022	19 521
<b>Gross Interest Bearing Debt</b>	<b>232 021</b>	<b>215 521</b>
Cash and cash equivalents	31 051	89 700
<b>Net Interest Bearing Debt</b>	<b>200 970</b>	<b>125 821</b>

### Net working capital:

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

Net Working Capital	31.12.2019	31.12.2018
Inventories	76 143	71 996
Contract assets	103 957	82 320
Accounts receivable	140 265	160 819
Other current assets	37 506	32 051
<b>Current Assets (excl Cash and cash equivalents)</b>	<b>357 871</b>	<b>347 186</b>
Advance payments from customers	4 253	14 339
Accounts payable	117 609	95 992
Taxes payable	3 531	2 758
Public duties payable	20 167	19 584
Current financial liabilities	54 414	71 995
Other current liabilities	56 473	73 641
Intelight share purchase liability	-32 651	-69 267
<b>Current liabilities (excl Current borrowings from financial institutions)</b>	<b>223 796</b>	<b>209 042</b>
<b>Net Working Capital</b>	<b>134 075</b>	<b>138 144</b>

### Working capital ratio:

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

## Alternative performance measures

Working Capital ratio	31.12.2019	31.12.2018
12 months Revenue from customers	962 317	888 647
Net Working Capital	134 075	138 144
<b>Working Capital ratio</b>	<b>13,9%</b>	<b>15,5%</b>

### Equity ratio:

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

Equity ratio	31.12.2019	31.12.2018
Total equity	357 502	402 397
Total assets	883 168	940 146
<b>Equity ratio</b>	<b>40,5%</b>	<b>42,8%</b>

### Order intake:

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

### Order backlog:

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

### Prior period's backlog

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



# FINANCIAL STATEMENTS

## Q-FREE ASA

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# STATEMENT OF PROFIT OR LOSS

## Q-FREE ASA

Amounts in TNOK	Note	2019	2018
Revenue	2		25 799
Revenue from customers	2		284 532
<b>Total revenue</b>			<b>310 331</b>
Cost of goods sold			85 342
Project contractor expenses			43 999
Employee benefit expenses	8	11 065	102 474
Other operating expenses	9	17 107	68 034
<b>Total operating expenses</b>		<b>28 172</b>	<b>299 849</b>
<b>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</b>		<b>-28 172</b>	<b>10 482</b>
Depreciation of property, plant and equipment			5 937
Amortisation of intangible assets			8 057
<b>Earnings before interest and taxes (EBIT)</b>		<b>-28 172</b>	<b>-3 512</b>
Financial income	7	91 474	34 042
Financial expenses	7	-107 600	-27 965
<b>Financial items, net</b>		<b>-16 126</b>	<b>6 077</b>
<b>Profit before tax</b>		<b>-44 298</b>	<b>2 565</b>
Tax expense			
<b>Profit / (-) loss for the year</b>		<b>-44 298</b>	<b>2 565</b>

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

# STATEMENT OF COMPREHENSIVE INCOME

## Q-FREE ASA

Amounts in TNOK	2019	2018
<b>Profit / (-) loss for the year</b>	<b>-44 298</b>	<b>2 565</b>
<b>Other comprehensive income</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Net loss on available-for-sale FVOCI (IFRS 9) investments		71
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<b>71</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>71</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>-44 298</b>	<b>2 636</b>

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

# STATEMENT OF FINANCIAL POSITION

## Q-FREE ASA

Amounts in TNOK

<b>ASSETS</b>	<b>Note</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
Investments in subsidiaries	5	509 765	569 106
Non-current receivables – subsidiaries	4	213 460	174 939
<b>TOTAL NON-CURRENT ASSETS</b>		<b>723 225</b>	<b>744 045</b>
Other current assets	11	12 589	25 873
Cash and cash equivalents	12	793	17 317
<b>TOTAL CURRENT ASSETS</b>		<b>13 382</b>	<b>43 190</b>
<b>TOTAL ASSETS</b>		<b>736 606</b>	<b>787 235</b>



## STATEMENT OF FINANCIAL POSITION

## Q-FREE ASA

Amounts in TNOK

EQUITY AND LIABILITIES	Note	31.12.2019	31.12.2018
Subscribed share capital		33 905	33 905
Share premium		578 307	578 307
Other paid-in capital		21 224	20 950
Retained earnings		-226 576	-182 278
<b>TOTAL EQUITY</b>		<b>406 860</b>	<b>450 884</b>
Non-current bank borrowings	3	160 000	196 000
Non-current borrowings subsidiaries	4	16 939	33 377
Other non-current liabilities			
<b>Total non-current liabilities</b>		<b>176 393</b>	<b>229 377</b>
Current bank borrowings	3	72 021	61 626
Current borrowings subsidiaries	4	74 209	24 395
Other current liabilities	13	6 577	20 953
<b>Total current liabilities</b>		<b>152 807</b>	<b>106 974</b>
<b>TOTAL LIABILITIES</b>		<b>329 746</b>	<b>336 351</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>736 606</b>	<b>787 235</b>

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

Trondheim, 28 April 2020

**Trond Valvik**

(Sign.)

Acting Chair of the Board

**Snorre Kjesbu**

(Sign.)

Board member

**Ingeborg Molden Hegstad**

(Sign.)

Board member

**Trine Strømsnes**

(Sign.)

Board member

**Olav Gulling**

(Sign.)

Employee-elected Board member

**Rune Jøraandstad**

(Sign.)

Employee-elected Board member

## STATEMENT OF CASH FLOWS

## Q-FREE ASA

Amounts in TNOK	Note	2019	2018
<b>Cash flow from operations</b>			
Profit before tax		-44 297	2 565
Depreciation and impairment of property, plant and equipment			5 937
Amortisation and impairment losses		69 644	8 057
Interest income from subsidiaries	7	-12 344	-10 617
Accrued interest expense		409	548
Net loss on available-for-sale FVOCI (IFRS 9) investments			458
Share-based payment expense	1	273	322
Working capital adjustments :			
Changes in inventory			12 351
Changes in contract assets			200 717
Changes in accounts receivables		13 284	105 820
Changes in accounts payables		-2 790	-64 943
Changes in other items		-15 098	-221 033
<b>Net cash flow from operations</b>		<b>9 081</b>	<b>40 182</b>
<b>Cash flow from investments</b>			
Investments in PP&E and intangible assets			-28 384
Acquisition of a subsidiary, net of cash acquired			
<b>Net cash flow from investments</b>			<b>-28 384</b>
<b>Cash flow from financing</b>			
Cash proceeds from bank borrowings	3	4 000	250 519
Repayment of bank borrowings	3	-29 605	-245 000
<b>Net cash flow from financing</b>		<b>-25 605</b>	<b>5 519</b>
<b>Effect on cash and cash equivalents of changes in foreign exchange rates</b>			
<b>Net change in cash and cash equivalents for the year</b>		<b>-16 524</b>	<b>17 317</b>
Cash and cash equivalents per 01.01.	12	17 317	
<b>Cash and cash equivalents per 31.12.</b>	12	<b>793</b>	<b>17 317</b>

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

## STATEMENT OF CHANGE IN EQUITY

## Q-FREE ASA

Amounts in TNOK	Subscribed share capital	Share premium	Other paid-in capital	Retained earnings	Available- for-sale reserve FVOCI (IFRS 9)	Total equity
<b>Total equity 01.01.2018</b>	<b>33 905</b>	<b>578 307</b>	<b>20 628</b>	<b>-167 024</b>	<b>-71</b>	<b>465 745</b>
Profit / (-) loss for the year				2 565		2 565
Other comprehensive income					71	71
<b>Total comprehensive income for the period</b>				<b>2 565</b>	<b>71</b>	<b>2 636</b>
Share-based payment expense			322			322
Reclassification of actuarial gains and losses				-17 819		-17 819
<b>Total equity 31.12.2018</b>	<b>33 905</b>	<b>578 307</b>	<b>20 950</b>	<b>-182 278</b>		<b>450 884</b>
<b>Total equity 01.01.2019</b>	<b>33 905</b>	<b>578 307</b>	<b>20 950</b>	<b>-182 278</b>		<b>450 884</b>
Profit / (-) loss for the year				-44 297		-44 297
Other comprehensive income						
<b>Total comprehensive income for the period</b>				<b>-44 297</b>		<b>-44 297</b>
Share-based payment expense			273			273
Change in equity due to demerger process						
<b>Total equity 31.12.2019</b>	<b>33 905</b>	<b>578 307</b>	<b>21 223</b>	<b>-226 575</b>		<b>406 860</b>

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

## **NOTE 1 / Corporate Information and accounting policies**

### **Corporate information**

Q-Free ASA is a Norwegian public limited liability company, and has been listed on the Oslo Stock Exchange under the ticker QFR since 2002. In 2018 Q-Free ASA was restructured. Effective as of 1 November 2018, Q-Free Norge AS was demerged from Q-Free ASA. Q-Free Norge AS is the operational company going forward in Norway and as of 1 November 2018 Q-Free ASA will function solely as the Q-Free Group parent holding company. The 2018 financial statements for Q-Free ASA include the results from Norwegian operations for the time period 1 January 2018 to 31 October 2018 and 31 December 2018 statement of financial position reflects the Q-Free ASA only financial position.

The financial statements have been prepared on a historical cost basis except for certain assets, liabilities and financial instruments, which are measured at fair value. Preparation of financial statements including note disclosures requires management to make estimates and assumptions that affect amounts reported. Actual results may differ. For further information refer also to the Q-Free Group Annual Report 2019.

Presentation and classification of items in the financial statements is consistent for the periods presented.

### **Significant accounting policies**

The financial statements of Q-Free ASA are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and Norwegian authorities and are effective as of 31 December 2019. Q-Free also provides the disclosures as specified under the Norwegian Accounting Law (Regnskapsloven).

The following description of accounting principles applies to Q-Free ASA's 2019 financial reporting, including all comparative figures. See also in the Q-Free Group Annual Report 2019 Note 2 Basis of presentation, Note 3 Significant accounting policies and Note 4 Critical accounting judgments and new accounting policies for additional information related to the presentation, classification and measurement of Q-Free ASA's financial reporting.

### **Shares in subsidiaries**

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

### **Foreign currency**

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

### **Revenue recognition**

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



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**NOTE 1 / Corporate  
Information and account-  
ing policies, cont.****Cash and cash equivalents**

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

**Statement of cash flows**

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

**Share-based compensation**

Q-Free ASA accounts for share-based payment in accordance with IFRS 2 Share-Based Payments. See Note 3 Significant accounting policies in the Q-Free Group Annual Report 2019 for additional information.

**Risk management**

For information about risk management in Q-Free ASA see Note 5 Financial risk management in the Q-Free Group Annual Report 2019.

**Income taxes**

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

**Intercompany long-term receivables and payables*****Long-term receivables***

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

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

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

**Events after the balance sheet date**

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

## NOTE 2 / Revenue, contract assets and advanced payments from customers

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

### Disaggregation of revenue

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

- Product deliveries
- Service & Maintenance
- System projects

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

**Table 2.1 Disaggregation of revenue from contracts with customers**

**31 December 2019**

Amounts in TNOK	TOLLING	PARKING	INFO MOBILITY	URBAN	INTER URBAN	Total
EUROPE						
APMEA						
AMERICAS						
<b>Revenue from contracts with customers</b>						
At a point in time revenue recognition						
Product deliveries (not related to projects)						
<b>Total at a point in time revenue recognition</b>						
Over time revenue recognition						
Service & Maintenance						
System Projects (includes over-time product deliveries related to projects)						
<b>Total over time revenue recognition</b>						

**31 December 2018**

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

## **NOTE 2 / Revenue, contract assets and advanced payments from customers, cont.**

### **Revenue recognition**

#### ***Product deliveries***

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

#### ***Service & Maintenance***

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

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

#### ***System projects***

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

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

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

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

**NOTE 2 / Revenue, contract assets and advanced payments from customers, cont.**

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

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

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

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

**Significant ongoing projects**

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

**Contract assets and advance payments from customers**

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

**Contract assets**

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

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

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

**Advance payments from customers**

Advance payments from customers is recognized if Q-Free receives consideration or if it has the unconditional right to receive consideration in advance of performance. Q-Free has not received any advance payments from customers in 2019 or 2018.



### NOTE 3 / Bank borrowings

Specification	Type	Effective interest rate% – 2019	Maturity	2019	2018
Non-current	Term loan	5,02%	6 December 2021	60 000	100 000
Non-current	Term loan	5,07%	6 December 2021	34 730	
Non-current	Revolving Credit Facility (RCF) *	4,97%	6 December 2021	55 269	96 000
Current	Term loan	5,02%	6 December 2021	15 000	
Current	Term loan	5,07%	6 December 2021	10 000	
Current	Credit line **	3,62%	6 December 2021	47 021	61 626
<b>Total</b>				<b>232 020</b>	<b>257 626</b>

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

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

#### Serial loan and covenants

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

Q-Free has a NIBD/EBITDA and Equity Ratio covenant on its bank arrangements. Net Interest Bearing Debt to EBITDA ratio ("Leverage Ratio") shall at no time be more than 3.00:1, and total Equity to Total Assets ("Equity Ratio") shall at no time be less than 35.00 percent. Q-Free was in compliance with its loan covenants as of Q4-19. The effective interest rate of total borrowings is dependent on whether Q-Free is compliant with its loan covenants, and if any revised covenant structures apply.

#### New financial agreement with main bank

Subject to completion of the convertible bond offering described below, Q-Free's main bank Nordea Bank has agreed to provide additional financing and revise the covenant structure to ensure that the Company is able to meet its financial obligations. The new added facility amounts to 82 MNOK and is partly guaranteed by GIEK as part of the Norwegian government's COVID-19 support packages. Furthermore, the entire bank engagement is prolonged to June 2022 and has a new covenant structure with improved operational headroom in the coming quarters. The new covenant structure has a holiday until Q4-2020. At the end of Q4-2020 the covenant structure requires 12M reported EBITDA to exceed MNOK 30 and pr. end of Q1-2021 12M rolling EBITDA should exceed MNOK 45. Starting Q2-2021, covenant is based on measurement of leverage ratio (NIBD (excluding convertible bond) / EBITDA) that should not be higher than 3.50 in Q2-2021 before being reduced quarterly by 0.25x until a normalised level in Q1-2022. In addition, there is a minimum equity ratio covenant of 35%, where equity ratio is defined as equity plus subordinated convertible bond divided on total assets.

#### Convertible bond offering to strengthen liquidity

To further strengthen its operational liquidity and fulfill applicable conditions under the new financing agreement with Nordea Bank, Q-Free successfully placed subordinated unsecured bonds due 2023 convertible into new and/or existing shares of the company with a total size of NOK 80 million.

The Bonds will bear interest at 6 months NIBOR + 4.00% percentage points per annum with deferral optionality, have a tenor of three years and an initial conversion price of NOK 4.3669 equal to a premium of 25% over the volume weighted average price of the Shares on the Oslo Stock Exchange the 22 April 2020 of NOK 3.4935. The Bonds will not be listed.

Subject to approval by an extraordinary general meeting of the Company, completion of the Bond issue is expected to take place on 19 May 2020. The extraordinary meeting is scheduled for 18 May 2020. See Alternative Performance Measures section for "NIBD" and "EBITDA" definitions.

## NOTE 4 / Intercompany loans receivable and payables

### Financial liability maturity schedule

Year ended 31 December 2019:	On demand	Less than 3 months	3–6 months	6–9 months	9–12 months	1–2 years	2–5 years	6 years – maturity	Total
Non-current bank borrowings						169 067			169 067
Non-current borrowings subsidiaries		135	135	137	137	505	16 939		17 988
Current bank borrowings	313	2 255	11 829	7 806	60 998				83 201
Current borrowings subsidiaries									
Other financial liabilities		2 070							2 070
<b>Total financial liabilities</b>	<b>409</b>	<b>5 005</b>	<b>15 435</b>		<b>64 582</b>	<b>159 637</b>	<b>16 939</b>		<b>272 336</b>

Year ended 31 December 2018:	On demand	Less than 3 months	3–6 months	6–9 months	1–2 years	2–5 years	6 years – maturity	Total
Non-current bank borrowings	532	1 244	3 910		2 339	23 423	180 921	212 369
Non-current borrowings subsidiaries		340	344		695	1 382	4 134	40 272
Current bank borrowings		298	302		44 836			45 436
Current borrowings subsidiaries					24 395			24 395
Other financial liabilities		4 860						4 860
<b>Total financial liabilities</b>	<b>532</b>	<b>6 742</b>	<b>4 556</b>		<b>72 265</b>	<b>24 805</b>	<b>185 055</b>	<b>327 332</b>

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

Amounts in TNOK	2019				
	Book value	Maturity date	Interest rate	Impairment stage	Loss allowance
Q-Free America Inc.	185 760	Undetermined	3 MND LIBOR + 3.0%	Stage 1	
TDC Systems Ltd	18 169	Undetermined	3 MND LIBOR + 3.0%	Stage 1	
Q-Free Thailand Co. Ltd.	9 480	Undetermined	3 MND LIBOR + 2.0%	Stage 1	
Q-Free Polen	11	Undetermined	3 MND LIBOR + 3.0%	Stage 1	
Noca Holding AS	40	Undetermined	3 MND LIBOR + 3.0%	Stage 1	
Q-Free France S.A.R.L	10 299	Undetermined	3 MND LIBOR + 3.0%	Stage 2	-10 299
<b>Total</b>	<b>223 759</b>				<b>-10 299</b>

#### Description of general impairment model for intercompany loans

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

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

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

The loss allowance (stage 2) recognised is based on expected credit losses that result from default events that are possible within the next 12 months.

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

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

#### Note 4 / Intercompany loans receivable and payables, cont.

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

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

The parent company uses the following indicators in the assessment:

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

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

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

Loans are written off when there is no reasonable expectation of recovery, such as when a subsidiary fails to engage in a repayment plan. In 2019, the loan towards Q-Free France S.A.R.L is written off in full.

#### Non-current borrowings subsidiaries

The counterparties regarding Non-current borrowings is Noca Holding AS. The interest rate is respectively 3 MND LIBOR + 3.0% and 3 MND NIBOR + 3.0%.

#### Note 5 / Subsidiaries

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

	Year acquired by Q-Free Group	Location	Primary segment	Owner- ship	Voting share	Functional currency	Book value 31.12.19 (Amounts in TNOK)
Q-Free Portugal Lda.	1997	Lisboa, Portugal	Tolling	100%	100%	EUR	204
Q-Free Australia Pty. Ltd.	1999	Sydney, Australia	Tolling	100%	100%	AUD	
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur, Malaysia	Tolling	100%	100%	MYR	
Noca Holding AS	2001	Trondheim, Norway	Tolling	100%	100%	NOK	5 956
Q-Free Sverige AB	2007	Stockholm, Sweden	Tolling	100%	100%	SEK	84
Q-Free Thailand Co Ltd.	2007	Bangkok, Thailand	Tolling	100%	100%	THB	10 847
Q-Free Netherlands BV	2009	Beilen, The Netherlands	Tolling	100%	100%	EUR	76 409
Q-Free Chile	2012	Santiago, Chile	Tolling	100%	100%	CLP	28
TCS International Inc. *	2012	Boston, USA	Parking	100%	100%	USD	
Q-Free America Inc.	2012	San Diego, CA, USA	Urban	100%	100%	USD	216 887
Q-Free (Bristol) UK Ltd	2014	Weston Super-Mare, UK	Infomobility	100%	100%	GBP	46 427
Q-Free Traffic Design d.o.o.	2014	Ljubljana, Slovenia	Inter-Urban	100%	100%	EUR	29 149
Open Roads Consulting Inc. *	2014	Virginia, USA	Inter-Urban	100%	100%	USD	
Q-Free Espana S.L.U.	2014	Madrid, Spain	Tolling	100%	100%	EUR	25
Q-Free France S.A.R.L.	2014	Paris, France	Parking	100%	100%	EUR	41
Intelight Inc. *	2015	Arizona, USA	Urban	75%	75%	USD	
Q-Free LLC	2015	Moscow, Russia	Tolling	100%	100%	RUB	
Q-Free Polska sp. z.o.o.	2016	Warsaw, Poland	Tolling	100%	100%	PLN	11
Q-Free Norge AS	2018	Trondheim, Norway	Tolling	100%	100%	NOK	123 617
Q-Free Denmark Aps	2018	Korsør, Denmark	Tolling	100%	100%	NOK	64

**NOTE 5 / Subsidiaries, cont.****Subsidiaries under liquidation:**

Q-Free América Latina Ltda.	1998	Sao Paulo, Brasil	Tolling	100%	100%	BRL	
Q-Free Africa Ltd.	2010	Durban, South Africa	Tolling	74%	74%	ZAR	
Q-Free Traffiko Ltd	2015	Valetta, Malta	Parking	100%	100%	EUR	17
PT Q-Free Indonesia	2012	Jakarta, Indonesia	Tolling	100%	100%	IDR	

**Total****509 765**

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

In 2015 Q-Free ASA, on behalf of Q-Free America (100% owned subsidiary) signed a share purchase agreement and a shareholders agreement to acquire 100 percent of the shares in the US traffic controller supplier, Intelight Inc over a five year period. The shareholders agreement and the amended bylaws provide control for the Group after signing these agreements. Based on this, the full activity of Intelight Inc. was consolidated in the Group accounts from 2015. The agreements is considered to give the Group present ownership interest of 100%, thus no non-controlling interest is recognised. See Q-Free Group Annual Report 2018 Note 29 Non-current financial liabilities for further information.

In the first quarter 2020, Q-Free decided to seek to divest the Parking segment and the Infomobility segment. The company has recognised impairment losses on its shares in the company related to the Infomobility segment of TNOK 59 341. See also note 15 Subsequent events and note 14 Goodwill and note 31 Subsequent events in the Consolidated Financial Statements.

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

**NOTE 6 / Shareholders**

The share capital of Q-Free ASA as of 31 December 2019 was NOK 33,904,910 consisting of 89,223,446 ordinary shares at NOK 0.38 per share. As of 31 December 2019 there were 1,359 shareholders. Q-Free ASA has one class of shares and there are no voting restrictions.

The table shows shareholders holding one percent or more of the total 89,223,446 shares outstanding as of 31 December 2019.

<b>The company's largest shareholders as of 31 December 2019:</b>	<b>Number of shares</b>	<b>Percentage share ownership</b>	<b>Voting rights</b>
RIEBER & SØN AS	23 027 806	25,81%	25,81%
KAPSCH TRAFFICCOM AG	9 900 000	11,10%	11,10%
ARCTIC FUNDS PLC	6 837 523	7,66%	7,66%
VERDIPAPIRFONDET DNB NORGE (IV)	4 950 814	5,55%	5,55%
KLP AKSJENORGE	4 354 495	4,88%	4,88%
KOMMUNAL LANDSPENSJONSKASSE	4 350 635	4,88%	4,88%
KAPSCH TRAFFICCOM AG	3 850 458	4,32%	4,32%
STOREBRAND VEKST VERDIPAPIRFOND	1 962 459	2,20%	2,20%
LARS ODDGEIR ANDRESEN	1 633 600	1,83%	1,83%
ULSMO FINANS AS	1 579 960	1,77%	1,77%
AUGUST HOLDING AS	1 240 000	1,39%	1,39%
TROND WIKBORG	1 185 178	1,33%	1,33%
SANTANDER SECURITIES SERVICES, S.A	1 128 090	1,26%	1,26%
MARK JOHN PHILLIPS	969 974	1,09%	1,09%
Other share holders	22 252 454	24,94%	24,94%
<b>Total</b>	<b>89 223 446</b>	<b>100,0%</b>	<b>100,0%</b>



**NOTE 6 / Shareholders, cont.**

<b>The company's largest shareholders as of 31 December 2018:</b>	<b>Number of shares</b>	<b>Percentage share ownership</b>	<b>Voting rights</b>
AS ATLANTIS VEST	19 482 473	21,84%	21,84%
KAPSCH TRAFFICOM AG	9 900 000	11,10%	11,10%
ARCTIC FUNDS PLC	5 234 604	5,87%	5,87%
VERDIPAPIRFONDET DNB NORGE (IV)	4 950 814	5,55%	5,55%
KLP AKSJENORGE	4 308 576	4,83%	4,83%
KOMMUNAL LANDSPENSJONSKASSE	4 204 716	4,71%	4,71%
KAPSCH TRAFFICOM AG	3 850 458	4,32%	4,32%
STOREBRAND VEKST VERDIPAPIRFOND	2 066 757	2,32%	2,32%
MARK JOHN PHILLIPS	1 957 384	2,19%	2,19%
LARS ODDGEIR ANDRESEN	1 633 600	1,83%	1,83%
ULSMO FINANS AS	1 583 600	1,77%	1,77%
AUGUST HOLDING AS	1 245 000	1,40%	1,40%
TROND WIKBORG	1 003 332	1,12%	1,12%
VERDIPAPIRFONDET DNB SMB	976 437	1,09%	1,09%
VERDIPAPIRFONDET STOREBRAND OPTIMA	941 711	1,06%	1,06%
SANTANDER SECURITIES SERVICES, S.A	933 616	1,05%	1,05%
Other share holders	24 950 368	27,96%	27,96%
<b>Total</b>	<b>89 223 446</b>	<b>100,0%</b>	<b>100,0%</b>

<b>Shareholders by size of holding as of 31 December 2019:</b>	<b>Number of owners</b>	<b>Number of shares</b>	<b>Holding percentage</b>
<b>Number of shares</b>			
1 - 1 000	629	294 421	0,33%
1 001 - 10 000	501	2 013 405	2,26%
10 001 - 100 000	173	5 798 562	6,50%
100 001 - 200 000	17	2 306 059	2,58%
200 001 - 500 000	14	4 584 638	5,14%
500 001 - 1 000 000	12	8 225 343	9,22%
1 000 001 - 2 000 000	6	8 729 287	9,78%
2 000 001 - 5 000 000	4	17 506 402	19,62%
5 000 001 - 10 000 000	2	16 737 523	18,76%
10 000 001 - 20 000 000	1	23 027 806	25,81%
<b>Total</b>	<b>1 359</b>	<b>89 223 446</b>	<b>100,00%</b>

<b>Shareholders by size of holding as of 31 December 2018:</b>	<b>Number of owners</b>	<b>Number of shares</b>	<b>Holding percentage</b>
<b>Number of shares</b>			
1 - 1 000	644	313 244	0,35%
1 001 - 10 000	554	2 290 323	2,57%
10 001 - 100 000	201	6 694 428	7,50%
100 001 - 200 000	17	2 422 337	2,71%
200 001 - 500 000	17	5 753 053	6,45%
500 001 - 1 000 000	15	10 328 747	11,58%
1 000 001 - 2 000 000	5	7 422 916	8,32%
2 000 001 - 5 000 000	5	19 381 321	21,72%
5 000 001 - 10 000 000	2	15 134 604	16,96%
10 000 001 - 20 000 000	1	19 482 473	21,84%
<b>Total</b>	<b>1 461</b>	<b>89 223 446</b>	<b>100,00%</b>

**NOTE 6 / Shareholders, cont.****Number of shares held by the senior management, CEO and the Board of directors, represented, directly or indirectly as per 31.12.2019:**

Name	Position	Shares 2019	Shares 2018
Tore Valderhaug *	Former Chair of the Board, resignation date Jan. 14, 2020	25 000	25 000
Snorre Kjesbu	Board member	39 505	39 505
Ingeborg Molden Hegstad **	Board member	24 600	24 600
Håkon Volldal ***	CEO	153 829	125 000
Tor Eirik Knutsen	Former CFO	12 500	12 500
Morten Andersson	SVP AMERICAS		
Per Fredrik Ecker	SVP APMEA	33 500	33 500
Fredrik Nordh	SVP EUROPE		40 000
Pål-Andre Almlie	VP Supply Chain Management	26 500	26 500
<b>Total</b>		<b>315 434</b>	<b>326 605</b>

\* Indirectly through Proventi AS

\*\* Indirectly through Imsight AS

\*\*\* Indirectly through Bright Future AS

Acting Chair of the Board, Trond Valvik, holds a position as Investment Director in Rieber & Søn, which currently owns 23,027,806 (25.81%) shares in Q-Free ASA.

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

**NOTE 7 / Financial items**

Amounts in TNOK	2019	2018
Interest income	122	861
Realised exchange rate differences	18 981	14 238
Unrealised exchange rate differences	2 710	
<b>Financial income</b>	<b>21 813</b>	<b>15 099</b>
Financial income subsidiaries	12 344	10 617
Dividend income subsidiaries	57 317	8 326
<b>Total financial income subsidiaries</b>	<b>69 661</b>	<b>18 943</b>
<b>Total financial income</b>	<b>91 474</b>	<b>34 042</b>
Interest expense	-4 164	-3 187
Interest bank borrowings	-7 725	-5 839
Realised exchange rate differences	-20 957	-11 242
Unrealised exchange rate differences	-624	-808
Fair value change in other liabilities *	-644	-525
Other financial expenses	-11 933	-3 247
<b>Financial expenses</b>	<b>-46 047</b>	<b>-24 848</b>
Interest expense – loan from subsidiary	-1 320	-1 256
Unrealised exchange rate differences	-892	-2 099
Realised exchange rate differences		
Impairment of shares in subsidiaries	-59 341	238
<b>Total financial expenses subsidiaries</b>	<b>-61 553</b>	<b>-3 117</b>
<b>Total financial expenses</b>	<b>-107 600</b>	<b>-27 965</b>
<b>FINANCIAL ITEMS, NET</b>	<b>-16 126</b>	<b>6 077</b>

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

**NOTE 8 / Employee benefit expenses****Employee benefit expenses**

Amounts in TNOK	2019	2018
Salaries	11 236	85 573
Social security costs	1 563	13 544
Pension costs (contribution plan)	188	4 764
Skattefunn (governmental tax relief)		
Capitalised personnel costs	-1 922	-11 172
Other personnel related costs		9 765
<b>Total</b>	<b>11 065</b>	<b>102 474</b>
Average number of employees	3	96
Average number of man-years	3	96

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

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

**Pension cost**

The parent company has a defined contribution pension plan for the Norwegian employees. All employees in Norway are included in defined contribution pension plans. At year end 2019 Q-Free ASA has 3 employees which are included in defined contribution pension plans.

The parent company contributes with 5.0% of salaries between 0 – 7.1 G and 8.0% of salaries between 7.1 – 12 G to the defined contribution pension plan, total TNOK 204 (2018: 4,408) per contributed year.

**Conversion to defined pension plan**

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

**NOTE 9 / Other operating expenses****Other operating expenses**

Amounts in TNOK	2019	2018
External services	7 078	11 424
Travel expenses	635	6 555
Office expenses	72	18 452
Insurance		2 444
Freight		305
Rent machinery & tools		1 111
Marketing / promotions	20	5 293
Service & Maintenance		46
Operating materials		4 064
Impairment non-current receivables – subsidiaries	10 027	5 978
Impairment current receivables – subsidiaries		3 348
Settlement of Dispute with NPRA*		
Credit losses		
Other	-725	9 014
<b>Total</b>	<b>17 107</b>	<b>68 034</b>

**NOTE 9 / Other operating expenses, cont.****Project contractor expenses**

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

**Audit fees**

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

<b>Audit fees</b>	<b>2019</b>	<b>2018</b>
Audit services	1 157	575
Other audit related services	193	206
Tax services		
Other, non audit related services		124
<b>Total</b>	<b>1 350</b>	<b>905</b>

**NOTE 10 / Taxes**

Amounts in TNOK	<b>2019</b>	<b>2018</b>
<b>Total tax expense for the period</b>		
Adjusted allocated tax from last year		541
<b>Total</b>		<b>541</b>
Tax rate		3%
<b>Taxes payable for the year</b>		
Total ordinary profit before tax	-44 297	2 565
Permanent differences	24 615	-28 643
Change in temporary differences	-13 706	86 028
Utilisation of previously unrecognised tax losses		-59 950
<b>Basis for taxes payable</b>	<b>-33 388</b>	
<b>Specification of taxes payable</b>		
Taxes payable on this years profit		
<b>Total taxes payable</b>		
<b>Specification of deferred tax assets (-) / deferred tax liabilities (+)</b>		
<i>Differences evaluated to be offset:</i>		
Property, plant and equipment		
Non-current receivables	3 201	2 326
Current assets		-2 254
Liabilities	-114	
Tax asset from losses carry -forward	-54 293	-46 948
Other differences	-833	-833
<b>Total</b>	<b>-52 039</b>	<b>-47 709</b>
<b>Unrecognised deferred tax assets</b>	<b>52 039</b>	<b>47 709</b>
<b>Recognised deferred tax assets (-) / deferred tax liabilities (+)</b>		



**NOTE 10 / Taxes, cont.**

Amounts in TNOK	2019	2018
<b>Reconciling the tax expense</b>		
Earnings before tax	-44 297	2 565
Calculated tax at 22% (2018: 23%)	-9 745	590
Tax result permanent differences and tax rate difference	5 415	-6 588
Use of previously unrecognised loss carried forward (-) / Increase in valuation allowance		5 998
Unrecognised increased deferred tax asset	4 330	
<b>Tax expense</b>		

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

**NOTE 11 / Other current assets**

Amounts in TNOK	2019	2018
<b>Other current assets</b>		
Accounts receivable	1 318	3 196
Current receivables – subsidiaries	11 271	22 677
Accrual for Skattefunn grants		
Prepaid rent		
Prepaid software licenses		
Other prepaid costs		
<b>Total</b>	<b>12 589</b>	<b>25 873</b>

**NOTE 12 / Cash and cash equivalents**

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

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

Amounts in TNOK	2019	2018
<b>Liquidity funds</b>		
Cash at banks and on hand	793	17 317
<b>Total cash and cash equivalents</b>	<b>793</b>	<b>17 317</b>

As of 31 December 2019, Q-Free ASA had available TNOK 52,978 (TNOK 42,373) of undrawn bank credit line and TNOK 23,041 (TNOK 34,248) of undrawn guarantee facilities in which all conditions precedent had been met.

**NOTE 13 / Other current liabilities**

Amounts in TNOK			
<b>Other current liabilities</b>		<b>2019</b>	<b>2018</b>
Accounts payable		1 697	219
Accounts payable – subsidiaries		373	4 641
Public duties payable		776	2 177
Accrued wages (Holiday pay and bonus scheme)		709	10 151
Accrued expenses		2 506	3 765
Fair value of foreign exchange contracts		516	
<b>Total</b>		<b>6 577</b>	<b>20 953</b>

**NOTE 14 / Financial instruments****Financial instruments by category**

<b>31 December 2019</b>		<b>Amortised cost</b>	<b>Fair value</b>	<b>Non financial instruments included in the line item</b>	<b>Total</b>
<b>Financial assets</b>					
Investments in subsidiaries					
Non-current receivables – subsidiaries	213 460				213 460
Investments in other companies					
Other current assets	12 589				12 589
Cash and cash equivalents	793				793
<b>Total</b>	<b>226 842</b>				<b>226 842</b>
<b>Financial liabilities</b>					
Non-current bank borrowings					
Non-current borrowings subsidiaries	185 000				185 000
Non-current borrowings subsidiaries					
Current bank borrowings	16 939				16 939
Current bank borrowings					
Current borrowings subsidiaries	47 022				47 022
Current borrowings subsidiaries					
Other current liabilities	74 209				74 209
Other current liabilities					
	2 070			4 507	6 577
<b>Total</b>	<b>325 240</b>			<b>4 507</b>	<b>329 747</b>
<b>31 December 2018</b>		<b>Amortised cost</b>	<b>Fair value</b>	<b>Non financial instruments included in the line item</b>	<b>Total</b>
<b>Financial assets</b>					
Investments in subsidiaries					
Non-current receivables – subsidiaries	174 939				174 939
Investments in other companies					
Other current assets	25 873				25 873
Cash and cash equivalents	17 317				17 317
<b>Total</b>	<b>218 129</b>				<b>218 129</b>
<b>Financial liabilities</b>					
Non-current bank borrowings					
Non-current borrowings subsidiaries	196 000				196 000
Non-current borrowings subsidiaries					
Current bank borrowings	33 377				33 377
Current bank borrowings					
Current borrowings subsidiaries	61 626				61 626
Current borrowings subsidiaries					
Other current liabilities	24 395				24 395
Other current liabilities					
	4 860			16 093	20 953
<b>Total</b>	<b>320 258</b>			<b>16 093</b>	<b>336 351</b>

**NOTE 15 / Subsequent events**

See note 31 Subsequent events in the Group Consolidated Financial Statements.

## STATEMENT FROM THE DIRECTORS AND THE CEO

We confirm, to the best of our knowledge, the financial statements for the period from 1 January to 31 December 2019 have been prepared in accordance with IFRS as adopted by EU, with such additional information as required by the Accounting Act, and give a true and fair view of the Group and the Company's consolidated assets, liabilities, financial position and results of operations.

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

*Trondheim 28. April 2020*

**Trond Valvik**

(Sign.)

Acting Chair of the Board

**Snorre Kjesbu**

(Sign.)

Board member

**Ingeborg Molden Hegstad**

(Sign.)

Board member

**Trine Strømsnes**

(Sign.)

Board member

**Olav Gulling**

(Sign.)

Employee-elected  
Board member

**Rune Jøraandstad**

(Sign.)

Employee-elected  
Board member

**Håkon Volldal**

(Sign.)

President & CEO



Statsautoriserte revisorer  
Ernst & Young AS

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## INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Q-Free ASA

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Q-Free ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the statements of financial position as at 31 December 2019, statements of profit or loss, statements of comprehensive income, the statements of cash flows and statements of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2019 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

#### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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.

#### Other Matters

The financial statements for the period ended 31 December 2018 were audited by another auditor who expressed an unmodified conclusion on the financial statements on 5 April 2019.

#### 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 for 2019. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

#### Revenue recognition and related contract assets

The Group derives a significant part of its revenues from long-term projects. As at 31 December 2019, the Group recognized NOK 104 million in contract assets. Such projects involve revenue recognition over time based on percentage of completion. The assessment of percentage of completion requires



subjectivity and professional judgement, and therefore is subject to uncertainty and potential misstatements.

The main risks include management's use of estimates and judgments in relation to percentage of completion, including expected costs to complete, estimated project margin and risk contingencies. We consider this a key audit matter because of the significant amounts and the management judgement applied in the estimates.

As part of our audit we obtained an understanding of the process for how management determines the percentage of completion and evaluated the design of internal controls related to this process. For a sample of significant projects with contract assets, we inquired and evaluated the judgments made by management regarding the degree of completion for the projects. This includes testing of accuracy of earlier estimates related to percentage of completion, reading contracts, comparing contract information to invoicing and testing of the calculation of the projects contract assets. Further, we assessed the Group's disclosures in notes 4, 10 and 17 of the consolidated financial statements.

#### **Impairment of goodwill and intangible assets**

Goodwill amounts to NOK 285.3 million and intangible assets to NOK 114.2 million in the consolidated financial statements as at 31 December 2019. In total, this accounts for 45 percent of total assets of the Group. The Group performed impairment tests to determine the recoverable amounts and recorded impairments of NOK 58.3 million in 2019. NOK 26.5 million of the impairment was related to Infomobility goodwill, NOK 10.2 million related to Parking goodwill, and NOK 21.6 million related to intangible assets.

Goodwill and intangible assets impairment testing rely on estimates of value-in use which is based on estimated future cash flows. Due to the subjectivity involved in forecasting and discounting of future cash flows and the significance of the Group's recognised goodwill and intangible assets as at 31 December 2019, this audit area is considered a key audit matter.

We evaluated management's assessment of impairment indicators and management's estimates related to sales forecasts. Our audit procedures included inquiries and evaluations of management's assumptions regarding the current market situation and expectations about future sales. Furthermore, we evaluated the valuation methodology and the discount rate applied by using external market information. We also tested the mathematical accuracy of the value in use calculation. Our audit procedures further included analysis and evaluation of historical accuracy of prior year's forecasts. We also assessed the Group's disclosures in notes 4, 14 and 15 of the consolidated financial statements.

#### **Other information**

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. 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 on the other information obtained prior to the date of the auditor's report, 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 management for the financial statements**

Management is 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the





going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including 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, 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, 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 and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements and the going concern assumption 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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 28 April 2020  
ERNST & YOUNG AS

*The auditor's report is signed electronically*

Petter Larsen  
State Authorised Public Accountant (Norway)

# ARTICLES OF ASSOCIATION FOR Q-FREE ASA

## ARTICLE 1.

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

## ARTICLE 2.

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

## ARTICLE 3.

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

## ARTICLE 4.

The Company's share capital shall be NOK 33,904,909.48 divided between 89,223,446 shares, each of NOK 0.38 face value.

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

## ARTICLE 5.

The Board of the Company shall have between three and eight members, as the general meeting shall stipulate.

The Board shall represent the Company outwardly, and sign for it. The signature of the Company is also vested in the Chairman of the Board and one other Board member acting jointly.

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

## ARTICLE 6.

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

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

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

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

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

**The Ordinary General Meeting shall consider:**

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

**ARTICLE 7.**

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

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

**ARTICLE 8.**

Reference is otherwise made to the current companies legislation.

Articles of Association as of 17 August 2018.

The shareholders of Q-Free ASA

# CORPORATE GOVERNANCE REVIEW 2019

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

## 1. IMPLEMENTATION OF AND REPORTING ON CORPORATE GOVERNANCE

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

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

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

The Norwegian Code of Practice for Corporate Governance is available on [www.nues.no](http://www.nues.no).

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

Q-Free has no deviations from the recommendations in the Code of Practice in 2019.

### 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 behavior, 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 (COC), 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 behavior in the day-to-day business.

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



The company endeavors to make its COC and CSR guidelines known to its partners and are also publicly available on [www.q-free.com](http://www.q-free.com).

*Deviation from the Code of Practice: None.*

## 2. BUSINESS

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

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

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

The company's Articles of Association are available at [www.q-free.com](http://www.q-free.com).

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

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

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

*Deviation from the Code of Practice: None.*

## 3. EQUITY AND DIVIDENDS

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

### Equity

Q-Free's policy is to maintain a satisfying equity ratio to provide a platform for the company's expected expansion and growth. If needed to finance growth, specific projects or transactions, the Board of Directors can propose for the General Meeting that the Board is given mandates to issue new equity. Per 31 December 2019 the Group's equity amounted to NOK 358 million, representing an equity ratio of 40 percent. The Board has a continuous focus on adapting the company's objectives, strategy and risk profile to the company's capital situation. See note 6 in the 2019 Financial statement for further information about the Company's capital structure management.

### Dividend policy

Q-Free has an objective to give the shareholders a stable and competitive long-term return on investment. The company is in a growth phase and current strategy is to invest the free cash flow to position Q-Free for future growth.

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

## Mandates to the Board

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

At the Annual General Meeting 28 May 2019, the Board was granted an authorisation to increase the share capital by the subscription on new shares in order to be able to support further growth of the Company, organically or inorganically, as well as financing of existing share purchase agreement obligations. The authorisation mandates the Board to increase the share capital with as much as NOK 3,390,490.72 by the issue of as much as 8,922,344 shares, equivalent to approximately 10% of the issued shares, each with a par value of NOK 0.38 per share with a right to disregard the existing shareholder's preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5. The mandate is limited for one year, and valid until the next Annual General Meeting but nevertheless no longer than 30 June 2020.

The Board was in the General Meeting 2018 granted a right to establish a five-year stock option program for the Chief Executive Officer with a maximal number of share options of 869,970.

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

The Board was in the Annual General Meeting in 2015 granted a right to enter into agreements for synthetic options with leading employees and key personnel to complete an incentive program with a maximal duration of four years. The agreements under this program were in force from 2015, and the program was then closed for further grants. The program expired 16 March 2019.

See Note 13 in the 2019 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 2019 the Board was given an authorization by the general meeting to increase the share capital with as much as 10% of the issued shares, with a right to disregard the existing shareholder's preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5. The authorization has not been used.

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

For information about transactions with related parties, see Note 28 in the 2019 financial statements.

*Deviation from the Code of Practice: None*

## 5. FREELY NEGOTIABLE SHARES

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

*Deviation from the Code of Practice: None*

## 6. GENERAL MEETINGS

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

### Notification

The Annual General Meeting must according to the law be held before the 30th of June. The general meeting is to take place either in Trondheim or in Oslo. The 2020 Annual General Meeting is scheduled for 28 May in Oslo.

A written notice for the general meeting is to be sent to all shareholders, with known addresses, within 21 days prior to the meeting. The Board may decide that the notice of the General Meeting and supporting information and documents will be made available on the company's website only. A shareholder may nevertheless, by application to the company, request for the documents to be distributed by mail.

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

### Registration and proxies

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

The right to attend and vote in general meetings may only be exercised for shares registered in the shareholders' register (VPS) no later than the fifth workday before the date of the general meeting (the registration date) according to the §6 of the Articles of Association.

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

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

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

### Agenda and execution

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

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

The Chair of the Board, Chair of the Nomination Committee, Chair of the Audit Committee, Chair of the Remuneration Committee, the CEO and auditor are present to respond to any questions and queries. The Chair of the Board and the Chair of the Nomination Committee assess on a case-by-case basis, based on the agenda of the general meeting, whether all members should participate.

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

*Deviation from the Code of Practice: None*

## 7. NOMINATION COMMITTEE

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

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

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

### Composition

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

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

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

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

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

The Company does not have a corporate assembly.

The Nomination Committee composition as at 31.12.2019:

Name	Company	For election
Heidi Finskas	KLP Kapitalforvaltning	2020
Øystein Elgan	Rieber & Søn AS	2020
Fredrik Thoresen	Storebrand Asset Management	2020

*Deviation from the Code of Practice: None*

## 8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The Company does not have a corporate assembly.

### Composition of the Board

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

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

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

As at 31 December 2019 the Board of Directors comprised of seven members, whereof two elected by and amongst the Group's employees. The Chair of the Board resigned 14 January 2020. The Vice Chair of the Board took on the position and acts as Chair of the Board until the next ordinary General assembly. After the resignation of the Chair, the Board consist of two shareholder-elected women and two shareholder-elected men, hence the gender diversity requirement pursuant to Norwegian legislation is fulfilled. The Board had one change in the shareholder-elected composition during 2019, Trine Strømsnes was elected as new member of the Board.

The acting Chair, Trond Valvik, holds the position as Investment Director in the company's largest shareholder, Rieber & Søn AS. The other board members including the former Chair of the Board are independent of the company's main shareholders.

### Board of Directors Composition as at 31.12.2019:

Name	Position	Service since	Elected until AGM	Shareholding in Q-Free ASA (direct or indirect)
Tore Valderhaug	Former Chair	2016	Resigned 14 Jan 2020	25 000
Trond Valvik*	Acting Chair	2017	2021	0
Trine Strømsnes	Board member	2019	2021	0
Snorre Kjesbu	Board member	2016	2020	39 505
Ingeborg Molden Hegstad	Board member	2018	2020	24 600
Olav Gulling	Employee-elected member of the Board	2018	2020	0
Rune Jøraandstad	Employee-elected member of the Board	2016	2020	0

\* Valvik holds the position as Investment Director in Rieber & Søn, which as per 31.12.2019 owned 23,027,806 (25.81%) shares in Q-Free ASA.



**Participation in Board meetings in 2019:**

Name	Board meetings
Tore Valderhaug*	12
Trond Valvik	13
Trine Strømsnes**	6
Snorre Kjesbu	13
Ingeborg Molden Hegstad	12
Olav Gulling	13
Rune Jøraandstad	12
Ragnhild Wahl***	6

\* Tore Valderhaug resigned as Chair of the Board 14.01.2020

\*\* Trine Strømsnes serves as board member from 28 May 2019

\*\*\* Ragnhild Wahl served as board member until 28 May 2019

**Independence of the Board**

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

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

*Deviation from the Code of Practice: None*

**9. THE WORK OF THE BOARD OF DIRECTORS****Instructions**

The Board has issued instructions for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties. The purpose of the instructions 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 Chair is absent, the meeting will be chaired by the Vice Chair.

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

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

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

**Remuneration committee**

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

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

The Remuneration Committee makes proposals to the Board regarding employment terms and

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

Remuneration Committee composition as at 31.12.2019

Ingeborg Molden Hegstad (Chair)

Rune Jøraandstad

### **Audit Committee**

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

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

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

*Audit Committee composition as at 31.12.2019:*

Tore Valderhaug (Chair)\*

Trond Valvik

\*Tore Valderhaug resigned as Chair of the Board 14.01.2020.

*Audit Committee composition as per 21.01.2020:*

Trond Valvik (Chair)

Snorre Kjesbu

### **Technology Board Committee**

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

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

*Technology Board Committee composition as at 31.12.2019:*

Snorre Kjesbu (Chair)

Trine Strømsnes

Olav Gulling

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

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

*Deviation from the Code of Practice: None*

## 10. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

The following areas represent the key parts of our management system:

- **Quality** is an essential part of our management system to ensure focus on risk management, process management, and continuous improvement in all core and support processes. Q-Free is certified according to ISO 9001.
- **Environment** is an integrated part of Q-Free's management system to emphasize our positive environmental role externally and ensure we "walk the talk" internally. Q-Free is certified according to ISO 14001.
- **Health and safety** is another key part of our management system. Q-Free must provide safe and healthy workplaces by preventing work-related accidents, injuries, and bad health among employees and contractors. Q-Free Norway is certified according to ISO 45001.
- **Information security** will become a key part of our management system going forward. Information security must cover all ICT systems and equipment related to our solutions, and for which Q-Free is responsible for operating and maintaining. Q-Free has an ambition to obtain the ISO 27001 certificate for Q-Free Norway in 2021, whereas some selected entities might be certified in 2020.

The Quality, H&S, Environment and Information security policies are publicly available on the website.

*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 2019 to the Annual General Meeting of 2020:

The Chair of the Board:  
NOK 450,000

The Vice Chair of the Board:  
NOK 300,000

Members elected by the shareholders:  
NOK 250,000

Members elected by the employees:  
NOK 90,000

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

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

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

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

The Directors' fees are as at 31 December 2019 not linked to performance. The members of the Board have no share options in the company.

For further information about remuneration of the Board see Note 12 in the 2019 financial statements.

#### **Remuneration of the Nomination committee**

Remuneration from the Annual General Meeting of 2019 to the Annual General Meeting of 2020:

The Chair of the Nomination Committee:  
NOK 45,000

Members of the Nomination Committee:  
NOK 30,000

*Deviation from the Code of Practice: None*

## **12. REMUNERATION OF THE EXECUTIVE MANAGEMENT**

Q-Free's remuneration policy has always been to offer salaries adjusted to market conditions to attract the competence needed. The Board has determined and approved special guidelines for the stipulation of salary and other remuneration to executive management, and the structure of the incentive system is presented to the Annual General Meeting for information purposes. The statement of remuneration of executive personnel is given in a separate appendix to the agenda of the Annual General Meeting and with clear aspects of which of the guidelines are advisory and binding. The general meeting votes separately on each of the aspects of the guidelines. The guidelines for remuneration help to ensure convergence of the financial interests of the executive personnel and the shareholders.

The executive management receives a basic salary and are members of the company's pension scheme. An incentive scheme for executives and leading employees with synthetic options was approved in 2015. The agreements under this program were in force from 2015, and the program was then closed for further grants. The synthetic program expired in March 2019. A share option program for the CEO was approved in 2016 and renewed/replaced in 2018. A share option program for leading executives was approved in 2017. The remuneration to the executive management also includes a performance-based bonus scheme. Please see Note 12 and Note 13 in the 2019 financial statements. All performance-related remuneration is subject to an absolute limit.

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

For more information about incentive programs, please see chapter 3 in this document and Note 13 in the 2019 financial statements.

### Evaluation

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

For further information about remuneration of the CEO and other members of the executive management, see Note 12 in the 2019 financial statements.

*Deviation from the Code of Practice: None*

## 13. INFORMATION AND COMMUNICATION

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

Regular information will be published through the Annual Report and the quarterly reports and open presentations, at the same time as the information is published on the company's website. The quarterly results are also made available through webcast. Q-Free will also provide information on its major value drivers and risk factors through the interim reporting, which will enable investors to evaluate the company's risk and performance. Q-Free publishes an overview each year of the dates for major events. The annual report will be published within four months after year-end.

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

Q-Free follows The Oslo Børs Code of Practice for Investor Relations. All information relevant to the company's shareholders is published on Oslo Børs and made available on the company's website [www.q-free.com](http://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 2019 Q-Free ASA arranged a competitive tendering among several auditor companies, and EY AS was elected as the new auditor for the company. Independent external auditors have also been appointed for most subsidiaries of Q-Free ASA which have requirements for a statutory audit.

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

The auditor attends the Annual General Meeting and informs about the auditor's report and remuneration for the year. This year's auditor's report follows the notes in the annual report. For further information about remuneration of the auditor, see Note 23 in the 2019 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*

# CORPORATE SOCIAL RESPONSIBILITY REVIEW 2019

## CONTEXT

### Key mobility challenges

Increasing urbanization presents us with unprecedented transportation challenges. Around the world, cities and people are looking for new and better ways to deal with mobility challenges such as congestion, accidents, and unsustainable pollution levels.

- We are stuck in traffic. Congestion is already a worldwide hassle, and the associated costs are high. For example, research conducted by INRIX shows that London citizens clocked a remarkable 227 hours stuck in congestion in 2018, costing each driver GBP 1680 annually.
- We are killed by traffic. On a global level 1.35 million people lose their lives in traffic accidents each year. Even more people are seriously injured.
- We are exposed to bad air quality caused by traffic. The World Health Organization has stated that 80 percent of urban populations are exposed to pollution levels that exceed guidelines. Traffic is a major reason for this. In short, transportation is no longer efficient, safe and clean.

### A meaningful purpose linked to Sustainable Development Goals

Q-Free's mission is to create intelligent solutions for efficient, safe, and environmentally friendly transportation based on innovative technology and open platforms. In short, Q-Free's purpose is to help society and customers tackle mobility, safety, and environmental challenges related to traffic and help sustain urban growth and quality of life. What is good for the company is also good for society.

With our solution concepts Q-Flow (for improved mobility), Q-Safe (for increased traffic safety) and Q-Clean (for environmentally-friendly transportation) we address the new mobility challenges, either stand-alone or in combination. This ties in with some of the UN's Sustainable Development Goals (SDG):

- Good health and well-being (SDG 3)
- Decent work and economic growth (SDG 8)
- Industry, innovation, and infrastructure (SDG 9) and
- Sustainable cities (SDG 11)

These four SDGs fit our vision, mission, values, market position, current strategy, and identity. They are not only guiding stars for us, they are also a confirmation that there is consensus in what we view as important when building a new and better world for all. With time we may expand our approach and incorporate additional goals as we learn and grow. We aim to measure our contribution towards the achievements of the SDGs and continue to create sustainable business opportunities.

### Our stakeholders

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

### The Q-Free management system

To ensure focus and increase control and efficiency on corporate social responsibility matters, Q-Free has established a Management system with processes, policies, and procedures. All employees are trained in our Management system - the "Q-Free way" of working. Knowledge sharing between employees is performed through our process documentation and leads to continuous improvements. The management system also ensures that responsibilities are defined and communicated within the organization.

The following areas represent the key parts of our management system:

- **Quality** is an essential part of our management system to ensure focus on risk management, process management, and continuous improvement in all core and support processes. Q-Free is certified according to ISO 9001.
- **Environment** is an integrated part of Q-Free's management system to emphasize our positive environmental role externally and ensure we "walk the talk" internally. Q-Free is certified according to ISO 14001.
- **Health and safety** is another key part of our management system. Q-Free must provide safe and healthy workplaces by preventing work-related accidents, injuries, and bad health among employees and contractors. Q-Free Norway is certified according to ISO 45001.
- **Information security** will become a key part of our management system going forward. Information security must cover all ICT systems and equipment related to our solutions, and for which Q-Free is responsible for operating and maintaining. Q-Free has an ambition to obtain the ISO 27001 certificate for Q-Free Norway in 2021, whereas some selected entities might be certified in 2020.

Our Quality, H&S, Environment, and Information security policies are publicly available on the website.

### The pillars of Q-Free's CSR efforts

Q-Free's corporate social responsibility program has three main pillars:

1. Contribute to reducing the negative climate and environmental impact of transportation
2. Be a professional and attractive employer
3. Conduct our business responsibly

### 1. CONTRIBUTE TO REDUCING THE NEGATIVE CLIMATE AND ENVIRONMENTAL IMPACT OF TRANSPORTATION

#### Real impact

Greener and cleaner transportation is key to tackling one of the greatest challenges of our generation: climate change. Road vehicles still account for roughly 18 percent of direct global CO<sub>2</sub> emission from fuel combustion and this must be reduced. Q-Free's electronic tolling and congestion charging solutions allow for the collection of funds directly from those who pollute and make it possible to invest these funds in sustainable transportation infrastructure. Q-Free's smart traffic signal operations and freeway management solutions also help reduce emissions from unnecessary miles driven and stop-and-go traffic.

Q-Free's tolling systems have improved the air quality in Sweden since the implementation of the Congestion Tax project in Stockholm in 2006 and in Gothenburg in 2013. The systems delivered by Q-Free detect and identify eligible vehicles in the cities using video technology, and the corresponding tax is levied with the amount varying depending on the time of day. This influences the behavior of people by making them assess whether they need to drive at a particular time, whether they can take public transportation instead of a personal vehicle, or whether they need to make the journey at all. For example, since the launch of the Stockholm system the number of passages within the congestion zone has been reduced by approximately 20 percent. Carbon dioxide emissions have gone down by over 3 percent, air-borne pollutants are down around 13 percent and nitrogen oxides (NO<sub>x</sub>) have been reduced by around 9 percent.

#### Measurable environmental KPIs

It is important for us to minimize the direct negative impact our operations have on the environment by ensuring that our company designs, manufactures, sells, and delivers its products and services with the smallest possible ecological footprint. Therefore, we regularly assess the environmental impact of our activities through environmental aspect analyses and other processes. Based on these assessments we have established an action plan to continuously reduce our negative footprint and maximize the positive effects our solutions have on the environment.

The ownership of environmental management has improved within top and middle management through clear, annual environmental goals that are measured and acted upon:

KPI	Area	Goal 2019	Goal 2020	H2 2016	2017	2018	2019
Number of tolling lanes in operation	E	> 2 000	>2 000			1810	1890
Travel emissions							
Number of ton CO <sub>2</sub> pr. million NOK in sales	E	<1.0	<0.25	0.606	0.414	0.339	0.241
OBU's shipped by sea	E	>5%	>10%				5.7%

The number of tolling lanes in operation is a clear indication of our positive environmental impact. By introducing tolls, governments can increase the cost of road traffic and thus enable a shift to greener, mass-transit solutions. In 2019 we had close to 1900 lanes in operation, slightly below our target for the year.

Our focus on reduced travel and increased investments in video communication equipment have resulted in a reduction of 299 tons of CO<sub>2</sub> during the last three years. Our Supply chain have increased sea freight when possible instead of air freight. 5.7% of our on-board units were shipped by sea freight in 2019 and the goal for next year is 10%.

We can also mention that in the transition from our transceiver RSE650 to RSE651, Q-Free was able to reduce the number of electronic components with 35%, reduce the total weight of material with 33%, and remove the battery.

### Compliance with environmental standards

Q-Free fulfils all environmental requirements imposed by the Norwegian authorities, as well as the EU. Q-Free's environmental management and operations are certified in accordance with ISO 14001:2015. 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.

## 2. BE A PROFESSIONAL, INSPIRATIONAL, AND MOTIVATIONAL EMPLOYER

### Rewarding work environment

Our Code of conduct and values (Excellence, Passion, Innovation, and Collaboration – EPIC) provide clear requirements for employee performance and behaviour – both internally in the workplace and in interactions with customers, business contacts, and others who are affected by our operations.

Q-Free considers the knowledge and experience of our employees as one of our most valuable assets. We want to attract, develop, and retain talented, innovative, and passionate employees. In return, we want to provide a competitive compensation and a good work environment where employees can develop and grow both personally and professionally. We have chosen three KPIs to measure how the company delivers on its promise:

KPI	Area	Goal 2019	Goal 2020	H2 2016	2017	2018	2019
Employee satisfaction (HCI)	HS	>4.2	>4.2	4.00	4.0	4.04	4.11
Absence rate (sickness)	HS	<2%	<2%	1.5%	1.35%	1.55%	2.7%
Accidents	HS	0	0	0	0	1	0

Twice a year Q-Free conducts an employee satisfaction survey focusing on identity, energy, working environment, and strategic alignment. Employee satisfaction has improved over the past years and was 4.11 in 2019 (on a scale from 1 to 5, where 5 means “very satisfied”).

2019 was a year without accidents in Q-Free Norge AS.

The sick leave in Q-Free Norge AS was 2.7% in 2019, which is below the national average for comparable workplaces.

### **Diversity and equal opportunities**

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

It is essential that our employees act in accordance with local laws, regulations, and etiquettes, while communicating openly and honestly in respect of local values and norms for social conduct. We focus on avoiding discrimination of individuals or groups based on their age, gender, disability, race, sexual orientation, ethnic origin, religion, political affiliation, or any other reason. No incidents or violations in relation to our fair and good working environment have been reported of any kind in recent years.

Gender equality and non-discrimination of male or female employees are important to us. Most of our employees work within engineering, technology development, and technical sales, which are disciplines that have traditionally attracted a majority of male applicants. This is reflected in Q-Free’s workforce demographics, which currently consists of 18% female and 82% male employees. The gender diversity requirements pursuant to Norwegian legislation are fulfilled. The Board of Directors currently has a 50-50 gender ratio of shareholder-elected board members.

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

### **Compliance with health and safety standards**

Q-Free Norge AS is the first Q-Free’s subsidiary to receive the ISO 45001 certification in 2019. This is a consequence of Q-Free’s efforts to enhance the Health and Safety measures within the Management system. With the Health and Safety increasing in the organisation’s focus, the positive feedback from the certification auditors is only a stepping stone in our efforts for continuous improvement and advancement.

Our commitment to the Health and Safety does not stop after getting certified. Locally elected H&S representatives also ensure an open channel for the employees to address their concerns. We have regular Committee meeting where the H&S representatives are also present to review health and safety performance, as well as address any relevant subjects for our work environment.

Health and Safety risks were reviewed and updated in 2019. The risk assessments are adjusted depending on the Region, local activities, projects and products, and are designed to accommodate the local legislation and requirements. All the improvements for Health and Safety in 2019 have been documented in the Register, along with all the H&S committee minutes of the meetings. We are still working to implement a robust H&S risk assessment in all parts of our value chain.

These subjects are also documented in our management system and the Q-Free Employee Handbook.



### 3. CONDUCT OUR BUSINESS RESPONSIBLY

#### Ethics guidelines

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

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

#### Anti-corruption

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

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

Q-Free identifies and monitors corporate risks including corruption and conducts analyses to define and evaluate how to address and mitigate these risks. In order to ensure that our employees have the competence to achieve our goals, we have conducted and will continue to conduct internal sessions how to prevent corruption and bribery.

These subjects are also documented in our management system.

#### Insider trading rules

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

#### Supplier monitoring

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

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