

We are a  
leading global  
supplier of  
solutions and  
products for  
Road User  
Charging and  
Traffic  
Management.

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# 2010

## Annual Report



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**3**

**We offer  
solutions  
and products  
based on state  
of the art  
technology.**

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**We  
deliver high  
quality  
solutions and  
products**





**We  
contributed  
to Europe's  
first  
nationwide  
tolling  
system**

Q-Free  
Annual Report  
2010  
Introduction

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# 6

## / Key Figures

- AS AT 31 DECEMBER 2010 -

Q-Free  
Annual Report  
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Introduction

FIGURES IN TNOK

### Profit & Loss Account

	2006	2007	2008	2009	2010
Operating revenues	386 942	410 854	509 246	804 403	<b>568 044</b>
Cost of goods sold	154 104	160 981	219 978	303 249	<b>268 233</b>
Operating expenses	186 450	212 021	224 034	365 769	<b>329 231</b>
EBITDA	46 387	37 852	65 233	135 205	<b>-29 420</b>
EBIT	29 373	20 875	44 283	102 743	<b>-90 373</b>
PROFIT BEFORE TAX	45 024	14 555	50 915	109 698	<b>-79 593</b>
PROFIT AFTER TAX	33 868	5 015	36 287	78 150	<b>-56 848</b>
Gross margin %	60.2%	60.8%	56.8%	62.3%	<b>52.8%</b>
EBITDA %	12.0%	9.2%	12.8%	16.8%	<b>-5.2%</b>
EBIT %	7.6%	5.1%	8.7%	12.8%	<b>-15.9%</b>

### Selected Balance Sheet Items

Intangible fixed assets	23 288	40 320	128 017	155 860	<b>186 897</b>
Tangible fixed assets	45 274	53 406	63 938	71 874	<b>63 261</b>
Cash	162 174	124 283	119 617	274 615	<b>85 724</b>
Total assets	426 395	393 055	514 425	767 534	<b>687 715</b>
Equity (incl minority)	295 505	300 596	351 663	548 601	<b>499 418</b>
Interest bearing debts	3 392	2 992	2 202	1 412	<b>622</b>

### Key Figures per Share

Earnings per share. ordinary	0.65	0.03	0.60	1.41	<b>-0.94</b>
Earnings per share. diluted	0.62	0.03	0.60	1.39	<b>-0.93</b>
Cashflow	0.35	-0.24	1.47	2.01	<b>-2.01</b>
Book equity	5.71	5.75	6.52	9.88	<b>8.29</b>
Average no of shares	51 779	52 274	53 976	55 536	<b>61 640</b>

### Other Key Figures

Order backlog	293 573	371 356	338 868	713 039	<b>575 132</b>
Return on Invested Capital (ROIC) in %	7.9	1.3	7.1	10.2	<b>-8.3</b>
Net interest bearing debts	3 392	2 992	2 202	1 412	<b>622</b>
Cash flow from operations	18 354	-12 718	79 172	111 852	<b>-123 309</b>
Operational investments	14 951	25 164	78 398	71 075	<b>66 996</b>
Equity ratio	69%	76%	68%	71%	<b>73%</b>
Gearing	0.8%	0.8%	0.4%	0.2%	<b>0.1%</b>
Number of employees	188	198	232	282	<b>282</b>

## / History

- FROM 1984 TO 2010 -

**The history of Q-Free is a history of customer oriented innovation.**

From the start of the company, focus has been on developing advanced technology optimising our customers' profitability. The world's first implementation of a full-speed non-stop electronic toll collection system was deployed at Ranheim (Trondheim, Norway) as a result of a R&D program carried out from **1986** to **1988**. When the Ranheim Toll station opened in 1988, the technology was groundbreaking, offering the motorist to pass and pay at up to 160 km per hour using OBUs with expected lifespan of 45 years. No technology at that time could offer performance matching the Q-Free system and the cost of the equipment was 25 to 50 % of the cost presented by other systems existing at that time.

The early success of the Q-Free system at Ranheim Toll Station was further expanded to the large toll collection systems deployed in Oslo in **1990** and Trondheim in **1991**. Both these projects turned out to become great commercial successes for the owner of the system, creating a financial basis for a rapid road development and public transport improvement in the two cities.

In **1991**, the first international project also appeared at the scene when Brisa (Portugal) ordered the first electronic toll collection system at Carcavelos toll plaza, later to be expanded to include also the other toll plazas surrounding Lisbon, Loures, Sacavem and 25th of April Bridge.

With the systems operational in Oslo, Trondheim and Lisbon, Q-Free had proven its ability to design, implement and operate complex and large scale information systems for the purpose of fee collection.

Thus, when Brisa chose their technology partner for the deployment of Europe's first nationwide toll collection system based on the new standardised frequency 5.8 GHz in **1994**, Q-Free became their choice. The system was set into operation early **1995**, and the same system is still in operation.

In **1997**, The European Committee for Standardisation (CEN) decided on the so-called TC278 family of standards for Dedicated Short Range Communication (DSRC). Q-Free followed suit and in January **1998**, the World's first commercial system based on this standard was delivered by Q-Free to the Austrian Ökopunkte system and later on to Switzerland's LSV truck tolling system.

**1999** became the year of commercial boost. The TC278 standards had facilitated a rapid growth in system designs for road toll collection and in the autumn of **1999**, Q-Free won the contract for the development and implementation of large scale toll collection systems in Brazil, Australia and Norway. Q-Free also confirmed its leading position through winning the Dutch Rekeningrijden contract in a tough technology contest. This project was the most advanced study of a MLFF system at that time.

In **2002**, Q-Free was listed on the Oslo Stock Exchange. Transforming from a technology company owned by a few founding partners, Q-Free is today still a publicly listed company with more than a thousand shareholders.

**2004** became yet another milestone for Q-Free. Through winning the contract for the roadside system and OBUs to the Stockholm Congestion Tax System, Q-Free reconfirmed the company's lead-

ing role, not only in DSRC but also in Automatic License Plate Recognition (ALPR). Due to the local legislation, ALPR became eventually the only technology used for identification. The ALPR system delivered by Q-Free probably offers the best performance of any such system currently in operation worldwide. The Stockholm Congestion Tax System is the world's only ALPR solution where the clients' accounts are charged automatically solely on the basis of machine read images.

In **2005** the business of automatic fare collection (ticketing) was demerged from Q-Free forming a new public listed company - Fara ASA. Q-Free held shares in this company ASA until **2007**.

In **2008**, Q-Free confirmed its intention to be a technology neutral solution provider. The acquisition of the companies Dacolian (ALPR SW engines) and Building Capital (GNSS based toll collection solutions) represent important steps in this direction.

In **2009**, Q-Free achieved record high order intake and revenues. Through the award of the two biggest contracts in the industry since 2005, the Slovakia truck tolling project and the AENOR MultiLane Free Flow project in Portugal, Q-Free has further strengthened its market position.

## CEO's Corner



**My ambition is to establish Q-Free as the indisputable world leading supplier of Intelligent Transport Systems for Road User Charging (RUC) and Traffic Management.**

→ Q-Free is one of very few players in the Road User Charging (RUC) market who can deliver high quality solutions and products. Q-Free is one of the few companies who can back up this statement with references. Macro drivers, like the need for financing to build and maintain road infrastructure and need for congestion management are becoming more and more visible in all parts of the world. The RUC market is clearly set for considerable growth for many decades to come. The industry is still in the early days, and it is all about positioning Q-Free for long term growth.

From the financial numbers it is obvious that 2010 was a challenging year. As previously communicated 2010 was set to be a transition year, and as such a great financial result was never expected. Having said that, the situation in Slovakia turned out to be more challenging than anticipated and thus causing major impact on the numbers for 2010. Changes in the contract were enforced by the client after the system went into to operation January 1st 2010, implying that the company was not paid according to the contract. The system we deployed is still in operation, and did collect 140ME during 2010 without Q-Free maintaining the system.

This aside, we also have had some great achievement in 2010.

– We did start the truck tolling system in Slovakia as planned January 1st after a record short implementation time and under extreme conditions, we successfully implemented two new tolling systems in Portugal as planned, we signed our biggest product contract ever in Brazil, we had a break through in Chile and for the last months of 2010 and the start of 2011 we have received orders and frame agreements worth more than 600 MNOK.

For obvious reasons, and despite of the long term growth plans, we initiated actions in the last quarters of 2010 to reduce the cost base in the company and hence reduce the financial risk in the near future. We have put on hold some of the planned development activity, scaled down some operational activities in selected countries and generally improved cost efficiency in the company. Depending on how things develop in 2011 we may reconsider some of the above actions, but first and foremost the goal for 2011 is to re-establish acceptable financial results and cash flow. It is however important to emphasize that the company still has many important on-going activities, both when it comes to new portfolio under development and targeted market activities, which will strengthen our market position during 2011.

Taken into consideration the global market trends, Q-Free's position and not at least

the spirit in the company, I am convinced that we will experience a long term positive development. During 2011 we will be "back on track", – the awards in Portugal and South Africa represent an important start in this respect.

The vision of Q-Free is to be a globally preferred partner in the area of Intelligent Transport Systems, having world-wide leadership in Road User Charging and Traffic Management. This is a **bold** vision, but achievable if we do the right things long enough. Short term challenges do not stop us believing, in and working hard, towards achieving this goal.

Thanks to all clients, employees and partners for your strong commitment to Q-Free.

**Dr. Øyvind Isaksen**  
*President & CEO*  
(sign.)

## Management team



### From the left:

#### 1 / Dr. Øyvind Isaksen President and CEO

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President and Chief Executive Officer – **born 1963** –, Dr. Øyvind Isaksen has held the position as CEO since 2006. He has a PhD in Physics (University of Bergen 1994). Dr. Isaksen has held positions as President of Nera Networks (2002-2006) and President of Roxar Flow Measurement/Fluenta. He has also held management positions in ABB Research and Christian Michelsen Research.

#### 2 / Roar Østbø Chief Financial Officer (CFO)

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Roar Østbø – **born 1961** – has been employed in Q-Free ASA since 2009.

Østbø came from the same position in Aqualyng Group and has previously held the CFO position in the publicly listed companies Q-Free ASA and CorrOcean ASA, and in the oil service company Reslab AS and Sintef. Mr Østbø is a Certified Public Accountant from the Norwegian School of Economics and Business Administration (1988) and has also worked as auditor in Arthur Andersen & Co.

#### 3 / Per Ecker Vice President Sales

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Per Ecker – **born 1969** – has been with the company since 2007. He came from the position as Sales Director in Siemens Mobile Networks (1992 - 2007) with responsibility for Eastern European markets in particular. Mr. Ecker has extensive experience from international sales both in

Asia and Europe. He is educated by The Norwegian Army Officers Training School (1986-1989) as Second Lieutenant in Electronics.

#### 4 / Marianne Sandal Vice President Operation

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Marianne Sandal – **born 1965** – has been with the company since 2006. She holds an engineering degree from the University of Bergen (1988), in addition to credits within management from Norwegian School of Management (BI). Marianne Sandal has been working in Nera Networks since 1988, has extensive experience in project management, and since 2003 she has been heading the world wide operation activity of Nera.





**From the left:**

**5 / Dr. Jos A.G. Nijhuis**  
**Vice President R&D**

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Dr. Jos Nijhuis – **born 1965** – has been employed since 2008. Nijhuis holds a M.Sc. (with honors) in Electrical Engineering 1987; and a Ph.D. in Natural Sciences from Nijmegen University in 1992. Nijhuis has extensive experience in ITS software development from various positions within academia and industry. Nijhuis is also the CEO and co-founder of Dacolian B.V.

**6 / Henrik F. Stoltenberg**  
**Vice President BD and M&A**

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Vice President Business Development & M&A Henrik F. Stoltenberg – **born 1960** – came from the position as Group Executive

Vice President, responsible for the daily operation of JAI Group (Denmark), and with focus on implementing the corporate strategy. Mr. Henrik F. Stoltenberg holds a HD Degree from Business School Copenhagen. He has been Chief Financial Officer and member of the management team in JAI since 2006.

Henrik F. Stoltenberg has previously also been finance director at Merkantildata A/S in Denmark and Bruhn A/S.

**7 / Stein-Tore Nybrodahl**  
**Human Resource Manager**

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Stein-Tore Nybrodahl – **born 1965** – is Q-Free's Human Resource Manager and started with the company in 2006. He holds a Master's degree in Business (Copenhagen Business School, Denmark,

1992) and successfully completed the senior executive program INSEAD in France (1993). He has extensive HR and strategy experience having held various senior management roles at Telenor (Norway), where he became director of strategy and HR development. At Q-Free, Mr. Nybrodahl is responsible for the management and development of human resources.

**8 / Steinar Furan**  
**Advisor to CEO**

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Steinar Furan – **born 1963** – has been employed since 1990 and holds an engineering degree in electronics (Trondheim Ingeniørhøyskole 1984 and University of Tromsø 1987). He has extensive experience in various senior positions within the company.

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— **We can  
back up our  
promises  
with  
references**



# Business review

## 1 / Market drivers and trends

Q-Free operates mainly in the market of Road User Charging (RUC). Through acquisitions the last couple of years the group has intensified its activity within Traffic Management, delivering software components for law enforcement, parking/access control and travel time systems through selected partners.

The market for RUC solutions is still at an early stage and it is expected that more countries will implement RUC systems for various applications and that the penetration in existing markets will increase.

When a market has adopted a RUC technology, the growth phase is expected to last for many years. Throughout 2010 the sales pipeline has developed positively and many important contracts have been awarded.

### The most important market drivers for RUC solutions can be segmented as:

- 1. Financing of Infrastructure**
- 2. Truck Tolling**
- 3. Efficiency of existing RUC Solutions**
- 4. Congestion Charging**
- 5. Other RUC Solutions**
- 6. Traffic Management**

#### 1. Financing of Infrastructure

Financing of infrastructure is a strong driver since private equity through govern-

ment concession or private public partnership contracts are increasingly involved to finance, build and operate roads, bridges and other major infrastructure. Private equity gets return on investments through RUC projects. There is not sufficient public funds available to implement all needed infrastructure.

#### 2. Truck Tolling

Truck Tolling has been extensively used in Germany for a number of years, and truck tolling schemes have also been rolled out in the Austria, Czech Republic and Slovakia. All these truck tolling systems have proven to be viable and it is expected that the truck tolling market will constitute a considerable share of the market for road user charging in Europe going forward.

#### 3. Efficiency of existing RUC Solutions

There is a large efficiency potential to convert existing manual operated tolling schemes to fully electronic (automated) RUC systems. This process has already started and operators both in Europe, Asia and the Americas are in the process of upgrading their existing solutions to modern electronic solutions, – often called MultiLane Free Flow or Open Road Tolling. This conversion will take time, but the trend is clear.

#### 4. Congestion Charging

Stockholm is still the outstanding reference for congestion charging, clearly demonstrating the concept's capacity to change travellers' behaviour and thereby contribute to a significant improvement of the city's environment and the citizens' quality of life. Stockholm has reduced traffic in the city centre by 20-25%, and travel time during rush hours is reduced by 30-50% ([www.stockholmsforsoket.se](http://www.stockholmsforsoket.se)).

The congestion charging market potential is huge, but will take longer time to materialise compared to the above mentioned application areas. Several initiatives to implement congestion charging are ongoing. It is expected that this segment will develop somewhat slowly due to the political sensitivity, but no doubt it will represent a huge market for Q-Free.

#### 5. Other RUC Solutions

In addition to the above mentioned market drivers, 2010 has shown that new markets are starting to be visible in the area of road taxation, - namely Electronic Registration

and Identification (ERI). A new regulation has been formalised for European countries and will probably set the standard in this market segment. Regulators in several countries are now in the starting phase of developing projects to implement electronic number plates to regulate and enforce annual taxation and security on the roads in a better way. This represents a huge market potential since it implies that all cars will be equipped with a tag identification, in addition to the need for road side infrastructure and central systems.

#### 6. Traffic Management

Traffic Management in general is a growing market. Technologies like measurement of travel time to give data for traffic planning and average speed measurement are examples of applications that seem to become increasingly popular. Q-Free has for many years supplied technology for applications such as travel time measurements and traffic planning based on DSRC technology. With the acquisition of Dacolian, thereby being able to offer also automatic license plate recognition technology (ALPR), Q-Free takes a more firm grip on the market segment of Traffic Management.

## 2 / Road User Charging (RUC) technologies and their deployment

The RUC market is segmented globally by its use of RUC technology. The main technologies employed are DSRC, RFID, GNSS, ALPR and MTC. The following offers an overall description of the different technologies and their spread geographically.

#### 1) DSRC

##### *Dedicated Short Range Communication*

DSRC is a technology that follows European CEN and ETSI standards dedicated for RUC purposes. The cars communicate with the charging point through an OBU installed on the windshield of the vehicle. The CEN DSRC is a microwave communication link and the OBU has processing capabilities for communication and security. DSRC based systems are widely used and successfully implemented in large scale in Europe, Australia, and Latin America.

#### 2) RFID

##### *Radio Frequency Identification*

RFID is similar to the CEN DSRC solution



except that OBUs usually do not have processing power. Popularly said the DSRC OBU has active components and the RFID OBU has only passive components meaning that a RFID based OBU does not need an internal energy source such as a battery. In some markets the RFID OBU is called a sticker tag. RFID is mainly used in some RUC systems in North America and in some countries in Latin America. Also RFID may seem as an attractive alternative to DSRC for electronic licence plate applications.

### 3) GNSS

#### *Global Navigation Satellite System*

All systems based on GPS are classified as GNSS. RUC systems based on GNSS require an OBU in the vehicle that positions the vehicle and by some other means (DSRC, GPRS) reports its position and movement to the RUC operator. The RUC market where the GNSS based system is being used is the RUC system for heavy goods vehicles, more specifically the German HGV system and in the Slovakia SkyToll system.

### 4) ALPR

#### *Automatic License Plate Recognition*

ALPR technology is based on digital video images of the vehicle's number plate and software that automatically reads the vehicle's licence number. ALPR based systems are used in some congestion charging systems such as in Stockholm and London. ALPR is also used as enforcement measures in RUC systems based on the above described technologies. As all electronic, fully automated tolling systems are being implemented, video based enforcement will be increasingly important.

### 5) MTC

#### *Manual Toll Collection Systems*

MTC is basically manually or semi manu-

## Vision and strategic positioning

**A leading supplier of Intelligent Transport systems for Road User Charging and Traffic Management**

- **Q-Free**
  - Technology independent**
  - + Portfolio covering most wanted solutions (Tag – Camera – GPS)
  - Flexible with respect to role**
  - + From product supplier to turn key provider
  - + Not compete with our customer such as operators and major system integrators
  - Migrate to an its player**
  - + Q-Free will over time expand offering to include new ITS area
  - + E.G. Parking Access & Control Systems and ERI

ally collection of the charge from the road user. Manually means that there are personnel in a toll booth that collects the charge, and semi manually means that the manual collection is supported by some technologies like classification equipment, coin machines and enforcements cameras. MTC has been in use for decades and is widely in use in markets that introduced RUC a long time ago as well as in emerging markets. MTC is currently deployed in large scale in North and South America, Asia Pacific and East and South Europe.

The above described technologies are industrialised, and technology innovations are expected to be limited to improvements of price/ performance ratio.

The technology that Q-Free expects to become a universal RUC solution in the long term is the CALM (Communication Access for Land Mobiles) standard. CALM is the standardisation of ITS telematics protocols, procedures and management processes. Q-Free is one of the initiators of CALM. CALM will enable vehicle-to-vehicle communication and vehicle-to-roadside communication enabling safer and more environmental friendly transport as well as forming the basis for future RUC applications.

Q-Free has taken a leading role in defining the CALM standards. However commercial products based on CALM are still some years ahead.

## 3 / Strategy and positioning going forward

The vision of Q-Free is to be a globally preferred partner in the area of Intelligent Transport Systems having world-wide leadership in Road User Charging and Traffic Management.

Our objectives related to ITS, and Traffic Management in specific, are based on the belief that the Traffic Management and the RUC market will converge. One important driver for this to happen is the development of standards and technology enabling car-to-car communication and car-to-infrastructure for enhanced road safety and environmental friendly transport. This convergence may imply that instead of building autonomous tolling and/or traffic management system, common infrastructure will be deployed and whether it is used for tolling, congestion charging, electronic licence plate enforcement, traffic management etc. will be determined on an application level. There is no doubt that this transition will take some time, but it



is important for the company to be positioned. This transition represents an major opportunity for Q-Free to take big steps from being a RUC company to become a broad ITS company supplying solution platforms, and applications, both for advanced traffic management and road user charging. The company will continue to participate in the standardisation forums in this area and also carry out technology and demonstration/pilot activities to prepare ourselves for this transition.

However, the growth potential for Q-Free in the medium term is clearly dictated by the development of the RUC market, and hence the main focus in short and medium term will be to continuously strengthen Q-Free position in this area. This will be done by having world best and most cost efficient offering within all technologies normally deployed for RUC, by having global reach and by continuing to build an international organisation with the aim to achieve high customer satisfaction. Not many years ago Q-Free was mainly known for its excellence in the DSRC area, but has now step by step moved a long way towards being a technology independent supplier of RUC solution in a global market. This work will continue, both when it comes to expanding our offering and market reach, by means of organic development and through acquisitions.

The role of Q-Free in a supply contract may vary from being a product supplier to deliver a turn-key system to an operator/government. Q-Free will not explore an operator role, as we see these players as our potential clients. Having this strategy we will over time establish a healthy mix of recurring business, represented by product sales and service activity, and deployment of infrastructure projects.

## 4 / Q-Free's offering

### From product supply to turnkey solutions

As mentioned above Q-Free will take responsibility for the supply of products/technology to deliver turn-key systems.

#### 1) System/Turnkey solutions

Q-Free's engineers have twenty-six years of experience in the design, build and operation of complex road user charging systems. During this time, Q-Free has developed, built and maintained a broad range of different schemes, ranging from barrier controlled lanes to MultiLane Free Flow systems. The solutions designed by Q-Free's engineers have also been utilising all different types of vehicle classification known and a vast range of different payment methods. This means that our engineering staff is able to choose the right product mix for each implementation, always keeping focus on the highest return on investment.

#### 2) Back Office systems

A road user charging system can be seen as a system where the peripheral sensors and the control stations collect information and where the processing of the data collected takes place in a centrally controlled environment, often referred to as the back office system. Q-Free has since the early '90s delivered a large number of such systems to customers world-wide. Q-Free's current base of back office systems are found in Portugal, Slovakia, Norway, Australia, Thailand and Iceland. These solutions offer custom designed payment arrangements and support all known varieties of subscription schemes, such as prepaid, post-paid and different discount schemes. The back office systems of Q-Free currently handle approximately 3 million payment transactions every day.

#### 3) Dedicated Short Range Communication (DSRC)

Q-Free was among the leading partners for the development of the CEN DSRC standards, securing common product interfaces for in vehicle equipment and roadside communications equipment. Q-Free has today a range of products supporting the CEN DSRC standards. During 2010, a new product family of CEN DSRC compatible OBUs and roadside communication equipment has been released. Q-Free offers complete system solutions based on DSRC.



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3a



3b



#### 4) Global Navigation Satellite Systems (GNSS)

Motivated on basis of growth in the truck tolling market, Q-Free has developed a new compact GNSS OBU technology platform. The test carried out is promising and Q-Free will seek to find a customer project to enable commercialisation of the product. Q-Free already have available enforcement solutions and operational back office solutions for GNSS applications.

#### 5) Video Tolling and Enforcement

Video tolling, where the system relies on video images of cars only, is expected to be more widespread in the coming years, in particular where the system predominantly observes local vehicles. The Stockholm Congestion Tax System, where all users are charged on the basis of automatically reading of number plates, is an example of such a system. Q-Free offers a complete and turn-key system solution for video tolling, from cameras with ALPR software to roadside infrastructure and operational back office solutions. Video based enforcement will become increasingly important as MultiLane Free Flow / Open Road Tolling systems, i.e. no barriers used and traffic flows without stopping, are being implemented. Q-Free offers the most advanced systems enabling cost efficient and reliable enforcement.

#### 6) Traffic Management

Through the company's DSRC and ALPR products Q-Free delivers solutions for parking, access control, speed and red light enforcement. This market is normally explored through partners.

### 5 / Market development during 2010

As foreseen in the annual report for 2009, 2010 became an important year with

respect to positioning the company for several important contract wins in 2011. The last months in 2010 and the start of 2011 have given us clear signs of this by being awarded in a few months, contracts and frame agreement worth more than 600 MNOK after Q3 2010. The market activity has been high in several countries throughout the whole of 2010 and the market drivers mentioned in Section 1 has clearly become more visible during the year. The need for financing to maintain and deploy new infrastructure and means to control pollution/time inefficiency caused by increasing traffic density are all macro drivers becoming increasingly visible. These are factors which will drive the RUC market for many decades, and 2010 has confirmed this by seeing an increased number of cases under development. Below follows a detailed look into the various regions;

#### Regional Market Updates

##### Europe/Middle East

In 2010, Europe represented 55% of Q-Free's revenues as well as 54% of the Group's order backlog at the end of the year, making it the Company's largest market by far. The Group has during the year mainly focused on Portugal, France, Turkey, Sweden, Norway and parts of Central Europe.

Two contracts have been announced in the region during the year; - these are; - a 17 MNOK tag contract from Via Verde (Portugal) and a 29 MNOK contract related to service and changes of the congestion charging infrastructure in Stockholm.

The activity in Portugal has been high and has, early 2011, lead to important contract awards both with respect to infrastructure and tag supply. Also the new tolling system deployed during 2009/2010 was successfully put in to operation mid October 2010.

For France the company has been positioning itself for a nationwide truck tolling scheme and as a DSRC tag supplier. The nationwide truck tolling scheme is in the process of being awarded to a consortium led by Autostrade, and Q-Free will continue to explore opportunities as a sub-contractor to stakeholders in this consortium. For the tag supply in France Q-Free has been active in getting approved the new tag, OBU 610, in this market and this is expected to show result in 2011 and onwards.



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For Turkey the main addressable market has been related to supply of tags, and the company has received orders for delivery of the new tag (OBU 610).

In Sweden the market activity has been related to both service and maintenance activity of the existing congestion charging infrastructure built by Q-Free and to position the company for delivery of similar infrastructure in Gothenburg. Sweden is expected to be an important market for Q-Free in the coming year as road user charging will increasingly be used for financing infrastructure.

In Norway the company is regularly bidding for the supply of smaller infrastructure projects, tags, services and back-office solutions. There are all reasons to believe that Norway will continue to deploy smaller and medium sized AutoPASS solutions, and Q-Free intend to maintain its strong position in this market.

The main market activity in Central Europe has been related to various truck-tolling opportunities in countries like Poland, Slovenia and Hungary. Q-Free did successfully put a truck tolling system in Slovakia into operation 1.1.2010, although there has been some commercial challenges. This represents an important reference for similar cases.

#### *Africa*

In Africa Q-Free has during the year participated in a tag tender in South Africa. The estimated demand over a 2-3 years period is approximately 3 million tags. Q-Free has been selected as one of two suppliers, and was awarded an initial supply of tags worth 28 MNOK in Q1 2011. The electronic tolling market in South Africa will increase over the years to come, both when it comes to new infrastructure pro-

jects and tags. Q-Free has, in addition to the tag opportunity mentioned above, also explored infrastructure projects which may implement fully automated tolling systems (MLFF) in the years to come.

#### *Asia/Australia*

In 2010, Asia Pacific represented 18% of Q-Free's revenues as well as 7% of the Group's order backlog at the end of the year. The Group has during the year mainly focused its market activity on Thailand, Australia, Indonesia, Malaysia and Taiwan. Four contracts have been announced during the year, – all from RTA (Australia) and comprises 48 MNOK in tag supply and 11 MNOK in services. In Thailand the main activity has been related to finalising on-going infrastructure, but the company has also started to explore the tag demand which is expected to grow in the years to come. The first tags have already been distributed but it will take some years before any significant roll out of tags will happen, reason being that manual operated lanes are still used extensively and that users need to get used to the new "all electronic system". Australia continues to represent an important market for Q-Free, specifically related to the supply of tags. The company has been exploring some new infrastructure projects, but has in 2010 not resulted in any major contracts. New market opportunities in Indonesia, Taiwan and Malaysia are starting to be visible, and may materialise in the next few years.

#### *North and Latin America*

North and Latin America represented in 2010 27% of Q-Free's revenues as well as 39% of the Group's order backlog at the end of the year. The Group has during the year mainly focused on Brazil and Chile and the distribution of the company's ALPR solution to all major system integrators in the US as such. The company has achieved great results in Brazil and Chile, and the company has announced four contracts in 2010. These are a 205 MNOK frame agreement for delivering tags and infrastructure to Centro Gestão Meios de Pagto (CGMP) in Brazil, minimum guaranteed 51 MNOK, a tag contract from Autopista Central and Vespucio Norte Express in Chile valued at 57 MNOK, and two frame agreement call-offs (24 MNOK and 26 MNOK) from CGMP for the supply of tags. In North America the company has become the

de facto leading supplier of high performance ALPR software. With the increased use of open road tolling in the US, ALPR based enforcement solution, and ALPR based tolling, is expected to grow. Also the company's position in this specific market segment may represent an attractive "currency" when exploring M&A possibilities.

## 6 / Outlook

The vision of Q-Free is to be a globally preferred partner in the area of Intelligent Transport Systems having world-wide leadership in Road User Charging and Traffic Management. Q-Free's ultimate and long term goal is to be the preferred provider independent of technology and solution the customers are looking for. The global ITS market is expected to grow considerably over the next years and Q-Free's market position is continuously strengthening. Our strategic positioning has been well received by existing and new customers and partners.

### **The most important application areas in the RUC segment are currently:**

#### **1. Fully Automated Free Flow Electronic Toll Collection**

#### **2. Truck Tolling**

#### **3. Congestion Charging**

Q-Free has relatively recently executed the most significant and advanced projects in all these three application areas through the execution of:

#### **The Portugal projects**

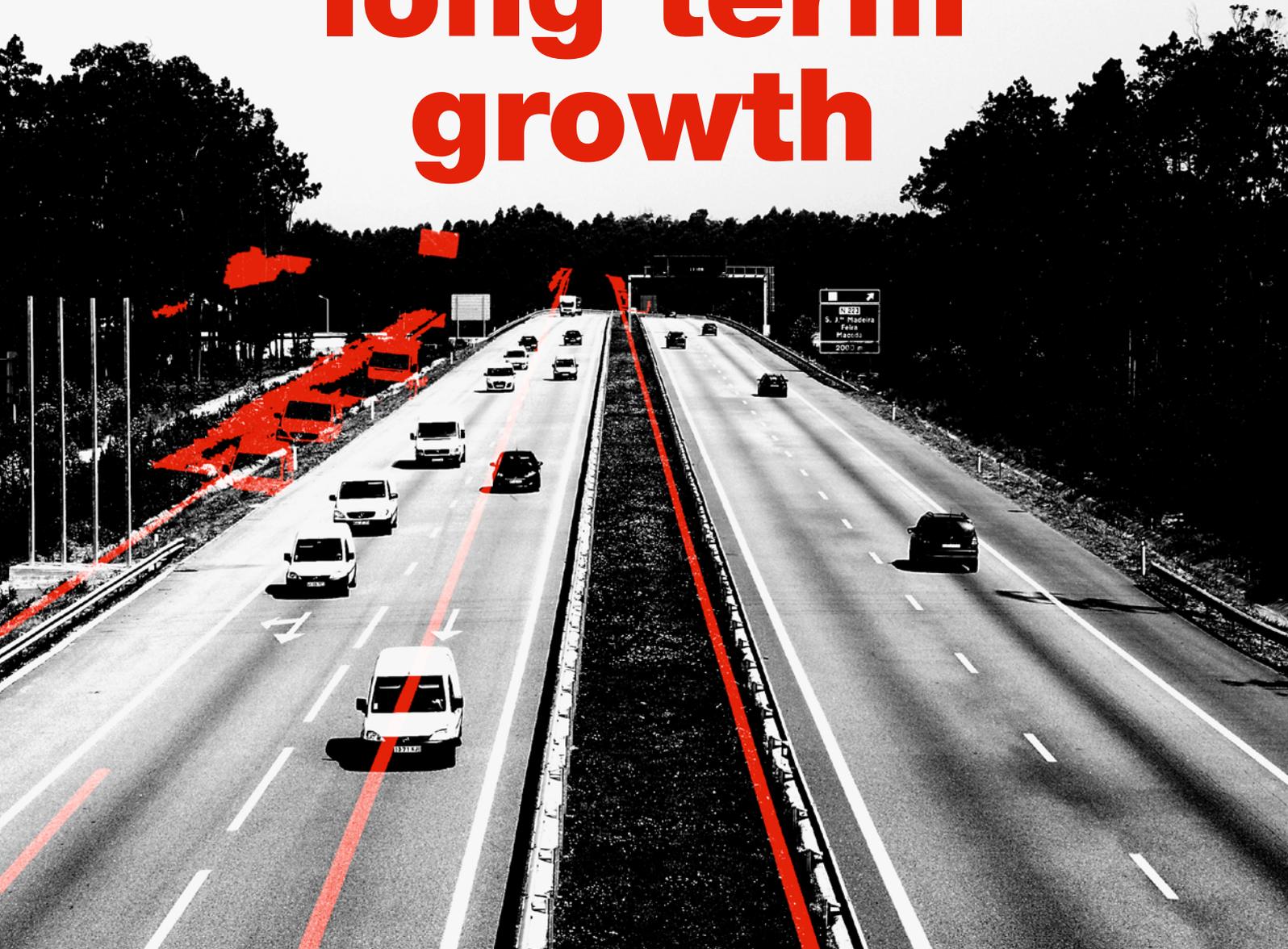
#### **Skytoll/Slovakia project**

#### **Stockholm project**

This forms a strong basis for exploring similar cases going forward and combined with continuous focus on improving both offering and execution, this will secure long term positive development of the company.

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# It's all about positioning Q-Free for long term growth



## Corporate governance

**Q-Free aims to protect and enhance shareholders' investments through profitable, sustainable business activities.**

Good corporate governance is intended to maximise added value and decrease business risks, at the same time as the Group's resources are to be utilised in an efficient, sustainable manner. The value added should benefit shareholders, employees and the community. Q-Free is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

Stock exchange regulations require listed companies to publish a report on their principles for Corporate Governance in the Annual Report, in accordance with Section 1 of the Norwegian Code of Practice for Corporate Governance, version dated 21st of October 2010. Q-Free ASA endeavours to comply with these recommendations. Where the Company differs from the Code of Practice, an explanation or comment is given.

The description is structured in accordance with the Code of Practice. As recommended, a greater degree of detail is provided on certain points.

### Corporate governance at Q-Free

Owners	Board	Executive management
Shareholders ↓	Board ↳	CEO ↓
General Meeting ↓	Compensation Committee ↳	Nomination Committee
Nomination Committee	Audit Committee	

The General Meeting elects 3–8 shareholders' representatives to the Board based on nominations from the Nominating Committee. Two-year terms of office.

Ultimate responsibility for strategy and management of the company. Advice regarding and oversight of routine management.

Executive management.

### 1 / Implementation of and reporting on Corporate governance

Q-Free ASA considers Corporate Governance to be the principles and guidelines that determine how the Company is managed and defines the relationship between the shareholders, the Board of Directors and the executive management of the Company. These principles and guidelines are established to protect the interests of shareholders, as well as other stakeholders such as employees, customers and suppliers. The topic of Corporate Governance is subject to annual reviews and discussions by the corporate Board of Directors. The Group's governance documents are reviewed and revised annually and the text for this chapter of the annual report is reviewed in detail.

#### Code of Conduct

Q-Free is a world leading supplier of Road User Charging (RUC) and Traffic Management products and systems having applications mainly within electronic toll collection for road financing, congestion charging, truck-tolling, law enforcement and parking/access control. Q-Free operates worldwide and its operations are characterised by high ethical standards. The Company plans to be the market leader by having a customer oriented offering, through excellence in execution and by trustworthy behaviour.

Q-Free has a Code of Conduct (COC) which is approved by the Board of Directors. The COC gives guidelines on how to behave both internally and externally. COC stimulates ethical awareness and is a guideline for everyday actions.

The Board of directors will in 2011 have a review of the COC inclusive guidelines for corporate social responsibility.

The COC applies to all members of the Board of Directors, managers, and all other employees and representatives of Q-Free ("employees"). The Company endeavours to make these guidelines known to its customers, suppliers and partners. All managers are responsible for the COC being known, followed, and that actions are taken if codes are broken. Each employee has a responsibility to read and follow the COC.

Violation of the COC will be subject to disciplinary action including possible termination as well as potential criminal prosecution.

In situations where the employee is aware of any infringement of the COC he/she shall raise the issue with his/her manager. If this is difficult, the employee shall report the



infringement directly to the HR responsible of Q-Free ASA. Incidents may also be reported anonymously if desired.

*Deviation from the Code of Practice:*  
None.

## 2 / Business

Q-Free ASA operates an international business based on delivering systems and products for Road User Charging and Traffic Management. The Company's Articles of Association are in compliance with the Code of Practice's recommendation with regards to a clearly defined business activity.

The Company's objective is to be engaged in research, development, production, operation and sales of information technology products and systems and everything else in this connection.

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

*Deviation from the Code of Practice:*  
None.

## 3 / Equity and dividends

Q-Free's policy is to maintain a high equity ratio to provide a platform for the Company's future expansion and growth. Based on this assumption, Q-Free ASA does not expect any dividends to be distributed to the shareholders in the next years to come.

Mandates granted to the Board of Directors 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 of Directors are recommended to be limited in time to no later than the date of the next annual general meeting.

The current mandate granted to the Board of Directors to purchase the Company's own shares is limited to one year, and as such in line with the Code.

Company has an incentive program that runs for 3 years for key employees and 2 years for shareholder elected members of the Board, of which both programs are consented by the General Meeting. The two year's mandate of the Board to increase the share capital by subscription of new shares better enables the Board to meet the commitments embedded by these programs, and as such in line with the Code.

See note 17 in the 2010 financial statements for further information about the incentive program.

*Deviation from the Code of Practice:*  
The Board's current mandate to increase the share capital by subscription of new shares, however, applies for two years.

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

Q-Free ASA has only one class of shares and there are no voting restrictions. The Board of Directors has no intention of putting forward any proposals to the General Meeting concerning voting restrictions.

An increase in the Company's share capital might be proposed if the Board of Directors decides that this would best take care of shareholders' long-term interests. If possible, the Board of Directors will propose that share issues are directed to existing shareholders in accordance with their preferential rights. However, if the Board resolves to carry out a private placement and waive the pre-emption rights of existing shareholders on the basis of a mandate granted by the General Meeting, the justification will be publicly disclosed in a stock exchange announcement pursuant to the Code.

The Board's mandate to acquire own shares is based on the assumption that acquisitions will take place on the market. Acquired shares may also be disposed on the market, as payment for acquisitions.

The Board of Directors is authorised to increase the share capital of the Company by issuing new shares to key personnel (incentive program), and is authorised to waive shareholders' preferential rights, in favour of key personnel in this program. The introduction of an incentive program is considered to be in the best interest of the shareholders and is explained in the agenda for the General Meeting.

The Company's policy on transactions with close associates is based on the requirement that any transactions must be at arm's length principle and at market prices. Where possible, the Company has arranged for a valuation obtained from an independent third party.

See note 18 in the 2010 financial statements for more information about transactions with related parties.

The Company has guidelines (Corporate Code of Conduct, cf. section 1 above in this report) to ensure that members of the Board of Directors and the Executive management notify the Board if they have any material direct or indirect interest in any transaction entered into by the Company.

*Deviation from the Code of Practice:*  
None.

## 5 / Freely negotiable shares

Q-Free ASA has no form of restriction concerning freely negotiable shares. The Board of Directors has no intention of putting forward any proposals to the General Meeting concerning restrictions on freely negotiable shares. The Articles of Association have no restrictions on negotiability.

*Deviation from the Code of Practice:*  
None.

## 6 / General meetings

The Board of Directors ensures that all shareholders are given the opportunity



to exercise their rights by participating in Annual General Meetings of the Company. By virtue of the AGM the shareholders are guaranteed participation in the Company's supreme governing body. The AGM adopts the Articles of Association and elects the Board of Directors and the Chairman of the Board, among other things. Shareholders representing at least 5 % of the shares can call for Extraordinary General Meetings.

An AGM will ordinarily be held before 1st of June each year, at the latest 30th of June according to law. The 2011 AGM is scheduled for the 19th of May.

The Board of Directors and the management of the Company seek to facilitate the largest possible attendance at the Annual General Meeting. In 2010, the Annual General Meeting was held on the 20th of May and shareholders representing 37.64% of the share capital attended in person or by power of attorney. The Board of Directors has no intention of putting forward any proposals to the Annual General Meeting concerning changes in the voting procedures.

The Company's Articles of Association regulates the notice period, right to attend and proposals for agenda.

Notice of the General Meeting is to be sent with at least a 21 days written notice to all shareholders with an address known to the company.

The Board may decide that relevant documents to be discussed in the General Meeting shall not be distributed by letter post if the documents are made available on the Company's website. This

shall also apply for documents which, according to legislation, shall be a part of or attached to the notice of the meeting. A shareholder may nevertheless, by application to the company, demand to be sent the documents which relate to the agenda of the General Meeting.

Shareholders themselves, or represented by legal representative, planning to participate at the General Meeting, shall notify the Company within a deadline set by the Board of Directors in the notice. The deadline cannot expire earlier than five days before the date of the General meeting.

To register for the General Meeting a shareholder must submit a confirmation in writing via letter post, fax, or e-mail (provided the registration form is a scanned document with signature).

The agenda for the General Meeting includes detailed information on the resolutions to be considered and the recommendation from the Nomination Committee.

The agenda at the AGM ensures that the shareholders attending may vote for the chairman of the General Meeting.

Shareholders are entitled to request specific matters to the agenda of a General Meeting, provided a written notice is given 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.

Shareholders who cannot attend the meeting are given the opportunity to vote. The right to attend to and vote in General Meetings may only be exercised for shares which are registered in the shareholders' register at the latest the fifth workday before the date of the General Meeting (the registration date). Instructions are given in the call for AGM. To vote at the General Meeting, a shareholder must attend or give power of attorney to someone who is attending. A power of attorney will only be accepted if submitted by post, fax, or e-mail (provided the power of attorney is a scanned document with signature). It is not possible to vote via the Internet or any other way.

The company nominates a person who will be available to vote on behalf of shareholders as their proxy.

#### *Deviation from the Code of Practice:*

The Code recommends that all Directors and members of the Nomination Committee are present at the AGM.

The entire Board and all members of the Nomination Committee have normally not attended the AGM. The Chairman of the Board, however, is always present to respond to any questions and queries. The Chairman of the Board and the Chairman of the Nomination Committee assess on a case by case basis, based on the agenda of the AGM, whether all members should participate.

## **7 / Nomination committee**

The Company has a Nomination Committee, and the General Meeting elects the Chairperson and members of the Nomination Committee and determines the committee's remuneration.

The Nomination Committee is defined in the Company's articles of association.

The Nomination Committee consists of three members who are shareholders or representatives acting on behalf of shareholders. Members of the Nomination Committee are elected for a period of two years.

The Board's proposal for instruction for the Nomination Committee was unanimously approved at the AGM in 2008.

**The tasks of the Nomination Committee are:**

- A)** to submit a recommendation to the General Meeting regarding shareholder elected members of the Board, including the Chairman of the Board, when these are up for election or in case of a by election. The Board of Directors elects its own deputy chairman from and amongst the elected Board members;
- B)** to ensure that the Board of Directors makes an annual self evaluation of their work and competence;
- C)** to propose Directors' remuneration, including remuneration of sub-committees of the Board;
- D)** to submit its recommendation to the General Meeting regarding election of members to the Nomination Committee, including the Chairman of the Nomination Committee.

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 composition of the Nomination Committee is such as to maintain its independence from the Company's Executive management.

The Nomination Committee emphasises industry and business experience as well as an equal gender balance when proposing the composition of the Board of Directors. Deadline for promoting proposals to the Nomination Committee is available at the Group's website [www.q-free.com](http://www.q-free.com). This deadline is set to allow for necessary reviews, reference checks etc. prior to the deadline for submitting the notice for the General Meeting to the shareholders. The Nomination Committee is not prevented from evaluating other candidates than proposed.

Prior to the AGM a meeting is held with the Chairman of the Board to review the Board's evaluation of its own work. Three of the Board members and two of the Nomination Committee members are up for election in 2011.

**Nomination Committee as at 31st of December 2010**

Name	Company	Shares	Share options	For election
<b>Cecilie Johnsen</b>	Redback AS /Harburg AS	40,000	0	2012
<b>Harald Arnet</b>	Datum AS/ Wega AS	0	0	2011
<b>Petter Fjellstad</b>	Partner and investor in Grand Haven Capital	400,000	0	2011

*Deviation from the Code of Practice:*  
None.

**8 / General meeting and Board of Directors: Composition and independence**

The Company is not required to have a corporate assembly, according to Norwegian law.

The members of the Board are elected for a period of two years, and the Board currently has seven members. Two directors are elected directly by and amongst the Group's employees. Directors are elected for two-year terms and can be re-elected. The Chairman of the Board is elected by the General Meeting. The Deputy Chairman is elected by the Board of Directors for a period of one year. In the event that the Chairman is absent or legally incompetent to chair, the meeting will be chaired by the Deputy Chairman. The Company's executive management is not represented in the Board of Directors.

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 composition of the Board is such as to maintain its independence from the Company's management.

The share option agreement for Board members regulates an obliged share purchase of a minimum of 25 % of the net income from the exercised share options.

The gender diversity requirement pursuant to Norwegian legislation is met, as there are currently 3 male and 2 female shareholder Directors at the Board.

*Deviation from the Code of Practice:*  
None.

**The Board of Directors as at 31st of December 2010:**

Name	Position, biographical data and competence	Service since	Elected until	Shareholding in Q-Free ASA
<b>Ole Jørgen Fredriksen</b> (born 1950)	Ole Jørgen Fredriksen has over 25 years experience in the computer hardware and software industry. He was one of the co-founders and the President and CEO of ASK, subsequently Proxima and InFocus, the leading global projector Company.	2002	2011	Shares: 168,884 Options: 200,000
<b>Christian Albech</b> (born 1947)	Christian Albech has substantial experience in the information and media industries, and is the CEO of Telenor Pakistan. He has served as Executive Vice President and Vice Managing Director of Telenor Broadcast's operational activities. Albech has previously headed Telenor's cable TV activities, and was hired as Head of Canal Digital's forerunner CTV. Mr Albech has widespread experience of board management.	2003	2011	Shares: 0 Options: 100,000
<b>Mimi Kristine Berdal</b> (born 1959)	Mimi K. Berdal has a law degree from the University of Oslo, and runs her own law and consultancy firm, focusing on the areas of contract law, company/commercial law, transactions and securities trading. From 1991-2005, Berdal was a partner at the law firm Arntzen de Besche. Berdal has extensive experience from work as a Board Member.	2007	2011	Shares: 50,000 Options: 100,000
<b>Torild Skogsholm</b> (born 1959)	Torild Skogsholm is the General secretary of Care Norway. Skogsholm has a post master degree of economics from the Uni. of Oslo. From 2006-2011, Mrs Skogsholm held the position as Managing Director of Oslo Sporvognsdrift AS. From 2001-2005, Mrs Skogsholm was the Minister for Transport and Communications. She has also held position as State Secretary (Junior Minister) at the same ministry. She has experience from NetCom, as well as a civil servant at the Ministry of Transport and Communications and at the Ministry of Environment.	2006	2012	Shares: 0 Options: 100,000
<b>Jan Pihl Grimnes</b> (born 1961)	Jan Pihl Grimnes is through his Company Redback AS investing in the IT, petroleum and mining industries. He holds 2.56% of the shares in Q-Free ASA private and through Redback AS. Grimnes founded Technoguide AS, and holds several board positions both in listed and non-listed companies. Grimnes holds an MBA from the Norwegian School of Economics and Business Administration and a MSc from the Norwegian University of Science and Technology.	2008	2012	Shares: 1,545,000 Options: 100,000
<b>Frank Aune</b> (born 1978)	Frank Aune holds a MSc in Electronics and Telecommunications and holds the position as Head of R&D Security. Mr. Aune has been working in Q-Free ASA since 2006.	2006	2012	Shares: 0 Options: 0
<b>Sissel Lillevik Larsen</b> (born 1961)	Mrs Lillevik Larsen has been working in Q-Free ASA since 2000 and holds the position as Technical project manager.	2008	2012	Shares: 0 Options: 0



## 9 / The work of The Board of Directors

The Board of Directors produces an annual plan for its work, with particular emphasis on objectives, strategy and implementation.

This includes reviewing the overall strategy at least once a year, preparing the budget for the next year, evaluating management and competence needed, making continuous financial reviews and risk assessments based on budgets and prognoses, as well as evaluating the work of the Board of Directors. The Board held 9 meetings in 2010.

The Board of Directors is elected by the shareholders to oversee the executive management and to assure that the long-term interests of the shareholders and other stakeholders are being served. The Board of Directors has the ultimate responsibility for the management of the Company and for supervising its day-to-day business and activities in general. The main responsibility is to determine the Company's overall vision, goal and strategy. The Board of Directors also ensures that the activities are soundly organised and keeps itself informed about the financial situation of the Company, and ensure that the management handles risks faced by the Company in an appropriate way.

The Group's activities are varied, depending on each unit's position in the value chain, and consequently require differentiated ways of management and follow-up. Internal management systems that are well functioning are essential, but these must be continuously developed in order to accommodate changes in financial conditions. The Group's structure with independent units, also in respect of short term reporting, facilitates good control and

powerful focusing. The internal control is based on monthly reports specified on regions, units and divisions, while at the same time providing satisfactory reporting on group level.

The Group also has a separate accounting and finance department responsible for preparing guidelines for internal control, risk management and financial reporting. The Group's accounting and finance department ensures that the Company adheres to applicable rules and that the Board's strategy, fiscal restrictions and ethical principles, is followed.

The Board of Directors has issued instructions for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties.

The guidelines for the Board of Directors are described in the Company's "Instructions for the Board of Q-Free ASA". The purpose of the instruction is to describe the role and functions of the Board and the interaction with the executive management of the Company. The instructions for the Board of Directors also include detailed requirements on which information and timing of the information from the executive management.

In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board is, or has been, personally involved, upon the Board's consideration of such matters, the meeting is chaired by the deputy chairman. The deputy chairman is elected by the Board of Directors annually according to the instructions.

The Board's proceedings and minutes are in principle confidential unless the Board decides otherwise or there is obviously no need for such treatment. This is pursuant to the instructions to the Board.

The Board of Directors evaluates its performance and expertise annually directly to the Nomination Committee.

### Board member participation in meetings in 2010

Participation in meetings in 2010	Board meetings	Compensation Committee	Audit Committee
Ole Jørgen Fredriksen	9	1	5
Christian Albech	8	1	
Mimi Kristine Berdal	9		5
Torild Skogsholm	6		5
Jan Pihl Grimnes	8		
Anders Hagen (served until GM 2010)	3		
Sissel Lillevik Larsen	9	1	
Frank Aune (served from GM 2010)	6		

### Compensation committee

Three out of seven members of the Board act as the company's Compensation Committee, and are elected by the Board of Directors for a period of two years.

The Board approved an instruction for the Compensation Committee in 2006 (revised in 2008).

The Compensation Committee makes proposals to the Board regarding employment terms and conditions and total remuneration of the CEO and other senior management employees. These proposals are also relevant for other employees entitled to variable salaries. Evaluation of senior management's achievements is based on input from the CEO. The Board makes comparisons with other companies when deciding the terms and conditions and remuneration of the CEO. The Board also delimits the scope of the remuneration of the executive management team.



With effect from 17th of June 2010, the Compensation Committee is composed as follows:

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Ole Jørgen Fredriksen (Chairman)

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Christian Albech

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Frank Aune

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### **Audit committee**

The Public Companies Act stipulates that large companies must have an Audit Committee. Three out of seven members of the Board act as the company's Audit Committee, and are elected by the Board of Directors for a period of two years.

The Board approved an instruction for the Audit Committee in 2006 (revised in 2008).

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 give 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.

With effect from 17th of June 2010, the audit committee is composed as follows:

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Mimi Kristine Berdal (Chairman)

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Ole Jørgen Fredriksen

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Torild Skogsholm

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*Deviation from the Code of Practice:*  
None.

## **10 / Risk management and internal control**

Q-Free's customers are public authorities, private companies operating under public licences and system integrators. The Company's main risk factors are political risk, project risk and financial risk. The Board presents an in-depth review of the Company's financial status in the Directors' Report. It also describes the main elements related to HSE and related risks.

Q-Free has developed an effective Quality Management (QM) system and is certified in accordance with the NS-EN ISO-9001 Quality System. The Company's ISO 9001 Certificate covers all areas of the normal operations. Q-Free is also certified according to the ISO-14001/2004 standard, which means that the Company has set up systems for monitoring and improving its impact on the external environment.

The strategy is to combine estimated future sales, based on signed contracts or frame agreements, and purchase and hedge the net cash flow in the foreign currency by using forward/ future contracts. The risk factors which Q-Free are subject to, are closely monitored by the Executive management. The Board receives quarterly The management's review of the quality management system and the environmental management system. Management draws up monthly performance reports that are sent to and reviewed by the directors.

*Deviation from the Code of Practice:*

The Board of Directors does not carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements. The Audit Committee has requested a presentation from management of an overall risk management and internal control procedure, to be reviewed by the Board and updated annually. Such risk management document shall describe the most important overall risk factors for the Company, its operations and financial reports, and how these are handled. The Board of directors

will in 2011 have a review of the Code of Conduct inclusive guidelines for corporate social responsibility.

## **11 / Remuneration of The Board of Directors**

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

The Chairman of the Board of Directors receives a fixed salary of NOK 250,000 and each shareholder elected member receives a fixed salary of NOK 150,000. The Chairman of sub-committees receives a fixed salary of NOK 10,000 and members NOK 7,500 for each full-day meeting. The Board currently consists of five elected non-executive members and two employee elected members. The employee elected members receive a fixed salary of 50% of the remuneration for the shareholder elected members, NOK 75,000. 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.

The Directors' fees are not linked to performance.

For further information about remuneration of the Board of Directors see note 15 in the 2010 financial statements.

### **Remuneration of the Nomination committee**

The chairman of the Nomination Committee receives a fixed salary of NOK 25,000 and each elected member receives NOK 15,000.

*Deviation from the Code of Practice:*

The Chairman of the Board, Ole Jørgen Fredriksen, has performed some consultancy services for the Company, The assignment, however, and remuneration of these services are fully disclosed and approved by the Board. The administration is given the authority to consider the need for assignment of Fredriksen at a price of NOK 950 per hour. It is the Company's opinion that this assignment is to the benefit of the Company in relation to the Company's strategic processes.

The other deviation is that the Company grants share options to members of its



board. It has been the Nomination Committee's and the Shareholder Meeting's opinion that using share options as part of the Board remuneration is a good alternative to a high fixed remuneration.

## 12 / Remuneration of the Executive management

The Board has approved special guidelines for the stipulation of salary and other remuneration to executive management. The structure of the incentive system for CEO and the other members of executive management is determined by the Board, and presented to the AGM for information purposes.

The Company has a remuneration of the executive management through a share option program, and a performance based bonus scheme.

The CEO's terms of employment are set by the Board. Each year, the Board undertakes a detailed review of salary and other remuneration of the CEO. The review is based on performance and comparable market conditions of similar positions.

The Board of Directors adopted a performance related bonus scheme in 2009 for all employees. The scheme for the executive management includes purchase of shares as part of the bonus payment.

Q-Free's remuneration policy has always been to offer salaries meeting to market conditions to attract the competence needed. Senior management personnel receive a basic salary and are members of the Company's pension scheme. The General Meeting has authorised an incentive program for the executive management in the Company, and by the end of 2010, 9 employees had been granted

share options (see under equity and dividends for more information about the incentive program, and note 17 to the 2010 financial statements).

In order to meet the Company's goals, all employees, including senior management completes an annual performance evaluation. The Board of Directors also conducts performance evaluation of the senior management in the Company, and if necessary with external help. Through these processes, the Board seeks to ensure that the senior management is focused on developing the Company according to approved strategies.

For further information about remuneration of the CEO and other members of the executive management, see note 15 in the 2010 financial statements.

Shares and share options held by the Company's executive management as at 30th of March 2011:

Name	Position	Shares	Share options
Øyvind Isaksen	CEO	91,989	675,000
Roar Østbø	CFO	47,000	150,000
Jos Nijhuis	VP R&D	517,552	100,000
Steinar Furan	Advisor to CEO	22,500	150,000
Marianne Sandal	VP Operations	17,000	150,000
Stein-Tore Nybrodahl	HR Manager	7,500	45,000
Per Fredrik Ecker	VP Sales	6,500	150,000
Henrik Stoltenberg	VP BD and M&A	0	150,000

For information about the running option schemes see note 17 in the 2010 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 participates in regular open presentations for investors, analysts and others. Regular information will be published through the Annual Report and the quarterly reports and presentations. The Company aims at publishing these reports within six weeks of the end of the relevant period, in at least three out of four quarters. In 2010 the Company complied accordingly. The quarterly results are also made available through webcast. Q-Free distributes all information relevant to the share price to the Oslo Stock Exchange. Such information is distributed without delay and simultaneously to the capital market, the media and on the Company's website.

The Company publishes all information concerning Annual General Meetings, publication of quarterly reports and presentations on the Company's website, as soon as they are decided.

It is a primary goal for the Company to maximise the shareholders' values, in such a way that the return on investment measured as the dividends and rise in the share price, will be at least at the same level as alternative investments involving similar risk. Through the Annual Report and the quarterly reports and presentations, the Company will provide information on its major value drivers and risk factors. This will secure information for investors and make it possible to evaluate the Company's risk and performance.

The CEO and CFO are responsible for the investor relations of the Company and all communication with the capital market, if necessary together with the Chairman of the Board or appointed members of the Board. Communication with the capital market outside regular presentations is handled by the CEO and CFO. All information is communicated within the framework established by securities and accounting legislation and the rules and regulations of the stock exchange.



All information about Q-Free ASA is available on the Company's website:

**www.q-free.com**

*Deviation from the Code of Practice:*  
None.

## 14 / Takeovers

The Company has no regulations in the articles of associations which limit trade in the Q-Free shares.

*Deviation from the Code of Practice:*  
The Board has not established regulations in the Board's instructions on how to react to takeover bids, but will consider establishing such a regulation.

## 15 / Auditor

The Company's external auditor is elected by the General Meeting and is responsible for the financial audit of the parent Company and Group accounts. Independent external auditors have also been elected for all subsidiaries of Q-Free ASA, including those outside Norway.

The external auditor for Q-Free ASA submits an engagement letter to the Board each year. The engagement letter is a plan for the audit of the Q-Free Group and other information to the Board about next year's audit. The auditor attends at least two audit committee meetings and Board meetings every year to present and comment on its management letter and other reports related to the audit they have carried out. The reports contain identification of weaknesses and any proposals for improvement. At least once a year, a meeting will be 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.

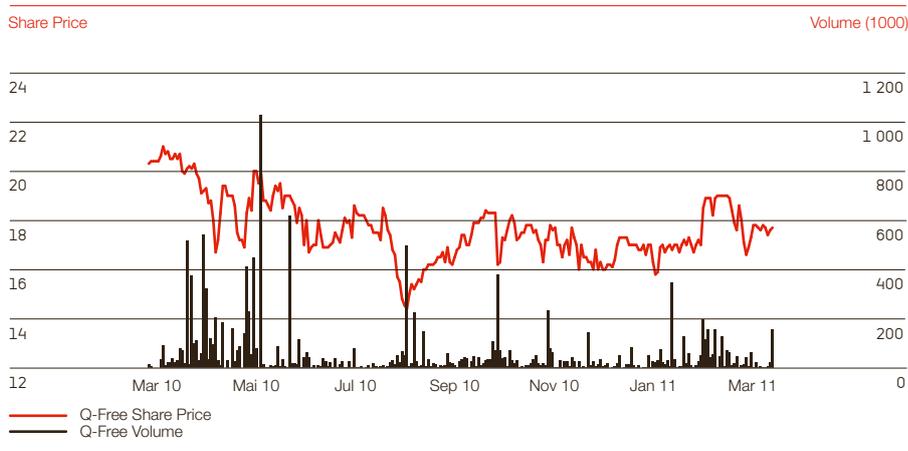
Ernst & Young has been the external auditor for Q-Free ASA for the last eight years and carries out no other assignments for the Company which could give rise to conflict of interest. The auditor attends the General Meeting and informs about the auditor's report and remuneration for the year. This year's auditor's report follows the notes in the annual report.

The Board of Directors had initiated a bid process on external auditing services during the spring of 2010. This has been carried through and was concluded during the Annual General Meeting through election of auditor.

For further information about remuneration of the auditor see note 27 in the 2010 financial statements.

*Deviation from the Code of Practice:*  
None.

### Share price development from March 2010 to March 2011



### Articles of association

**Paragraph 1 /** The Company's name is Q-Free ASA. The Company shall be a public limited Company.

**Paragraph 2 /** The Company's registered office is in Trondheim, Norway.

**Paragraph 3 /** The Company's objective is to be engaged in research, development, production, operation and sales of information technology products and systems and everything else in this connection.

**Paragraph 4 /** The share capital of the company is NOK 22,893,863.80, distributed between 60,247,010 stocks, each with a par value of NOK 0.38.

The Company's shares shall be registered in Verdioparsentralen (The Norwegian Registry of Securities).

**Paragraph 5 /** The Board of Directors shall have 3-8 members subject to the General Meeting's decision.

The Board of Directors represents the Company, and has the right to sign the Company. In addition,

the Chairman of the Board and one member of the Board jointly have the right to sign the Company.

The Board of Directors may grant powers of procurement.

**Paragraph 6 /** An Ordinary General Meeting will be held prior June 30th. The General meeting is to take place either in Trondheim Municipal or Oslo Municipal.

Notice of the General Meeting is to be sent with at least a 21 days written notice to all shareholders with an address known to the company.

The Board may decide that relevant documents to be discussed in the General Meeting shall not be distributed by mail if the documents are made available on the Company's website. This shall also apply for documents which, according to legislation, shall be a part of or attached to the notice. A shareholder may nevertheless, by application to the company, demand to be sent the documents which relate to the agenda of the General Meeting. The right to attend to, and vote in General Meeting may only be exercised for shares which are registered in the shareholders' register (VPS) at the latest



the fifth workday before the date of the General Meeting (the registration date).

Shareholders themselves, or represented by legal representative, planning to participate at the General meeting, shall notify the company within a deadline set by the Board of Directors in the notice. The deadline cannot expire earlier than five days before the date of the General meeting.

*The Ordinary General Meeting shall handle:*

1. Pass resolution of result and balance.
2. Allocation of profit or covering of loss in accordance with the stipulated balance and distribution of dividends.

3. Election of members to the Board of Directors and Chairman of the Board of Directors.
4. Pass resolution of remuneration for the members of the board.
5. Elect members to the Nomination committee.
6. Pass resolution of remuneration for the members of the Nomination committee.
7. Pass resolution of the auditor's remuneration.
8. Other matters which the Board includes to the agenda, or which is proposed by a shareholder, provided the proposed issue is sent to the Board in writing within seven days before the deadline for the notice of the General Meeting, together with a proposed resolution or the background of the issue to be set on the agenda. If the notice of the General Meeting is already distributed, a new notice shall be distributed, if the deadline for the notice has not expired.
9. Other cases that according to Law falls within the powers of the General Meeting.

**Paragraph 7 /** The Company shall have a Nomination Committee. The Nomination Committee's task is to submit nomination to the General Meeting for the election of shareholder-elected members to the Board, and to suggest remuneration to the Board.

The Nomination Committee consists of three members who shall be shareholders or represen-

tatives for the shareholders. The General Meeting elects the members. The Nomination Committee members are elected for two years at a time. The General Meeting can pass regulations governing the Nomination Committee.

**Paragraph 8 /** Furthermore, the Company legislation at any given time shall be applicable. Last revised 20th of May 2010.

#### Technical information

At 31.12.10, Q-Free ASA had 60,247,010 shares, each with a face value of NOK 0.38.

The Company had 1,387 shareholders as at 31.12.10.

The Company's register of shareholders, cp. S. 4-4 of the Public Limited Companies Act (Norway), was registered with the Norwegian Central Securities Depository (Verdipapirsentralen –VPS) at 03.04.2002 and carries the VPS registration number ISIN NO 0003103103.

DnBNOR Bank ASA, Oslo, is the account manager. The share's Ticker Code on the Oslo Stock Exchange's main list is QFR.

The Company's enterprise number in the Register of Business Enterprises is NO 935 487 242.

#### Overview of historical development in share capital

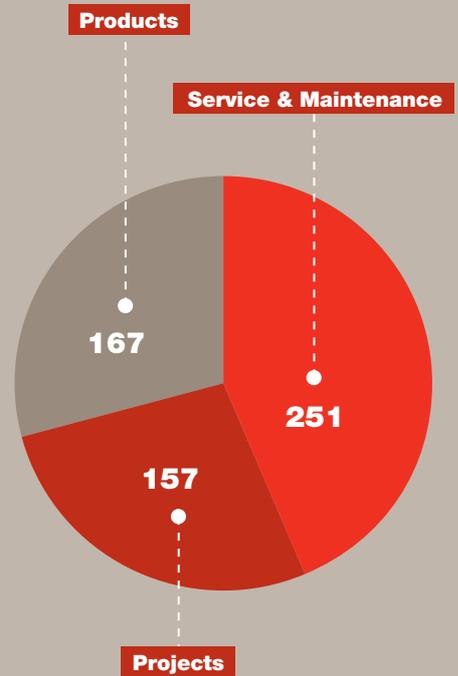
Date	Type of change	Face value per share (NOK)	Change in share capital (NOK)	Share capital after change ( NOK)	Number of shares issued	Number of shares after change
03/12/2002	Status at IPO	0.05	684,713.40	2,279,163.40	13,694,268	45,583,268
02/05/2004	Exercise of options key personnell	0.05	4,833.35	2,283,996.75	96,667	45,679,935
03/10/2004	Exercise of options key personnell	0.05	2,500.00	2,286,496.75	50,000	45,729,935
04/20/2004	Share issue	0.05	227,500.00	2,513,996.75	4,550,000	50,279,935
05/10/2004	Exercise of options key personnell	0.05	4,583.30	2,518,580.05	91,666	50,371,601
06/08/2004	Exercise of options key personnell	0.05	5,966.65	2,524,546.70	119,333	50,490,934
07/26/2004	Exercise of options key personnell	0.05	833.35	2,525,380.05	16,667	50,507,601
09/22/2004	Exercise of options key personnell	0.05	833.35	2,526,213.40	16,667	50,524,268
10/19/2004	Exercise of options key personnell	0.05	6,000.05	2,532,213.45	120,001	50,644,269
01/13/2005	Exercise of options key personnell	0.05	2,666.70	2,534,880.15	53,334	50,697,603
03/17/2005	Exercise of options key personnell	0.05	2,500.00	2,537,380.15	50,000	50,747,603
06/02/2005	Exercise of options key personnell	0.05	500.00	2,537,880.15	10,000	50,757,603
06/23/2005	Exercise of options key personnell	0.05	3,000.00	2,540,880.15	60,000	50,817,603
07/04/2005	Exercise of options key personnell	0.05	1,250.00	2,542,130.15	25,000	50,842,603
07/27/2005	Exercise of options key personnell	0.05	1,250.00	2,543,380.15	25,000	50,867,603
07/29/2005	Exercise of options key personnell	0.05	833.30	2,544,213.45	16,666	50,884,269
09/04/2005	Exercise of options key personnell	0.05	1,250.00	2,545,463.45	25,000	50,909,269
12/15/2005	Share issue	0.40	17,818,244.15	20,363,707.60		50,909,269
12/15/2005	Reduction of share capital (demerger FARA)	0.38	-1,018,185.38	19,345,522.22		50,909,269
03/30/2006	Exercise of options key personnell	0.38	3,800.00	19,349,322.22	10,000	50,919,269
05/02/2006	Exercise of options key personnell	0.38	258,780.00	19,608,102.22	681,000	51,600,269
05/11/2006	Exercise of options key personnell	0.38	195,953.46	19,804,055.68	515,667	52,115,936
05/12/2006	Exercise of options key personnell	0.38	60,166.54	19,864,222.22	158,333	52,274,269
29/08/2008	Share issue	0.38	646,738.72	20,510,960.94	1,701,944	53,976,213
18/05/2009	Exercise of options key personnell	0.38	332,500	20,843,460.94	875,000	54,851,213
29/06/2009	Share issue	0.38	31,646.40	20,875,107.34	83,280	54,934,493
06/07/2009	Share issue	0.38	7,447.62	20,882,554.96	19,599	54,954,092
22/10/2009	Share issue	0.38	1,938,000	22,820,554.96	5,100,100	60,054,092
28/04/2010	Share issue	0.38	73,308.94	22,893,863.80	192,918	60,247,010

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**Order Backlog Composition**  
Business Areas MNOK

## Order Backlog MNOK



**Revenues**  
Revenues MNOK  
EBIT Margin %

## The Board of Directors Report

### Introduction

The Q-Free Group had an operating result of -90.3 MNOK (102.7) in 2010, out of revenues of 568.0 MNOK (804.4). The results are influenced by reversed revenues and increased cost related to the completion of the Slovakia project.

Q-Free has taken actions to strengthen its position in a growing market through the last couple of years. The group has been investing in improving and broadening its product portfolio through acquisitions and organic development and professionalized its organization in general. Based on Q-Free's current position and strategy going forward, the Board is optimistic about the future.

Q-Free is a leading global supplier of solutions and products for Road User Charging (RUC) and Traffic Management having applications mainly within electronic toll collection for road financing, congestion charging, truck-tolling, law enforcement and parking/access control. Q-Free offers solutions and products based on state of the art technology, and is the leading supplier within DSRC, ALPR (Automatic License Plate Recognition) and GNSS (Global Navigation Satellite System) based solutions, with deliveries in Europe, Asia Pacific, Middle East and North and South America.

Q-Free is listed on the Oslo Stock Exchange with the ticker QFR.

### Orders received and order backlog

At year-end 2010, Q-Free Group had an order backlog of 575 MNOK, which is 138 MNOK less than at year-end 2009 and represents a 19% decrease. The order backlog is distributed as follows: Europe 54%, Asia/Australia 7% and Latin and North America 39%. Orders received in 2010 amounted to 602 MNOK, of which 36% came from European countries, 15% from Asia/Australia and 49% from Latin-/North America.

### Report on the financial statements for 2010

In 2010 the Q-Free Group revenues amounted to 568.0 MNOK, compared to 804.4 MNOK in 2009. This represents a decrease of 29% from 2009.

The Group's gross margin for the year was 52.8%, which represents 9.5% decrease compared to 2009 when the gross margin was 62.3%. The operating profit (EBIT) for 2010 totaled -90.4 MNOK, compared to 102.7 MNOK in 2009. This is a decrease of 193.1 MNOK, mainly due to the decrease in project revenues, lower gross margin and higher cost related to the Slovakia project compared to 2009.

Net financial income amounted to 10.8 MNOK in 2010, compared to 7.0 MNOK in 2009. The Group's profit before tax was -79.6 MNOK, compared to 109.7 MNOK the previous year. Tax expenses amounted to +22.7 MNOK, compared to -31.5 MNOK in 2009. Tax payable at the year end is 3.3 MNOK, compared to 5.0 MNOK in 2009. The annual profit for the Group after minority interest amounted to -56.8 MNOK, compared to 78.2 MNOK in 2009. Earnings per share amounted to NOK -0.94, compared to NOK 1.41 in 2009.

The Q-Free Group had total assets of 687.7 MNOK at year-end 2010, compared to 767.5 MNOK the year before. Work in progress, accounts receivables and other short term assets, have increased mainly as a result of lack of payment on the Slovakia project. Intangible assets have increased as a result of significant investments in new technology mostly within the group's DSRC product portfolio and deferred tax assets. Working capital has increased during 2010 relative to last 12 months revenues, mostly due to the Slo-

vakia project. Q-Free ASA and SkyToll S.A. have after the end of 2011 signed a settlement agreement with a final payment within the end of June 2011.

The Group's equity has decreased by 49.2 MNOK to 499.4 MNOK and as at 31 December 2010 it totaled 72.6% of total assets. The Group capitalises costs on product development activities. Capitalised costs for 2010 consist mainly of the last phase of the development of a new generation DSRC tag and reader in addition to development of a new MultiLane Free Flow system including a new camera technology.

In the Board of Director's view, no significant events have occurred after the year end.

At year-end 2010, the parent company had no free equity. The Board of Directors' recommendation is that no dividends will be paid for the fiscal year 2010.

### Cash flow and working capital

The Group's cash funds at the end of 2010 amounted to 85.7 MNOK, compared to cash funds of 274.6 MNOK the year before. The difference between operating profit before depreciation, amortisation and impairment (EBITDA) and cash flow from operations is due to working capital increase (increase in inventories, increase of accounts receivable, decrease in work in progress, decrease in accounts payables and increase of other short term liabilities).

The Group has the financial strength to develop technology and undertake upcoming projects. During 2010 the Group has invested a total of 56.3 MNOK in new technology to improve future profitability. The Group's current assets amounted to 429.3 MNOK and short term debt amounts to 183.7 MNOK which gives a liquidity ratio of 2.3. The Group has cash funds of 85.7 MNOK, which gives a satisfactory working capital situation at the balance sheet date.

### Going concern

The Board confirms that the financial statements are prepared based on the principle of going concern. 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 the year-end.



## Organisation, working conditions and external environment

Q-Free is headquartered in the city of Trondheim, Norway, and is present in 18 countries on five continents. Outside Norway the Company is represented directly in The Netherlands, Sweden, United Kingdom, Portugal, Slovakia, France, Spain, Australia, Malaysia, Thailand, Indonesia, South Africa and Brazil. The Company is also represented in Turkey, Greece, India, Chile and USA through partners. In addition to the core business, Q-Free owns 53.5% of Noca AS, a contract electronics manufacturer.

At year-end 2010, the Group had 282 employees, whereof 147 are employed in the parent company in Trondheim and Oslo, 44 in Noca AS in Trondheim and 91 in companies outside Norway. A total of 88 % of the employees in the parent company hold a university degree or similar, mainly technical degrees.

### Improvement measures

In order to enable continued growth for Q-Free and to ensure that the Group is prepared to meet the demands of a growing RUC market, it is important to have an ongoing process to professionalise the organisation. This has also been a focus area for the Group in 2010. Increased interest for the company, both in Norway and internationally, have lead to a growing number of highly skilled applicants asking for a Q-Free job.

The Group considers the workforce to be well prepared to meet the coming challenges in the future RUC market. The turnover rate in 2010 has been very low, similar to the previous years. The Board considers further development of the

Group's employees to be an important strategic effort to position the Group.

### Working environment and personnel

The Board considers the working environment in the Group to be good, and would like to take this opportunity to thank the employees for their contributions in a year with challenging projects and heavy workload. Sick leave in 2010 amounted to 2.2%. Even though this an increase from 1.4 %, it is regarded a satisfactory level given the activity level in 2010. No serious occupational incidents or injuries were reported during the year.

The Group operates a policy of complete gender equality between male and female workers.

By tradition, the Group's recruitment is from a variety of engineering environments, and currently the Group has 23% female and 77% male employees. Q-Free seeks to employ female engineers and will have a priority to a female employee to a male employee, if the rest of the qualifications are similar. The group aims to have similar remuneration between male and female. The parent Company fulfils the Norwegian legal requirement of a minimum of 40% Board members from both male and female.

The Group employs, and has historically employed personnel of various nationalities and from various cultures both in the parent company in Norway and in the subsidiaries abroad. The group has a long tradition of handling a mix of nationalities and has built an international attitude over the years. The official language is English. Based on the importance of these representatives from different cultures, the group has implemented a policy to avoid discrimination between people, and groups of people. There have been no reports on discrimination incidents in the group in the last years.

### Ethics

The Board emphasises on the importance that the employees represent the Group and the Group's ideals in a positive way on all arenas of our global business. The Board has therefore adopted a set of guidelines for ethical conduct for Q-Free's personnel and Board of Directors (Q-Free's Code of Conduct), applicable to both internal and external business.

### External environment

The use of Q-Frees products and services contribute to reduced traffic congestion and consequently give less pollution. The Group's activities have no negative impact on the external environment. The Group's environmental program, which is certified in accordance with NS-EN ISO 14001:2004, has shown positive results. All products introduced after 2005 are produced without the use of lead and other hazardous environmental substances as defined in the EU's RoHS of WEEE directives. Q-Free has formulated an environmental policy that is published on the Group web site. Furthermore, the Group is working actively to influence subcontractors to choose the most environmental friendly alternatives whenever possible. The Group thus fulfils all the environmental requirements imposed by the Norwegian authorities and the EU.

### Risk situation

An international technology Group such as Q-Free is destined to be exposed to a number of different risks. Political risk related to the time involved from a sales lead is identified to a contract is awarded, and implementation of projects are particularly significant to Q-Free's operations as RUC projects are usually always directly or indirectly subject to a governmental concession. The fact that road concessions are being privatised in the most developed RUC markets may reduce the political risk in the long term.

*Other risks:*

### Currency risk

Q-Free has considerable foreign currency exposure since the Group earns between 70-85 % of its revenues abroad. Q-Free also buys a substantial share of its needed equipment and services abroad and runs businesses outside Norway. This mitigates the Group's net foreign currency exposure by 30-50 %. The Group's most important trading currencies except for NOK are USD and EUR. Q-Free's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. The Group strategy is to combine estimated future sales and purchases and hedge the net cash flow in the foreign currency by using forward / future contracts.

### Credit risk

The Group is only conducting business with parties with an acceptable credit



record. To the extent the credit rate is questionable, payment guarantees, letter of credit or advance payments will be considered. The Group has no significant credit risk linked to an individual contracting party or several other contracting parties that can be regarded as a group due to similarities in the credit risk. The Group has guidelines for ensuring that sales are only made to customers that have not experienced any significant credit problems, and that outstanding amounts do not exceed given credit limits. The Group will always be exposed to risk involved in customers not having the ability to fulfill their financial obligations. However, this risk is considered to be low since the Group's customers are major IT companies, public authorities, larger foreign road operators and key road Concessionaires in Norway and abroad. This is documented by a historically low bad debt ratio on accounts receivables. When Q-Free enters a new market, the credit risk will be assessed in each individual case and appropriate actions like utilising letter of credits and other similar tools, will be used in order to reduce credit risk. The Group has not provided any guarantees for third parties' liabilities.

### Interest rate risk

Since the Group has no significant amount of interest bearing debt the interest risk is immaterial. However if the Group will enter any significant interest bearing debt contracts, the group emphasises predictability at all times when changes in the interest level have a significant influence on the consolidated profit and will take actions to hedge this risk.

### Liquidity risk

The Q-Free ASA Group's strategy is to have sufficient cash funds or credit facilities at any time to be able to finance its

operations and investments over the next three years as required in the company's strategy plan for the same period. Surplus liquidity is either deposited in banks or invested in money market funds, with the purpose of obtaining an acceptable return on invested capital combined with a low risk.

### Technology risk

The Group is exposed to quality problems both due to the quality of own work and the quality of deliveries from subcontractors. Furthermore, continuous technology advances can affect the competitive situation of Q-Free. Q-Free mitigates this risk by systematic quality control of subcontractors, own technology and product development, by continuously seeking competence needed to integrate various technologies into our solutions, and finally by making provisions for possible faulty deliveries.

### Project risk

Q-Free's revenues normally include a substantial element of large-scale project deliveries that place significant demands on implementation know-how. Q-Free is in possession of skilled competence in this field, and the development of plans to handle project risks that may arise is an important element of the Group's know-how in this respect.

### Corporate governance

The Stock exchange regulations require that companies listed on the Oslo Stock Exchange must publish a report on their principles for Corporate Governance once a year, in accordance with the Norwegian Code of Practice for Corporate Governance. The Board of Q-Free adopted the Group's principles for Corporate Governance in 2008 and these were updated in 2010. Further details are provided under the section "Corporate Governance" in the official version of the Company's Annual Report.

### Shareholder situation, share development

The price for Q-Free shares in 2010 fluctuated from NOK 21.60 (January) to NOK 17.30 (December). With a total number of 60,247,010 shares, this implies a market value of 1,042 MNOK at the end of the year.

### Shareholder situation

At year-end 2010, Q-Free ASA had 1,387 shareholders compared to 1,654 in 2009. The ownership structure consists of investment companies and institutional shareholders in Norway and abroad.

The 20 largest shareholders in Q-Free ASA as at March 30th 2011:

Name	Holding	Percentage
Erste Bank Der Oeste Sparkassen Ag	9,933,000	16,49
Odin Norge	5,348,568	8,88
Skagen Vekst	2,900,000	4,81
DnB NOR SMB VPF	2,273,602	3,77
JP Morgan Chase Bank Special Treaty Lendi	1,974,500	3,28
Kikut AS	1,654,000	2,75
Holberg Norge v/Holberg Fondsforvaltning	1,648,329	2,74
Andresen Lars Oddgeir	1,633,600	2,71
Redback AS	1,495,000	2,48
Vital Forsikring ASA	1,395,146	2,32
Bank Austria Credita Dept. 8811/Mrs. Aimu	1,187,017	1,97
Sabaro Investments L John Casely	1,119,772	1,86
VPF Nordea Kapital C/O JP Morgan Europe	1,079,695	1,79
Mons Holding AS	1,040,000	1,73
Sandnes Investering	860,700	1,43
VPF Nordea Avkastnin C/O JP Morgan Europe	775,932	1,29
Deutsche Bank Intern Client Account	750,000	1,24
DnB NOR Norge (IV) VPF	742,833	1,23
Warrenwicklund Norge	734,442	1,22
VPF Nordea SMB C/O JP Morgan Europe	602,800	1,00
TOTAL	39,148,936	64,99



The Company has one share class and the par value per share is NOK 0.38.

### **Authorisation to acquire the company's own shares**

On 20th of May 2010, The General Meeting authorised the Board of Directors of Q-Free ASA to permit the Company to acquire shares in Q-Free ASA with a nominal value of up to NOK 1,141,027.52, equivalent to 3,002,704 shares, each with a par value of NOK 0.38, provided that the Company's shareholding of own shares shall not exceed 5 % of shares outstanding at any given time. The minimum and maximum amount that can be paid per share will be NOK 1 and NOK 100 respectively. The Board of Directors shall have full discretion with respect to methods of acquisition and possible disposal of the Company's own shares. The authorisation shall be valid until the next Annual General Meeting, but no longer than 30 June 2011.

### **Authorisation to increase the share capital**

Based on the need to secure necessary transactions like possible acquisitions, share offerings, mergers or other actions within the ITS (Intelligent Traffic Systems) sector, the Board of Directors was given an authorisation from the General Meeting to increase the share capital by the issuance of new shares.

In the General Meeting on 20th of May 2010, The Board of Directors was given an authorisation to increase the share capital with as much as NOK 2,282,055.42 by the issue of as much as 6,005,409 shares, equivalent to approximately 10 % of the issued shares, each with a par value of NOK 0.38, with a right to disregard the existing shareholders preferential rights according to the Public Limited Compa-

nies act sections 10-4 and 10-5, and to determine that non-cash share deposits shall be made or the right to subject the company to special obligations pursuant to section 10-2 of the Public Limited Companies act, and mergers according to the Public Limited Companies act section 13-5. The Board of Directors is authorised to determine the terms and conditions for the subscription of shares, and to amend the company's Articles of Association in compliance with the increase of the share capital at all times. The authorisation shall be valid for two years from the resolution is approved by the General Meeting.

### **Authorisation to increase the share capital - incentive program**

As part of the work of giving key personnel, management and shareholder elected Board members an incentive program, through the possibility to subscribe shares in the company, the General Meeting held 18th of May 2009 authorised the Board of Directors to increase the share capital with as much as NOK 1,026,000 which corresponds to 2,700,000 shares (5%), at a par value of NOK 0.38, through one or more private placements with cash deposits towards key personnel, management and shareholder elected board members in Q-Free ASA. The existing shareholders preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5 is disregarded. The authorisation is valid for 2 years from the date of this resolution approved by the General Meeting, but no longer than 18th of May 2011.

The authorisation regards the implementation of a share options program in Q-Free ASA, which runs over a period of 3 years for key personnel and management, and 2 years for shareholder elected board members. As much as 600,000 shares shall be reserved for shareholder elected board members, and the remaining 2,100,000 shares shall be reserved the share options program for key personnel and management.

Further details regarding the share option program are provided in note 17 of the financial statement in the Annual Report.

### **Outlook**

The vision of Q-Free is to be a globally preferred partner in the area of Intelligent Transport Systems having world-wide leadership in Road User Charging and Traffic Management.

The global ITS market is expected to grow considerably over the next years and Q-Free's market position is continuously strengthening. Our strategic positioning has been well received by existing and new customers and partners. From the market report it is clear that 2011 will be an important year – the awards in Q4 2010 followed up by the 154 MNOK award in Portugal in January 2011 is a good indication in this respect. Further we see a promising pipeline building up for 2012 and onwards, and as such confirming that the road user charging market represents a long term growth market for which Q-Free will be well positioned.

During 2011 the company will continue to further develop and professionalise the company.

Q-Free has communicated that the organisation is being prepared for international growth. To achieve this we have been investing in all parts of the value chain, such as expanding the sales organisation, strengthening the R&D activity, broadening the portfolio and implementing a world-class operation capability. All these initiatives will be continued going forward, but will be phased in time to ensure compatibility with business level and capacity to absorb changes in the organisation.

The Board of Directors emphasises that there is normally considerable uncertainty associated with assessment of future outlook.

### **Distribution of loss**

The Board proposes that the loss for the year in the parent company of -37,965,000 NOK is distributed from other equity.

Trondheim 31st of December 2010 / 30th of March 2011:

---

Ole Jørgen Fredriksen (Chairman of the Board)

---

Mimi Kristine Berdal (Boardmember)

---

Christian Albech (Boardmember)

---

Torild Skogsholm (Boardmember)

---

Jan Pihl Grimnes (Boardmember)

---

Sissel Lillevik Larsen (Employee elected member)

---

Frank Aune (Employee elected member)

---

Øyvind Isaksen (CEO)

---

## The Board of Directors



### From the left:

#### 1 / Ole Jørgen Fredriksen Chairman of the Board

Ole Jørgen Fredriksen has over 25 years experience in the computer hardware and software industry. He was one of the co-founders and the President and CEO of ASK, subsequently Proxima and InFocus, the leading global projector Company.

#### 2 / Christian Albech Board member

Christian Albech has substantial experience in the information and media industries, and is the CEO of Telenor Pakistan. He has served as Executive Vice President and Vice Managing Director of Telenor Broadcast's operational activities.

Albech has previously headed Telenor's cable TV activities, and was hired as Head of Canal Digital's forerunner CTV. Mr Albech has widespread experience of board management.

#### 3 / Mimi Kristine Berdal Board member

Mimi K. Berdal has a law degree from the University of Oslo, and runs her own law and consultancy firm, focusing on the areas of contract law, Company/commercial law, transactions and securities trading. From 1991-2005, Berdal was a partner at the law firm Arntzen de Besche. Berdal has extensive experience from work as a Board Member.

#### 4 / Torild Skogsholm Board member

Torild Skogsholm is the General secretary of Care Norway. Skogsholm has a post master degree of economics from the Uni. of Oslo. From 2006-2011, Mrs Skogsholm held the position as Managing Director of Oslo Sporvognsdrift AS. From 2001-2005, Mrs Skogsholm was the Minister for Transport and Communications. She has also held position as State Secretary (Junior Minister) at the same ministry. She has experience from NetCom, as well as a civil servant at the Ministry of Transport and Communications and at the Ministry of Environment.





**From the left:**

**5 / Jan Pihl Grimnes**  
**Board member**

Jan Pihl Grimnes is through his Company Redback AS investing in the IT, petroleum and mining industries. He holds 2.56% of the shares in Q-Free ASA through Redback AS. Grimnes founded Technoguide AS, and holds several board positions both in listed and non-listed companies. Grimnes holds an MBA from the Norwegian School of Economics and Business Administration and a MSc from the Norwegian University of Science and Technology.

**6 / Frank Aune**  
**Employee elected member of the Board**

Frank Aune holds a MSc in Electronics and Telecommunications and holds the position as Head of R&D Security. Mr. Aune has been working in Q-Free ASA since 2006.

**7 / Sissel Lillevik Larsen**  
**Employee elected member of the Board**

Mrs Lillevik Larsen has been with Q-Free ASA since 2000 and holds the position of Technical project manager.

We confirm that, to the best of our knowledge, the financial statements for the period from 1 January to 31 December 2010 have been prepared in compliance with applicable financial reporting standards and that the disclosures in the accounts give a true and fair view of the Company's and the Group's assets, liabilities, financial position and results of operations as a whole, and that the Directors' Report gives a fair review of the development, profit/loss and position of the Company and the Group, along with a description of the main risk and uncertainty factors facing the Company.

Trondheim 31st of December 2010 / 30th of March 2011:

---

Ole Jørgen Fredriksen (Chairman of the Board)

---

Mimi Kristine Berdal (Boardmember)

---

Christian Albech (Boardmember)

---

Torild Skogsholm (Boardmember)

---

Jan Pihl Grimnes (Boardmember)

---

Sissel Lillevik Larsen (Employee elected member)

---

Frank Aune (Employee elected member)

---

Øyvind Isaksen (CEO)

---

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# 36 / Consolidated Income Statement

- AS AT 31 DECEMBER 2010 -

Q-Free  
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Reporting

FIGURES IN TNOK

## Parent Company

## Group

2009	2010		Note	2010	2009
<b>Operating revenues</b>					
601,168	<b>293,447</b>	Revenues	5, 7	<b>557,894</b>	798,276
6,127	<b>10,150</b>	Other operating income	8	<b>10,150</b>	6,127
607,295	<b>303,597</b>	TOTAL OPERATING REVENUES		<b>568,044</b>	804,403
<b>Operating expenses</b>					
242,228	<b>103,559</b>	Cost of goods sold	14	<b>268,233</b>	303,429
103,010	<b>100,967</b>	Personnel expenses	15, 16, 17	<b>166,766</b>	153,712
176,922	<b>160,780</b>	Other operating expenses	27, 29	<b>162,465</b>	212,057
522,160	<b>365,306</b>	TOTAL OPERATING EXPENSES		<b>597,463</b>	669,198
85,135	<b>-61,710</b>	Earnings before interest, taxes, depreciation and amortisation (EBITDA)		<b>-29,419</b>	135,205
20,780	<b>47,027</b>	Depreciation, amortisation and impairment	9, 10, 11	<b>60,954</b>	32,461
64,355	<b>-108,737</b>	Earnings before interest and taxes (EBIT)		<b>-90,373</b>	102,743
<b>Financial Items</b>					
30,166	<b>16,883</b>	Financial income	24	<b>22,667</b>	33,330
217	<b>42,290</b>	Financial income Group companies		<b>0</b>	0
-23,860	<b>-9,578</b>	Financial expenses	24	<b>-11,887</b>	-26,375
0	<b>-7,031</b>	Financial expenses Group companies		<b>0</b>	0
6,524	<b>42,563</b>	TOTAL FINANCIAL ITEMS		<b>10,780</b>	6,955
70,878	<b>-66,173</b>	Profit before tax		<b>-79,593</b>	109,698
-18,679	<b>28,208</b>	Taxes	23	<b>22,744</b>	-31,549
52,199	<b>-37,965</b>	Profit / (-) loss for the year		<b>-56,849</b>	78,150
<i>Attributal to:</i>					
		Non-controlling interests		<b>255</b>	-160
		Equity holders of the parent		<b>-57,104</b>	78,310
<b>Distribution of Profit / (-) loss for the Year</b>					
0	<b>0</b>	Share premium reserve			
52,199	<b>-37,965</b>	Other equity			
52,199	<b>-37,965</b>	TOTAL DISTRIBUTED			
		Earnings per share	12	<b>-0.94</b>	1.41
		Diluted earnings per share	12	<b>-0.93</b>	1.39

# / Consolidated Statement of Comprehensive Income

- AS AT 31 DECEMBER 2010 -

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FIGURES IN TNOK

Parent Company			Group	
2009	2010		2010	2009
52,199	<b>-37,965</b>	Profit for the period	<b>-56,849</b>	78,150
0	<b>0</b>	Exchange differences on translation of foreign operations	<b>916</b>	1,393
52,199	<b>-37,965</b>	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<b>-55,933</b>	79,543
		<i>Attributed to:</i>		
		Non-controlling interests	<b>255</b>	-160
		Equity holders of the parent	<b>-56,188</b>	79,703
		TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<b>-55,933</b>	79,543

FIGURES IN TNOK

## Parent Company

## Group

2009	2010	Assets	Note	2010	2009
		<b>Non - current assets</b>			
0	<b>12,079</b>	Deferred tax assets	23	<b>13,779</b>	0
79,811	<b>100,919</b>	Product development assets	10	<b>143,574</b>	121,572
0	<b>0</b>	Goodwill	10, 11	<b>29,544</b>	34,288
56,409	<b>44,588</b>	Machinery, fixtures and fittings, etc.	9	<b>63,261</b>	71,874
92,339	<b>87,900</b>	Investments in subsidiaries	6, 18	<b>0</b>	0
5,378	<b>5,378</b>	Loan to group companies	18	<b>0</b>	0
3,492	<b>4,732</b>	Investments in other companies	25	<b>5,134</b>	4,103
0	<b>0</b>	Other long term receivables		<b>3,131</b>	1,621
237,430	<b>255,596</b>	TOTAL NON - CURRENT ASSETS		<b>258,422</b>	233,459
		<b>Current assets</b>			
25,381	<b>39,332</b>	Inventories	14	<b>61,154</b>	40,328
62,552	<b>54,551</b>	Work in Progress	7	<b>54,461</b>	64,699
69,422	<b>134,833</b>	Accounts receivables	21	<b>194,156</b>	125,144
46,782	<b>73,642</b>	Accounts receivables on group companies	21	<b>0</b>	0
14,268	<b>17,664</b>	Other short term receivables	28	<b>33,797</b>	29,288
187,572	<b>22,971</b>	Cash and cash equivalents	19	<b>85,724</b>	274,615
405,977	<b>342,993</b>	TOTAL CURRENT ASSETS		<b>429,292</b>	534,074
643,407	<b>598,589</b>	TOTAL ASSETS		<b>687,714</b>	767,534

FIGURES IN TNOK

## Parent Company

## Group

2009	2010	Equity and liabilities	Note	2010	2009
		<b>Equity</b>			
22,821	<b>22,894</b>	Subscribed share capital	13	<b>22,894</b>	22,821
283,946	<b>287,674</b>	Share premium reserve		<b>287,674</b>	283,946
10,219	<b>14,195</b>	Other paid-in capital		<b>14,324</b>	10,348
149,456	<b>111,490</b>	Other equity		<b>153,420</b>	210,635
466,443	<b>436,252</b>	TOTAL EQUITY ATTRIBUTAL TO EQUITY HOLDERS OF THE PARENT		<b>478,311</b>	527,750
0	<b>0</b>	Non-controlling interests		<b>21,106</b>	20,851
466,443	<b>436,252</b>	TOTAL EQUITY		<b>499,417</b>	548,601
		<b>Liabilities</b>			
		<i>Non – current liabilities</i>			
0	<b>0</b>	Debt to financial institutions	22	<b>622</b>	1,412
15,847	<b>0</b>	Deferred tax	23	<b>0</b>	27,121
1,725	<b>4,149</b>	Pension liabilities	16	<b>3,936</b>	1,466
17,572	<b>4,149</b>	TOTAL NON – CURRENT LIABILITIES		<b>4,558</b>	29,999
		<i>Current liabilities</i>			
80,502	<b>34,603</b>	Accounts payable	20	<b>67,444</b>	105,411
12	<b>0</b>	Advance payments from customers		<b>16,601</b>	5,415
23,358	<b>46,584</b>	Debt to group companies	18	<b>0</b>	0
0	<b>0</b>	Tax payable	23	<b>3,326</b>	4,959
7,849	<b>17,082</b>	Public duties payable		<b>26,409</b>	13,653
47,672	<b>59,918</b>	Other short term liabilities	26	<b>69,959</b>	59,496
159,393	<b>158,188</b>	Total current liabilities		<b>183,739</b>	188,934
176,965	<b>162,337</b>	TOTAL LIABILITIES		<b>188,297</b>	218,933
643,407	<b>598,589</b>	TOTAL EQUITY AND LIABILITIES		<b>687,714</b>	767,534

Trondheim, 31 December 2010 / 30 March 2011

Ole Jørgen Fredriksen  
*Chairman of the Board*  
sign.Sissel Lillevik Larsen  
*Employee elected*  
sign.Christian Albech  
sign.Mimi Kristine Berdal  
sign.Frank Aune  
*Employee elected*  
sign.Jan Pihl Grimnes  
sign.Torild Skogsholm  
sign.Øyvind Isaksen  
(CEO)  
sign.

FIGURES IN TNOK

**Parent Company**

	Note	Share capital	Share Premium reserve	Other paid-in capital	Other equity	TOTAL
Equity as at 01.01.2009:	13	20,511	171,399	7,680	97,256	<b>296,847</b>
Total comprehensive income for the period					52,199	<b>52,199</b>
Share issue arising from acquisitions	6, 13	2,310	112,547	0		<b>114,857</b>
Cost of share-based payment	17	0	0	2,539		<b>2,539</b>
<b>TOTAL EQUITY OF THE PARENT AS AT 31.12.2009</b>		<b>22,821</b>	<b>283,946</b>	<b>10,219</b>	<b>149,456</b>	<b>466,442</b>
Equity as at 01.01.2010:	13	22,821	283,946	10,219	149,456	<b>466,455</b>
Total comprehensive income for the period					-37,965	<b>-37,965</b>
Share issue arising from acquisitions	6, 13	73	3,727			<b>3,800</b>
Cost of share-based payment	17			3,976		<b>3,976</b>
<b>TOTAL EQUITY OF THE PARENT AS AT 31.12.2010</b>		<b>22,894</b>	<b>287,674</b>	<b>14,195</b>	<b>111,490</b>	<b>436,252</b>

**Group**

	Note	Equity attributal to equity holders of the parent					TOTAL	Non-controlling interests	TOTAL EQUITY
		Share capital	Share Premium reserve	Other paid-in capital	Other equity	Foreign currency translation reserve			
Equity as at 01.01.2009:	13	20,511	171,399	7,809	132,537	-1,604	330,652	21,011	<b>351,663</b>
Profit for the period					78,310		78,310	-160	<b>78,150</b>
Exchange differences on translation of foreign operations						1,393	1,393		<b>1,393</b>
Total comprehensive income for the period					78,310	1,393	79,703	-160	<b>79,543</b>
Share issue arising from acquisitions	6, 13	2,310	112,547				114,857		<b>114,857</b>
Cost of share-based payment	17			2,539			2,539		<b>2,539</b>
<b>TOTAL EQUITY OF THE GROUP AS AT 31.12.2009</b>		<b>22,821</b>	<b>283,946</b>	<b>10,348</b>	<b>210,847</b>	<b>-211</b>	<b>527,750</b>	<b>20,851</b>	<b>548,601</b>
Equity as at 01.01.2010:	13	22,821	283,946	10,348	210,847	-211	527,975	20,851	<b>548,601</b>
Profit for the period					-57,104		-57,104	255	<b>-56,849</b>
Exchange differences on translation of foreign operations						916	916		<b>916</b>
Total comprehensive income for the period					-57,104	916	-56,188	255	<b>-55,933</b>
Transferred other equity arising from subsidiaries					1,540		1,540		<b>1,540</b>
Currency translation differences arising from acquisitions						-2,567	-2,567		<b>-2,567</b>
Share issue	13	73	3,727				3,800		<b>3,800</b>
Cost of share-based payment	17			3,976			3,976		<b>3,976</b>
<b>TOTAL EQUITY OF THE GROUP AS AT 31.12.2010</b>		<b>22,894</b>	<b>287,674</b>	<b>14,324</b>	<b>155,282</b>	<b>-1,862</b>	<b>478,310</b>	<b>21,106</b>	<b>499,417</b>

FIGURES IN TNOK

## Parent Company

## Group

2009	2010		Note	2010	2009
		<b>Cash flow from operations</b>			
70,878	<b>-66,173</b>	Profit before tax		<b>-79,593</b>	109,698
0	<b>0</b>	Paid taxes	23	<b>-4,959</b>	-11,497
15,490	<b>23,650</b>	Depreciation and impairment of property, plant and equipment	9	<b>26,713</b>	18,586
5,291	<b>23,377</b>	Amortisation and impairment of intangible assets	10, 11	<b>34,240</b>	13,876
-1,263	<b>2,424</b>	Pension cost without cash flow effect	16	<b>2,470</b>	-1,493
6,505	<b>29,426</b>	Dividends from subsidiaries		<b>0</b>	0
217	<b>63</b>	Interests from subsidiaries		<b>0</b>	0
-1,535	<b>-1,240</b>	Shares valued at fair value	25	<b>-1,031</b>	-1,559
2,539	<b>3,976</b>	Cost of share-based payment	17	<b>3,976</b>	2,539
		<u>Working capital adjustments</u>			
-9,458	<b>-102,848</b>	Changes in receivables and prepayments from customers	21	<b>-20,826</b>	-45,192
7,625	<b>-13,951</b>	Changes in inventory	14	<b>-69,012</b>	6,698
28,928	<b>-45,204</b>	Changes in accounts payables	20	<b>-37,967</b>	46,798
-1,535	<b>8,001</b>	Changes in work in progress	7	<b>10,238</b>	-21,529
-53,375	<b>23,214</b>	Changes in other short term balance sheet items		<b>12,442</b>	-5,073
70,307	<b>-115,286</b>	NET CASH FLOW FROM OPERATIONS		<b>-123,309</b>	111,852
		<b>Cash flow from investments</b>			
-43,554	<b>-56,314</b>	Investments in tangible and intangible assets	9, 10	<b>-69,598</b>	-67,639
-6,360	<b>0</b>	Acquisition of subsidiary, net of cash acquired	5	<b>0</b>	6
-10,742	<b>3,199</b>	Other investments		<b>-2,541</b>	-3,442
-60,656	<b>-53,115</b>	NET CASH FLOW FROM INVESTMENTS		<b>-72,139</b>	-71,075
		<b>Cash flow from financing</b>			
0	<b>0</b>	Down payments of debt to financial institutions	22	<b>-790</b>	-790
114,857	<b>3,801</b>	Share issue	6, 13	<b>3,801</b>	114,857
0	<b>0</b>	Other financial items		<b>3,546</b>	154
114,857	<b>3,801</b>	NET CASH FLOW FROM FINANCING		<b>6,557</b>	114,221
124,508	<b>-164,600</b>	Net change in cash and cash equivalents for the year		<b>-188,891</b>	154,998
63,064	<b>187,572</b>	Cash and cash equivalents as at 01.01.		<b>274,615</b>	119,617
187,572	<b>22,971</b>	CASH AND CASH EQUIVALENTS AS AT 31.12.	19	<b>85,724</b>	274,615

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## Note 1 / Corporate information

The consolidated financial statements for the year ended at 31 December 2010 were approved by the Board of Directors at its meeting on 30 March 2011. Q-Free ASA is a limited liability company with 282 employees in 12 locations and representatives in 8 other countries. The headquarter is based in Trondheim, Norway. Q-Free is listed on the Oslo Stock Exchange with the ticker QFR.

Q-Free is a leading global supplier of solutions and products for Road User Charging and Traffic Management having applications mainly within electronic toll collection for road financing, congestion charging, truck-tolling, law enforcement and parking/access control. Q-Free offers solutions and products based on state of the art technology, and is the leading supplier within DSRC (tag and reader) – ALPR (Automatic License Plate Recognition) and GNSS (Global Navigation Satellite System) based solutions, with deliveries in Europe, Asia-Pacific, Middle East, North and South America.

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

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

### 2.1: General principles

The consolidated financial statements are presented using the historical cost principle, with the exception of derivative financial instruments which are measured at fair value. The consolidated financial statements are presented in Norwegian kroner and all figures are rounded to the nearest thousand (TNOK) unless otherwise specified.

### Statements of compliance

The consolidated financial statements of Q-Free ASA (the "Parent Company") and all its subsidiaries (The "Group"), have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The below listed principles are used both for the Parent company and The Group.

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

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

### Judgments

During 2010 there was no incidents that required management to make any judgements that had any material effect on the reported consolidated financials as at 31.12.10.

### Uncertainty associated with estimates and assumptions

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

### Revenues recognition in projects

Revenues are recognised on the contracts in coherence with the estimated progress in the projects. Progress is calculated as accrued production costs as a percentage of total expected production costs. Revenues are agreed by contract. Total expected production

costs are estimated based on a combination of historical figures, systematic estimation procedures, the follow up of efficiency targets and best estimates. Each project's prognosis is evaluated on a monthly basis to verify that the accounts are based on best possible prognosis. Manhours constitute a large proportion of the total production cost. The uncertainty of the estimation of manhours varies with duration and technical complexity of the project. Estimation of projects with long duration and high complexity has significant effect on the financial statement. The Group management is therefore actively involved in these assessments. Revenues recognition in projects is measured as a percentage calculated as accrued production costs as a percentage of total anticipated production costs. Total order's for the Group as at 31 December 2010 is TNOK 684.601. Corresponding figures for 2009 was TNOK 648.867-. Further details are given in Note 7.

#### **Product Development costs**

Product development costs are capitalised in accordance with the accounting policy in Note 3.7 and the capitalised amount is shown in the balance sheet as "Product Development Assets". Initial capitalisation of costs is based on management's assumption that technological and financial feasibility is confirmed, this is when a product development project has reached a defined milestone according to the project management model. In determining the amounts to be capitalised, management makes assumptions on the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. As at 31 December 2010, the carrying amount of capitalised product development costs was TNOK 143.574 (2009: TNOK 121.572). Further details are given in Note 10 Intangible Assets.

#### **Pension funds / liabilities**

The cost of defined benefit pension plans and other post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves a number of assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at the reporting date. The net employee pension liabilities for the Group as at 31 December 2010 is TNOK 3.936,- Corresponding figures for 2009 was net liabilities on TNOK 1.466-. Further details are given in Note 16.

#### **Warranty accruals**

The Group is estimating probable warranty costs on products delivered with faults based on historical data for previous years and an evaluation of the portfolio of delivered products still under warranty. Total provisions for warranty costs as at 31 December 2010 is TNOK 7.993,- for the group. Corresponding figures for 2009 was TNOK 9.073,-. Further details are given in Note 26.

#### **Deferred tax assets**

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will allow the losses to be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. The carrying value of recognised deferred tax funds as at 31 December 2010 was TNOK 13.779-, for Group and TNOK 12.079,- for the Parent (2009: TNOK 27.121,- of deferred tax liabilities for Group and TNOK 15.847,- of deferred tax liabilities for Parent). Either the Parent or the Group had any unrecognised deferred tax assets as at 31 December 2010 or as at 31. December 2009. Further details regarding deferred taxes are given in note 23.

### **Note 3 / Summary of significant accounting policies**

#### **3.0: Basis of consolidation**

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

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

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

### **Shares in subsidiaries**

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

### **Elimination of transactions**

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

### **Non-controlling interests**

The non-controlling interests include the minority's share of the carrying amount of subsidiaries, including the share of identified excess value on the date when a subsidiary is acquired.

Losses in a consolidated subsidiary that can be attributed to the non-controlling interests cannot exceed the minority's share of equity in the consolidated subsidiary. Excess losses are recognised against the equity holders of the parent in the subsidiary to the extent that the minority is not obligated and can incur its share of the loss. If the subsidiary starts making a profit, the majority's share of the subsidiary's equity shall be adjusted until the minority's share of past losses are covered.

### **3.1: Business combinations and goodwill**

*Business combinations from 1 January 2010.*

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

### **3.1: Business combinations prior to 1 January 2010**

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*In comparison to the above-mentioned requirements, the following differences applied:*

Business combinations were accounted for using the acquisition method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

### **3.2: Recognition of revenues**

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Revenues are recognised when it is probable that transactions will generate future financial benefits that will accrue to the company and the size of the amount can be reliably estimated. Sales revenues are presented net of value added tax and discounts. Q-Free's business activities are product and system deliveries as well as provision of service and maintenance and license revenues within the tolling business with a length in time from a couple of months up till two to three years. Q-Free distinguishes between system deliveries, goods/standard production, services/maintenance and license revenues. Governmental grants is classified as "Other income".

#### **System deliveries**

Revenues relating to system deliveries are recognised in the income statement according to the stage of completion. Stage of project completion is calculated as accrued production costs as a percentage of total anticipated production costs. Total anticipated production costs are estimated on the basis of a combination of historical figures, the follow up of efficiency targets and best estimates. If the project's results cannot be reliably estimated, only revenues equal to the accrued project costs will be recognised as revenues. Any estimated loss on a contract will be recognised in the income statement for the period when it is identified that the project will lead to a loss.

Change orders are defined as additions to existing contracts. Change orders are recognised when the probability of customer acceptance of the change order can be ascertained with a high degree of probability. Additional contractual services and estimated additional costs are included in the original project prognosis and recognised as income with a shared profit on the contract and the same degree of completion.

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

### **Service and maintenance fees**

Services delivered which are not part of a construction contract or licensed sales are recognised as revenues incrementally as the service and maintenance is provided, as described under construction contracts.

### **Goods/standard production**

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

### **License revenues**

The Group also sells licences for the use of software systems. Licence revenues are normally recognised as revenues in their entirety when the system is delivered. For a definition of when a license is considered to have been delivered, see the description under "Goods/standard production" above.

### **Governmental grants**

Subsidies from the authorities are not recognised until it is reasonably certain that the company will meet the conditions stipulated in connection with the receipt of the subsidies and that the subsidies actual will be granted. The recognition of subsidies is postponed and amortised over the period that the costs relating to that which the subsidies are intended for are incurred. Subsidies are recognised as deductions from the cost that the subsidy is meant to cover. Subsidies received to buy non-current assets are capitalised. Government grants are accounted as other operating income when the cost are incurred or as reduction of personnel expenses if the Group has approved projects in the governmental tax relief program "Skattefunn". Further details are given in Note 8.

## **3.3: Foreign currency**

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### **Functional currency and presentation currency**

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

### **Group companies**

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

## **3.4: Provisions**

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

## 3.5: Financial instruments

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### Financial assets and liabilities

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

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

### Classification

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

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

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

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

### Impairment of financial assets

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

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

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

## 3.6: Property, plant and equipment

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Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Deprecia-

tion is calculated to reduce the cost of assets, other than land that is not depreciated, to their estimated residual value, if any, over their estimated useful lives. The cost of assets include professional fees. Depreciation commences when the assets are ready for their intended use.

Depreciation is calculated on a straight-line basis over the following periods of time:

Machinery and lab equipment	4-6 years
Office and computer equipment	3-5 years
Building installations	5-7 years, distributed over the remaining rental periods.

### 3.7: Intangible assets

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

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

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

### Research and development

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

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

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

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

### 3.8: Impairment of non-financial assets

All non-financial assets, with the exception of inventories and deferred tax assets, are reviewed for each reporting period to determine whether there are indications of impairment. Where indications of impairment exist, recoverable amounts are calculated.

The recoverable amount of an asset or cash-generating unit is its value in use or fair value less costs to sell, whichever is higher. Value in use is calculated as the net present value of future cash flows. The calculation of net present value uses a discount rate that is before tax and reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount is calculated on the basis of the estimated future cash flow based on the Group's budget and strategic plans for the upcoming five-year planning period. The budget has been approved by Q-Free's management and Board of Directors.

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

**Goodwill**

Goodwill from an acquisition of a business activity (business combination) is identified if the consideration exceeds the value of identifiable assets and liabilities. Goodwill is measured at cost less any accumulated impairment loss. Goodwill is allocated to cash-generating units that are expected to gain financial benefits from the synergies of the business combination. A cash-generating unit is the smallest identifiable group that generates a cash inflow that is largely independent from other assets or groups. Goodwill is non-depreciable, but tested for impairment annually in Q4, and whenever there are indications of impairment on the balance sheet date. Impairment of goodwill cannot be reversed.

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the value in use or fair value less costs to sell, whichever is higher. In estimating value in use, expected future cash flows are discounted to net present value using a discount rate before tax that reflects today's market assessments of the time value and the specific risk attached to the asset. Goodwill is described in Note 11 "Impairment test of goodwill".

**3.9: Share based payment**

The group has a share option program for key employees. To the extent share options or shares are issued to lower than market price, the difference between market price and issue price is reported as payroll expense.

The cost of equity-settled transactions with employees is measured to fair value at grant date. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The market value of granted share options are measured by using Black & Sholes model which take into consideration time and conditions of the share options.

Social security tax is accrued each quarter for the difference between the market value and the exercise value of the granted but not exercised share options.

**3.10: Inventories**

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

**3.11: Leases**

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

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

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

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

### **3.12: Investment in shares**

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

### **3.13: Accounts receivable and other short term receivables**

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

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

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

Q-Free ASA has a defined benefit- and a defined contribution pension plan for the employees. Both pension plans meet the criteria for OTP. (Obligatorisk Tjeneste Pensjon) Pension cost are calculated according to IAS 19 for both plans. Net pension cost for the year include estimated pension contribution including future salary growth, estimated return on pension funds and potential effects of changes in pension plans and estimates. Net pension cost is classified as payroll expense in the profit and loss statement. Pension funds and pension liabilities are valued based on best estimates adjusted annually based on actuary reports. The accumulated effects from changes in actuarial and financial assumptions are distributed over the remaining recognition period for the portion of the change exceeding more than 10% of the largest of pension liabilities and pension funds as of 1 January. The pension liabilities is secured through an insurance company. The pension cost of the contribution plan is expensed as it accrues, see note 16 for further details.

### **3.15: Taxes**

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

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

Deferred tax assets are recognised when it is probable that the Group will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. The companies recognise previously unrecognised deferred tax assets to the extent it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer regards it as probable that it can utilise the deferred tax asset.

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

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

**3.16: Cash and cash equivalents**

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

**3.17: Cash flow statement**

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

**3.18: Events after the balance sheet date**

New information on the company's positions at the balance sheet date is taken into account in the annual financial statements. Events after the balance sheet date that do not affect the company's position at the balance sheet date, but which will affect the company's position in the future, are stated if significant. No such significant events has occurred in 2011.

**3.19: Business segments**

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

**3.20: Changes in accounting policy and disclosures**

The accounting policies adopted are consistent with those of the previous financial years.

The below listed standards or interpretations are adopted by the Group. The adaptation of the standards and interpretations has no impact on the financial statements or performance of the Group.

- IFRS 3 – Revised: Business combinations, IFRS 3(revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.
- IAS 27 – Revised: Consolidated and Separate Financial Statements. IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without a loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.
- IFRS 2 – Share-based Payment (Amendment). The amendment clarifies the scope and the accounting for group cashsettled share-based payment transactions.
- IAS 1 – (amendment), Presentation of financial statements. The amendment is effective from 1 January 2010. It provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
- IAS 36 – (Amendment) – Impairment of assets, effective 1 January 2010.
- IFRIC 9 – Reassessment of embedded derivatives and IAS 39 – Financial instruments: recognition and measurement, effective 1 July 2009.
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation. The interpretation became effective 1 October 2009. It clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency and not presentation currency, and hedging instruments may be held anywhere in the Group.
- IFRIC 17 – Distribution of non-cash assets to owners. The interpretation became effective on 1 July 2009. It provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.
- IFRIC 18 – Transfers of assets from customers, effective for transfer of assets received on or after 1 July 2009.

### 3.22: New standards and interpretations not yet adopted

The following are new IFRS standard, amendments and interpretations not effective for the year ended 31. December 2010, and have not been applied in preparation of these consolidated financial statements.

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IFRS 9 – Financial instruments.

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IAS 24 (Revised) – Related party disclosure.

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Classification of rights issues – amendment to IAS 32.

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IFRIC 19 – Extinguishing financial liabilities with equity instruments.

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### Note 4 / Financial risk management

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

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

- A) Credit risk
  - B) Currency risk
  - C) Liquidity risk
  - D) Interest rate risk
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#### A) Credit risk

The Group is only conducting business with parties with an acceptable credit record. To the extent the credit rate is questionable, payment guarantees, letter of credit or advance payments will be considered. The Group has no significant credit risk linked to an individual contracting party or several other contracting parties that can be regarded as a group due to similarities in the credit risk. The Group has guidelines for ensuring that sales are only made to customers that have not experienced any significant credit problems, and that outstanding amounts do not exceed given credit limits. The Group is exposed to risk involved in customers not having the ability to fulfil their financial obligations. However, this risk is considered to be low since the Group's customers are major IT companies, public authorities, larger foreign road operators and key road Concessionaires in Norway and abroad. This is documented by a historically low bad debt ratio on accounts receivables. When Q-Free enters a new market, the credit risk will be assessed in each individual case and appropriate actions like utilising letter of credits and other similar tools, will be used in order to reduce credit risk. The Group has not provided any guarantees for third parties' liabilities.

An aging analysis of trade receivables as at 31. December 2010 and 2009 are given in note 21.

#### B) Currency risk

Q-Free has considerable foreign currency exposure since it earns between 60-75% of its revenues abroad. However, Q-Free also buys a substantial share of its needed equipment and services abroad and runs businesses outside Norway. This mitigates the Group's net foreign currency exposure by 30-50%. The Group's most important trading currencies except for NOK, are USD and EUR. Q-Free's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters.

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

Forward currency contracts are being used to hedge the foreign currency risk of the expected future sales. The Group holds no foreign exchange contracts as at 31 December 2010. (2009: TNOK 137). These foreign exchange contracts are classified as other financial assets measured as fair value. See note 20 for the fair value hierarchy and a specification on valuation technique applied .

See note 20 for a presentation of a sensitivity analysis regarding changes in EURO as at 31. December 2010 and 2009 and how this will affect the Group's EBIT.

**C) Liquidity risk**

The Q-Free ASA Group's strategy is to have sufficient cash, cash equivalents or credit facilities at any time to be able to finance its operations and investments over the next three years as required in the company's strategy plan for the same period. Surplus liquidity is either deposited in banks or invested in money market funds, with the purpose of obtaining an acceptable return on invested capital combined with a low risk.

See note 20 for a presentation of the Group's maturity profile of the Group's financial liabilities as at 31 December 2010 and 2009.

**D) Interest-rate risk**

Since the Group has no significant amount of interest bearing debt the interest risk is immaterial. However if the Group will enter any significant interest bearing debt contracts, the group emphasises predictability at all times when changes in the interest level have a significant influence on the consolidated profit and will take actions to hedge this risk.

See note 20 for a presentation of a sensitivity analysis regarding changes in the interest rate and how this will affect the Group's EBIT as at 31 December 2010 and 2009.

**Note 5 / Operating segments**

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

+ Europe

+ Asia Pacific

+ Americas

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

**Operating Segments**

	2010				2009			
	Europe	Asia Pacific	Americas	TOTAL	Europe	Asia Pacific	Americas	TOTAL
<b>Profit &amp; Loss Account</b>								
Revenues	55%	18%	27%	<b>100%</b>	80%	13%	7%	<b>100%</b>
	311,461	103,732	152,851	<b>568,044</b>	640,251	106,151	58,001	<b>804,403</b>
Cost of goods sold	96,937	59,305	111,991	<b>268,233</b>	209,126	56,513	37,790	<b>303,429</b>
Payroll expenses	143,438	15,741	8,307	<b>167,486</b>	132,467	16,764	4,481	<b>153,712</b>
Operating expenses	130,296	25,139	6,309	<b>161,744</b>	187,611	19,386	5,060	<b>212,057</b>
Total operating expenses	370,671	100,186	126,607	<b>597,463</b>	529,205	92,663	47,331	<b>669,199</b>
EBITDA	-59,210	3,546	26,244	<b>-29,418</b>	111,046	13,488	10,670	<b>135,205</b>
Depreciation, amortisation and impairment	59,885	365	704	<b>60,954</b>	31,636	254	571	<b>32,461</b>
EBIT	-119,095	3,181	25,540	<b>-90,373</b>	79,410	13,233	10,099	<b>102,743</b>
<b>Balance sheet – Assets</b>								
Non current assets	236,035	17,545	4,843	<b>258,423</b>	217,450	12,176	3,833	<b>233,459</b>
Current assets	346,621	39,949	42,720	<b>429,290</b>	453,242	49,958	30,874	<b>534,074</b>
TOTAL ASSETS	582,656	57,494	47,563	<b>687,714</b>	670,692	62,134	34,707	<b>767,534</b>
<b>Balance sheet – Liabilities</b>								
Non current liabilities	4,557	0	0	<b>4,557</b>	29,999	0	0	<b>29,999</b>
Current liabilities	118,337	47,525	17,878	<b>183,741</b>	123,531	47,525	17,878	<b>188,935</b>
TOTAL LIABILITIES	122,894	47,525	17,878	<b>188,297</b>	153,530	47,525	17,878	<b>218,933</b>
<b>Key Figures</b>								
EBITDA – margin	-19.0%	3.4%	17.2%	<b>-5.2%</b>	17.3%	12.7%	18.4%	<b>16.8%</b>
EBIT – margin	-38.2%	3.1%	16.7%	<b>-15.9%</b>	12.4%	12.5%	17.4%	<b>12.8%</b>
Average annual man years	251	22	10	<b>283</b>	227	39	8	<b>274</b>
Average number of employees	255	25	10	<b>290</b>	234	40	8	<b>282</b>

**Revenues Composition**

	2010		2009	
Products	344,196	<b>61%</b>	258,068	<b>32%</b>
Service and maintenance	70,519	<b>12%</b>	77,537	<b>10%</b>
Projects	153,329	<b>27%</b>	468,798	<b>58%</b>
TOTAL REVENUES	568,044	<b>100%</b>	804,403	<b>100%</b>

**Order Backlog by Operating Segments**

	2010		2009	
Europe	310,134	53%	593,644	83%
Asia Pacific	40,402	8%	67,317	10%
Americas	224,596	39%	52,078	7%
TOTAL ORDER BACKLOG	575,132	100%	713,039	100%

**Order Backlog by Business Areas**

	2010		2009	
Products	251,291	44%	83,165	12%
Service and maintenance	157,388	27%	181,802	25%
Projects	166,453	29%	448,072	63%
TOTAL ORDER BACKLOG	575,132	100%	713,039	100%

**Note 6 / Business combinations****Acquisitions in 2010**

There was no acquisitions during 2010

**Acquisitions in 2009***Acquisitions of Building Capital Ltd*

Q-Free ASA has purchased 100 percent of the shares of Building Capital Ltd, located in London, UK. Building Capital Ltd was founded in 2002 and has attained high competence and extensive experience within the tolling industry. The company has references throughout Europe within Road User Charging in general, and GNSS (e.g. GPS) based solutions

The consideration of the shares will be a combination of cash and Q-Free shares, with a maximum remuneration equivalent to GBP 600.000, with no less than GBP 360.000 in cash. The agreement will be in force from January 1st 2009, and with final payment January 1st 2011.

Q-Free ASA approved in a Board meeting 6th of July 2009 to increase the share capital with NOK 7,447.62. The increase in the share capital is carried out according to proxy by issuance of 19,599 new shares with a par value of NOK 0.38. The share capital increased from NOK 20,875,107.34 to NOK 20,882,554.96. The increase in the share capital was approved in relation to the completion of the acquisition of Building Capital Ltd.

The current operations in Building Capital Ltd. are defined as part of the Group's core business, and will play a significant role in the Group looking ahead.

The fair value (NOK) of the identifiable assets and liabilities of Building Capital Ltd. as at the date of acquisition were:

	Previous carrying value	Fair value recognised on acquisition
<b>Intangible assets</b>		
Non-competition agreement		2,805
<b>TOTAL INTANGIBLE ASSETS</b>	<b>0</b>	<b>2,805</b>
Other fixed assets	55	55
Other current assets	82	82
Cash and cash equivalents	6	6
<b>TOTAL ASSETS</b>	<b>143</b>	<b>2,957</b>
Equity	-55	
Other short term debt	-88	-88
<b>TOTAL DEBT</b>	<b>-143</b>	<b>-88</b>
Net assets		2,869
Goodwill arising on acquisition		3,491
<b>TOTAL ACQUISITION COST</b>	<b>0</b>	<b>6,360</b>
<b>Cash outflow on acquisition</b>		
Initial pre-payment		6,360
Earn-Out payment (2009 & 2010)		-
Transaction costs		-
<b>TOTAL PURCHASE PRICE</b>		<b>6,360</b>

The Purchase Price Allocation-window is open for 12 months from the acquisition date for subsequent accounting if and made only when new information about the possible outcome is obtained. Total Earn-Out payments are calculated based on expected future development contribution from the acquired company.

The intangible asset identified at the time of the acquisition was a non-competition agreement. This asset explain 44 percent of the total purchase price. The remaining amount of the excess price is allocated to other assets and goodwill, with the estimated value of assembled workforce and the fact that the purchase of the Building Capital Ltd shares is an important transaction in order to position the Group as a supplier of neutral technological solutions.

As of the takeover date (January 1st 2009) Building Capital Ltd. has contributed to the year end profit equivalent of TNOK ÷ 2.278. However the organisation has contributed positively in the execution of the Truck Tolling project in Slovakia.

### Note 7 / Work in progress

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

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

Parent Company			Group	
2009	2010	Balance sheet items	2010	2009
62,552	54,551	Work in progress	54,461	64,699
-13	0	Prepayments from customers	-16,601	-5,415
62,539	54,551	NET PROJECTS IN PROGRESS	37,860	59,285
<b>Summary of work in progress as at 31.12</b>				
346,762	70,018	Contract revenues included in the consolidated financial statement	97,869	381,003
519,565	539,963	Total contract orders	684,601	648,867
414,127	529,661	Accumulated revenues	654,701	497,141
105,439	10,301	Remaining revenues	29,899	151,727
308,759	333,270	Accumulated operating expenses	467,717	428,083
62,658	6,482	Remaining operating expenses	2,183	96,435
-13	0	Prepayments received	-16,601	-5,415
0	0	Remaining variable expenses on loss-making projects	0	6,011

### Note 8 / Other operating income

The Group has received governmental grants of a total of TNOK 10.870,- in 2010. Corresponding figures for 2009 was TNOK 6.127,-. The Group is a partner in several projects under The Research Council of Norway and projects initiated by the EU.

#### Contribution

	2010	2009
<b>Governmental grants:</b>		
Projects with contribution from The Research Council of Norway	6,543	6,127
Contribution from EU initiated projects	3,607	0
<b>TOTAL</b>	<b>10,150</b>	<b>6,127</b>

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

	2010	2009
Grants recognised as other income related to cost in same period	10,150	6,127
Grants accounted as reduction of payroll expenses (Skattefunn)	720	0
<b>TOTAL</b>	<b>10,870</b>	<b>6,127</b>

**Note 9 / Machinery, fixtures and fittings****Parent company**

	Machinery and fixtures	Equipment	TOTAL
<b>As at 31 December 2009</b>	22,372	34,037	56,409
Acquisition cost as at 1 January 2009	49,299	73,950	123,249
Additions	6,673	6,937	13,610
Disposals	0	3,710	3,710
Acquisition cost as at 31.12.09	55,972	84,597	140,569
Accumulated depreciation and impairments as at 01.01.09	26,994	41,676	68,670
Depreciation of the year	6,606	5,174	11,780
Impairments of the year	0	3,710	3,710
Accumulated depreciation disposals	0	0	0
Accumulated depreciation and impairments as at 31.12.09	33,600	50,560	84,160
Net book value as at 01.01.09	22,306	32,273	54,579
Total changes of the year	66	1,764	1,830
<b>As at 31 December 2009</b>	22,372	34,037	56,409
Acquisition cost as at 1 January 2010	55,972	84,597	140,569
Additions	8,563	3,266	11,829
Disposals	0	0	0
Acquisition cost as at 31.12.10	64,535	87,863	152,398
Accumulated depreciation and impairments as at 01.01.10	33,600	50,560	84,160
Depreciation of the year	16,195	7,455	23,650
Impairments of the year	0	0	0
Accumulated depreciation disposals	0	0	0
Accumulated depreciation and impairments as at 31.12.10	49,795	58,015	107,810
Net book value as at 01.01.10	22,372	34,037	56,409
Total changes of the year	-7,632	-4,189	-11,821
<b>As at 31 December 2010</b>	14,740	29,848	44,588
Financial lifetime	4–5 years	5–10 years	
Depreciation schedule	Straight line	Straight line	

**Securities for bank guarantees and overdraft facility**

As at 31.12.10 assets in the parent company valued to TNOK 44.588,- ( 2009: 56.409,-) is pledged as security for guarantee facility in Fokus Bank ASA.

**Group**

	Machinery and fixtures	Equipment	TOTAL
<b>Acquisition cost as at 1 January 2009</b>	92,689	73,950	166,639
Additions	15,875	6,937	22,812
Acquisitions of a subsidiary	0	0	0
Disposals	0	3,710	3,710
Acquisition cost as at 31.12.09	108,564	84,597	193,161
Accumulative depreciation and impairments as at 01.01.09	61,025	41,676	102,701
Depreciation of the year	9,702	5,174	14,876
Impairments of the year	0	3,710	3,710
Accumulated depreciation disposals	0	0	0
Accumulated depreciation and impairments as at 31.12.09	70,727	50,560	121,287
Net book value as at 01.01.09	31,665	32,273	63,938
Total changes of last year	6,172	1,764	7,936
<b>As at 31 December 2009</b>	37,837	34,037	71,874
<b>Acquisition cost as at 1 January 2010</b>	108,564	84,597	193,161
Additions	14,834	3,266	18,100
Acquisitions of a subsidiary	0	0	0
Disposals	0	0	0
Acquisition cost as at 31.12.10	123,398	87,863	211,261
Accumulative depreciation and impairments as at 01.01.10	70,727	50,560	121,287
Depreciation of the year	19,258	7,455	26,713
Impairments of the year	0	0	0
Accumulated depreciation disposals	0	0	0
Accumulated depreciation and impairments as at 31.12.10	89,985	58,015	148,000
Net book value as at 01.01.10	37,837	34,037	71,874
Total changes of the year	-4,424	-4,189	-8,613
<b>As at 31 December 2010</b>	33,413	29,848	63,261
Financial lifetime	4–5 years	5–10 years	
Depreciation schedule	Straight line	Straight line	

**Note 10 / Intangible assets****Parent company**

	Goodwill	Product Development Assets	TOTAL
Acquisition cost as at 1 January 2009	0	116,383	116,383
Additions	0	26,236	26,236
Disposals	0	0	0
Acquisition cost as at 31.12.09	0	142,619	142,619
Accumulated depreciation and impairments as at 01.01.09	0	57,517	57,517
Depreciation of the year	0	5,291	5,291
Impairments of the year	0	0	0
Accumulated depreciation and impairments as at 31.12.09	0	62,808	62,808
Net book value as at 01.01.09	0	58,866	58,866
Total changes of last year	0	20,945	20,945
<b>As at 31 December 2009</b>	0	79,811	79,811
Acquisition cost as at 1 January 2010	0	142,619	142,619
Additions	0	44,484	44,484
Disposals	0	0	0
Acquisition cost as at 31.12.10	0	187,103	187,103
Accumulated depreciation and impairments as at 01.01.10	0	62,807	62,807
Depreciation of the year	0	5,904	5,904
Impairments of the year	0	17,473	17,473
Accumulated depreciation and impairments as at 31.12.10	0	86,184	86,184
Net book value as at 01.01.10	0	79,811	79,811
Total changes of the year	0	21,108	21,108
<b>As at 31 December 2010</b>	0	100,919	100,919
Financial lifetime	Impairment tested annually (or when impairment indicators exists).	5–10 years	
Depreciation schedule		Straight line	

**Group**

	Goodwill	Product Development Assets	TOTAL
<b>Acquisition cost as at 1 January 2009</b>	26,022	163,101	189,123
Additions	4,775	30,648	35,423
Acquisitions of a subsidiary	3,491	2,805	6,296
Disposals	0	0	0
Acquisition cost as at 31.12.09	34,288	196,554	230,842
Accumulative depreciation and impairments as at 01.01.09	0	61,106	61,106
Depreciation of the year	0	13,876	13,876
Impairments of the year	0	0	0
Accumulated depreciation disposals	0	0	0
Accumulated depreciation and impairments as at 31.12.09	0	74,982	74,982
Net book value as at 01.01.09	26,022	101,995	128,017
Total changes of last year	8,266	19,577	27,843
<b>As at 31 December 2009</b>	34,288	121,572	155,860
<b>Acquisition cost as at 1 January 2010</b>	34,288	196,554	230,842
Exchange rate differences on acquisitions	-1,253	52,752	51,499
Reclassification *	-3,491	3,491	0
Acquisition cost as at 31.12.10	29,544	252,797	282,341
Accumulative depreciation and impairments as at 01.01.10	0	74,982	74,982
Depreciation of the year	0	16,768	16,768
Impairments of the year **	0	17,473	17,473
Accumulated depreciation and impairments as at 31.12.10	0	109,223	109,223
Net book value as at 01.01.10	34,288	121,572	155,860
Total changes of the year	-4,744	22,002	17,258
<b>As at 31 December 2010</b>	29,544	143,574	173,118

\* Acquired goodwill 2009 is reclassified as Product Development Assets during 2010. See note 11 for further details.

\*\* In the third Quarter 2010 the Group impaired capitalised development cost related to operational back office development used in Truck Tolling systems.

Financial lifetime	Impairment tested annually (or when impairment indicators exists).	5–10 years
Depreciation schedule		Straight line

**Development**

The group capitalises costs regarding product development activities. Capitalised costs for 2010 consist of product development of a new generations of OBU's and road side units that is a part of the company's toll road systems. Furthermore, the company has capitalised cost that prepares the company's products for future wireless communication solutions that enables continuous communication between vehicles and the roadside infrastructure. Such cooperative vehicle-infrastructure systems will allow new traffic information-sharing services for greater safety, efficiency and a better environment.

For 2010 research-expenses in the P&L has been immaterial.

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

### Note 11 / Impairment testing of goodwill

Goodwill obtained through business combination is allocated to the cash generating units acquired and the impairment testing is based on the discounted cash flow calculations for each cash generating unit.

Carrying amount of goodwill allocated to each of the cash-generating unit:

	2010	2009
OEM software for use in video- & picture processing in ITS	29,544	30,797
Global Navigation Satellite Systems (GNSS) technology used in Road User Charging projects *	0	3,491
<b>CARRYING AMOUNT OF GOODWILL AS AT 31. 12:</b>	<b>29,544</b>	<b>34,288</b>

\*Carrying amount of goodwill on GNSS-technology used in Road User Charging projects pr 31.12.09 is reclassified as product development assets during 2010.

### Impairment testing of Goodwill as at 31. December 2010

#### *OEM software for use in video- & picture processing in ITS cash generating units*

The Group performed its annual impairment test as at 31 December 2010. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. The discounted cash flow method is used to ascertain calculated value in use. The projected cash flow is based on budgets and long-term plans, which are subject to the approval of the Board and the corporate management. Long-term plans is equivalent to the Group Strategy and covers a period of five years. Future improvements to products and new developments are not reflected in the future cash flow.

The recoverable amount of the OEM software for use in video- & picture processing in ITS cash-generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by the Board covering a five year period. It is generally expected that the company will manage to hold its strong market position in delivering high performance software for video and picture processing used in Intelligent Traffic Systems. Expectations about the total market development are based on external market expectations, e.g. the estimated growth rate for the ITS market world wide. Market growth is expected to be exceeding 25% per year. The backlog of orders for license revenues is high, and it has a strong position in niche markets. The pre-tax discount rate applied to cash flow projections is 12% (2009: 10.4%) and cash flow beyond the five-year period are extrapolated using a 5.0% growth rate (2009: 5.0%) that is a prudent estimate compared to the industry's annual compounded growth rate on 30% for the next five years.

#### Key assumptions used in value in use calculations

The calculation of value in use for OEM software for use in video- & picture processing in ITS are most sensitive to the following assumptions:

- + Gross margins;
- + Discount rates;
- + Raw materials price inflation;
- + Market share during the budget period; and
- + Growth rate used to extrapolate cash flows beyond the budget period.

+ **Gross margins** – Gross margins are based on budgetary and on forecasting values that is the outcome of the Group's managerial strategic process. The forecasting values are increased over the budget period for anticipated efficiency improvements.

+ **Discount rates** – Discount rates reflect the management's estimate of the risks specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each unit, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted year.

+ **Raw materials price inflation** – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

+ **Market share assumptions** – These assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how the unit's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the Intelligent Traffic Systems (ITS)- market to be stable over the budget period, whereas for the reasons explained above, the Board expects the Group's position, relative to its competitors, to strengthen following the acquisition of Dacolian BV in 2008.

+ **Growth rate estimates** – Rates are based on published industry research.

#### *Sensitivity to changes in assumptions*

With regards to the assessment of value-in-use of the OEM software for use in video- & picture processing in ITS, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## Note 12 / Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent 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 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 the dilutive potential ordinary shares into ordinary shares.

	<b>2010</b>	2009
Profit for the year	<b>-57,104</b>	78,310
Weighted average number of ordinary shares	<b>60,247,010</b>	55,536,269
Weighted average of share option (1.730.000 share options granted during 2010 calculated to 1.393.507 as weighted average)	<b>1,393,507</b>	840,000
Weighted average number of diluted shares	<b>61,640,507</b>	56,376,269
Earnings per share	<b>-0.94</b>	1.41
Diluted earnings per share	<b>-0.93</b>	1.39

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

**Note 13 / Issued capital and reserves**

Value per share is kr. 0,38. Total share capital as at 31.12.2010 was kr. 22.893.864. There were 1.387 shareholders at the end of 2010.

**Ordinary shares**

	<b>2010</b>	2009
Shares issued as at 01.01	<b>60,054,092</b>	53,976,213
Share issue	<b>192,918</b>	5,745,379
Share options exercised	<b>0</b>	332,500
<b>TOTAL SHARES ISSUED AS AT 31.12.10</b>	<b>60,247,010</b>	60,054,092

**The company's largest shareholders as at 31.12.10**

	Number of shares	Percentage ownership
Erste Bank Der Oesterreichischen	9,933,000	16.49%
Odin Norge	5,335,668	8.86%
Skagen Vekst	2,900,000	4.81%
DnB NOR SMB VPF	2,325,000	3.86%
JPMorgan Chase Bank	1,974,500	3.28%
Holberg Norge	1,744,022	2.89%
Kikut AS	1,654,000	2.75%
Andresen Lars Oddgeir	1,633,600	2.71%
Redback AS	1,495,000	2.48%
Vital Forsikring ASA	1,375,667	2.28%
Bank Austria Creditanstalt AG	1,187,017	1.97%
VPF Nordea Kapital	1,065,814	1.77%
Mons Holding AS	1,040,000	1.73%
VPF Nordea Avkastning	861,932	1.43%
Sandnes Investering AS	817,196	1.36%
Sabaro Investments Ltd.	775,772	1.29%
DnB NOR Norge (lv) VPF	772,960	1.28%
Deutsche Bank International Ltd.	750,000	1.24%
Warrenwicklund Norge	696,865	1.16%
Statoil Pensjon	605,625	1.01%
Other share holders	21,303,372	35.36%
<b>TOTAL</b>	<b>60,247,010</b>	<b>100.0%</b>

Number of shares held by the senior management, CEO and the Board of Directors as at 31.12.2010:

Name	Position	Shares
Jan Pihl Grimnes	Board member	1,545,000
Jos Nijhuis	VP R&D	517,552
Ole Jørgen Fredriksen	Chairman of the Board	168,884
Øyvind Isaksen	CEO	91,989
Mimi Kristine Berdal	Board member	50,000
Roar Østbø	CFO	47,000
Steinar Furan	Advisor to CEO	22,500
Marianne Sandal	VP Operations	17,000
Stein Tore Nybrodahl	HR Manager	7,500
Per Fredrik Ecker	VP Sales	6,500
<b>TOTAL</b>		<b>2,473,925</b>

At the end of 2010 2.320.000 shares are reserved according to the share option program described in note 17.

## Note 14 / Inventory and cost of goods sold

### Parent Company

### Group

2009	2010		2010	2009
		<b>Inventory</b>		
		<i>Inventory specification</i>		
17,020	<b>33,206</b>	Raw material and semi manufactured products	<b>47,717</b>	30,639
53	<b>53</b>	Stock for sub supplier	<b>53</b>	53
1,620	<b>306</b>	Stock for maintenance contracts	<b>306</b>	1,620
0	<b>0</b>	Work in progress	<b>3,963</b>	4,353
12,892	<b>8,382</b>	Finished goods	<b>15,364</b>	12,949
-6,204	<b>-2,616</b>	Obsolescence	<b>-6,250</b>	-9,286
25,381	<b>39,332</b>	TOTAL	<b>61,154</b>	40,328

All inventories are valued at lower of cost and net realisable value. The amount of write-down of inventories recognised as an expense is for the Parent company TNOK 2.356 in 2010 (2009: 1.819) and for the group TNOK 2.356 in 2010 (2009: 1.544) which is recognised in cost of goods sold.

### Parent Company

### Group

2009	2010		2010	2009
		<b>Cost of goods sold</b>		
		<i>COGS specification</i>		
249,176	<b>89,353</b>	Purchase of goods	<b>251,014</b>	310,035
321	<b>87</b>	Freight, customs etc.	<b>672</b>	889
356	<b>168</b>	External services handling of COGS	<b>168</b>	356
-7,625	<b>13,951</b>	Change of inventories	<b>16,379</b>	-7,851
242,228	<b>103,559</b>	TOTAL	<b>268,233</b>	303,429

**Note 15 / Salaries and personnel related expenses****Parent Company****Group**

2009	2010		2010	2009
93,062	<b>106,194</b>	Salaries	<b>160,759</b>	138,353
14,811	<b>15,574</b>	Social security costs	<b>18,138</b>	17,452
5,354	<b>10,907</b>	Pension costs	<b>19,648</b>	9,033
0	<b>720</b>	Skattefunn (governmental tax relief)	<b>0</b>	0
-10,167	<b>-32,428</b>	Other personnel related costs	<b>-31,779</b>	-11,125
103,060	<b>100,967</b>	TOTAL	<b>166,766</b>	153,713
126	<b>137</b>	Average number of employees	<b>290</b>	282
123	<b>135</b>	Average number of man-years	<b>283</b>	274

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

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

On top of the fixed monthly salary, there should be the option to grant a bonus that will depend on the results of the company on performance of the individual employee. The Board has therefore established a bonus plan for the Company's employees, managers included. Such bonus can for the CEO be maximum 80% of the fixed yearly salary, and for the other members of the management team maximum 40% of the fixed yearly salary. The bonus shall in general terms be linked to Q-Free's fulfilment 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 manager. In extraordinary cases it can be awarded a discretionary bonus to employees in the Company, limited nominated up to 40% of the employees fixed yearly salary.

On top of the fixed monthly salary, bonus according to achieved results and adopted option plans, the agreement with the individual manager can include that he or she shall receive payment in kind, as for example receiving free newspapers/journals, free phone, free internet-subscription etc. In individual cases it can also be agreed that the manager concerned shall have a Company car at disposal according to the prevailing regulations.

Q-Free has established a collective pension scheme for its employees that also include the leading employees. On top of the pension payment that comes from such scheme, and on top of the payments offered through public pension arrangements, the members of the Company's management team can be offered an individual pension agreement. The Board states that in individual cases further pension arrangements can also be made. Q-Free has established a group life insurance for the management team.

The Board of Q-Free further states that there shall be a mutual period of notice of six (6) months for agreements made with leading employees. For the General Manager the period of notice should be extended with two (2) months for each year he or she has been employed by the Company, however so that the maximum period of notice shall be twelve (12) months. In case of substantial changes

in position due to mergers and acquisitions the maximum payment period in case of termination of employment is set to 24 months including notice period. In individual cases other arrangements with regards to resignation can be agreed, hereunder agreements of payment after the termination of employment. The Board shall be empowered to depart from the principles above in individual cases.

The principles for remuneration have not been changed during the last year.

No loans or guarantees have been provided to the Chief Executive Officer, Board members, shareholders or close associates of these individuals. With regard to notice of termination of employment for the CEO, the notification period is mutually 6 months and the period is extended with 2 months for each year of employment in the company, with a maximum termination period of 12 month. In case of substantial changes in position due to mergers or acquisitions, the maximum payment period in case of termination of employment is set to 24 months including notice period. The CEO has 675,000 share options in the company.

### Payments to senior management and Board of Directors 2010

	Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost	TOTAL
Ole Jørgen Fredriksen, Chairman of the Board			432.5		20.9	375.8	829.2
Christian Albech, Board member			240.0			187.9	427.9
Torild Skogsholm, Board member			262.5			187.9	450.4
Jan Pihl Grimnes, Board member			225.0			187.9	412.9
Mimi Kristine Berdal, Board member			275.0		2.2	187.9	465.1
Sissel Lillevik Larsen, Employee elected Board member			120.0				120.0
Anders Hagen * , Employee elected Board member			75.0				75.0
Frank Aune ** , Employee elected Board member			37.5				37.5
Øyvind Isaksen, Chief Executive Officer	2,714.0	1,750.0		168.4	251.0	1,187.5	6,070.9
Marianne Sandal, Vice President Operations	1,641.1	395.1		217.3	19.4	263.9	2,536.8
Roar Østbø, Chief Financial Officer	1,972.7	281.6		44.2	176.0	263.9	2,738.4
Jos A.G. Nijhuis***, Vice President R&D	1,173.0			103.6		39.6	1,316.2
Per Fredrik Ecker, Vice President Sales	1,390.1	133.6		180.7	14.3	263.9	1,982.6
Stein-Tore Nybodahl, HR Manager	885.3	198.8		169.2	14.7	79.2	1,347.2
Steinar Furan, Advisor to CEO	939.0	186.5		120.9	13.5	263.9	1,523.8
Henrik Stoltenberg, Vice President Business Development and M&A	1,654.0				1.7	401.0	2,056.7
Hans Christian Bolstad****, former Vice President R&D	1,163.8	146.8		174.4	19.7	263.9	1,768.6
<b>TOTAL</b>	<b>13,533.0</b>	<b>3,092.4</b>	<b>1,667.5</b>	<b>1,178.7</b>	<b>533.4</b>	<b>4,154.2</b>	<b>24,159.2</b>

\* Anders Hagen served as employee elected Board member until GF May 2010.

\*\* Frank Aune served as employee elected Board member from GF May 2010.

\*\*\* Jos A. G. Nijhuis entered the position as Vice President R&D 1st of November 2010

\*\*\*\* Hans Christian Bolstad left the position as Vice President R&D 31th of October 2010

**Payments to senior management and Board of Directors 2009**

	Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost	TOTAL
Ole Jørgen Fredriksen, Chairman of the Board			175.0		21.5	307.0	503.5
Christian Albech, Board member			90.0		1.0	153.0	244.0
Torild Skogsholm, Board member			97.5			153.0	250.5
Jan Pihl Grimnes, Board member			75.0			153.0	228.0
Mimi Kristine Berdal, Board member			140.0		4.3	153.0	297.3
Sissel Lillevik Larsen, Employee elected Board member			45.0				45.0
Anders Hagen, Employee elected Board member			37.5				37.5
Øyvind Isaksen, Chief Executive Officer	2,752.5	750.0		136.7		568.0	4,207.2
Marianne Sandal, Vice President Operations	1,584.0	114.7		174.3		124.0	1,997.1
Roar Østbø*, Chief Financial Officer	1,329.4			46.8		124.0	1,500.2
Jos A.G. Nijhuis, General Manager Dacolian B.V.	1,136.0			106.8			1,242.8
Per Fredrik Ecker, Vice President Sales	1,325.1	338.8		140.3		124.0	1,928.2
Stein-Tore Nybodahl, HR Manager	833.5	78.8		142.1		38.0	1,092.5
Steinar Furan, Vice President of Business Development and Compliance	898.4	51.0		96.4		124.0	1,169.8
Hans Christian Bolstad, Vice President R&D	1,146.0	99.1		143.7		124.0	1,512.8
Bjørn Kleven**, Acting Chief Financial Officer	927.4	112.8		116.7			1,157.0
<b>TOTAL</b>	<b>11,932.3</b>	<b>1,545.3</b>	<b>660.0</b>	<b>1,104.0</b>	<b>26.8</b>	<b>2,145.0</b>	<b>17,413.3</b>

\* Roar Østbø entered the position as CFO 1st of May 2009.

\*\* Bjørn Kleven acted as CFO until 30th of April 2009.

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

**Note 16 / Pension scheme**

Q-Free ASA (the parent company) has a defined benefit – and a defined contribution pension plan for the employees. Both pension plans meet the criteria for OTP. Pension cost are calculated according to IAS 19 for both plans. All employees in Norway are included in the pension plans which entitles them to certain benefits for pension in the future. The pension benefits are mainly dependable on numbers of years employed, level of salaries at age of retirement and size of payments. As at 31.12.2010 146 employees are included in the defined contribution pension plan and 43 employees are included in the defined benefit plan. All new employees will be a part of the defined contribution pension plan.

The pension plans for the Norwegian companies are secured in an insurance company. The liability for the Group includes 189 employees in 2010, compared to 185 employees for 2009. The liability for the parent company includes 144 employees in 2010, compared to 137 employees for 2009. The acquisition of Dacolian BV in 2008 did not affect the defined benefit pension plan, as all employees in The Netherlands have a defined contribution pension plan.

## Parent Company

## Group

2009	2010		2010	2009
5,300	<b>5,599</b>	Net present value of current year's pension earnings	<b>6,771</b>	6,687
1,182	<b>1,290</b>	Interest on accrued pension liabilities	<b>1,753</b>	1,556
-823	<b>-1,269</b>	Expected interest on pension funds	<b>-1,953</b>	-1,477
0	<b>258</b>	Amortisation of past service cost	<b>1,245</b>	0
230	<b>0</b>	Amortisation of actuarial (gain) / losses	<b>-1,090</b>	260
229	<b>210</b>	Administrative expenses pension scheme	<b>347</b>	396
830	<b>822</b>	Accrued social security expenses	<b>958</b>	984
6,947	<b>6,910</b>	NET PENSION EXPENSES *	<b>8,032</b>	8,406
		<b>Pension liabilities / (-funds)</b>		
29,429	<b>39,976</b>	Estimated pension liabilities	<b>28,692</b>	41,101
-20,117	<b>-20,627</b>	Estimated pension funds	<b>-8,672</b>	-32,071
9,311	<b>19,350</b>	Estimated net (pension funds) / -liabilities	<b>20,020</b>	9,030
-7,587	<b>-17,929</b>	Unrecognised change in pension plan and deviation in estimates	<b>-18,755</b>	-7,564
1,725	<b>1,421</b>	Net (pension funds) / -liabilities	<b>1,264</b>	1,466
0	<b>2,728</b>	Accrued social security expenses	<b>2,672</b>	
1,725	<b>4,149</b>	NET (PENSION FUNDS) / -LIABILITIES IN BALANCE SHEET	<b>3,936</b>	1,466
21.5	<b>20.7</b>	Estimated remaining contribution periods	<b>19.7</b>	18.9

\* During 2010 costs from the defined contribution pension plan represents TNOK 3.196,- (2009: TNOK 2.385,-), and this is included in the above specification of net pension expenses.

		<b>Pension liabilities</b>		
31,198	<b>29,429</b>	Liabilities as at 01.01.	<b>41,101</b>	41,432
5,300	<b>5,599</b>	Service costs	<b>6,771</b>	6,687
-199	<b>-200</b>	Benefits paid	<b>-566</b>	-547
1,182	<b>1,290</b>	Interest cost	<b>1,753</b>	1,556
0	<b>0</b>	Past service cost	<b>0</b>	0
-8,052	<b>3,858</b>	Actuarial gains/losses	<b>2,203</b>	-8,027
29,429	<b>39,977</b>	TOTAL LIABILITIES AS AT 31.12.	<b>51,261</b>	41,101
		<b>Pension funds</b>		
12,251	<b>20,117</b>	Funds as at 01.01.	<b>32,071</b>	23,110
4,851	<b>3,722</b>	Net contribution paid	<b>4,514</b>	5,505
-199	<b>-200</b>	Benefits paid	<b>-526</b>	-509
823	<b>1,269</b>	Estimated return on assets	<b>1,953</b>	1,675
2,391	<b>-4,282</b>	Actuarial gains/losses	<b>-5,430</b>	2,290
0	<b>0</b>	Acquisition / (disposal)	<b>0</b>	0
20,117	<b>20,627</b>	TOTAL FUNDS AS AT 31.12.	<b>32,581</b>	32,071
-29,429	<b>-39,977</b>	Pension liabilities	<b>-51,261</b>	-41,101
20,117	<b>20,627</b>	Pension funds	<b>32,581</b>	32,071
-9,311	<b>-19,350</b>	SURPLUS / (DEFICIT)	<b>-18,680</b>	-9,030

The Group expects to contribute approximately TNOK 8.520- to its pension plans in 2011, corresponding figures for 2010 was TNOK 7.500.

**Basis and assumptions for calculations**

	<b>2010</b>	2009
Discount rate	<b>3.20%</b>	4.40%
Expected interest on pension funds	<b>4.60%</b>	5.60%
Annual growth in salaries	<b>4.00%</b>	4.25%
Long term inflation	<b>2.75%</b>	2.75%
Increase in national insurance base rate (G)	<b>3.75%</b>	4.00%
Expected change in pensions	<b>0.50%</b>	1.30%
Social security expenses	<b>14.10%</b>	14.10%
Corridor	<b>10.00%</b>	10.00%
Table K2005 is used for definition of mortality rate probability.		
	Expected voluntarily early retirement:	
	Before 40 years	2%
	After 40 years	0%

The Group's pension fund is managed by Vital Forsikring Finansforvaltning, an insurance company. For 2010 the dividend yield was 6.8 percent (2009: 4.8%). The funds are distributed as follows:

	<b>2010</b>	2009
Shares	<b>21%</b>	14%
Bonds	<b>15%</b>	23%
Money market	<b>12%</b>	9%
Long term bonds	<b>32%</b>	35%
Property	<b>18%</b>	17%
Other	<b>2%</b>	2%
<b>TOTAL</b>	<b>100%</b>	100%

**Note 17 / Share option program for employees**

Q-Free ASA established in May 2009 a new three year share option program. According to the Board's proposal it was unanimously resolved that the Board, as part of the work of giving key personnel, management and Board members elected by the shareholders an incentive program, through the possibility to subscribe shares in the company, the Board of Directors was authorised to increase the share capital with as much as NOK 1.026,000, which corresponds to 2,700,000 shares (approximately 5%), each with a par value of NOK 0.38, through one or more private placements with cash deposits towards key personnel, management and Board members elected by the shareholders in Q-Free ASA. The existing shareholders' preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5 can be disregarded. The authorisation given in 2009 is valid for two years.

The authorisation regards the implementation of a share options program in Q-Free ASA, which runs over a period of 3 years for key personnel and management, and 2 years for Board Members elected by the shareholders. 600,000 shares are reserved for Board Members elected by the shareholders, and the remaining 2,100,000 shares are reserved for the share option program for key personnel and management. There will not be paid any option premium. The strike price shall be equal to the average share price for the Q-Free ASA shares on the Oslo Stock Exchange on closing time the last 14 days prior to and the first 14 days subsequent to the ordinary General Meeting in the year prior to the vesting period.

For key personnel and management who are awarded option rights for a period of 3 years, 1/3 of the options will be allocated annually with a vesting period of 1 year and the strike price determined as noted above. Correspondingly, 1/2 of the options will be allocated annually for Board Members elected by the shareholders. For newly employed key personnel, management and Board Members, the strike price will be determined on the day they are granted the options. Market value of the share options is estimated at the time they are granted and is expensed over the period the share options are earned.

As at 31.12.2010, 1,730,000 options are granted for key personnel, of which 600,000 options have been granted to the Board of Directors. Exercise of the options can be done during pre-defined time periods.

### Specification of share option activity

	2010	2009
Granted share options 01.01	840,000	2,325,000
Share options granted	890,000	840,000
Share options exercised	0	-875,000
Share options expired/terminated	0	-1,450,000
Granted share options 31.12	1,730,000	840,000
VESTED SHARE OPTIONS 31.12	840,000	0

### Modification of grants

Fair value of share options is calculated according to the Black & Scholes pricing model with a reduction of 15% due to illiquidity of the Q-Free share. Average fair value of granted share options in 2010 is NOK 4.60. Corresponding figure for 2009 was NOK 4.81. Strike price for the granted options was 15,57 in 2009 and 18,41 in 2010.

The company's cost of share based payment is calculated using the Black & Scholes pricing model. For 2010 this adds up to a total cost of TNOK 3.976,-. Corresponding figures for 2009 was TNOK 2.539,-. See this specified in the Statement of changes in Equity.

Granted share options as at 31. December 2010 has the following conditions:

Exersice price	Outstanding Options			Vested options	
	Outstanding Options as at 31.12.2010	Weighted average remaining Contractual Life	Weighted Average Exercise Price	Vested options 31.12.2010	Weighted Average Exercise Price
0,00–5,00	–	–	–	–	–
5,00 –10,00	–	–	–	–	–
10,00–15,00	–	–	–	–	–
15,00–20,00	1,680,000	0.99	17.06	790,000	15.57
20,00–	50,000	1.35	20.50	50,000	20.50
TOTAL	1,730,000	1.00	17.16	840,000	15.86

The share options are split as follows between management and members of the Board as at 31.12.2010:

Name	Position	Granted, not vested options 01.01.2010	Granted options	Exercised options	Expired options	Vested options 31.12.2010	Granted, not vested options 31.12.2010
Ole Jørgen Fredriksen	Chairman of the Board	100,000	100,000	0	0	100,000	100,000 **
Christian Albech	Board member	50,000	50,000	0	0	50,000	50,000 **
Mimi Kristine Berdal	Board member	50,000	50,000	0	0	50,000	50,000 **
Torild Skogsholm	Board member	50,000	50,000	0	0	50,000	50,000 **
Jan Pihl Grimnes	Board member	50,000	50,000	0	0	50,000	50,000 **
Øyvind Isaksen	CEO	225,000	225,000	0	0	225,000	225,000 *
Marianne Sandal	VP Operation	50,000	50,000	0	0	50,000	50,000 *
Steinar Furan	Advisor to CEO	50,000	50,000	0	0	50,000	50,000 *
Stein Tore Nybrodahl	HR Manager	15,000	15,000	0	0	15,000	15,000 *
Per Fredrik Ecker	VP Sales	50,000	50,000	0	0	50,000	50,000 *
Hans Christian Bolstad	Former VP R&D	50,000	50,000	0	0	50,000	50,000 *
Roar Østbø	CFO	50,000	50,000	0	0	50,000	50,000 *
Henrik Stoltenberg	VP BD and M&A	50,000	50,000	0	0	50,000	50,000 *
Jos A.G. Nijhuis	VP R&D	0	50,000	0	0	0	50,000 *
<b>TOTAL</b>		<b>840,000</b>	<b>890,000</b>	<b>0</b>	<b>0</b>	<b>840,000</b>	<b>890,000</b>

\* 1/3 of total share option program.

\*\* 1/2 of share option program.

### The following assumptions are used in the calculation of share options granted in 2010

#### Exercise price for the share option

Weighted average exercise price of options granted was NOK 17.16

#### Volatility

Weighted average expected volatility is based on historic volatility and is calculated to be 46.44 percent.

#### Lifetime of the share option

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

#### Dividends

Expected dividend per share is NOK 0 each year.

#### Interest with no premium for risk

Interest with no premium for risk is used in the model. This equals interest on government bills and bonds, and the weighted average rate used is 2.11 percent for 2010.

Granted share options as at 31. December 2009 had the following conditions:

Exersice price	Outstanding Options			Vested options	
	Outstanding Options as at 31.12.2009	Weighted average remaining Contractual Life	Weighted Average Exercise Price	Vested options 31.12.2009	Weighted Average Exercise Price
0,00–5,00	–	–	–	–	–
5,00–10,00	–	–	–	–	–
10,00–15,00	–	–	–	–	–
15,00–20,00	790,000	1.97	15.57	–	–
20,00–	50,000	2.35	20.50	–	–
<b>TOTAL</b>	<b>840,000</b>	<b>1.99</b>	<b>15.86</b>	<b>–</b>	<b>–</b>

The share options was split as follows between management and members of the Board as at 31. December 2009:

Name	Position	Granted, not vested options 01.01.2010	Granted options	Exercised options	Expired options	Vested options 31.12.2010	Granted, not vested options 31.12.2010
Ole Jørgen Fredriksen	Chairman	100,000	100,000	100,000	100,000	0	100,000 **
Christian Albech	Member	50,000	50,000	50,000	50,000	0	50,000 **
Mimi Kristine Berdal	Member	50,000	50,000	50,000	50,000	0	50,000 **
Torild Skogsholm	Member	50,000	50,000	50,000	50,000	0	50,000 **
Jan Pihl Grimnes	Member	50,000	50,000	50,000	50,000	0	50,000 **
Øyvind Isaksen	CEO	675,000	225,000	225,000	450,000	0	225,000 *
Marianne Sandal	VP Operation	150,000	50,000	50,000	100,000	0	50,000 *
Steinar Furan	VP BD & C	150,000	50,000	50,000	100,000	0	50,000 *
Stein Tore Nybrodahl	HR Manager	45,000	15,000	15,000	30,000	0	15,000 *
Per Fredrik Ecker	VP Sales	150,000	50,000	50,000	100,000	0	50,000 *
Hans Christian Bolstad	VP R&D	150,000	50,000	50,000	100,000	0	50,000 *
Roar Østbø	CFO	0	50,000	0	0	0	50,000 *
Henrik Stoltenberg	VP M&A	0	50,000	0	0	0	50,000 *
Other		405,000	0	135,000	300,000	0	0
<b>TOTAL</b>		<b>2,025,000</b>	<b>840,000</b>	<b>875,000</b>	<b>1,480,000</b>	<b>0</b>	<b>840,000</b>

\* 1/3 of total share option program.

\*\* 1/2 of total share option program.

### The following assumptions are used in the calculation of share options granted in 2009:

#### Exercise price for the share option

Weighted average exercise price of options granted was NOK 15.86.

#### Volatility

Weighted average expected volatility is based on historic volatility and is calculated to be 53.93 percent.

#### Lifetime of the share option

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

**Dividends**

Expected dividend per share is NOK 0 each year.

**Interest with no premium for risk**

Interest with no premium for risk is used in the model. This equals interest on government bills and bonds, and the weighted average rate used is 2.34 percent for 2009.

**Note 18 / Related party disclosures**

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

	Established	Location	Country	Ownership	Voting share	Functional currency
Q-Free Portugal Lda.	1997	Lisboa	Portugal	100%	100%	EUR
Q-Free América Latina Ltda.	1998	Sao Paolo	Brasil	100%	100%	BRL
Q-Free Australia Pty. Ltd.	1999	Sydney	Australia	100%	100%	AUD
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur	Malaysia	100%	100%	MYR
Noca Holding AS – Group *	2001	Trondheim	Norway	100%	100%	NOK
Q-Free Sverige AB	2007	Stockholm	Sweden	100%	100%	SEK
Q-Free Thailand Co Ltd	2007	Bangkok	Thailand	100%	100%	THB
Q-Free Netherlands BV	2002	Beilen	The Netherlands	100%	100%	EUR
Q-Free Slovakia s.r.o.	2009	Bratislava	Slovakia	100%	100%	EUR
Q-Free UK Ltd	2002	London	United Kingdom	100%	100%	GBP
Q-Free Africa Ltd	2010	Durban	South Africa	76%	76%	ZAR
TOTAL						

\* Q-Free ASA owns through Noca Holding AS indirectly 48,72% in Noca AS. Q-Free ASA owns directly 4,76% in Noca AS. Q-Free ASA's owner share through indirectly and directly ownership in Noca Assembly AS therefore totals 53,48%.

**Book value in parent company of subsidiaries companies**

	Cost	Book value 31.12.09	Book value 31.12.10	Result after tax last year	Company's equity as at 31.12.10
Q-Free Portugal Lda.	204	204	204	-3,009	-10,544
Q-Free América Latina Ltda.	4,853	2,407	2,407	22,568	24,065
Q-Free Australia Pty. Ltd.	0	0	0	1,870	12,422
Q-Free Sdn. Bhd. Malaysia	1,155	0	0	-116	-5,755
Noca Holding AS – Group	4,592	6,715	6,715	-1,143	41,000
Q-Free Sverige AB	0	84	84	4,096	4,534
Q-Free Thailand Co Ltd	0	1,872	1,872	-5,369	-10,530
Q-Free Netherlands BV	71,034	75,076	76,409	4,083	31,160
Q-Free Slovakia s.r.o.	0	42	0	-1,790	1,701
Q-Free UK Ltd	3,791	5,939	0	-874	-2,263
Q-Free Africa Ltd	0	0	208	-498	-484
TOTAL	85,629	92,339	87,900	19,818	

For the year ended 31 December 2010, the Parent has impaired the receivables against Q-Free Slovakia s.r.o. (4.102 TNOK) and Q-Free UK Ltd ( 197 TNOK) based on a management assessment that these amounts is not recoverable. (2009: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following exchange rates are used when consolidating the group.

Currency		Currency rate 01.01.10	Average currency rate	Currency rate 31.12.10
Euro	EUR	8.315	8.064	7.813
Australian dollar	AUD	5.192	5.576	5.961
Malaysian Ringgit	MYR	1.685	1.792	1.899
Brazilian real	BRL	3.320	3.425	3.529
US Dollar	USD	5.777	5.817	5.856
Pounds Sterling	GBP	9.317	9.193	9.068
Swedish kroner	SEK	80.990	84.030	87.070
South African Rand	ZAR	0.783	0.833	0.884
Thai bath	THB	17.338	18.435	19.532

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year:

Currency		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
<b>Q-Free Portugal Lda.</b>	<b>2010</b>	728	6,458	0	18,032
	2009	8,221		517	13,176
<b>Q-Free América Latina Ltda.</b>	<b>2010</b>		6,897		
	2009		5,118		242
<b>Q-Free Australia Pty. Ltd.</b>	<b>2010</b>	359	25,914	84	14,806
	2009	28	50,376		7,169
<b>Q-Free Sdn. Bhd. Malaysia</b>	<b>2010</b>	4,923		2,532	
	2009	1,676		568	
<b>Noca Holding AS – Group</b>	<b>2010</b>	16,173	192	15,523	503
	2009	6,000	565	153	5,890
<b>Q-Free ASA</b>	<b>2010</b>	57,472	31,882	63,408	29,772
	2009	69,389	29,894	50,496	16,850
<b>Q-Free Sverige AB</b>	<b>2010</b>	2,840	7,331	628	8,495
	2009	1,091	5,462	4,612	5,392
<b>Q-Free Thailand Co Ltd</b>	<b>2010</b>		13,193		23,830
	2009		11,816		15,469
<b>Q-Free Netherlands BV</b>	<b>2010</b>	5,666	7,314	25,285	7,713
	2009	14,079	2,221	14,061	556
<b>Q-Free Slovakia s.r.o.</b>	<b>2010</b>	3,650		474	4,105
	2009		98		1,829
<b>Q-Free Africa Ltd</b>	<b>2010</b>				900
	2009				
<b>Q-Free UK Ltd</b>	<b>2010</b>	7,370		6,818	6,596
	2009	5,066		1,756	5,590
<b>TOTAL</b>	<b>2010</b>	99,181	99,181	114,752	114,752
	2009	105,550	105,550	72,163	72,163

**Terms and conditions of transactions with related parties**

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

**Related parties**

The company has for 2010 received invoices for consultancy services from Spinoza AS that totals TNOK 209 ( 2009: TNOK 627). 209 TNOK is outstanding as at 31.12.2010 and paid during January 2011. Spinoza AS is owned by the Chairman of the Board Ole Jørgen Fredriksen. All transactions between related parties are based on arm length's principles and the invoicing is according to an agreement between the Q-Free ASA and the Chairman of the Board concerning consultancy services.

**Associated companies**

Q-Free ASA had no ownership in associated companies in 2010.

**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. The Group has a multiple currency account agreement in Fokus Bank, a branch of Den Danske Bank.

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

<b>Parent Company</b>			<b>Group</b>	
2009	2010		2010	2009
		<b>Liquidity funds</b>		
87,189	<b>22,971</b>	Cash at banks and on hand	<b>85,628</b>	158,596
100,383	<b>0</b>	Money Market Funds	<b>95</b>	116,019
187,572	<b>22,971</b>	TOTAL CASH AND CASH EQUIVALENTS	<b>85,724</b>	274,615

As at 31 December 2010, the Group had available TNOK 100.000 (2009: TNOK 0) of undrawn bank overdraft facility and TNOK 255.298 (2009: TNOK 64.686) of undrawn guarantee facilities in which all conditions precedent had been met.

**Note 20 / Financial instruments**

For further information description on financial risk management see note 4

**A) Credit risk**

See description in note 4 and a customer aging analysis in note 21

**B) Currency risk table**

The following table demonstrates the sensitivity to a reasonable potential change in the EURO exchange rate, with all other variables held constant, of the Group's EBIT (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward exchange contracts and net investment hedges). The Group's sensitivity related to other currencies than EURO is not presented due to not having material effects.

	Increase/decrease in EURO rate	Effect on profit	Effect on equity
<b>2010</b>	<b>+ 10%</b>	<b>+ 12 457 TNOK</b>	<b>0 TNOK</b>
	<b>- 10%</b>	<b>- 12 457 TNOK</b>	<b>0 TNOK</b>
2009	+ 10%	+ 27 200 TNOK	0 TNOK
	- 10%	- 27 400 TNOK	0 TNOK

**C) Liquidity risk**

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2010 based on contractual undiscounted payments.

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	TOTAL GROUP
<b>Year ended 31 December 2010</b>						
Interest bearing loans and borrowings	0	174	174	274		622
Accounts payables and advance payments from customers	10,448	53,694	15,861	4,042		84,045
Public duties payable and taxes		26,409	3,326			29,735
Other financial liabilities	16,601	24,137	20,188	9,033		69,959
<b>TOTAL LIABILITIES (excl pension liabilities &amp; deferred tax)</b>	<b>27,049</b>	<b>104,414</b>	<b>39,549</b>	<b>13,349</b>	<b>0</b>	<b>184,361</b>
<b>Year ended 31 December 2009</b>						
Interest bearing loans and borrowings	0	174	174	522	542	1,412
Accounts payables and advance payments from customers	23,266	52,864	34,696	0	0	110,826
Public duties payable and taxes		7,849	8,824	1,939		18,612
Other financial liabilities	5,686	13,456	21,340	9,752	9,262	59,496
<b>TOTAL LIABILITIES (excl pension liabilities &amp; deferred tax)</b>	<b>28,952</b>	<b>74,343</b>	<b>65,034</b>	<b>12,213</b>	<b>9,804</b>	<b>190,346</b>

**Capital management**

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

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

The Group monitors capital on the basis of its total equity ratio. This ratio is calculated as book equity divided by total equity. It is the Group's policy that this ratio be 50 per cent or higher. The book equity ratio is calculated as total equity divided by total assets as follows.

	<b>2010</b>	2009
TOTAL EQUITY	<b>499,417</b>	548,601
TOTAL ASSETS	<b>687,714</b>	767,534
Book equity ratio	<b>72.6%</b>	71.5%

#### **D) Interest-rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A change in interest of 100 basis points (bp) on the date of balance sheet recognition would have increased (reduced) equity and the profit or loss by the amounts shown below. The analysis assumes that the other variables remain constant. The analysis was performed on the same basis as in 2009.

#### **Effect of an interest rate increase of 100 bp as at 31 December**

Result	<b>2010</b>	2009
Investments with floating interest rates	<b>1,112</b>	1,103
Loans with variable interest rates	<b>-9</b>	-17
CASH FLOW SENSITIVITY (NET)	<b>1,103</b>	1,086

#### **Determination of fair value**

As at December 31, 2010 the Group had no financial assets or liabilities where there is considered to be a difference between book value and fair value. The following financial instruments are not recognised at fair value: Cash and cash equivalents, customer receivables and accounts payables.

The book value of cash and bank deposits, accounts receivable and accounts payable are approximately equal to fair value, as they have short collection cycles with low inherent risk.

	<b>2010</b>		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets and liabilities				
Cash and cash equivalents	<b>85,724</b>	<b>85,724</b>	274,615	274,615
Accounts receivable	<b>194,156</b>	<b>194,156</b>	125,144	125,144
Accounts payable	<b>67,444</b>	<b>67,444</b>	105,411	105,411

For terms and conditions relating to related party receivables, refer to Note 18. Trade receivables are non-interest bearing and are generally on 30-60 days' terms.

**Note 21 / Accounts receivables and credit risk****Parent Company****Group**

2009	2010		2010	2009
71,743	<b>136,636</b>	Accounts receivables	<b>195,953</b>	128,242
52,183	<b>83,890</b>	Accounts receivables on group companies	<b>0</b>	0
-8,326	<b>-12,051</b>	Provision for impairment on receivables	<b>-1,797</b>	-3,098
115,600	<b>208,475</b>	TOTAL	<b>194,156</b>	125,144
456	<b>0</b>	Loss on receivables	<b>0</b>	962
-135	<b>3,725</b>	Changes in provisions for impairment on receivables	<b>-1,302</b>	-612
321	<b>3,725</b>	TOTAL	<b>-1,302</b>	350

For terms and conditions relating to related party receivables, refer to Note 18. Trade receivables are non-interest bearing and are generally on 30-60 days' terms.

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

Amounts as at 31.12	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 day	90-120 day >	>120 days
<b>2010</b>	<b>195,953</b>	<b>25,810</b>	<b>30,718</b>	<b>25,141</b>	<b>151</b>	<b>1,012</b>	<b>113,121</b>
2009	128,242	72,971	49,529	1,940	731	126	2,945

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

**Specification of provisions for impairment on receivables**

	2010	2009
Amount as at 01.01.	<b>3,098</b>	2,756
This years provision for impairment on receivables	1,302	-962
Loss on receivables	0	962
Provisions utilised during the year	0	342
AMOUNT AS AT 31.12	<b>1,797</b>	3,098

The maximum risk exposure is represented by the carrying amount of the financial assets, including derivatives, in the balance sheet. Since the other party involved in derivative trades is normally a bank, the credit risk linked to derivatives is regarded as being insignificant. The Group therefore regards its maximum risk exposure as being the carrying amount of trade receivables as at 31 December 2010 NOK 194.2 mill ( 2009: NOK 125.1 mill).

**Note 22 / Interest-bearing debts, borrowings and guarantees****Parent Company****Group**

2009	2010	Specification	Type	Effective interest rate%	Maturity	2010	2009
0	0	Non-current	Secured Bank loan Nordea Bank ASA	5.05%	20. Feb 2012	622	1,412
0	0	TOTAL				622	1,412

**Secured bank loan**

The secured bank loan is a mortgage loan that is repayable within 3 years of the balance date. The loan is secured by a first charge over certain fixed assets in the Group.

Off Balance Sheet Commitment:

**Parent Company****Group**

2009	2010		2010	2009
134,307	93,695	<b>Specification</b> Guarantees to customers, suppliers and lease contracts	94,702	135,314
		<b>Book value of assets securing loans and guarantees</b>		
115,600	208,475	Accounts receivable	208,475	115,600
62,552	54,551	Work in progress	54,551	62,552
25,381	39,332	Inventories	54,804	38,404
56,409	44,588	Machinery, fixtures etc	47,984	59,977
259,942	346,946	TOTAL	365,814	276,533

## Note 23 / Taxes

## Parent Company

## Group

2009	2010		2010	2009
		<b>Total tax expenses for the year</b>		
324	0	Tax payable on this years profit for Norwegian companies	362	324
0	-282	Tax payable on this years profit for foreign companies	12,830	4,959
0	0	Adjusted allocated tax from last year	-	0
18,355	-27,926	Change in deferred tax for Norwegian companies	-28,134	18,223
0	0	Change in deferred tax for foreign companies	-7,802	8,044
18,679	-28,208	TOTAL	-22,745	31,549
26%	-42%	Tax rate	- 28%	29%
		<b>Tax payable for the year</b>		
70,877	-66,893	Total ordinary profit before tax	-79,593	109,698
-3,067	-30,187	Permanent differences	-36,178	0
-125,175	70,384	Change in temporary differences	87,939	-55,914
0	0	Utilisation of previously unrecognised tax losses	0	0
-57,365	-26,697	Basis for tax payable, Norwegian companies	-27,832	53,784
0	0	<b>Tax payable for Norwegian companies (28%)</b>	362	0
		<b>Tax payable for foreign companies</b>	13,113	4,959
		<b>Specification of tax payable in the balance sheet</b>		
324	0	Tax payable on this years profit, Norwegian companies *	362	0
0	0	Tax payable on this years profit, foreign companies	13,113	4,959
-324	0	Advance tax payment, foreign companies	-10,149	0
0	0	Governmental Tax Relief (skattefunn)	0	0
0	0	TOTAL TAX PAYABLE	3,326	4,959
		<b>Specification on basis for deferred tax</b>		
		<i>Differences evaluated to be offset</i>		
9,677	-1,336	Fixed assets	19,098	68,601
125,168	67,177	Current assets	72,171	122,259
-10,798	-12,178	Liabilities	-11,965	-10,569
-65,194	-91,567	Tax losses carry -forward	-130,389	-86,337
-2,256	-5,235	Other differences	-5,235	2,905
56,597	-43,139	TOTAL	-56,320	96,859
15,847	-12,079	<b>Deferred tax (+) / tax assets (-)</b>	-13,779	27,121
		<b>Deferred tax (-) / tax assets (+) in balance sheet of 31.12.</b>		
15,847	-12,079	Tax assets (-)/ deferred tax (+) Norwegian companies	-11,909	13,921
0	0	Tax assets (-)/ deferred tax (+) foreign companies	-9,588	13,199
0	0	Tax assets (-)/ deferred tax (+) on group contribution	7,718	0
0	0	Deferred tax asset, off balance sheet	0	0
15,847	-12,079	TOTAL TAX ASSETS (-) / DEFERRED TAX (+)	-13,779	27,121

<b>Reconciling the tax cost</b>				
70,877	<b>-66,893</b>	Earnings before tax	<b>-79,593</b>	109,698
19,846	<b>-18,529</b>	Tax on profits (28%)	<b>-8,827</b>	30,716
18,679	<b>-28,208</b>	Tax expenses	<b>-22,734</b>	31,549
1,167	<b>9,679</b>	Deviation	<b>13,907</b>	-834
<b>Specification</b>				
1,167	<b>8,654</b>	Tax result permanent differences and tax rate difference	<b>12,882</b>	0
0	<b>-91</b>	Adjusted allocated tax from last year	<b>-91</b>	0
0	<b>1,116</b>	Change in deferred tax asset, off balance sheet	<b>1,116</b>	0
0		Effect of different tax-rate	<b>0</b>	-834
1,167	<b>9,679</b>	TOTAL	<b>13,907</b>	-834

\* Paid withholding tax in foreign subsidiaries.

Deferred tax assets are recognised on the balance sheet based on the expectation of future taxable income. The estimate are based on Board of Directors and management's best judgement and an assessment of future prospects. The actual outcome of future tax costs may deviate from these estimates. This years profit after tax is based on a single project result and there are no significant uncertainty regarding future prognosis and if the group can utilise the deferred tax.

Of the tax losses carried forward of TNOK 130.389,- for the Group, TNOK 91.597,- relates to the mothercompany and TNOK 38.822,- relates to foreign companies. Following a change in the tax legislation in Norway in 2005, these tax losses can be carried forward indefinitely. For 2009 TNOK 65.194,- of the tax losses carried forward for the Group, was related to the mother company and TNOK 21.143,- was related to foreign companies.

## Note 24 / Financial Items

### Parent Company

### Group

2009	<b>2010</b>		<b>2010</b>	2009
1,841	<b>3,096</b>	Interest income	<b>8,880</b>	5,004
26,573	<b>12,547</b>	Other financial income	<b>12,547</b>	26,767
1,535	<b>1,240</b>	Net gain on shares at fair value through profit and loss	<b>1,240</b>	1,559
29,949	<b>16,883</b>	Financial income	<b>22,667</b>	33,330
217	<b>155</b>	Financial income from group companies	<b>0</b>	0
	<b>42,134</b>	Paid dividends from subsidiaries	<b>0</b>	0
217	<b>42,290</b>	Financial income from Group companies	<b>0</b>	0
30,166	<b>59,172</b>	TOTAL FINANCIAL INCOME	<b>22,667</b>	33,330
-1,154	<b>-1,004</b>	Interest expenses	<b>-3,314</b>	-3,669
0	<b>0</b>	Interest on debt and borrowings		-118
-22,678	<b>-8,574</b>	Other financial expenses	<b>-8,574</b>	-22,588
-23,832	<b>-9,578</b>	Financial expenses	<b>-11,887</b>	-26,375
-27	<b>-73</b>	Interests from group companies	<b>0</b>	0
	<b>-6,958</b>	Other Group financial expenses	<b>0</b>	0
-27	<b>-7,031</b>	Financial expenses from Group companies	<b>0</b>	0
-23,859	<b>-16,609</b>	TOTAL FINANCIAL EXPENSES	<b>-11,887</b>	-26,375
6,308	<b>42,564</b>	NET FINANCIAL ITEMS	<b>10,780</b>	6,956

**Note 25 / Shares at fair value through profit and loss****Parent company and the Group as at 31 December**

2010	Company's share capital	Number of shares	Ownership	Book value in Parent **	Book value in Group	Included in the P&L
Vegamot AS	14,151	6,050	13.90%	1,967	1,967	892
Leiv Eiriksson AS	43,523	9,919	0.99%	431	431	20
Asti AS	16,760	2,900	13.81%	2,315	2,315	328
Other				20	422	0
<b>TOTAL</b>				<b>4,732</b>	<b>5,134</b>	<b>1,240</b>

2009	Company's share capital	Number of shares	Ownership	Book value in Parent **	Book value in Group	Included in the P&L
Vegamot AS	9,388	6,050	13.90%	1,305	1,305	1,305
Leiv Eiriksson AS	41,459	9,919	0.99%	200	200	1
Asti AS	14,388	2,900	13.81%	1,987	1,987	229
Other				0	611	24
<b>TOTAL</b>				<b>3,492</b>	<b>4,103</b>	<b>1,559</b>

\*\* The book value of investments in shares is classified as financial assets at fair value. Fair value for the investments are our portion of the company's total equity.

**Fair value hierarchy**

The fair value of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. As at 31 December 2010, the Group held the following financial instruments measured at fair value – Shares at fair value through profit and loss

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

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

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

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

**Assets measured at fair value**

	31. Dec 2010	Level 1	Level 2	Level 3
<b>Financial assets at fair value through profit or loss</b>				
Shares at fair value through profit and loss	5,134			5,134
	31. Dec 2009	Level 1	Level 2	Level 3
<b>Financial assets at fair value through profit or loss</b>				
Foreign exchange contracts	137	137		
Shares at fair value through profit and loss	4,103			4,103

**Note 26 / Provisions for warranty accruals****Warranty costs**

Provision for warranty costs is calculated depending on the remaining guarantee time 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 are varying for the different products and they also take into account the expected expenses associated with new warranty problems that are identified. Unused accruals for warranties are dissolved at the end of the guarantee-period. All provisions specified in the table below are classified as current liabilities and is part of other short term liabilities in the consolidated statement of financial position.

	<b>Parent</b>			<b>Group</b>		
<b>2010</b>	Provision for warranty costs	Other expenses	Total current provisions	Provision for warranty costs	Other expenses	Total current provisions
Amount as at 01.01.10	10,077	0	10,077	10,177	0	10,177
Unused accruals reversed during 2010			0			0
Accruals utilised during 2010	-3,553		-3,553	-3,653		-3,653
Accruals deposited during 2010	1,470		1,470			1,470
AMOUNT AS AT 31.12.10	7,993	0	7,993	7,993	0	7,993
<b>2009</b>	Provision for warranty costs	Other expenses	Total current provisions	Provision for warranty costs	Other expenses	Total current provisions
Amount as at 01.01.09	10,077	0	10,077	10,177	300	10,477
Unused accruals reversed during 2009			0	-100	-300	-400
Accruals utilised during 2009	-6,504		-6,504	-6,504		-6,504
Accruals deposited during 2009	5,500		5,500	5,500		5,500
AMOUNT AS AT 31.12.09	9,073	0	9,073	9,073	0	9,073

**Note 27 / Other operating expenses**

Specification:

<b>Parent Company</b>			<b>Group</b>	
2009	2010		2010	2009
109,281	79,750	External services	65,534	117,809
24,448	17,859	Travel expenses	22,305	28,462
20,242	19,215	Offices supplies	24,523	24,676
1,713	1,879	Insurance	2,687	2,690
4,293	2,587	Freight	2,858	4,549
1,570	1,297	Rent machinery & tools	5,207	4,591
5,756	3,464	Marketing / promotions	6,900	7,154
3,137	2,297	Service & Maintenance	5,017	4,704
2,248	1,539	Operating materials	2,349	3,210
320	3,759	Bad debt losses	3,814	48
3,913	27,134	Other operating expenses	21,272	14,162
176,921	160,780	TOTAL	162,465	212,057

**Audit fees**

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

Parent Company			Group	
2009	2010		2010	2009
286	250	Audit services	810	817
113	73	Other audit related services	159	145
465	150	Tax services	647	584
106	994	Other, non audit related services	1,059	407
970	1,467	TOTAL	2,676	1,953

**Note 28 / Other short term receivables**

Specification:

Parent Company			Group	
2009	2010		2010	2009
1,570	3,124	Prepaid taxes	6,567	3,070
8,622	1,375	Outstanding public duties	2,484	11,294
2,361	1,488	Prepaid rents	10,842	10,927
725	982	Prepaid licenses	2,098	1,866
990	10,694	Miscl	11,806	2,131
14,268	17,663	TOTAL	33,797	29,288

**Note 29 / Commitments and contingencies****Operating lease commitments - Group as lessee**

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

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

Parent Company			Group	
2009	2010		2010	2009
		<b>Terms</b>		
7,922	9,100	Within one year	11,491	10,102
8,160	3,574	After one year but not more than five years	5,966	10,400
0	0	More than five years	0	0
16,082	12,674	TOTAL	17,457	20,502

During the year ended 31 December 2010 the parent company recognised expenses in the income statement in respect of operating leases of TNOK 10.343 (2009: 8.122) and TNOK 12.734 (2009: 10.560) for the group.

**Finance lease and hire purchase commitments**

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

To the Annual Shareholders' Meeting of Q-Free ASA

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the accompanying financial statements of Q-Free ASA, comprising the financial statements for the Parent Company and the Group. The financial statements for the Parent Company and the Group comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors' and Chief Executive Officer's responsibility for the financial statements*

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

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

*Opinion*

In our opinion, the financial statements of Q-Free ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Parent Company and the Group as of 31 December 2010 and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on other legal and regulatory requirements**

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result 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 the Board of Directors and Chief Executive Officer have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Trondheim, 30 March 2011  
ERNST & YOUNG AS

John Chrítian Løvaas  
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)



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## Abbreviations

### Definitions and industry vocabulary

ALPR	Automatic License Plate Recognition
CC	Congestion Charging
CALM	Communication Access For Land Mobiles
CEN	Comité Européen De Normalisation (European Committee For Standardisation)
DSRC	Dedicated Short Range Communication
ERI	Electronic Registration And Identification
ETC	Electronic Toll Collection
GNSS	Global Navigation Satellite System
GPS	Global Positioning System
GSM	Global System For Mobile Communications
ITS	Intelligent Transport Systems
MLFF	Towards MultiLane Free Flow
MTC	Manual Toll Collection Systems
OCR	Optimal Character Recognition
OBU	On Board Unit
RFID	Radio Frequency Identification
RFO	Request For Qualification
RUC	Road User Charging

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