EVERYTHING IS ON

Q-FREE
ANNUAL REPORT
2011

Q & A

WHAT IS Q-FREE?
Q-Free primarily operates in the Road User Charging (RUC) market, but some of the company's products/technologies are increasingly being used for Advanced Traffic Management applications, such as law enforcement/electronic licence plate, travel time systems and for parking/access control systems.

WHAT DOES Q-FREE OFFER?
Q-Free offers solutions and products based on state of the art technology, and is the leading supplier within DSRC (tag), ALPR (Automatic License Plate Registration) and GNSS (Global Navigation Satellite System) based solutions.

WHERE ARE Q-FREE'S CUSTOMERS LOCATED?
They are located all over the world; in Europe, Africa, Asia-Pacific, Middle East and North- and South America.

WHERE IS THE COMPANY LOCATED?
See world map on the following page.

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

www.q-free.com

Calender 2011

26 April 2012 – Results Q112
22 May 2012 – Annual General Meeting / Oslo
16 August 2012 – Results Q212 and first half year 2012
30 October 2012 – Results Q312
14 February 2012 – Results Q412
–
QUARTERLY PRESENTATIONS WILL BE HELD AT
Felix Conference center / Aker Brygge / Bryggetorget 3 / Oslo
–
The presentations will be web casted live at www.q-free.com
–
FOR FURTHER INFORMATION, PLEASE CONTACT
CFO Roar Ostbo (+47 932 45 175)

Vision

Be the globally preferred partner in the area of Intelligent Transport Systems having world-wide leadership in Road User Charging and Advanced Traffic Management Systems.

Q–FREE WORLDWIDE

Q–Free is represented in 17 countries and has approximately 270 employees. The headquarter is based in Trondheim, Norway.

SOME NUMBERS

Number of employees MNOK	Revenues MNOK	EBIT margin Percent
273	705	8%

Key Figures
AS AT 31 DECEMBER 2011

FIGURES IN TNOK

PROFIT & LOSS ACCOUNT

	2007	2008	2009	2010	2011
Operating revenues	410,854	509,246	804,403	568,044	704,912
Cost of goods sold	160,981	219,978	303,249	268,233	296,491
Operating expenses	212,021	224,034	365,769	329,231	301,012
EBITDA	37,852	65,233	135,205	–29,419	107,409
EBIT	20,875	44,283	102,743	–90,373	58,907
PROFIT BEFORE TAX	14,555	50,915	109,698	–79,593	54,916
PROFIT AFTER TAX	5,015	36,287	78,150	–56,848	36,187
Gross margin%	60.8%	56.8%	62.3%	52.8%	57.9%
EBITDA%	9.2%	12.8%	16.8%	–5.2%	15.2%
EBIT%	5.1%	8.7%	12.8%	–15.9%	8.4%
Selected Balance Sheet Items					
Intangible fixed assets	40,320	128,017	155,860	186,897	182,902
Tangible fixed assets	53,406	63,938	71,874	63,261	53,302
Cash	124,283	119,617	274,615	85,724	439,788
Total assets	393,055	514,425	767,534	687,715	928,670
Equity (incl minority)	300,596	351,663	548,601	499,418	636,746
Interest bearing debts	2,992	2,202	1,412	622	100,000
Key Figures per Share					
Earnings per share. ordinary	0.03	0.60	1.41	–0.94	0.58
Earnings per share. diluted	0.03	0.60	1.39	–0.92	0.57
Cashflow from operations	–0.24	1.47	2.01	–2.01	3.19
Equity per share	5.75	6.52	9.88	8.29	10.57
AVERAGE NO OF SHARES	52,274	53,976	55,536	60,247	60 247
Other Key Figures					
Order backlog	371,356	338,868	713,039	575,132	461,661
Return on Invested Capital (ROIC) in%	1.05	0.99	1.05	0.83	0.76
Net interest bearing debts	2 992	2,202	1,412	622	100,000
Cash flow from operations	–12,718	79,172	111,852	–120,849	192,169
Capital investments	25,164	78,398	71,075	66,996	37,722
Equity ratio	76%	68%	71%	73%	69%
Gearing	0.8%	0.4%	0.2%	0.1%	10.8%
Number of employees	198	232	282	282	273

Content

Abbreviations

Definitions and industry vocabulary

ALPR	Automatic Lisence 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
RFQ	Request For Qualification
RUC	Road User Charging

ARTICLES OF ASSOCIATION

Q-Free ASA

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

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

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

Article 4 – The Company's share capital shall be NOK 25,175,919.22 divided between 66,252,419 shares, each of NOK 0.38 face value.

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

Article 5 – The Board of the Company shall have between three and eight members, as the general meeting shall stipulate.

The Board shall represent the Company outwardly, and sign for it. The signature of the Company is also vested in the Chairman of the Board and one other Board member acting jointly.

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

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

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

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

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

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

The annual general meeting shall consider:

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

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

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

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

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Articles of Association as of 3 November 2011

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The shareholders of Q-Free ASA
Last revised 3rd November 2011.

Technical information

At 31.12.11, Q-Free ASA had 66,252,419 shares, each with a face value of NOK 0.38.

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The Company had 1,264 shareholders as at 31.12.11.

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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.

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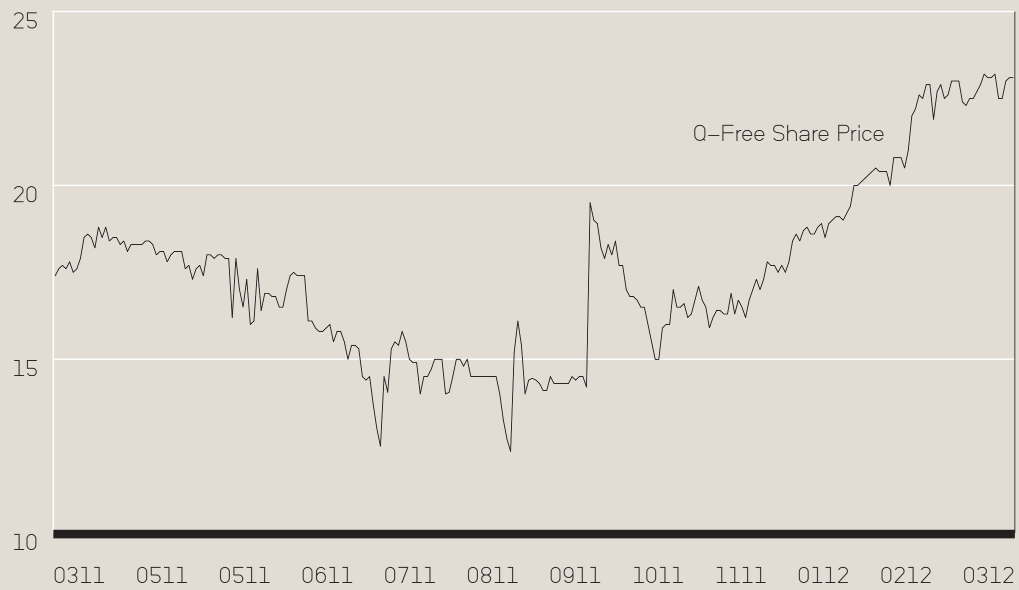
DnBNOR Bank ASA, Oslo, is the account manager. The share's Ticker Code on the Oslo Stock Exchange's main list is QFR.

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



Share price development from March 2011 to March 2012

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 personnel	0.05	4,833.35	2,283,996.75	96,667	45,679,935
03/10/2004	Exercise of options key personnel	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 personnel	0.05	4,583.30	2,518,580.05	91,666	50,371,601
06/08/2004	Exercise of options key personnel	0.05	5,966.65	2,524,546.70	119,333	50,490,934
07/26/2004	Exercise of options key personnel	0.05	833.35	2,525,380.05	16,667	50,507,601
09/22/2004	Exercise of options key personnel	0.05	833.35	2,526,213.40	16,667	50,524,268
10/19/2004	Exercise of options key personnel	0.05	6,000.05	2,532,213.45	120,001	50,644,269
01/13/2005	Exercise of options key personnel	0.05	2,666.70	2,534,880.15	53,334	50,697,603
03/17/2005	Exercise of options key personnel	0.05	2,500.00	2,537,380.15	50,000	50,747,603
06/02/2005	Exercise of options key personnel	0.05	500.00	2,537,880.15	10,000	50,757,603
06/23/2005	Exercise of options key personnel	0.05	3,000.00	2,540,880.15	60,000	50,817,603
07/04/2005	Exercise of options key personnel	0.05	1,250.00	2,542,130.15	25,000	50,842,603
07/27/2005	Exercise of options key personnel	0.05	1,250.00	2,543,380.15	25,000	50,867,603
07/29/2005	Exercise of options key personnel	0.05	833.30	2,544,213.45	16,666	50,884,269
09/04/2005	Exercise of options key personnel	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 personnel	0.38	3,800.00	19,349,322.22	10,000	50,919,269
05/02/2006	Exercise of options key personnel	0.38	258,780.00	19,608,102.22	681,000	51,600,269
05/11/2006	Exercise of options key personnel	0.38	195,953.46	19,804,055.68	515,667	52,115,936
05/12/2006	Exercise of options key personnel	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 personnel	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
03/11/2011	Share issue	0.38	2,282.055.42	25,175,919.22	6.005.409	66,252,419

CEO'S CORNER

BACK ON TRACK

We are pleased to report that Q-Free is "back on track" after a challenging 2010. Not only have we during the year achieved improved and acceptable financial results, but even more important is that we have during the year made new steps in positioning us for projects that can become company changers – such as Jakarta enforcement program, Gothenburg congestion charging and others.

Longer term such cases may enable Q-Free to "play" in a different "league". It is our strong belief that the underlying market growth, combined with our enhanced position, will enable the company to continue a strong profitable growth in the years to come. We have already identified an accessible global opportunity pipeline within our present core business in the range of NOK 5 – 15 billion for the next few years.

ORGANIC GROWTH AND GROWTH THROUGH ACQUISITION

The growth ambitions shall be achieved by both organic growth and growth through acquisition. The organic growth will be fuelled by expansion into new geographical areas by extending our international setup, increase market share in existing markets, high quality deliveries and by ensuring that the company have access to the most cost efficient and high performance products and solutions. Our M&A activity will be intensified going forward focusing on entering the US and expanding our offerings in the Advanced Traffic Management area.

A POTENTIAL HARD TO MATCH

We have over the last years built a solid and flexible product portfolio, established key references, and not at least we have built an international and professional organisation. Not many companies in this industry, if any, can match Q-Free's potential. We believe Q-Free can give all shareholders a very attractive return on investment in the years to come through the realisation of an exciting project pipeline. We are capable and committed to turn our top line growth opportunities into improved profitably and cash flow.

Summing up – a strong comeback in 2011 and 2012 can become a company changing year. The pipeline looks very promising and Q-Free position has never been better. The company has clear ambitions and plans for the next steps.

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

Dr. Øyvind Isaksen
President and CEO
(sign.)

– The growth ambitions shall be achieved by both organic growth and growth through acquisition.

MANAGEMENT TEAM

Dr. Øyvind Isaksen
President and CEO
+47 908 76 398
oyvind.isaksen@q-free.com
(born 1963)
1

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

Roar Østbø
Chief Financial Officer (CFO)
+47 932 45 175
roar.ostbo@q-free.com
(born 1961)
2

Roar Østbø has been employed in Q-Free ASA from 2005–2007 and since 2009. Østbø came from the same position in Aqualyng Group and has previously held the CFO position in the publicly listed company 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.

Per Ecker
Vice President Sales
+47 922 97 524
per.ecker@q-free.com
(born 1969)
3

Per Ecker 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.

Marianne Sandal
Vice President Operation
+47 911 48 088
marianne.sandal@q-free.com
(born 1965)
4

Marianne Sandal 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 Networks AS.

Morten Andersson
Vice President ATMS
+47 928 41 800
morten.andersson@q-free.com
(born 1957)
5

Morten Andersson is employed as VP Advanced Traffic Management Systems. Andersson has held similar positions in Peek and Swarco, and have more than 30 years of experience in the Traffic Management industry.

Dr. Jos A.G. Nijhuis
Vice President R&D
+31 (0) 629038031
jos.nijhuis@q-free.com
(born 1965)
6

Dr. Jos Nijhuis 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.

Stein-Tore Nybrodahl
Human Resource Manager
+47 906 94 689
stein-tore.nybrodahl@q-free.com
(born 1965)
7

Stein-Tore Nybrodahl 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.

Henrik F. Stoltenberg
Vice President BD and M&A
+45 28 98 89 95
henrik.stoltenberg@q-free.com
(born 1960)
8

Vice President Business Development & M&A Henrik F. Stoltenberg 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.

Steinar Furan
Advisor to CEO
+47 905 59 403
steinar.furan@q-free.com
(born 1963)
9

Steinar Furan 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.

Name: Morten Dammen
Date of birth: 7 February 1971
Education: Master degree in electronics from NTH (NTNU)
Position: Research Director Research Director On Board Unit devices (tags)
Job location: Trondheim, Norway

Q-FREE IS REPRESENTED ON ALL CONTINENTS BY APPROXIMATELY 270 EMPLOYEES IN 17 COUNTRIES. AROUND 84 PERCENT HOLD A TERTIARY QUALIFICATION, MAINLY IN TECHNICAL DISCIPLINES. TOGETHER, WE CREATE PRODUCTS AND SOLUTIONS IN A SHARING, OPEN AND RESPECTFUL ENVIRONMENT. TOGETHER, WE MAKE SURE EVERYTHING IS ON Q.

A KNOWLEDGE BASED COMPANY

– From society's perspective the systems we deliver help to finance better and safer roads.

WE HAVE TO BE IN THE LEAD

A good brain is a smart brain. There are several ways of being smart, however working with technology it is clear we have to be in the lead when it comes to know-how, explains Morten Dammen, Research Director OBU in Q-Free.

We must have the smartest technologists with a good mix of experience and new expertise. Since our products are complex and require leading-edge know-how in several technical areas, it is equally important to be a team player. Only through the interaction between the different technical areas are we able to achieve outstanding innovations. I am very fortunate to have a group of experts who work well as a team.

Dammen worked in Q-Free previously as a project manager from 1998 to 2001. From 2001 to 2007 he worked in another electronics company, Nordic Semiconductor, and when the time came for new challenges he nevertheless wanted to continue in the industry.

This was inherent with my educational background in electronics from NTH and there were a number of companies in Trondheim that I could join. There are several reasons why I chose Q-Free, but one of the main reasons is that Q-Free provides the opportunity to work on the entire value chain in product development – from idea to finished mass produced product, he says.

YOU ARE THE MANAGER OF ONE OF THE GROUPS IN THE R&D DEPARTMENT THAT WORKS ON Q-FREE'S TAG PRODUCTS. WHY DO YOU WANT TO WORK WITH TAGS?

It was somewhat by chance that it was tags specifically, but this is without doubt one of the most exciting areas. We are making a product that is installed in millions of vehicles and is required to work for several years without maintenance of any kind. This places amazingly strict requirements as to the product and means that we are challenged technically.

WHAT IS THE NEXT THING IN TAGS?

We are working, among other things, with the next generation of tags that, for example, use GPS. This can give us tags that are themselves able to calculate where they are and generate payments based on location and the distance driven, entirely without the use of physical toll stations.

ARE TAGS JUST ABOUT TECHNOLOGY?

No, it is also a question of price, function and marketability. An example is the size of the tag. One would have thought that the tag should be as small as possible, so that it doesn't distract the driver. However we found that customers want to be able to print information on the surface of the tag, thus there's a limit to how small the tag can be.

HOW DO YOU PLACE WHAT YOU DO IN A BROADER CONTEXT?

From society's perspective the systems we deliver help to finance better and safer roads. They also contribute to improving the environment, for example with the use of rush hour charging. From a corporate perspective the tag is the core of our payment systems. All infrastructure and all system components that Q-Free delivers are built around the tag as the payment means. Thus the performance of the tag to a large extent influences the performance of our systems.

OUR MOST VALUABLE ASSET

Q-Free is a knowledge based company with many highly educated and well qualified employees. Knowledge is without doubt the company's most valuable asset. A good working environment, highly competent colleagues and exciting challenges in an international environment within a sector of growth are factors that attract new employees to Q-Free, creating a high employee satisfaction and makes people stay in the Company. The same factors are also the key criterion's why new employees want to join Q-Free. Low sickness leave and low staff turnover rate supports these facts.

The majority of the company's employees are engineers with PhD, MSc or BSc degree. In total 84% of the employees of Q-Free has an education at the BSc level or higher. The company currently has a woman's share of 26%, which is considered to be good in an environment dominated by electronics and data, even if the company is constantly working to increase the female representation.

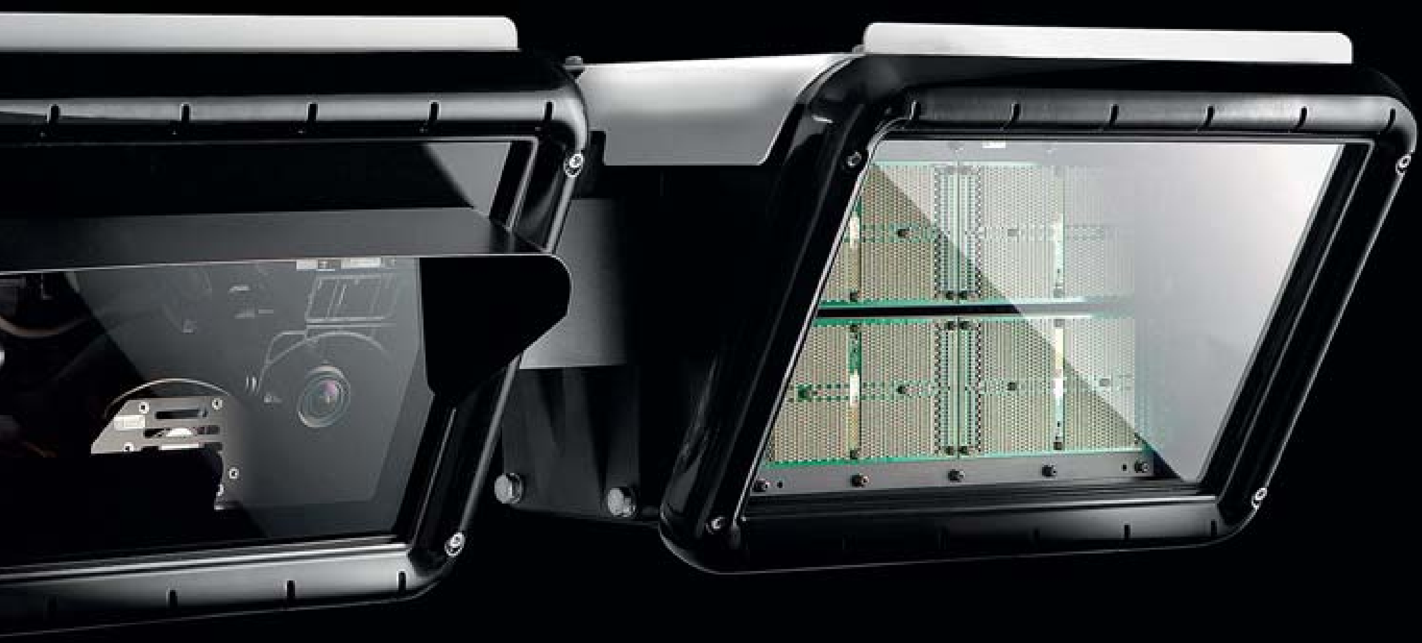
The company also has a distinctly local profile when it comes to local employment at the company's subsidiaries abroad. Almost 100% of the employees at the branch offices are native, a fact that contributes to basic knowledge related of the local business culture and local conditions. Q-Free is working continuously to improve the company's already high knowledge base and knowledge transfer between companies and entities throughout the world, paying close attention to study visits around the world, actively participations in projects and internal and external training. In May 2012 the company will move into new premises in Trondheim, which is customized to create better working environments and knowledge transfer between the Q-Free employees'. "Join the Q-Free Society" will be heard in the years to come!

A good working environment, highly competent colleagues and exciting challenges in an international environment.

Almost 100% of the employees at the branch offices are native, a fact that contributes to basic knowledge related of the local business culture and local conditions.

UNIQUE

THE RESULT OF COMBINED FORCES, NOT A SINGLE MIND, Q–FREE'S SINGLE GANTRY SOLUTION IS BUILT ON 30 YEARS OF INDUSTRY EXPERIENCE AND INSIGHT. THIS HIGH–PERFORMANCE SYSTEM ENSURES RELIABLE TOLLING IN ALL CONDITIONS – NIGHT AND DAY. RAIN, HAIL OR SHINE – MAKING SURE EVERYTHING IS ON Q.



UNIQUE IMAGING SYSTEM ENABLING
HIGH PERFORMANCE SINGLE GANTRY SOLUTION

Environmental impact: Modest appearance makes solutions ideal for both city and highway.

Costs: Reduced due to less need for physical space, infrastructure and civil work.

Reliability: Reliable tolling under all weather and light conditions.

Applications: Modular system architecturem such as Multilane Free Flow, Congestion Charging, Truck Tolling, Video Tolling etc.

SINGLE GANTRY

Introduction

Q-Free has been supplying systems to the Electronic Fee Collection (EFC) market since its conception in the 1980s. Over the years the company has delivered solutions to many customers for different schemes almost all over the world. During this time, Q-Free has had to adapt to the changes in market requirements and invest heavily in a strong Research and Development (R&D) department that develops new solutions to meet these ever-changing demands.

In recent years the work of R&D has concentrated on improving the subsystems in the Q-Free portfolio. This period saw the launch of the new Q-Free RSE 650 DSRC tag reader, the acquisition of the Dutch Optical Character Recognition (OCR) software company Dacolian BV (now Q-Free Netherlands) and the redesign of the Automatic Vehicle Classification system. In response to listening to existing and potential customers, capitalising on experience acquired from earlier projects and the utilisation of internal company technical skills and competences, Q-Free decided to turn its attention to changing the basic concept of its main Multilane Free Flow (MLFF) system. Q-Free is now ready to deliver its new Single Gantry MLFF system to the market.

The new Q-Free MLFF system brings the same high performance that has already been delivered in projects around the globe, but with the necessary roadside components mounted on one single gantry. Thus the amount of civil works and physical structures are reduced to a minimum. In addition the new MLFF system introduces extra advantages and benefits to customers that are already creating a lot of expectation, interest and excitement in the international road charging community.

– Q-Free has already been offering best-in-class solutions for tag reading, classification and ALPR.

HISTORY OF Q-FREE MLFF SYSTEMS

The new Q-Free MLFF system introduces new and innovative technology into the market, but it is also based on existing subsystems which have been implemented in existing installations that Q-Free has delivered around the world.

Q-Free has been a pioneer of MLFF technology since its success in the Dutch Rekening Rijden project in 1997 to the installation of new systems along motorways in Portugal in 2009-2011. In this period Q-Free has delivered amongst others the world's first MLFF system installed in a tunnel (Cross City Tunnel, Sydney – 2004), the extremely successful urban congestion tax system based on Automatic Licence Plate Recognition (ALPR) in Stockholm (2005) and enforcement systems for the Slovakian truck tolling scheme (2009).

In each of the projects delivered, Q-Free has increased its experiences and built on its technical knowledge-base in the successful implementation of MLFF systems to the road charging market. With the acquisition of Dacolian BV (Q-Free Netherlands) Q-Free bought unparalleled expertise in the industry of imaging systems, which enabled the company to take its technical offerings to the next level.

Existing Q-Free MLFF systems are already world-class solutions. The DSRC tag readers are second to none with excellent levels of performance, accuracy and availability. Q-Free's Automatic Vehicle Classification (AVC) solution has developed over the years to cater successfully for the most challenging of classification schemes. Finally, the Q-Free ALPR system employs the world-beating Intrada engine which has proven itself time and time again to be a big favourite in the industry.

WHY A SINGLE GANTRY SOLUTION?

Although Q-Free was already delivering world-class solutions to the market, it was clear that customers were demanding more and Q-Free answered this call.

The main requirement from the market is to make an operator's Capital Expenditure (CAPEX) and its Operating Expenditure (OPEX) as low as possible in order to retain the maximum amount of the collected revenue.

The Single Gantry solutions only have minor visual impact. Modest appereance makes them ideal for both city and highway tolling.

Q-Free has already been offering best-in-class solutions for tag reading, classification and ALPR, so it turned to reducing the way that equipment was mounted on the roadside and the number of structures required.

The result is a full MLFF system with tag readers, automatic vehicle classification and ALPR cameras that can be mounted on one single gantry and with a minimal number of components.

1. Old solution:
3 gantries
2. New solution:
Single gantry

The immediate advantage of this MLFF system is of course a reduction in the number of structures at an installation. The requirement of only one structure for the roadside equipment greatly reduces the CAPEX that includes the costs of the gantries. For some small scale schemes this may be a relatively low cost to bear. However, for larger scale projects with wide roads and requirements for structures that service personnel can walk on, this is a considerable cost and one which can rocket when steel prices go up.

The use of a single gantry does not just give reduction in hardware costs, it also results in lower installation costs and lower service and maintenance costs. And of course, there is the added bonus of a single gantry solution giving a smaller footprint for the installation as would otherwise be required, which benefits both the operator and the environment.

The new Single Gantry Solutions are suitable for town and country. Minor visual impact on the environment, with the number of gantries reduced to one, makes is ideal for both highway tolling and urban implementation – a clear case of “less is more”.

INTRODUCTION TO THE SINGLE GANTRY MLFF SYSTEM

The main technical innovation behind the Q-Free Single Gantry MLFF system is a new imaging system which tracks vehicles as they pass through the charging zone at the installation. This tracking system picks up vehicles when they enter the charging zone and will track them all the way until they leave the zone. Whilst in the charging zone, vehicles will be continuously tracked irrespective of the position thus allowing lane changing and lane straddling during the passage.

Whilst being tracked throughout the charging zone, the Q-Free MLFF system collects the other transaction data that is required by the scheme for which it is being used. Traditionally, this will mean reading data from a vehicle’s tag, collecting classification data and taking images of a vehicle’s licence plate (whether front or rear plates, or both). This transaction data is packaged and attributed accurately to the correct vehicle using the tracking information.

It is this tracking functionality which allows the roadside equipment of the MLFF system to be mounted on a single gantry, but it also provides the additional advantage of making a system that offers more flexibility to customers and improved functionality.

The improved flexibility introduced in the Q-Free single gantry technology offers operators a system that can be used in built-up urban environments or wide intercity motorways. The tracking technology and the need for only one structure for the roadside equipment lead to a system with a small physical footprint but with high functionality. For customers, this means that they have more freedom for the placement of installations, which is a clear advantage for schemes in cities.

A new functionality in the single gantry MLFF system is the ability of the technology to detect the direction of travel of vehicles while they are in the charging zone. This functionality offers customers a solution where one installation can cover both travelling directions or cater for vehicles that make U-turns within the charging zone and other unexpected driving behaviour.

CONCLUSION

The new Q-Free MLFF Single Gantry system offers customers high performance, high availability and additional road charging functionality with a minimal physical footprint on the environment and improved flexibility to customers for, amongst others, charging point placement and technology selection.

The system gives customers more for their investment, reduces operational costs and allows them to retain more of their collected revenue. Indications from discussions with operators show a high level of interest in Q-Free’s new MLFF Single Gantry system and we are sure that our system will give customers great benefits that they have been seeking.

QUALITY

QUALITY DOES NOT HAPPEN BY LUCK. RATHER, IT IS THE RESULT OF HARD WORK. Q–FREE COMBINES THE WORLD'S MOST ADVANCED AUTOMATIC LICENSE PLATE RECOGNITION SYSTEM AND THE LEADING DSRC–PRODUCTS, MAKING SURE THAT EVERYTHING IS ON Q.

OBU610 DSRC TRANSPONDER
Market's smallest: 69x40x22 mm. 34 g.
Private label: To accomodate customer specific look and feel.
Multi Application Support: EN15509 /SmartDSRC/PISTA/TIS/GSS/A1/OGS
Buzzer: Different and custom spesific beep signals available.

REFERENCES

Customer: Ascendi
Country: Portugal
Name: Augusto Manuel Fontes de Carvalho
Title: Chairman of the Executive Committee

1 – WHICH Q-FREE SOLUTIONS AND PRODUCTS HAVE YOU PURCHASED?

Our cooperation with Q-Free began in 2009 and, till now, we purchased 4 MLFF systems comprising a total of 100 charging points and 1 operational back office. These systems are prepared to collect all types of vehicles (light and heavy). During 2011 Q-Free installed the last 52 charging points. We also have awarded to Q-Free the maintenance of those systems by a medium term contract.

2 – WHY WERE Q-FREE CHOSEN TO SUPPLY THE NAMED SOLUTION/PRODUCTS?

We choose Q-Free in 2009 after a long evaluation process considering different criteria such as quality of the solution, adaptability to the Portuguese ETC reality and price. The evaluation process included the installation of a test site in real environment. Q-Free obtained the first position among all the competitors in a classification where the criteria "quality of the solution" revealed to be determinant.

3 – WHAT IS THE IMPRESSION OF THE IMPLEMENTATION/DELIVERY PROCESS?

It is being grateful to work together. Till now, when problems appeared we always have been able to find an adequate solution, compliant with the major concerns of each party. We must relieve that the installation of the systems has been done with an exceptionally tight program but all the targets were matched without much problems.

4 – WHAT IMPACT HAVE Q-FREE SOLUTIONS/PRODUCTS HAD ON YOUR BUSINESS?

The implementation of the new MLFF systems signalize an adjustment in the core business of Ascendi Group. Its vocation is now, not only the management of road concessions, but also the management of electronic tolling services. After the implementation of these systems Ascendi became one reference in the European tolling market and we want to preserve this position.

5 – WHAT ARE YOUR MAIN CHALLENGES IN THE FUTURE?

As we said our main challenge for the near future is to preserve a position of reference in the international market of electronic tolling services. We feel that in Portugal we have a very mature market, with accurate technologies and organization, capable of excellent performances, which gives us confidence to face new international challenges. As we have done with road concessions – we manage assets in Spain, Brasil, México and Mozambique – internationalization of our ETC services is now our main target and, we are sure, we will achieve it in a near future.

6 – HOW DO YOU FORESEE YOUR FUTURE WITH Q-FREE? OR, HOW DO YOU SEE FUTURE COLLABORATION WITH Q-FREE?

The development of Ascendi as an important actor in the ETC global market is totally compatible (saying better, it's complementary) with Q-Free core business, which is centralized in the segment of production and installation of electronic systems and the trading of connected equipments. Electronic collection is the future of tolling collection all over the world, and toll collection is becoming an affair in the agenda of increasingly more governments. This is the reason why we think that many opportunities will appear to be explored by Ascendi and Q-Free, each of us in its area of specialization. Certainly our ways will be crossed a lot of times and, we are sure, in some of them we will find the right reasons to cooperate accurately.

– The solution designed and implemented by Q-Free has made the customer experience at Sydney Airport smoother and more efficient for those using taxis, limousines or coaches. The system is reliable and scalable, providing us with the flexibility that we need in such a dynamic environment. It was the right decision for Sydney Airport and I am very pleased with the outcomes we have achieved.

Craig Norton
General Manager
Parking & Ground Transport
Sydney Airport

Sydney – a continuous history of successful deliverances from Q-Free.

Name: Craig Norton
Company: Sydney Airport Corporation Limited (SACL)
Geographical place: Sydney, Australia

Summing of what we have delivered in short to this customer: In 2007, Q-Free delivered the Ground Transport Access System (GTAS) for Sydney Airport Corporation Limited (SACL). This system provides access control to the roads and pickup locations for taxis at Sydney's Domestic and International terminal precincts. The system utilises DSRC tag technology in accordance with AS4962 and traffic control gates to control access.

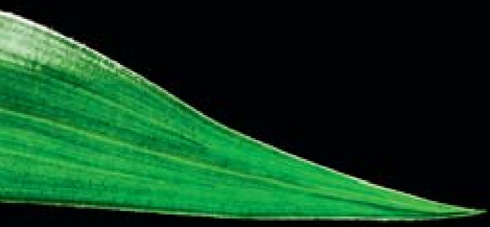
In 2011, this solution was extended by the introduction of the Bus and Limousine Fee Collection System (BLFS). This system identifies and monitors buses and limousines during entry into, and exit from, the loading zones; provides a voice-communication system for vehicles and drivers at the gate; and implements a fee schedule based on a vehicle type determined by the Airport, the duration of the vehicle's stay inside a loading zone and the location of the loading zone. Both the GTAS and BLFS continue to be maintained by Q-Free.

Q-FREE'S TECHNOLOGY IMPROVES THE ENVIRONMENT

Reduced traffic: After our congestion tax system started in Stockholm the number of personal cars driving in and out of the city was reduced by more than 20%.

Increased satisfaction: The referendum held after the trial period ended confirmed that the citizens of Stockholm wanted the congestion tax system.

QUO VADIS?



WE AIM TO ACHIEVE OUR GROWTH AMBITIONS THROUGH BOTH ORGANIC GROWTH AND ACQUISITIONS. Q-FREE HAS IDENTIFIED GLOBAL OPPORTUNITIES IN THE RANGE OF NOK 5 TO 15 BILLION, WHICH IT INTENDS TO ENGAGE OVER THE NEXT FEW YEARS. AS ALWAYS, WITH PRODUCTS AND SOLUTIONS THAT MINIMISE ENVIRONMENTAL IMPACT, MAKING SURE THAT EVERYTHING IS ON Q.

PAST – PRESENT – FUTURE

Q–FREE'S HISTORY IN SHORT

Q-Free was founded in 1984 as Micro Design by a few very talented engineers based in Selbu (a municipality close to Trondheim).

Norway was, and is, a costly country with respect to roads, bridges and tunnels construction, and tolling was seen as an important tool to finance such infrastructure. The need for automatic systems was also important to minimize operational cost and hence optimizing founds left for building infrastructure. This opportunity attracted Q-Free and in cooperation with the Norwegian Road Authority, Q-Free deployed in 1988 the world's first full-speed non-stop electronic toll collection system at Ranheim (Trondheim, Norway) as a result of a R&D program carried out from 1986 to 1988.

The 1990's gave the first larger deployments of Electronic Toll Collection (ETC) systems. Norway installed large toll cordons in Oslo and Trondheim and Portugal rolled out a nation-wide ETC system called Via Verde in 1995. In 1997, the CEN DSRC standards were released, contributing to a rapid spread of the European ETC technology to markets outside of Europe, such as Chile, Australia and Brazil.

The focus in the 2000's was to continue to expand internationally as well as maintaining a strong position in our home market. Also the company modified its strategy in 2006 from being a very much DSRC focused technology company to become a broad solution provider offering solutions for various road user changing applications. This implied that Q-Free from 2006-2011 has invested significantly developing new tolling technologies and solutions as well as acquired state of the art ALPR technology. In addition, the company has undergone a major restructuring focusing on professionalisation during the same time period.

Established in 1984, Listed at the Oslo Stock Exchange in 2002
–
Present in 17 countries and approximately 270 employees
–
Market capitalisation of 1.48 BNOK (at 22.30 per share)

Q-Free – A pioneer in road tolling

→

1980s		1990s		2000s		2010s	
1984	Q–Free established as Micro Design	1990	Contract for Oslo Toll Cordon	2005	Stockholm congestion tax system delivered	2011	Positioned for breakthrough in Indonesia
1986	Contract with Norwegian Public Roads Administration	1995	5.8 GHz system installed in Portugal	2008	Acquisition of Dacolian and Building Capital	2012	Awarded congestion charging project in Gothenburg
1988	First free flow tolling system operational	1997	Establishment of the European CEN DSRC standards	2009	Slovakia Truck Tolling & Aenor MLFF Portugal		
		1999	Breakthrough in Australia and Brazil				

Our home market will continue to be an important market, since it represents a highly advanced market which also will drive future innovation.

Q–FREE IS MOVING FROM A ROAD USER CHARGING COMPANY TO AN INTELLIGENT TRANSPORT SYSTEM COMPANY

Advanced Traffic Management and Road User Charging market and technologies will over time converge. It is important for Q-Free to take a leading role for this convergence to happen, and through the project under planning in Jakarta, Q-Free shows this commitment. Q-Free will deploy an electronic law enforcement system to be used by the police to monitor and control all vehicles driving into Jakarta with respect to payment of annual vehicle tax, stolen vehicles, access control etc. The technology which will be used is the latest and most advanced single gantry multilane technology, being the same used for congestion charging project in e.g. Gothenburg and high way tolling projects. This illustrates that the convergence between Advanced Traffic Management and Road User Charging area is happening and that Q-Free intend to take a lead role.

Q-Free will continue to focus on international growth by means of organic development, establishing new Q Free offices around the world, as well as through acquiring companies focusing on US entry and strengthening our position in Advanced Traffic Management area.

Our home market will continue to be an important market, since it represents a highly advanced market which also will drive future innovation.

Q-Free will continue to grow and play a dominant role in the new modern Intelligent Transport world.

Q–FREE IS ONE OF THE VERY FEW TODAY

Today Q-Free has established themselves as the leading company within Road User Charging, having references in all main application areas, – being highway tolling, Truck Tolling and Congestion Charging. The company offers products, solutions and services based on the most advanced and cost efficient DSRC (tag) technologies, video/imaging technologies, satellite technologies and back-office solutions. The company has become truly international and have local companies in 13 countries. Q-Free has employees from 21 nationalities.

BUSINESS REVIEW

1 –

MARKET DRIVERS AND TRENDS

Q-Free primarily operates in the Road User Charging (RUC) market, but some of the company's products/technologies are increasingly being used for Advanced Traffic Management applications, such as law enforcement/electronic licence plate, travel time systems and for parking / access control systems.

On the short and medium term many interesting opportunities are maturing and the company is building a pipeline which can facilitate the next step in growing the company.

Today the most important market drivers for RUC solutions are:

- FINANCING CONSTRUCTION AND MAINTENANCE OF INFRASTRUCTURE
- IMPROVE EFFICIENCY OF EXISTING RUC SOLUTIONS (I.E. CONVERTING MANUAL OPERATED TOLLING SYSTEMS TO FULLY AUTOMATED SYSTEMS)
- CONGESTION MANAGEMENT

As mentioned above new markets/applications are starting to be visible, - one of them being Electronic Registration and Identification (ERI). This represents a huge market potential since it typically implies that all cars will be equipped with a tag, – this in addition to the need for road side infrastructure and central systems.

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. It is a likely scenario that solutions for RUC and Traffic Management applications will converge and as such adding significantly to the growth potential for the company.

From the above it is evident that this market will experience growth for many years to come.

On the short and medium term many interesting opportunities are maturing and the company is building a pipeline which can facilitate the next step in growing the company. The company have already identified an accessible global pipeline in the range of NOK 5 – 15 billion within the next few years.

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, Latin America and in parts of Asia.

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. Compared to a DSRC a RFID based system will have degraded performance.

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 which 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 Sky-Toll 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 manually 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 the globally preferred partner in the area of Intelligent Transport Systems and having world–wide leadership in Road User Charging and Advanced Traffic Management systems.

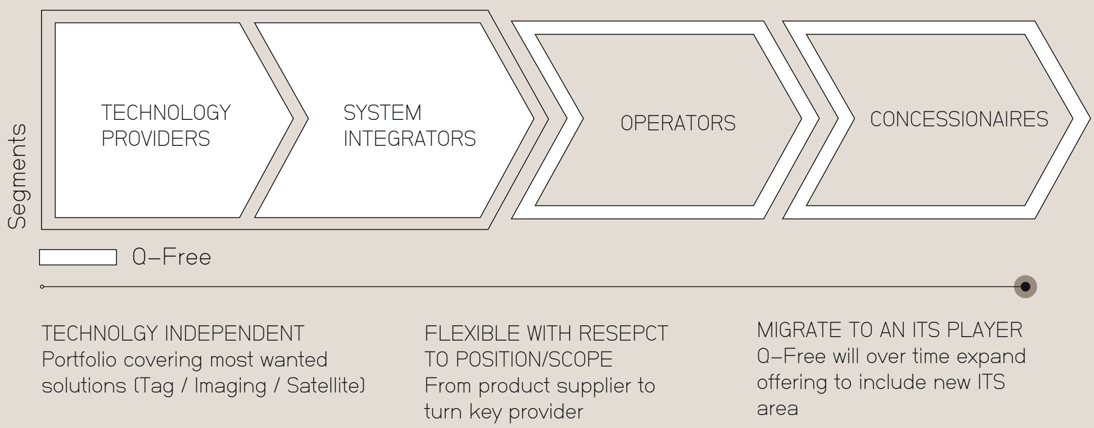
Our objectives related to Advanced Traffic Management in specific, are based on the belief that the Traffic Management and the RUC market will converge. One important driver for this to happen is the development of standards and technology enabling car-to-car communication and car-to-infrastructure for 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 the application level. There is no doubt that this transition will take some time, but it is important for the company to be positioned when this happens. 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.

In addition to participating in the standardisation forums and carrying out technology development the company will intensify to use its present portfolio for Traffic management application as well as explore M&A opportunities in this area. Focus going forward related to RUC will be to continue to expand market presence, improve our offering and outperform competition with respect to execution. The portfolio the company has over the last years built up is outstanding and the company intend to further improve this position. Key words are variety in solutions and quality/performance.

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 positioning and competitive advantages



Q-Free offering

Q-Free offers both products and turnkey solution in the area of Road User Charging and Advanced Traffic Management. The company has over the years established state of the art portfolio in all the most relevant areas, such as DSRC, Imaging, GNSS (satellite) and back-office.

DSRC PORTFOLIO
The company has the smallest and most advanced DSRC tag and reader on the market through the launch of the OBU 610 and RSE 650. Q-Free has been a player in the DSRC area since 1988 and was the first mover in this area. In total the company has delivered more than 18 million tags all over the world.

IMAGING
Q-Free has over many years developed its own high performance imaging system being an important component in our advanced multilane tolling system and enforcement offering. Lately an improved version, VRE690, has been launched to the market having functionality and features that makes the system more versatile and usable for more applications.

After the company acquired Dacolian, a frontrunner in the ALPR area, the Q-Free imaging system (camera and ALPR software) has taken new steps to facilitate highly accurate results in all weather and driving conditions.

Q-Free also offers various ALPR and VSR (vehicle signature recognition) software solutions for video tolling and back office applications.

GNSS
Based on the DSCR and Imaging portfolio Q-Free can deliver various enforcement solutions, – both fixed, portable and mobile/vehicle. Further Q-Free has developed a flexible and compact OBU platform which can facilitate various satellite based tolling schemes.

Based on the above products and 27 years of experience, Q-Free can deliver turnkey solutions for Road User Charging and Advanced Traffic Management. The latest system offering from Q-Free is the Single Gantry Solution. The applications areas could be highway multilane free flow tolling, urban congestion charging, enforcement for satellite based tolling, electronic licence plate program, and parking and access solutions.

Q-Free has also deployed several back-office solutions and process today more than 3 million transaction per day.

4 –

MARKET DEVELOPMENT DURING 2011

The market, and not at least Q-Free position, has developed very positively during 2011. The company is well positioned for many company changing contracts.

The market activity has been high in several countries throughout the whole of 2011 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 increased traffic density are all macro drivers becoming increasingly visible.

These are factors which will drive the RUC, and traffic management, market for many decades, and 2011 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 and Africa (EMEA)

The EMEA market made up 70% of the revenues, 78% of the orders received during 2011 as well as 71% of the Group's order backlog at the end of the year.

In general the market activity has been high in the region, - especially related to projects in Portugal, Sweden, Norway, Belgium, France, Denmark, Slovenia, Russia, Spain, Greece, Turkey and South Africa.

The Group announced 7 new contracts in this market during the year:

1. A 154 MNOK order for a major infrastructure project from the Portuguese road operator Ascendi.
2. A 27 MNOK tag order from ETC in South-Africa.
3. A 143 MNOK award for delivery of the congestion charging infrastructure in Gothenburg from Swedish Road Administration. Formal contractual signing took take place in March 2012.
4. A 19 MNOK tag order from ETC in South-Africa.
5. A 17 MNOK order for service and maintenance from The Swedish Road Administration.
6. A 16 MNOK tag order from Via Verde Portugal.
7. A 90 MNOK service and maintenance contract from the Portuguese road operator Ascendi.

Announced contracts in Europe, Middle East and Africa (EMEA) region.

The activity in Portugal has been important for the year, both related to deployment of new tolling systems, service and maintenance activity and tag deliveries. The financial situation in Portugal has raised the question whether the use of electronic tolling system should be further expanded to new roads, we expect however that this will take some time to mature. Similar trends are seen in Spain, - the need for financing to build and maintain infrastructure is becoming more and more evident and modern electronic tolling system is currently being considered. It is probably a matter of time before this will materialise. Q-Free is actively positioning itself for a significant market share in this market, both for infrastructure and products/tags.

The company was in Q1-2011 selected to supply a congestion charging scheme to Gothenburg in competition with 4 other bidders. One of the bidders submitted a complaint, and the formal contract was signed in March 2012. The contractual value is 143 MNOK and comprises delivery of road side equipment, infrastructure and service and maintenance for 2 years with an option for additional 6 years. The final contract value will be dependent on selected options and also the duration of the service and maintenance contract. This is an important project since it will form the basis for further road pricing projects to be deployed in Sweden.

Norway has also been an active market during 2011, but the competition is tough and the commercial attractiveness of this market is limited. However, the company will defend aggressively its position in Norway to the benefit of Q-Free's international activity.

In France Q-Free is currently addressing a few ALPR projects for Traffic Management/enforcement purposes as well as for new tag opportunities. Further in France there is currently being explored to implement congestion charging schemes in the major cities.

In Denmark the social democrats have appointed a new prime minister and the objective of the new government is to introduce a truck tolling scheme. Q-Free will together with partners, and backed up with strong references in this area, explore this case.

Belgium, Slovenia, Hungary, Bulgaria, Romania, Belarus, Croatia, Russia, UK etc. are all planning to introduce a nationwide truck tolling scheme. The consortia is in the process of being formed and Q-Free will play an active role to secure strong bids.

A major infrastructure possibility is under planning in Greece headed by Egnatia Odos. Q-Free will explore this case through participation in a consortium. The potential scope for Q-Free is road side infrastructure as well as operational back office. This case will however not materialise in the near term due to the financial situation in the country.

Turkey also represents a growth opportunity for the company, – both related to tag sales and in the longer term new infrastructure projects.

In South Africa the company has delivered tags at a value of approximately 50 MOK so far, and there is still a similar sized opportunity to come for the same project. Still the tolling system has not been put into to operation and further tag orders will probably not be awarded before after go-live – which currently is uncertain due to the political situation. Going forward Q-Free believes that new opportunities will materialise in South Africa, - also on the infrastructure side.

The company has already identified an accessible pipeline in this region in the range of NOK 2 – 8 billion during 2012–2014.

Asia / Australia
The Asian/Australian market made up 7% of the revenues and 4% of the orders received during 2011 as well as 5% of the Group's order backlog at the end of the year.

The Group announced 1 new contracts in this market during the year,

1. A 940 MNOK order for delivery of an Electronic Law Enforcement (ELE) system for Jakarta (DKI) and greater area of Jakarta (Bodetabek) from PT Rin. The contract is subject to financing of the project and hence not included in the order backlog per 31.12.2011.

The activity in the region is high and continues to increase. The main areas of interest at the moment are Indonesia, Taiwan, Australia, Thailand and Malaysia. Some of the biggest cases currently being explored by the company is in this region, and several of them have the potential to become the largest contracts in the company's history, and as such representing "company changers". One of them was announced during Q4-2011, - the electronic law enforcement system in Jakarta. Since financing is not concluded yet the 940 MNOK contract is not included in the backlog leaving the year. GIEK has approved to give guarantees for the project and a term sheet has been signed with a Nordic bank for a major part of the financing.

The up sale possibilities related to the announced Jakarta-project are significant as the number of vehicles included in the program most likely will be expanded (e.g. there exists 7 million motor cycles still not included) and not at least related to new cities which may be added to the program. Further the company expects that a congestion charging opportunity will materialise during the next two years (Jakarta), and potentially based on the same technology platform as deployed for electronic law enforcement.

In Taiwan the road user charging system is planned to be expanded, and later on the existing system is to be replaced. Today infrared DSRC system is used in Taiwan, and the solution will most likely be substituted. Q-Free is one of the 2-3 candidates to be selected and tests forming the basis for the selection are currently being prepared. It is anticipated that the process will be concluded during first half of 2012 and that the size of the project easily will be in the range of 500 – 1500 MNOK, - comprising road side infrastructure, operational back-office and tags.

The electronic tolling market in Thailand is still in the early days and it is expected that this market slowly will grow as the acceptance of tag based tolling solution increase. The company has now delivered around 0.2 million tags in this market, and as such the upside potential is high. It is also expected that new infra-

Announced contracts in Asia / Australia region

structure projects will materialise during the year, and typically these systems are a combination of manual and single lane electronic tolling.

The most mature market in the region is Australia, which first and foremost represents an important tag market for the company. However the company has also lately started to explore some park & access projects, in addition to modernisation programs of existing tolling infrastructure, which both can represent significant business opportunities.

The upcoming references in Indonesia related to electronic number plate and congestion charging will in the long term open the Chinese, and rest of South East Asia market, for the company. In the short term, India may show some product sales opportunity.

The company have already identified an accessible pipeline in this region in the range of NOK 3 – 6 billion during 2012-2014.

North and Latin America
Customers in North and Latin America made up 23% of the revenues, 18% of the orders received during 2011 as well as 24% of the Group's order backlog at the end of the year.

The Group announced 3 new contract in this market during the quarter,

1. A 38 MNOK tag order from Centro Gestao Meios de Pagto (CGMP) in Brazil.
2. A 34 MNOK tags order from Centro Gestao Meios de Pagto (CGMP) in Brazil.
3. A 52 MNOK order for tags and roadside equipment from Centro Gestao Meios de Pagto (CGMP) in Brazil.

The electronic licence plate program in Brazil is still being discussed, and it has been announced that a new standard has been defined forming the basis for this application as well as for tolling from 1.1.2013. If so happens it would imply that the company needs to modify its portfolio to adapt to the new standard in Brazil. It is however still unclear if this will be implemented since there has been some reactions already from various concessioners having implemented 5.8 GHz based technology.

After some recent successes in Chile the company has formed a company in Santiago. This will enable Q-Free to address new tolling infrastructure projects as well as an upcoming congestion charging opportunity in a more powerful way, as well as increasing the market share for tag deliveries.

The company had a breakthrough in Ecuador late Q4 through the award of the first tag contract. This market is still in its early days.

In North America the Group is exploring several business opportunities through the company's ALPR solutions, i.e. OCR software and camera technology. Video based solutions for enforcement and interoperability will become increasingly important in North America as MultiLane Free Flow / Open Road Tolling systems, (no barriers used and traffic flows without stopping) are being implemented. Q-Free offers the most advanced systems enabling cost effective and reliable enforcement and tolling, and the company has over the past few years been established as the leading supplier in this area forming a good basis for further expansion in the North America. Based on the unique video tolling/enforcement portfolio Q-Free is currently planning to establish a company in the US to be able to more efficiently explore this market.

Announced contracts in North and Latin America region

5 –

OUTLOOK

The global ITS market is expected to grow considerably over the next years and Q–Free's market position is continuously strengthening.

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, as the only company in this market, relatively recently executed the most significant and advanced projects in all these three application areas.

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.

We have already identified an accessible global opportunity pipeline within our present core business in the range of NOK 5 – 15 billion for the next few years.

The upcoming references in Indonesia related to electronic number plate and congestion charging will in the long term open the Chinese, and rest of South East Asia market, for the company.

The company will defend aggressively its position in Norway to the benefit of Q-Free's international activity.

6 –

Q–FREE'S STRATEGY TO REACH TARGETS

The growth ambitions shall be achieved by both organic growth and growth through acquisitions.

The organic growth will be fuelled by expansion into new geographical areas by extending our international setup, increase market share in existing markets, high quality deliveries and by ensuring that the company have access to the most cost efficient and high performance products and solutions.

In specific the following can be mentioned:

- LEVERAGE ON LEADING POSITIONS IN KEY RUC APPLICATION AREAS
  - Fully automated Free Flow ElectronicToll Collection
  - Truck Tolling
  - Congestion Charging
- CONTINUE TO INVEST IN MARKET POSITION
  - Increase market share in our existing markets
  - Establish a strong position in Asia
  - Position us for truck tolling projects in Europe.
  - Enter US
- INTENSIFY M&A INITIATIVES
  - Our M&A activity will be intensified going forward focusing on entering the US market and expand our offerings in Advanced Traffic Management.

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. As an issuer of shares, Q-Free complies with Norwegian stock exchange rules, including the rules on Continuous Obligations of Listed Companies, chapter 7 on Corporate Governance, with reference to the Norwegian Code of Practice for Corporate Governance issued by the Norwegian Corporate Governance Board (NCGB), see www.ncgb.no.

In accordance with the Norwegian Accounting Act section 3-3b, Q-Free is required to report annually to give an account of their principles and practices relating to corporate governance in the directors' report or a document referred to in the directors' report. Q-Free refers to this document in the Directors' Report.

The Company's Board of Directors has adopted the Code of Practice of 21 October 2010 and as amended on 20 October 2011. The Company may deviate from the principles of the Code of Practice if required for special purposes. In the following it is set out how the Code of Practice is accommodated through the financial year 2011 for each section. Any deviations from the Code of Practice are addressed in relation to the relevant section. The Company is listed on the Oslo Stock Exchange and therefore also complies with the corporate governance requirements of exchange's rules for listed companies. The exchange's rules are available at www.ose.no

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	MANGEMENT
Shareholders	Board	CEO
↓	→	↓
General Meeting	Compensation Commitee	Executive Management Commitee
↓	→	↓
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 resonsibility for strategy and management of the company. Advice regarding and oversight of routine management.	

NORWEGIAN CODE OF PRACTICE

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 vendor of Road User Charging (RUC) and Advanced 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 aims 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 2012 have another 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.

Company has an incentive program that runs for 3 years for key employees of which the program is 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 2011 financial statements for further information about the incentive program.

Deviation from the Code of Practice:
In the annual general meeting held in 2010, the Board of Directors was given a two-year authorization as described below regarding share capital increase and acquisition of new shares:

The Board of Directors was given an authorization to increase the share capital by up to NOK 2,282,055.42 through one or more subscriptions, equal to an issuance of up to 6,005,409 new shares each with a par value of NOK 0.38. Further details are set out in the resolution by the annual general meeting. The two-year authorization has been fully used in the Private Placement directed towards Norwegian and international institutional or professional investors 3rd of November 2011.

Q-Free complies with the Norwegian Public Companies Act's regulations regarding mandate to issue new shares. It is the Board's opinion that if Q-Free were to follow the Code, the Company may be unnecessary and inconveniently constrained to short term agreements in connection with possible acquisitions, share offerings, mergers or other actions within the ITS (Intelligent Traffic Systems) markets.

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 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 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. 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 2011 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 2012 AGM is scheduled for the 22nd 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 2011, the Annual General Meeting was held 19th of May and shareholders representing about 43.51% of the share capital attended in person or by power of attorney. An extraordinary General Meeting was held 4th of November and shareholders representing about 67.8% 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. To vote at the General Meeting, a shareholder must attend or give power of attorney to someone who is attending.

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). Shares held on nominee accounts 5 days before the day of the general meeting do not have the right to vote or attend.

Instructions are given in the call for AGM.

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.

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. 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. One of the Board members and one of the Nomination Committee members are up for election in 2011.

NOMINATION COMMITTEE AS AT 31ST OF DECEMBER 2011

Name	Company	Shares	Share options	For election
Cecilie Johnsen	Harburg AS	40,000	0	2012
Tor Himberg-Larsen		0	0	2013
Petter Fjellstad	Partner and investor in Grand Haven Capital	40,635	0	2013

Cecilie Johnsen is CEO in Redback AS, a company directly and indirectly controlled by Board member Jan Pihl Grimnes.

Deviation from the Code of Practice:
None.

8 – CORPORATE ASSEMBLY 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 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 2011:

Name	Position, biographical data and competence	Service since	Elected until	Shareholding in Q-Free ASA (direct and indirect)
Ole Jorgen Fredriksen (born 1950)	Mr. Fredriksen has held various key management positions during 25 years within the computer industry in Europe and US. Mr. Fredriksen has prior background as CEO at Oslo Stock Exchange. Mr. Fredriksen has worked and lived outside Norway for 5 years in different countries (US and Europe). His main affiliates today are connected to Board positions in various businesses, primarely within the IT industry, but also within manufacturing, trading and property. Fredriksen's main positions today are as Chairman of the Board at Q-Free ASA, Data Respons ASA, Itera ASA, Cyviz AS and Engelsviken Canning AS. During the last 10 years Mr. Fredriksen has previous Board experience from 8 different listed companies as Chairman or Member. Mr. Fredriksen was a co-founder, CEO and President of ASK ASA (later Proxima /InFocus) for 15 years. Prior to founding ASK, he worked for several private companies in the computer industry. Mr. Fredriksen has a Bachelor degree (sivilokonom) from the Norwegian School of Economics and Business Adminstration, (NHH) Bergen, Norway.	2002	2013	Shares: 178,884
Terje Christoffersen (born 1952)	Terje Christoffersen is a partner i Interforum Partners. He has more than 30 years management experience for listed norwegian and foreign companies within the IT and telecom businesses, with focus on the North European market. Christoffersen has been the CEO of Hewlett-Packard in Northern Europe and Chairman of the Board in NetCom ASA, managed Telia Sonera's operations in Denmark and been on the Executive Group Management of Telia Sonera. He has a MBA from Universität zu Köln (1978).	2011	2013	Shares: 20,072
Mimi Kristine Berdal (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	2013	Shares: 50,000
Charlotte Brogren (born 1963)	Charlotte Brogren is General Director of Verket för innovationssystem, VINNOVA, a swedish governmental administration authority, organised under the Ministry of Trade. Brogren has previously held management positions in the R&D organsation of ABB and been Group Vice President of ABB Robotics. Brogren is a Chemical engineer and holds a PhD from Lunds Tekniska Högskola (1997). Brogren is Chairman of the Board of Industrifonden, and member of the Board of HMS AB and Post- och telestyrelsen.	2011	2013	Shares: 0
Jan Pihl Grimnes (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: 1,555,000
Frank Aune (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.	2010	2012	Shares: 0
Sissel Lillevik Larsen (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

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 19 meetings in 2011.

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.

With effect from 22nd of June 2011, the deputy chairman is Mimi Kristine Berdal.

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 2011

Participation in meetings in 2011	Board meetings	Compensation Committee	Audit Committee
Ole Jorgen Fredriksen	19	2	5
Terje Christoffersen (served from AGM 2011)	12		2
Mimi Kristine Berdal	18		5
Charlotte Brogren (served from AGM 2011)	11		
Jan Pihl Grimnes	18	1	
Christian Albech (served until AGM 2011)	5	1	
Torild Skogsholm (served until AGM 2011)	6		3
Sissel Lillevik Larsen	19		
Frank Aune	17	2	

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 22nd of June 2011, the Compensation Committee is composed as follows:

Ole Jørgen Fredriksen (Chairman)
Jan Pihl Grimnes
Frank Aune

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 picture 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 22nd of June 2011, the audit committee is composed as follows:

Mimi Kristine Berdal (Chair)
Ole Jørgen Fredriksen
Terje Christoffersen

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, technology 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.

Management draws up monthly performance reports which are reviewed in the management group and that are sent to and reviewed by the directors. In addition, quarterly financial reports are drawn up and reported to the financial market according to requirements from the Stock Exchange. These quarterly financial reports are presented to the Audit Committee which reviews the reports prior to the Board meeting. The auditor takes part in the Audit Committee's meetings on an ad hoc basis, and meets with the entire Board in connection with the presentation and approval of the annual financial statements.

The Directors' Report provides a detailed description of the company's financial position and risk factors. The Group's model for internal control for financial reporting is reviewed on a regular basis, most recently in 2011, to ensure that the reporting system addresses the most significant risk factors for the Group and is organised to reflect the Group's business and procedures at any time. The Risk management policy is an integral part of the Group's management by objectives and performance management.

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".

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 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. 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.

Deviation from the Code of Practice:
The Board of Directors carries 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 2012 have another 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.

Remuneration for the period from the AGM of 2011 to the AGM of 2012:

The Chairman of the Board:
NOK 350,000

Members elected by the shareholders:
NOK 225,000

Members elected from the employees:
NOK 75,000

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

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

Employee elected members of sub-committees receives 50% of the remuneration rates.

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 per 31.12.2011 not linked to performance.

For further information about remuneration of the Board of Directors see note 15 in the 2011 financial statements.

Remuneration of the nomination committee

The chairman of the Nomination Committee receives a fixed salary of NOK 35,000 and each elected member receives NOK 5,000 per day of meeting.

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 members of the Board had share options which had been granted in 2009. The incentive program for the Board expired 5th of April 2011. No new options have been granted to board members in 2011. For further information, see note 15 in the financial statements.

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 adjusted 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 2011, 9 employees had been granted share options (see under equity and dividends for more information about the incentive program, and note 17 to the 2011 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 2011 financial statements.

Shares and share options held by the Company's executive management as at 28th of March 2012:

Name	Position	Shares	Share options
Oyvind Isaksen	CEO	101,989	675,000
Roar Ostbo	CFO	63,000	150,000
Jos Nijhuis	VP R&D	517,552	100,000
Steinar Furan	Advisor to CEO	22,500	150,000
Marianne Sandal	VP Operations	23,000	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 2011 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 2011 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 in 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 appointed by the General Meeting and is responsible for the financial audit of the parent Company and Group accounts. Independent external auditors have also been appointed for all subsidiaries of Q-Free ASA, including those outside Norway.

The external auditor for Q-Free ASA annually presents a plan to the Audit Committee covering the main features for carrying out the audit. The external auditor participates in at least two meetings of the Audit Committee, the Board of Directors meeting that approves the annual financial statements and other meetings on request. The external auditor presents the result of the audit to the Audit Committee and the Board of Directors in the meeting dealing with the annual report, including presentation of any material changes in the company's accounting principles, significant accounting estimates and report any material matters on which there has been disagreement between the external auditor and management. 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.

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

Ernst & Young has been the external auditor for Q-Free ASA for the last nine 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.

For further information about remuneration of the auditor see note 26 in the 2011 financial statements.

Deviation from the Code of Practice:
None.

THE BOARD OF DIRECTORS REPORT

INTRODUCTION

The Q-Free Group had an operating result of 58.9 MNOK (-90.4) in 2011, out of revenues of 704.9 MNOK (568.0). The results are influenced by a strong growth in the revenues whilst costs has been reduced.

Q-Free has during the last five years taken actions to strengthen its position in a growing market. The group has been investing in improving and broadening its product portfolio through acquisitions and organic development, increased marked focus and reach 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, Africa, 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 2011, Q-Free Group had an order backlog of 462 MNOK, which is 113 MNOK less than at year-end 2010 and this represents a 20% decrease. The order backlog is distributed as follows: Europe 71%, Asia/Australia 5% and Latin and North America 24%. Orders received in 2011 amounted to 592 MNOK, of which 78% came from European countries, 4% from Asia/Australia and 18% from Latin-/North America.

REPORT ON THE FINANCIAL STATEMENTS FOR 2011

In 2011 the Q-Free Group revenues amounted to 704.9 MNOK, compared to 568.0 MNOK in 2010. This represents an increase of 24% from 2010.

The Group's gross margin for the year was 57.5%, which represents 4.7% increase compared to 2010 when the gross margin was 52.8%. The operating profit (EBIT) for 2011 totaled 58.9 MNOK, compared to -90.4 MNOK in 2010. This is an increase of 149.3 MNOK, mainly due to the increase in revenues in all business segments, higher gross margin and lower operating expenses compared to 2010.

Net financial income amounted to -4.0 MNOK in 2011, compared to 10.8 MNOK in 2010. The Group's profit before tax was 54.9 MNOK, compared to -79.6 MNOK the previous year. Tax expenses amounted to -18.7 MNOK, compared to +22.7 MNOK in 2010. The annual profit for the Group amounted to 36.2 MNOK, compared to -56.8 MNOK in 2010. Earnings per share amounted to NOK 0.58, compared to NOK -0.94 in 2010.

The Q-Free Group had total assets of 928.7 MNOK at year-end 2011, compared to 687.7 MNOK the year before. Accounts receivables have decreased mainly as a result of receiving the last payment on the Slovakia project as expected and good cash inflow from other customers. Work in progress, inventories and other short term items are on the same level as the previous year. Intangible assets is on the same level as in 2010 despite of continued significant investments in new technology. Working capital has decreased during 2011 to 9% relative to last 12 months revenues, mostly due to significant payments from customers.

The Group's equity has increased by 137.3 MNOK to 636.7 MNOK and as at 31 December 2011 it totaled 68.6% of total assets. This is due to a share issue with a net cash payment of 100 MNOK and profits in 2011. The Group capitalises cost on product development activities. Capitalised costs for 2011 consist mainly of the development of a new Multilane Free Flow system including a new imaging system.

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

At year-end 2011, the parent company had 43.6 MNOK in free equity. The Board of Directors' recommendation is that no dividends will be paid for the fiscal year 2011.

CASH FLOW AND WORKING CAPITAL

The Group's cash funds at the end of 2011 amounted to 439.8 MNOK, compared to cash funds of 85.7 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 decrease mainly from reduction in accounts receivables.

The Group has the financial strength to develop technology and undertake upcoming projects. During 2011 the Group has invested a total of 31.1 MNOK in new technology to improve future profitability. The Group's current assets amounted to 681.8 MNOK and current liabilities amounts to 184.1 MNOK which gives a liquidity ratio of 3.7. The Group has cash funds of 439.8 MNOK, which gives a good working capital situation at the balance sheet date.

GOING CONCERN

The Board confirms that the financial statements are prepared under the assumption 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 17 countries on five continents. Outside Nor-

The use of Q-Frees products and services contribute to reduced traffic congestion and consequently give less pollution.

way the Company is represented directly in The Netherlands, Sweden, Portugal, France, Spain, Australia, Malaysia, Thailand, Indonesia, South Africa, Chile and Brazil. The Company is also represented in Turkey, Greece, India 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 2011, the Group had 273 employees, whereof 134 are employed in the parent company in Trondheim and Oslo, 46 in Noca AS in Trondheim and 93 in companies outside Norway. A total of 89% of the employees in the parent company hold a university degree or similar, mainly technical degrees.

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 which we have significantly improved financial performance, portfolio and market position. Sick leave in 2011 amounted to 2.4%. Even though this a small increase from last year's 2.2%, it is regarded a satisfactory level given the activity level in 2011. 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 26% female and 74% 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 fulfills 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 has not provided any guarantees for third parties' liabilities. The Group is 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.

Interest rate risk

The Group has entered into a loan agreement with Eksportfinans ASA during 2011. The group emphasises predictability at all times when changes in the interest level have a significant influence on the consolidated profit and the agreement is therefore based on the NIBOR 3 month rate with a minor margin. This means that corresponding deposits will also be linked to the NIBOR 3 month rate to mitigate the risk of changes in the NIBOR rate.

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.

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

Pursuant to the Norwegian Accounting Act section 3-3b, listed companies shall present their principles for corporate governance and under which authority they comply to such principles. Companies listed on the Oslo Stock Exchange shall report on their principles for Corporate Governance once a year, in accordance with the Norwegian Code of Practice for Corporate Governance, as applicable and amended from time to time.

Details are provided under the section "Corporate Governance" in the official version of the Company's Annual Report, and the document is also published at the company's website http://www.q-free.com/investor/corporate-governance/.

SHAREHOLDER SITUATION, SHARE DEVELOPMENT

The price for Q-Free shares in 2011 fluctuated from NOK 17.30 (January) to NOK 16.70 (December). With a total number of 66,252,419 shares, this implies a market value of 1,146 MNOK at the end of the year.

Shareholder situation

At year-end 2011, Q-Free ASA had 1,264 shareholders compared to 1,387 in 2010.

The 20 largest shareholders in Q-Free ASA as at March 28th 2012:

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

THE 20 LARGEST SHAREHOLDERS IN Q-FREE ASA

Name	Holding	Percentage
Kapsch Trafficcom AG ERSTE GROUP BANK AG	9 900 000	14,94
ODIN NORGE	5 347 123	8,07
KAPSCH TRAFFICCOM AG	3 530 458	5,33
SKAGEN VEKST	3 182 604	4,8
DNB NOR SMB VPF	2 375 000	3,58
JPMORGAN CHASE BANK SPECIAL TREATY LENDI (NOM)	2 201 000	3,32
ANDRESEN LARS ODDGEIR	1 633 600	2,47
REDBACK AS	1 495 000	2,26
HOLBERG NORGE VERDIPAPIRFONDET V/HOLBERG FONDSFORVATNING	1 369 894	2,07
VPF NORDEA KAPITAL C/O JPMORGAN EUROPE	1 268 421	1,91
KIKUT AS	1 174 150	1,77
MONS HOLDING AS	1 040 000	1,57
STOREBRAND VEKST JPMORGAN EUROPE LTD	899 814	1,36
VPF NORDEA AVKASTNIN C/O JPMORGAN EUROPE	831 932	1,26
VERDIPAPIRFONDET DNB	806 087	1,22
VPF NORDEA SMB C/O JPMORGAN EUROPE	779 726	1,18
UBS AG, LONDON BRANC S/A IPB SEGREGATED C (NOM)	733 836	1,11
STATOIL PENSJON C/O JP MORGAN CHASE	706 354	1,07
AUGUST HOLDING AS	650 000	0,98
ARCTIC FUNDS PLC C/O BANK OF NEW YORK	643 550	0,97
TOTAL	40.568.549	61,24

The underlying market growth, combined with our enhanced position, could enable the company to continue a strong profitable growth in the years to come.

Authorisation to increase the share capital – incentive program

As part of the carrying out of the resolved incentive programme towards key personnel and management, through the possibility to subscribe shares in the company, the Board of Directors is authorised to increase the share capital with as much as NOK 798,000, which corresponds with 2,100,000 shares (3,49%), each with a par value of NOK 0.38, through one or more private placements with cash deposits towards management and key personnel in Q-Free ASA. The existing shareholders' preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5, can be deviated from. The authorisation is valid until the next Annual General Meeting, but no longer than 30 June 2012.

The authorisation regards the carrying out of a share options programme in Q-Free ASA, which runs over a period of 3 years for management and key personnel.

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

Other share related issues

The Company does not have provisions in its articles of association that restrict the right to trade in the shares of Q-Free. Q-Free is not aware of agreements between shareholders which restrict the possibilities of trading in or exercising voting rights attached to shares or agreements the terms of which take effect, alter or terminate as a result of a takeover bid.

For further details regarding corporate governance, please see the section entitled Corporate Governance in this Annual Report.

OUTLOOK

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

The underlying market growth, combined with our enhanced position, will enable the company to continue a strong profitable growth in the years to come. The company has identified an accessible global opportunity pipeline within our present core business in the range of NOK 5 – 15 billion for the next few years.

The growth ambitions shall be achieved by both organic growth and growth through acquisitions. The organic growth will be fuelled by expansion into new geographical areas by extending our international setup, increase market share in existing markets, high quality deliveries and by ensuring that the company have access to the most cost efficient and high performance products and solutions. Our M&A activity will be intensified going forward focusing on entering the US and expanding our offerings in Advanced Traffic Management Systems.

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

ALLOCATION OF PROFITS

The Board proposes that the profit for the year in the parent company of 24,265,000 NOK are distributed to other equity.

Trondheim 31st of December 2011 / 28th of March 2012:

Ole Jørgen Fredriksen
(Chairman of the Board)
Mimi Kristine Berdal
Charlotte Brogren
Terje Christoffersen
Jan Pihl Grimnes
Sissel Lillevik Larsen
Frank Aune
Øyvind Isaksen
(CEO)

STATEMENT FROM THE DIRECTORS AND THE CEO

We confirm that, to the best of our knowledge, the financial statements for the Company and the Group for the period from 1 January to 31 December 2011 have been prepared in compliance with International financial reporting standards (IFRS) as adopted by EU and that the disclosures in the accounts give a true and fair view of the Company's and the Group's assets, liabilities, financial position and results of operations as a whole, and that the Directors' Report gives a fair view of the development, profit/loss and position of the Company and the Group, along with a description of the main risk and uncertainty factors facing the Company and the Group.

Trondheim 31st of December 2011 / 28th of March 2012:

Ole Jørgen Fredriksen
(Chairman of the Board)
Mimi Kristine Berdal
Charlotte Brogren
Terje Christoffersen
Jan Pihl Grimnes
Sissel Lillevik Larsen
Frank Aune
Øyvind Isaksen
(CEO)

THE BOARD OF DIRECTORS

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.

Ole Jørgen Fredriksen

Chairman of the Board 1

Mr. Fredriksen has held various key management positions during 25 years within the computer industry in Europe and US. Mr. Fredriksen has prior background as CEO at Oslo Stock Exchange. Mr. Fredriksen has worked and lived outside Norway for 5 years in different countries (US and Europe). His main affiliates today are connected to Board positions in various businesses, primarely within the IT industry, but also within manufacturing, trading and property. Fredriksen's main positions today are as Chairman of the Board at Q-Free ASA, Data Respons ASA, Itera ASA, Cyviz AS and Engelsviken Canning AS. During the last 10 years Mr. Fredriksen has previous Board experience from 8 different listed companies as Chairman or Member. Mr. Fredriksen was a co-founder, CEO and President of ASK ASA (later Proxima / InFocus) for 15 years. Prior to founding ASK, he worked for several private companies in the computer industry. Mr. Fredriksen has a Bachelor degree (siviløkonom) from the Norwegian School of Economics and Business Adminstration, (NHH) Bergen, Norway.

Terje Christoffersen

Board member 2

Terje Christoffersen is a partner i Interforum Partners. He has more than 30 years management experience for listed Norwegian and foreign companies within the IT and telecom businesses, with focus on the North European market. Christoffersen has been the CEO of Hewlett-Packard in Northern Europe and Chairman of the Board in NetCom ASA, managed Telia Sonera's operations in Denmark and been on the Executive Group Management of Telia Sonera. He has a MBA from Universität zu Köln (1978).

Mimi Kristine Berdal

Board member 3

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.

Jan Pihl Grimnes

Board member

4

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.

Charlotte Brogren

Board member

5

Charlotte Brogren is General Director of Verket för innovationssystem, VINNOVA, a swedish governmental administration authority, organised under the Ministry of Trade. Brogren has previously held management positions in the R&D organsation of ABB and been Group Vice President of ABB Robotics. Brogren is a Chemical engineer and holds a PhD from Lunds Tekniska Högskola (1997). Brogren is Chairman of the Board of Industrifonden, and member of the Board of HMS AB and Post- och telestyrelsen.

Sissel Larsen

Employee elected member of the Board

7

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

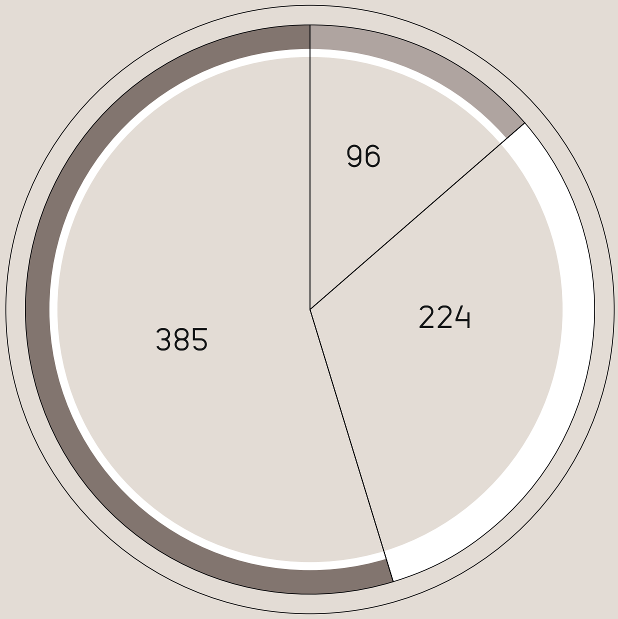
Frank Aune

Employee elected member of the Board

6

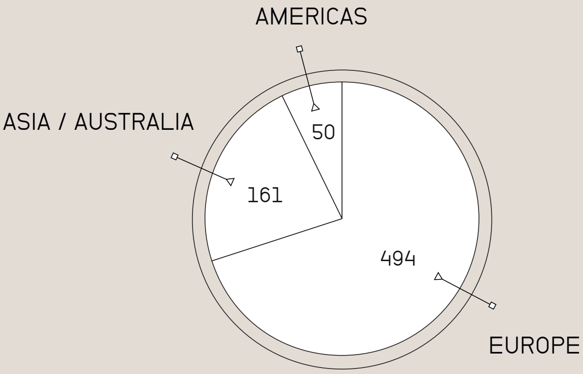
Frank Aune holds a MSc in Electronics and Telecommunications and holds the position as Head of R&D Security. Mr. Aune has been working in Q-Free ASA since 200

Q-FREE IN NUMBERS



REVENUES COMPOSTION

Revenues geographical
MNOK



Revenues business areas
MNOK

- Products
- Service & Maintenance
- Projects

Revenues
MNOK

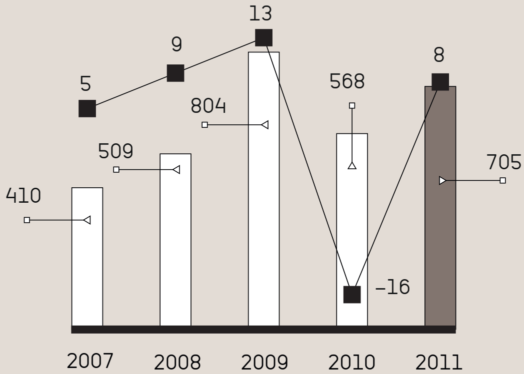
705

EBIT-margin
MNOK

8%

REVENUES AND EBIT-MARGIN

- Revenues MNOK
- EBIT Margin %



In 2011 the Q-Free Group revenues amounted to 704.9 MNOK, compared to 568.0 MNOK in 2010. This represents an increase of 24% from 2010. The Q-Free Group had an operating result of 58.9 MNOK (-90.3) in 2011, out of revenues of 704.9 MNOK (568.0). The results are influenced by a strong growth in the revenues whilst costs has been reduced .

CASH AT HAND DURING 2011

Equity ratio

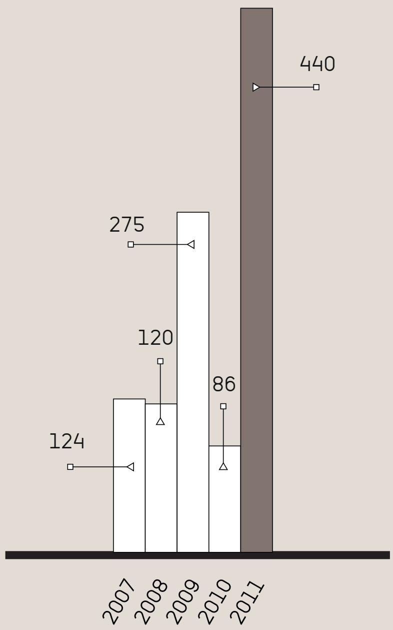
69%

Cash at hand
MNOK

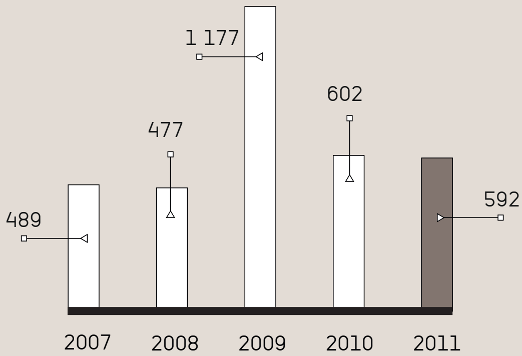
440

At year-end 2011, Q-Free Group had all time high cash funds of 440 MNOK and equity of 637 MNOK (69%). This combined with our enhanced position, will enable the company to continue a strong profitable growth in the years to come which will be achieved by both organic growth and growth through acquisitions.

Cash at hand
MNOK



Order intake
MNOK



Order intake
MNOK

592

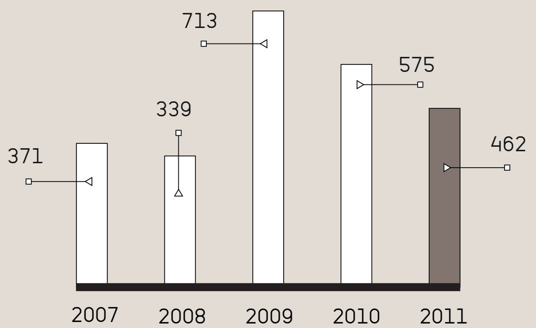
Orders received in 2011 amounted to 592 MNOK, of which 78% came from European countries, 4% from Asia/Australia and 18% from Latin-/North America follows: Europe 71%, Asia/Australia 5% and Latin and North America 24%.

Order backlog
MNOK

462

At year-end 2011, Q-Free Group had an order backlog of 462 MNOK, which is 113 MNOK less than at year-end 2010 and this represents a 20% decrease. The order backlog is distributed as follows: Europe 71%, Asia/Australia 5% and Latin and North America 24%.

Order backlog
MNOK



Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2011

FIGURES IN TNOK

PARENT COMPANY				GROUP	
2010	2011		NOTE	2011	2010
		Operating revenues			
293,447	425,682	Revenues	5, 7	698,033	557,894
10,150	6,879	Other operating income	8	6,879	10,150
303,597	432,561	Total operating revenues		704,912	568,044
		Operating expenses			
103,559	176,190	Cost of goods sold	14	296,491	268,233
100,967	109,767	Personnel expenses	15,16,17	160,349	166,766
160,780	94,239	Other operating expenses	26, 28	140,663	162,465
365,306	380,197	Total operating expenses		597,503	597,463
-61,710	52,364	EARNINGS BEFORE INTEREST TAXES, DEPRECIATION AND AMORTISATION (EBITDA)		107,409	-29,419
47,027	37,039	Depreciation, amortisation and impairment	9,10,11	48,502	60,954
-108,737	15,325	EARNINGS BEFORE INTEREST AND TAXES (EBIT)		58,907	-90,373
		Financial items			
16,883	13,505	Financial income	23	18,048	22,667
42,290	19,005	Financial income Group companies		0	0
-9,578	-18,133	Financial expenses	23	-22,040	-11,887
-7,031	0	Financial expenses Group companies		0	0
42,563	14,376	Total financial items		-3,991	10,780
-66,173	29,702	PROFIT BEFORE TAX		54,916	-79,593
28,208	-5,437	Taxes	22	-18,729	22,744
-37,965	24,265	PROFIT / (-) LOSS FOR THE YEAR		36,187	-56,849
		Attributable to:			
		Non-controlling interests		547	255
		Equity holders of the parent		35,640	-57,104
		Distribution of profit / (-) loss for the year			
0	0	Share premium reserve			
-37,965	24,265	Other equity			
-37,965	24,265	TOTAL DISTRIBUTED			
		Earnings per share	12	0.58	-0.94
		Diluted earnings per share	12	0.57	-0.93

FIGURES IN TNOK

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2011

PARENT COMPANY				GROUP	
2010	2011		NOTE	2011	2010
–37,965	24,265	Profit for the period		36,187	–56,849
0	0	Exchange differences on translation of foreign operations		–2,390	916
0	0	Income tax effect		0	0
–37,965	24,265	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		33,797	–55,933
		Attributable to:			
		Non–controlling interests		547	255
		Equity holders of the parent		33,250	–56,188
		TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		33,797	–55,933

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2011

FIGURES IN TNOK

PARENT COMPANY				GROUP	
2010	2011	ASSETS	NOTE	2011	2010
		Non – current assets			
12,079	9,265	Deferred tax assets	22	9,518	13,779
100,919	82,866	Product development assets	10	143,840	143,574
0	0	Goodwill	10, 11	29,544	29,544
44,588	34,976	Machinery, fixtures and fittings, etc.	9	53,302	63,261
87,900	87,900	Investments in subsidiaries	6, 18	0	0
5,378	5,378	Loan to group companies	18	0	0
4,732	6,353	Investments in other companies	24	6,423	5,134
0	0	Other receivables		4,216	3,131
255,596	226,737	TOTAL NON – CURRENT ASSETS		246,842	258,422
		Current assets			
39,332	33,847	Inventories	14	64,306	61,154
54,551	49,187	Work in Progress	7	56,751	54,461
134,833	26,515	Accounts receivables	20	92,947	194,156
73,642	92,327	Accounts receivables on group companies	20	0	0
17,664	11,931	Other current financial assets	27	28,036	33,797
22,971	347,215	Cash and cash equivalents	19	439,788	85,724
342,993	561,021	TOTAL CURRENT ASSETS		681,828	429,292
598,589	787,758	TOTAL ASSETS		928,670	687,714

FIGURES IN TNOK

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2011

PARENT COMPANY				GROUP	
2010	2011	EQUITY AND LIABILITIES	NOTE	2011	2010
		Equity Attributable to equity holders of the parent			
22,894	25,176	Subscribed share capital	13	25,176	22,894
287,674	386,177	Share premium reserve		386,177	287,674
14,195	16,939	Other paid-in capital		16,939	14,324
111,490	135,755	Other equity		186,800	153,420
436,252	564,048	Total equity attributable to equity holders of the parent		615,093	478,311
0	0	Non-controlling interests		21,653	21,106
436,252	564,048	TOTAL EQUITY		636,746	499,417
		Liabilities			
		Non - current liabilities			
0	100,000	Debt to financial institutions	21	100,000	622
4,149	7,077	Pension liabilities	16	7,797	3,936
4,149	107,077	Total non - current liabilities		107,797	4,558
		Current liabilities			
34,603	41,770	Accounts payable	4	75,591	67,444
0	776	Advance payments from customers		26,303	16,601
46,584	11,763	Debt to group companies	18	0	0
0	0	Tax payable	22	4,318	3,326
17,082	7,346	Public duties payable		11,911	26,409
59,918	54,980	Other current financial liabilities	4, 25	66,004	69,959
158,188	116,634	Total current liabilities		184,128	183,739
162,337	223,711	TOTAL LIABILITIES		291,924	188,297
598,589	787,758	TOTAL EQUITY AND LIABILITIES		928,670	687,714

Trondheim, 31 December 2011 / 28 March 2012

Terje Christoffersen

Ole Jorgen Fredriksen
Chairman of the Board

Mimi Kristine Berdal

Sissel Lillevik Larsen
Employee elected

Charlotte Brogren

Frank Aune
Employee elected

Jan Pihl Grimnes

Oyvind Isaksen
President and CEO

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2011

FIGURES IN TNOK

PARENT

	NOTE	Share capital	Share Premium reserve	Other paid-in capital	Other equity	TOTAL
Equity per. 01.01.2010	13	22,821	283,946	10,219	149,456	466,442
Total comprehensive income for the period					-37,965	-37,965
Share issue arising from acquisitions	6, 13	73	3,727			3,800
Cost of share-based payment	17			3,976		3,976
TOTAL EQUITY OF THE PARENT PER 31.12.2010		22,894	287,674	14,195	111,490	436.252
Equity per. 01.01.2011	13	22,894	287,674	14,195	111,490	436,252
Total comprehensive income for the period					24,265	24,265
Share issue arising from acquisitions	6, 13	2,282	98,503			100,785
Cost of share-based payment	17			2,744		2,744
TOTAL EQUITY OF THE PARENT PER 31.12.2011		25,176	386,177	16,939	135,756	564,048

GROUP

		Equity attributable to equity holders of the parent						Non-controlling interests	TOTAL EQUITY
	NOTE	Share capital	Share Premium reserve	Other paid-in capital	Other equity	Foreign currency translation reserve	TOTAL		
Equity per. 01.01.2010	13	22,821	283,946	10,219	210,847	-82	527,750	20,851	548,601
Profit for the period					-57,104		-57,104	255	-56,849
Exchange differences on translation of foreign operations						916	916		916
Total comprehensive income for the period					-57,104	916	-56,188	255	-55,933
Transferred other equity arising from subsidiaries					1,540		1,540		1,540
Currency translation differences arising from acquitions						-2,567	-2,567		-2,567
Share issue	13	73	3,727				3,800		3,800
Cost of share-based payment	17			3,976			3,976		3,976
TOTAL EQUITY OF THE GROUP PER 31.12.2010		22,894	287,674	14,195	155,283	-1,733	413,313	21,106	499,417
Equity per. 01.01.2011	13	22,894	287,674	14,195	155,283	-1,733	478,313	21,106	499,417
Profit for the period					35,640		35,640	547	36,187
Exchange differences on translation of foreign operations						-2,390	-2,390		-2,390
Total comprehensive income for the period					35,640	-2,390	33,251	547	33,798
Share issue	13	2,282	98,503				100,785		100,785
Cost of share-based payment	17			2,744			2,744		2,744
TOTAL EQUITY OF THE GROUP PER 31.12.2011		25,176	386,177	16,939	190,923	-4,123	615,093	21,653	636,746

FIGURES IN TNOK

Consolidated Statement of Cash Flow

FOR THE YEAR ENDEDW 31 DECEMBER 2010

PARENT COMPANY				GROUP	
2010	2011		Notes	2011	2010
		Cash flows from operations			
–66,173	29,702	Profit before tax		54,916	–79,593
0	0	Paid taxes	22	–13,500	–4,959
23,650	14,768	Depreciation and impairment of property, plant and equipment	9	17,592	26,713
23,377	22,270	Amortisation and impairment of intangible assets	10, 11	30,912	34,240
2,424	2,928	Pension cost without cash flow effect	16	3,861	2,470
29,426	0	Dividends from subsidiaries		0	0
63	–151	Interests from subsidiaries		0	0
–1,240	–1,621	Shares valued at fair value	24	–1,289	–1,031
3,976	2,744	Cost of share-based payment	17	2,744	3,976
		Working capital adjustments			
–102,848	90,409	Changes in receivables and prepayments from customers	20	110,911	–20,826
–13,951	5,485	Changes in inventory	14	–3,152	–69,012
–45,204	7,167	Changes in accounts payables	4	8,147	–37,967
8,001	5,364	Changes in work in progress	7	–2,290	10,238
23,214	–46,234	Changes in other balance sheet items		–15,057	12,442
–115,286	132,831	Net cash flow from operations		193,795	–123,309
		Cash flow from investments			
–56,314	–9,373	Investments in tangible and intangible assets	9, 10	–38,809	–69,598
3,199	0	Other investments		–1,085	–2,541
–53,115	–9,373	Net cash flow from investments		–39,894	–72,139
		Cash flow from financing			
0	100,000	Proceeds from new loans		100,000	0
0	0	Down payments of debt to financial institutions	21	–622	–790
3,801	100,785	Share issue	6, 13	100,785	3,801
0	0	Other financial items		0	3,546
3,801	200,785	Net cash flow from financing		200 163	6,557
–164,600	324,243	Net change in cash and cash equivalents for the year		354,064	–188,891
187,573	22,972	Cash and cash equivalents per 01.01.		85,724	274,615
22,971	347,215	CASH AND CASH EQUIVALENTS PER 31.12.	19	439,788	85,724

Notes to the Consolidated Financial Statements 2011

FIGURES IN TNOK

Q-Free Group

Index of Notes

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

NOTE 1 / CORPORATE INFORMATION

The consolidated financial statements for the year ended at 31 December 2011 were approved by the board at its meeting on 28 March 2012. Q-Free ASA is a limited liability company with 273 employees in 13 countries and representatives in 4 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 Advanced 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 and 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 prepared on a historical cost basis, with the exception of derivative financial instruments which are measured at fair value. The consolidated financial statements are presented in Norwegian kroner and all figures are rounded to the nearest thousand (TNOK) unless otherwise specified.

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 outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements
Assessment of recoverable amount for intangible assets with indefinite lives is based on estimates and judgements made by management, including estimates for the assets ability to generate future revenues. Changes in the judgements and assumptions made may result in an impairment loss. The book value of goodwill for the group at December 31, 2011 was TNOK 29,544 (31.12.2010; TNOK 29.544). Refer to note 11 for the description of the annual impairment test including a description of the key assumptions made.

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.

Revenue recognition in projects
The group uses the percentage of completion method in accounting for projects. This method requires the Group to estimate the progress in the projects. Progress is calculated as accrued production costs as a percentage of total expected production costs. Total expected production costs are estimated based on a combination of historical figures, the follow up of efficiency targets and budgets. Each project’s prognosis is evaluated on a monthly basis to verify that the accounts are based on best possible prognosis. Manhours constitute a large proportion of the total productions 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

Notes to the Consolidated Financial Statements 2011

the financial statement. The Group management is therefore actively involved in these assessments. Revenue 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 2011 is TNOK 341.369. Corresponding figures for 2010 was TNOK 684.601-. Further details are given in Note 7.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The company's cost of share based payment is calculated using the Black & Scholes pricing model. For 2011 this adds up to a total cost of TNOK 2.744,-. Corresponding figures for 2010 was TNOK 3.976,-. Further information on assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

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 2011, the carrying amount of capitalised product development costs was TNOK 143.840 (2010: TNOK 143.574). 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 are according to the recommendation of the Financial Supervisory Authority of Norway. The net employee pension liabilities for the Group as at 31 December 2011 is TNOK 7.797,- Corresponding figures for 2010 was net liabilities on TNOK 3.936,-. 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 2011 is TNOK 10.776,- for the group. Corresponding figures for 2010 was TNOK 7.993,-. Further details are given in Note 25.

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 2011 was TNOK 9.518,- for Group and TNOK 9.265,- for the Parent (2010: deferred tax funds for Group of TNOK 13.779,- and TNOK 12.079,- for Parent). Neither the Parent nor the Group had any unrecognised deferred tax assets as at 31December 2011 or as at 31. December 2010. Further details regarding deferred taxes are given in note 22.

NOTE 3 / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.0
Basis of consolidation

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

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

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

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

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

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 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 Group measures the non-controlling interest in the acquiree either 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 that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Notes to the Consolidated Financial Statements 2011

“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.

3.2
Recognition of revenues

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

Project deliveries
Revenues relating to construction contracts or 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 revenue equal to the accrued project costs will be recognized as revenue. 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 revenue recognition are shown as “Work in Progress” in the balance sheet. Advance payments from the customers are presented under current liabilities.

Product sales
Revenues from the sale of 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 a customer.

Service and maintenance fees
Services delivered which are not part of a project delivery are recognised as revenue incrementally as the service and maintenance is provided, as described under project deliveries

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

3.3
Foreign currency

Functional currency and presentation currency

The consolidated financial statements are presented in NOK, which is the Company's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate 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 exchange rates at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acqusition of a foreign operation subsequent to 1.1.2005 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acqusition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

3.4
Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying financial benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed on each balance sheet date and reflect the best estimate of the liability. When the effect of time is insignificant, the provisions will be equal to the size of the expense required to be released of the liability. When the effect of time is significant, the provisions will be the present value of future payments to cover the liability. Further details are given in Note 25.

3.5
Financial instruments

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 expense in the income statement.

Notes to the Consolidated Financial Statements 2011

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

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

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

MACHINERY AND LAB EQUIPMENT	4 – 6 YEARS
OFFICE AND COMPUTER EQUIPMENT	3 – 5 YEARS
BUILDING INSTALLATIONS	5 – 7 YEARS, DISTRIBUTED OVER THE REMAINING RENTAL PERIODS

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

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.

If the criteria are satisfied, expenses capitalised 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.

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.

3.9
Share based payment

The group has a share option programme for key employees whereby the employees render services as consideration for equity instruments (share options).

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

Social security tax is recorded as a liability and recognised over the estimated option period. It is calculated as the difference between the market value and the exercise value of the granted but not exercised share options. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 12).

Notes to the Consolidated Financial Statements 2011

3.10
Inventories

Work in progress are accounted for at the lowest of cost and net realisable value. For finished goods, the net realisable value is calculated as the sellling price less cost to sell. For 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 assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

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

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

3.12
Investment in shares

Investments in shares are 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 24.

3.13
Accounts receivable and other receivables

Accounts receivable and other receivables are entered at face value after deduction for provision for impairments on receivables. Provision for impairment on receivables is based on an individual assessment of each receivable and 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. The scheme is funded through payments to an insurance company. Both pension plans meet the criteria for OTP. (Obligatorisk Tjeneste Pensjon) Pension cost are calculated according to IAS 19 for both plans. The liability recognised in the balance sheet related to the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, plus adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates for the 10 years Government bonds adjusted for duration approximately equal to the maturity of the related pension liability. The accumulated effects from changes in estimates, actuarial and financial assumptions that are less than 10% of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above 10% , the excess amount is recognised in the income statement over the estimated average remaining service period. Net pension cost for the defined benefit plan for the year is determined using the projected unit credit method. Net pension cost is classified as payroll expense in the profit and loss statement. The pension cost of the contribution plan is expensed when paid, see note 16 for further details.

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 future taxable profits to utilise the tax asset. The companies recognise previously unrecognised deferred tax assets to the extent it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer 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 are 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 2012.

3.19 Operating segments

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

Notes to the Consolidated Financial Statements 2011

3.20
Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

IAS 24 Related Party Disclosures (amendment) effective 1 January 2011

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in any country where it's present, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the improvements did not have any impact on the financial position or performance of the Group.

3.21
Standards issued but not yet effective or adopted by the Group.

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

- IAS 1 FINANCIAL STATEMENT PRESENTATION – PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME
- IAS 19 EMPLOYEE BENEFITS (AMENDMENT)
- IAS 27 SEPARATE FINANCIAL STATEMENTS (AS REVISED IN 2011)
- IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES – ENHANCED DERECOGNITION DISCLOSURE REQUIREMENTS
- IFRS 9 FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT
- IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS
- IFRS 12 DISCLOSURE OF INVOLVEMENT WITH OTHER ENTITIES
- IFRS 13 FAIR VALUE MEASUREMENT

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

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 has not provided any guarantees for third parties' liabilities. 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.

An aging analysis of trade receivables as at 31. December 2011 and 2010 are given in note 20.

b) Currency risk
Q-Free has considerable foreign currency exposure since it earns between 70-85% 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.

Foreign exchange contracts are classified as either other financial assets or other financial liabilities measured as fair value. As at 31.12.11 the Group holds foreign future contracts of 2.092 TNOK accounted as other financial liabilities (2010: nil). See section regarding fair value for a fair value hierarchy and a specification on valuation technique applied .

The following table demonstrates the sensitivity to a reasonably possible 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
2011	+ 10%	+ 13,367 TNOK	0 TNOK
	– 10%	– 13,367 TNOK	0 TNOK
2010	+ 10%	+ 12,457 TNOK	0 TNOK
	– 10%	– 12,457 TNOK	0 TNOK

Notes to the Consolidated Financial Statements 2011

c) Liquidity risk

The Q-Free 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.

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2011 based on contractual undiscounted payments

YEAR ENDED 31 DESCEMBER 2011	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	TOTAL GROUP
Interest bearing debts and borrowings					100,000	100.000
Accounts payables and advance payments from customers	19,049	55,887	14,345	5,986	6,627	101,894
Public duties payable and taxes		11,911	4,318			16,229
Other financial liabilities	10,231	21,253	30,032	4,488		66,004
TOTAL LIABILITIES (EXCL PENSION LIABILITIES & DEFERRED TAX)	29.280	89,051	48,695	10,474	106,627	284,127

YEAR ENDED 31 DESCEMBER 2010	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	TOTAL GROUP
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	0	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
TOTAL LIABILITIES (EXCL PENSION LIABILITIES & DEFERRED TAX)	27,049	104,414	39,549	13,349	0	184,361

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:

	AS AT 31 DECEMBER	
	2011	2010
Total equity	636,746	499,417
Total assets	928,670	687,714
Book equity ratio	68.6%	72.6%

d) Interest-rate risk
The group currently has interest bearing debt in form of a bullet loan . Excess liquidity is placed at high interest bearing accounts, in order to have quick access to these funds. If entering any significant interest bearing debt contracts, the group emphasises predictability at all times as changes in the interest level influences the consolidated profit . Actions will be taken to hedge this risk if possible.

A change in interest of 100 basis points (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 2010.

EFFECT OF AN INTEREST RATE INCREASE OF 100 BP	AS AT 31 DECEMBER	
	2011	2010
	Result	Result
Investments with floating interest rates	2,722	1,112
Loans with variable interest rates	–1,000	–9
PROFIT BEFORE TAX	1,722	1,103

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 2011, the Group held the following financial instruments measured at fair value:

- SHARES AT FAIR VALUE THROUGH PROFIT AND LOSS (included in "investments in other companies")
- FOREIGN EXCHANGE CONTRACTS (included in either "other current financial asset" or "other current financial liabilities")

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

LEVEL 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
LEVEL 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
LEVEL 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Assets / liabilities measured at fair value

	31. Dec 2011	Level 1	Level 2	Level 3
Financial assets & liabilities at fair value through profit or loss				
Foreign exchange contracts	–2,092	–2,092		
Shares at fair value through profit and loss	6,423			6,423

	31. Dec 2010	Level 1	Level 2	Level 3
Financial assets & liabilities at fair value through profit or loss				
Shares at fair value through profit and loss	5,134			5,134

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

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

Notes to the Consolidated Financial Statements 2011

FINANCIAL ASSETS AND LIABILITIES	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Cash and cash equivalents	439,788	439,788	85,724	85,724
Accounts receivable	92,947	92,947	194,156	194,156
Accounts payable	75,591	75,591	67,444	67,444

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, financing (including finance costs and finance income), income taxes, assets and liabilities are managed on a group basis and are not allocated to operating segments. The necessary information to do so is not available and the cost to develop it would be excessive.

OPERATING SEGMENTS				31.12.11				31.12.10
TNOK	Europe	Asia Pacific	Americas	TOTAL	Europe	Asia Pacific	Americas	TOTAL
Profit & Loss Account								
	70%	7%	23%	100%	55%	18%	27%	100%
Revenues	494,069	50,061	160,783	704,912	311,461	103,732	152,851	568,044
Cost of goods sold	164,656	19,585	115,081	299,322	96,937	59,305	111,991	268,233
Personnel expenses	140,945	12,738	6,666	160,349	143,438	15,741	8,307	167,486
Operating expenses	123,818	13,272	6,292	143,382	130,296	25,139	6,309	161,744
Total operating expenses	429,419	45,596	128,038	603,053	370,671	100,186	126,607	597,463
EBITDA	64,650	4,465	32,745	101,860	–59,210	3,546	26,244	–29,418
Depreciation, amortisation and impairment	41,744	454	754	42,952	59,885	365	704	60,954
EBIT	22,906	4,011	31,990	58,907	–119,095	3,181	25,540	–90,373
Key figures								
EBITDA – margin	13.1%	8.9%	20.4%	14.5%	–19.0%	3.4%	17.2%	–5.2%
EBIT – margin	4.6%	8.0%	19.9%	8.4%	–38.2%	3.1%	16.7%	–15.9%
Average annual man years	250	15	10	275	251	22	10	283
Average number of employees	253	16	11	280	255	25	10	290

Revenues from one customer amounted to TNOK 146.794 (2010: nil), arising from the European segment.

ORDER BACKLOG BY OPERATING SEGMENTS

	2011		2010	
Europe	326,646	71%	310,134	53%
Asia Pacific	25,063	5%	40,402	8%
Americas	109,866	24%	224,596	39%
TOTAL ORDER BACKLOG	461,575	100%	575,132	100%

REVENUE COMPOSITION

	2011		2010	
Products	385,204	54%	344,196	32%
Service and maintenance	95,743	14%	70,519	10%
Projects	223,965	32%	153,329	58%
TOTAL REVENUES	704,912	100%	568,044	100%

ORDER BACKLOG COMPOSITION

	2011		2010	
Products	146,974	32%	251,291	44%
Service and maintenance	188,509	41%	157,388	27%
Projects	126,092	27%	166,453	29%
TOTAL ORDER BACKLOG	461,575	100%	575,132	100%

NOTE 6 / BUSINESS COMBINATIONS

Acquisitions
Q-Free ASA did no acquisitions during 2011 or 2010.

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.

Notes to the Consolidated Financial Statements 2011

PARENT COMPANY			GROUP	
2010	2011	BALANCE SHEET ITEMS	2011	2010
54,551	49,187	Work in progress	56,751	54,461
0	-776	Prepayments from customers	-26,303	-16,601
54,551	48,411	Net projects in progress	30,449	37,860

2010	2011	SUMMARY OF WORK IN PROGRESS AS AT 31.12	2011	2010
70,018	200,341	Contract revenues included in the consolidated financial statement	212,788	97,869
539,963	198,002	Total contract orders	341,369	684,601
529,661	182,413	Accumulated revenues	308,758	654,701
10,301	15,589	Remaining revenues	32,611	29,899
333,270	107,550	Accumulated operating expenses	243,322	467,717
6,482	4,771	Remaining operating expenses	1,303	2,183
0	-776	Prepayments received	-26,303	-16,601
0	0	Remaining variable expenses on loss-making projects	0	0

NOTE 8 / OTHER OPERATING INCOME

The Group has received governmental grants of a total of TNOK 7.805,- in 2011. Corresponding figures for 2010 was TNOK 10.870,-. The Group is a partner in several projects under The Research Council of Norway and projects initiated by the EU.

	CONTRIBUTION	
Governmental grants	2011	2010
Projects with contribution from The Research Council of Norway	5,405	6,543
Contribution from EU initiated projects	1,474	3,607
TOTAL	6,879	10,150

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

	2011	2010
Grants recognised as other income related to cost in same period	6,879	10,150
Grants accounted as reduction of payroll expenses (Skattefunn)	926	720
TOTAL	7,805	10,870

NOTE 9 / PROPERTY AND EQUIPMENT

PARENT COMPANY

	Machinery and fixtures	Equipment	TOTAL
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
AS AT 31 DECEMBER 2010	14,740	29,848	44,588
Acquisition cost as at 1 January 2011	64,535	87,863	152,398
Additions	1,385	3,771	5,156
Disposals	0	0	0
Acquisition cost as at 31.12.11	65,920	91,634	157,554
Accumulated depreciation and impairments as at 01.01.11	49,795	58,015	107,810
Depreciation of the year	6,235	8,533	14,768
Impairments of the year	0	0	0
Accumulated depreciation disposals	0	0	0
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AS AT 31.12.11	56,030	66,548	122,578
Net book value as at 01.01.11	14,740	29,848	44,588
Total changes of the year	–4,850	–4,762	–9,612
AS AT 31 DECEMBER 2011	9,890	25,086	34,976
Financial lifetime	4–5 years	5–10 years	
Depreciation schedule	Straight line	Straight line	

Securities for bank guarantees and overdraft facility
As at 31.12.11 assets in the parent company valued to TNOK 34.976,- (2010: 44.588,-) is pledged as security for guarantee facility in Fokus Bank ASA.

Notes to the Consolidated Financial Statements 2011

GROUP

	Machinery and fixtures	Equipment	TOTAL
Acquisition cost as at 1 January 2010	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
AS AT 31 DECEMBER 2010	33,413	29,848	63,261
Acquisition cost as at 1 January 2011	123,398	87,863	211,261
Additions	4,369	3,771	8,140
Acquisitions of a subsidiary	0	0	0
Disposals	508	0	508
Acquisition cost as at 31.12.11	127,259	91,634	218,893
Accumulative depreciation and impairments as at 01.01.11	89,985	58,015	148,000
Depreciation of the year	9,058	8,533	17,591
Impairments of the year	0	0	0
Accumulated depreciation disposals	0	0	0
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AS AT 31.12.11	99,043	66,548	165,591
Net book value as at 01.01.11	33,413	29,848	63,261
Total changes of the year	–5,197	–4,762	–9,959
AS AT 31 DECEMBER 2011	28,216	25,086	53,302
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 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
AS AT 31 DECEMBER 2010	0	100,919	100,919
Acquisition cost as at 1 January 2011	0	187,103	187,103
Additions	0	4,217	4,217
Disposals	0	0	0
Acquisition cost as at 31.12.11	0	191,320	191,320
Accumulated depreciation and impairments as at 01.01.11	0	86,184	86,184
Depreciation of the year	0	22,270	22,270
Impairments of the year	0	0	0
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AS AT 31.12.11	0	108,454	108,454
Net book value as at 01.01.11	0	100,919	100,919
Total changes of the year	0	–18,053	–18,053
AS AT 31 DECEMBER 2011	0	82,866	82,866
Financial lifetime Depreciation schedule	Impairment tested annually (or when impairment indicators exists)	3–5 years Straight line	

Notes to the Consolidated Financial Statements 2011

GROUP

	Goodwill	Product development assets	TOTAL
Acquisition cost as at 1 January 2010	34,288	196,554	230,842
Additions	-1,253	52,752	51,499
Reclassification *	-3,491	3,491	0
Disposals	0	0	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 last year	-4,744	22,002	17,258
AS AT 31 DECEMBER 2010	29,544	143,574	173,118
Acquisition cost as at 1 January 2011	29,544	252,797	282,341
Additions	0	31,178	31,178
Disposals	0	0	0
Acquisition cost as at 31.12.11	29,544	283,975	313,519
Accumulative depreciation and impairments as at 01.01.11	0	109,223	109,223
Depreciation of the year	0	30,912	30,912
Impairments of the year	0	0	0
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AS AT 31.12.11	0	140,135	140,135
Net book value as at 01.01.11	29,544	143,574	173,118
Total changes of the year	0	266	266
AS AT 31 DECEMBER 2011	29,544	143,840	173,384

* Acquired goodwill 2009 is reclassified as Product Development Assets during 2010.

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

	Goodwill	Product development assets
Financial lifetime	Impairment tested annually (or when impairment indicators exists.)	3–5 years
Depreciation schedule		Straight line

Development

The group capitalises costs regarding product development activities. Capitalised costs for 2011 consist of product development of a new generations of OBU's and road side equipment 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 2011 research-expenses in the P&L has been immaterial.

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

NOTE 11 / IMPAIRMENT TESTING OF GOODWILL

Goodwill obtained through acquisitions is allocated to the Group's "Europe" operating segment and is followed up and tested for using this segment's cash flow. Goodwill is followed up according to what is defined as the operating segment pursuant to IFRS 8 Operating segments.

CARRYING AMOUNT OF GOODWILL	TOTAL	
	2011	2010
TOTAL AMOUNT OF GOODWILL RECOGNISED IN BALANSE SHEET AS AT 31. 12	29,544	29,544

Impairment testing of Goodwill as at 31. December 2011:

The Group performed its annual impairment test as at 31 December 2011. The recoverable amount has been determined based on cash flow projections. The projected cash flow is based on budgets and long-term plans, which are subject to the approval of the Board and the corporate management. Long-term plans is equivalent to the Group Strategy and covers a period of five years. Approved budgets and long-term plans are adjusted for cash flows related to investments, restructuring, future product improvements and new development, where this is considered significant for the impairment test.

There was no impairment of goodwill in 2011 (or in 2010).

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

- PROFIT MARGIN (EBIT)
- DISCOUNT RATE
- MARKET SHARE DURING THE BUDGET PERIOD
- GROWTH RATE

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

Market share assumptions – These assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how our position, relative to its competitors, might change over the budget period. Management expects that the Group's market share will generally be maintained, but that there can be increases and setbacks in certain areas.

Growth rate estimates – Growth rates in the explicit prognosis period are predicated on management's expectations of market trends and based on published industry research. A 5.0% growth rate is applied in the calculations (2010: 5.0%) that is a prudent estimate compared to the industry's annual compounded growth rate on 25–30% for the next five years. No growth is assumed after the five year prognosis period.

Sensitivity to changes in assumptions
There will always be uncertainty attached to the estimate of value in use. With relatively large changes in the above described key assumptions, the entity could face an impariment situation, but these changes are considered to be outside the probable corridor.

Notes to the Consolidated Financial Statements 2011

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.

	2011	2010
Profit for the year	35,640	–57,104
Weighted average number of ordinary shares	61,102,567	60,247,010
Weighted average of share option (1.720.000 share options outstanding per 31.12.11 calculated to 1.723.425 as weighted average)	1,723,425	1,393,507
Weighted average number of diluted shares	62,825,991	61,640,507
Earnings per share	0.58	–0.94
Diluted earnings per share	0.57	–0.93

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.

For a specification of the change of number of shares during 2011 and 2010, see note 13.

NOTE 13 / ISSUED CAPITAL AND RESERVES

The company has one class of shares and there is no voting restrictions. Per 31.12.11 the number of shares were 66.252.419. Par value per share is NOK 0,38. Total share capital per 31.12.2011 was NOK 25.175.919,-. The company had 1.264 share holders as at 31.12.11. As at 31.12.11 the share price listed at OSE was 16,70 per share equalling a market value of 1.106 BNOK.

	ORDINARY SHARES	
	2011	2010
Shares issued per 01.01	60,247,010	60,054,092
Share issue	6,005,409	192,918
Share options excercised	0	0
TOTAL SHARES ISSUED PER. 31.12.	66,252,419	60,247,010

The company's largest share holders per 31.12.11	Number of shares	Percentage ownership	Voting rights
KAPSCH TRAFFICCOM AG	9,900,000	14.94%	14.94%
ODIN NORGE	5,349,423	8.07%	8.07%
KAPSCH TRAFFICCOM AG	3,530,458	5.33%	5.33%
SKAGEN VEKST	3,182,604	4.80%	4.80%
DNB NOR SMB	2,250,000	3.40%	3.40%
JPMORGAN CHASE BANK (Nom)	2,201,000	3.32%	3.32%
KIKUT AS	1,780,098	2.69%	2.69%
ANDRESEN, LARS ODDGEIR	1,633,600	2.47%	2.47%
HOLBERG NORGE	1,564,162	2.36%	2.36%
REDBACK AS	1,495,000	2.26%	2.26%
VPF NORDEA KAPITAL	1,243,421	1.88%	1.88%
MONS HOLDING AS	1,040,000	1.57%	1.57%
SANDNES INVESTERING AS	832,720	1.26%	1.26%
VPF NORDEA AVKASTNING	831,932	1.26%	1.26%
VERDIPAPIRFONDET DNB NORGE (IV)	806,087	1.22%	1.22%
VPF NORDEA SMB	740,465	1.12%	1.12%
UBS AG, LONDON BRANCH (Nom)	733,836	1.11%	1.11%
ARCTIC SECURITIES ASA	683,416	1.03%	1.03%
VERDIPAPIRFONDET WARRENWICKLUND NO	669,251	1.01%	1.01%
AUGUST HOLDING AS	650,000	0.98%	0.98%
OTHER SHARE HOLDERS	25,134,946	37.94%	37.94%
TOTAL	66,252,419	100.0%	100.0%

NUMBER OF SHARES HELD BY THE SENIOR MANAGEMENT, CEO AND THE BOARD OF DIRECTORS

Name	Position	Shares
Jan Pihl Grimnes	Board member	1,555,000
Jos Nijhuis	VP R&D	517,552
Ole Jorgen Fredriksen	Chairman of the Board	178,884
Oyvind Isaksen	CEO	101,989
Roar Ostbo	CFO	63,000
Marianne Sandal	VP Operations	23,000
Steinar Furan	Advisor to CEO	22,500
Stein Tore Nybrodahl	HR Manager	7,500
Per Fredrik Ecker	VP Sales	6,500
TOTAL		2,475,925

The Board of Directors has an authorisation to increase the share capital by subscription of new shares in connection with an incentive programme towards employees. As at 31.12.2011 1.720.000 options are granted for management and key personnel.

Notes to the Consolidated Financial Statements 2011

NOTE 14 / INVENTORY AND COSTS OF GOODS SOLD

Inventory

PARENT COMPANY			GROUP	
2010	2011	Inventory specification	2011	2010
33,206	21,438	Raw material and semi manufactured products	44,585	47,717
53	0	Stock for sub supplier	0	53
306	4,543	Stock for maintenance contracts	4,543	306
0	0	Work in progress	6,667	3,963
8,382	9,535	Finished goods	15,290	15,364
–2,616	–1,669	Obsolescence	–6,779	–6,250
39,332	33,847	TOTAL	64,306	61,154

All inventories are valuated 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 0 in 2011 (2010: 2.356) and for the group TNOK 0 in 2011 (2010: 2.356) which is recognised in cost of goods sold.

Costs of goods sold

PARENT COMPANY			GROUP	
2010	2011	COGS specification	2011	2010
117,255	168,212	Purchase of goods	297,050	283,772
87	151	Freight, customs etc.	847	672
168	2,342	External services handling of COGS	2,342	168
–13,951	5,485	Change of inventories	–3,748	–16,379
103,559	176,190	TOTAL	296,491	268,233

NOTE 15 / SALARIES AND PERSONNEL RELATED EXPENSES

PARENT COMPANY			GROUP	
2010	2011		2011	2010
106,194	97,521	Salaries	140,939	165,833
15,574	14,355	Social security costs	18,976	19,821
10,907	10,995	Pension costs	11,915	11,861
–720	–926	Skattefunn (governmental tax relief)	–926	–720
–25,050	–23,319	Capitalised personnel costs	–23,319	–25,050
–5,938	11,141	Other personnel related costs	12,764	–4,979
100,967	109,767	TOTAL	160,349	166,766
137	140	Average number of employees	280	290
135	139	Average number of man-years	275	283

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, leaders 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 leaders shall represent competitive wages, and that this shall reflect the respective leaders' 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, leaders 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 leader. 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 leader 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 leader 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 CEO 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. The CEO has 675,000 share options in the company.

Notes to the Consolidated Financial Statements 2011

PAYMENTS TO SENIOR MANAGEMENT AND BOARD OF DIRECTORS 2011 — 2011

TNOK	Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost	TOTAL
Ole Jorgen Fredriksen, Chairman of the Board			507.5		11.1	150.4	668.9
Christian Albech *, Board member			165.0			75.2	240.2
Torild Skogsholm *, Board member			187.5			75.2	262.7
Jan Pihl Grimnes, Board member			262.5			75.2	337.7
Mimi Kristine Berdal, Board member			312.5			75.2	387.7
Terje Christoffersen **, Board member			112.5				112.5
Charlotte Brogren ***, Board member			0.0				0.0
Petter Fjellstad, Nomination comittee			20.0				20.0
Cecilie Johnsen, Nomination comittee			35.0				35.0
Sissel Lillevik Larsen, Employee elected Board member			75.0				75.0
Frank Aune, Employee elected Board member			75.0				75.0
Oyvind Isaksen, Chief Executive Officer	2,993.0	16.1		178.4	292.1	906.8	4,386.4
Marianne Sandal, Vice President Operations	1,626.2	49.7		230.3	49.2	201.5	2,156.9
Roar Østbo, Chief Financial Officer	2,046.0	391.0		40.7	211.1	201.5	2,890.3
Jos A.G. Nijhuis, Vice President R&D	1,344.9			97.0	112.4	242.9	1,797.2
Per Fredrik Ecker, Vice President Sales	1,536.9			192.9	78.1	201.5	2,009.4
Stein-Tore Nybodahl, HR Manager	913.9			185.4	34.3	54.0	1,187.6
Steinar Furan, Advisor to CEO	969.7			129.7	88.4	201.5	1,389.3
Henrik Stoltenberg, Vice President Business Development and M&A	1,638.8	36.9			130.4	201.5	2,007.6
TOTAL	13,069.4	493.7	1,752.5	1,054.4	1,007.1	2,662.4	20,039.4

* Torild Skogsholm and Christian Albech served as Board member until GF May 2011.
** Terje Christoffersen served as Board member from GF May 2011.
*** Charlotte Brogren served as Board member from GF May 2011, and will recieve her director's remuneration in 2012.

PAYMENTS TO SENIOR MANAGEMENT AND BOARD OF DIRECTORS 2010 — 2010

TNOK	Salary	Bonus	Director's remuneration	Pension service cost	Other remuneration	Share option cost	TOTAL
Ole Jorgen 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
Harald Arnet, Nomination comittee			15.0				15.0
Petter Fjellstad, Nomination comittee			15.0				15.0
Cecilie Johnsen, Nomination comittee			25.0				25.0
Oyvind 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 Ostbo, 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
TOTAL	13,533.0	3,092.4	1,722.5	1,178.7	533.4	4,154.2	24,214.2

* 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

NOTE 16 / PENSION SCHEME

Q-Free ASA (the parent company) has a defined benefit- and a defined contribution pension plan for the employees. 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 137 employees are included in the defined contribution pension plan and 38 employees are included in the defined benefit plan. All new employees will be a part of the defined contribution pension plan.

The liability for the Group includes 182 employees in 2011, compared to 189 employees for 2010. The liability for the parent company includes 139 employees in 2011, compared to 144 employees for 2010.

Notes to the Consolidated Financial Statements 2011

PARENT COMPANY			GROUP	
2010	2011		2011	2010
5,599	6,491	Current service cost	7,793	6,771
1,290	1,276	Interest cost	1,630	1,753
–1,269	–1,038	Expected return on plan assets	–1,603	–1,953
258	619	Amortisation of past service cost	630	1,245
0	0	Amortisation of actuarial (gain) / losses	0	–1,090
210	210	Administrative expenses pension scheme	334	347
822	978	Accrued social security expenses	1,095	958
6,910	8,536	NET PENSION EXPENSES *	9,879	8,032
31.12.10	31.12.11	Pension funds / (liabilities)	31.12.11	31.12.10
–39,976	–47,345	Defined benefit obligation	–58,936	–28,692
20,627	25,040	Fair value of plan assets.	36,439	8,672
17,929	18,373	Unrecognised actuarial gain (loss)	17,768	18,755
–1,421	–3,932	Net (pension funds) / –liabilities	–4,729	–1,264
–2,728	–3,145	Accrued social security tax	–3,067	–2,672
–4,149	–7,077	LIABILITIES IN BALANCE SHEET	–7,797	–3,936
20.7	19.9	Estimated remaining contribution periods	19.6	19.7

(*) = During 2011 costs from the defined contribition pension plan represents TNOK 3.596,– (2010: TNOK 3.196,–) , and this is included in the above specification of net pension expenses.

Specification of pension funds & liabilities

PARENT COMPANY			GROUP	
2010	2011	Pension liabilities	2011	2010
29,429	39,976	Liabilities per 01.01.	51,261	41,101
5,599	6,491	Service costs	7,793	6,771
–200	–203	Benefits paid	–765	–566
1,290	1,276	Interest cost	1,630	1,753
0	–196	Past service cost	–196	0
3,858	0	Actuarial gains/losses	–788	2,203
39,976	47,345	TOTAL LIABILITIES PER 31.12.	58,936	51,261

PARENT COMPANY				
2010	2011	Pension funds	2011	2010
20,117	20,627	Funds per 01.01.	32,581	32,071
3,722	4,706	Net contribution paid	5,398	4,514
–200	–203	Benefits paid	–640	–526
1,269	1,038	Estimated return on assets	1,603	1,953
–4,282	–1,128	Actuarial gains/losses	–2,504	–5,430
0	0	Acquisition / (disposal)	0	0
20,627	25,040	TOTAL FUNDS PER 31.12.	36,439	32,581

The Group expects to contribute approximatly TNOK 10.839,– to its pension plans in 2012, corresponding figures for 2011 was TNOK 9.855.

Basis and assumptions for calculations

		2011	2010
Discount rate		2.60%	3.20%
Expected interest on pension funds		4.10%	4.60%
Annual growth in salaries		3.50%	4.00%
Long term inflation		2.50%	2.75%
Increase in national insurance base rate (G)		3.25%	3.75%
Expected change in pensions		0.10%	0.50%
Social security expenses		14.10%	14.10%
Corridor		10.00%	10.00%
Table K2005 is used for definition of mortality rate probability.	Expected voluntarily early retirement		
	Before 40 years	2%	2%
	After 40 years	0%	0%

The Group's pension fund is managed by Vital Forsikring Finansforvaltning, an insurance company. For 2011 the dividend yield was 3.2 percent (2010: 6.8%). The funds are distributed as follows:

	2011	2010
Shares	9%	14%
Bonds	22%	23%
Money market	15%	12%
Long term bonds	35%	33%
Property	18%	18%
Other	0%	1%
TOTAL	100%	100%

NOTE 17 / SHARE OPTION PROGRAMME FOR EMPLOYEES

As part of the carrying out of the resolved incentive programme towards key personnel and management, through the possibility to subscribe shares in the company, the Board of Directors is authorised to increase the share capital with as much as NOK 798,000, which corresponds with 2,100,000 shares (3,49%), each with a par value of NOK 0.38, through one or more private placements with cash deposits towards management and key personnel in Q-Free ASA. The existing shareholders' preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5, can be deviated from. The authorisation is valid until the next Annual General Meeting, but no longer than 30 June 2012. In connection with possible changes in the Company's share capital according to bonus issue, share split, share consolidation etc, the authorisation shall be adjusted correspondingly, in accordance with general accepted principles for such adjustments.

The authorisation regards the carrying out of a share options programme in Q-Free ASA, which runs over a period of 3 years for management and key personnel, as resolved by the General Meeting 18 May 2009, cf item 08/2009. 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. For newly employed key personnel and management the strike price will be determined on the day they are granted the options.

As at 31.12.2011, 1,720,000 options are granted for key personnel. Exercise of the options can be done during pre-defined time periods.

Notes to the Consolidated Financial Statements 2011

SPECIFICATION OF SHARE OPTIONS

	2011	2010
Granted share options 01.01	1,730,000	840,000
Share options granted	590,000	890,000
Share options exercised	–300,000	0
Share options expired/terminated	–300,000	0
Granted share options 31.12	1,720,000	1,730,000
Vested share options 31.12	1,130,000	840,000

As an alternative to redemption of stock options with issuance of shares, the Board of Directors can decide that the rights holders under the share option programme under otherwise same terms will get paid in cash from the Company similar to the difference between strike price (cf. before) and average price for the Company share on the date of exercise. This was applied in 2011 and the Board of Director received a cash disbursement of 1,50 NOK per each granted and vested share option during 2011, totalling a cost of 0.9 MNOK .

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 2011 is NOK 2.64. Corresponding figure for 2010 was NOK 4.60. Strike price for the granted options was NOK 15.57 in 2009, NOK 18,38 in 2010 and NOK 17.89 in 2011.

The company's cost of share based payment is calculated using the Black & Scholes pricing model. For 2011 this adds up to a total cost of TNOK 2.744,-. Corresponding figures for 2010 was TNOK 3.976,-. See this specified in the Statement of changes in Equity.

Granted share options as at 31. December 2011 has the following conditions:

	OUTSTANDING OPTIONS			VESTED OPTIONS	
Exercise price	Outstanding Options Per 31.12.2011	Weighted average remaining Contractual Life	Weighted Average Exercise Price	Vested options 31.12.2011	Weighted Average Exercise Price
0,00 – 5,00					
5,00 – 10,00					
10,00 – 15,00					
15,00 – 20,00	1,670,000	0.34	17.37	1,080,000	17.09
20,00 –	50,000	0.34	20.50	50,000	20.50
TOTAL	1,720,000	0.34	17.47	1,130,000	17.24

The share options are split as follows between management and members of the Board as per 31.12.2011:

Name	Position	Granted, not vested options 01.01.2011	Granted options	Exercised options	Expired options	Vested options 31.12.2011	Granted, not vested options 31.12.2011
Ole Jorgen Fredriksen	Chairman of the Board	100,000	0	–100,000	–100,000	0	0
Christian Albech	Board member	50,000	0	–50,000	–50,000	0	0
Mimi Kristine Berdal	Board member	50,000	0	–50,000	–50,000	0	0
Torild Skogsholm	Board member	50,000	0	–50,000	–50,000	0	0
Jan Pihl Grimnes	Board member	50,000	0	–50,000	–50,000	0	0
Oyvind Isaksen	CEO	225,000	225,000	0	0	450,000	225,000*
Marianne Sandal	VP Operation	50,000	50,000	0	0	100,000	50,000*
Steinar Furan	Advisor to CEO	50,000	50,000	0	0	100,000	50,000*
Stein Tore Nybrodahl	HR Manager	15,000	15,000	0	0	30,000	15,000*
Per Fredrik Ecker	VP Sales	50,000	50,000	0	0	100,000	50,000*
Hans Christian Bolstad	Former VP R&D	50,000	50,000	0	0	100,000	50,000*
Roar Ostbo	CFO	50,000	50,000	0	0	100,000	50,000*
Henrik Stoltenberg	VP BD and M&A	50,000	50,000	0	0	100,000	50,000*
Jos A.G. Nijhuis	VP R&D	50,000	50,000	0	0	50,000	50,000*
TOTAL		890,000	590,000	–300,000	–300,000	1,130,000	590,000

(*) = 1/3 of total share option programme.

The following assumptions are used in the calculation of share options granted in 2011

Exercise price for the share option

Weighted average exercise price of options granted was NOK 17.89

Volatility

Weighted average expected volatility is based on historic volatility and is calculated to be 40.74 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 programmes.

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 3.56 percent for 2011.

Notes to the Consolidated Financial Statements 2011

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

	OUTSTANDING OPTIONS			VESTED OPTIONS	
Exercise price	Outstanding Options Per 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	1.34	20.50	50,000	20.50
TOTAL	1,730,000	1.00	17.16	840,000	15.86

The share options was split as follows between management and members of the Board as at 31. December 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 Jorgen 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 **
Oyvind 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 Ostbo	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 *
TOTAL		840,000	890,000	0	0	840,000	890,000

(*) = 1/3 of total share option programme.
(**) = 1/2 of share option programme.

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 programmes.

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.

NOTE 18 / RELATED PARTY DISCLOSURES

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

	Etablished	Location	Country	Ownership	Voting share	Functional currency
Q-Free Portugal Lda.	1997	Lisboa	Portugal	100%	100%	EUR
Q-Free América Latina Ltda.	1998	Sao Paolo	Brasil	100%	100%	BRL
Q-Free Australia Pty. Ltd.	1999	Sydney	Australia	100%	100%	AUD
Q-Free Sdn. Bhd. Malaysia	1997	Kuala Lumpur	Malaysia	100%	100%	MYR
Noca Holding AS – 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	74%	74%	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 31.12.10	Book value 31.12.11	Result after tax last year	Companys equity per 31.12.11
Q-Free Portugal Lda.	204	204	204	3,029	-2,960
Q-Free América Latina Ltda.	4,853	2,407	2,407	17,192	19,829
Q-Free Australia Pty. Ltd.	0	0	0	94	12,500
Q-Free Sdn. Bhd. Malaysia	1,155	0	0	-564	-6,359
Noca Holding AS – Group	4,592	6,715	6,715	1,123	42,135
Q-Free Sverige AB	0	84	84	6,517	10,951
Q-Free Thailand Ltd	0	1,872	1,872	-101	-13,847
Q-Free Netherlands BV	71,034	76,409	76,409	10,246	68,068
Q-Free Slovakia s.r.o.	0	0	0	260	885
Q-Free UK Ltd	3,791	0	0	-976	4,483
Q-Free Africa Ltd	0	208	208	3,988	3,227
TOTAL	85,629	87,900	87,900	40,809	

For the year ended 31 December 2010, the Parent has impairment 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. 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.

Notes to the Consolidated Financial Statements 2011

Currencies		Currency rate 01.01.11	Average currency rate	Currency rate 31.12.11
Euro	EUR	7.813	7.783	7.754
Australian dollar	AUD	5.961	6.028	6.095
Malaysian Ringgit	MYR	1.899	1.894	1.889
Brazilian real	BRL	3.529	3.369	3.210
US Dollar	USD	5.856	5.925	5.993
Pounds Sterling	GBP	9.068	9.175	9.283
Swedish kroner	SEK	87.070	87.040	87.010
South African Rand	ZAR	0.884	0.812	0.740
Thai bath	THB	19.532	19.224	18.916

Terms and conditions of transactions with related parties

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

Related parties

The company has for 2011 received invoices for consultancy services from Spinoza AS that totals TNOK 189 (2010: TNOK 209). 189 TNOK is oustanding per 31.12.2011 and paid during January 2012. 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 beetween the Q-Free ASA and the Chairman of the Board concerning consultancy services.

Associated companies

Q-Free ASA has not had ownership in associated companies in either in 2011 or 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:

PARENT COMPANY			GROUP	
2010	2011	Liquidity funds	2011	2010
22,971	296,869	Cash at banks and on hand	389,442	85,628
0	50,345	Money Market Funds	50,345	95
22,971	347,215	TOTAL CASH AND CASH EQUIVALENTS	439,788	85,724

As at 31 December 2011, the Group had available TNOK 100.000 (2010: TNOK 100.000) of undrawn bank overdraft and TNOK 145.475 (2010: TNOK 255.298) of undrawn guarantee facilities in which all conditions precedent had been met.

NOTE 20 / ACCOUNTS RECEIVABLES AND CREDIT RISK

PARENT COMPANY			GROUP	
2010	2011		2011	2010
136,636	27,036	Accounts receivables	93,468	195,936
83,890	102,695	Accounts receivables on group companies	0	0
–12,051	–10,889	Provision for impairment on receivables	–521	–1,780
208,475	118,842	TOTAL	92,947	194,156
0	1,394	Loss on receivables	1,448	0
–541	–1,259	Changes in provisions for impairment on receivables	–1,259	–1,302
–541	135	TOTAL	189	–1,302

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 aging analysis of trade receivables is as follows:

			Past due but not impaired				
Amounts per 31.12	Total	Neither past due nor impaired	< 30 days	30 – 60 days	60 – 90 day	90 – 120 day >	>120 days
2011	93,468	20,486	41,049	20,354	42	8,953	2,584
2010	195,936	25,794	30,717	25,141	151	1,012	113,121

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

Specification of provisions for impairment on receivables	2011	2010
Amount per 01.01.	1,780	3,098
This years provision for impairment on receivables	–1,259	–1,318
Loss on receivables	1,448	0
Provisions utilised during the year	–1,448	0
AMOUNT PER 31.12	521	1,780

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 isignificant. The Group therefore regards its maximum risk exposure as being the carrying amount of trade receivables as at 31 December 2011 TNOK 93.468 (2010: TNOK 195.936).

Notes to the Consolidated Financial Statements 2011

NOTE 21 / INTEREST-BEARING DEBTS, BORROWINGS AND GUARANTEES

PARENT COMPANY						GROUP	
2010	2011	Specification	Type	Effective interest rate%	Maurity	2011	2010
0	100,000	Non-current	Secured Bank loan Eksportfinans	3,21%	15 February 2014	100,000	
0	0	Non-current	Secured Bank loan Nordea Bank ASA	5,05%	Redeemed in 2011*	0	622
0	100,000	Total				100,000	622

* The secured bank loan in Nordea was redeemed in 2011

Secured bank loan
The secured bank loan is a mortgage loan that is repayable within 3 years of the payment date. The loan is secured by guarantee given by the company bank Fokus Bank AS.

Off Balance Sheet Commitment:

PARENT COMPANY			GROUP	
2010	2011	Specification	2011	2010
93,695	154,525	Guarantees to customers, suppliers and lease contracts	155,532	94,702
		Book value of assets securing loans and guarantees		
208,475	118,842	Accounts receivable	123,974	208,475
54,551	49,187	Work in progress	49,187	54,551
39,332	33,847	Inventories	33,848	54,804
44,588	34,976	Machinery, fixtures etc	35,857	47,984
346,946	236,851	TOTAL	242,866	365,814

NOTE 22 / TAXES

2010	2011		2011	2010
			GROUP	
		Total tax expenses for the year		
0	0	Tax payable on this years profit for Norwegian companies	0	362
–282	0	Tax payable on this years profit for foreign companies	11,869	12,830
0	2,623	Adjusted allocated tax from last year	2,599	0
–27,926	2,814	Change in deferred tax for Norwegian companies	3,239	–28,134
0	0	Change in deferred tax for foreign companies	1,022	–7,801
–28,208	5,437	TOTAL	18,729	–22,744
42%	18%	Tax rate	34%	29%
		Tax payable for the year		
–66,893	29,702	Total ordinary profit before tax	54,916	–79,593
–30,187	–17,993	Permanent differences	2,134	–36,178
70,384	–11,709	Change in temporary differences	–8,068	87,939
–26,697	0	Basis for tax payable, Norwegian companies	48,982	–27,832
0	0	Tax payable for Norwegian companies (28%)	0	362
		Tax payable for foreign companies	11,869	13,113
		Specification of tax payable in the balance sheet		
0	0	Tax payable on this years profit, Norwegian companies *	0	362
0	0	Tax payable on this years profit, foreign companies	11,869	13,113
0	0	Advance tax payment, foreign companies	–7,551	–10,149
0	0	TOTAL TAX PAYABLE	4,318	3,326
		Specification on basis for deferred tax		
		Differences evaluated to be offset:		
–1,336	–4,914	Fixed assets	11,340	19,098
67,177	46,997	Current assets	44,554	72,171
–12,178	–17,853	Liabilities	–19,327	–11,965
–91,567	–50,425	Tax losses carry –forward	–70,478	–130,389
–5,235	–6,895	Other differences	–6,895	–5,235
–43,139	–33,090	TOTAL	–40,806	–56,320
–12,079	–9,265	Deferred tax (+) / tax assets (–)	–9,518	–13,779
		Reconciling the tax cost		
–66,173	29,702	Earnings before tax	54,916	–79,593
–18,529	8,317	Calulated tax at 28%	15,370	–8,827
–8,654	–5,038	Tax result permanent differences and tax rate difference	1,226	–12,858
91	2,158	Adjusted allocated tax from last year	2,133	66
–1,116	0	Change in deferred tax asset, withholding taxes	0	–1,116
–28,208	5,437	TAX EXPENSES	18,729	–22,735

* Paid withholding tax in foreign subsidiaries.

Notes to the Consolidated Financial Statements 2011

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 uncertanty regarding future prognosis and if the group can utilise the deferred tax.

Of the tax losses carried forward of TNOK 70.478,- for the Group, TNOK 50.425,- relates to the mothercompany and TNOK 20.053,- relates to foreign companies. Following a change in the tax legislation in Norway in 2005, these tax losses can be carried forward indefinitely.

For 2010 TNOK 91.567,- of the tax losses carried forward for the Group, was related to the mother company and TNOK 38.822,- was related to foreign companies.

NOTE 23 / FINANCIAL ITEMS

PARENT			GROUP	
2010	2011	Category	2011	2010
3,096	3,866	Interest income	8,410	8,880
12,547	8,017	Other financial income	8,017	12,547
1,240	1,621	Net gain on Shares at fair value through profit and loss *	1,621	1,240
16,883	13,505	Financial income	18,048	22,667
155	151	Financial income from group companies	0	0
42,134	18,854	Paid dividends from subsidiaries	0	0
42,290	19,005	Financial income from Group companies	0	0
59,172	32,510	TOTAL FINANCIAL INCOME	18,048	22,667
–1,004	–701	Interest expenses	–4,607	–3,314
0	–2,894	Interest on debt and borrowings	–2,894	0
–8,574	–14,538	Other financial expenses	–14,538	–8,574
–9,578	–18,133	Financial expenses	–22,040	–11,888
–73	0	Interests from group companies	0	0
–6,958	0	Other Group financial expenses	0	0
–7,031	0	Financial expenses from Group companies	0	0
–16,609	–18,133	Total financial expenses	–22,040	–11,888
42,563	14,376	NET FINANCIAL ITEMS	–3,991	10,780

* For a specification of "Net gain on Shares at fair value through profit and loss" see note 24.

NOTE 24 / SHARES AT FAIR VALUE THROUGH PROFIT AND LOSS

PARENT COMPANY AND THE GROUP AS AT 31 DECEMBER 2011 TNOK

	Company's share capital	Number of shares	Ownership	Book value in Parent **	Book value in Group **	Included in the P&L
Vegamot AS	26,386	6,050	13.90%	3,668	3,668	1,701
Leiv Eiriksson AS	44,235	9,919	0.99%	438	438	7
Asti AS	16,512	2,900	13.49%	2,227	2,227	–87
Other				20	90	0
TOTAL				6,353	6,423	1,621

PARENT COMPANY AND THE GROUP AS AT 31 DECEMBER 2010 TNOK

	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
TOTAL				4,732	5,134	1,240

(* *) 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 companys total equity. See note 4 for fair value tabel and a spesification of valuation technique.

NOTE 25 / OTHER CURRENT FINANCIAL LIABILITIES

Specification

PARENT COMPANY			GROUP	
2010	2011	Category	2011	2010
11,357	17,498	Accrued wages (Holiday pay and bonusscheme)	22,112	13,127
7,993	10,776	Warranty provisions (see spesification for changes during the year)	11,079	8,341
38,930	21,243	Accrued project costs	26,709	45,528
0	2,092	Fair value of foreign exchange contracts *	2,092	0
1,637	3,371	Miscl	4,013	2,963
59,918	54,980	TOTAL	66,004	69,959

*See note 4 regarding a fair value hierarchy and a specification on valuation technique applied

Warranty provisions

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 spesified in the table below are classified as current liabilities and is part of other current financial liabilities in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements 2011

	PARENT COMPANY			GROUP		
	Provision for warranty costs	Other expenses	TOTAL CURRENT PROVISIONS	Provision for warranty costs	Other expenses	TOTAL CURRENT PROVISIONS
Amount as of 01.01.11	7,993	0	7,993	8,341	0	8,341
Unused accruals reversed during 2011						
Accruals utilised during 2011	–1,114		–1,114	–1,159		–1,159
Accruals deposited during 2011	3,896		3,896	3,896		3,896
Amount as of 31.12.11	10,776		10,776	11,079		11,079
Amount as of 01.01.10	10,077	0	10,077	10,525	0	10,525
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		1,470
Amount as of 31.12.10	7,993	0	7,993	8,341	0	8,341

NOTE 26 / OTHER OPERATING EXPENSES

Specification

PARENT COMPANY			GROUP	
2010	2011	Category	2011	2010
79,750	40,400	External services	56,238	65,534
17,859	16,019	Travel expenses	21,637	22,305
19,215	16,975	Offices supplies	24,693	24,523
1,879	1,988	Insurance	3,041	2,687
2,587	3,998	Freight	4,264	2,858
1,297	1,254	Rent machinery & tools	3,615	5,207
3,464	1,998	Marketing / promotions	3,727	6,900
2,297	1,836	Service & Maintenance	3,067	5,017
1,539	1,129	Operating materials	2,935	2,349
3,759	2,038	Bad debt losses	2,794	3,814
27,134	6,604	Other operating expenses	14,653	21,272
160,780	94,239	TOTAL	140,664	162,465

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	
2010	2011	Category	2011	2010
250	250	Audit services	983	810
73	179	Other audit related services	247	159
150	210	Tax services	424	647
994	773	Other, non audit related services	784	1,059
1,467	1,412	TOTAL	2,438	2,676

NOTE 27 / OTHER CURRENT FINANCIAL ASSETS

Specification

PARENT COMPANY			GROUP	
2010	2011	Category	2011	2010
720	926	SkatteFUNN	926	720
2,404	0	Prepaid taxes	1.388	5.847
1,375	0	Outstanding public duties	2,589	2,484
1,488	–60	Prepaid rents	9,417	10,842
982	1,008	Prepaid licenses	2,334	2,098
10,694	10,057	Miscl	11,383	11,806
17,663	11,931	TOTAL	28,036	33,797

NOTE 28 / 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	
2010	2011	Terms	2011	2010
9,100	9,464	Within one year	11,870	11,491
3,574	4,265	After one year but not more than five years	6,671	5,966
0	0	More than five years	0	0
12,674	13,730	Total	18,541	17,457

During the year ended 31 December 2011 the parent company recognised expenses in the income statement in respect of operating leases of TNOK 9.168 (2010: 10.343) and TNOK 10.920 (2010: 12.734) 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.

ERNST & YOUNG

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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 of the Parent Company and the Group comprise the statement of financial position as at 31 December 2011, the statements of income, 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.

ERNST & YOUNG

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 2011 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 and the statement on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the statement on corporate governance 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 ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Trondheim, 28. March 2012
ERNST & YOUNG AS

John Christian Løvaas
State Authorised Public Accountant (Norway)

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

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