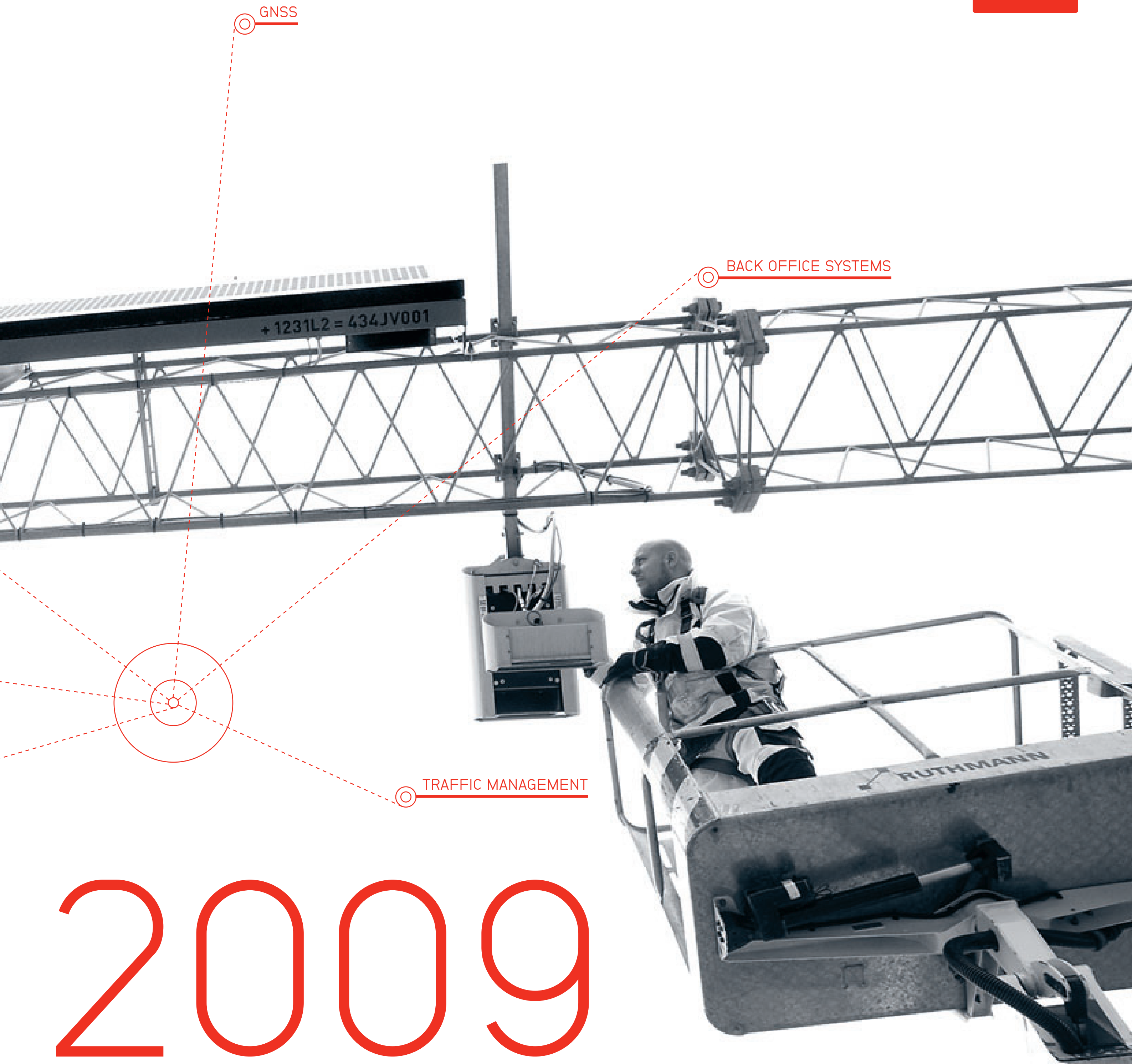
Q FREE



2009

+ COMPANY
Q-FREE ASA

+ REFERENCE TYPE

ANNUAL REPORT

+ REVENUES (IN NOK MILLION)
804

+ CALENDER 2010
29 APRIL 2010 / RESULTS Q110
20 MAY 2010 / ANNUAL GENERAL MEETING / OSLO
19 AUGUST 2010 / RESULTS Q210 AND FIRST HALF YEAR 2010
21 OCTOBER 2010 / RESULTS Q310

+ QUARTERLY PRESENTATIONS WILL BE HELD AT
FELIX CONFERENCE CENTER / AKER BRYGGE / BRYGGETORGET 3 / OSLO

+ THE PRESENTATIONS WILL BE BROADCASTED LIVE THROUGH THE FOLLOWING LINK
WWW.Q-FREE.COM

+ FOR FURTHER INFORMATION, PLEASE CONTACT
CEO ØYVIND ISAKSEN (+47 905 59 401)
CFO ROAR ØSTBØ (+47 932 45 175)

+ ABOUT Q-FREE
Q-FREE IS A LEADING GLOBAL SUPPLIER OF SOLUTIONS AND PRODUCTS FOR ROAD USER CHARGING AND TRAFFIC MANAGEMENT HAVING APPLICATIONS MAINLY WITHIN ELECTRONIC TOLL COLLECTION FOR ROAD FINANCING, CONGESTION CHARGING, TRUCK–TOLLING, LAW ENFORCEMENT AND PARKING/ACCESS CONTROL. Q-FREE OFFERS SOLUTIONS AND PRODUCTS BASED ON STATE OF THE ART TECHNOLOGY, AND IS THE LEADING SUPPLIER WITHIN DSRC (TAG) – AND 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. THE COMPANY HAS APPR. 300 EMPLOYEES IN 11 LOCATIONS AND REPRESENTATIVES IN 7 OTHER COUNTRIES. HEADQUARTER IS BASED IN TRONDHEIM, NORWAY. Q-FREE IS LISTED ON THE OSLO STOCK EXCHANGE WITH THE TICKER QFR. HTTP://WWW.Q-FREE.COM

Q-FREE OFFERS SOLUTIONS AND PRODUCTS BASED ON STATE OF THE ART TECHNOLOGY

+

CONTENT

Q-FREE IS ALWAYS LOOKING FOR THE RIGHT PEOPLE

+

PART 1. INTRODUCTION

>> Q–FREE EMPLOYEES ARE PRESENT IN 18 COUNTRIES AND FOUR CONTINENTS. AT YEAR END THE COMPANY HAD 300 EMPLOYEES. A TOTAL OF 92 PERCENT OF THE EMPLOYEES HOLD A UNIVERSITY DEGREE OR SIMILAR, MAINLY TECHNICAL DEGREES.

MONITORING FUNCTIONALITY OF RSE (ROAD SIDE EQUIPMENT)


NOC (NETWORK OPERATIONAL CENTER)
INITIATING ON-SITE SERVICE
CORRECTIVE ACTIONS
Q|FREE

(INTRODUCTION)

>>
WE ARE CURRENTLY EXECUTING THE MOST SIGNIFICANT AND ADVANCED PROJECTS WITHIN THE ROAD USER CHARGING SEGMENT. THIS FORMS A STRONG BASIS FOR EXPLORING SIMILAR CASES GOING FORWARD.
<<

+ REVENUES (MNOK)

804

+ INCREASED REVENUES

58%

+ EBIT (MNOK)

103

+ ORDER INTAKE (MNOK)

1,177

+ ORDER BACKLOG (MNOK)

713

KEY FIGURES

FIGURES IN TNOK

Profit & Loss Account

	2004	2005	2006	2007	2008	2009
Operating revenues	291,803	509,160	386,942	410,854	509,246	804,403
Cost of goods sold	137,615	233,300	154,104	160,981	219,978	303,249
Operating Expenses	154,540	154,174	186,450	212,021	224,034	365,769
EBITDA	-352	121,686	46,387	37,852	65,233	135,205
EBIT	-18,901	105,372	29,373	20,875	44,283	102,743
PROFIT BEFORE TAX	-25,874	118,675	45,024	14,555	50,915	109,698
PROFIT AFTER TAX	-26,811	112,316	33,868	5,015	36,287	78,150
Gross margin %	52.8%	54.2%	60.2%	60.8%	56.8%	62.3 %
EBITDA %	-0.1%	23.9%	12.0%	9.2%	12.8%	16.8 %
EBIT %	-6.5%	20.7%	7.6%	5.1%	8.7%	12.8 %
SELECTED BALANCE SHEET ITEMS						
Intangible fixed assets	11,172	11,780	23,288	40,320	128,017	155,860
Tangible fixed assets	37,495	42,083	45,274	53,406	63,938	71,874
Cash	58,581	166,518	162,174	124,283	119,617	274,615
Total assets	358,851	429,558	426,395	393,055	514,425	767,534
Equity (incl minority)	197,274	241,000	295,505	300,596	351,663	548,601
Interest bearing debts	4,469	4,022	3,392	2,992	2,202	1,412
KEY FIGURES PER SHARE						
Earnings per share, ordinary	-1.90	1.84	0.65	0.03	0.60	1.41
Earnings per share, diluted	-1.89	1.83	0.62	0.03	0.60	1.39
Cashflow	0.77	3.96	0.35	-0.24	1.54	2.01
Book equity	3.90	4.74	5.71	5.75	6.52	9.88
Average no of shares	50,618	50,809	51,779	52,274	53,976	55,536
OTHER KEY FIGURES						
Order backlog	339,930	224,000	293,573	371,356	338,868	713 039
Return on capital employed (ROCE)	0.81	1.19	0.91	1.05	0.99	1,05
Net interest bearing debts	4,469	4,022	3,392	2,992	2,202	1 412
Cash flow from operations	39,155	201,082	18,354	-12,718	83,096	111 852
Operational investment	9,697	15,793	14,951	25,164	87,762	71 075
Equity ratio	55%	56%	69%	76%	68%	71 %
Gearing	1.2%	0.9%	0.8%	0.8%	0.4%	0.2 %
Average number of employees	180	181	188	198	232	282

25 YEARS OF INNOVATIVE HISTORY

The history of Q-Free is a history of customer orientated innovation. From the start of the company, focus has been on developing advanced technology optimising our customers' profitability. The first implementation of a full-speed non-stop electronic toll collection system was deployed in an R&D program from 1986 to 1988. When the Ranheim Toll station (Trondheim, Norway) opened in 1988, the technology was GROUNDBREAKING, offering the motorist to pass and pay at a 160 km per hour using OBUs with expected lifespan of 45 years. No technology at that time could offer performance matching the Q-Free system and the cost of the equipment was 25 to 50 percent of the cost presented by "similar" systems.

The early success of the Q-Free system at Ranheim Toll Station was further expanded to the large toll collection systems deployed in Oslo in 1990 and Trondheim in 1991. Both these projects turned out to become GREAT COMMERCIAL SUCCESSES for the owner of the system, creating a financial basis for a rapid road and public transport development in the two cities. In 1991, the first international project also appeared at the scene when Brisa of Portugal ordered the first electronic toll collection system at Carcavelos toll plaza, later to be expanded to include also the other toll plazas surrounding Lisbon, Loures, Sacavem and 25th of April Bridge.

With the systems operational in Oslo, Trondheim and Lisbon, Q-Free had proven its ability to design, implement and operate complex and large scale information systems for the purpose of fee collection. Thus, when Brisa chose their technology partner for the deployment of Europe's first nationwide toll collection system based on the new standardised frequency 5.8 GHz in 1994, Q-Free became their choice. The system was set into operation early 1995, and the same system is still in operation.

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

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

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

2004 became yet another landmark for Q-Free. Through winning the contract for the roadside system and OBUs to the Stockholm Congestion Tax System, Q-Free reconfirmed the company's leading role, not only in DSRC but also in Automatic License Plate Recognition (ALPR). Due to the local legislation, ALPR became eventually the only technology used for identification. The ALPR system delivered by Q-Free probably offers the best performance of any such system currently in operation worldwide. The Stockholm Congestion Tax System is the world's only ALPR solution where the clients' accounts are charged automatically solely on the basis of machine read images.

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

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

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

07 JAN 09

+ TAG ORDER FROM AUSTRALIA 32 MNOK

THE HISTORY OF Q-FREE IS A HISTORY OF CUSTOMER ORIENTATED INNOVATION. FROM THE START OF THE COMPANY, FOCUS HAS BEEN ON DEVELOPING ADVANCED TECHNOLOGY OPTIMISING OUR CUSTOMERS' PROFITABILITY.

+ 2009
Q-FREE SIGNED MAJOR CONTRACTS IN SLOVAKIA, PORTUGAL, THAILAND

+ 2008
ACQUISITION OF DACOLIAN BV AND BUILDING CAPITAL LTD.

+ 2005
STOCKHOLM CONGESTION TAX SYSTEM DELIVERED

+ 2003
INTRODUCTION OF FULLY AUTOMATIC TOLL COLLECTION

+ 2002
IPO AND LISTED AT OSLO STOCK EXCHANGE

+ 1999
AUTOPASS CONTRACT AWARDED Q-FREE / BREAKTHROUGH IN BRAZIL AND AUSTRALIA

+ 1997
ESTABLISHMENTS OF THE EUROPEAN CEN DSRC STANDARDS

+ 1995
5.8 GHZ SYSTEM INSTALLED IN PORTUGAL

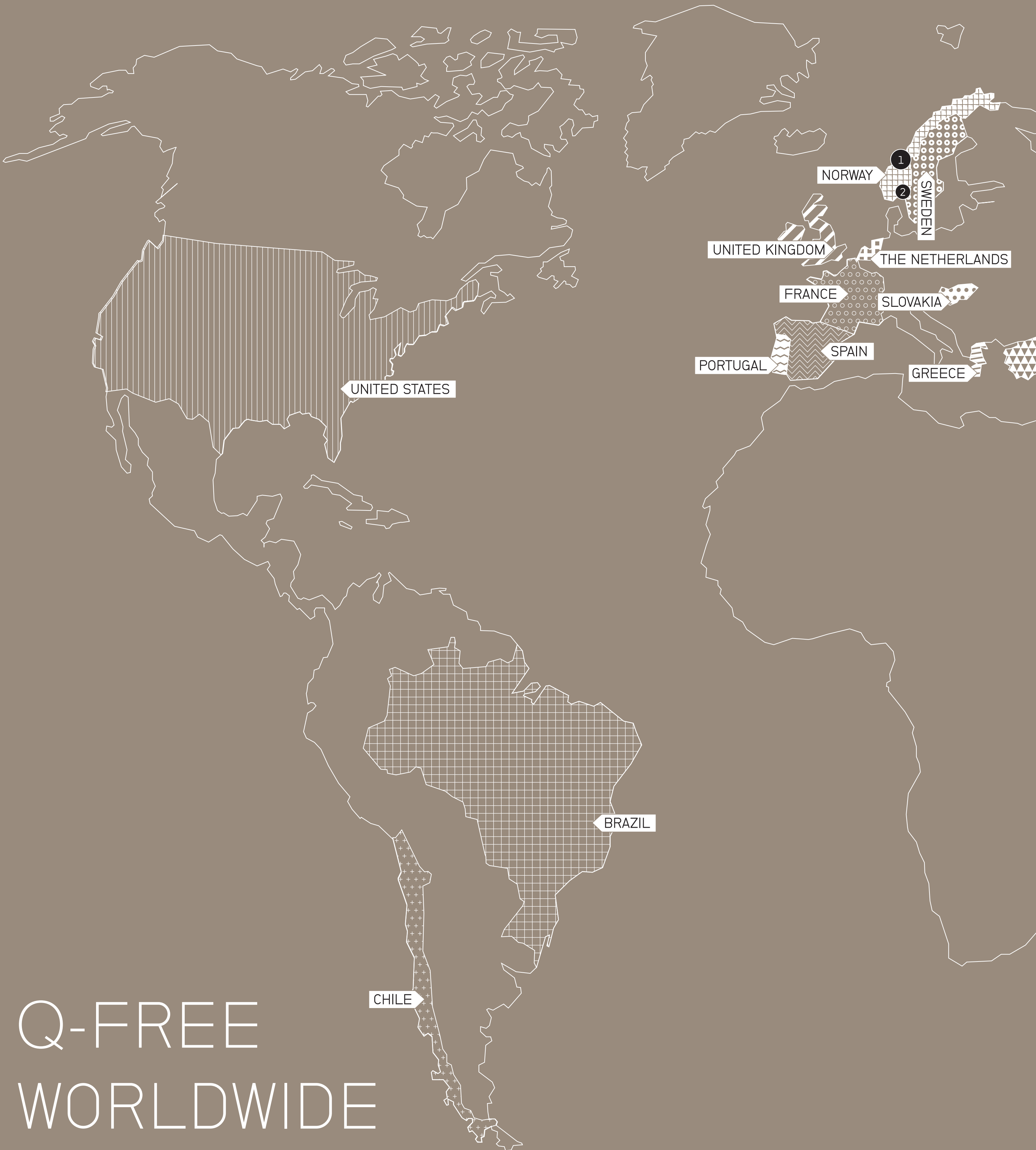
+ 1991
CONTRACT FOR TRONDHEIM TOLL CORDON

+ 1990
CONTRACT FOR OSLO TOLL CORDON

+ 1988
FIRST FREE FLOW TOLLING SYSTEM OPERATIONAL

+ 1986
CONTRACT WITH NORWEGIAN PUBLIC ROADS ADMINISTRATION

+ 1984
ESTABLISHED UNDER THE NAME MICRO DESIGN



Q-FREE WORLDWIDE 2009

1. TRONDHEIM / HEADQUARTER
2. OSLO / OFFICE

+ COUNTRIES WE ARE PRESENT IN

18

+ NUMBER OF EMPLOYEES

292

THE CEO'S CORNER

My ambition is to establish Q-Free as the indisputable world leading supplier of Intelligent Transport Systems for Road User Charging (RUC) and Traffic Management. This will be achieved by having the right strategy and world class execution.

Our strategy is to be a technology neutral global solution provider, and today we have achieved to become the leading supplier, having competence, products and solutions within all relevant technologies for various RUC applications.

The activity in the company has been very high the last years, 2009 in particular, and we are proud to present to our shareholders and employees all time high revenues, record high order intake and strong profitability for 2009. This is clearly the best motivation factor we can get and the achievements accomplished in 2009 bring out more energy and eagerness to set new records.

Over and above the fact that our achievement in 2009 implies good financial performance, it is also important to understand and appreciate the unique opportunity we now have to further develop and professionalise the company. The added references through successful delivery of the major projects, such as in Slovakia, Portugal and Thailand, are invaluable tools for Q-Free when competing for future projects in the market.

The global ITS market is expected to continue to grow considerably for many years, and Q-Free's market position is continuously strengthening. Our strategic positioning has been well received in the market. During 2009 the company achieved all time high order intake of well above 1 BNOK. 2010 will also be an important year in positioning the company for many bigger infrastructure projects facilitating long term growth.

Even though Q-Free in 2009 experienced a record year during a time period for which many businesses were impacted by the financial crises, we need to be aware that all businesses will go through tough times and should hence be ready to implement whatever measures needed. That said, as seen today, there is no doubt that Q-Free is a part of a long term growing market segment – a new mega trend. Our market segment is still in an early stage, – the penetration of the solutions we can offer is still low, or non-existing, in many countries. In addition, new application areas will develop, among them the implementation of electronic license plate schemes.

To efficiently explore this growing market, we will continue to strengthen our competence and capacity. The sales organisation will be expanded to cover new geographical areas, operational excellence will be a continuous focus to secure high quality and cost efficiency, and the company's R&D activity will futureproof the company.

During the year we have celebrated the 25th year's anniversary for the company. Many important millstones have been achieved during these 25 years. I will have broad support when stating that the company has never been in better shape and the market development and trends have never been more visible. We all look forward to the next 25 years, further development of the company guided by our vision to be a globally preferred partner in the area of Intelligent Transport Systems having worldwide leadership in Road User Charging and Traffic Management.

2007 showed 6% growth, 2008 showed 24% growth and 2009 showed 58% growth. The company is financially strong, has a good cash position and no long term debt. The market is growing and Q-Free has a more attractive portfolio and offering than ever. I do look forward to take the next steps and motivate the Q-Free team to outsmart the competition, and hence enhance shareholder value and customer satisfaction.

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

DR. ØYVIND ISAKSEN
President & CEO

(sign.)

>>

2010 WILL ALSO BE AN IMPORTANT YEAR IN POSITIONING THE COMPANY FOR MANY BIGGER INFRASTRUCTURE PROJECTS FACILITATING LONG TERM GROWTH.

<<

MANAGEMENT TEAM

1. DR. OYVIND ISAKSEN

President and CEO

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

2. ROAR OSTBO

Chief Financial Officer (CFO)

+ Roar Østbø (1961) has been employed in Q-Free ASA since 2009. Østbø comes from the same position in AquaLyng Group and has previously held the CFO position in the publicly listed companies Q-Free ASA and CorrOcean ASA, and in the oil service company Reslab AS and Sintef. Mr Østbø is a Certified Public Accountant from the Norwegian School of Economics and Business Administration (1988) and has also worked as auditor in Arthur Andersen & Co.

3. MARIANNE SANDAL

Vice President Operation

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

4. PER ECKER

Vice President Sales

+ Per Ecker (1969) has been with the company since 2007. He comes 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.

5. DR. JOS A.G. NIJHUIS

VP ITS

+ Dr. Jos Nijhuis (1965) has been employed since 1999. Nijhuis holds a M.Sc. (with honors) in Electrical Engineering 1987; and a Ph.D. in Natural Sciences from Nijmegen University in 1992. Nijhuis has extensive experience in ITS software development from various positions within academia and industry. Nijhuis is also the CEO and co-founder of Dacolian B.V.

6. HENRIK F. STOLTENBERG
Vice President M&A

+ Vice President M&A Henrik F. Stoltenberg (1960) comes 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 and Bruhn A/S.

7. DR. HANS CHRISTIAN BOLSTAD
Vice President R&D

+ Dr. Hans Christian Bolstad (1962) has been employed in his current position since 2007. Bolstad holds a MSc. in Physics and Mathematics 1987; and a Ph.D. in physical electronics from NTNU (Norwegian University of Science and Technology, 1994). Bolstad has extensive experience within research and development from both telecom, medical and offshore sectors through his work at NTNU, Sintef, Optomed, Optoplan and Q-Free ASA .

8. STEINAR FURAN
Vice President Business Development & Compliance

+ Steinar Furan 1963) has been employed since 1990 and holds an engineering degree in electronics (Trondheim Ingeniørhøyskole 1984 and University of Tromsø 1987). He has extensive experience in various senior positions within the company including project and business unit management. He is now responsible for managing Q-Free's business development activities as well as being responsible for securing compliance with standards and statutory requirements applicable.

9. STEIN-TORE NYBRODAHL
Human Resource Manager

+ Stein-Tore Nybrodahl (1965) is Q-Free's Human Resource Manager and started with the company in 2006. He holds a Master's degree in Business(Copenhagen Business School, Denmark, 1992) and successfully completed the senior executive program INSEAD in France (1993). He has extensive HR and strategy experience having held various senior management roles at Telenor (Norway), where he became director of strategy and HR development. At Q-Free, Mr. Nybrodahl is responsible for the management and development of human resources.

Q-FREE PROVIDES INNOVATIVE END–TO–END SOLUTIONS

+

PART 2. BUSINESS REVIEW

>> Q–FREE HAS A PORTFOLIO COVERING THE MOST WANTED SOLUTIONS. (TAG – CAMERA – GPS). Q–FREE IS FLEXIBLE WITH RESPECT TO ROLE, FROM PRODUCT SUPPLIER TO TURN KEY PROVIDER.


COMMUNICATION LINE ROADSIDE /BACKOFFICE
TRANSACTION MONITORING
+ SERVICE ENGINEERS STOCKHOLM
ANALYZING/TESTING THE MLC

BUSINESS REVIEW

+ 1. MARKET DRIVERS AND TRENDS

Q-Free operates mainly in the market of Road User Charging (RUC). Through the acquisition of Dacolian BV the company has intensified its activity within Traffic Management, delivering software components for law enforcement, parking / access control and travel time systems.

The market for RUC solutions is still in an early stage and a double-digit annual growth percentage is expected in the years to come. In some of the most developed RUC markets the industry is now transitioning from innovation to growth. It is expected that more and more RUC markets will enter the growth phase in the years to come. When a market has adopted a RUC technology, the growth phase is expected to last for many years. Throughout 2009 the sales pipeline has developed positively and many important contracts have been awarded and more will come in the near future. In 2009 Q-Free achieved a record high order intake of above 1 billion NOK.

> THE MOST IMPORTANT MARKET DRIVERS FOR RUC SOLUTIONS CAN BE SEGMENTED AS:

1) FINANCING OF INFRASTRUCTURE
2) TRUCK TOLLING
3) EFFICIENCY OF EXISTING RUC SOLUTION
4) CONGESTION MANAGEMENT
5) OTHER RUC SOLUTIONS
6) TRAFFIC MANAGEMENT

FINANCING OF INFRASTRUCTURE

Financing of infrastructure is a strong driver since private equity through government concession or private public partnership contracts are increasingly involved to finance, build and operate roads, bridges and other major infrastructure. Private equity gets return on investments through RUC. There is not available sufficient public funding to realise all needed infrastructure.

TRUCK TOLLING

Truck Tolling has been extensively used in Germany for a number of years, and truck tolling schemes are also rolled out in the Czech Republic, Slovakia and Austria. All these truck tolling systems have proven to be viable. With these decisions to implement truck tolling, and the firm plans of Polen, Slovenia, France, to mention the most likely projects in the near future, it seems obvious that the truck tolling market will constitute a considerable share of the market for road user charging in Europe going forward.

EFFICIENCY OF EXISTING RUC SOLUTION

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

> VIDEOTOLLING IN STOCKHOLM, SWEDEN

CONGESTION CHARGING

Several initiatives are ongoing, but many are still delayed by political processes. Jakarta, Gothenburg, Helsinki and a number of other cities all have firm plans for the introduction of congestion charging. Stockholm is still the outstanding reference for congestion charging, clearly demonstrating the concept's capacity to change travellers' behaviour thereby contributing to a significant improvement of the city's environment and the citizens' quality of life. Stockholm has reduced traffic in the city centre by 20-25%, and travel time during rush hours is reduced by 30-50% (www.stockholmsforsoket.se). The congestion charging market potential is huge, but will take longer time to materialise compared to the above mentioned application areas.

OTHER RUC SOLUTIONS

In addition to the above mentioned market drivers, 2009 has shown that new markets are starting to be visible in the area of road taxation, - namely Electronic Registration and Identification (ERI). A new regulation has been formalised for European countries and will probably set the standard in this market segment. Regulators in several countries are now in the starting phase of developing projects to implement electronic number plates to regulate and enforce annual taxation and security on the roads in a better way. This represents a huge market potential since it implies that all cars will be equipped with a tag identification, in addition to the need for road side infrastructure and central systems.

TRAFFIC MANAGEMENT

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

+ 2. 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 purpose. The cars communicate with the charging point through an OBU installed on the windshield of the vehicle. The CEN DSRC is a microwave communication link and the OBU has processing capabilities for communication and security. DSRC based systems are widely used and successfully implemented in large scale in Europe, Australia, and Latin America.

> 2) RFID – RADIO FREQUENCY IDENTIFICATION

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

> 3) GNSS – GLOBAL NAVIGATION SATELLITE SYSTEM

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

15 JAN 09
+ TAG ORDER FROM AUSTRALIA 32 MNOK

> 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 collect the charge, and semi manually means that the manual collection is supported by some technologies like classification equipment, coin machine 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. Upgrade of these MTC systems represents an unexploited potential in the RUC industry. The RUC market in Asia is still in an innovation phase and it is too early at this point to predict which technologies will become predominant in Asia.

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 and has already, as the first company in the world, demonstrated prototypes at an international ITS convention. However commercial products based on CALM are still some years ahead.

+ 3. STRATEGY AND POSITIONING GOING FORWARD

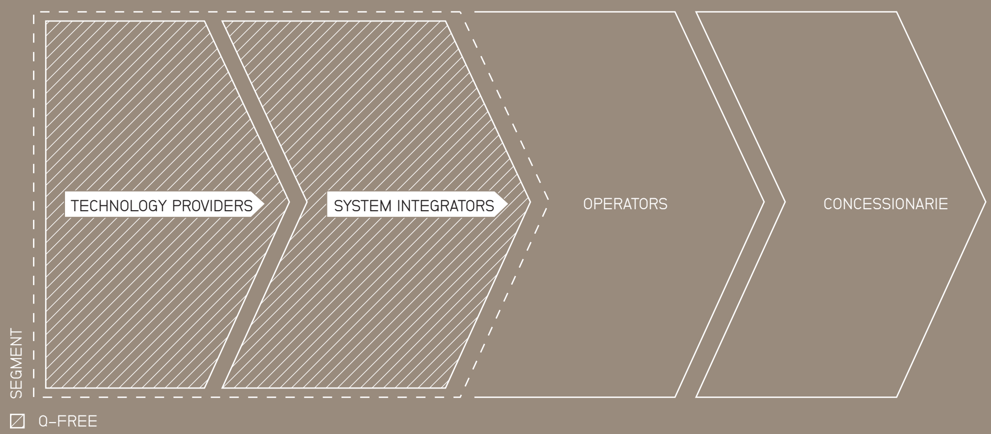
The vision of Q-Free is to be a globally preferred partner in the area of Intelligent Transport Systems having world-wide leadership in Road User Charging and Traffic Management.

Q-Free's ultimate and long term goal is to be a preferred supplier independent of which technology and solution the customers are looking for. As the RUC global market is segmented according to the deployment of different technologies, Q-Free is positioning itself further as a technology independent supplier to capture future growth by being a true global player.

In order to be a true global supplier Q-Free considers a broad portfolio covering the main RUC technologies to be a necessity. The company will leverage on its leading position within DSRC and its long lasting experience in the RUC business to become a major player within all RUC technologies that are offered in the global RUC market. Expanding the company's technology and product portfolio will be done in combination with in-house R&D activities, M&A and by strategic partnership with other 'best of breed' players in the industry. In the execution of this strategy the company acquired two companies in 2008,- Dacolian BV (ALPR) and Building Capital Ltd. (GNSS). Also recently Q-Free introduced the latest generation in-house developed DSRC portfolio and back office systems. This implies that Q-Free has taken a big step in the direction of being able to offer to the market the optimal solution for RUC and Traffic Management applications based on the best technology for solving the problem at hand.

VISION AND STRATEGIC POSITIONING

A LEADING SUPPLIER OF INTELLIGENT TRANSPORT SYSTEMS FOR ROAD USER CHARGING AND TRAFFIC MANAGEMENT



TECHNOLGY INDEPENDENT

+ PORTFOLIO COVERING MOST WANTED SOLUTIONS (TAG – CAMERA – GPS)
+ ACQUISITION OF DACOLIAN AND BUILDING CAPITAL EXPAND COMPETENCE AND OFFERING

FLEXIBLE WITH RESEPCT TO ROLE

+ FROM PRODUCT SUPPLIER TO TURN KEY PROVIDER
+ NOT COMPETE WITH OUR CUSTOMER SUCH AS OPERATORS AND MAJOR SYSTEM INTEGRATORS

MIGRATE TO AN ITS PLAYER

+ Q-FREE WILL OVER TIME EXPAND OFFERING TO INCLUDE NEW ITS AREA
+ E.G. PARKING ACCESS & CONTROL SYSTEMS AND ERI

The vision and strategic positioning can be summarised in the following model:

Q-Free's product and system / solution supply will cover all main technologies asked for in the industry – i.e. Q-Free will be a technology independent supplier. Q-Free will be flexible when it comes to role and scope for the various market opportunities. Whether Q-Free is positioned as a technology / product supplier / systems integrator / turnkey supplier, will be dependent on geography, size and application.

Standardisation plays an important role in the success of any largescale deployment of RUC technology. Large-scale deployment usually requires interoperability of equipment and systems coming from many different manufacturers.

This includes certifications, compliance testing and security. Based on this Q-Free will continue to dedicate considerable efforts to international standardisation by taking a leading position in standardisation work. Q-Free was one of the leading players in defining the European DSRC standard and Q-Free is now doing the same with reference to the CALM /WAVE initiative (See previous description of CALM).

1.

2.

> Q–FREE'S NEW DSRC PORTFOLIO
1. TAG
2. READER

+ 4. Q-FREE'S OFFERING

> FROM PRODUCT SUPPLY TO TURNKEY SOLUTIONS

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

1) SYSTEM/TURNKEY SOLUTIONS

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

2) BACK OFFICE SYSTEMS

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

3) DEDICATED SHORT RANGE COMMUNICATION (DSRC)

Q-Free was among the leading partners for the development of the CEN DSRC standards, securing common product interfaces for invehicle equipment and roadside communications equipment. Q-Free has today a range of products supporting the CEN DSRC standards. Dur-

23 JAN 09
+ Q-FREE SIGNED CONTRACT IN BANGKOK 61 MNOK


CAMERA

ing 2010, a new product family of CEN DSRC compatible OBUs and roadside communication equipment has been released. Q-Free offers complete system solutions based on DSRC.

4) GLOBAL NAVIGATION SATELLITE SYSTEMS (GNSS)

Motivated on basis of the growth in the truck tolling market, Q-Free is currently developing GNSS OBU technology. Q-Free already offers enforcement solutions and operational back office solutions for GNSS applications.

5) VIDEO TOLLING AND ENFORCEMENT

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

6) TRAFFIC MANAGEMENT

Through the company's DSRC and ALPR products Q-Free delivers solutions for parking, access control, speed and red light enforcement.

+ 5. MARKET UPDATE

In 2009 Q-Free increased revenues by 58% and operating profit (EBIT) by 133% compared to 2008. The market activity has been high throughout the year and the anticipated growth in the market segment has been confirmed.

REGIONAL UPDATES

In 2009, Europe represented 80% of Q-Free's revenues as well as 83% of the Group's order backlog at the end of the year, making it the Company's largest market by far. The Group has during the year mainly focused on Portugal, The Netherlands, France, Turkey, Sweden, Norway, Slovakia as well as other parts of Central Europe. The activity is related both to product sales, large infrastructure projects, central system (software) and service activities. 4 contracts have been announced in the region. These are; a major truck tolling project in Slovakia, an MLFF tolling system including central system to Aenor in Portugal, delivery, installation and implementation of Road side equipment to Ferrovial in Portugal, and an AutoPASS contract in Norway.

The projects in Slovakia and Portugal are progressing well, and the truck tolling system in Slovakia went live 1st of January 2010 as planned.

In France the company is currently addressing the nationwide truck-tolling project ECO-TAXE. Q-Free is currently positioning itself as a sub supplier for different consortiums. The scope for Q-Free could be similar to what the company delivers in Slovakia. The current plan is to start operation in 2012 meaning that orders need to be placed late 2010 or during the first half of 2011.

Both Slovenia and Poland are currently planning for a Request for Quotation (RFQ) process and Q-Free will actively pursue both opportunities, – either as a consortium member or as a subsupplier. It is expected that Poland will materialise at the end of 2010 and Slovenia in the first half of 2011. Further, in the Czech Republic, a Congestion Charging project is being planned, as well as an extension of the existing highway truck tolling scheme to also include private cars. The timing is still uncertain but a bidding process is expected to be initiated in 2010.

The Netherlands has throughout 2009 been planning a nationwide "pay as you drive" scheme for all cars based on GNSS. The planned scheme is still under discussion but due to the political situation it is highly unlikely that this project will materialise in the near future.

Portugal has been an area of high activity during the year, both when it comes to project execution and new sales opportunities. Q-Free has been awarded the only two MLFF projects related to conversion of shadow tolling concessions (SCUTs) in Portugal (Cintra and Aenor/Ascendi). The project implementation has been successful and Q-Free expects to complete the projects in the beginning of 2010. Start of operation will however be dependent of a political decision to start conversion from shadow tolling to real tolling, and is currently expected to happen in the first half of 2010. Recently the Portuguese government has decided to increase the number of SCUTs that will be transformed into real tolls. The next sale opportunities will most likely be Algarve (Cintra/Ferrovial) and A25 (Ascendi). It is still unclear whether these will happen in 2010 or 2011 but most likely a decision will not be taken before 2011. In Portugal the government is also planning to implement a system for electronic license plates (ERI) for all vehicles, and the entity responsible for the scheme has been established. Due to changes in the political situation, the project is most likely delayed. The situation should be clarified within the summer of 2010. The continuing conversion of SCUT's to real tolling and the ERI project represent a huge opportunities for sale of tags.

In Norway there are relatively frequently deployed smaller and medium sized AutoPASS infrastructure projects, also leading to an increased tag demand and central system services. As an example, the central system service Q-Free is delivering to the toll operators in Norway, has increased in value since initial contract was awarded from 70 MNOK to 220 MNOK. When it comes to AutoPASS infrastructure, the next opportunity is to deliver new automated toll stations for Kristiansand.

The visibility of market opportunities in Sweden are increasing. A new congestion charging scheme, similar to the one in Stockholm, is expected to materialise in Gothenburg. Timing is still uncertain but it is assumed that start up will be in 2013, and hence orders will be placed in the end of 2011. Also electronic road tolling will start to be implemented for infrastructure financing in the same manner as in Norway. This will in the years to come represent an even bigger market than in Norway.

Finland is considering introducing some form of congestion charging. The City of Helsinki Board has voted eight to six in favour of introducing congestion charges for the Finnish capital.

In Africa Q-Free has during the year positioned itself for an upcoming tag tender to be issued by Sanral. The estimated demand over a 2-3 years period is approximately 3 million tags. It is expected that three vendors will be pre-qualified, – Q-Free being one of them. The RFQ for tags will most likely be issued during the first half of 2010. The electronic tolling market in South Africa will increase over the years to come, both when it comes to new infrastructure projects and tags. Q-Free will strengthen its presence in this market going forward.

In 2009, Asia Pacific represented 13% of Q-Free's revenues as well as 10% of the Group's order backlog at the year-end. The company announced three contracts in the region during the year. One contract from BECL for modernisation of exisiting toll roads in Bangkok Thailand (61 MNOK), and two tag contracts to RTA in Australia (47 MNOK).

The activity in the region is mainly related to Thailand, Australia and Indonesia, but new opportunities in Taiwan, Vietnam and India are identified.

The most mature market in the region is Australia, – both new tag order opportunities and new infrastructure projects will materialise in the coming quarters.

The execution of the two ongoing projects in Bangkok are progressing well and ETA has now started operating both the new manual and electronic system delivered by Q-Free. The need for efficient tolling systems in Thailand is evident, and the company expects new projects to materialise. Over time the introduction of electronic tolling systems will trigger an attractive tag market.

The activity in Indonesia is picking up. The company is at the moment exploring opportunities both related to congestion charging in Jakarta and other electronic tolling projects in the country.

Latin and North America represented 7% of Q-Free's revenues and 7% of the Group's order backlog. During the year the company has announced 3 contracts in the region at a total value of 96 MNOK. All awards from Centro Gestao Meios de Pagto (CGMP) for OBUs.

It is expected that the tag demand in Brazil will continue to be high going forward, - the company announced in Q110 a new frame agreement at a value of 109 MNOK.

The electronic license plate project in Brazil still remains in a definition phase and as such timing of this project is uncertain. Further the company is addressing projects and product sales in Chile, Columbia and Ecuador.

In North America the company is exploring several business opportunities through the companies ALPR solutions. The company's ALPR solution has over the past two years been established as the leading solution in the market and forms a good basis for further expansion in the North America.

Video based solutions for enforcement and interoperability will become increasingly important in North America as Multi Lane Free Flow / Open Road Tolling systems, i.e. no barriers used and traffic flows without stopping, are being implemented. Q-Free offers the most advanced systems enabling cost effective and reliable enforcement and tolling.

+ 6. OUTLOOK

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

25 JAN 09

+ Q-FREE TO DELIVER SYSTEMS IN SLOVAKIA

SERVICE AND MAINTENANCE ON SITE >

Q-Free's ultimate and long term goal is to be the preferred provider independent of technology and solution the customers are looking for.

The global ITS market is expected to grow considerably over the next years and Q-Free's market position is continuously strengthening. Our strategic positioning has been well received by existing and new customers and partners. During 2009 the company achieved all time high order intake of above 1 BNOK.

> THE MOST IMPORTANT APPLICATION AREAS IN THE RUC SEGMENT ARE CURRENTLY

+ FULLY AUTOMATED FREE FLOW ELECTRONIC TOLL COLLECTION
+ TRUCK TOLLING
+ CONGESTION CHARGING.

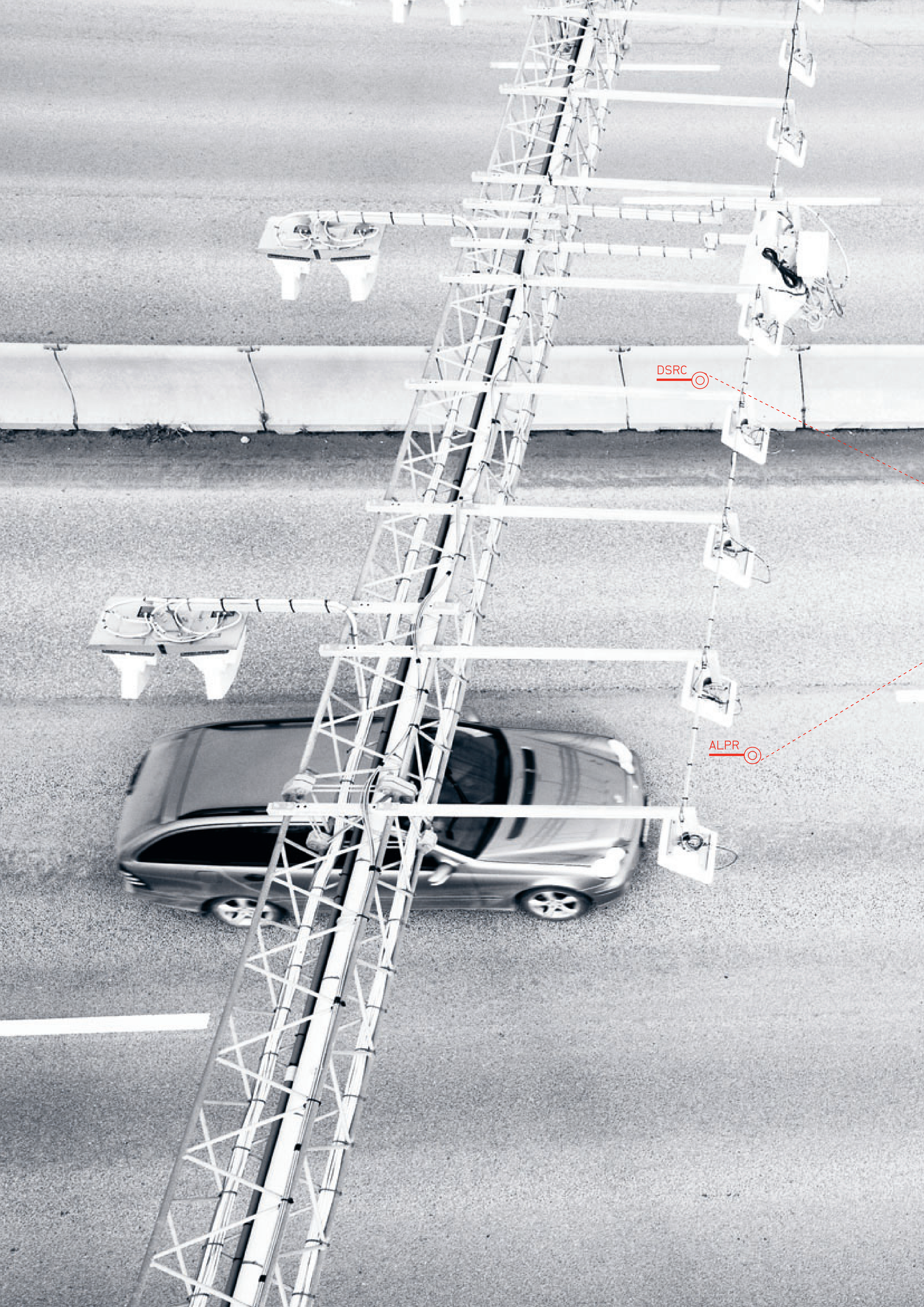
> Q-FREE HAS RELATIVELY RECENTLY EXECUTED, OR ARE CURRENTLY EXECUTING, THE MOST SIGNIFICANT AND ADVANCED PROJECTS IN ALL THESE THREE APPLICATION AREAS THROUGH THE EXECUTION OF

+ THE AENOR/ PORTUGAL PROJECT
+ SKYTOLL/SLOVAKIA PROJECT
+ STOCKHOLM PROJECT

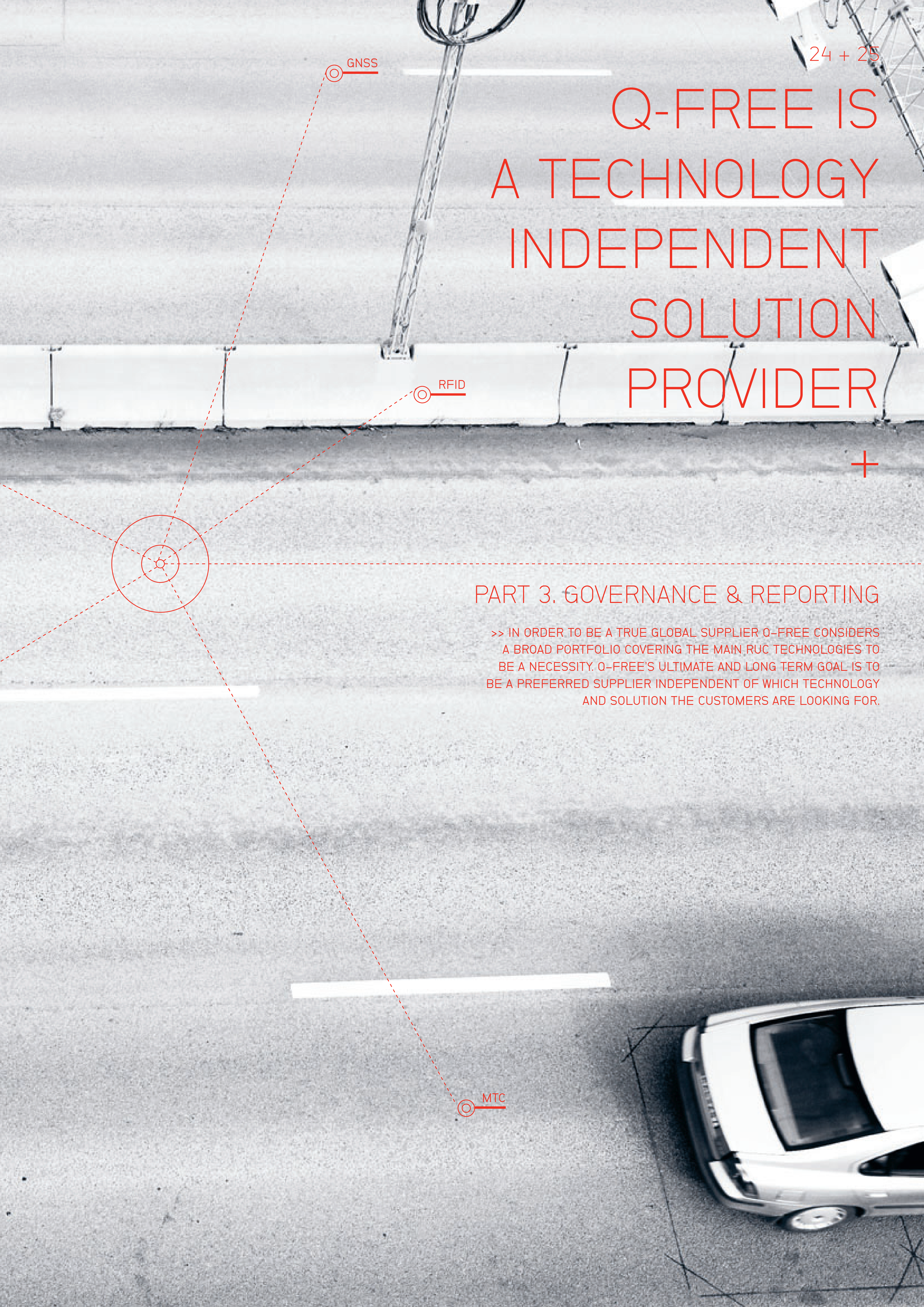
This forms a strong basis for exploring similar cases going forward and combined with continuous focus on improving both offering and execution, this will secure long term positive development of the company.

From the above regional market report it is clear that 2010 will be an important year to position the company for many bigger infrastructure projects going forward. Some of them maybe concluded in late 2010 but the majority probably in 2011. Further there are several small/medium sized projects currently being addressed and the product pipeline for 2010 shows some promising opportunities. Addressing these opportunities on the bases of a new state of the art portfolio, will form a good basis for success.

Q-Free completed a private placement for a total of 5,100,000 new shares during the fourth quarter 2009. The private placement was significantly over-subscribed. Net proceeds from the private placement will be applied towards strengthening of Q-Free's balance sheet in order to be able to take advantage of potential M&A opportunities.


DSRC
ALPR

Q-FREE IS A TECHNOLOGY INDEPENDENT SOLUTION PROVIDER



PART 3. GOVERNANCE & REPORTING

>> IN ORDER TO BE A TRUE GLOBAL SUPPLIER Q-FREE CONSIDERS A BROAD PORTFOLIO COVERING THE MAIN RUC TECHNOLOGIES TO BE A NECESSITY. Q-FREE'S ULTIMATE AND LONG TERM GOAL IS TO BE A PREFERRED SUPPLIER INDEPENDENT OF WHICH TECHNOLOGY AND SOLUTION THE CUSTOMERS ARE LOOKING FOR.

CORPORATE GOVERNANCE

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

Stock exchange regulations require listed companies to publish a report on their principles for Corporate Governance in the Annual Report, in accordance with Section 1 of the Norwegian Code of Practice for Corporate Governance, version dated 21st of October 2009. Q-Free ASA endeavours to comply with these recommendations. Where the Company differs from the Code of Practice, an explanation or comment is given.

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

CORPORATE GOVERNANCE AT Q–FREE

Owners	Board	Management
Shareholders ↓	Board ↳	CEO ↓
General Meeting	Compensation Commitee	Corporate Management
↓	↳	
Nominating Commitee	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.	Executive management.

1. IMPLEMENTATION OF AND REPORTING ON CORPORATE GOVERNANCE

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

CODE OF CONDUCT

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

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

The 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.

Deviation from the Code of Practice: None.

AUTHORISATION TO THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES (TREASURY SHARES)

The Board of Directors was given an authorisation at the Annual General Meeting (AGM) on the 18th of May 2009 to acquire shares in Q-Free ASA with a nominal value of up to NOK 2,051,095.98 divided on 5,397,621 shares, each with a par value of NOK 0.38, provided that the Company's shareholding of own shares shall not exceed 10% of shares outstanding at any given time. The minimum and maximum amount that can be paid per share will be NOK 1 and NOK 100 respectively. The Board of Directors shall have full discretion with respect to methods of acquisition and disposal of the Company's shares. The authorisation shall be valid until the next AGM, but no longer than 30 June 2010.

Deviation from the Code of Practice: None.

AUTHORISATION TO THE BOARD OF DIRECTORS TO INCREASE THE SHARE CAPITAL

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

The Board of Directors was given an authorisation at the AGM on the 18th of May 2009 to increase the share capital with as much as NOK 2,051,095.98 by the issue of up to 5,397,621 shares (representing 10% of the registered share capital at the date of the AGM), each with a par value of NOK 0.38. The authority comprises right to disregard the existing shareholders preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5, to determine that non-cash share deposits shall be made, to subject the Company to special obligations pursuant to section 10-2 of the Public Limited Companies Act, and to implement mergers according to the Public Limited Companies Act section 13-5. The Board of Directors are authorized to determine the terms and conditions for the subscription of shares, and to amend the Company's articles of association in compliance with the increase of the share capital at all times. The authorisation shall be valid until the AGM in two years, but no longer than 18th of May 2011.

Deviation from the Code of Practice:
The mandate applies from the 18th of May 2009 and for a period of two years, which departs from the Norwegian Code of Practice for Corporate Governance – recommending that such mandates should be given for a time period of maximum one year. Q-Free follows the Norwegian Public Limited Companies Act's regulations for this mandate. It is the Board's opinion that if Q-Free were to follow the recommendation, 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 markets. (Intelligent Traffic Systems)

AUTHORISATION TO THE BOARD OF DIRECTORS REGARDING SHARE CAPITAL INCREASE

The Board of Directors was authorised on the AGM on the 18th of May 2009 to increase the share capital of the Company by issuing new shares to key personnel (incentive program). The share capital may be increased by a maximum of NOK 1,026,000, by issuing a maximum of 2,700,000 shares (representing approximately 5% of the registered share capital at the date of the AGM), through one or more private placements with cash deposits towards key personnel, management and Board members elected by the shareholders of Q-Free ASA. The Board is authorised to waive the shareholders' rights of pre-emption according to the Public Limited Companies Act, Sections 10-4 and 10-5. The authorisation runs for a period of 3 years for key personnel and management, and 2 years for shareholder elected Board members. A maximum of 600,000 shares are reserved for shareholder elected Board members, and the remaining 2,100,000 shares are reserved for the share options scheme for key personnel and management.

See note 14 in the 2009 financial statements for further information about the incentive program.

Deviation from the Code of Practice: None

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 a share issue to existing shareholders in accordance with their preferential rights. The Board's mandate to acquire own shares is based on the assumption that acquisition will take place on the market. Acquired shares may be disposed on the market, as payment for acquisitions. The Board of Directors is authorised to increase the share capital of the Company by issuing new shares to key personnel (incentive program), and is authorised to waive shareholders' preferential rights, in favour of key personnel in this program. The introduction of an incentive program is considered to be in the best interest of the shareholders and is explained in the agenda for the General Meeting.

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

See note 24 in the 2009 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 place no restrictions on negotiability.

Deviation from the Code of Practice: None

6. GENERAL MEETINGS

The Board of Directors ensures that as many shareholders as possible may exercise their rights by participating in General Meetings of the company. By virtue of the AGM the shareholders are guaranteed participation in the Group's supreme governing body. The AGM adopts the Articles of Association. Shareholders representing at least 5% of the shares can call for extraordinary General Meetings.

The General Meeting is the Company's supreme body, and elects the members of the Board and the Chairman of the Board. An AGM will ordinarily be held before 1st of June each year. The 2010 AGM is scheduled for the 20th of May.

The Board of Directors and the management of the Company seek to facilitate the largest possible attendance at the General Meeting. In 2009, the Annual General Meeting was held on the 18th of May and shareholders representing 69.31% of the share capital attended in person or by power of attorney. The Board of Directors has no intention of putting forward any significant proposals to the General Meeting concerning changes in the voting procedures.

Notice call of the meeting and the support information on the resolutions to be considered at the General Meeting, including the recommendations of the Nomination Committee, is available on the company's website no later than 21 days prior to the date of the General Meeting.

The call for the General Meeting is issued in writing via mail to all shareholders with registered address. To register for the General Meeting a shareholder must submit a confirmation in writing via mail, 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 resolution to be considered and the recommendation from the Nomination Committee.

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

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

Shareholders who cannot attend the meeting are given the opportunity to vote. Instructions are given in the call for AGM. To vote at the General Meeting, a shareholder must attend or give a power of attorney to someone who is attending. A power of attorney will only be accepted if submitted by post, fax, or e-mail (provided the power of attorney is a scanned document with signature). It is not possible to vote via the Internet or any other way.

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

Deviation from the Code of Practice:
There are two deviations on this point.

The first deviation relates to the Board and Nomination Committee's participation at the AGM. The entire Board or Nomination Committee has not usually attended the AGM. The Chairman of the Board is however always present to respond to any questions. 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.

The second deviation is that the proxy form does not open for separate voting instructions for each matter to be considered by the meeting and for each of the candidates nominated for election. Q-Free follows the Code of Practise's recommendation at the AGM in 2010.

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 laid down in the Company's articles of association.

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

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

THE TASKS OF THE NOMINATION COMMITTEE ARE:

A) to submit a recommendation to the General Meeting regarding shareholder elected members of the Board, including the Chairman of the Board, when these are up for election or in case of a by election. The Board of Directors elects its own deputy chairman from and amongst the elected Board members;

B) to ensure that the Board of directors make an annual self evaluation of their work and competence;

C) to propose directors' remuneration, including remuneration of sub-committees of the Board;

D) to submit its recommendation to the General Meeting regarding election of members to the Nomination Committee, including the Chairman of the Nomination Committee.

Q-Free is not aware of the existence of any agreements or business partnerships between the Company and any third parties in which members of its Nomination Committee have direct or indirect interests. The composition of the Nomination Committee is such as to maintain its independence from the Company's management.

Information on the Nominating Committee, a form for nominating candidates for the Board and the deadlines are available on the Group's website at www.q-free.com.

Prior to the AGM a meeting is held with the Chairman of the Board to review the Board's evaluation of its own work. Two of the Board members and one of the Nomination Committee members are up for election in 2010.

22 JUN 09

+ TAG FRAME AGREEMENT IN BRAZIL 100 MNOK

Nomination Committee as at 31st of December 2009:

Name	Company	Shares	Share options	For election
Cecilie Johnsen	Redback AS /Harburg AS	40,000	0	2010
Harald Arnet	Datum AS/ Wega AS	0	0	2011
Petter Fjellstad	Partner and investor in Grand Haven Capital	240,000	0	2011

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 on the Board of Directors.

Q-Free is not aware of the existence of any agreements or business partnerships between the Company and any third parties in which its directors have direct or indirect interests. The composition of the Board is such as to maintain its independence from the Company's management.

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

The female representation among shareholder-elected Board members is 40%, which is within the minimum target according to Norwegian law.

(See following page for presentation of the Board of Directors.)

THE BOARD OF DIRECTORS AS AT 31ST OF DECEMBER 2009

Name	Position, biographical data and competence	Service since	Elected until	Shareholding in Q-Free ASA
OLE JØRGEN FREDRIKSEN (born 1950)	Ole Jørgen Fredriksen has over 25 years experience in the computer hardware and software industry. He was one of the co-founders and the President and CEO of ASK, subsequently Proxima and InFocus, the leading global projector Company.	2002	2011	Shares: 168,884 Options: 200,000
CHRISTIAN ALBECH (born 1947)	Christian Albech has substantial experience in the information and media industries. He heads Telenor Broadcast's operational activities, which consist of Canal Digital, Norkring, Conax and Telenor Satellite Broadcasting. Christian Albech comes from the position as Senior Vice President of Telenor Broadcast and has extensive experience from Telenor's TV activities. Albech has previously headed Telenor's cable TV activities, and was hired as Head of Canal Digital's forerunner CTV. Mr Albech has widespread experience of board management.	2003	2011	Shares: 0 Options: 100,000
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	2011	Shares: 50,000 Options: 100,000
TORILD SKOGSHOLM (born 1959)	Torild Skogsholm is the Managing Director of Oslo Sporvognsdrift AS. She has a post master degree of economics from the Univ. of Oslo.From 2001-2005, Mrs Skogsholm was the Minister for Transport and Communications. She has also held position as State Secretary (Junior Minister) at the same ministry. She has experience from NetCom, as well as a civil servant at the Ministry of Transport and Communications and at the Ministry of Environment	2006	2010	Shares: 0 Options: 100,000
JAN PIHL GRIMNES (born 1961)	Jan Pihl Grimnes is through his Company Redback AS investing in the IT, petroleum and mining industries. He holds 2,64% of the shares in Q-Free ASA. 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	2010	Shares: 1,545,000 Options: 100,000
ANDERS HAGEN (born 1964)	Mr Hagen holds an MSc in electrical engineering and is heading the Innovation Team at the R&D department. Mr Hagen has been working in the Q-Free Group since 1992.	2006	2010	Shares: 0 Options: 0
SISSEL LILLEVIK LARSEN (born 1961)	Mrs Lillevik Larsen has been with Q-Free ASA since 2000 and holds the position as Technical project manager.	2008	2010	Shares: 0 Options: 0

17 AUG 09

+ Q-FREE AWARDED A CONTRACT IN PORTUGAL 26 MNOK

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.

After the Annual General Meeting, the Board of Directors makes a plan for its work in the coming year, specifying numbers of meetings and items to be discussed in each meeting. 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 16 meetings in 2009.

The Board of Directors is elected by the shareholders to oversee the executive management and to assure that the long-term interests of the shareholders and other stakeholders are being served. The Board of Directors has the ultimate responsibility for the management of the Company and for supervising its day-to- day business and activities in general. The main responsibility is to determine the Company's overall vision, goal and strategy. The Board of Directors also ensures that the activities are soundly organised and keeps itself informed about the financial situation of the Company, and ensure that the management handles risks faced by the Company in an appropriate way. The Group's activities are varied, depending on each unit's position in the value chain, and consequently require differentiated ways of management and follow-up. Internal management systems that are well functioning are essential, but these must be continuously developed in order to accommodate changes in financial conditions. The Group's structure with independent units, also in respect of short term reporting, facilitates good control and powerful focusing. The internal control is based on monthly reports specified on regions, units and divisions, while at the same time providing satisfactory reporting on group level.

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

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

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

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

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

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

Board member participation in meetings in 2009.

Participation in meetings in 2009	Board meetings	Compensation Committee	Audit Committee
Ole Jørgen Fredriksen	16	2	6
Christian Albech	13	2	
Mimi Kristine Berdal	15		6
Torild Skogsholm	14		6
Jan Pihl Grimnes	16		
Anders Hagen	16		
Sissel Lillevik Larsen	16	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 18th of June 2009, the Compensation Committee is composed as follows:

Ole Jørgen Fredriksen (Chairman)
Christian Albech
Sissel Lillevik Larsen

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 18th of June 2009, the audit committee is composed as follows:

Mimi Kristine Berdal (Chairman)
Ole Jørgen Fredriksen
Torild Skogsholm

Deviation from the Code of Practice: None

10. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Deviation from the Code of Practice:
The Board of Directors does not carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements. The Audit Committee has requested a presentation from management of an overall risk management and internal control procedure, to be reviewed by the Board and updated annually. Such risk management document shall describe the most important overall risk factors for the Company, its operations and financial reports, and how these are handled. The Company will establish a procedure for an annual review of risk management and internal control during 2010.

11. REMUNERATION OF THE BOARD OF DIRECTORS

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

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

25 SEPT 09
+ TAG ORDER FROM AUSTRALIA 15 MNOK

50% of the remuneration for the shareholder elected members, NOK 75,000. Beyond the scope of Board responsibility, Board members could from time to time take on certain consultancy projects for the Company. Such projects are defined by the Board of Directors and occur on a limited basis. Board members are compensated for such work separately.

The directors' fees are not linked to performance.

For further information about remuneration of the Board of Directors see note 25 in the 2009 financial statements.

REMUNERATION OF THE NOMINATION COMMITTEE

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

Deviation from the Code of Practice:
There are two deviations. The Chairman of the Board, Ole Jørgen Fredriksen, and director Mimi Kristine Berdal has taken on specific assignments (the assignment for Mimi Kristine Berdal ended in May 2009) for the Company, however, the assignments and remuneration 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. Berdal's expired assignment was limited up to NOK 50,000 per year. It is the Company's opinion that these assignments are for the benefit of the Company in relation to the Company's strategic processes.

The other deviation is that the Company grants share options to members of its Board. It has been the Nomination Committee's and the Annual General Meeting's opinion that using share options as part of the Board remuneration is a good alternative to a high fixed remuneration.

12. REMUNERATION OF THE EXECUTIVE MANAGEMENT

The Board has drawn up 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 key personnel in the Company, and by the end of 2009, 8 employees had been granted share options (see under equity and dividends for more information about the incentive program).

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 senior management, see note 25 in the 2009 financial statements.

Shares and share options held by the Company's executive management as at 23rd of March 2010:

Name	Position	Shares	Share options
Øyvind Isaksen	CEO	91,989	675,000
Roar Østbø	CFO	47,000	150,000
Marianne Sandal	VP Operations	17,000	150,000
Henrik Stoltenberg	VP M&A	0	150,000
Hans Christian Bolstad	VP R&D	4,000	150,000
Steinar Furan	VP Business Dev	22,500	150,000
Per Fredrik Ecker	VP Sales	6,500	150,000
Stein-Tore Nybrodahl	HR Manager	7,500	45,000

For information about the running option schemes see note 14 in the 2009 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 2009 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 in 2010.

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 submits an engagement letter to the Board each year. The engagement letter is a plan for the audit of the Company and other information to the Board about next year's audit. The auditor attends at least one audit committee meeting and Board meeting every year to present and comment on its management letter and other reports related to the audit it has carried out. The reports contain identification of weaknesses and proposals for improvement. At least once a year, a meeting will be held between the auditor and the Board without the presence of the CEO or other members of executive management. The audit committee has a specific obligation to survey the auditor's independence and qualifications, and to propose candidates for external audit of the Company to the General Meeting.

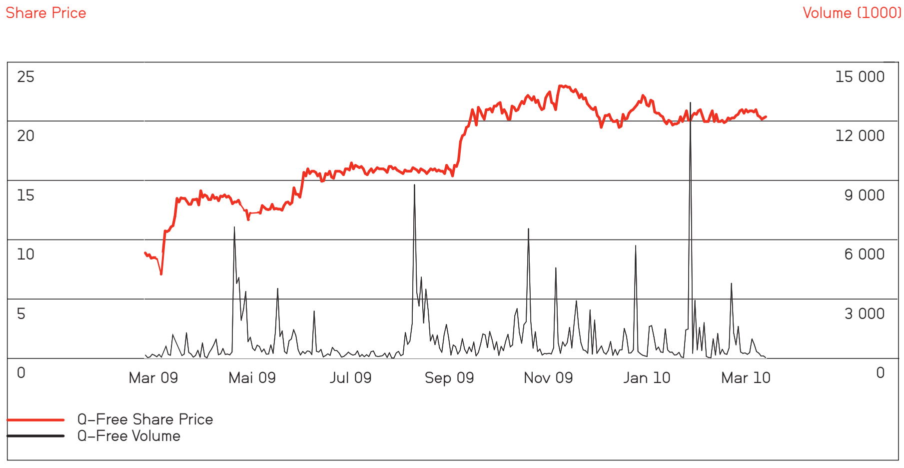
Ernst & Young has been the external auditor for Q-Free ASA for the last seven years and carries out no other assignments for the Company which could give rise to conflict of interest. The auditor attends the General Meeting and informs about the auditor's report and remuneration for the year. This year's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

The Board of Directors has initiated a bid process on external auditing services during the spring of 2010. This process will be concluded during the Annual General Meeting through election of auditor.

For further information about remuneration of the auditor see note 25 in the 2009 financial statements.

Deviation from the Code of Practice: None.

Share price development from March 2009 to March 2010



ARTICLES OF ASSOCIATON

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

PARAGRAPH 2 The Company's registered office is in Trondheim, Norway.

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

PARAGRAPH 4 The share capital of the Company is NOK 22,820,554.96, distributed between 60,054,092 shares, each with a par value of NOK 0.38.

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

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

The Board of Directors represents the Company, and has the right to sign the Company. In addition, the Chairman of the Board and one member of the Board jointly have the right to sign the Company.

The Board of Directors may grant powers of procuration.

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

The Ordinary General Meeting shall handle:

1) Pass resolution of result and balance.
2) Allocation of profit or covering of loss in accordance with the stipulated balance and distribution of dividends.
3) Election of members to the Board of Directors and Chairman of the Board of Directors.
4) Pass resolution of remuneration for the members of the Board.
5) Elect members to the Nomination Committee.
6) Pass resolution of remuneration for the members of the Nomination Committee.
7) Pass resolution of the auditor's remuneration.
8) Other cases that the Board submits in their notice or as a shareholder wishes to address when such is submitted at the latest 3 weeks prior to the General Meeting.
9) Other cases that according to Law falls within the powers of the General Meeting.

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

The Nomination Committee consists of three members who shall be shareholders or representatives for the shareholders. The General Meeting elects the members. The Nomination Committee members are elected for two years at a time. The General Meeting can pass regulations governing the Nomination Committee.

PARAGRAPH 8 Furthermore, the Company legislation at any given time shall be applicable.
Last revised 22nd of October 2009.

TECHNICAL INFORMATION

At 31.12.09, Q-Free ASA had 60,054,092 shares, each with a face value of NOK 0.38.
The Company had 1,654 shareholders as at 31.12.09.

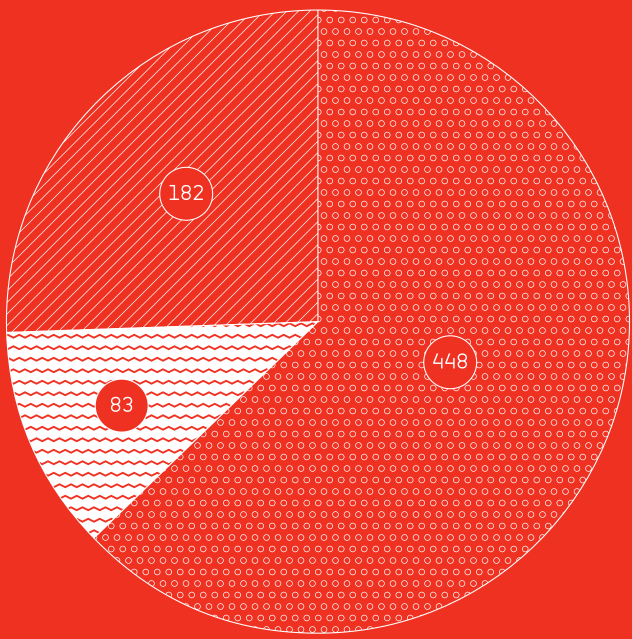
The Company's register of shareholders, cp. S. 4-4 of the Public Limited Companies Act (Norway), was registered with the Norwegian Central Securities Depository (Verdipapirsentralen –VPS) at 03.04.2002 and carries the VPS registration number ISIN NO 0003103103.

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

The Company's enterprise number in the Register of Business Enterprises is 935 487 242.

Overview of historical development in share capital

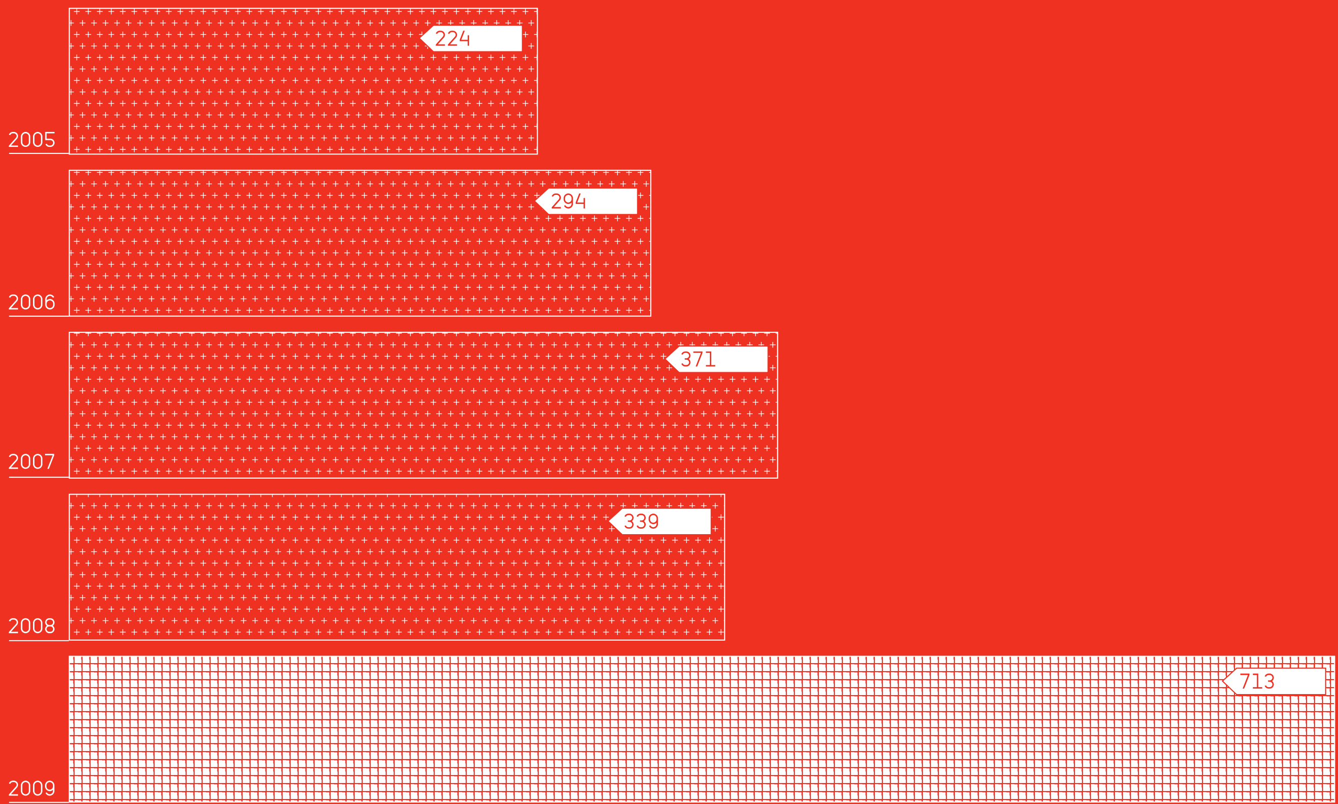
Date	Type of change	Face value per share (NOK)	Change in share capital (NOK)	Share capital after change (NOK)	Number of shares issued	Number of shares after change
03/12/2002	Status at IPO	0.05	684,713.40	2,279,163.40	13,694,268	45,583,268
02/05/2004	Exercise of options key personell	0.05	4,833.35	2,283,996.75	96,667	45,679,935
03/10/2004	Exercise of options key personell	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 personell	0.05	4,583.30	2,518,580.05	91,666	50,371,601
06/08/2004	Exercise of options key personell	0.05	5,966.65	2,524,546.70	119,333	50,490,934
07/26/2004	Exercise of options key personell	0.05	833.35	2,525,380.05	16,667	50,507,601
09/22/2004	Exercise of options key personell	0.05	833.35	2,526,213.40	16,667	50,524,268
10/19/2004	Exercise of options key personell	0.05	6,000.05	2,532,213.45	120,001	50,644,269
01/13/2005	Exercise of options key personell	0.05	2,666.70	2,534,880.15	53,334	50,697,603
03/17/2005	Exercise of options key personell	0.05	2,500.00	2,537,380.15	50,000	50,747,603
06/02/2005	Exercise of options key personell	0.05	500.00	2,537,880.15	10,000	50,757,603
06/23/2005	Exercise of options key personell	0.05	3,000.00	2,540,880.15	60,000	50,817,603
07/04/2005	Exercise of options key personell	0.05	1,250.00	2,542,130.15	25,000	50,842,603
07/27/2005	Exercise of options key personell	0.05	1,250.00	2,543,380.15	25,000	50,867,603
07/29/2005	Exercise of options key personell	0.05	833.30	2,544,213.45	16,666	50,884,269
09/04/2005	Exercise of options key personell	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 personell	0.38	3,800.00	19,349,322.22	10,000	50,919,269
05/02/2006	Exercise of options key personell	0.38	258,780.00	19,608,102.22	681,000	51,600,269
05/11/2006	Exercise of options key personell	0.38	195,953.46	19,804,055.68	515,667	52,115,936
05/12/2006	Exercise of options key personell	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 personell	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	5,100,000	60,054,092



ORDER BACKLOG BUSINESS AREAS

MNOK

PRODUCTS
SERVICE AND MAINTENEANCE
PROJECTS



ORDER BACKLOG

MNOK

BOARD OF DIRECTORS REPORT

The Q-Free Group had an operating profit of 102.7 MNOK (44.3) in 2009, out of operating revenues of 804.4 MNOK (509.2). Q-Free has taken actions to strengthen its position in a growing market through the last couple of years. Through the acquisitions of Dacolian BV (NL) and Building Capital Ltd (UK) and by investing in next generation in-house developed Dedicated Short Range Communication (DSRC) portfolio the company has strengthened and broadened its portfolio-enabling to offer the optimal solution for the various applications at hand. 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 Licence Plate Recognition) and GNSS (Global Navigation Satellite System) based solutions, with deliveries in Europe, Asia- Pacific, Middle East and North and South America. Q-Free is listed on the Oslo Stock Exchange with the ticker QFR.

+ ORDERS RECEIVED AND ORDER BACKLOG

At year-end 2009, Q-Free Group had an order backlog of 713 MNOK, which is 374 MNOK more than at year-end 2008 and represents a 110% increase. The order backlog is distributed as follows: Europe 83%, Asia/ Australia 10% and Latin and North America 7%. Orders received in 2009 amounted to 1,177 MNOK, of which 79% came from European countries, 12% from Asia/Australia and 9% from Latin and North America.

+ REPORT ON THE FINANCIAL STATEMENTS FOR 2009

In 2009, the Q-Free Group had revenues amounting to 804.4 MNOK, compared to 509.2 MNOK in 2008. This represents a growth of 58% from 2008.

The Group's gross margin for the year was 62.3%, which represents 5.5% increase compared to 2008 when the gross margin was 56.8%. The operating profit (EBIT) for 2009 totalled 102.7 MNOK, compared to 44.3 MNOK in 2008. This is an improvement of 58.4 MNOK, mainly due to a 58% increase in revenues and good margins on the projects in 2009. This gives a significant increase in the gross profit in 2009. Net financial items amounted to 7.0 MNOK in 2009, compared to 6.6 MNOK in 2008.

The Group's profit before tax was 109.7 MNOK, compared to 50.9 MNOK the previous year. Tax expenses amounted to 31.5 MNOK, compared to 14.6 MNOK in 2008. Tax payable at the year end is 5.0 MNOK.

The annual profit for the Group after minority interests amounted to 78.3 MNOK, compared to 31.6 MNOK in 2008. Earnings per share amounted to NOK 1.41, compared to NOK 0.60 in 2008.

The Q-Free Group had total assets of 767.5 MNOK at year-end 2009, compared to 514.4 MNOK the year before. Work in progress accounts receivables and other short term assets, have increased as a result of higher business volumes. Intangible assets have increased as a result of the acquisition of Building Capital Ltd, Dacolian BV and due to capitalised development projects of the company's new DSRC product portfolio. Working capital requirements have increased during 2009 relative to last 12 months revenues, but this mostly reflects the cash funds from the share issue during the last quarter of 2009.

The Group's equity has increased by 196.9 MNOK to 548.6 MNOK and as at 31 December 2009 it totalled 71.5% of total assets.

The Group capitalises costs on product development activities. Capitalised costs for 2009 consist mainly of the development of a new generation DSRC tag and reader.

At year-end 2009, the parent company had 69.6 MNOK in free equity.

The Board of Directors' recommendation is that no dividends will be paid for the fiscal year 2009.

CASH FLOW AND WORKING CAPITAL

The Group's cash funds at the end of 2009 amounted to 274.6 MNOK, compared to cash funds of 119.6 MNOK the year before.

The difference between operating profit before depreciation, amortisation and impairment (EBITDA) and cash flow from operations is due to working capital increase (reduction in inventories, increase of accounts receivable, increase in work in progress, increase in accounts payables and decrease of other short term liabilities).

The Group has satisfactory financial strength to initiate self financed investments in technology and projects. During 2009 the Group has invested a total of 71.1 MNOK in new technology to improve future profitability.

The Group's current assets are equal to 534.1 MNOK and short term debt amount for 188.9 MNOK which gives a liquidity ratio of 2.8. The Group has cash funds of 274.6 MNOK, which gives a satisfactory working capital situation at the balance sheet date.

Q-Free completed a private placement for a total of 5,100,000 new shares during the last quarter of 2009. The private placement was significantly over-subscribed. Net proceeds of 105 MNOK from the private placement will be applied towards strengthening of Q-Free's balance sheet in order to be able to take advantage of potential M&A opportunities.

GOING CONCERN

The Board confirms that the financial statements are prepared based on the principle of going concern. It is the Board's opinion that the Profit and Loss Account and Balance Sheet with notes provide adequate information on the operations and the state of the Company at year-end. The Board emphasises there is normally considerable uncertainty connected with forward-looking statements. Nothing of significance has happened since the turn of the year, other than described in this report.

+ ORGANISATION, WORKING CONDITIONS, EXTERNAL ENVIRONMENT AND ORGANISATION

Q-Free is headquartered in the city of Trondheim, Norway, and is present in 18 countries on four continents. Outside Norway the Company is represented directly in The Netherlands, Sweden, United Kingdom, Portugal, Slovakia, France, Spain, Australia, Malaysia, Thailand, Indonesia and Brazil. The Company is also represented in Turkey, Greece, India, Chile and USA. In 2009 Q-Free acquired Building Capital Ltd, a company which has specialised within GNSS (satellite/ GNS based tolling/enforcement) with 5 employees in London, UK. In addition Q-Free owns 53.5% of Noca AS, a contract electronics manufacturer.

At year-end 2009, the Group had 292 employees, whereof 145 are employed in the parent company in Trondheim and Oslo, 51 in Noca AS in Trondheim and 96 in companies outside Norway. A total of 92 percent of the employees hold a university degree or similar, mainly technical degrees.

IMPROVEMENT MEASURES

In order to enable continued growth for Q-Free and to ensure that the Group is prepared to meet the demands of a growing RUC market, it is important to have an ongoing process to professionalise the organisation. This has also been a focus area for the Group in 2009. Increased interest for the company, both in Norway and internationally, has lead to a growing number of highly skilled applicants asking for a Q-Free job. The Group considers the workforce to be well prepared to meet the coming challenges in the future RUC market. The turnover rate in 2009 has been very low. The Board considers further development of the Group's employees to be an important strategic effort to position the Group.

WORKING ENVIRONMENT AND PERSONNEL

The Board considers the working environment in the Group to be good, and would like to take this opportunity to thank the employees for their contributions in a year with challenging projects and heavy workload. Sick leave in 2009 amounted to 439 days, i.e. 1.4%. A very impressive result given the extended activity in 2009 and a reduction from 2.2% in the previous year. No serious occupational incidents or injuries were reported during the year.

The Group operates a policy of complete equality between male and female workers and does not have differential treatment based on gender. By tradition, the Group's recruitment is from a variety of engineering environments, and currently the Group has 24% female and 76% 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 and aims to have similar remuneration between male and female. The parent Company fulfils the Norwegian legal requirement of a minimum of 40% female Board members.

The Group employs and has historically employed personnel of various nationalities and from various cultures in the parent company in Norway both 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 focuses on the importance that everyone who works for the Q-Free Group represents the Group companies and the Group's ideals in a positive way on all arenas of our global business. The Board therefore adopted a set of guidelines for ethical conduct for Q-Frees personnel (Q-Free Code of Conduct), applicable to both internal and external business.

EXTERNAL ENVIRONMENT

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

RISK SITUATION

An international technology company such as Q-Free is destined to be exposed to a number of different risks. Political risk related to the time involved from sales lead are identified to contract is awarded and implementation of projects is 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 it 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 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 the Group 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 RISKS

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

LIQUIDITY RISK

The Q-Free ASA Group's strategy is to have sufficient cash, 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 Group'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 a unique competence in this field, and the development of plans to handle project risks that may arise is an important element of the Group's know-how in this respect.

+ CORPORATE GOVERNANCE

The Stock exchange regulations require that companies listed on the Oslo Stock Exchange must publish a report on their principles for Corporate Governance once a year, in accordance with the Norwegian Code of Practice for Corporate Governance.

The Board of Q-Free adopted the Group's principles for Corporate Governance in 2008 and these were updated in 2009. Further details are provided under the section "Corporate Governance" in the printed version of the Company's Annual Report.

+ SHAREHOLDER SITUATION

SHARE DEVELOPMENT

The price for Q-Free shares in 2009 fluctuated from NOK 8.20 (January) to NOK 21.60 (December). With a total number of 60,054,092 shares, this implies a market value of 1,297 MNOK at the end of the year.

SHAREHOLDER SITUATION

At year-end 2009, Q-Free ASA had 1,654 shareholders compared to 1,436 in 2008. The ownership structure consists of investment companies and institutional shareholders in Norway and abroad.

The 20 largest shareholders in Q-Free ASA as at March 23rd 2010:

Holding	Percentage	Name
10,005,000	16.66	Erste Bank Der Oeste Sparkassen AG
5,203,574	8.66	Odin Norge
3,000,000	5.00	Skagen Vekst
2,550,000	4.25	Kikut AS Arne Nilsen
2,125,000	3.54	DnB NOR SMB VPF
2,062,800	3.43	Holberg Norge v/Holberg Fondsforva
1,974,500	3.29	JP Morgan Chase Bank Special Treaty Lendi
1,633,600	2.72	Andresen Lars Oddgeir
1,495,000	2.49	Redback AS
1,187,017	1.98	Bank Austria Credita Dept. 8811/Mrs. Aimu
1,040,000	1.73	Mons Holding AS
1,026,975	1.71	VPF Nordea Kapital C/O JP Morgan Europe
867,332	1.44	VPF Nordea Avkastnin C/O JP Morgan Europe
750,000	1.25	Deutsche Bank Intern Client Account
655,300	1.09	Warrenwicklund Norge
653,646	1.09	Pensjonskassen Stato C/O JP Morgan Chase
600,493	1.00	NHO – P665ak JP Morgan Chase Bank
581,700	0.97	Vpf Nordea SMB C/O JP Morgan Europe
577,940	0.96	Storebrand Livsforsi P980, Aksjefondet
549,839	0.92	Danske Invest Norge
38,539,716	64.18	TOTAL

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

AUTHORISATION TO ACQUIRE THE COMPANY'S OWN SHARES

On 18th of May 2009, The General Meeting authorised the Board of Directors of Q-Free ASA to permit the Company to acquire shares in Q-Free ASA with a nominal value of up to NOK 2,051,095.98, divided between up to 5,397,621 shares, each with a par value of NOK

0.38, provided that the Company's shareholding of own shares shall not exceed 10% of shares outstanding at any given time. The minimum and maximum amount that can be paid per share will be NOK 1 and NOK 100 respectively. The Board of Directors shall have full discretion with respect to methods of acquisition and disposal of the Company's own shares. The authorisation shall be valid until the next ordinary General Meeting, but no longer than 30th of June 2010.

AUTHORISATION TO INCREASE THE SHARE CAPITAL

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

In the General Meeting of 18th of May 2009 The Board of Directors was given a new authorisation to increase the share capital with as much as NOK 2,051,095.98 by the issue of as much 5,397,621 shares (10%), with a par value of NOK 0.38, with a right to disregard the existing shareholders preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5, and to determine that non-cash share deposits shall be made or the right to subject the company to special obligations pursuant to section 10-2 of the Public Limited Companies Act, and mergers according to the Public Limited Companies Act section 13-5. The Board of Directors is authorised to determine the terms and conditions for the subscription of shares, and to amend the company's articles of association in compliance with the increase of the share capital at all times. The authorisation shall be valid for two years from the resolution is approved by the General Meeting, but no longer than 18th of May 2011.

AUTHORISATION TO INCREASE THE SHARE CAPITAL – INCENTIVE PROGRAM

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

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

Further details regarding the share option programme are provided in note 14 of the financial statement in the Annual Report.

+ OUTLOOK

The Board of Directors would like to point out that there will always be considerable uncertainty related to forward-looking statements.

The global ITS market is expected to grow considerably over the next years and Q-Free's market position is continuously strengthening. Our strategic positioning has been well received by existing and new customers and partners. During 2009 the company achieved all time high order intake of above 1 BNOK. 2010 will be an important year when it comes to positioning the Company for larger infrastructure projects. Some of these may be concluded in 2010, but the majority most likely in 2011.

During 2010 the company will continue to further develop and proffesionalise the company. The added references through successful delivery of the major projects, such as in Slovakia, Portugal and Thailand, represent an important tool for Q-Free when competing for future projects. To efficiently explore this growing market, we will continue to strengthen our competence and capacity. The sales organisation will be expanded to cover new geographical areas, operational excellence will be a continuous focus to secure high quality and cost efficiency, and the company's R&D activity will futureproof the company by developing new products and solutions.

+ ALLOCATION OF PROFITS

The Board proposes that the profit for the year in the parent company of NOK 52,199,000 is distributed to other equity.

+ STATEMENT FROM THE DIRECTORS AND THE CEO

We confirm that, to the best of our knowledge, the financial statements for the period from 1 January to 31 December 2009 have been prepared in compliance with applicable financial reporting standards and that the disclosures in the accounts give a true and fair view of the Company's and the Group's assets, liabilities, financial position and results of operations as a whole, and that the Directors' Report gives a fair review of the development, profit/loss and position of the Company and the Group, along with a description of the main risk and uncertainty factors facing the Company.

Trondheim 31st of December 2009 / 23rd of March 2010:

Ole Jørgen Fredriksen (Chairman of the Board)

Mimi Kristine Berdal

Christian Albech

Torild Skogsholm

Anders Hagen

Sissel Lillevik Larsen

Jan Pihl Grimnes

Øyvind Isaksen (CEO)

1. OLE JØRGEN FREDRIKSEN

Chairman of the Board

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

2. CHRISTIAN ALBECH

Board member

+ Christian Albech has substantial experience in the information and media industries. He heads Telenor Broadcast's operational activities, which consist of Canal Digital, Norkring, Conax and Telenor Satellite Broadcasting. Christian Albech comes from the position as Senior Vice President of Telenor Broadcast and has extensive experience from Telenor's TV activities.

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

3. MIMI KRISTINE BERDAL

Board member

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

4. TORILD SKOGSHOLM

Board member

+ Torild Skogsholm is the Managing Director of Oslo Sporvognsdrift AS. From 2001-2005, Mrs Skogsholm was the Minister for Transport and Communications. She has also held positions as political advisor to the Ministry of the Environment and Parliamentary Secretary at the Ministry of Transport and Communications.

5. JAN PIHL GRIMNES

Board member

+ Jan Pihl Grimnes is through his company Redback AS investing in the IT, petroleum and mining industries. He holds 2.49% of the shares in Q-Free ASA. Grimnes founded Technoguide AS, and holds several board positions both in listed and non-listed companies. Grimnes holds an MBA from the Norwegian School of Economics and Business Administration and a MSc from the Norwegian University of Science and Technology.

6. ANDERS HAGEN

Employee elected memeber of the Board

+ Mr Hagen holds an MSc in electrical engineering and is heading the Innovation Team at the R&D department. Mr Hagen has been working in the Q-Free Group since 1992.

7. SISSEL LILLEVIK LARSEN

Employee elected memeber of the Board

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

ANNUAL ACCOUNTS 2009

+

CONTENT

+ CASH FLOW FROM OPERATIONS (MNOK)

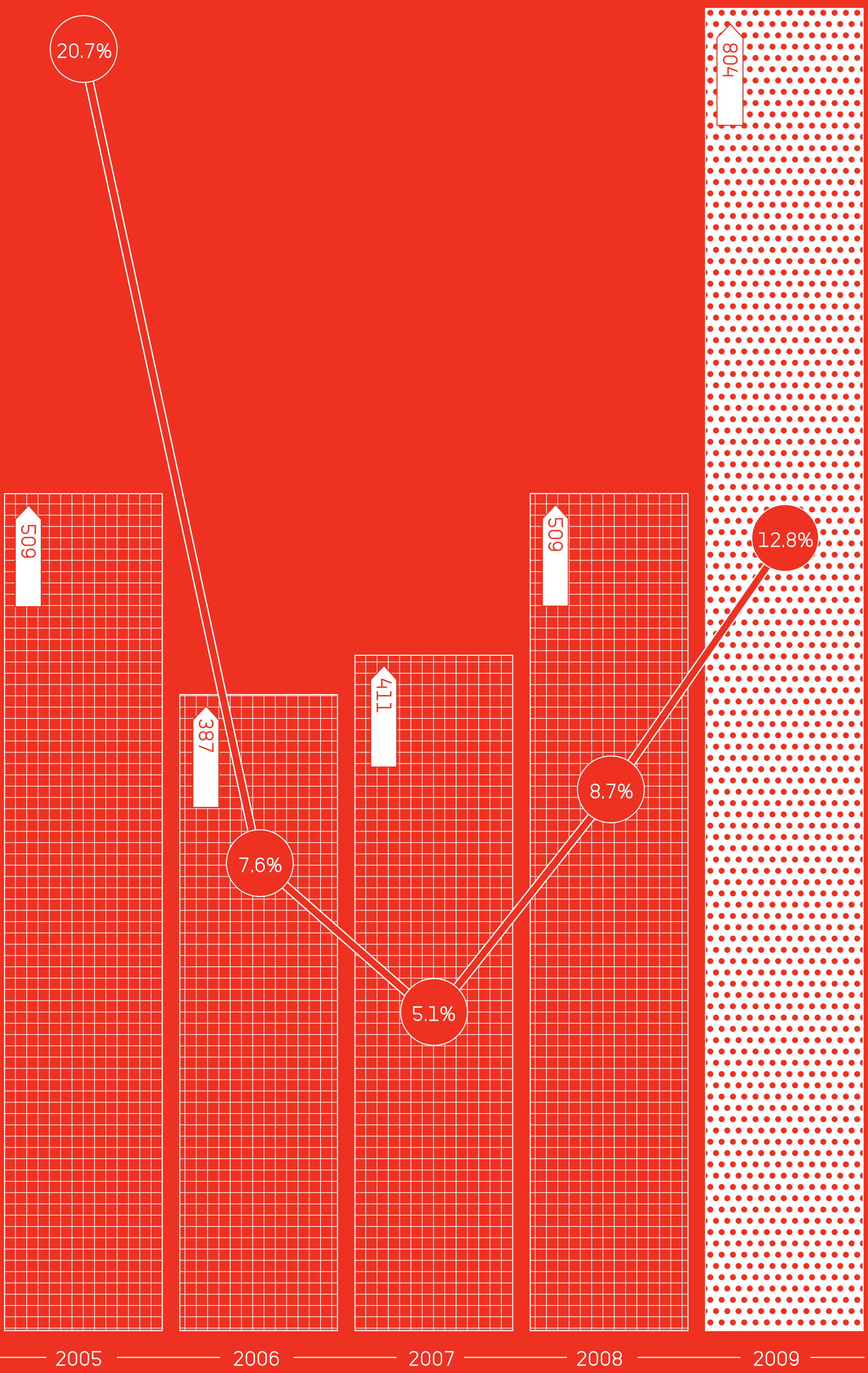
112

+ EQUITY RATIO

71%

+ PROFIT AFTER TAX (MNOK)

78



REVENUES

COLUMNS = REVENUES MNOK

LINE = EBIT MARGIN %

CONSOLIDATED INCOME STATEMENT

FIGURES IN TNOK

Parent company 2008	Parent company 2009		Note	Group 2009	Group 2008
		OPERATING REVENUES			
317,498	601,168	Revenues	7	798,276	502,747
6,499	6,127	Other operating income	8	6,127	6,499
323,997	607,295	TOTAL OPERATING REVENUES		804,403	509,246
		OPERATING EXPENSES			
142,987	242,228	Cost of goods sold	16	303,429	219,978
66,277	103,010	Payroll expenses	14, 15, 25	153,712	107,488
95,432	176,922	Other operating expenses	26	212,057	116,547
304,696	522,160	TOTAL OPERATING EXPENSES		669,198	444,012
19,301	85,135	Operating profit before depreciation - EBITDA		135,205	65,233
15,271	20,780	Depreciation, amortisation and impairment	11	32,461	20,950
4,030	64,355	Operating profit – EBIT		102,743	44,283
		FINANCIAL ITEMS			
-24,343	-23,860	Financial expenses		-26,375	-29,502
30,783	30,166	Financial income		33,330	36,134
9,794	217	Financial income from Group companies		0	0
16,234	6,524	TOTAL FINANCIAL ITEMS	6, 13	6,955	6,633
20,264	70,878	Profit before tax		109,698	50,915
-3,620	-18,679	Taxes	9	-31,549	-14,629
16,643	52,199	Profit / (-) loss for the year		78,150	36,287
		Minority share		-160	4,659
		Equity holders of the parent		78,310	31,628
		DISTRIBUTION OF PROFIT FOR THE YEAR			
0	0	Share premium reserve			
16,643	52,199	Other equity			
16,643	52,199	TOTAL DISTRIBUTED			
		Earnings per share	10	1.41	0.60
		Diluted earnings per share	10	1.39	0.60

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FIGURES IN TNOK

16,643	52,199	Profit for the period	78,150	36,287
0	0	Exchange differences on translation of foreign operations	1,393	-1,604
16,643	52,199	TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	79,543	34,683
		Attributal to:		
		Minority interests	-160	4,659
		Equity holders of the parent	79,703	30,024
		TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	79,543	34,683

BALANCE SHEET 31.12

FIGURES IN TNOK

Parent company		ASSETS		Group	
2008	2009		Note	2009	2008
		NON – CURRENT ASSETS			
2,508	0	Deferred tax assets	9	0	0
58,866	79,811	Development	11, 12	121,572	101,995
0	0	Goodwill	11, 12	34,288	26,022
54,579	56,409	Machinery, fixtures and fittings	11, 12	71,874	63,938
81,979	92,339	Investments in subsidiaries	5, 24	0	0
5,378	5,378	Loan to group companies	24	0	0
2,187	3,492	Investments in other companies	13	4,103	2,278
0	0	Pension funds	15	0	572
932	0	Other receivables		1,621	2,392
206,430	237,430	TOTAL NON - CURRENT ASSETS		233,459	197,197
		CURRENT ASSETS			
33,006	25,381	Inventories	16	40,328	47,026
15,538	62,552	Work in Progress	27	64,699	43,170
53,994	69,422	Accounts receivables	17	125,144	80,087
7,699	46,782	Accounts receivables on group companies	17	0	0
15,581	14,268	Other debtors		29,288	27,328
63,064	187,572	Cash and cash equivalents	18	274,615	119,617
188,881	405,977	TOTAL CURRENT ASSETS		534,074	317,229
395,311	643,407	TOTAL ASSETS		767,534	514,425

BALANCE SHEET 31.12

FIGURES IN TNOK

Parent company 2008	Parent company 2009	EQUITY AND LIABILITIES	Note	Group 2009	Group 2008
		EQUITY ATTRIBUTAL TO EQUITY HOLDERS OF THE PARENT			
20,511	22,821	Subscribed share capital	19	22,821	20,511
171,399	283,946	Share premium reserve		283,946	171,399
7,680	10,219	Other paid-in capital		10,348	7,809
97,257	149,456	Other equity		210,635	130,933
296,847	466,443	Total equity attributal to equity holders of the parent		527,750	330,652
0	0	Minority interests		20,851	21,011
296,847	466,443	TOTAL EQUITY		548,601	351,663
		LIABILITIES			
		Non-current liabilities			
0	0	Liabilities to financial institutions	20	1,412	2,202
0	15,847	Deferred tax	9	27,121	11,465
574	1,725	Pension liabilities	15	1,466	733
574	17,572	Total non-current liabilities		29,999	14,399
		Current liabilities			
51,574	80,502	Accounts payable	23	105,411	58,613
1,041	12	Advance payments from customers		5,415	5,550
1,577	23,358	Debt to group companies	24	0	0
0	0	Tax payable	9	4,959	4,246
6,353	7,849	Public duties payable		13,653	9,924
37,345	47,672	Other short-term liabilities	21	59,496	70,029
97,891	159,393	Total current liabilities		188,934	148,363
98,464	176,965	TOTAL LIABILITIES		218,933	162,762
395,311	643,407	TOTAL EQUITY AND LIABILITIES		767,534	514,425

Trondheim 31 December 2009/ 23 March 2010

Ole Jørgen Fredriksen
(Chairman of the Board)
sign.

Mimi Kristine Berdal
sign.

Christian Albech
sign.

Torild Skogsholm
sign.

Anders Hagen
sign.

Sissel Lillevik Larsen
sign.

Jan Pihl Grimnes
sign.

Øyvind Isaksen
(CEO)
sign.

STATEMENT OF CHANGES IN EQUITY

FIGURES IN TNOK

CHANGES IN EQUITY

Parent company

	Note	Share capital	Share Premium reserve	Other paid-in capital	Other equity	TOTAL EQUITY
Equity per 01.01.2008	19	19,864	155,231	5,116	80,613	260,825
Total comprehensive income for the period		0	0	0	16,643	16,643
Share issue arising from acquisitions	5, 19	647	16,168	0	0	16,815
Cost of share-based payment	14	0	0	2,564	0	2,564
Total equity of the parent company per 31.12.08		20,511	171,399	7,680	97,256	296,847
Equity per 01.01.2009	19	20,511	171,399	7,680	97,256	296,847
Total comprehensive income for the period		0	0	0	52,199	52,199
Share issue arising from acquisitions	5, 19	2,310	112,547	0	0	114,857
Cost of share-based payment	14	0	0	2,539	0	2,539
TOTAL EQUITY OF THE PARENT COMPANY PER 31.12.09		22,821	283,946	10,219	149,456	466,443

Group

		Equity attributal to equity holders of the parent						Minority interests	TOTAL EQUITY
	Note	Share capital	Share Premium reserve	Other paid-in capital	Other equity	Foreign currency translation reserve	Total		
Equity per. 01.01.2008:	19	19,864	155,231	5,245	103,904		284,244	16,352	300,596
							0		
Total comprehensive income for the period					31,628	-1,604	30,024	4,659	34,683
Transferred equity subsidiary					-1,422		-1,422		-1,422
Reclassified deferred tax subsidiary					-1,573		-1,573		-1,573
Share issue arising from acquisitions	5, 19	647	16,168				16,815		16,815
Cost of share-based payment	14			2,564			2,564		2,564
Total equity of the Group per 31.12.2008		20,511	171,399	7,809	132,537	-1,604	330,652	21,011	351,663
Equity per. 01.01.2009:	19	20,511	171,399	7,809	132,537	-1,604	330,651	21,011	351,663
Total comprehensive income for the period					78,310	1,393	79,703	-160	79,543
Share issue arising from acquisitions	5, 19	2,310	112,547				114,857		114,857
Cost of share-based payment	14			2,539			2,539		2,539
TOTAL EQUITY OF THE GROUP PER 31.12.2009		22,821	283,946	10,348	210,847	-211	527,750	20,851	548,601

CASH FLOW STATEMENT

FIGURES IN TNOK

Parent company 2008	Parent company 2009		Note	Group 2009	Group 2008
		CASH FLOW FROM OPERATIONS			
20,264	70,878	Profit before tax		109,698	50,915
1,244	0	Taxes paid	9	-11,497	-2,403
15,271	17,070	Depreciation	11	28,751	20,950
0	3,710	Impairment of fixed assets		3,710	0
9,329	6,505	Dividends from subsidiaries	6	0	0
465	217	Interest from subsidiaries	6	0	0
-1,271	-1,263	Pension cost without cash flow effect	15	-1,493	-1,306
-468	-1,535	Shares valued at fair value	6	-1,559	-468
2,565	2,539	Cost of share-based payment	14	2,539	2,565
47,399	98,121	Cash flow from operations		130,150	70,254
28,092	-2,078	Changes in inventory, customers, suppliers		8,439	27,208
-11,407	-25,132	Changes in other balance sheet items		-26,737	-18,290
64,084	70,911	Net cash flow from operations		111,852	79,172
		CASH FLOW FROM INVESTMENTS			
-47,514	-43,554	Investments in tangible fixed assets		-67,639	-82,508
-39,648	-6,360	Acquisition of a subsidiary, net of cash acquired	5	6	3,924
-31,877	-10,742	Other investments		-3,442	195
-119,039	-60,656	Net cash flow from investments		-71,075	-78,389
		CASH FLOW FROM FINANCING			
0	0	Down payments of loans	20	-790	-790
16,814	114,857	Share issue	5, 19	114,857	0
0	0	Other financial items		154	-4,659
16,814	114,857	Net cash flow from financing		114,221	-5,449
-38,141	125,112	Net change in cash and cash equivalents for the year		154,998	-4,666
101,205	63,064	Cash and cash equivalents per 01.01.	18	119,617	124,283
63,064	188,176	Cash and cash equivalents per 31.12.		274,615	119,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2009

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NOTE 1. CORPORATE INFORMATION

The consolidated accounts for the year ended at 31 December 2009 were approved by the Board of Directors at its meeting on 23 March 2010. Q-Free ASA is a limited liability company with 292 employees in 11 locations and representatives in 7 other countries. The headquarter is based in Trondheim, Norway. Q-Free is listed on the Oslo Stock Exchange with the ticker QFR.

Q-Free is a leading global supplier of solutions and products for Road User Charging and Traffic Surveillance 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) - 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 7.

NOTE 2. BASIS FOR PREPARATION OF THE CONSOLIDATED ACCOUNTS

2.1 : GENERAL PRINCIPLES

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

> STATEMENTS OF COMPLIANCE

The consolidated financial statements of Q-Free ASA (the “Parent Company”) and all its subsidiaries (The “Group”), have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The below listed principles are used both for the Parent company and The Group if not stated otherwise.

2.2 : USE OF ESTIMATES WHEN PREPARING THE ANNUAL FINANCIAL STATEMENTS

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

In the process of applying the Group’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

> PENSION FUNDS / LIABILITIES

The cost of defined benefit pension plans and other post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves a number of assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at the reporting date. The net employee pension liabilities for the Group as at 31 December 2009 is TNOK 1,725 Corresponding figures for 2008 was net funds TNOK 574. Further details are given in Note 15.

> WARRANTY ACCRUALS

The Group is estimating probable warranty costs in relation to tags delivered with faults based on similar cost for previous years and an evaluation of the portfolio of delivered tags still under warranty. Total provisions for warranty costs as at 31 December 2009 is TNOK 9,073 for the group. Corresponding figures for 2008 was TNOK 10,477. Further details are given in Note 21.

> BUSINESS COMBINATIONS AND ESTIMATES USED IN PPA-ANALYSIS AT ACQUISITIONS (PRICE PURCHASE ALLOCATION)

In order to determine the fair value of certain intangible assets, it is necessary to calculate the expected future cash flows of the Company to the purchase price of the Company. This reconciliation is performed via a base enterprise business valuation (BEV). In order to perform this calculation at the Building Capital Ltd acquisition we have used the following estimates.

The nominal WACC is estimated to 10.4 percent. The risk free rate is assessed at 3.8 percent (based on 10-year Euro zone government bond risk free rate). We have used 5 percent as an estimate of the general market risk premium. 69.4 percent is used as weight of equity, based on the balance sheet as at 31.12.2009 and the market capitalisation of Q-Free. It is assumed that this capital structure provides a reasonable estimate for future capital structure. Further details are given in note 5.

> REVENUE RECOGNITION IN PROJECTS
Revenue recognition in projects is measured as a percentage 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. Total order's for the Group as at 31 December 2009 is TNOK 648,867. Corresponding figures for 2008 was TNOK 215,502. Further details are given in Note 28.

> 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. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The carrying value of recognised deferred tax liabilities as at 31 December 2009 was TNOK 27,121 for Group and TNOK 15,847 for Parent (2008: TNOK 11,465 of deferred tax liabilities for Group and TNOK 2,508 of deferred tax assets for Parent). Neither the Parent company nor the Group had any unrecognised deferred tax assets as at 31 December 2009 or as at 31. December 2008. Further details regarding deferred taxes are given in note 9.

> DEVELOPMENT COSTS
Development costs are capitalised in accordance with the accounting policy in Note 3.7. Initial capitalisation of costs is based on management's judgment that technological and financial feasibility is confirmed, usually 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 2009, the carrying amount of capitalised product development costs as at 31. December 2009 was TNOK 121,572 (2008: TNOK 101,995). Further details are given in Note 11 Tangible and Intangible Assets.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.0 : BASIS OF CONSOLIDATION

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

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

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

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

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

> MINORITY INTERESTS
The minority 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 minority 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 fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributal to the acquisition.

Identified assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of an acquisition, irrespective of the extent of any minority interests.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identified assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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 synergies of 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.

When the Group acquires a business, derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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 size of the amount 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 provision of service and maintenance and license revenues within the tolling business with a length in time from a couple of months up till two to three years. Q-Free distinguishes between construction contracts/system deliveries, goods/standard production, services/maintenance and license revenues. Governmental grants is classified as "Other income".

> CONSTRUCTION CONTRACTS/SYSTEM 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.

> SERVICE AND MAINTENANCE FEES

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

> GOODS/STANDARD PRODUCTION

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

> LICENSE REVENUES

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

> GOVERNMENTAL GRANTS

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

3.3 : FOREIGN CURRENCY

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 prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

3.4 : PROVISIONS

Provisions are recognised when the Group has an obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying financial benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed on each balance sheet date and reflect the best estimate of the liability. When the effect on 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 21.

3.5 : FINANCIAL INSTRUMENTS

> FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities consist of derivatives, investments in shares, accounts receivable 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 cost in the income statement.

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

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

> IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

3.6 : PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated to reduce the cost of assets, other than land that is not depreciated, to their estimated residual value, if any, over their estimated useful lives. The cost of assets include professional fees. Depreciation commences when the assets are ready for their intended use.

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

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

3.7 : INTANGIBLE ASSETS

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

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

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

> RESEARCH AND DEVELOPMENT

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

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

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

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

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. For goodwill, the recoverable amount per cash-generating units is estimated every year at the same time. Impairment testing is described in Note 12 "Impairment test of goodwill".

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

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

> GOODWILL

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

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the value in use or net realisable value, whichever is higher. In estimating value in use, expected future cash flows are discounted to net present value using a discount rate before tax that reflects today's market assessments of the time value and the specific risk attached to the asset. Goodwill is described in Note 12 “Impairment test of goodwill”.

3.9 : SHARE BASED PAYMENT

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

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

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

3.10 : BORROWING COSTS

Borrowing costs are expensed when incurred. Interest expenses on loans are recognised using the effective interest method of accounting.

3.11 : INVENTORIES

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

3.12 : 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.

> GROUP AS A LESSEE

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

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

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

> GROUP AS A LESSOR

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned

3.13 : INVESTMENT IN SHARES

Investments in shares are classified as financial assets at fair value through profit or loss. The fair value of investments are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there are no active market, fair value is determined applying commonly used valuation techniques. For further details see note 13.

3.14 : 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 done on the basis of 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 uncollectable.

3.15 : PENSION COSTS AND PENSION ASSETS AND LIABILITIES

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

3.16 : TAXES

Tax is expensed as it accrues, i.e. the tax is related to the accounting net profit. Tax includes both payable tax (tax on the year's taxable result) and changes in net deferred tax/tax assets. Income from long-term production contracts is not recognised for tax purposes until the contract has been completed. A change in deferred tax/tax assets reflects future payable tax that arises as a result of the year's activities. Deferred tax and deferred tax assets are presented net in the balance sheet. Capitalisation of the deferred tax asset has been made on the basis of anticipated future earnings where the tax assets will be applicable.

Tax on group contribution given from the parent company and tax on group contribution that is entered directly against equity, is entered directly against payable tax in the balance sheet. Deferred tax asset is calculated at nominal value in both the company accounts as well as the consolidated accounts.

Deferred taxes are calculated on net tax-increasing differences between the balance sheet items used for accounting purposes and those used for taxation purposes, adjusted for temporary tax-decreasing differences and tax losses carried forward according to the liability method.

3.17 : CASH AND CASH EQUIVALENTS

Cash includes cash in hand and at bank. Cash equivalents are short-term liquid investments that can be converted into cash within six months and to a known amount, and which contain insignificant risk elements.

3.18 : CASH FLOW STATEMENT

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

3.19 : 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 2010.

3.20 : BUSINESS SEGMENTS

For management purposes, the Group is organised into geographical areas based on the location of the customer. Transfer prices between operating segments are on an arm's length basis, similar to transactions with third parties. Further details on the groups reporting segments are given in note 7.

3.21 : CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

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

- IFRS 7 FINANCIAL INSTRUMENTS: DISCLOSURES EFFECTIVE 1 JANUARY 2009
- IAS 1 PRESENTATION OF FINANCIAL STATEMENTS EFFECTIVE 1 JANUARY 2009
- IAS 23 BORROWING COSTS (REVISED) EFFECTIVE 1 JANUARY 2009
- IAS 32 FINANCIAL INSTRUMENTS: PRESENTATION AND IAS 1 PUTTABLE FINANCIAL INSTRUMENTS AND OBLIGATIONS ARISING ON LIQUIDATION EFFECTIVE 1 JANUARY 2009
- IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT – ELIGIBLE HEDGED ITEMS EFFECTIVE 1 JULY 2009
- IFRIC 9 REMEASUREMENT OF EMBEDDED DERIVATIVES AND IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT EFFECTIVE FOR PERIODS ENDING ON OR AFTER 30 JUNE 2009
- IFRIC 13 CUSTOMER LOYALTY PROGRAMMES EFFECTIVE 1 JULY 2008
- IFRIC 16 HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION EFFECTIVE 1 OCTOBER 2008
- IFRIC 18 TRANSFERS OF ASSETS FROM CUSTOMERS EFFECTIVE 1 JULY 2009
- IMPROVEMENTS TO IFRSS (MAY 2008)

3.22 : NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following are new IFRS standard, amendments and interpretations not effective for the year ended 31. December 2009, and have not been applied in preparation of these consolidated financial statements.

- IFRS 2 SHARE-BASED PAYMENT: GROUP CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS EFFECTIVE 1 JANUARY 2010
- IFRS 3 REVISION OF IFRS 3 BUSINESS COMBINATIONS
- IFRS 9 FINANCIAL INSTRUMENTS
- IAS 24 RELATED PARTY DISCLOUSURES
- IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
- AMENDMENT TO IAS 32 CLASSIFICATION OF RIGHTS ISSUED
- AMENDMENT TO IAS 39 ELIGIBLE HEDGED ITEMS
- IFRIC 12 SERVICE CONCESSION ARRANGEMENTS
- IFRIC 15 AGREEMENTS FOR THE CONSTRUCTIONS OF REAL ESTATE
- IFRIC 17 DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS
- IFRIC 18 TRANSFER OF ASSETS FROM CUSTOMERS

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 conducting business with parties with an acceptable credit record. To the extent the credit rate is questionable, payment guarantees, letter of credit or advance payments will be considered. The Group has no significant credit risk linked to an individual contracting party or several other contracting parties that can be regarded as a group due to similarities in the credit risk. The Group has guidelines for ensuring that sales are only made to customers that have not experienced any significant credit problems, and that outstanding amounts do not exceed given credit limits. The Group is exposed to risk involved in customers not having the ability to fulfil their financial obligations. However, this risk is considered to be low since the Company'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 the Company 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 2008 and 2009 are given in note 17.

B) CURRENCY RISK

Q-Free has considerable foreign currency exposure since it 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 currency except for NOK, is EURO. 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. The effects of the forward/ future contracts as efficient hedging instruments are recognised with the transaction they are to hedge, while a possible inefficiency in the hedging is recognised as a finance cost.

Forward currency contracts are being used to hedge the foreign currency risk of the expected future sales. The Group holds two foreign exchange contracts as at 31 December 2009 and these are assessed with an unrealised gain on TNOK 137. (2008: Nil). These foreign exchange contracts are classified as other financial assets measured as fair value. See note 23 for the fair value hierarchy and a specification on valuation technique applied.

See note 23 for a presentation of a sensitivity analysis regarding changes in EURO as at 31. December 2008 and 2009 and how this will affect the Group's EBIT.

C) LIQUIDITY RISK

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

See note 24 for a presentation of the Group's maturity profile of the Group's financial liabilities as at 31 December 2008 and 2009.

D) INTEREST-RATE RISK

The Group is exposed to interest rate risk through funding and cash management activities. Changes in interest rates affect the fair value of assets and liabilities. Interest income and interest expense in the income statement are influenced by changes in interest rates in the market. The main consideration regarding management of interest rate risk is to reduce the financial risk and minimise interest cost over time. The Group emphasises predictability at all times when changes in the interest level have a significant influence on the consolidated profit and will take actions to hedge this risk.

See note 23 for a presentation of a sensitivity analysis regarding changes in the interest rate and how this will affect the Group's EBIT as at 31 December 2008 and 2009.

NOTE 5. BUSINESS COMBINATIONS

ACQUISITIONS IN 2008

> ACQUISITIONS OF DACOLIAN BV

On 13th of August 2008 the Group acquired 70 percent of the voting shares of Dacolian BV, and has an option and an obligation to buy remaining shares, within 1. May 2010, according to an Earn-Out model. The main activities of Dacolian include the development and commercialisation of OEM software connected to video and picture processing to be used in Intelligent Traffic Systems (ITS).

Q-Free has an option and an obligation to buy the remaining shares during the coming two years. Total payment for 100% of the shares in Dacolian will depend on Dacolian's development in 2008 and 2009, but will amount to a minimum of EUR 7.1 million and a maximum of EUR 13,1 million. The consideration for the shares will be a combination of cash and Q-Free shares at a ratio of approximately 60/40, but no less than 60% in cash. Tranche 1 as the initial payment of the 70 percent of shares consits of TNOK 39,648 in cash and TNOK 31,049 in shares.

Q-Free ASA increased the share capital of the company of NOK 646,738.72 and issued 1,701,944 new shares related to the acquisition of Dacolian shares. The subscription rate is NOK 9.8797 per share, which reflects a total payment of NOK 16,814,700 (the equivalent of EUR 2,100,000 based on the exchange rate EUR/NOK 8.007 as at August 12 2008). The share premium of NOK 16,167,961.28, equivalent to NOK 9.4997 per share, is transferred to the share premium reserve.

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

The fair value (NOK) of the identifiable assets and liabilities of Dacolian BV as at the date of acquisition were:

	Previous carrying value	Fair value recognised on acquisition
INTANGIBLE ASSETS		
Contracts		16,408
Technology & tooling		16,800
Non-competition agreement		12,293
TOTAL INTANGIBLE ASSETS	0	45,501
Other fixed assets	761	761
Other current assets	4,317	8,434
Cash and cash equivalents	3,924	3,924
TOTAL ASSETS	9,011	58,629
Equity	-8,793	
Tax payable	0	-1,055
Deferred tax liabilities	0	-11,603
Pension liabilities	0	-159
Other short term debt	-218	-218
TOTAL DEBT	-9,011	-13,035
Net assets		45,594
Goodwill arising on acquisition *		26,022
TOTAL ACQUSITION COST	0	71,616
CASH OUTFLOW ON ACQUISITION		
Initial pre-payment		56,800
Earn-Out payment (2008 & 2009)		10,376
Transaction costs		4,440
TOTAL PURCHASE PRICE		71,616

* The Goodwill arising from aquisition is increased with TNOK 582 since the purchase price allocation, this due to additional advisory costs.

The Purchase Price Allocation process was conducted by PriceWaterhouseCoopers and the allocation-window is open for 12 months from the acquisition date for subsequent accounting if and made only when new information about the possible outcome is obtained. Total Earn-Out payments are calculated based on future EBIT expectations for the acquired company.

Three intangible assets were identified at the time of the acquisition: Existing contracts with customers, technology and tooling and the non-competition agreement. These three assets explain 64 percent of the total purchase price. Rest of the excess price is allocated to other assets and goodwill, with the estimated value of assembled workforce and the fact that the purchase of the Dacolian shares is an important transaction in order to position the Group as a supplier of neutral technological solutions.

As of the takeover date (August 13 2008) Dacolian BV has contributed to the year end profit as at 31. December 2008 equivalent of TNOK 4,698. Consolidated in the Group's figure as of January 1 2008 Dacolian BV would have increased the operational revenues by TNOK 23,100. The Group's profit would have been increased by TNOK 8,269.

ACQUISITIONS IN 2009

> ACQUISITIONS OF BUILDING CAPITAL LTD

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

The consideration of the shares will be a combination of cash and Q-Free shares, with a maximum remuneration equivalent to GBP 600.000, with no less than GBP 360,000 in cash. The agreement will be in force from January 1st 2009, and with final payment January 1st 2012.

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

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

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

	Previous carrying value	Fair value recognised on acquisition
Intangible assets :		
Non-competition agreement		2,805
Total intangible assets	0	2,805
Other fixed assets	55	55
Other current assets	82	82
Cash and cash equivalents	6	6
TOTAL ASSETS	143	2,957
Equity	-55	
Other short term debt	-88	-88
TOTAL DEBT	-143	-88
Net assets		2,869
Goodwill arising on acquisition		3,491
TOTAL ACQUISITION COST	0	6,360
CASH OUTFLOW ON ACQUISITION		
Initial pre-payment		3,268
Earn-Out payment (2009 & 2011)		3,092
Transaction costs		0
TOTAL PURCHASE PRICE		6,360

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

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

As of the takeover date (January 1st 2009) Building Capital Ltd. has contributed to the year end profit equivalent of TNOK ÷ 2,278. However the organisation has contributed positively in the execution of the Truck Tolling project in Slovakia.

NOTE 6. FINANCIAL ITEMS
THE TABLE SPECIFYING THE FINANCIAL ITEMS

> SPECIFICATION

Figures in TNOK

Parent company 2008	Parent company 2009	CATEGORY	Group 2009	Group 2008
9,794	217	Financial income from group companies	0	0
5,712	1,841	Interest income	5,004	9,682
24,603	26,790	Other financial income	26,835	25,985
468	1,535	Net gain on financial assets and liabilities at fair value	1,559	468
-5,081	-1,154	Interest expenses	-3,669	-8,028
0	0	Interest on debt and borrowings	-118	-222
-19,262	-22,678	Other financial expenses	-22,656	-21,252
0	-27	Financial expenses from group companies	0	0
16,234	6,524	TOTAL	6,955	6,633

For a specification of the changes in market value of financial current assets see note 13.

NOTE 7. SEGMENT INFORMATION

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

- EUROPE
- ASIA PACIFIC
- AMERICAS

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

Operating segments

TNOK	Europe	Asia Pacific	Americas	TOTAL 31.12.09	Europe	Asia Pacific	Americas	TOTAL 31.12.08
PROFIT & LOSS ACCOUNT								
	80%	13%	7%	100%	73%	20%	7%	100%
Revenues	640,251	106,151	58,001	804,403	370,724	103,155	35,366	509,246
Cost of goods sold	209,126	56,513	37,790	303,429	146,683	55,640	17,655	219,978
Payroll expenses	132,467	16,764	4,481	153,712	89,418	14,217	3,853	107,488
Operating expenses	187,611	19,386	5,060	212,057	94,993	15,986	5,568	116,547
Total operating expenses	529,205	92,663	47,331	669,199	331,095	85,843	27,075	444,013
EBITDA	111,046	13,488	10,670	135,205	39,630	17,312	8,291	65,233
Depreciation, amortisation and impairment	31,636	254	571	32,461	19,873	527	550	20,950
EBIT	79,410	13,233	10,099	102,743	19,757	16,785	7,741	44,283
BALANCE SHEET								
Non current assets	217,450	12,176	3,833	233,459	190,312	3,015	3,870	197,197
Current assets	453,242	49,958	30,874	534,074	250,483	54,930	11,815	317,228
TOTAL ASSETS	670,692	62,134	34,707	767,534	440,795	57,945	15,685	514,425
BALANCE SHEET								
Non current liabilities	29,999	0	0	29,999	13,584	0	0	13,584
Current liabilities	123,531	47,525	17,878	188,935	103,439	42,509	2,415	148,364
TOTAL LIABILITIES	153,530	47,525	17,878	218,933	117,023	42,509	2,415	161,947
KEY FIGURES								
Operating profit margin	12.4%	12.5%	17.4%	12.8%	5.3%	16.3%	21.9%	8.7%
Average annual man years	227	39	8	274	187	31	8	226
Average number of employees	234	40	8	282	191	33	8	232

Revenues from one customer amounted to TNOK 228,959 (2008: nil), arising from the European segment.

Revenue composition

	2009		2008	
Products	258,068	32%	310,640	61%
Service and maintenance	77,537	10%	86,572	17%
Projects	468,798	58%	112,034	22%
TOTAL REVENUES	804,403	100%	509,246	100%

Order backlog by reporting segments

	2009		2008	
Europe	593,644	83%	271,094	80%
Asia Pacific	67,317	10%	27,109	8%
Americas	52,078	7%	40,664	12%
TOTAL ORDER BACKLOG	713,039	100%	338,868	100%

Order backlog by business areas

	2009		2008	
Products	83,165	12%	81,426	24%
Service and maintenance	181,802	25%	142,339	42%
Projects	448,072	63%	115,102	34%
TOTAL ORDER BACKLOG	713,039	100%	338,867	100%

NOTE 8. OTHER OPERATING INCOME

The Group has received governmental grants of a total of TNOK 6,127 in 2009. Corresponding figures for 2008 was TNOK 6,499.

The Group is a partner in several projects under The Research Council of Norway and projects initiated by the EU.

Figures in TNOK

			Contribution	
Projects	Description	Contribution Partner	2009	2008
SUAVE	The project shall generate definite building blocks, that can be implemented for adaptive antennas suitable for use in vehicles. It is a goal to deliver Norwegian developed technology for wireless broadband in vehicles for use in next generation ITS systems.	The Research Council of Norway	1,671	2,942
Wisecar	Intelligent driver-support for safer and more efficient traffic. Supported by NFR/ VERDIKT programme (5 years). Sintef is the R&D-partner and performs the project management. The goals are to develop mobile ICT-solutions for all traficants using the road. The project has focus on services and applications and Q-Free's main role is to deliver CALM equipment based on the CVIS platform and to develop a knowledge database.	The Research Council of Norway	1,833	3,117
KomFremad	Development of a technology and knowledge platform for competitive products in a V2X communication marked. The project includes development of a channel emulator, channel models, and software for transmitter and receiver components and the project is a cooperation between Q-Free ASA, Sintef ICT and Radionor.	The Research Council of Norway	1,769	0
SmartFreight EPSS	SMARTFREIGHT is a 30-month EU project which aims to use information and communications technology (ICT) to share information between urban traffic management systems (UTMS) and freight distribution management systems (FDMS) for mutual benefit. Lorry drivers and fleet managers should benefit through receiving more accurate and more timely information about the traffic network (e.g. delays, accidents), while the city authorities who manage the UTMS gain knowledge of freight movements and gain an element of control over them to help them achieve their policy aims (e.g. low emission zones).	The Research Council of Norway	854	249
Other	Miscellaneous governmental supported projects	EU	0	192
		TOTAL	6,127	6,499

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

	2009	2008
Grants recognised as other income related to cost in same period	6,127	6,499
Grants accounted as reduction of payroll expenses (Skattefunn)	0	720
TOTAL	6,127	7,219

NOTE 9. TAXES

Parent company 2008	Parent company 2009		Group 2009	Group 2008
		TOTAL TAX EXPENSES FOR THE YEAR		
0	324	Tax payable on this years profit for Norwegian companies	324	3,122
0	0	Tax payable on this years profit for foreign companies	4,959	2,804
0	0	Adjusted allocated tax from last year	0	-55
3,620	18,355	Change in deferred tax for Norwegian companies	18,223	4,100
0	0	Change in deferred tax for foreign companies	8,044	4,658
3,620	18,679	TOTAL	31,549	14,628
18%	26%	Tax rate	29%	29%
		TAX PAYABLE FOR THE YEAR		
20,264	70,877	Total ordinary profit before tax		
0	-3,067	Permanent differences		
-7,334	-125,175	Change in temporary differences		
-12,930	0	Utilisation of previously unrecognised tax losses		
0	-57,365	BASIS FOR TAX PAYABLE, NORWEGIAN COMPANIES	0	0
0	0	Tax payable for Norwegian companies (28%)	0	3,122
		Tax payable for foreign companies	4,959	2,804
		SPECIFICATION OF TAX PAYABLE IN THE BALANCE SHEET		
0	324	Tax payable on this years profit, Norwegian companies *	0	3,122
0	0	Tax payable on this years profit, foreign companies	4,959	2,804
0	-324	Advance tax payment, foreign companies	0	-959
-720	0	Governmental Tax Relief (skattefunn)	0	-720
-720	0	TOTAL TAX PAYABLE	4,959	4,246
		SPECIFICATION ON BASIS FOR DEFERRED TAX		
		Differences evaluated to be offset:		
17,237	9,677	Fixed assets	68,601	81,794
-885	125,168	Current assets	122,259	-12,510
-17,480	-10,798	Liabilities	-10,569	-20,387
-7,829	-65,194	Tax losses carry -forward	-86,337	-9,368
0	-2,256	Other differences	2,905	572
-8,958	56,597	TOTAL	96,859	40,101
-2,508	15,847	Deferred tax (+) / tax assets (-)	27,121	11,465
		DEFERRED TAX (-) / TAX ASSETS (+) IN BALANCE SHEET OF 31.12.		
-2,508	15,847	Tax assets (-)/ deferred tax (+) Norwegian companies	13,921	-4,842
0	0	Tax assets (-)/ deferred tax (+) foreign companies	13,199	16,308
0	0	Tax assets (-)/ deferred tax (+) on group contribution	0	0
0	0	Deferred tax asset, off balance sheet	0	0
-2,508	15,847	TOTAL TAX ASSETS (-) / DEFERRED TAX (+)	27,121	11,465

Parent company 2008	Parent company 2009		Group 2009	Group 2008
		RECONCILING THE TAX COST		
0	70,877	Earnings before tax	109,698	0
5,674	19,846	Tax on profits (28%)	30,716	15,940
-3,620	-18,679	Tax expenses	-31,549	-14,629
2,053	1,167	Deviation	-834	1,311
		SPECIFICATION		
2,053	1,167	Tax result permanent differences and tax rate difference	0	-533
0	0	Adjusted allocated tax from last year	0	-349
0	0	Change in deferred tax asset, off balance sheet	0	-430
0	0	Effect of different tax-rate	-834	0
2,053	1,167	TOTAL	-834	-1,311

* Paid withholding tax in foreign subsidiaries.

Deferred tax assets are recognised on the balance sheet based on the expectation of future taxable income. The estimate are based on Board of Directors and management's best judgement and an assessment of future prospects. The actual outcome of future tax costs may deviate from these estimates.

Of the tax losses carried forward of TNOK 86,337 for the Group, TNOK 65,194 relates to the mothercompany and TNOK 21,143 relates to foreign companies. Following a change in the tax legislation in Norway in 2005, these tax losses can be carried forward indefinitely.

For 2008 TNOK 7,829 of the tax losses carried forward for the Group, was related to the mother company and TNOK 1,539 was related to foreign companies.

NOTE 10. 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.

	2009	2008
Profit for the year	78,310	31,628
Weighted average number of ordinary shares	55,536,269	53,976,213
Weighted average of share option	840,000	0
Weighted average number of diluted shares	56,376,269	53,976,213
Earnings per share	1.41	0.60
Diluted earnings per share	1.39	0.60

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

NOTE 11. TANGIBLE AND INTANGIBLE ASSETS

Parent company

	Goodwill	Development	Machinery and fixtures	TOTAL
Acquisition cost as at 1 January 2008	0	91,651	100,467	192,118
Additions	0	24,732	22,782	47,514
Disposals	0	0	0	0
Acquisition cost as at 31.12.08	0	116,383	123,249	239,632
Accumulated depreciation and write-downs as at 01.01.08	0	51,640	59,275	110,915
Depreciation of the year	0	5,876	9,395	15,271
Write-downs of the year	0	0	0	0
Accumulated depreciation disposals	0	0	0	0
Accumulated depreciation and write-downs as at 31.12.08	0	57,517	68,670	126,187
Net book value as at 01.01.08	0	40,011	41,192	81,203
Total changes of last year	0	18,856	13,387	32,243
As at 31 December 2008	0	58,866	54,579	113,445
Acquisition cost as at 1 January 2009	0	116,383	123,249	239,632
Additions	0	26,236	13,610	39,845
Disposals	0	0	3,710	3,710
Acquisition cost as at 31.12.09	0	142,619	140,569	283,187
Accumulated depreciation and write-downs as at 01.01.09	0	57,517	68,670	126,187
Depreciation of the year	0	5,291	11,780	17,070
Write-downs of the year	0	0	3,710	3,710
Accumulated depreciation disposals	0	0	0	0
Accumulated depreciation and write-downs as at 31.12.09	0	62,807	84,159	146,967
Net book value as at 01.01.09	0	58,866	54,579	113,445
Total changes of the year	0	20,945	1,830	22,775
As at 31 December 2009	0	79,811	56,409	136,221
Financial lifetime		4-5 years	5-10 years	
Depreciation schedule		Straight line	Straight line	

> SECURITIES FOR BANK GUARANTEES AND OVERDRAFT FACILITY

As at 31.12.09 assets in the parent company valued to TNOK 56,409 (2008: 54,579) is pledged as security for guarantee facility in DnB NOR Bank ASA.

Group

	Goodwill	Development	Machinery and fixtures	TOTAL
Acquisition cost as at 1 January 2008	0	93,022	143,561	236,583
Additions	0	24,578	22,317	46,895
Acquisitions of a subsidiary *	26,022	45,501	761	72,284
Disposals	0	0	0	0
Acquisition cost as at 31.12.08	26,022	163,101	166,639	355,762
Accumulative depreciation and write-downs as at 01.01.08	0	52,702	90,155	142,857
Depreciation of the year	0	8,404	12,546	20,950
Write-downs of the year	0	0	0	0
Accumulated depreciation disposals	0	0	0	0
Accumulated depreciation and write-downs as at 31.12.08	0	61,106	102,701	163,807
Net book value as at 01.01.08	0	40,320	53,406	93,726
Total changes of last year	26,022	61,675	10,532	98,229
As at 31 December 2008	26,022	101,995	63,938	191,955
Acquisition cost as at 1 January 2009	26,022	163,101	166,639	355,762
Additions	4,775	30,648	22,812	58,235
Acquisitions of a subsidiary *	3,491	2,805	0	6,296
Disposals	0	0	3,710	3,710
Acquisition cost as at 31.12.09	34,288	196,554	193,161	424,003
Accumulative depreciation and write-downs as at 01.01.09	0	61,106	102,701	163,807
Depreciation of the year	0	13,876	14,876	28,752
Write-downs of the year	0	0	3,710	3,710
Accumulated depreciation disposals	0	0	0	0
Accumulated depreciation and write-downs as at 31.12.09	0	74,982	121,287	196,268
Net book value as at 01.01.09	26,022	101,995	63,938	191,955
Total changes of the year	8,266	19,577	7,936	35,780
As at 31 December 2009	34,288	121,572	71,874	227,735
Financial lifetime	Impairment tested annually (or when impairment indicators exists).	4-5 years	5-10 years	
Depreciation schedule		Straight line	Straight line	

* For further details regarding acquisitions of subsidiary, see note 5

> DEVELOPMENT

The group capitalises costs regarding product development activities. Capitalised costs in 2009 consist of product development of a new generation of OBU's and road side units that is a part of the company's toll road systems. Furthermore, the company has capitalised cost that prepares the company's products for future wireless communication solutions that enables continuous communication between vehicles and the roadside infrastructure. Such cooperative vehicle-infrastructure systems will allow new traffic information-sharing services for greater safety, efficiency and a better environment.

For 2009 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 is depreciated over the products expected lifetime. The estimated useful lifetime is continuously evaluated.

The Group classify the intangible assets in the following product categories:

1) OEM SOFTWARE CONNECTED TO VIDEO AND PICTURE PROCESSING USED IN INTELLIGENT TRAFFIC SYSTEMS (ITS).
2) OBU (ON BOARD UNITS)
3) ROAD SIDE EQUIPMENT USED IN TOLLING SYSTEMS

Carrying amount of development costs are allocated to each of the cash-generating units:

	1) OEM Software		2) OBU		3) Roadside Equipment		TOTAL	
TNOK	2009	2008	2009	2008	2009	2008	2009	2008
Carrying amount of development costs	40,256	43,129	52,154	38,489	29,163	20,377	121,572	101,995
							121,572	101,995
Intangible assets through acquisitions							1,805	43,129
Intangible assets in house developed							119,767	58,866
							121,572	101,995

1) OEM SOFTWARE

The OEM Software was acquired through the purchase of Dacolian BV in 2008.The main activities of Dacolian BV includes development and commercialisation of OEM software connected to video and picture processing to be used in Intelligent Traffic Systems (ITS).

2) OBU

The recoverable amount of the OBU's has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10.4 percent (2008: 13.6 percent). The cash flows calculations are not done beyond the 5-year period and we have not used extrapolated growth rate in the calculations. Our estimats is therefore assumed to be a prudent estimate compared to the long-term average growth rate for the ITS industry.

3) ROADSIDE EQUIPMENT

Calculation of the recoverable amount of the roadside equipment is based on the same assumptions as for the OBU's.

> KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS :

The calculation of value in use for both OBU's and Roadside Equipment units are most sensitive to the following assumptions:

- GROSS MARGINS
- DISCOUNT RATES
- RAW MATERIALS PRICE INFLATION
- MARKET SHARE DURING THE BUDGET PERIOD; AND
- GROWTH RATE USED TO EXTRAPOLATE CASH FLOWS BEYOND THE BUDGET PERIOD

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

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

RAW MATERIALS PRICE INFLATION – Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available (principally for Euroland and the United States), otherwise past actual raw material price movements have been used as an indicator of future price movements.

MARKET SHARE ASSUMPTIONS – These assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how the unit's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the RUC market to be stable over the budget period, whereas for the reasons explained above, the Board expects the Group's position, relative to its competitors, to strengthen following the acquisitions mentioned in note 5.

GROWTH RATE ESTIMATES – Rates are based on published industry research.

NOTE 12. IMPAIRMENT TESTING OF GOODWILL

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

	TOTAL	
TNOK	2009	2008
OEM software connected to video and picture processing used in Intelligent Traffic Systems (ITS)	30,797	26,022
Global Navigation Satellite Systems (GNSS) technology used in Road User Charging projects	3,491	0
Carrying amount of Goodwill as at 31.12:	34,288	26,022

Impairment testing of Goodwill as at 31. December 2008:

VALUE IN USE AND THE MOST IMPORTANT ASSUMPTIONS

Q-Free group uses the latest detailed calculations of recoverable amounts to impairment test the cerrying amount of Goodwill. Since the PPA-process was carried out during the second half of 2008 the Group has not conducted an impairment test as at 31 December 2008. This is because the assets and liabilities that constitute the calculations has not changed significantly since the acquisition took place in August 2008.

> ESTIMATES USED IN THE CALCULATION OF THE IMPAIRMENT TEST WAS

Nominal WACC is estimated to 12.9 percent. Risk free rate assessed at 4.5 percent (based on 10-year Euro zone government bond risk free rate as of 13th of August 2008). We have used 5% as an estimate of the general market risk premium. 75.3 percent is used as weight of equity, based on the balance sheet as at 30 June 2008 and the market capitalisation of Q-Free. It is assumed that this capital structure provides a reasonable estimate for future capital structure.

Impairment testing of Goodwill as at 31. December 2009:

VALUE IN USE AND IMPORTANT ASSUMPTIONS

The Group performed its annual impairment test as at 31 December 2009. The Group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. Impairment testing on goodwill is based on the technology's value in use. The discounted cash flow method is used to ascertain value in use. The projected cash flow is based on the technologys' budgets and long-term plans, which are subject to the approval of the Board and the corporate management. Long-term plans cover a period of five years. Future improvements to products and new developments are not reflected in the future cash flow. After five years of planning, a terminal value is calculated on the basis of a constant growth rate.

OEM LICENCE SOFTWARE

Revenues are based on the estimated development in the markets in which Dacolian BV operate. It is generally expected that the company will manage to hold its strong market position in delivering high performance software for video and picture processing used in Intelligent Traffic Systems. Expectations about the total market development are based on external market expectations, e.g. the estimated growt rate for the ITS market world wide. Market growth is expected to be approx. 20 per cent per year. The backlog of orders for license revenues is high, and it has a strong position in niche markets. The forecasted earn-out for the PPA-analysis is maintained.

GNSS TECHNOLOGY

Revenues are based on the individual countries' future implementation of GNSS-based Road User Charging Systems. So far the technology has been used and implemented for Truck Tolling systems and future marked expectations shows a market growth as for the rest of the ITS market. This is specific related to the upcomming Truck Tolling projects in Europe, like France, Poland, Slovenia and Hungary.

> ESTIMATES USED IN THE CALCULATION OF THE IMPAIRMENT TEST WAS

The calculation uses a discount rate of 10.4 per cent before tax, which is the Group's Weighted Average Cost of Capital (WACC). A constant growth rate of 5 per cent is assumed to extrapolate the terminal value. It is assumed that this capital structure provides a reasonable estimate for future capital structure.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

With regard to the assessment of value-in-use both of the OEM licence software and the GNSS technology, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

NOTE 13. SHARES AT FAIR VALUE THROUGH PROFIT AND LOSS

Parent company and the Group as at 31 December 2009

TNOK	Company equity	Number of shares	Ownership	Book value in Parent **	Book value in Group **	Included in the P&L
Vegamot AS	9,388	6,050	13.90%	1,305	1,305	1,305
Leiv Eiriksson AS	41,459	9,919	0.99%	200	200	1
Asti AS	14,388	2,900	13.81%	1,987	1,987	229
Other				0	611	24
Total				3,492	4,103	1,559

Parent company and the Group as at 31 December 2008

	Company equity	Number of shares	Ownership	Book value in Parent **	Book value in Group **	Included in the P&L
Vegamot AS	4,355	6,050	13.90%	0	0	0
Leiv Eiriksson AS	41,318	9,919	0.99%	409	409	83
Asti AS	12,733	2,900	13.81%	1,758	1,758	361
Other				19	110	24
Total				2,187	2,278	468

(* *) 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 23 for the fair value hierarchy and a specification on valuation technique applied .

NOTE 14 SHARE OPTION PROGRAMME FOR EMPLOYEES

Q-Free ASA established in May 2006 a three year share option program. According to the Board's proposal it was unanimously resolved that the Board, as part of the work of giving key personnel, management and Board members elected by the shareholders an incentive program, through the possibility to subscribe shares in the company, the Board of Directors was authorised to increase the share capital with as much as NOK 969,000, which corresponds to 2,550,000 shares (approximately 5 percent), each with a par value of NOK 0.38, through one or more private placements with cash deposits towards key personnel, management and Board members elected by the shareholders in Q-Free ASA. The existing shareholders' preferential rights according to the Public Limited Companies Act sections 10-4 and 10-5 can be disregarded. The authorisation given in 2006 was valid for two years.

The authorisation was renewed at the Annual General meeting 10 May 2007 for a period of 2 years to be able to execute the approved three years incentive program. Due to changes within the organisation the latest year, a minor increase in the new authorisation compared to the previous authorisation was proposed and approved; from NOK 969.000 to NOK 1.026.000 (equivalent to 5,17 percent of the share capital) which corresponds to 2.700.000 shares, each with a par value of NOK 0.38.

The General Meeting 9 May 2008 endorsed the proposed 1 year prolongment of the option program for the shareholder elected board members resolved by the General Meeting of 2006, and that the applicable period is 2007 until 2009 on the same terms and conditions, and within the same total number of shares. The share option program established in 2006 was completed May 2009.

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

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

For key personnel and management who are awarded option rights for a period of 3 years, 1/3 of the options will be allocated annually with a vesting period of 1 year and the strike price determined as noted above. Correspondingly, ½ of the options will be allocated annually for Board Members elected by the shareholders. For newly employed key personnel, management and Board Members, the strike price will be determined on the day they are granted options.

As at 31.12.2009, 840,000 options are outstanding for key personnel, of which 300,000 options have been granted to the Board of Directors.

Exercise of the options can be done during pre-defined time periods.

Specification of share option activity:

	2009	2008
Remaining share options 01.01	2,325,000	2,415,000
Share options granted	840,000	795,000
Share options exercised	-875,000	0
Share options expired/terminated	-1,450,000	-885,000
Remaining share options 31.12	840,000	2,325,000
Portion fully earned		2,025,000

> MODIFICATION OF GRANTS

Due to the extention of the option program for the shareholder elected Board Members, the above specification of granted and expired share options for 2008 include this modification.

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 2009 is NOK 4.81. Corresponding figure for 2008 was NOK 0.99.

The company's cost of share based payment is calculated using the Black & Scholes pricing model. For 2009 this adds up to a total cost of TNOK 2,539. Corresponding figures for 2008 was TNOK 2,564. See this specified in the Statement of changes in Equity (Group).

875,000 options were exercised in May 2009. All options exercised had a strike price of NOK 9.73, and the market price of the share at exercise was NOK 15.80

Remaining share options as at 31. December 2009 has the following conditions:

			Outstanding Options		Vested options
Exercise price	Outstanding Options Per 31.12.2009	Weighted average remaining Contractual Life	Weighted Average Exercise Price	Vested options 31.12.2009	Weighted Average Exercise Price
0,00 - 5,00	-	-	-	-	-
5,00 - 10,00	-	-	-	-	-
10,00 - 15,00	-	-	-	-	-
15,00 - 20,00	790,000	1.97	15.57	-	-
20,00 -	50,000	2.35	20.50	-	-
TOTAL	840,000	1.97	15.57	-	-

Remaining share options are split as follows between management and members of the Board as per 31.12.2009:

Name	Position	Outstanding 01.01.2009	Granted options	Exercised options	Vested options 31.12.2009	Granted, not vested options 31.12.2009	
Ole Jørgen Fredriksen	Chairman	100,000	100,000	100,000	0	100,000	* *
Christian Albech	Member	50,000	50,000	50,000	0	50,000	* *
Mimi Kristine Berdal	Member	50,000	50,000	50,000	0	50,000	* *
Torild Skogsholm	Member	50,000	50,000	50,000	0	50,000	* *
Jan Pihl Grimnes	Member	50,000	50,000	50,000	0	50,000	* *
Øyvind Isaksen	CEO	675,000	225,000	225,000	0	225,000	*
Marianne Sandal	VP Operation	150,000	50,000	50,000	0	50,000	*
Steinar Furan	VP BD & C	150,000	50,000	50,000	0	50,000	*
Stein Tore Nybrodahl	HR Manager	45,000	15,000	15,000	0	15,000	*
Per Fredrik Ecker	VP Sales	150,000	50,000	50,000	0	50,000	*
Hans Christian Bolstad	VP R&D	150,000	50,000	50,000	0	50,000	*
Roar Østbø	CFO	0	50,000	0	0	50,000	*
Henrik Stoltenberg	VP M&A	0	50,000	0	0	50,000	*
Other		405,000	0	135,000	0	0	
Total		2,025,000	840,000	875,000	0	840,000	

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

> THE FOLLOWING ASSUMPTIONS ARE USED IN THE CALCULATION OF SHARE OPTIONS GRANTED IN 2009:

EXERCISE PRICE FOR THE SHARE OPTION

Weighted average exercise price of options granted was NOK 15.86.

VOLATILITY

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

LIFETIME OF THE SHARE OPTION

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

DIVIDENDS

Expected dividend per share is NOK 0 each year.

INTEREST WITH NO PREMIUM FOR RISK

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

Remaining share options as at 31. December 2008 had the following conditions:

	Outstanding Options			Vested options	
Exercise price	Outstanding Options Per 31.12.2009	Weighted average remaining Contractual Life	Weighted Average Exercise Price	Vested options 31.12.2009	Weighted Average Exercise Price
0,00 - 5,00	-	-	-	-	-
5,00 - 10,00	875 000	0,35	9,73	575 000	9,73
10,00 - 15,00	875 000	0,35	14,73	875 000	14,73
15,00 - 20,00	115 000	0,35	17,76	115 000	17,76
20,00 -	460 000	0,35	21,87	460 000	21,87
TOTAL	2 325 000	0,35	14,41	2 025 000	15,10

Remaining share options was split as follows between management and members of the Board as at 31. December 2008:

Name	Position	Granted options	Vested options	Exercised options	Unvested options
Øyvind Isaksen	CEO	675,000	675,000	0	0
Ole Jørgen Fredriksen	Chairman	200,000	100,000	0	100,000
Christian Albech	Member	100,000	50,000	0	50,000
Mimi Kristine Berdal	Member	100,000	50,000	0	50,000
Torild Skogsholm	Member	100,000	50,000	0	50,000
Jan Pihl Grimnes	Member	100,000	50,000	0	50,000
Marianne Sandal	VP Operation	150,000	150,000	0	0
Steinar Furan	QA Manager	150,000	150,000	0	0
Stein Tore Nybrodahl	HR Manager	45,000	45,000	0	0
Per Fredrik Ecker	VP Sales	150,000	150,000	0	0
Hans Christian Bolstad	VP R&D	150,000	150,000	0	0
Other employees		405,000	405,000	0	0
TOTAL		2,325,000	2,025,000	0	300,000

> THE FOLLOWING ASSUMPTIONS ARE USED IN THE CALCULATION OF SHARE OPTIONS GRANTED IN 2008:

EXERCISE PRICE FOR THE SHARE OPTION

Weighted average exercise price of options granted was NOK 13.03

VOLATILITY

Weighted average expected volatility is based on historic volatility and is calculated to be 45.51 percent.

LIFETIME OF THE SHARE OPTION

All share options are expected to be exercised at expiry date of the option, 7 May 2009.

DIVIDENDS

Expected dividends 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 6,86 percent for 2008.

NOTE 15. PENSION SCHEME

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

The pension plans for the Norwegian companies are secured in an insurance company. The liability for the Group includes 185 employees in 2009, compared to 158 employees for 2008. The liability for the parent company includes 137 employees in 2009, compared to 103 employees for 2008.

Figures in TNOK

Parent company			Group	
2008	2009		2009	2008
4,480	5,300	Net present value of current year's pension earnings	6,687	5,551
1,100	1,182	Interest on accrued pension liabilities	1,556	1,558
-822	-823	Expected interest on pension funds	-1,477	-1,395
0	0	Amortisation of past service cost	0	0
600	230	Amortisation of actuarial (gain) / losses	260	625
131	229	Administrative expenses pension scheme	396	243
774	830	Accrued social security expenses	984	928
6,264	6,947	Net pension expenses *	8,406	7,510

31.12.08	31.12.09	Pension liabilities / (-funds)	31.12.09	31.12.08
31,198	29,429	Estimated pension liabilities	41,101	41,432
-12,251	-20,117	Estimated pension funds	-32,071	-23,110
18,947	9,311	Estimated net (pension funds) / -liabilities	9,030	18,322
-18,373	-7,587	Unrecognised change in pension plan and deviation in estimates	-7,564	-18,161
574	1,725	Net (pension funds) / -liabilities	1,466	161
574	1,725	Net (pension funds) / -liabilities in balance sheet	1,466	161
19.7	21.5	Estimated remaining contribution periods	18.9	18.9

(*) = During 2009 costs from the defined benefit pension plan represents TNOK 2. 385, and this is included in the above specification of net pension expenses.

Parent company			Group	
2008	2009	Pension liabilities :	2009	2008
23,513	31,198	Liabilities per 01.01.	41,432	33,388
4,480	5,300	Service costs	6,687	5,551
-199	-199	Benefits paid	-547	-490
1,100	1,182	Interest cost	1,556	1,558
0	0	Past service cost	0	0
2,303	-8,052	Actuarial gains/losses	-8,027	1,426
31,198	29,429	Total liabilities per 31.12.	41,101	41,432

Parent company			Group	
2008	2009	Pension funds :	2009	2008
9,866	12,251	Funds per 01.01.	23,110	19,909
4,088	4,851	Net contribution paid	5,505	4,662
-199	-199	Benefits paid	-509	-450
822	823	Estimated return on assets	1,675	2,211
-2,325	2,391	Actuarial gains/losses	2,290	-3,222
0	0	Acquisition / (disposal)	0	0
12,251	20,117	Total funds per 31.12.	32,071	23,110

Parent company			Group	
2008	2009		2009	2008
-31,198	-29,429	Pension liabilities	-41,101	-41,432
12,251	20,117	Pension funds	32,071	23,110
-18,947	-9,311	Surplus / (deficit)	-9,030	-18,322

The Group expects to contribute approximately TNOK 7,500 to its pension plans in 2010, corresponding figures for 2009 was TNOK 6,500.

> BASIS AND ASSUMPTIONS FOR CALCULATIONS

The assumptions are according to the recommendation of the Financial Supervisory Authority of Norway for both 2008 and for 2009.

		2009	2008
Discount rate		4.40%	3.80%
Expected interest on pension funds		5.60%	5.80%
Annual growth in salaries		4.25%	4.00%
Increase in national insurance base rate (G)		4.00%	3.75%
Expected change in pensions		1.30%	1.50%
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 2009 the dividend yield was 4.8 percent. The funds are distributed as follows :

	2009	2008
Shares	14%	4%
Bonds	23%	30%
Money funds	9%	14%
Long term bonds	36%	29%
Property	17%	17%
Other	2%	7%
Total	100%	100%

NOTE 16. INVENTORY AND COSTS OF GOODS SOLD

INVENTORY

Parent company 2008	Parent company 2009	Inventory specification	Group 2009	Group 2008
20,188	17,020	Raw material and semi manufactured products	30,639	31,998
133	53	Stock for sub-suppliers	53	133
3,431	1,620	Stock for maintenance contracts	1,620	3,431
0	0	Work in progress	4,353	5,263
13,639	12,892	Finished goods	12,949	13,944
-4,385	-6,204	Obsolescence	-9,286	-7,743
33,006	25,381	Total	40,328	47,026

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 1,819 in 2009 (2008: 1,049) and for the group TNOK 1,544 in 2009 (2008: -1,789) which is recognised in cost of goods sold.

COSTS OF GOODS SOLD

Parent company 2008	Parent company 2009	COGS specification	Group 2009	Group 2008
135,210	249,176	Purchase of goods	310,035	208,605
465	321	Freight, customs etc.	889	903
410	356	External services handling of COGS	356	410
6,903	-7,625	Change of inventories	-7,851	10,060
142,987	242,228	Total	303,429	219,978

NOTE 17. ACCOUNTS RECEIVABLES AND CREDIT RISK

Parent company 2008	Parent company 2009		Group 2009	Group 2008
56,451	71,743	Accounts receivables	128,242	82,843
13,703	52,183	Accounts receivables on group companies	0	0
-8,461	-8,326	Provision for impairment on receivables	-3,098	-2,756
61,693	115,600	Total	125,144	80,087
1,162	456	Loss on receivables	962	1,162
-1,411	-135	Changes in provisions for impairment on receivables	-612	-934
-249	321	Total	350	228

For terms and conditions relating to related party receivables, refer to Note 24. 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 :

AMOUNTS PER 31.12	TOTAL	Neither past due nor impaired	Past due but not impaired < 30 days	30 – 60 days	60 – 90 day	90 – 120 day >	>120 days
2009	128,242	72,971	49,529	1,940	731	126	2,945
2008	82,843	38,744	26,293	8,666	2,811	1,374	4,955

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	2009	2008
Amount per 01.01.	2,756	4,168
This years provision for impairment on receivables	-962	-1,163
Loss on receivables	962	1,162
Provisions utilised during the year	342	-1,411
AMOUNT PER 31.12	3,098	2,756

The maximum risk exposure is represented by the carrying amount of the financial assets, including derivatives, in the balance sheet. Since the other party involved in derivative trades is normally a bank, the credit risk linked to derivatives is regarded as being insignificant. The Group therefore regards its maximum risk exposure as being the carrying amount of trade receivables as at 31 December 2009 NOK 125.1 mill (2008: NOK 80.1 mill).

NOTE 18. 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 DnB NOR Bank ASA.

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

Parent company 2008	Parent company 2009	Liquidity funds	Group 2009	Group 2008
51,584	87,189	Cash at banks and on hand	158,596	106,142
11,480	100,383	Short term deposits	116,019	13,475
63,064	187,572	TOTAL CASH AND CASH EQUIVALENTS	274,615	119,617

As at 31 December 2009, the Group had available TNOK 64,686 (2008: TNOK 80,140) of undrawn guarantee facilities in which all conditions precedent had been met.

NOTE 19. ISSUED CAPITAL AND RESERVES

The company has one class of shares and there is no voting restrictions. Per 31.12.09 the number of shares was 60,054,092. Face value per share is kr. 0.38. Total share capital per 31.12.2009 was kr. 22,820,554.96. There are 1,654 share holders.

	Ordinary shares	
	2009	2008
Shares issued per 01.01	53,976,213	52,274,269
Share issue	5,745,379	1,701,944
Share options excercised	332,500	0
TOTAL SHARES ISSUED PER. 31.12.	60,054,092	53,976,213

The company's largest share holders per 31.12.09:	Number of shares	Percentage ownership	Voting rights
Erste Bank Der Oesterreichischen	10,005,000	16.66%	16.66%
Odin Norge	5,202,774	8.66%	8.66%
Skagen Vekst	3,000,000	5.00%	5.00%
Kikut AS	2,431,000	4.05%	4.05%
Lars Oddgeir Andresen	1,633,600	2.72%	2.72%
Holberg Norge	1,587,800	2.64%	2.64%
DnB NOR SMB	1,503,500	2.50%	2.50%
Redback AS	1,495,000	2.49%	2.49%
VPF Nordea Kapital	1,227,975	2.04%	2.04%
Bank Austria Creditanstalt AG	1,187,017	1.98%	1.98%
VPF Nordea Avkastning	1,067,332	1.78%	1.78%
Mons Holding AS	1,040,000	1.73%	1.73%
Krag Invest AS	1,000,000	1.67%	1.67%
Deutsche Bank International Ltd	750,000	1.25%	1.25%
VPF Nordea SMB	668,700	1.11%	1.11%
Pensjonskassen StatoilHydro	660,600	1.10%	1.10%
Home Capital AS	650,000	1.08%	1.08%
UBS AG, London Branch	620,000	1.03%	1.03%
Storebrand Livsforsikring AS	604,300	1.01%	1.01%
NHO – JP Morgan Chase Bank	600,493	1.00%	1.00%
Other share holders	23,119,001	38.50%	38.50%
TOTAL	60,054,092	100.0%	100.0%

Number of shares held by the senior management, CEO and the board of directors

Name	Position	Shares
Øyvind Isaksen	CEO	72,489
Roar Østbø	CFO	37,000
Jos Nijhuis	VP ITS	453,246
Marianne Sandal	VP Operations	12,000
Per Fredrik Ecker	VP Sales	5,000
Hans Christian Bolstad	VP R&D	2,000
Steinar Furan	VP BD & C	20,000
Stein Tore Nybrodahl	HR Manager	5,000
Ole Jørgen Fredriksen	Chairman of the Board	168,884
Jan Pihl Grimnes	Board member	1,545,000
Mimi Kristine Berdal	Board member	50,000
TOTAL		2,300,619

At the end of 2009 2,700,000 shares are reserved according to the share option program descibed in note 14.

NOTE 20. INTEREST-BEARING LOANS AND BORROWINGS

Parent company						Group	
2008	2009	Specification	Type	Effective interest rate%	Maurity	2009	2008
0	0	Non-current	Secured Bank loan Nordea Bank ASA	4.55%	20. Feb 2012	1,412	2,202
0	0	TOTAL				1,412	2,202

> SECURED BANK LOAN

The secured bank loan is a mortgage loan that is repayable within 3 years of the balance date. The loan is secured over certain fixed assets in the Group. For further details regarding book value of assets securing mortgages and guarantees, see note 28.

NOTE 21. PROVISIONS

> WARRANTY COSTS

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

	Parent company			Group		
	Provision for warranty costs	Other expenses	TOTAL CURRENT PROVISIONS	Provision for warranty costs	Other expenses	TOTAL CURRENT PROVISIONS
Amount as at 01.01.08	13,500	0	13,500	13,600	200	13,800
Unused accruals reversed during 2008			0			0
Accruals utilised during 2008	-8,223		-8,223	-8,223		-8,223
Accruals deposited during 2008	4,800		4,800	4,800	100	4,900
AMOUNT AS AT 31.12.08	10,077	0	10,077	10,177	300	10,477
Amount as at 01.01.09	10,077	0	10,077	10,177	300	10,477
Unused accruals reversed during 2009			0	-100	-300	-400
Accruals utilised during 2009	-6,504		-6,504	-6,504		-6,504
Accruals deposited during 2009	5,500		5,500	5,500		5,500
AMOUNT AS AT 31.12.09	9,073	0	9,073	9,073	0	9,073

NOTE 22. 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 2008	Parent company 2009	Terms	Group 2009	Group 2008
8,850	7,922	Within one year	10,102	11,266
7,163	8,160	After one year but not more than five years	10,400	9,579
0	0	More than five years	0	0
16,012	16,082	TOTAL	20,502	20,844

During the year ended 31 December 2009 the parent company recognised expenses in the income statement in respect of operating leases of TNOK 8,122.

> FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

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

NOTE 23. FINANCIAL INSTRUMENTS

For further information description on financial risk management see note 4.

A) CREDIT RISK

See description in note 4 and a customer aging analysis in note 17.

B) CURRENCY RISK TABLE

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
2009	+ 5%	+ 13,600 TNOK	+ 9,800 TNOK
	- 5%	- 12,200 TNOK	- 8,800 TNOK
2008	+ 5%	+ 4,100 TNOK	+ 3,200 TNOK
	- 5%	- 3,700 TNOK	- 2,900 TNOK

C) LIQUIDITY RISK

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2009 based on contractual undiscounted payments.

Year ended 31 Descember 2009

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	TOTAL
Interest bearing debts and borrowings	0	174	174	522	542	1,412
Other liabilities		7,849	8,824			16,673
Trade and other payables	23,266	52,864	29,276	0	0	105,406
Other financial liabilities		13,456	21,340	9,752	3,576	48,124
TOTAL	23,266	74,343	59,614	10,274	4,118	171,615

Year ended 31 Descember 2008

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	> 1 years	TOTAL
Interest bearing loans and borrowings	0	197	197	394	1,414	2,202
Other liabilities		6,344	6,398			12,742
Trade and other payables	26,968	24,354	7,291	0	0	58,613
Other financial liabilities		2,167	22,561	14,422	5,190	44,340
TOTAL	26,968	33,062	36,447	14,816	6,604	117,897

> 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	
	2009	2008
Total equity	548,601	351,663
Total assets	767,534	514,425
Book equity ratio	71.5%	68.4%

D) INTEREST-RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A change in interest of 100 basis points (bpp) 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 2008.

> EFFECT OF AN INTEREST RATE INCREASE OF 100 BPP

	31.12.09		31.12.09	
Amounts in TNOK	Result	Equity	Result	Equity
Investments with floating interest rates	1,868	1,345	1,359	979
Loans with variable interest rates	-17	-12	-25	-18
Cash flow sensitivity (net)	1,851	1,332	1,334	961

> 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 2009, the Group held the following financial instruments measured at fair value:

- Foreign exchange contracts
- Shares at fair value through profit and loss

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

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

Assets measured at fair value

TNOK	31. Dec 2009	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:				
Foreign exchange contracts	137	137		
Shares at fair value through profit and loss	4,103		4,103	

	31. Dec 2008	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss:				
Shares at fair value through profit and loss	2,278		2,278	

NOTE 24. 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 Malaysia Sdn. Bhd.	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
Dacolian BV (**)	2002	Beilen	The Netherlands	85%	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
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 AS therefore totals 53.48%.
(**) Q-Free ASA owns 85% of Dacolian BV at the end of 2009 but has an option and an obligation to buy the remaining shares before April 30th 2010. Based on this, the activity in Dacolian BV is included 100% in the consolidated financial statements of the Q-Free Group.

Book value in parent company of subsidiaries companies

Figures in TNOK	Cost	Book value 31.12.08	Book value 31.12.09	Companys equity per 31.12.09	Result after tax last year
Q-Free Portugal Lda.	204	204	204	-3,696	-1,724
Q-Free América Latina Ltda.	4,853	2,407	2,407	12,719	8,098
Q-Free Australia Pty. Ltd.	0	0	0	24,504	11,918
Q-Free Malaysia Sdn. Bhd.	1,155	0	0	-4,916	-2,163
Noca Holding AS – Group	4,592	6,715	6,715	37,460	-329
Q-Free Sverige AB	0	84	84	6,102	7,533
Q-Free Thailand Ltd	0	1,872	1,872	-5,015	-7,306
Dacolian BV	71,034	70,697	75,076	30,067	10,849
Q-Free Slovakia s.r.o.	0	0	42	-735	-713
Q-Free UK Ltd	3,791	0	5,939	-1,707	-1,707
TOTAL	85,629	81,979	92,339		

* For further information regarding subsidiaries established during 2009, see note 5.

The following exchange rates are used when consolidating the group.

Currencies

		Currency rate 01.01.09	Average currency rate	Currency rate 31.12.09
Euro	EUR	9.865	9.090	8.315
Australian dollar	AUD	4.850	5.021	5.192
Malaysian Ringgit	MYR	2.018	1.852	1.685
Brazilian real	BRL	3.002	3.161	3.320
US Dollar	USD	6.999	6.388	5.777
Pounds Sterling	GBP	10.121	9.719	9.317
Swedish kroner	SEK	90.420	85.705	80.990
Thai bath	THB	20.150	18.744	17.338

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

		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Q-Free Portugal Lda.	2009	8,221		517	13,176
	2008	30			3,005
Q-Free América Latina Ltda.	2009		5,118		242
	2008	420	4,273	174	
Q-Free Australia Pty. Ltd.	2009	28	50,376		7,169
	2008		30,025		68
Q-Free Malaysia Sdn. Bhd.	2009	1,676		568	
	2008	7,391		946	
Noca Holding AS – Group	2009	6,000	565	153	5,890
	2008	6,825	530	1,445	5,844
Q-Free ASA	2009	69,389	29,894	50,496	16,850
	2008	36,436	9,790	12,381	1,878
Q-Free Sverige AB	2009	1,091	5,462	4,612	5,392
	2008				947
Q-Free Thailand Co Ltd	2009		11,816		15,469
	2008		8,999		3,204
Dacolian BV	2009	14,079	2,221	14,061	556
	2008	2,515			
Q-Free Slovakia s.r.o.	2009		98		1,829
	2008				
Q-Free UK Ltd	2009	5,066		1,756	5,590
	2008				
	2009	105,550	105,550	72,163	72,163
TOTAL	2008	53,617	53,617	14,946	14,946

> TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2008: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

> RELATED PARTIES

The company has for 2009 received invoices for consultancy services from Spinoza AS in a total of TNOK 627 (2008: TNOK 295). 248 TNOK is oustanding per 31.12.2009 and paid during January 2010. Spinoza AS is owned by the chairman of the board Ole Jørgen Fredriksen. All transactions between related parties are based on arm length's principles and the invoicing is according to an agreement between the Q-Free ASA and the Chairman of the Board concerning consultancy services.

> ASSOCIATED COMPANIES

Q-Free ASA has not had ownership in associated companies in 2009.

NOTE 25. SALARIES AND PERSONNEL RELATED EXPENSES

Parent company | Group

2008	2009		2009	2008
69,214	93,062	Salaries	138,353	105,471
10,616	14,811	Social security	17,452	13,468
6,693	5,354	Pension costs	9,033	7,636
-720	0	Skattefunn (governmental tax relief)	0	-788
-19,526	-10,167	Other personnel related expenses	-11,125	-18,298
66,277	103,060	Total	153,713	107,488
107	126	Average number of employees	282	232
102	123	Average number of man-years	274	226

Payments to senior management and Board of Directors 2008

TNOK	Salary	Bonus	Director's remuneration	Pension service cost	Other remu-neration	Share option cost	TOTAL
Ole Jørgen Fredriksen, Chairman of the Board			216.7		27.7	311.0	555.4
Christian Albech, Board member			132.5		1.5	155.0	289.0
Torild Skogsholm, Board member			140.0			155.0	295.0
Jan Pihl Grimnes, Board member			90.0			155.0	245.0
Mimi Kristine Berdal, Board member			220.0		0.7	155.0	375.7
Sissel Lillevik Larsen, Employee elected Board member			37.5				37.5
Anders Hagen, Employee elected Board member			62.5				62.5
Pål Rune Johansen **, Employee elected Board member			25.0				25.0
Øyvind Isaksen, Chief Executive Officer	2,380.8	250.0		161.3		568.0	3,360.1
Marianne Sandal, Vice President Operations	1,404.6			229.8		126.0	1,760.4
Jos A.G. Nijhuis, General Manager Dacolian B.V.	909.7			102.8			1,012.5
Finn Øistein Nordam*, Chief Financial Officer	2,098.0	63.2				218.0	2,379.2
Per Fredrik Ecker, Vice President Sales	1,188.4			160.1		126.0	1,474.5
Stein-Tore Nybodahl, HR Manager	769.2			161.2		38.0	968.4
Steinar Furan, Quality Manager	809.9			108.6		126.0	1,044.5
Hans Christian Bolstad, Vice President R&D	1,065.7			173.0		126.0	1,364.7
Bjørn Kleven***, Acting Chief Financial Officer	825.3			92.2			917.5
TOTAL	11,451.6	313.2	924.2	1,189.0	29.9	2,259.0	16,166.9

* Finn Øistein Nordam resigned from the position as CFO 30th June and received salary until 31st of December 2008.
** Pål Rune Johansen served as employee elected board member until 10 May 2008.
*** Bjørn Kleven has served as Acting CFO since 30t of June 2008.

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

Payments to senior management and Board of Directors 2009

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

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

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

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

PRINCIPLES FOR REMUNERATION AND OTHER EMPLOYMENT TERMS FOR THE CEO AND SENIOR MANAGEMENT

The principles for remuneration and other employment terms can be summarised as follows:

The guiding principles are that remuneration and other employment terms for company management shall be competitive to ensure that Q-Free can attract and retain skilled persons in the management. The fixed salary element shall be competitive and reflect the individual's area of responsibility and performance. In addition to the fixed salary, a variable salary (bonus) may be paid. The variable salary element may amount to a maximum of 80 percent for the CEO and maximum 40 percent for the management team of the fixed annual salary and be based on Q-Free's fulfillment of certain improvement related goals, financial goals and/or other performance related goals. The set of goals are decided yearly by the Board of Q-Free and may be related to, for example, financial targets, research & development progress, quality performance and/or specific individual improvement targets. In addition to the fixed and variable salary, normally other customary benefits, such as company car may be provided in individual cases. In individual cases, other benefits like newspapers/magazines, private phone and internet/broadband subscription are provided.

In addition to pension benefits provided by law and collective agreements, members of the management employed before 1 November 2007 have selected between a defined-benefit pension scheme whereby the amount of the individual's pension comprises 2/3 of annual salary at the time of retirement maximized at 12G and based on a 30 years service period or a defined contribution pension scheme. In individual cases, other pension solutions may be considered. With regard to notice of termination of employment for management, the notification period is mutually 6 months. The CEO has a performance bonus dependent of financial achievements. The upper limit for the bonus is 80% of the fiscal year's salary. In individual cases, other principles for termination periods and severance pay may be considered. Share options may be granted to the CEO and management team if a share option program has been approved by the Annual General Meeting. There has also been established a group life insurance for the management. The benefit is a lump sum of 60 G (where G stands for "social security base amount"; G = NOK 72,881 as of May 1, 2009).

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

Audit fees

The group has the following audit related fees: (All figures excl. VAT)

	2009	2009	2008	2008
	Parent comp.	Group	Parent comp.	Group
Audit services	286	817	190	381
Other audit related services	113	145	113	124
Tax services	465	584	185	343
Other, non audit related services	106	407	186	192
Total	970	1,953	674	1,040

NOTE 26. OTHER OPERATING EXPENSES

Specification

Parent company			Group	
2008	2009	CATEGORY	2009	2008
46,525	109,281	External services	117,809	52,454
15,695	24,448	Travel expenses	28,462	16,696
15,043	20,242	Offices supplies	24,676	16,070
1,470	1,713	Insurance	2,690	1,865
5,375	4,293	Freight	4,549	5,444
1,838	1,570	Rent machinery & tools	4,591	2,693
4,313	5,756	Marketing / promotions	7,154	4,916
1,924	3,137	Service & Maintenance	4,704	2,049
2,491	2,248	Operating materials	3,210	2,793
-249	320	Bad debt losses	48	-249
1,008	3,913	Other operating expenses	14,162	11,815
95,432	176,922	Total	212,057	116,547

NOTE 27. REVENUE RECOGNITION IN PROJECTS

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. Projects in progress are the net amount of accumulated operating revenues less accumulated invoicing for all ongoing contracts where accumulated operating revenues are higher than accumulated invoicing. Prepayments from customers are the net amount of accumulated operating revenues less accumulated invoicing for all ongoing contracts where accumulated invoicing is higher than accumulated operating revenues.

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

Parent company 2008	Parent company 2009	BALANCE SHEET ITEMS	Group 2009	Group 2008
15,538	62,552	Work in progress	64,699	43,170
-1,041	-13	Prepayments from customers	-5,415	-5,550
14,497	62,539	Net projects in progress	59,285	37,620

2008	2009	SUMMARY OF ON GOING PROJECTS AS AT 31.12	2009	2008
135,502	519,565	Total orders	648,867	215,502
62,770	414,127	Accumulated revenues	497,141	66,568
72,733	105,439	Remaining revenues	151,727	148,934
42,625	308,759	Accumulated operating expenses	428,083	114,625
13,818	62,658	Remaining operating expenses	96,435	75,640
-1,041	-13	Prepayments received	-5,415	0
0	0	Remaining variable expenses on loss-making projects	6,011	0

UNCERTAINTY RELATED TO ESTIMATES

Revenue is recognised on the contracts according to the estimated progress. Progress is calculated as accrued production costs as a percentage of total expected production costs. Revenues are agreed by contract. Total expected production costs are estimated based on a combination of historical figures, systematic estimation procedures, the follow up of efficiency targets and best estimates. Ordinarily, the number of remaining hours employees must use to develop or complete the project will constitute a large part of total production costs. The uncertainty of the estimates is influenced by the project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and development content. This forms the basis for risk assessments and taking to account the profits from the projects. The projects are reviewed on a monthly basis.

NOTE 28. BALANCE AND OFF BALANCE SHEET COMMITMENTS

Parent company 2008	Parent company 2009		Group 2009	Group 2008
		BALANCE SHEET COMMITMENTS		
		Guarantees and loans secured by mortgage		
0	0	Long-term liabilities	1,412	2,202
0	0	Short-term liabilities	0	0
0	0	TOTAL	1,412	2,202
		Book value of assets securing mortgages and guarantees		
61,692	115,600	Accounts receivable	115,600	61,692
15,538	62,552	Work in progress	62,552	15,538
33,006	25,381	Inventories	38,404	36,726
54,579	56,409	Tangible assets	59,977	66,232
164,815	259,942	TOTAL	276,533	180,188
		OFF BALANCE SHEET COMMITMENT		
49,860	134,307	Guarantees to customers, suppliers and lease contracts	135,314	49,860

ERNST & YOUNG

Statsautoriserte revisorer
Ernst & Young AS

Havnegt. 9, NO-7010 Trondheim
Postboks 1299 Pirsenteret, NO-7462 Trondheim

Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 73 54 68 00
Fax: +47 73 54 68 01
www.ey.no

Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Q-Free ASA

Auditor's report for 2009

We have audited the annual financial statements of Q-Free ASA as of 31 December 2009, showing a profit of NOK 52 199 000 for the Parent Company and a profit of NOK 78 150 000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income, comprehensive income, cash flows and changes in equity as well as the accompanying notes. The financial statements of the Group comprise the consolidated balance sheet, the statements of income, comprehensive income, cash flows and changes in equity as well as the accompanying notes. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Parent Company and the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the Parent Company and the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2009, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Trondheim, 19. April 2010
ERNST & YOUNG AS
John Christian Løvaas
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

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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 MULTI LANE 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

+ HEADQUARTER
Q-FREE ASA
TH. OWESENS GT. 35C
NO – 7044 TRONDHEIM
NORWAY

P: +47 73 82 65 00
F: +47 73 82 65 01

+ Q-FREE ASA OSLO
WERGELANDSVEI 1
NO – 0167 OSLO
NORWAY

P: +47 23 10 65 00
F: +47 22 42 12 00

+ Q-FREE AUSTRALIA PTY. LTD.
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ST. LEONARDS NSW 2065
AUSTRALIA

P: +61 2 9887 8200
F: +61 2 9901 3032

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ALPHAVILLE, BARUERI
CEP 06454 – 010 SÃO PAULO
BRAZIL

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F: +55 11 4195 8585

+ Q-FREE FRANCE
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92522 NEUILLY SUR SEINE CEDEX
FRANCE

P: +33 (0)170375306
F: +33 (0)170375353

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47820 PETALING JAYA
SELANGOR DARUL EHSAN
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F: +6 03 7727 9448

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81109 BRATISLAVA
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NÚCLEO CENTRAL, 371
P 2740 – 122 OEIRAS
PORTUGAL

P: +351 21 422 7170
F: +351 21 422 7171

+ Q-FREE SVERIGE AB
SUNDBYBERGSVÄGEN 1,
9.DE VÅNINGEN
171 73 SOLNA
SVERIGE

P: +46 706227876
F: +46 706204201
INFO@Q-FREE.COM

+ Q-FREE THAILAND CO. LTD.
20/22 MOO 12
KASET–NAWAMIN RD
LATHPRAO
10230 BANGKOK
THAILAND

P: +66 255 32 025

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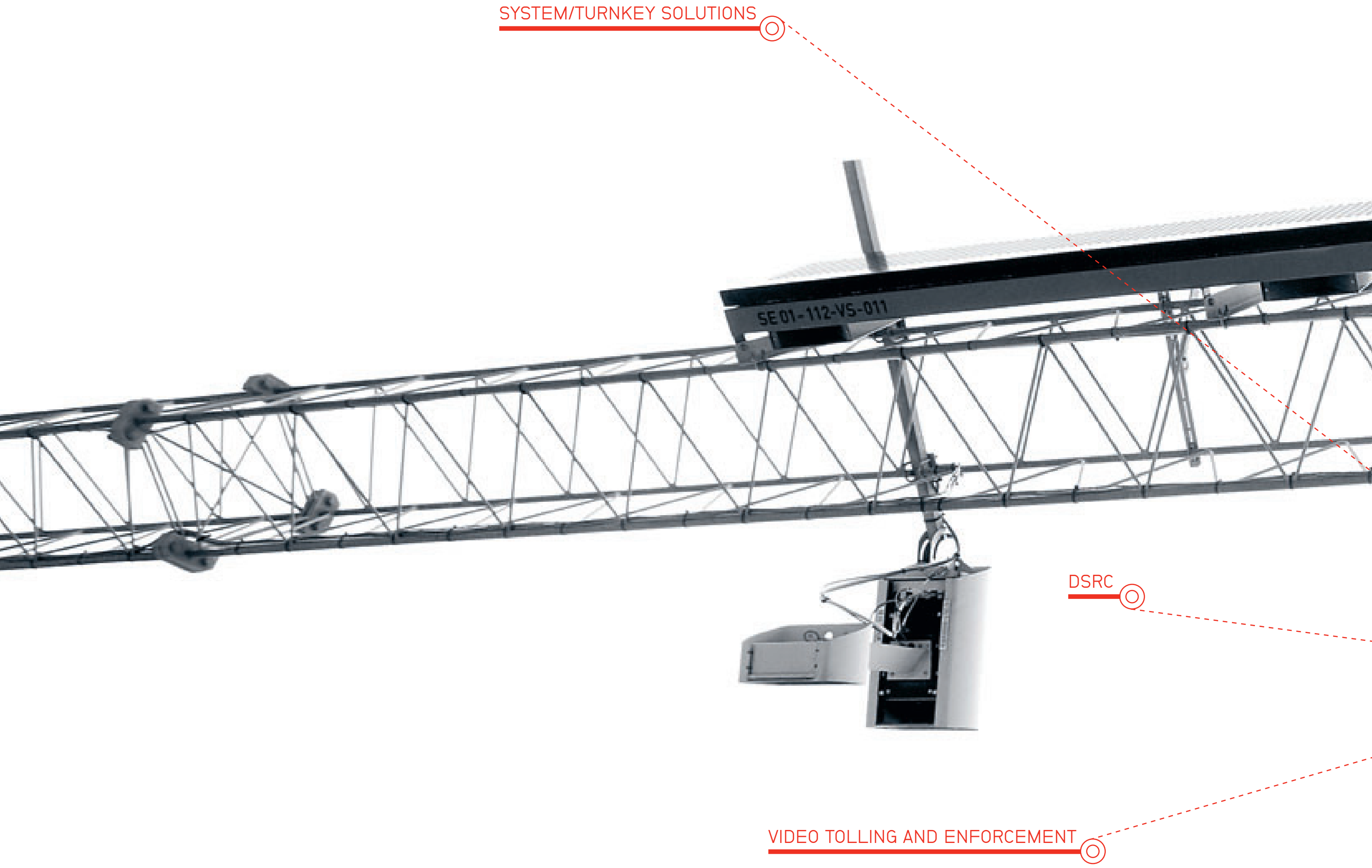
BUILDING CAPITAL / Q-FREE
SUITE 144, 1ST FLOOR
BERKELEY SQUARE HOUSE,
BERKELEY SQUARE
LONDON
W1J 6BD
UK

P: +44 203 004 2600
F: +44 203 004 2601

+ Q-FREE THE NETHERLANDS
DACOLIAN BV / Q-FREE
POSTBUS 180
9410 AD BEILEN
THE NETHERLANDS

P: +31(0)593 542.055
F: +31(0)593 542.098
INFO@DACOLIAN.COM



Q-FREE ASA CONTACT DETAILS

+ ADDRESS
TH. OWESENS GT. 35C
NO–7044 TRONDHEIM
NORWAY

+ MAILADRESS
P.O. BOX 3974 LEANGEN
NO–7443 TRONDHEIM
NORWAY

P: +47 73 82 65 00
F: +47 73 82 65 01
INFO@Q-FREE.COM
WWW.Q-FREE.COM

BANK: DEN NORSKE BANK
ACC.NO.: 5361 06 10540
S.W.I.F.T DNBANOBBTRD

+ REGISTER OF BUSINESS ENTERPRISES
NO 935 487 242