Report from the Q-Free World

04

Q FREE

Q FREE

Contents

Technology that safeguards transport operators' cash flow

Q-Free ASA

Address:
Th. Owesens g. 35C
NO-7044 Trondheim
Norway

Mail Address:
P.O. Box 3974
Leangen
NO-7443 Trondheim
Norway

Phone +47 73 82 65 00
Fax: +47 73 82 65 01
info@q-free.com
www.q-free.com

Q-Free customers are free

Q-Free believes in free competition.
We do not like technological lock-in strategies.
It slows down product development.
That's bad for the customers
and bad for the business.

That's why Q-Free uses open
and standardized systems.

Our customers are free to choose.
If you love somebody set them free.

Geir Ove Kjesbu, CEO

The President's Corner

As 2004 started, Q-Free was like a vessel creaking at the seams. Critical scrutiny of all projects revealed that several of them were not financially viable. As captain of the ship, I decided that the projects in question would have to be brought onto a sound foundation, or be terminated. We managed to navigate our way into calmer waters, to inspect every part of the ship and to prepare the crew for the way ahead. A few months later we weighed anchor and, navigating with a new strategy and a motivated crew, in the second quarter Q-Free was able to present a profit for the first time since its stock exchange listing in 2002.

I have always had complete faith in the company. Its products are the best in the world in the area of road user charging and automatic fare collection. With 20 years' experience as a supplier of technology for electronic payment systems, the company thoroughly understands the absolute need for reliability. Our unique experience of the industry, combined with a distinct ability to be innovative and think in new directions, means that we are well placed to benefit from the growth that now characterises the market. Q-Free will continue to be a global supplier, setting the standard for payment systems in the transport sector. The turnaround in 2004 was in some respects difficult, but at the same time it was uncomplicated. It was difficult because we had to take tough action. It was uncomplicated because we simply changed focus, placing our technology in a more market-oriented perspective.

Under the new strategy, Q-Free's technology and products will be sold through partners. This was a strategic move that produced immediate results. When IBM was awarded a contract from the Swedish authorities to set up a toll ring around Stockholm, Q-Free was chosen to provide the technology. We have the best product in what is called Multilane Free Flow systems, and our technology is currently being installed in projects in Sweden, Chile and Australia. It is a market that is opening up in several countries, and new business in 2004 included deliveries to Greece, Croatia and France, to name a few.

Road user charging is an increasingly relevant topic in a growing number of countries. Political decisions are being taken where the financial and environmental cost of road projects will be recouped from the users of these roads through road user charging. Truck tolling is also a political theme in several European countries. For example, there are plans to introduce truck tolling in the UK and the Czech Republic in the period 2007-2008.

Congestion Charging - the use of tolls to regulate traffic density - is once more on the agenda. London and Stockholm were first out, and a number of cities are set to follow suite. This offers a great potential to Q-Free.

In the area of automatic fare collection, our market focus is on Scandinavia, but at the same time we are positioning ourselves for expansion in a larger international market. In 2004 and 2005 Q-Free invests heavily in a new generation of technology - a so-called "Open Platform" which makes it simple for the customer to integrate Q-Free's products with its other systems. This solution has been well received in the market, and the company currently has five major electronic toll collection projects for delivery in 2005 and 2006. Our long-term strategy is to offer technology of this kind through global partners.

The ship has been rigged and is now leaving calm waters. It is constructed to withstand high waves and extreme forces. The crew are experienced, skilled and motivated, and the cargo consist of products in demand. We are expecting organic growth in the current year, but what we really want to see is a smile on the faces of our customers, our partners and our shareholders. We will achieve this by providing reliable products, optimal service and overall profitability.

Geir Ove Kjesbu, CEO

Mission:
To Q-Free the world

Tools:
IQ & EQ*

Mission status:
5 million travellers Q-Freed so far

Until now, Q-Free has supplied
close to 5 million vehicles with tolling technology.

That means more than 5 million
less stressed, more easy going travellers.
And reduced pollution to air and ground.

A small contribution to a better world,
but a contribution non the less.

* Intelligence and Passion

The Q-Free Story

The Intelligent Transport System sector is in a phase of sustained, strong growth. Q-Free's focus is on two markets within this segment, Road User Charging and Automatic Fare Collection. Within these markets, Q-Free focuses on providing communication and transaction technology and products to safeguard the transport operator's cash flow. Q-Free aims at becoming market leader in all markets it enters.

The Road User Charging market

The Road User Charging (RUC) market is set to experience strong growth in most parts of the world in the coming years. In Europe, there are 10 million users of Electronic Toll Collection (ETC) systems and this figure is expected to increase at a compound annual growth rate of 9.1% over the next decade[1]. In several Asian countries, Australia and the Americas upcoming projects give testimony to a similar, positive trend. In Europe, the ongoing process of promoting interoperability between the different countries and the recent expansion of the European Union, are key drivers of further growth. Truck tolling projects are being launched in several countries and the European transport industry may soon see a Union-wide tolling service become reality. Furthermore, the established success of congestion charging in London and success in the Stockholm congestion charging project would encourage other cities to follow suit. All these trends strengthen our belief in a growing market for efficient and effective RUC solutions.

There are different views on how ETC should be made interoperable both from a technical and a commercial point of view. We strongly believe, however, that the huge needs for infrastructure financing and the need to reduce congestion to improve traffic efficiency and reduce environmental impact, eventually will result in a European ETC user base as much as ten times today's base and in a fully interoperable environment. Operators' efficiency requirements and the vision of an interoperable, Union-wide system are paving the way for an increased share of electronic systems as opposed to manual fee collection, which still holds the lion's share of the market. There is a clear trend for new projects to focus on electronic solutions while existing installations are being revamped with ETC lanes.

We believe that satellite-based services will play an important part in the future of the RUC industry, but that the next ten years will prove to be a strong growth period for systems based on Dedicated Short Range Communication (DSRC) systems. This technology is the basis of 99% of today's electronic systems and the number of users is continuing to grow strongly.

The ETC customers are either public or private concessionaires, they may be local government in the case of congestion charging projects, national road authorities or Public-Private-Partnerships (PPP) in highway infrastructure financing projects, or operators of bridges and tunnels. In general, each project is a tender process with very tough competition and strict bidding requirements.

Currently, a few suppliers are able to offer working DSRC solutions world wide, with Q-Free being the pioneer and market leader. Although an increasing market size will provide opportunities for new entrants, we believe that the complexity of the technology and the required investment in R&D and product testing will continue to constitute an entry barrier for new players.

[1] Frost & Sullivan, June 2004

Highlights 2004

- Q-Free signs the Groups first ticketing contract outside Norway, whit Umeå and Norrbotten in Sweden.
- The Sydney Cross City Tunnel is awarded Q-Free, the first multilane free flow system inside a tunnel environment.

Q-Free believes that its current position as market leader in the DSRC based tolling market will position the company to take a healthy share of upcoming projects and product sales. During 2005, truck tolling projects in the UK and in the Czech Republic will be concrete opportunities to supply important technology to nationwide tolling systems. In the next few years, similar opportunities may arise in France, Sweden, the Slovak Republic, Hungary and Poland. The London Congestion Charging system is set to be enlarged to include DSRC technology and this may create an opening for Q-Free. Amsterdam, Paris, Gothenburg, Copenhagen are cities that have already begun discussions on congestion charging, and more are sure to follow suit in Europe, Asia and the Americas. The markets for On Board Units (OBU) in established tolling markets present opportunities in Norway, France, Spain, Greece, Australia, Chile, Argentina, Mexico, China, and several other countries. The rising number of vehicles equipped with OBUs will subsequently bring an increasing market for service, maintenance and renewals that will sustain the underlying, steady revenue base of the company.

Urban mobility as key to improved living conditions

The world's large cities are increasingly experiencing that congestion is reducing the quality of life for its citizens. Higher frequency of pollution related diseases, unreliable logistics and a general feeling of stress and discomfort are symptoms. Urban mobility issues have consequently come to the top of the agenda for many local authorities and the balance between private and public transport is at the core of the challenges.

We believe that the future will see many urban mobility projects where this balance will be achieved through dynamic pricing of the different means of transport. We see a strong motivation to develop concepts and products that give clear incentives to travelers to choose transport means that optimize the balance between infrastructure utilization and environmental effects. One such product is a smart card enabled OBU, a so-called “two piece tag”, which allows the traveler to use a smart card, i.e. a public transport card, to activate his on board unit to pay for road tolling and parking. Q-Free is launching this product in 2005.

The automatic fare collection market

The market for Automatic Fare Collection (AFC) is growing. The population explosion together with limited urban space, increased energy consumption, the need for pollution reduction, road safety and mobility for all are factors that in some way or other will make more and better public transport systems necessary, and hence increase the demand for more efficient AFC systems. Passengers are demanding an increasing degree of functionality from the system; seamless travel, best price models, multi-application smart cards, alternative methods of payment and real time information (RTI); this again creates a need for more advanced AFC systems.

The AFC customers are either public entities or private concessionaires. The market spans from small local projects to large scale national projects, from bus projects only to inter-modal projects including all means of transportation.

Highlights 2004

- Q-Free is awarded an electronic ticketing contract in Rogaland, Norway.
- The founder of Q-Free, Mr. Kai Bogen, retires from the company after 20 years. The vice president, Mr. Geir Ove Kjesbu, takes over as President and CEO.
- Q-Free reports a profit warning after a thorough investigation of the financial situation. An extensive restructuring process is started.

Currently, a few large AFC suppliers with proprietary solutions dominate the AFC market in Europe, together with smaller local companies. The AFC customers are now increasingly demanding open system solutions with sufficient flexibility to adapt to the special circumstances of each customer. This is fully in line with the system philosophy of Q-Free. In a growing market, Q-Free is positioned to supply AFC solutions, from supplying modules to acting as the customer's main contractor and system integrator.

The AFC solutions developed by Q-Free during the latest years are considered to be among the best of their kind. With the realization of the new generation of AFC solutions, based on the use of a vehicle computer together with off-the-shelf equipment like touch LCD and a receipt printer, Q-Free has a state-of-the-art AFC solution that is prepared for further development. The typical lifetime of an AFC system is 10 years, and we now see that some customers are purchasing their second generation AFC system. As technological developments progress, it is important that the AFC system can adapt to this development, which is fully possible with the introduction of a vehicle computer.

The new generation of the Q-Free AFC system is currently under development and will shortly be in operation in 5 projects in Scandinavia; in the city of Umeå and in the counties of Norrbotten, Rogaland, Troms and Hedmark/Oppland. In total, these 5 projects involve the installation of equipment in more than 1 850 buses.

Until now, there have been separate systems and equipment for the AFC and RTI in the vehicle. With the introduction of the new Q-Free vehicle system, there is no longer a need for separate systems as both AFC and RTI functionality can be handled by the same vehicle computer.

Transport system operators choose Q-Free

Q-Free is Europe's leading supplier of electronic toll collection (ETC) systems and has delivered the national tolling systems for Norway and Portugal. These two countries have been among the pioneers in the European market for advanced, electronic tolling systems and in Norway Q-Free has had the opportunity to work closely with the National Road Authorities since the world's first ETC system was installed at Ranheim outside Trondheim. For many years, Q-Free has been the preferred supplier to Portugal's largest tollway operator, Brisa, and this co-operation is continuing, although competitors are doing their utmost to edge their way into the Portuguese market. During 2004, the company developed close co-operation with IBM and was able to secure the contract for all OBU and roadside equipment in the groundbreaking Stockholm congestion charging project. Greece's national road authorities have initiated the development of a Greek ETC system that places Greece at the forefront of European interoperability efforts and Q-Free assisted with technology and products in trials and tests. Q-Free also secured an important contract with the Croatian National Highway Company in 2004. This achievement provides a sound basis for further business in the Balkan region, which is an emerging market for ETC related systems.

- The Board of Directors approves an issue of 10 % to strengthen the financial situation before the restructuring process.
- Q-Free reports its first profitable quarter since the IPO in April 2002.
- IBM is awarded the large toll collection contract in Stockholm with Q-Free as technology partner.

Outside Europe, Q-Free made great progress in 2004. In Australia, the company won a multilane free flow system contract with Cross City Motorways in Sydney. In Chile, Q-Free supplied important parts of the road side technology to the Vespucio Sur concession in Santiago, again applying multilane free flow technology, and managed to win a large share of the market for OBUs with a total frame contract volume of half a million OBUs to two concessionaires.

Within the AFC market, 2004 brought consolidation of the company's position as one of the leading AFC supplies in Scandinavia. Q-Free has won new AFC contracts in Rogaland in Norway and in Umeå and Norrbotten in Sweden. For these projects, together with the AFC projects in the counties of Troms, Hedmark and Oppland in Norway, Q-Free has introduced the next generation AFC solution which is based on the use of off-the-shelf products with standardized interfaces. The introduction of this new AFC solution has been well received in the market and makes Q-Free well positioned to enter AFC markets outside Scandinavia.

The Q-Free Team

Q-Free's technology base has been developed in Trondheim, Norway, one of the major technology hubs of the world. Scandinavia is well known to be on the leading edge of communication technology development and Trondheim is home to Norway's most important university of technology and science, NTNU. Building on this sound cultural base for technological development and innovation, Q-Free has grown to become the market leader in electronic tolling technology with subsidiaries in Portugal, Greece, Brazil, Australia, Malaysia and China.

Although it is a relatively small company with 200 employees, Q-Free is a multi-cultural and multi-skill organization able to do business with a local flair in the markets where it operates. The company has team members who speak Norwegian, English, German, French, Italian, Spanish, Portuguese, Greek, Arabic, Persian, Mandarin, Cantonese, Malay and probably more. Some are Christians, some are Muslims, some are Buddhists, some are Atheists, some are engineers, some have PhDs or MBA's, some are software gurus, some think it is just as fine to be installing equipment ten meters above the ground on a freezing winter's day as on a blazing hot summer afternoon, some travel 150 days a year, some are more or less married to their computer, but they all have one thing in common - a commitment to Q-Free's customers. Each and every team member knows that his or her contribution helps to ensure the reliability of business critical systems for the customer and that quality and reliability are the key words that keep customers coming back.

Product Offering

Q-Free's customers are operators of transport systems and their business models are centered on the successful processing of huge amounts of micro transactions. System and product availability and reliability are consequently of utmost importance and it is no coincidence that these are among Q-Free's strongest competitive advantages. In addition to securing the customer's revenue stream, the continuous and flawless handling of transactions minimizes negative user reactions.

- IBM's competitor for the project in Stockholm complains about the resolution, but the project is started in September 2004.
- Q-Free is awarded the first OBU supply to Chile.

Highlights 2004

Q-Free's current product portfolio comprises *in-vehicle units* that generate and transmit payment transactions to *infrastructure*, and *management software* to process the transactions. The company thus provides and has core competence in all technology and products necessary to catch, generate and process payment transactions in high volume transport systems. Q-Free participates actively in the international standardization work and promotes open and standardized systems to allow free competition. The company supplies products according to European standards supporting national specifications such as the Norwegian AutoPASS specification, the Portuguese tolling specification (Via Verde), the French TIS specification and the Pista application specification. The PISTA specification has been promoted successfully by the EU after a very well managed european initiative.

Within the RUC market, the core products are On Board Units ("tags") that communicate with readers placed on fixed infrastructure along the road. At the end of 2004, Q-Free had supplied close to 5 million OBUs and equipped close to 4000 lanes with readers and auxiliary equipment. Following testing projects and trials, Q-Free is launching a new line of OBU's that combined with smartcard wills bring a wide range of opportunities to generate mobility services revenues for transport operators. The smartcard can be configured for use in public transport, parking, fuelling and other services normally performed with a smart card. When inserted into the vehicle mounted OBU other functions like toll payment, access control are enabled. In a way, the OBU will work as a "loudspeaker" to allow the card to communicate with readers at a distance. Q-Free expects that this range of products will attract great interest from transport operators looking to offer integrated services to an already established customer base.

Historically, payment of road tolls meant stopping the vehicle and handing over money to an operator before being allowed to proceed. The evolution of ETC made it possible to speed up the process of toll payment considerably. Q-Free has played a decisive role in taking the development another step further with the introduction of the Multi Lane Free Flow (MLFF) system whereby vehicles are tolled without the need to pass through specific toll plazas or lanes and without reducing their speed.

What tomorrow brings

To know what is the core of a company's being, its core knowledge and skills, is the key to understanding which role can be taken in a changing business environment. And the business environment is changing as the ITS industry moves from being technology driven to being business driven. In particular, Q-Free believes that the road user charging market is in a period of rapid transition to a situation where transport operators will regard the technology as a "black box", i.e. something that just works. Q-Free is ready for this changed environment and has focused on its own core knowledge to provide state-of-the-art products and systems that will fit the customers' expectations. In the next few years, our customers will continue to buy from Q-Free because they know they can rely on the technology, systems and products to safeguard their revenue stream from transport systems. And travelers who use our customers' systems will truly become easy going people.

- As a part of the restructuring process, Q-Free decides to merge the subsidiaries in Norway with the mother company Q-Free ASA.
- Q-Free receives additional orders from IBM concerning the contract in Stockholm.

Latin America opening up

Photo: SEBASTIÃO MOREIRA/AE
Eduardo Coutinho

Gunnar Johansson

Jenny PC Lim

: Eduardo Coutinho

For the last two years Q-Free has had a leading position in the South American market. The breakthrough came in 2004. Brazil and Chile offer greatest potential in the short term.

In Chile alone Q-Free has secured two major contracts to supply OBUs, both won in strong competition with other companies. Q-Free has now delivered services and products to the Chilean market worth almost NOK 60m.

References

- In the coming years a vast number of OBUs will be supplied to the South American continent, and every contract we win strengthens our position since we are operating in a market where references mean a lot, says regional director Eduardo Coutinho, head of Q-Free's operations in the South American market. Coutinho goes on to say that road user charging is gradually being seen as the way forward in other countries of the region.

- There is no lack of will among the authorities in this region. But they lack the ability to invest in infrastructure and therefore depend on private investors to improve communications in each country and across national borders. But you can sense a feeling of optimism, and the conditions are right for private enterprise to join forces with the authorities in order to strengthen the infrastructure. This can be done through road user charging. Chile was first out, and is being followed by Brazil, says Coutinho, adding:

- The realisation that projects can be financed through road user charging has also spread to countries like Mexico, Ecuador and Peru.

Aggressive

Eduardo Coutinho has no doubt that Q-Free has everything it takes to succeed. As well as good references, having a local presence and local production means a great deal when projects are put out to tender.

- We are very aggressive and visible in these markets. With its expertise, Q-Free is a frontrunner in the drive to establish a mature market in the area of road user charging. In many ways, we have set the standard through our deliveries to Chile, says Coutinho.

IBM - a good partnership

: Gunnar Johansson

Q-Free has established strategic links with IBM as a main partner in the field of road charging. The project involving the installation of a toll ring around the Swedish capital provides clear evidence of productive collaboration.

At the start of 2004 the management of Q-Free made a strategic decision, that meant that the company would no longer undertake to be the main contractor in extensive projects. Under the new strategy the company would participate as a subcontractor in the largest projects, thereby reducing the financial risk.

Positive

- The co-operation with Q-Free has been a positive experience for us. Deliveries are always on time, and they are a stimulating partner to work with, says Gunnar Johansson, head of Road Charging at IBM.

IBM also has the expertise needed to establish call centres, with Q-Free providing part of the technological infrastructure and OBU's that communicate with this technology.

Belief in co-operation

- We both benefit as we each have something to provide, and the prospects for future collaboration are very good, continues Johansson. Sweden is a country with great potential in the area of road charging, but Swedish law makes a clear and definite distinction between two different models. Where road charging is imposed on existing roads, the amount payable is regarded as a public tax. Where new roads are planned, road charging can be regarded as a financing instrument. The toll ring around Stockholm is a trial project, and it will be up to the people of Stockholm to decided whether they want to have road charging around the capital. This will be decided in a referendum.

- There was a similar referendum in Edinburgh, and the result was negative. So far, public opinion polls indicate that the people are in favour of the road charging trial project in Stockholm, says Gunnar Johansson.

Smiles in Asia

: Jenny PC Lim

When Jenny PC Lim took over as regional manager for South East Asia she replaced almost 80 per cent of the workforce and brought in a new team, with new commitment and a new spirit. And in 2004, for the first time, our Asian operations were in profit.

Jenny PC Lim was in no doubt about what had to be done when she was appointed to head the business in South East Asia in March 2004. Her career with Q-Free started as far back as 1998, and a short time after restructuring had been completed there was already a more positive atmosphere, and better performance.

Costs

- In addition to the reorganisation, we are keeping a close eye on costs. At the same time, we have won a number of good contracts, and the accounts for 2004 show a turnover of RM 11m (NOK 18m). Naturally, our attention will continue to be targeted on good projects, says Lim.

She gives the new team much of the credit for the good progress, saying that they all pull together and that everyone is genuinely focused on getting good results.

- Our staff are very dedicated to their work. The outlook for road user charging in the Asian market is very promising, in both the short and the long term. Right now, our sights are set on securing projects - including some big ones - in Malaysia and some other countries in the region. We are engaged in constructive negotiations and the impression is that we meet all the customer requirements, says the regional manager.

Co-operation

Q-Free's Asian headquarters in Malaysia receives regular inquiries from authorities and local entities seeking co-operation with the company or participation as a partner in specific projects.

- All inquiries receive proper consideration. Under Q-Free's new strategy, it may be both appropriate and natural to become involved in major projects in an alliance with competent partners, concludes Jenny PC Lim.

To Q or not to Q that is the question

People are on the move.
They like to meet.
Face to face.
Internet has not changed that.
And the traffic is growing steadily.
Worldwide.
Producing congestions and pollution.

Q-Free provides solutions
for those who have the means and will
to handle the situation.

Corporate Governance

Implementation and reporting on Corporate Governance

In December 2004, the Oslo Stock Exchange published the Norwegian code of practice on corporate governance for listed companies. Q-Free follows the discussions regarding corporate governance and aspires to comply as closely as possible with the recommended code of practice.

Q-Free understands corporate governance to be the principles and guidelines that determine how the company is managed and define 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 and other interested parties such as employees, customers and suppliers.

Business

Q-Free makes public the company's declared objectives and principal strategies to the capital market through the annual report and quarterly reports and presentations. If necessary, the company will communicate with the capital market through additional presentations, stock exchange releases and press releases. Q-Free wishes to maintain an open dialogue with the capital market and shareholders and aims to provide as much information as possible regarding objectives and principal strategies to secure a high degree of predictability.

Q-Free's customers are public authorities, private companies, which are operating under public licences, and system integrators. The company's main risk factors are political risk, project risk and financial risk.

Since most of Q-Free's projects are decided by public authorities, the political risk is noticeable. Projects may be changed, postponed or stopped as a result of new political decisions, and this may affect Q-Free's revenues and profit. The company closely follows political discussions, which affect its business, but has experienced that projects have been changed due to new policies.

Q-Free is a technical leader in its field, and delivers technically complex projects, often over a long period of time. The administration of such projects is based on years of experience and the use of an internal control system. Q-Free has developed a well functioning Quality Management (QM) system and is certified in accordance with the NS-EN ISO-9001:2000 Quality System requirements. The company's ISO 9001 Certificate covers all areas of normal operations.

Q-Free is a global operator and faces financial risk every day. Most of the company's projects are paid in euros or dollars, even those in Asia and South America. The company has established a financial risk management policy, based on experience, under which at least 50% of its expected foreign currency revenues are hedged.

The risk factors to which Q-Free is subject are closely monitored by the company and especially by the QM manager, who reports directly to the CEO of the Q-Free Group.

The company's articles of association can be found on page 52 in the annual report.

Equity and dividends

It is Q-Free's policy to maintain a high equity ratio to provide a platform for the company's expected expansion and growth. Based on this assumption, Q-Free does not expect any dividend to be paid out to the shareholders in the coming years.

The board of directors is not granted any mandate to increase the share capital of the company by issuing new shares, except for the incentive programme for key personnel.

The board of directors is not granted any mandate to acquire the company's own shares.

The board of directors is authorised to increase the share capital by issuing new shares to key personnel (incentive programme). The share capital may be increased by a maximum of NOK 114, 324,80 by issuing a maximum of 2,286,496 shares (5 %). The mandate applies from 3 May 2004 and is valid for two years.

The board of directors is authorised to waive shareholders' rights of pre-emption, in favour of key personnel. The term "key personnel" includes the board of directors and the annual assembly has authorised a maximum of 500,000 shares for the board of directors. The incentive programme was started in 2003 and is exercised over three years with 1/3 each year. The price paid for each share is decided by the share price ten days before and ten days after the annual general assembly in each of the three years of the programme. The payment for exercised options must be made in cash.

In December 2003 the board of directors decided to award key personnel 1,075,000 share options from this programme. In June 2004 the board of directors decided to award key personnel 600,000 shares, of which 500,000 shares were granted to the board of directors. Note 1 provides further information about the incentive programme.

Equal treatment of shareholders and transaction with close associates

Q-Free ASA has only one class of shares and there are no voting restrictions. The board of directors does not intend to submit any proposals to the general assembly concerning voting restrictions.

An increase in the company's capital might be proposed if the board of directors decides that this would be in the best long-term interests of the shareholders. If possible, the board of directors will propose a share issue to existing shareholders in accordance with pre-emptive rights. The board of directors is authorised to increase the share capital by issuing shares to key personnel (incentive programme) and to waive shareholders' pre-emptive rights, in favour of key personnel under this programme. The introduction of an incentive programme is considered to be in the best interests of the shareholders and is explained in the agenda for the general assembly.

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

Note 1 provides further information about transactions with close associates.

Freely negotiable shares

Q-Free ASA has no restrictions on the negotiability of its shares and the board of directors does not intend to submit any proposals to the general assembly concerning restrictions on freely negotiable shares.

General assembly

The general assembly is the company's highest authority and elects the members of the board. Q-Free observes the period of notice stipulated in the Norwegian Public Limited Companies Act, i.e. 14 days' notice. There are no limitations in the company's articles of association or otherwise, concerning the period of notice.

The agenda for the general assembly includes detailed supporting information on the resolutions to be considered and the recommendation from the nomination committee if the company has elected such a committee. Q-Free observes the period of notice period stipulated in the Norwegian Public Limited Companies Act concerning the deadline for shareholders' notification of their intention to attend the general assembly, i.e. 5 days' notice.

In order to vote at the general assembly, a shareholder must attend or give a power of attorney to a proxy in attendance. It is not possible to vote via the Internet or in any other way. The board of directors and the management of the company seek to facilitate the largest possible attendance at the general assembly. In 2004, the annual general assembly was held on 3 May and shareholders representing about 92 % of the share capital attended in person or through proxies. The board of directors does not intend to submit any proposals to the general assembly concerning changes in the voting procedures.

Nomination committee

No nomination committee was elected at the general assembly in 2004. The election of a nomination committee is not required under the articles of association. The board of directors will consider submitting a resolution to the annual assembly in 2005 proposing the election of a nomination committee and amendment of the articles of association in accordance with recommendations from the Norwegian code of practice for corporate governance.

Corporate assembly and board of directors: composition and independence

Under Norwegian law, the company is not required to have a corporate assembly.

Board members are elected for two years at a time, and there are currently seven members (five elected by the shareholders and two elected by and among the employees). The chairman of the board is not elected by the general assembly, but by the members of the board. The Chairman is elected for one year at a time. The board of directors has not elected a deputy chairman. If the chairman is not represented at a board meeting, the longest serving member of the board chairs the meeting. The company's executive management is not represented on the board of directors.

The board of directors:

Chairman of the board:

Ole Jørgen Fredriksen, Spinoza AS

Shares: 100 000

Options: 200 000

Mr. 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 global leading projector company. Mr. Fredriksen has lived and worked in Europe and the United States and his expertise includes a unique combination of worldwide product development, manufacturing, logistics/ services and sales and marketing. He holds several board positions from start-ups to listed companies on stock exchanges in Norway, Sweden and the UK.

Members of the board:

Christian Albech, Telenor Pluss Holding

Options: 100 000

Christian Albech has long experience from the information and media industry, and is the managing director of the Nordic pay-tv company Canal Digital. He is also the vice managing director of Telenor Broadcast AS. Mr Albech has extensive experience from board work, including the position of Chairman of the Board of Otrum, which is listed on the Oslo Stock Exchange.

Harald Arnet

Shares: Mr. Arnet represents about 13% of the share capital of Q-Free ASA through his interests in the companies Decibel AS, Datum AS, Wega AS and Hermia AS.

Options: 100 000

Arnet holds several board positions in both listed and non-listed companies. He has 20 years' experience from corporate finance and investments in Norway and internationally.

Roar Arntzen, St.Olav Hospital

Options: 100 000

Roar Arntzen has held the position as President of Sintef, the largest independent research organisation in Scandinavia, and Managing Director of Autronica. Currently Mr Arntzen is the President of St. Olavs Hospital in Trondheim. He has also held several board positions throughout his career.

Kai Bogen, Q-Free International AS

Shares: 17 439 140

Options: 150 000

Mr Bogen was the founder of Q-Free ASA and was the President and CEO from 1984 until 2004. He is the largest shareholder of Q-Free ASA through his wholly owned company, Q-Free International AS.

Camilla Berg, employee elected

Ms. Berg has been with Q-Free since 2001 and currently works in the Marketing and Sales department. Ms Berg holds an MSc in Engineering.

Audun Jan Myrhol, employee elected

Mr. Myrhol has been employed as R&D engineer with Q-Free since 1997, working mainly with tolling projects.

The work of the board of directors

The board of directors is elected by the shareholders and employees to oversee the executive management and to ensure that the long-term interests of the shareholders and other interested parties are being served. The board of directors has 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 shall also ensure that the activities are soundly organised and keep itself informed about the financial situation of the company, and ensure that company's risk exposure is handled by the management in an appropriate way.

As yet, the company does not have any written corporate values or ethical guidelines and no board committees have been considered to be necessary. The consideration of both of these matters is on the board's agenda 2005.

The guidelines for the board of directors are described in the company's "Instruction for the board of Q-Free ASA". The aim of these instructions is to give an overview of the role and the functions of the board and its interaction with the executive management of the company.

After each year's general assembly, the board of directors draws up a plan of its work for the year, setting out the number of meetings and the specific tasks to be considered at each meeting. This includes at least one annual review of the overall strategy and preparation of the budget for the following year, an evaluation of the management and the company's competence requirements, as well as financial and risk reviews based on budgets or forecasts. The instructions for the board of directors also include detailed instructions concerning the information that it requires and when the board should receive information from the executive management.

Board remuneration

The remuneration to the board of directors is set at NOK 150,000 for the chairman and NOK 100,000 for each member elected by the shareholders, while employee elected members receive NOK 50,000 each. The board of directors consists of five elected non-executive members and two employee elected members. In addition to their board responsibility, board members may from time to time undertake certain consultancy projects for the company. Such projects are defined by the board of directors and are limited in scope. There is a separate remuneration for services of this kind.

In 2004, the general assembly authorised an incentive programme for key personnel, including 500,000 options to the board of directors. This is based on the view that the company needs a strong and competent board of directors in a challenging situation with the expectation of further growth. While the Norwegian code of practice for corporate governance recommends that share options should not be granted to board members, the general assembly has found it necessary in the light of the above.

Note 1 provides further information about remuneration to the board of directors.

Remuneration of the executive management

Q-Frees remuneration policy has always been to pay the market price for the competence needed. Senior management receive a basic salary and are members of the company's pension scheme. The general assembly has authorised an incentive programme for key personnel, and at year-end 2004 12 employees had been granted share options. (Further information about the incentive programme appears in the section on "equity and dividends" above). The CEO's salary, bonus, option entitlements and terms to apply in the event of termination of employment are determined by the board of directors. The bonus and option agreement for the CEO are linked to the company's performance and the value created for shareholders. Note 1 provides further information about remuneration to the CEO.

In order to meet the company's goals, each employee, including the senior management, completes an annual performance evaluation. The board of directors also evaluates the performance of the senior management, when necessary with external assistance. Through these processes, the board seeks to secure that the senior management are focused on developing the company in accordance with approved strategies.

Information and communication

Q-Free wishes to maintain an open dialogue with the capital market, and will arrange regular open presentations for investors, analysts and others. Regular information will be published through the annual report and the quarterly reports and presentations. It is the company's aim to publish these reports within four weeks after the end of the relevant period. Q-Free sends all information of relevance for the share price to the Oslo Stock Exchange. This information is distributed immediately and simultaneously to the capital market, the media and on the company's website.

The company publishes all information concerning the annual general assembly, quarterly reports and presentations, other presentations and dividend payment dates on the company's website as soon as it is decided.

It is a primary goal for the company to maximise value for shareholders in such a way that the return on investment, measured as the dividend and the rise in the share price, is 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 ensures that investors receive information making it possible to evaluate the company's risk and performance.

The CEO and CFO are responsible for investor relations activities and handle communications with the capital market, if necessary together with the chairman of the board or appointed members of the board. Communications with the capital market outside regular presentations are 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

Take-overs

The company has not put in place measures to defend it self against takeover bids, but the ownership structure makes it difficult to take over the company without an agreement with large shareholders. Large institutional shareholders and private investors dominate the ownership structure, and the 10 largest shareholders own over 75 % of the company.

Auditor

The company's external auditor is appointed by the general assembly and is responsible for the financial audit of the parent company and the 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 for the board concerning the next year's audit. The auditor attends at least one 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.

Ernst & Young has been the external auditor for Q-Free ASA for the last four 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 gives an account of the auditor's report and remuneration for the year. This year's auditor's report follows the notes in the annual report.

Note 1 provides further information about remuneration to the auditor.

Board of Directors

Ole Jørgen Fredriksen
Spinoza AS
Chairman of the Board

Kai Bogen
Q-Free International

Christian Albech
Telenor Pluss Holding

Harald Arnet
Datum AS

Roar Arntzen
St. Olav Hospital

Audun Myrhol
Employee elected

Camilla Berg
Employee elected

Directors' Report 2004

Group operations

Main features

The Intelligent Transport System sector is in a phase of sustained, strong growth. Q-Free's focus is on two markets within this segment, Road User Charging and Automatic Fare Collection. Within these markets, Q-Free focuses on providing communication and transaction technology and products to safeguard the transport operator's cash flow. Q-Free aims at becoming market leader in all markets it enters.

In 2003, Q-Free signed a joint venture agreement with the Taiwanese IT company Acer Inc. in a bid to provide the country-wide road charging system in Taiwan. The company failed to win this contract and because of the level of costs that had been invested in this project the company had to revise its market strategy. Chief executive officer and founder Kai Bogen stepped down on 1 April 2004 and was succeeded by the former vice chief executive, Geir Ove Kjesbu. Together, the Board and the management carried out a review of the company's strategy and financial position which resulted in extensive restructuring of the organisation. Today, the company is a provider of technology to major projects in its areas of activity - Road User Charging and Automatic Fare Collection. Where smaller projects are involved, the company will continue to operate as a system integrator.

The accounting results for 2004 were affected by the restructuring process and the major write-downs in Q1 04. In a short space of time the company has made the necessary changes, and this is reflected in increasing turnover and positive operating results in the last three quarters of the year. In July 2004 the company was chosen to provide a road charging system for Stockholm, in partnership with IBM. Under this project, Q-Free is a subcontractor providing the technology, while IBM is the customer's contract partner. This is the first project to incorporate the company's new strategy as a supplier of products and sub-systems for major contractors.

Q-Free has also registered increasing interest in the company's technology in the field of road user charging and receive several new orders for product deliveries in the course of the year, from both existing and new customers.

Core activities

In connection with the reorganisation of Q-Free, the organisational structure in Norway was re-assessed. There was a wish to strengthen areas such as sales/marketing, project management, and deliveries of products across old structural demarcation lines. On this basis, and taking account of the new business and market plan, it was concluded that the most appropriate solution was one divisional structure within one company. It was therefore decided that the previous wholly owned subsidiaries - Q-Free Systems AS, Q-Free Products AS and Q-Free Services AS - would be merged with Q-Free ASA. Following the merger, Q-Free would consist of one company in Norway. This will not affect the other companies of the Group. In addition to its core activities, the Group owns 53.3% of Noca AS. The other international companies are the wholly owned subsidiaries in Australia, Brazil, Greece, Malaysia and Portugal. The Group is also represented in China and the Netherlands.

Share price development

The share price development in 2004 was affected by major projects and restructuring of the company. As the year started, the share price was NOK 9.25, rising to NOK 14.10 in February in connection with the project in Taiwan. Following the start of reconstruction in April the share price fell to NOK 4.90 in June, which was the lowest for the year. In the course of the summer and the autumn Q-Free won several contracts, including the project in Stockholm, and the company's sales and operating performance improved with effect from and including Q2 04. This led to a recovery in the share price and at year-end it stood at NOK 16.20, having peaked at NOK 17 a few days earlier.

Market strategy

2004 was a turbulent period for Q-Free, with a change of group chief executive and restructuring of the company. The company's customers are public entities or private concessionaires. Previously, Q-Free promoted its services as a system integrator and total supplier, but as the market for road user charging and automatic fare collection developed, combined with the increasing size of projects, it became clear that this was a strategy that imposed an excessive financial burden on the company.

The company's market strategy and business model has therefore been reviewed, and Q-Free's activities now fall within three main categories.

Where major deliveries to road charging or automatic fare collection systems are involved, the company will establish co-operation with larger players and supply its products and sub-systems through partnerships of this kind. This will reduce the risk and the level of working capital needed during tender processes for major projects. Our delivery to Stockholm is a good illustration of the way the new strategy will work. In this case, IBM has contact with the customer and is the main contractor, while Q-Free supplies all of the road charging technology, working closely with IBM. IBM is responsible for co-ordinating the activities of several subcontractors and for effecting system integration. For Q-Free, more than 70% of the deliveries to Stockholm consist of core products, with system integration making up only a small part. Q-Free is thus able to concentrate solely on technology deliveries, thus considerably reducing the total risk.

Where smaller projects are involved, Q-Free will continue to operate as a system integrator. It is still important for the company to maintain its expertise in system integration in the main market areas. This strategy applies to projects where both the costs and the risks are limited.

Q-Free also wishes to focus on product deliveries alone. The company's business model for production is based on outsourcing, and it can manage a considerable increase in product deliveries without a corresponding increase in operating costs. As Q-Free's handling costs are limited, the operating margin can be increased further with higher volumes. In connection with outsourcing of production, the Group currently has production in Norway and Brazil. In 2005 the Group is expected to identify further scope for international production, most probably in Asia.

Q-Free has established wholly owned subsidiaries in markets where the company has substantial market shares, but developments show that collaboration with local parties can further strengthen the company's position. The company will also consider inviting new partners into markets where Q-Free already has wholly owned subsidiaries.

By the end of 2004, Q-Free had completed the restructuring process in Norway and a new organisation has been operative since the autumn. The Group's new market strategy and business model have been implemented, and so far this has contributed to more new deliveries. The company believes it is well positioned in the market and that the corporate structure is appropriate for opportunities and challenges that lie ahead.

Statutory information

The Board confirms that the accounts are presented on a going concern basis. The company's activities do not pollute the external environment. In the opinion of the Board, the submitted accounts and notes to the accounts give complete information about the company's operations and its financial position at year-end. No events of significance have occurred since the closing of accounts, other than those described above.

The market

A number of activities were terminated in the course of 2004 and the Group is now focused on two business areas: road user charging in the international market and electronic toll collection in the Scandinavian market. Q-Free has concentrated its activities as a supplier of products and sub-systems to these two core areas.

Road User Charging

2004 was the first year when the market participants reached agreement on a common European standard for communication between roadside equipment and on board units. This standard, called Dedicated Short Range Communication (DSRC), is the result of targeted work over a long period by Q-Free and other parties in the industry. What was new about 2004 was that a number of end-users, typically tollway companies, became driving forces for the establishment of one and the same technical system to enable interoperability between the existing and the new systems in Europe. DSRC standards have also met with success outside Europe and are used in Australia, South Africa, South America and parts of Asia, including China. In 2004 the EU Commission played a major role in the preparation of a new directive designed to ensure interoperability between the different road user charging systems in Europe. Q-Free believes that the effects of this are already apparent, since a number of markets have opened up to more suppliers. While this means an intensification of competition in the period ahead, Q-Free believes that this is a positive development, all things considered. Q-Free is well placed, with a broad product portfolio, good international references in the area of electronic toll collection, as well as being a leader in technological development in this segment.

For Q-Free, 2004 presented no major changes in the competitive situation. There is still a handful of companies who believe they can provide solutions corresponding to those provided by Q-Free. 2004 was also a year when global players such as IBM, LogicaCMG, DaimlerChrysler Services and Siemens became more active as total suppliers of services as the size of the projects gradually increased. This relates to projects such as road user charging in Stockholm and heavy vehicle tolls in the UK and the Czech Republic. Q-Free's strategy is to position itself as a provider of technology to players of the kind. Under an agreement signed in 2004, Q-Free will provide IBM with all road charging technology for the tollway system in Stockholm.

In 2004 Q-Free decided to place a much greater emphasis on product sales alone to the company's new markets, and contracts have been signed in Sweden, Croatia, Chile and Greece. The first deliveries of chips were also sent to France, a market that is expected to grow in the coming years. Q-Free will continue to focus on sales of core products in markets of this kind in the period ahead. Today, there are purchasers of the company's road user charging products in Australia, Malaysia, China, Portugal, Greece, Spain, Croatia, France, Switzerland, Germany, Norway, Sweden, Brazil and Chile.

In 2004 the company further strengthened its position in the market for fully automatic toll plazas – so-called Multilane Free Flow solutions. Three contracts of this kind were signed in 2004 for deliveries to Cross City Motorways in Australia, the tollway round Stockholm, and a motorway operator in Chile. Q-Free believes that the Multilane Free Flow concept is a future-oriented road user charging solution, for both motorways and urban areas, and it is hoped that this will contribute to further growth for Q-Free in the area of road user charging.

In 2004 there was an increase in the level of operations related to road user charging, and tenders were invited for several large projects. The order reserve increased in the second half of the year and is considered to be good. At year-end, there was a backlog of orders worth NOK 453m.

Electronic toll collection

Electronic Fare collection has been one of the company's areas of activity since 1999. Until 2004, Q-Free's activities in this area were based on deliveries of technology from third parties, and the company was promoted as a total supplier and a system integrator in this segment. As part of its new strategy, the company is now developing its own Q-Free technology for use in vehicles. This is a technology platform geared to future requirements which will be able to meet the need for other ITS solutions, in addition to automatic fare collection.

In 2004 Q-Free signed five contracts for deliveries in Norway and Sweden, all of which are based on the company's own technology platform with deliveries due in the course of the next 18 months. Through industrialisation of a new generation of automatic fare collection technology the company is well equipped to be a provider of technology in this sector as well, and thus promote its primary business goal, which is to be a supplier of products and sub-systems.

Organisation

At year-end 2004 the Group had a workforce of 192. Of these, 99 were at the head office in Trondheim, with 38 at Noca AS, 4 in Oslo and 51 in foreign companies. Most of the staff are highly trained and competent engineers. The company is now represented in Norway, Australia, Brazil, Greece, China, Malaysia, the Netherlands and Portugal.

Cost reductions and a slimmer workforce

During the year Q-Free was restructured and the business concept changed. As part of this process, Q-Free ASA merged with its previous subsidiaries in Norway, and the company is now organised with a divisional structure under Q-Free ASA. In connection with the organisational changes and the new strategy, steps were taken to chart future requirements, in terms of manpower and competence. As a result, the workforce was cut by a total of 25 in 2004. The cutbacks have been effected in Norway, while manpower levels have risen in the international companies.

By year-end the restructuring process had been implemented and no further restructuring costs are expected. Q-Free is now structured at a lower cost base than previously, and it will continue to exploit the economies of scale presented by the new business model. Based on an increased inflow of orders the company envisages a gradual rise in the number of employees in the course of 2005, but consultants will continued to be hired in order to adjust the necessary capacity in periods of high activity.

Working environment and personnel

The Board considers the working environment to be good. As part of the process of attracting and retaining skilled personnel, there is a strong emphasis on providing challenging work and a good working environment. Considerable resources are allocated to the development of skills in line with market requirements. Sick leave within the Group was at 2.1% which represents a reduction of 16% compared to 2003. No serious accidents or injuries at work were reported in 2004.

The Group's aim is to achieve complete equality between men and women, and every effort is made to avoid gender-based discrimination. Traditionally, employees have been recruited from different engineering environments, and there are currently 141 men and 51 women in the organisation.

Prospects

The Road User Charging market

The market for Road User Charging (RUC) solutions is expected to grow strongly in most parts of the world in the coming years. In Europe, the number of users of electronic toll collection (ETC) systems is expected to grow at a compound annual growth rate of 9.1% over the next decade. In several Asian countries, Australia and the Americas upcoming projects give testimony to a similar, positive trend. In Europe, the ongoing process aimed at making the tollway systems in the different countries interoperable, as well as the enlargement of the EU, are key drivers of further growth. In Europe, the ongoing process of promoting interoperability between the different countries and the recent expansion of the European Union, are key drivers of further growth. Truck tolling projects are being launched in several countries and the European transport industry may soon see a Union-wide tolling service become reality. Furthermore, the established success of congestion charging in London and success in the Stockholm congestion charging project would encourage other cities to follow suit.

All these trends strengthen our belief in a growing market for efficient and effective RUC solutions.

There are different views on how ETC should be made interoperable both from a technical and a commercial point of view. We strongly believe, however, that the huge needs for infrastructure financing and the need to reduce congestion to improve traffic efficiency and reduce environmental impact, eventually will result in a European ETC user base as much as ten times today's base and in a fully interoperable environment. Operators' efficiency requirements, and the vision of an interoperable, Union-wide system, are paving the way for an increased share of electronic systems as opposed to manual fee collection, which still holds the lion's share of the market. There is a clear trend for new projects to focus on electronic solutions while existing installations are being upgraded with ETC lanes.

We believe that satellite-based services will play an important part in the future of the RUC industry, but that the next ten years will prove to be a strong growth period for systems based on Dedicated Short Range Communication (DSRC) systems. This technology is the basis of 99% of today's electronic systems and the number of users is continuing to grow strongly.

The ETC customers are either public or private concessionaires, they may be local government in the case of congestion charging projects, national road authorities or Public-Private-Partnerships (PPP) in highway infrastructure financing projects, or operators of bridges and tunnels. In general, each project is a tender process with very tough competition and strict bidding requirements.

Currently, a few suppliers are able to offer working DSRC solutions world wide, with Q-Free being the pioneer and market leader. Q-Free has the longest experience, and through many projects we have shown that we are able to combine this experience with innovative solutions in order to create highly reliable systems for the customers. Although an increasing market size will provide opportunities for new suppliers, we believe that the complexity of the technology, plus the fact that some of the present suppliers have sound market references, will continue to constitute a significant and lasting entry barrier for other prospective suppliers.

Q-Free believes that its product range and market position will bring further profitable growth in this business area, firstly in Europe and then in Asia and the USA.

The Automatic Fare Collection market

The market for Automatic Fare Collection (AFC) is growing. The population explosion together with limited urban space, increased energy consumption, the need for pollution reduction, road safety and mobility for all are factors that in some way or other will make more and better public transport systems necessary, and hence increase the demand for more efficient AFC systems. The passengers are also demanding an increasing degree of functionality from the system; seamless travel, best price models, multi-application smart cards, alternative methods of payment and real time information (RTI); this again creates a need for more advanced AFC systems.

The AFC customers are either public entities or private concessionaires. The market spans from small local projects to large scale national projects, from bus projects only to inter-modal projects including all means of transportation. Currently, a few large AFC suppliers with proprietary solutions dominate the AFC market in Europe, together with smaller local companies. The AFC customers are now increasingly demanding open system solutions with sufficient flexibility to adapt to the special circumstances of each customer.

In a growing market, Q-Free is positioned to supply AFC solutions, from supplying modules to acting as the customer's main contractor and system integrator. Q-Free believes that the solutions it has developed in the last few years are in the very forefront of developments as regards technology and functionality. The newest generation of AFC solutions will soon be completed, and in 2006 it will be in operation in five major projects in Scandinavia; in the city of Umeå and in the counties of Norrbotten, Rogaland, Troms and Hedmark/Oppland. In total, these five projects involve the installation of equipment in almost 2000 buses.

Until now, there have been separate systems and equipment for the AFC and RTI in the vehicle. With the introduction of Q-Free's new generation of products, there is no longer a need for separate systems as both AFC and RTI functionality can be handled by the same vehicle computer.

Q-Free believes that its technology, products and market position provide a platform for further growth, in terms of both sales volume and profitability through its focus on this business area.

Results and financial matters

Operating income

The Group's operating income totalled NOK 316m, against NOK 281m in 2003, reflecting a rise of 12.5%.

The positive trend was due to several projects related to both road charging and automatic fare collection. In the period following reconstruction, the company has been working a number of road charging projects, but the main change was due to higher product sales in the period after Q1 04. Work on five new road charging projects were started in the second half of 2004 and will continue in 2005.

Operating result

The operating result for the year was a loss of NOK 76.7m, against a loss of NOK 21.5m in 2003. The change of group chief executive in April 2004 was followed by restructuring of the company and a review of its financial position. This led to large provisions and an operating loss of NOK 94.2m in Q1 04. The figures for the following three quarters reflects a positive and improved performance, as reflected in an operating profit of NOK 17.5m in the last nine months of the year.

Net financial items

Net financial items showed a loss of NOK 9.6m. Despite the relatively high level of bank deposits, net financial items were negative for the Group. This was due to the low level of interest on deposits throughout the year, exchange rate fluctuations and the write-down of long-term financial assets totalling NOK 2.7m.

Loss before and after tax

The loss before tax was NOK 86.3m, against a loss of NOK 23.6m in 2003.

Estimated taxes totalled NOK – 21.3m, giving a loss for the year of NOK 64.9m, corresponding to NOK – 1.33 per share.

In view of the loss for the year, the Board proposes no dividend to be paid for accounting year 2004.

Balance sheet

2004 started with a poor first quarter because of restructuring costs and the Board found it necessary to increase the share capital by NOK 27.3m in April 2004, with the issue of 4 550 000 share of NOK 6. Throughout the year, the restructuring of the company led to an improvement in the balance sheet and an improvement in liquidity.

The financial position of the Group is still considered to be very good, with an equity ratio of 60% and net cash assets of NOK 130.4m.

Shareholder information

At year-end 2004 Q-Free ASA had 847 shareholders, against 758 at the end of 2003. The largest shareholder is former group chief executive Kai Bogen who owns 34.4% of the company through Q-Free International AS which is wholly owned by him. The other shareholders are Norwegian investment companies and institutional investors.

Q-Free ASA - the 10 largest shareholders as at 17 March 2005:

Shareholder	No. of shares	Percentage
Q-Free International AS	17 439 140	34.4
Odin Norge	4 762 975	9.4
Lars Andresen	2 833 600	5.6
Decibel AS	2 824 920	5.6
Datum AS	2 715 280	5.4
Skagen Vekst	1 600 000	3.2
Handelsbanken Markets	1 220 920	2.4
Wega AS	1 045 900	2.1
FirstNordic Norge	878 739	1.7
Kikut AS	816 000	1.6

The company has one share class and at year-end 2004 the number of shares totalled 50 644 269, each with a nominal value of NOK 0.05.

In 2003 the general assembly approved an option programme for key personnel, corresponding to a maximum of 5% of the share capital. Parts of this programme were implemented in December 2003 and 12 senior employees were allocated approximately 2.4% of the amount permitted. In 2004 a further 1.3% of the programme were allocated to Board members and employees.

Loss for the year and allocation of the loss

The parent company recorded a loss of NOK 83 481 473 for the year, which the Board proposes to cover as follows:

Transferred from other equity
NOK 16 216 542

Transferred from share premium reserve
NOK 67 264 931

The parent company had no free equity at 31 December 2004.

Trondheim, 31 December 2004
17 March 2005

Ole Jørgen Fredriksen
Chairman of the Board

Roar Arntzen

Christian Albech

Kai Bogen

Harald Arnet

Audun Myrhol

Camilla Berg

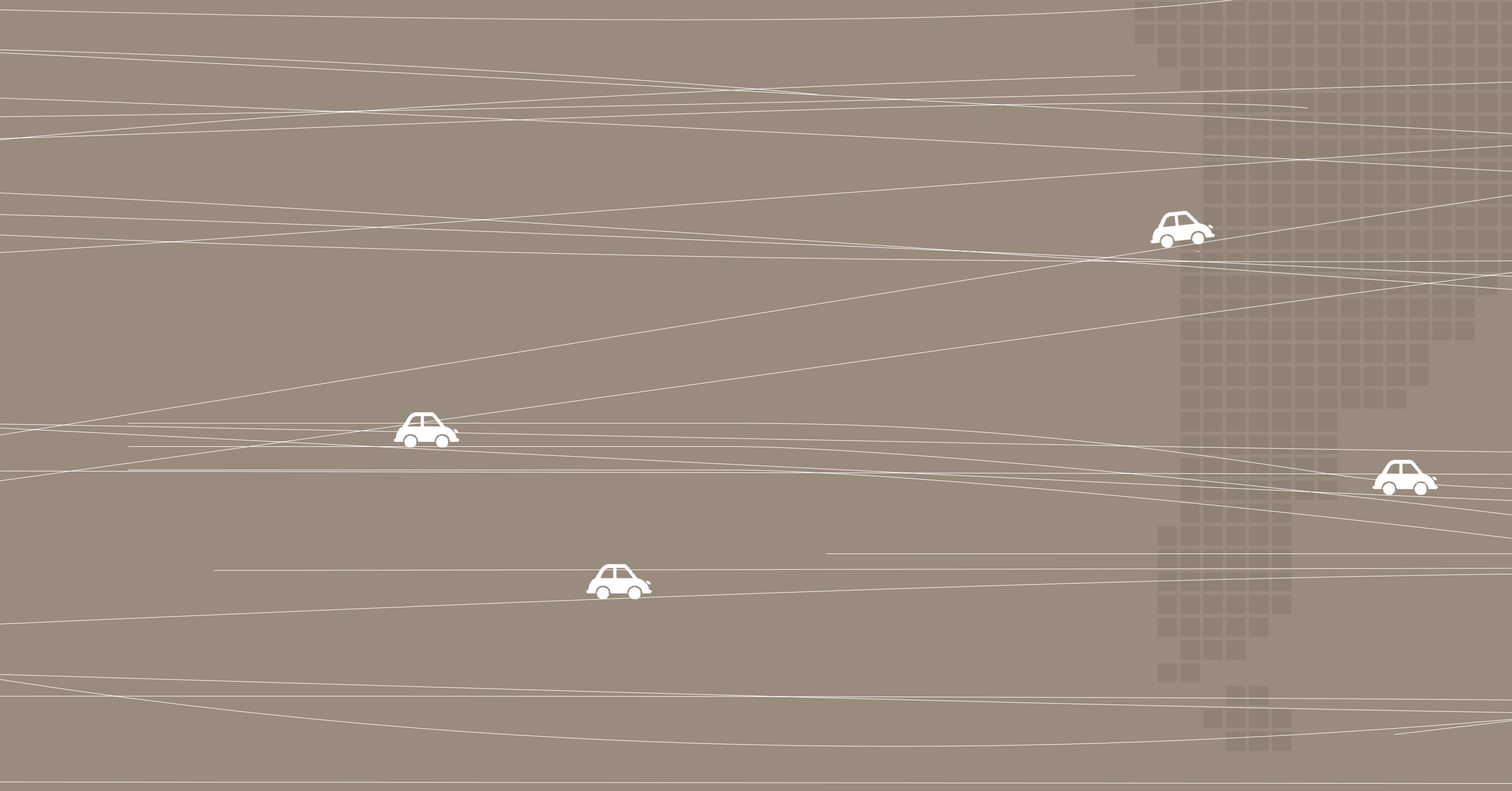
Geir Ove Kjesbu
CEO

Q-Free revenue streams

The business model for ticketing and tolling requires millions of micro transactions to be processed flawlessly.
Year after year after year after year.

Q-Free delivers triple 9 reliability in all systems required to catch, generate and process payment transactions.

If you see someone laughing all the way to the bank it just might be one of our customers.



Financial Statement 2004
Q-Free ASA Group

Profit and loss statement

Parent company 2002	Parent company 2003	Parent company 2004		Note	Group 2004	Group 2003	Group 2002
			Operating revenues				
34 775 913	46 238 351	207 984 159	Revenue		315 485 421	276 826 473	247 595 294
49 500	88 600	494 283	Other operating income		494 283	4 193 624	6 748 200
34 825 413	*46 326 951*	*208 478 442*	*Total operating revenues*		*315 979 704*	*281 020 097*	*254 343 494*
			Operating expenses				
23 207	41 075	88 119 954	Cost of goods sold	3	143 635 213	111 449 383	87 566 737
10 604 800	9 614 898	47 586 562	Payroll expenses	1, 2	71 092 207	88 962 796	87 048 723
1 649 457	2 595 202	16 014 852	Depreciation	4, 5	17 888 580	18 669 283	18 272 544
0	0	1 762 269	Write-down of fixed assets	4	1 762 269	0	4 035 227
14 255 048	19 742 258	138 718 823	Other operation expenses	5-8	158 307 129	83 475 562	86 780 045
26 532 512	*31 993 433*	*292 202 460*	*Total operating expenses*		*392 685 398*	*302 557 024*	*283 703 276*
8 292 901	**14 333 518**	**-83 724 018**	**Operating profit**		**-76 705 694**	**-21 536 927**	**-29 359 782**
0	0	4 581 107	Income from subsidiaries		0	0	0
5 066 424	1 021 030	0	Interest received from group companies		0	0	0
2 076 805	9 685 029	1 238 840	Other interest received		1 706 887	5 180 180	3 601 360
2 485 939	2 812 417	5 345 359	Other financial income	8	7 839 997	5 242 087	2 083 834
0	0	-26 270 128	Write-down on financial current assets	9	0	0	0
0	-9 508 801	-2 656 842	Write-down on financial fixed assets		-2 656 842	0	0
-2 635 000	-673 132	-5 669 121	Other interest expenses		-6 595 426	-5 004 636	-5 799 732
-2 592 106	-3 391 373	-7 235 204	Other financial expenses	8	-9 852 846	-7 438 318	-9 844 642
4 402 062	*-54 830*	*-30 665 989*	*Result of financial items*		*-9 558 230*	*-2 020 687*	*-9 959 180*
12 694 963	**14 278 688**	**-114 390 007**	**Profit before tax**		**-86 263 924**	**-23 557 614**	**-39 318 962**
-3 615 624	-4 013 886	30 908 534	Tax expenses	10	21 347 037	7 481 810	8 317 319
9 079 339	**10 264 802**	**-83 481 473**	**Profit/(-) loss for the year**		**-64 916 887**	**-16 075 804**	**-31 001 643**
			Allocation of profit / (-) loss for the year				
0	0	0	Minority share		1 282 975	968 476	242 849
0	0	-67 264 931	Share premium reserve		0	0	0
9 079 339	10 264 802	-16 216 542	Other equity		0	0	0
9 079 339	10 264 802	-83 481 473	Total distributed	17	0	0	0
11 352 452	17 295 409	0	Intra-group contributions made after tax		0	0	0
21 684 548	0	0	Intra-group contributions made without tax		0	0	0
0	0	0	Earnings per share 1)	11	-1.33	0.37	0.74
0	0	0	Diluted earnings per share	11	-1.32	0.37	0.74

1) Profit for the year (majority) / Average number of shares

Balance sheet of 31.12

Parent company				Group	
2003	2004	ASSETS	Note	2004	2003
		Fixed assets			
		Intangible fixed assets			
3 005 875	28 167 782	Defered tax assets	10	22 283 522	0
0	15 470 878	Research and development	4	16 423 035	17 997 595
3 005 875	*43 638 660*	*Total intangible fixed assets*		*38 706 557*	*17 997 595*
		Tangible fixed assets			
0	0	Land, buildings and other property	4	0	13 459
6 625 440	25 819 154	Machinery, fixtures and fittings, etc.	4, 5	37 904 121	39 275 694
6 625 440	*25 819 154*	*Total tangible fixed assets*		*37 904 121*	*39 289 153*
		Financial fixed assets			
132 450 142	11 062 934	Investments in subsidiaries	12	0	2 656 843
7 050 131	17 131 632	Loan to group companies		0	0
673 365	673 365	Investments in shares	13	764 010	764 010
293 356	837 260	Pension funds	2	3 014 266	3 306 439
0	0	Other receivables		1 468 054	6 851 590
140 466 994	*29 705 191*	*Total financial fixed assets*		*5 246 330*	*13 578 882*
150 098 309	99 163 005	TOTAL FIXED ASSETS		81 857 008	70 865 630
		Current assets			
0	*18 224 597*	*Inventories*	*3*	*27 989 057*	*22 218 986*
		Debtors			
167 398	71 704 156	Accounts receivables	9	104 247 610	58 018 284
0	4 822 590	Recognised, not invoiced revenue	14	4 822 590	91 958 270
145 051 549	37 432 826	Accounts receivables to group companies	9	0	0
2 524 599	9 675 994	Other debtors		19 807 878	16 433 949
147 743 546	*123 635 566*	*Total debtors*		*128 878 078*	*166 410 503*
0	0	Quoted bonds		1 124 321	1 101 725
0	*0*	*Total investments*		*1 124 321*	*1 101 725*
145 169 308	104 034 237	Bank deposits, cash in hand, etc.	15	130 352 558	78 127 623
292 912 854	**245 894 400**	**TOTAL CURRENT ASSETS**		**288 344 014**	**267 858 837**
443 011 163	**345 057 405**	**TOTAL ASSETS**		**370 201 022**	**338 724 467**

Parent company				Group	
2003	2004	EQUITY AND LIABILITIES	Note	2004	2003
		Equity			
		Paid-in capital			
2 279 163	2 532 213	Subscribed share capital	16	2 532 213	2 279 163
254 294 255	214 664 334	Share premium reserve		214 664 334	254 294 255
256 573 418	*217 196 547*	*Total paid-in capital*		*217 196 547*	*256 573 418*
63 224 650	0	Other equity		-5 672 383	-5 381 579
63 224 650	*0*	*Total retained earnings*		*-5 672 383*	*-5 381 579*
0	0	Minority interests		10 413 482	9 237 503
319 798 068	217 196 547	TOTAL EQUITY	17	221 937 646	260 429 342
		Liabilities			
		Provisions			
0	0	Deferred taxes	10	0	1 592 952
0	*0*	*Total provisions*		*0*	*1 592 952*
		Other long-term liabilities			
0	0	Debt to financial institutions	18,19	5 150 000	5 071 836
0	2 229 069	Other long-term liabilities	5, 17	2 229 069	5 146 591
0	*2 229 069*	*Total long-term liabilities*		*7 379 069*	*10 218 427*
		Current liabilities			
2 658 540	25 459 139	Accounts payable		48 012 506	39 636 421
0	46 753 584	Advanced payments from customers	14	49 630 643	410 353
113 698 419	24 306 046	Debt to group companies		0	0
0	0	Tax payable	10	1 948 565	196 281
6 060 034	6 052 500	Public duties payable		7 889 783	12 861 894
0	0	Dividends		106 996	106 996
796 102	23 060 520	Other short-term liabilities	7	33 295 814	13 271 801
123 213 095	*125 631 789*	*Total current liabilities*		*140 884 307*	*66 483 746*
123 213 095	**127 860 858**	**TOTAL LIABILITIES**		**148 263 376**	**78 295 125**
443 011 163	**345 057 405**	**TOTAL EQUITY AND LIABILITIES**		**370 201 022**	**338 724 467**

Trondheim, 31 December 2004 / 17 March 2005

Ole Jørgen Fredriksen
Chairman of the Board

Roar Arntzen

Christian Albech

Audun Myrhol

Kai Bogen

Harald Arnet

Camilla Berg

Geir Ove Kjesbu
CEO

Cash flow statement

Parent company			Group	
2003	2004		2004	2003
		Cash flows from operations		
14 278 688	-114 390 007	Profit / (loss) result before tax	-86 263 924	-23 557 614
0	0	Taxes paid	0	-919 533
-365 700	0	(Profit)/loss from sales of fixed assets	0	14 510
2 595 202	16 014 852	Depreciation	17 888 580	18 669 283
9 508 801	4 356 842	Write-down on fixed assets	4 356 842	0
0	-5 669 807	Changes in inventories	-5 770 071	4 297 161
-16 524 902	105 409 640	Changes in accounts receivables	40 496 001	-7 627 750
9 637 937	-29 314 314	Changes in accounts payables	8 322 307	7 747 390
77 293	-33 292	Effects of pension cost and payments	292 173	-266 418
0	-4 581 107	Income from subsidiaries	0	0
271 582	63 949 906	Changes in other balance sheet items	59 833 114	-7 024 968
19 478 901	*35 742 713*	*Net cash flow from operations*	*39 155 022*	*-8 667 939*
		Cash flow from investments		
-1 336 162	-10 761 080	Investments in tangible fixed assets	-14 988 988	-11 198 492
1 250 000	60 000	Payments from sale of fixed assets	60 000	1 367 500
-2 656 843	-521 634	Investments in shares and ownership interests	-22 596	-2 656 843
-487 708	-10 081 501	Other investments	5 474 181	-2 587 602
-3 230 713	*-21 304 215*	*Net cash flow from investments*	*-9 477 403*	*-15 075 437*
		Cash flow from financing		
0	0	Proceeds from new loans	78 164	0
-1 594 359	-2 917 522	Repayment of loans	-2 917 522	-3 146 274
0	27 888 060	Payment of new equity	27 888 060	0
0	0	Dividend payments	-227 148	0
0	0	Change in calculation differences	-2 274 238	0
-1 594 359	*24 970 538*	*Net cash flow from financing*	*22 547 316*	*-3 146 274*
14 653 829	**39 409 036**	**Net change in cash and cash equivalents for the year**	**52 224 935**	**-26 889 650**
0	-80 544 107	Transferred cash position through merger	0	0
130 515 479	145 169 308	Cash and cash equivalents per 01.01.	78 127 623	105 017 273
145 169 308	104 034 237	Cash and cash equivalents per 31.12.	130 352 558	78 127 623

Notes 2004

Accounting principles

General principles

The annual accounts have been prepared in accordance with the (Norwegian) Accounting Act of 1998 and in accordance with Norwegian accounting standards and Norwegian generally accepted accounting standards.

Consolidation principles

The consolidated accounts show the overall financial result and position when the parent company Q-Free ASA Group and its subsidiaries are regarded as one accounting entity. Reference is made to note 12 for a list of subsidiaries consolidated into the group. All significant transactions and intercompany accounts that are included in the consolidated accounts have been eliminated. Gains from transactions between companies in the group have also been eliminated.

Q-Free ASA Group has a controlling interest in all subsidiaries in the group. The shares in the subsidiaries are eliminated according to the purchase method of accounting. This means that the original cost of the shares is attributed to the subsidiaries' assets and liabilities that are included in the consolidated accounts at the actual value at the time of purchase. Original costs exceeding what can be attributed to identifiable assets and liabilities is presented as goodwill.

All foreign subsidiaries are independent companies. The balance sheet is converted to the exchange rate as of the balance sheet date. Profit and loss items are converted to the average exchange rate for the year. The calculation difference is posted directly against the group's equity.

In the consolidated accounts, the company accounts are settled according to consistent accounting and valuation principles, and presentation of items in the profit and loss account and on the balance sheet are carried out according to uniform definitions.

Recognition of income

Operating revenues from ordinary sale of goods and services are recognized at time of delivery.

Long term construction contracts

Q-Free business acitivites' are system deliveries within their core areas with a length in time from a couple of months up till two to three years. These projects are accounted for by using the percentage of completion method with profit. The percentage of completion is calculated as incurred expenses over total budgeted expenses. Total cost for the projects are continously evaluated. For projects expected to show a loss, the loss will be accrued for immediately.

Until the projects reach a certain completion, the percentage of completion method without profit is used. The timing of profit recognition on the projects varies from project to project, depending upon the level of uncertainty with regards to the estimated profit of the project.

Invoicing normally takes place when contractually agreed milestones are reached. Differences between invoicing dates and revenue recognition are shown as "revenue recognized, not invoiced" in the balance sheet. Advance payments from the customers is presented under current liablities.

Valuation and classification of assets and liabilities

Assets assigned to permanent ownership or use are classified as fixed assets. Other assets are classified as current assets. Receivables that will be repaid within one year are classified as current assets. Analogues criteria are used to classify short-term and long-term debt.

Fixed assets are valued at original cost, but are written down to actual value when the lower value is expected to be permanent. Fixed assets with a limited economic lifetime are systematically depreciated. Long-term debt is not written up to actual value as a result of changes in the interest rate. Current assets are valued at original cost or actual value whichever is the lower. Short-term debt is recorded on the balance sheet at the nominal received amount at the time the debt was established. Short-term debt is not written up to actual value as a result of changes in the interest rate.

Assets and liabilities in foreign currency

Monetary items in foreign currency are converted at the exchange rate on the date of the balance sheet. Receivables and debt that are secured with currency futures contracts are valued at the forward exchange rate, with the exception of the interest element, which is accrued and classified as interest income/expense.

Intangible fixed assets

Research and development costs are capitalised to the extent the criterias for capitalising an asset is met. These criterias is considered met when it is probable that a future economic benefit are identified with the asset, and this benefit will be received by the company and aquisition cost can be reliably measured. Research and development is depreciated over the economical life time of the asset.

Tangible fixed assets/depreciation

Tangible fixed assets are valued at original cost and depreciated. New acquisitions with cost price of more than NOK 15,000 are capitalized and depreciated if considered to have an economic life of more than three years. Improvements to existing business assets are capitalized and depreciated using the straight-line method over the remaining economic life. Direct maintenance of business assets are expensed continuously under operating costs. If the tangible fixed asset's value is lower than the original cost and decline in value is not assumed to be temporary, an impairment will be recorded.

Share based payment

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

Inventories

Inventories under manufacturing are estimated to lowest of manufacturing cost and net realizable value. Traded shares are estimated to lowest of purchase cost and net realizable value. The purchase cost is according to the FIFO-principle.

Leasing

For financial leasing the equipment is shown as an asset and an equivalent liability. The annual leasing cost consists of interest payments and instalment. The equipment is depreciated based on the same principles as all other assets.

For operational leases, the lease charge is classified as an operating cost and is distributed according to the straight-line method over the period of the lease.

Shares in subsidiaries

Investments in subsidiaries have been accounted for by the equity method in the parent company's accounts.

Investment in shares

Long term share holdings are valued at the lowest of historical cost and estimated actual value.

Accounts receivable and other receivables

Accounts receivable and other receivables are entered at face value after deduction for provision for expected loss.
Provision for loss is done on the basis of an individual assessment of the individual receivables.

Pension costs and pension assets and liabilities

Q-Free has defined contribution pension plan for all employees. Pension cost are calculated according to the Norwegian Accounting Standard for Pensions. Net pension cost for the year includes estimated pension contribution including future salary growth, estimated return on pension funds and potential effects of changes in pension plans and estimates. Net pension cost is presented as payroll expense in the profit and loss statement. Pension fund and pension liabilities are valued based on best estimates that are adjusted annually based on actuary reports. The accumulated effects from changes in actuarial and economical 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 have been secured through an insurance company.

Tax

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. 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 balance sheet. Capitalization 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.

Cash flow statement

The cash flow statement is prepared according to the indirect method. The cash budget consists of cash and fixed assets. As cash is considered deposit at call in bank or similar fincancial institutions. Consented, not full-drawn bank overdrafts is not considered liquid capital.

Corresponding figures

Should there be any amendments in the presentation in contrast to former years, the corresponding figures will be rearranged accordingly.

Note 1 : Salaries, wages and related costs

Parent company			Group	
2003	2004		2004	2003
7 362 566	41 137 301	Salaries	63 377 742	75 250 275
1 340 465	7 604 520	Social security	9 151 356	9 565 799
156 817	1 833 383	Pension costs	2 289 732	1 086 611
0	-4 000 000	Skattefunn (governmental tax relief)	-4 910 000	
755 050	1 011 358	Other personnel costs	1 183 377	3 060 111
9 614 898	47 586 562	Sum	71 092 207	88 962 796
23	120	Average number of employees	180	222

The company receives governmental grants through the "SkatteFUNN" program. The SkatteFUNN projects for which the company receives government grants typically last from one to two years.

Payment to senior managment

The CEO Geir Ove Kjesbu received in 2004 compensation of NOK 1.172.628. He has a retirement and insurance arrangement in accordance with the groups collective pension agreement in Norway. He also has a performance bonus limited up to NOK 360.000 and a 6 months full salary agreement in case of employment termination. Mr Kjesbu has 250 000 stock options in the company.

Payment to the board of directors

Payment to the board of directors in Q-Free ASA in 2004 amounts to NOK 825.000, of which NOK 225.000 goes to the chairman of the board. Of the total fee, NOK 275.000 is related to fees in 2003 paid out in 2004. In additon, the members of the board are granted the following stock options:

	No. of stock options	Excercised pr 31.12.2004
Ole Jørgen Fredriksen	200 000	
Christian Albech	100 000	
Roar Arntzen	100 000	
Harald Arnet	100 000	
Kai Bogen	225 000	75 000

Fees to auditor

Audit fees charged to the accounts for the group in 2004 were NOK 480 000. Fees for audit related services amounts to NOK 210 550. Fees for other services are NOK 99 375. Corresponding numbers for the parent company in 2004 are respectively NOK 115 000, NOK 210 550 and NOK 99 375. All fees are exclusive VAT.

Related parties

Kai Bogen, former CEO, now member of the board, received in 2004 a salary of NOK 1 073 542.

Mr Bogen owns all shares in Q-Free International AS. In 2004 this company entered into an agreement with Q-Free ASA with regards to provision of services. The services were related to the need for Q-Free ASA for strategic business development of the activities in Asia. During 2004, Q-Free International has received fees for these services amounting to NOK 283 334. The agreement between Q-Free International AS and Q-Free ASA has been terminated, and an accrual for a termination fee of NOK 2 170 000, has been made in 2004.

Q-Free ASA rents offices from Q-Free International AS. The annual rent amounts to NOK 2 701 292. In addition common expenses and ground rent are incurred. The rent agreement is based on market conditions.

During 2004, consulting fees of NOK 93 000 to Hermia AS has been expensed. Hermia AS is owned 51% by the board member Harald Arnet. In addition, consulting fee of NOK 455 760 from Spinoza AS has been expensed. Spinoza is owned 100% by the chairman of the board Ole Jørgen Fredriksen. Of this amount, NOK 263 250 has been paid in 2005.

Stock option program

In 2003, Q-Free ASA established a three year stock option program for key employees, including the board of directors, totalling 5% of outstanding shares (2 286 496 shares).

By the end of 2003 almost 3% (1 075 000 shares) of this program was given to employees. The exercition will take place with an equal portion over three years. Stock options issued for the first year (one third) expired 31 May 2004. Stock options for the second year (one third) can be exercised in the period from 1 June 2004 until 31 May 2005. For the third year exercition can take place from 1 June 2005 until 31 May 2006. The exercise price for year two is NOK 5.94 pr share. This corresponds to an average closing share price on Oslo Stock Exchange in the period 10 days before until 10 days after the general assembly in 2004. The exercise price for year three will be determined in an equivalent way. For new key employees the purchase price will be equal to the listed share price at the date the employee joins the stock option program.

In 2004, the company has granted 100 000 stock options of the stock option program to the new CEO (Geir Ove Kjesbu) and 500 000 stock options to the board of directors. The distribution of the stock options between the members of the board is presented under "payment to the board of directors". The exercition of the stock options will take place with an equal part over two years. The exercition price for year 1 (one half) is NOK 5.94, which corresponds to the average closing share price on Oslo Stock Exchange in the period 10 days before until 10 days the general assembly in 2004. The exercition price for year 2 will be set equal to the average closing share price on Oslo Stock Exchange in the period 10 days before until 10 days the general assembly in 2005.

Note 2 : Pension schemes

The majority of the employees are included in a pension plan, which entitles them to certain future pension benefits. The pension benefits are mainly dependable on earning years, level of wages at retirement age and size of payment. The foreign subsidiary companies have no pension plan.

The pension plans for the Norwegian companies included in the group, are financed through an insurance company. The groups responsibility includes 148 employees. Corresponding numbers for 2003 was 180 employees. The parent company's responsibility includes 121 employees. Corresponding numbers for 2003 was 23 employees.

Parent company			Group	
2003	2004		2004	2003
189 655	1 623 000	Net present value of this year's pension earnings	2 016 216	1 426 197
85 903	547 755	Interest on accrued pension liabilities	807 555	672 543
-139 877	-576 100	Expected interest on pension funds	-938 714	-1 108 926
0	12 166	Amortisation of deferred deviations	60 258	-20 719
1 757	0	Expenses	61 462	4 490
19 379	226 562	Accrued social security costs	282 955	113 026
156 817	1 833 383	Net pension costs	2 289 732	1 086 611

		Pension (assets) / liabilities		
1 502 745	12 447 755	Accumulated benefit obligation (PBO)	18 232 736	12 261 406
-1 922 419	-7 821 000	Plan assets at fair value	-14 189 776	-16 228 263
-419 674	4 626 755	Net pension (assets) / liabilities	4 042 960	-3 966 857
162 600	-5 360 551	Unrecognised net acturial loss (gain)	-6 684 736	903 823
-257 074	-733 796	Net pension (assets) / liabilities	-2 641 776	-3 063 034
-36 282	-103 464	Calculated social security costs	-372 490	-243 405
-293 356	-837 260	Net pension (assets) / liabilities	-3 014 266	-3 306 439
17.37	18	Estimated remaining contributions period	18	19.09

Assumptions		2004	2003
Discount rate		5.00%	7.00%
Assumed long-term return on assets		6.00%	8.00%
Assumed salary regulations		3.30%	3.30%
Assumed increase national insurance base rate		3.50%	3.50%
Assumed change in pensions		2.50%	0.00%
Social security		14.10%	14.10%
Estimated voluntary early retirement	Before age 40	2-4 %	2-4 %
	After age 40	2%	2%

Note 3 : Inventory

Parent company 2003	Parent company 2004	Inventory consists of	Group 2004	Group 2003
0	7 423 491	Raw material and semi manufactured products	7 423 491	4 535 916
0	875 602	Stock for sub supplier	875 602	2 235 059
0	3 340 488	Stock for maintenance contracts	3 340 488	3 144 258
0	0	Work in progress	2 642 666	0
0	6 684 904	Finished goods	14 106 698	12 303 753
0	-99 888	Obsolescence	-399 888	0
0	18 224 597	Total	27 989 057	22 218 986

Note 4 : Intangible assets and tangible fixed assets

Parent company	Research and development	Machinery and fixtures	Buildings	Total
Acquisition cost as of 1.1	0	13 277 604	0	13 277 604
Additions through merger	40 945 147	41 299 000	0	82 244 147
Additions	7 396 835	3 532 140	0	10 928 975
Disposals	0	-165 629	0	-165 629
Historic cost as of 31.12	48 341 982	57 943 115	0	106 285 097
Accumulated depreciation and write-downs as of 1.1	0	6 652 164	0	6 652 164
Additions through merger	24 236 174	16 329 606	0	40 565 780
Depreciation and write-downs of the year 8,634,930	9 142 191	0	0	17 777 121
Accumulated depreciation and write-downs as of 31.12	32 871 104	32 123 961	0	64 995 065
Net book value as of 31.12	15 470 878	25 819 154	0	41 290 032
Economical lifetime	4-5 years	5-10 years		
Depreciation schedule	Linear	Linear		

Group	Research and development	Machinery and fixtures	Buildings	Total
Acquisition cost as of 1.1	42 552 312	81 763 403	1 991 316	126 307 031
Additions	7 396 835	9 696 517	0	17 093 352
Disposals	-236 467	-165 629	0	-402 096
Historic cost as of 31.12	**49 712 680**	**91 294 291**	**1 991 316**	**142 998 287**
Additions through merger	24 554 717	42 487 709	1 977 857	69 020 283
Depreciation and write-downs of the year	8 734 928	10 902 462	13 459	19 650 849
Accumulated depreciation and write-downs as of 31.12	**33 289 645**	**53 390 171**	**1 991 316**	**88 671 132**
Net book value as of 31.12	**16 423 035**	**37 904 120**	**0**	**54 327 155**
Economical lifetime	4-5 years	5-10 years		
Depreciation schedule	Linear	Linear		

Research and development (R&D)

The group capitalises expenses regarding development activities. Capitalised expenses for 2004 mainly consist of new generations of road toll systems, in addition to products within electronic ticketing.

Capitalised expenses mainly consist of salary incl. social expenses, purchase of materials, as well as external services. Research and development is depreciated over 4 - 5 years.

Q-Free expects to receive income covering the capitalized R&D costs.

Note 5 : Leasing

Capitalised financial leases	Group	
	2004	2003
Fixed assets		
Machinery and equipment leased as fixed assets	4 794 919	5 366 872
This year depreciations on leased fixed assets	571 953	571 953
Debt		
Leasing obligations as long-term debt	2 229 069	5 146 591

The leasing obligation and the book value of the leased equipment materially differs due to the fact that the debt related to the leased equipment already is partly repaid.

Estimated period of lease is 5 years from time of investment (2001)

The leasing agreement is valid until one of the parties gives a written notice. Mutual term of notice is six months. If the agreement is terminated, Q-Free is obligated to purchase from the supplier already produced goods at fixed prices, received raw materials and other commitments that can not be cancelled, and cover expenses in relation to started production. Remaining lease payments are NOK 2 229 069, of which NOK 1 310 000 is due within one year and the rest within two years.

In case the agreement is terminated, Q-Free has a right of and a duty to repurchase any production equipment, that is the property of the supplier and which is invested specifically for Q-Free products. The repurchase price is set equal to the investment value (including incurred interest), less depreciated value (including interest) at the date of repurchase. When the investment is fully depreciated according to plan, the repurchase value is set to NOK 0.

	Group	
Leasing agreements not stated in balance sheet	2004	2003
Annual lease of machinery and fixed assets	6 566 926	6 699 527
Duration period	1-10 years	1-10 years

The main part of leasing agreements not stated in the balance sheet is rent of the companies facilities in Norway. Q-Free ASA rents its facilities in Trondheim from Q-Free International AS. The leasing contract runs until 1 September 2012, with an option for two more periods of five years. The other leasing contracts are running from one to five years.

Note 6 : Other operating expenses

Other operating expenses consists of the following:

Parent company			Group	
2003	2004	Category	2004	2003
3 514 581	4 425 124	Services from group companies	0	0
5 413 146	43 919 519	External services	53 559 075	34 270 954
1 615 271	12 947 519	Travelling expenses	14 512 702	13 047 638
167 229	324 962	Licence fee and royalties	324 962	167 229
3 976 431	4 834 237	Rent, including misc. expenses facilities	5 993 185	11 983 212
720 154	1 594 037	Leasing machinery, cars, etc.	3 445 235	1 156 808
0	34 913 965	Loss on contracts (receivable)	35 180 175	152 570
4 335 446	35 759 460	Other expenses	42 914 529	22 697 151
19 742 258	138 718 823	Total	158 307 129	83 475 562

Note 7 : Restructuring costs

During first quarter 2004 there were made provisions and write downs amounting to NOK 73 398 602. The following table shows the original provision and to the book value of the remaining accrual at 31.12.2004:

Parent company			Group	
Q1 2004	Remaining 31.12.04	Specification of expenses	Remaining 31.12.04	Q1 2004
23 900 000	0	Write down on projects	0	23 900 000
12 200 000	1 750 000	Provision for bad debts	1 750 000	12 200 000
17 500 000	4 132 753	Accrual for restructuring	4 132 753	17 500 000
19 800 000	7 149 561	Accrual for project closing activites / other expenses	7 149 561	19 800 000
73 400 000	13 032 314	Total	13 032 314	73 400 000

Note 8 : Foreign exchange

The following gain and loss on exchange has been registered in the accounts:

Parent company			Group	
2003	2004	Specification	2004	2003
2 760 826	4 959 690	Gain on exchange	7 405 124	9 049 113
-3 287 223	-6 235 656	Loss on exchange	-8 338 673	-11 676 728
-526 397	**-1 275 966**	**Total**	**-933 549**	**-2 627 615**

The company enters into forward contracts in relation to contracts in currency in order to reduce the currency exposure. As of 31.12.04, the following forward contracts has been entered into:

Sales contracs	Due date within one year	Due date after one year
USD		1 200 000
EURO	13 000 000	1 750 000

Note 9 : Accounts receivable

Parent company			Group	
2003	2004	Specification	2004	2003
167 398	81 204 156	Accounts receivables	114 197 610	62 538 284
145 605 699	64 257 104	Receivables from group companies	0	0
-554 150	-36 324 278	Provision for bad debts	-9 950 000	-4 520 000
145 218 947	**109 136 982**	**Total**	**104 247 610**	**58 018 284**
0	29 778 965	Loss on receivables	29 965 175	121 320
0	5 135 000	Changes in provisions for bad debts	5 215 000	0
0	**34 913 965**	**Total**	**35 180 175**	**121 320**
		Receivables due for payment after more than a year		
18 622 298	22 684 343	Receivables Q-Free Sdn. Bhd. (Malaysia)	0	0
10 353 584	0	Receivables Q-Free Autstralia Pty. Ltd	0	0
28 975 882	**22 684 343**	**Total**	**0**	**0**

Note 10 : Taxes

Parent company 2003	Parent company 2004		Group 2004	Group 2003
		Total tax expenses for the year		
6 725 992	59 292	Tax payable on this years profit for norwegian companies	1 094 536	0
0	0	Tax payable on this years profit for foreign companies	1 473 059	196 281
0	-78 721	Adjusted allocated tax from last year	-38 158	-31 793
0	0	Exchange difference on tax payable by foreign companies	0	-15 276
-2 712 106	-30 889 105	Change in deferred tax for norwegian companies	-23 876 474	-7 690 661
0	0	Change in deferred tax for foreign companies	0	59 639
4 013 886	-30 908 534	Total	-21 347 037	-7 481 810
28%	27%	Tax rate	25%	32%
		Tax payable for the year		
14 278 688	-114 390 007	Ordinary profit before tax	-86 263 924	-23 557 614
86 323	4 283 532	Permanent differences	9 971 680	-5 791 745
9 656 391	37 416 804	Change in temporary differences	11 310 800	30 389 892
0	0	Use of carry forward losses	0	-463 231
24 021 402	-72 689 671	Basis for tax payable, norwegian companies	-64 981 444	577 302
6 725 993	59 293	Tax payable for norwegian companies (28%)	1 123 426	0
0	0	Tax payable for foreign companies	1 491 218	196 281
		Specification of tax payable in the balance sheet		
6 725 993	59 292	Tax payable on this years profit, norwegian companies	1 123 426	0
-6 725 993	-59 292	Tax payable on group contribution	-656 280	0
0	0	Tax payable on this years profit, foreign companies	1 491 207	196 281
0	0	Carried forward tax compensation	-9 788	0
0	0	Total tax payable	1 948 565	196 281
		Specification on basis for deferred tax		
		Differences evaluated to be offset:		
-11 077 026	16 604 253	Fixed assets	15 472 049	-1 090 997
382 414	-18 304 489	Current assets	6 154 862	12 687 682
0	-24 615 068	Liabilities	-25 115 068	-2 820 651
0	-74 455 030	Carry-forward losses (*)	-75 771 424	-2 563 074
-40 648	-40 648	Other differences	-324 425	-523 828
-10 735 260	-100 810 982	Total	-79 584 006	5 689 132
-3 005 875	-28 227 075	Deferred tax (+) / tax assets (-)	-22 283 522	1 592 952

Parent company			Group	
2003	2004		2004	2003
		Deferred tax (-) / tax assets (+) in balance sheet of 31.12.		
-3 005 875	-28 227 075	Tax assets (-)/ deferred tax (+) norwegian companies	-22 283 522	1 592 952
0	0	Tax assets (-)/ deferred tax (+) foreign companies	0	0
0	59 293	Tax assets (-)/ deferred tax (+) on group contribution	0	0
-3 005 875	-28 167 782	Total tax assets (-) / deferred tax (+)	-22 283 522	1 592 952
	(*)	Fiscal deficit put forward expires in 2014. It is expected that the group should be able to utilise the deficit in future fiscal profits within this time.		
		Balancing the tax cost		
3 998 033	33 311 912	Tax on accounting result	-23 714 024	-6 544 318
4 013 886	30 829 813	Annual tax	-22 820 096	-7 481 810
-15 853	2 482 099	Difference/balance	-893 928	937 492
		Specification		
24 170	2 490 416	Tax result permanent differences	1 004 027	-856 223
0	0	Adjusted allocated tax from last year	-78 721	-31 793
-8 317	-8 317	Remuneration on dividend paid	-31 374	-49 476
15 853	2 482 099	Total	893 932	-937 492

Note 11 : Earnings per share

	2004	2003	2002
Ordinary result / annual result	-64 916 887	-16 075 804	-31 001 644
Number of ordinary shares	48 958 030	45 583 268	42 159 701
Number of diluted shares	49 050 123	45 583 268	42 159 701
Earnings per share (NOK)	-1.33	0.00	-0.74
Diluted earnings per share (NOK)	-1.32	0.00	-0.74

Note 12 : Investments in shares - Subsidiary companies and associated companies

Subsidiaries and associated companies	Etablished	Location	Ownership	Voting share
Q-Free MagCom AS	2001	Oslo	100%	100%
Micro Design AS	1984	Trondheim	100%	100%
Mobiliser AS	2001	Trondheim	100%	100%
Q-Free Portugal Lda.	1997	Portugal	100%	100%
Q-Free América Latina Ltda.	1998	Brasil	100%	100%
Q-Free Australia Pty. Ltd.	1999	Australia	100%	100%
Q-Free Sdn. Bhd. Malaysia	1997	Malaysia	100%	100%
Noca Holding AS – Konsern (*)	2001	Trondheim	100%	100%
Taiwan ETC Service Company	2003	Taiwan	40%	40%
Q-Free International Hellas S.A. (**)	2004	Hellas	100%	100

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

(**) Q-Free International Hellas S.A. is not consolidated in the group accounts. This is according to the Norwegian Act related to Annual Accounts §3-8 regarding immateriality with regards to the groups financial position and results.

Book value in parent company of subsidiaries and associated companies:

	Cost	Book value 31.12.03	Equity method	Share of profit	Profit over the P&L	Aquisitions / equity adj.	Book value 31.12
Q-Free MagCom AS	7 825 093	1	-10 538 348	602 757	0	0	0
Micro Design AS	400 000	212 396	123 372	0	0	0	335 768
Mobiliser AS	175 125	96 325	77 935	0	0	0	174 260
Q-Free Portugal Lda.	203 925	203 925	428 550	427 238	427 238	0	1 059 713
Q-Free América Latina Ltda.	4 852 546	2 407 253	-7 867 231	-291 455	0	0	0
Q-Free Australia Pty. Ltd.	5	5	-351 372	2 633 787	2 282 415	0	2 282 420
Q-Free Sdn. Bhd. Malaysia	1 154 888	1 154 888	-15 189 317	-954 328	0	0	0
Noca Holding AS – Konsern	4 592 446	4 718 836	98 863	1 871 439	1 871 439	0	6 689 138
Taiwan ETC Service company	2 656 842	2 656 842	-2 656 842	0	0	0	0
Q-Free International Hellas S.A.	521 635	0	0	0	0	521 635	521 635
Total	22 382 505	11 450 471	-35 874 390	4 289 438	4 581 092	521 635	11 062 934

Note 13 : Investments in shares in other companies

Parent company and the Group

	Company's share capital	Number of shares	Ownership	Book value in Parent	Book value in Group
Leiv Eiriksson AS	1 000 000	9 919	1%	250 000	250 000
Asti AS	2 150 000	2 900	13%	368 600	368 600
Other				35 000	125 645
Total				653 600	744 245
Q-Free VOF, Nederland (ANS)		(*)		19 765	19 765
Total				673 365	764 010

(*) Q-Free VOF Nederland is a Joint Venture company, established in 1998. The allotment has been shown after gross costs.

Note 14 : On-going projects

Parent company and Group	2004	2003
Revenues on on-going projects	164 038 787	99 306 732
Expences on on-going projects, inclusive provisions for the entire expected loss (*)	-179 318 748	-65 403 208
Profit on on-going projects	-15 279 961	33 903 524

Note 15 : Liquid assets and credit limits

The group has an account in DnB where both parent company as well as subsidiaries are solidary responsible.

Parent company			Group	
2003	2004	Liquidity fund	2004	2003
145 169 308	104 034 237	Cash and bank deposits	130 352 558	78 127 623
599 238	2 746 650	Including restricted funds for tax deduction	3 397 034	3 971 240
144 570 070	101 287 587	Unrestricted liquid assets	126 955 524	74 156 383
144 570 070	**101 287 587**	**Liquidity fund**	**126 955 524**	**74 156 383**

Note 16 : Investor relations

The company has one class of shares totalling NOK 50 644 269 per 31.12.2004. Face value per share is NOK 0,05. Total share capital per 31.12.2004 was NOK 2 532.213.

	Total shares	Ownership	Voting rights
Q-Free International AS	17 439 140	34.4 %	34.4 %
Odin Norge	4 666 195	9.2 %	9.2 %
Telenor Venture II ASA	3 809 826	7.5 %	7.5 %
Lars Andresen	3 333 600	6.6 %	6.6 %
Decibel AS	2 824 920	5.6 %	5.6 %
Datum AS	2 715 280	5.4 %	5.4 %
Skagen Vekst	1 600 000	3.2 %	3.2 %
Wega AS	1 045 900	2.1 %	2.1 %
First Norge vekst, v/ Firstnordic fondene AS	878 739	1.7 %	1.7 %
Kikut AS	699 000	1.4 %	1.4 %
Other shareholders	11 631 669	22.9 %	22.9 %
Total	**50 644 269**	**100.0 %**	**100.0 %**

Note 17 : Equity

Parent company	Share capital	Share premium reserve	Other equity	Total
Equity 31.12.2002	2 279 163	254 294 255	63 224 650	319 798 068
Effect of impl. of equity method	0	0	-47 008 108	-47 008 108
Equity 01.01.04	2 279 163	254 294 255	16 216 542	272 789 960
Share issue	253 050	29 513 607	0	29 766 657
Expenses related to share issue	0	-1 878 597	0	-1 878 597
Reclassifications	0	-67 264 931	67 264 931	0
Loss for the year	0	0	-83 481 473	-83 481 473
Equity 31.12	**2 532 213**	**214 664 334**	**0**	**217 196 547**

Group	Share capital	Share premium reservel	Other equity	Total
Majority equity				
Majority equity 31.12.2003	2 279 163	254 294 255	-5 381 579	251 191 839
Share issue	253 050	29 513 607		29 766 657
Expenses related to share issue		-1 878 597		-1 878 597
Reclassifications		-67 264 931	67 264 931	0
Dividend		0	-106 996	-106 996
Majorities part of this year's loss		0	-66 199 862	-66 199 862
Calculation differences		0	-1 248 877	-1 248 877
Majority equity 31.12	**2 532 213**	**214 664 334**	**-5 672 383**	**211 524 164**
Minority equity				
Minority equity 01.01.04			9 237 503	9 237 503
The periods change in ownership, sales (-)/purchase (+)			0	0
Dividend			-106 996	-106 996
Minorities part of the year's retaining earnings			1 282 975	1 282 975
Minority equity 31.12			**10 413 482**	**10 413 482**
Total equity 31.12.2004 (majority and minority)	**2 532 213**	**214 664 334**	**4 741 099**	**221 937 646**

Note 18 : Interests-bearing long-term debt with due date after 2009

Group	2004	2003
Dept to financial institutions	0	0
Dept to financial institutions (Noca Holding AS)	0	3 750 000
Leasing obligation	0	5 146 591
Total		

Note 19 : Off balance sheet commitments

Parent company			Group	
2003	2004		2004	2003
		Guarantees and loans secured by mortgage		
0	0	Long-term liabilities	5 150 000	5 071 836
0	0	Short-term liabilities	0	0
0	**0**	**Total**	**5 150 000**	**5 071 836**
24 425 799	71 848 625	Guarantees to customers, suppliers and lease contracts secured by guarantees	71 848 625	59 098 032

Parent company 2003	Parent company 2004		Group 2004	Group 2003
		Book value of assets securing mortgages		
292 912 854	118 812 976	Account receivable	100 812 976	153 681 581
0	0	Revenue recognised, not invoiced revenue	0	91 547 917
0	18 224 597	Inventories	21 880 668	22 218 986
6 625 440	25 819 154	Tangible assets	25 819 154	39 289 153
299 538 294	162 856 727	Total	148 512 798	306 737 637

Note 20 : Merger between parent company and subsidiaries in 2004

With impact on the accounts from 1 January 2004, Q-Free ASA merged with its wholly-owned subsidiaries Q-Free Systems AS, Q-Free Products AS and Q-Free Services AS. The merger is carried out with tax effect from 1 January 2005.

The merger is viewed as a reorganisation with unchanged ownership, and has been carried out with continuity in accounting values in accordance with Norwegian generally accepted accounting principles (NRS 6). The comparable figures in mergers between parent company and subsidiaries are the parent company numbers from the previous year.

Note 21 : IFRS

Differences in accounting principles between IAS/IFRS and Q-Free ASA group accounting principles.

Accounting standards issued by the International Accounting Standard Board (IASB): International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) will be implemented for listed companies within the EU and through the EEA agreement also in Norway from 2005. Due to the requirement of at least one year comparable figures, the IAS/IFRS implementation will in reality take place from 1 January 2004, even though the first IAS/IFRS reporting from Q-Free ASA group will take place in connection with the first quarter report in 2005.

In connection with the IFRS implementation, specific rules have been given regarding the preparation of an opening balance at 1 January 2004 (IFRS no 1). These rules give several alternatives to adjust the equity in the opening balance. In the table below, the relevant alternatives have been presented in addition to to what extent it is probable that Q-Free will use these alternatives. In addition, there are a number of required adjustments of the opening balance. Of these, the stricter criterias for capitalising deferred tax assets is expected to have material effect on the equity of Q-Free ASA.

The purpose of the table is to comment on accounting items that is evaluated to be material with regards to the financial statements that Q-Free ASA group presents for 2004.

Q-Free group accounting principles	IAS/ IFRS	Implementation effect on equity at 01.01.2004	P&L effect for 2004 (compared to official accounts)
Hedging			
Currency risk is aimed reduced by adapting revenues and expenses in different currencies.	Hedging is allowed, including cash flow hedging. Hedging instruments is capitalised at its real value. The corresponding account is equity. Changes in value for the hedging instrument is moved from equity when the hedging object is accounted for.	These IAS/ IFRS - rules will be in force from 01.01.2005.	No effect.
The company has entered into hedging contracts as presented in note 8.			

Q-Free group accounting principles	IAS/ IFRS	Implementation effect on equity at 01.01.2004	P&L effect for 2004 (compared to official accounts)
Classification			
Minority interests is presented as part of equity	Minority interests presented at a separate line between equity and non-current liabilities.	Negative equity adjustment.	No effect
Dividend is presented as short term debt.	Dividend presented as part of equity until decided at the general assembly	Positive equity adjustment.	No effect
Non-current liability is presented in its full as non-current liability.	First year installment reclassified to current liability.	No equity adjustment.	No effect
Research & Development			
No capitalisation of research expenses.	Stricter criterias for capitalisation of development costs with future benefits for the company. Capitalised development costs are depreciated over expected economic life time.	No equity adjustment	No effect.
Pensions			
Actuary assumptions, including discounting rates and interest will be changed if material differences to market rates.	Stricter criteria to adjust periodically due to changes in market conditions.	Negative equity adjustment.	No effect
Differences in real pension liability to actuary assumptions can be shown in a "corridor" to a certain level.	Corridor" is allowed, but in connection with the IFRS implementation the corridor must due to changes in estimates on the implementatio date (01.01.2004) be recorded directly on equity.		
Stock options			
Current provision for social security pay on stock option program.	Actual value of issued stock options must be calculated at issuance and be expensed over the expected lock-in period.	No equity adjustment	No effect
Deferred tax assets			
Deferred tax asset capitalized to the extent it is probable that it can be utilized.	Stricter definitions of "probable" and thus for capitalization.	Negative equity adjustment.	No effect

Auditor’s Report

ERNST & YOUNG

Statsautoriserte revisorer

Ernst & Young AS
Postboks 1299 Pirsenteret
7462 Trondheim

Foretaksregisteret:
NO 976 389 387 MVA

Tel. +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 2004

We have audited the annual financial statements of Q-Free ASA as of 31 December 2004, showing a loss of NOK 83 481 473 for the parent company and a loss of NOK 64 916 887 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 coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements and the Directors’ report are the responsibility of the Company’s Board of Directors and Managing Director. 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 the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices 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 have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 2004, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

Trondheim, 17. mars 2005
ERNST & YOUNG AS

Helge G. Lorentzen
State Authorised Public Accountant (Norway)

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

Arendal, Bergen, Bø, Drammen, Fosnavåg, Fredrikstad, Holmestrand, Horten, Hønefoss, Kongsberg, Kragerø, Kristiansand, Larvik, Levanger, Lillehammer, Moss, Måløy, Notodden, Oslo, Otta, Porsgrunn/Skien, Sandefjord, Sortland, Stavanger, Steinkjer, Tromsø, Trondheim, Tønsberg, Vikersund, Ålesund

Articles of Association for Q-Free ASA

Paragraph 1 The company`s name is Q-Free ASA.

Paragraph 2 The company`s registered office is in Trondheim.

Paragraph 3 The company`s object is to be engaged in research, development, production and sales and everything else in this connection.

Paragraph 4 Share capital of NOK 2.537.380,15 divided into 50.747.603 shares with face value of NOK 0,05. The company`s shares shall be registered in Verdipapirsentralen (the Norwegian Central Securities Depository).

Paragraph 5 The Board of Directors shall have 3-8 members subject to the General Assembly`s decision. The General Manager signs for the business enterprises alone. The Board of Directors may inform of any procuration.

Paragraph 6 An Ordinary General Assembly will be held prior June 30th.

The Ordinary General Assembly shall handle:

1. Pass resolution of profit and loss and balance sheet statement
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.
4. Pass resolution of remuneration for the members of the board.
5. Pass resolution of the auditor`s remuneration.
6. Other cases that the Board submit in their summon or as a shareholder wish to address when such is submitted at the latest 3 weeks prior to the General Assembly.
7. Other cases that according to Law falls within the powers of the General Assembly

Paragraph 7 Further referral is made to the prevailing Companies Act.

Trondheim, 17th of March 2005

Shareholders of Q-Free ASA

Natural born Q-Free

Our ancestors left sunny central Europe to settle in this harsh climate.

Why?

To get enough space.
To be free.

Norway is probably populated with people who are genetically inclined to hate queuing.

No wonder the world's first electronic tolling system was installed here.

Q-Free IQ

Knowledge and creativity feed the new economy. It is all about talent, diversity and free flow of ideas.

Q-Free is well at ease with the situation.

We are situated in a city rated as one of the world's 50 most important when it comes to technology development.*

The university here has produced two Nobel price winners.

Such groundbreaking technologies as GMS and mono disperse particles have been invented here.

Besides, Norwegian culture has some features that makes it easy to attract talent from all over the world;

low crime rate, high standard of living, freedom of belief and equality between sexes.

*Wired Magazine 1999

Q-Free :

Klipp&Lim
Oxygen Design

Head Office
Q-Free ASA
P.O Box 3974, Leangen
N-7443 Trondheim
Norway

+ 47 73 82 65 00

Q-Free ASA
Oslo
Grensen 12
N-0159 Oslo
Norway

+ 47 23 10 65 00

Q-Free América Latina Ltda., Brazil
Al. Madeira, 53, Cj. 14
Alphaville, Barueri - SP
CEP 06454-010, Brazil

+55 11 4191 6345

Q-Free Australia Pty. Ltd.
Unit 17/1 Talavera Road
North Ryde
2113 NSW, Australia

+61 29 887 8200

Q-Free Shanghai Rep. Office
Rm 2203, LT Square
500 North Chengdu Road
Shanghai P.R. China
PO Number 200003

+86 21 6360 7097

Q-Free Sdn. Bhd., Malaysia
19, 1-3 Jalan PJU 8/5 F
Bandar Damansara Perdana
47820 Petaling Jaya
Selangor Darul Ehsan, Malaysia

+603 7722 4457

Q-Free Portugal Lda.
Taguspark
Núcleo Central, 371
P-2740-122 Oeiras,
Portugal

+351 21 422 7170

Q-Free International Hellas S.A
Poseidonso 17, 174 55-GR
Alimos, Athens
Greece

+30 210 98 55 248

FREE

WWW.Q-FREE.COM