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REPORT DATES 2001

Interim report January–March	May 10
Annual General Meeting	May 28
Interim report January–June	August 16
Interim report January–September	October 25



Observer in one minute

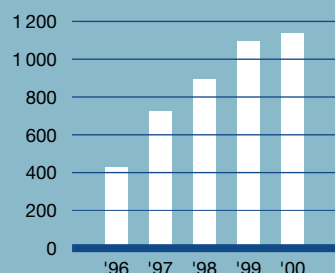
Observer operates in a world in which information is hard currency and speed a success factor. Those able to quickly sift, structure, evaluate and analyze an increasingly complex market have an edge on the competition. This is essential for communicating the right message to the right target group at the right time. Observer aims to be the first choice for clients wishing to interpret and effectively position themselves in their market.

Global market monitoring and information distribution are becoming increasingly important to Observer's clients. In addition to its traditional analysis and media/market monitoring tools, Observer provides advanced, customized solutions that utilize the very latest information technology. The market for Observer's services is supply-driven, providing it with vast potential for further growth.

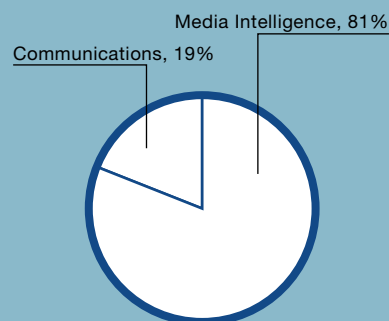
Observer's successful business concept is founded on its extensive experience, advanced information technology and international presence.

Observer is a world leader in market monitoring, media analysis and targeted communication for businesses, government agencies and organizations. Observer monitors approximately 13,000 newspapers and periodicals, 400 radio and TV stations, 60 news agencies and 2,000 web sites. The Group, which has roughly 1,800 employees and a turnover of slightly more than SEK 1,100 million, is currently active in the UK, Sweden, Germany, Norway, Finland, Denmark, Portugal, Ireland, Estonia, Latvia and Lithuania.

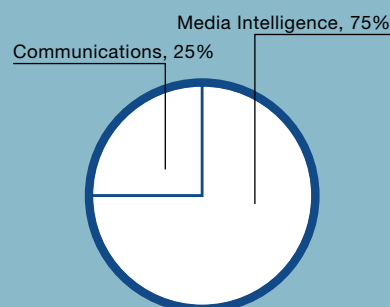
OPERATING REVENUE, SEK MILLION



REVENUE BY CORE BUSINESS



OPERATING PROFIT BEFORE GOODWILL AMORTIZATION AND ITEMS AFFECTING COMPARABILITY BY CORE BUSINESS



OPERATING REVENUE

Amounts in SEK million	2000	1999	No. of employees at year-end
Media Intelligence	875,1	586,5	1430
Communications	210,8	86,3	189
SMG Consulting	44,3	42,7	31
Divisions	1 130,2	715,5	
Divested units	21,7	415,1	
Group eliminations	-16,5	-34,3	25
Group	1 135,4	1 096,3	1675

OPERATING PROFIT BEFORE GOODWILL AMORTIZATION AND ITEMS AFFECTING COMPARABILITY

Amounts in SEK million	2000	1999	Margin 2000
Media Intelligence	205,0	109,2	23,4%
Communications	67,6	31,6	32,1%
SMG Consulting	5,1	5,4	11,5%
Divisions	277,7	146,2	24,6%
Divested units	5,3	-5,7	
Group eliminations	-12,5	-6,0	
Group	270,5	134,5	23,8%

Highlights of 2000

Financial position

Observer's financial position remains strong. Profit after tax amounted to SEK 461.8 million (50.9). Operating profit before goodwill amortization and items affecting comparability amounted to SEK 270.5 million (134.5). Profit per share after tax and full dilution excluding goodwill amortization and items affecting comparability rose by 62 percent to SEK 2.95 (1.82). The proposed dividend has been raised by 29 percent to SEK 0.45 (0.35) per share.

2001

Ireland's and Portugal's leaders in media and market monitoring are acquired. Portuguese Memorandum SA is a highly developed modern company with a broad network of partners in Latin America and Spain.

Observer sells its share of the jointly-owned management and strategic consultancy SMG Consulting.

Approval is given to a stock option program for Group employees as part of

Observer's ambition to recruit and retain skilled employees.

November 2000

Observer participates in the development of a new technological standard for distributing digital news information. The new standard makes it possible to combine news from several different sources into integrated packages.

Observer's new Communications division provides expanded database services with media information from markets in the US, Canada, Australia and New Zealand.

September 2000

Observer sells a small portion of its operations in the UK, Hollis Directories, to the company's management and the publisher Wilmington Group.

June 2000

Norway's Imedia, with 55 employees, is acquired from Schibsted and Telenor in June. Its operations are integrated with Observer Norway.

The Group changes its name to Observer AB on June 6, 2000. The share, which is listed on the OM Stockholm Exchange's O-list, is traded under its new name (formerly Sifo Group AB).

January 2000

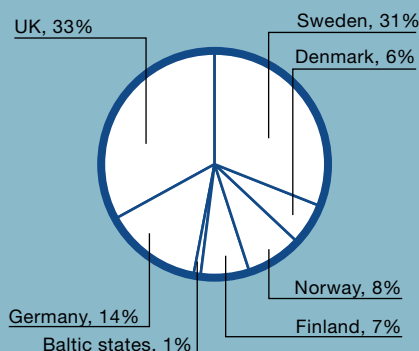
The rights issue decided on by the Group on December 29, 1999 is quickly subscribed, providing the company with SEK 825 million. The number of shares increases from 34,694,027 to 55,510,442.

On January 1, 2000 Sifo Research & Consulting is sold to Research International/WPP for SEK 600 million. Media and market monitoring becomes Observer's core business.

The Group sells the subsidiary Sifo Interactive Media, which is active in Internet monitoring, in return for eight percent of the shares in MMXI Europe, 52,000 shares in Media Metrix USA (now Jupiter Media Metrix) and approximately SEK 44 million in cash.

An additional 30 percent of Germany's Argus Media is acquired. The company is then merged with Observer RTV Medienauswertungen. Observer's ownership interest in the combined Observer Argus Media is now 86 percent.

GEOGRAPHIC DISTRIBUTION OF OPERATING REVENUE 2000



* Operations in Portugal and Ireland were acquired in March 2001.



Year 2000 – development and streamlining of operations

Strong and eventful year

Observer has evolved into an internationally focused company within Business and Communication Intelligence, i.e. market monitoring, information evaluation and analysis, and targeted communication. The operations of local Observer companies have been integrated and further developed, creating a strong international group. As an element in its strategy to streamline operations, Observer divested its interests in the management and strategic consultancy SMG Consulting, the Sifo Research & Consulting division, Sifo Interactive Media and Hollis Directories. High growth and good profitability continued.

Market

Observer is a knowledgebased company that monitors market and product trends and understands the role of communication.

Increasing volumes of information, globalization and rapid technological development are increasing the importance of market monitoring, targeted communication, evaluation and analysis. The ability to build and develop broad client bases, establish new services and markets, and invest in new technology and expertise will be crucial to companies in the industry.

In a fragmented market, Observer is one of the few companies with the strong platform necessary to provide turnkey solutions with advanced services in many geographic markets. As a result, it can take advantage of economies of scale. To remain abreast of market developments, we must also continuously improve our clients' understanding of, and interest in, our services.

With operations in eleven European countries, Observer is the world leader in the industry. The European market for these services is estimated at SEK four to five billion, with an annual growth rate of approximately ten percent. Observer is growing faster than the market average and this trend should continue. In addition to organic growth, Observer plans to expand internationally through acquisitions.

During the year, demand remained strong in all of Observer's areas of operation and markets reported positive development. Excluding the UK, growth in local currency was around or over 20 percent in every market. The British operations, which were acquired in the last quarter of 1999, saw growth rise to 13 percent.

The Swedish operations began the year weaker than expected, one reason was that Swedish competence was transferred to the British and German companies to help raise their operations to Observer's standards. An action program implemented during spring had a positive effect by late summer. The year ended strongly, with growth and profitability in Sweden returning to previous levels.

Highlights of the year

In 2000, we further focused our operations on Business and Communication Intelligence, including solutions for targeted communication. A number of measures were taken to develop and streamline operations for continued growth and international expansion.

The key to Observer's strategy is high organic growth. As the market leader, we invest more in development than our

competition. Late in the year we established the Business Design Center, which is similar to a development department and is responsible for all of Observer's development projects. Significant efforts have been made to develop IT solutions and new services in order to maintain a high organic growth rate and facilitate a continued expansion. During the year, we began to work on a common IT platform for production and delivery systems for all Observer companies designed to improve local and international services.

As our operations become more international, we will be able to better meet the needs of global companies and organizations. In addition to national and regional clients, Observer aims to rapidly increase its international client base. Service packages targeting international clients were further enhanced during the year. In early 2001, a special London based organization targeting this client segment was established.

Observer's strategy includes acquisitions as a complement to organic growth. The integration and development work carried out by the group during the year was primarily due to the acquisition of the UK-based Romeike Group in December 1999.

As a result of extensive changes combined with increased marketing, Observer's new range of services were very positively received in the UK.

During the year, Imedia was acquired and integrated into Observer Norway. At the beginning of the year, an additional 30 percent of Germany's Argus Media was acquired, and integrated into Observer RTV Medienauswertungen. In order to

concentrate resources on our fast-growing operations, the Sifo Research & Consulting division and Sifo Interactive Media were divested at the beginning of the year. A small part of the British operations, Hollis Directories, was also divested. In early 2001, Observer also sold its interest in the jointly owned management and strategic consultancy SMG Consulting.

In March 2001, Observer acquired Ireland's and Portugal's leading companies within media and market monitoring. Memorandum SA is a highly developed company with an extensive partner network in Latin America and Spain.

The ability of our employees to develop new services is a major factor in Observer's success. Highly competent employees are important for integrating newly acquired companies and making them market leaders. Against this background, an incentive program has been introduced with allotments taking place over three years. All employees will receive free stock options with the right to exercise them after the second and before the fourth anniversary of allotment.

Financial position

A new profit objective was established during the year as Observer became a more focused, international company. Our goal is to achieve an average long-term operating margin before goodwill amortization and items affecting comparability of 22 percent. However the acquisition of companies with low margins and specific investments may temporarily lead to a lower margin.

Observer's objective is to achieve annual organic growth of at least 10–15 percent over the business cycle, with additional expansion through acquisitions. The growth and profit objectives were both achieved during the full-year 2000.

Operating revenue rose to SEK 1,135.4 million (1,096.3). Organic



growth in local currency was 20 percent. Of the Group's total operating revenue, Media Intelligence accounted for SEK 875.1 million and Communications for SEK 210.8 million. Value-added services accounted for 28 percent (25) of Media Intelligence's revenue, excluding the UK operations.

Operating profit before goodwill amortization and items affecting comparability rose to SEK 270.5 million (134.5). The operating margin was 23.8 percent (12.3). Media Intelligence reported an operating margin of 23.4 percent and Communications 32.1 percent. For comparable units, profit improved by 24 percent compared with the previous year. Significant investments were made to develop IT solutions, new services and new markets.

The industry is characterized by knowledge-intensive services and acquisitions of companies with strong market positions. The total goodwill item on the balance sheet amounted to SEK 1,604.6 million (1,708.0). At year-end, shareholders' equity amounted to SEK 1,562.9 (240.3), or SEK 28.16 per share (5.38). Our net debt/equity ratio was seven per-

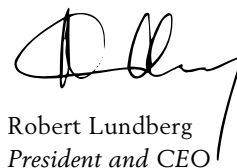
cent. All of our companies are generating positive cash flows. Our financial position is very strong, providing opportunity to further expand through acquisitions.

Continued international growth

Historically, Observer's operations have been relatively unaffected by economic fluctuations, although a long-term wide scale recession would naturally affect even us. Changes in the flow of news are an essential factor for Observer in the short-term.

Observer has built a solid foundation for continued internationalization. We strive to offer international clients advanced turnkey solutions. We aim to continue to expand and further consolidate our strong position through organic growth and acquisitions.

Stockholm, March 2001


Robert Lundberg
President and CEO

Competitive advantages pave the way for continued expansion and growth

“Strategically, it is becoming increasingly important for players in both the public and private sector to remain abreast of important events concerning their operating environments, to have information evaluated and analyzed, and to communicate their messages to the right target groups. The steady fragmentation of the media and globalization accentuates Observer’s competitive advantages,” says Robert Lundberg, President and CEO, who provides his personal opinion of Observer’s operations, unique competitive advantages and continued expansion.

What is the strength behind Observer’s business model?

“The strength of our business is our ability to successfully meet our clients’ fundamental needs for Business Intelligence and Communication Intelligence. We provide turnkey solutions for market monitoring and communication evaluation as well as tools to proactively communicate messages to the right target groups. With Observer’s Business Intelligence services, clients can remain abreast of important events in their markets. Naturally, this involves both local and global solutions. With the help of our Communication Intelligence solutions, clients gain an understanding for and analysis of how they are perceived by the media as well as the impact this has on relevant target groups.”

“Basically, we contribute expertise and speed in market monitoring, information evaluation and analysis, and targeted communication. We provide clients with com-

munication solutions that enable them to distribute business information to specific target groups via electronic channels including the Internet. Observer’s services help clients make better decisions and succeed in their business endeavors.”

What are Observer’s advantages when compared to the competition?

“There are three main aspects to Observer’s competitive strength: one-stop services, an international capacity and vast experience dealing with unique client needs.”

“Many companies offer various degrees of value-added media services. There are also various production methods, ranging from manual to automated and electronic. Observer’s unique competitive advantage is that we can provide the entire spectrum of services and have broad coverage from a host of sources. Our services are highly competitive, and economies of scale make our production efficient.”

“Internationally, few companies can compete with Observer in providing both global and local Business Intelligence solutions. Observer currently operates in eleven markets, and we cooperate with the largest local firms in countries where we are not currently conducting operations. We offer one-stop shopping so that international clients don’t have to assemble piecemeal solutions themselves.”

“We have gained extensive experience by working closely with clients and continuously enhancing our services to suit their needs. This contributes to continuous renewal and an understanding of trends and changes in the marketplace. Observer doesn’t merely satisfy clients’ needs; we look for answers before they even ask the questions. This makes us a prime mover in the industry.”

In recent years Observer’s growth has exceeded the industry average. How much longer can you maintain this pace?

“I am optimistic about the future. The market for our services is large and hasn’t been satiated. In Northern Europe, more and more clients are demanding value-added services. This demand does not only come from PR and marketing people, but increasingly from IR, executive and sales managers. Outside the Nordic

»We look for answers to our clients' needs before they even ask the questions. This makes us a prime mover in the industry.«

region, the market is less mature and has a low level of penetration. In other words, there are endless possibilities to what we can and will do in these markets.”

“I am convinced that Observer has a better opportunity to grow than any of its competitors, most of which are small, family-owned firms. The industry has long been characterized by a slow pace of development. Since Observer has focused so much on development, we have a head start that our competitors will have a hard time making up. Due to our efficient production and scalable methods, we can provide competitive services. Observer also has good access to capital, which will aid in our continued expansion and growth.”

Your principal shareholder, Bure, will be distributing its holding in Observer to its shareholders in the second quarter of 2001. Overnight, Observer will have 20,000 new shareholders. How do you feel about this?

“The reason Bure is distributing its shares in Observer is that it has altered its focus and become a private equity firm.

I am very happy that we are getting so many new shareholders. This will raise interest in Observer as a company. One likely outcome is increased trading and turnover in Observer shares, which we welcome.”



A supply-driven, increasingly global market

Demand for Observer's services is increasing in scope and complexity. The importance of market monitoring, targeted communication and information evaluation and analysis is constantly growing. Increasing volumes of information, rapid technological developments and the globalization of the world's economies are placing tough demands on companies in the industry.

The ability to build and develop broad client bases, establish new services and new markets, and invest in new technology and knowledge is critical. The needs of all client segments must be met.

Globalization, expanding information flows and rapid technological developments are giving companies and organizations more reason to monitor social and market developments. At the same time, there is a growing need to communicate with the world and evaluate the impact of that communication.

In Europe, revenues from media and market monitoring total approximately SEK four to five billion. Growth is estimated at roughly ten percent annually. The largest market is the UK, followed by Germany, France, Sweden, the other Nordic countries and Italy. Sweden's total market share is approximately ten percent.

Most European media monitoring firms deal primarily with raw information, such as press clippings and radio and TV transcripts. Few have the capabilities to offer comprehensive, advanced services such as evaluations and analyses of publicity and communication or thorough summaries. Many are small, family-owned businesses that stick with basic services. In the same way that the market is segmented, small niche companies are common. They might focus

on select aspects of media monitoring, such as press clippings, or offer merely Internet search tools.

The overall market is also affected by globalization, internationalization and the advent of new technology, especially IT. Changes in market factors are contributing to higher demand for market monitoring services, which in turn stimulates the development of new services. Technological developments are also providing opportunities for new solutions and applications for market and media monitoring.

In market and media monitoring, economies of scale provide significant advantages. An established, scalable service concept and strong market position translate into strong market potential. In Observer's case, the Group can quickly develop new services and thereby drive development and the range of available services. The Group is also part of an international network of leading media monitoring firms. With a presence in many geographic markets, it can meet growing demand from globally active clients both internationally and at the local level.

The market's segmentation is also reflected in terms of clients, yet they too are maturing. In growing numbers, they are becoming aware of the importance of following events in the market and influencing their image among relevant target

groups. Observer's holistic view of market and media monitoring and targeted communication is therefore becoming increasingly important to its clients' Business and Communication Intelligence.

Market differences

Demand for market and media monitoring services varies. In the Nordic countries, clients generally outsource their monitoring services. This trend is most pronounced in Sweden. Similar signs are evident in the UK. In Germany, companies and organizations do more of their own market and media monitoring.

In Northern Europe, demand for value-added services is rising significantly. Since the market is strongly supply-driven, Observer has been able to expand its range of services and client base due to an in-depth understanding of the market and the needs of its clients. This supply-driven market provides opportunities for continued high organic growth. Apart from the growing number of new clients who see the benefit of value-added services, there is a potential to add clients from within the same companies, organizations and government agencies.

In Southern Europe, press clippings and radio and TV transcripts still dominate the market, although a change is clearly underway. There are development opportunities in Eastern Europe as well. For example, media monitoring firms are already operating in Poland, Slovakia, the Czech Republic, Hungary, Croatia and Slovenia. In other words, Observer has good prospects for organic growth and acquisitions in Southern and Central Europe.

Outside Europe, the US is the largest market, with estimated revenues of SEK three to four billion. Three nationwide firms offer an extensive range of services. Otherwise, each state has numerous monitoring firms of various size and focus. In total, there are approximately a hundred companies, none of which are established in Europe. Consequently no European company has made the leap across the Atlantic.

Asia is a large untapped market. The use of media monitoring varies by country depending on its level of economic development. Its geographic size makes Asia an attractive market with vast potential.

Observer's market prospects

Observer's opportunities to identify trends and needs and drive the development of new services are very favorable. One reason is that few companies offer as complete and well-integrated a range of services for media monitoring, editorial services and analyses. Another is the success of its strategy to enter new markets by acquiring and then developing domestic companies. The latter has helped make Observer the leader in all the markets in which it operates: the UK, Sweden, Germany, Norway, Finland, Denmark, Portugal, Ireland, Estonia, Latvia and Lithuania.

Observer draws its innovative energy from a wealth of knowledge concerning clients' needs and its technological know-how, coupled with a strong financial base. In a supply-driven market, Observer can be a prime mover – influencing supply and demand as well as the market's appearance and development.

However, the market picture is complex. In addition to a range of media monitoring firms that compete with Observer by offering more or less basic services, there is competition from other industries that offer more value-added

services. The latter includes news agencies (TT, Reuters and Dow Jones), companies with platforms in information technology and PR firms in some cases. For example, the market for PR services is growing by 20 percent annually. In 1999, the European PR market generated estimated revenues of SEK nine billion, while the global market reached SEK 36 billion.

Client categories

None of its European competitors can match Observer's ability to build and develop broad client bases, establish new services and markets and invest in new technology and knowledge. In this way, it can flexibly and efficiently meet the demand for speed, quality and new services from various client segments.

The needs of national clients are met through Observer's strong position and market familiarity. Local companies have been acquired and quickly supplemented with additional services, processes, technologies and methods.

Regional clients require comprehensive services in numerous countries, which often neighbor each other. Observer has a high level of penetration in the Nordic region, for example, using Sweden and the Swedish market as a starting point.

Multinational clients are increasingly demanding turnkey solutions with advanced services. In this case, it is important to be able to provide an overview of market and social developments. Observer's aim is to grow in this segment. In early 2001, it therefore established a separate organization for international London-based clients.

Market position

In general, Observer's strong market position provides it with major development opportunities. In the German market, companies and organizations are increasingly outsourcing media and market monitoring rather than handling it internally. The global connections of German businesses are creating higher demand for a comprehensive international media



MARKET SIZE FOR TRADITIONAL MARKET AND MEDIA MONITORING, SEK MILLION

Country	Size
UK	700
Germany	500
France	500
Sweden and rest of Nordic region	700
Italy	180

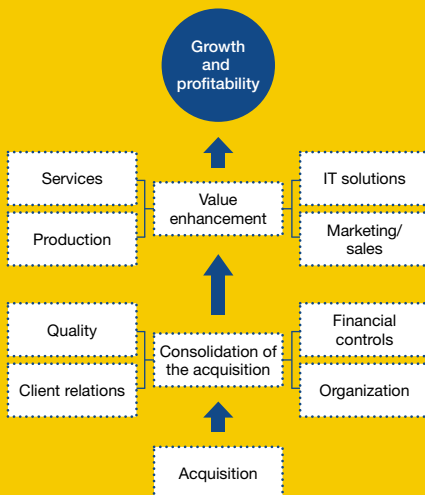
Source: Observer

MAJOR COMPANIES ACTIVE IN TRADITIONAL MEDIA AND MARKET MONITORING

Company	Market
Europe	
Observer	Nordic regions, UK, Germany, Portugal, Ireland and Baltic regions,
Argus de la Presse	France
Ecostampa	Italy
A'jour klip	Denmark
Esmerk	Finland
Ausschnitt	Germany
Factumedia	Germany
Durrants	UK
North America	
Burrelle's	USA
Bacon's	USA
Luce	USA

Source: Observer

OBSERVER'S ACQUISITION AND VALUE ENHANCEMENT MODEL



overview. Observer's acquisition of the UK-based Romeike Group in 1999 has given it a very strong market platform.

Demand for Observer's services is strong due to the growing communication needs of the PR and IR industries. The market is developing quickly, particularly with regard to value-added services. Competition is also growing in Internet monitoring and media analysis. Companies with platforms in information technology are trying, with varying degrees of success, to gain entry to the market. Opportunities for expansion in new geographic markets and economies of scale are good.

Observer is well prepared and has the capacity to face the competition. A broad European client base and strong financial position will allow it to expand and actively develop new services. Its international position is creating opportunities for Observer to capitalize on the growing demand for global services. Market leadership allows Observer as a prime mover to drive the market and develop services.

Market analysis paves the way for successful acquisitions

Observer's successful international expansion has been achieved through acquisitions in the countries it has sought to enter.

Interesting targets are those companies that have established market position and development potential and can benefit from Observer's operations and competence. Before an acquisition is approved, Observer conducts an analysis of the market's distinctive features, prospects and players. This covers competi-

tors as well as companies with closely related operations.

The first step is to analyze the target company's sales, recent financial development, products and services, market shares and ownership conditions. Observer also analyzes the media structure, i.e. the number of newspapers and periodicals, radio and TV channels, IT capabilities, information culture and maturity. Finally, it analyzes client needs and market demand.

Copyright issues are another important factor. Copyrights are regulated by international conventions, national regulations and agreements. Although there are many similarities between countries, there are also conditions that distinguish them.

Observer's acquisition model

Observer's acquisitions follow an established acquisition and value enhancement model. The first stage of the model includes financial controls, a review of the company's organization, quality assurance and client relations. The model makes it possible to quickly identify where measures are needed.

The development of services and production systems then follow, along with investments in IT, marketing and sales. Acquisitions often involve family-owned firms. After a transition period under key employees and specialists from Observer, the organization is gradually expanded and operations are turned over to the local management.

The model has proven very successful. Observer has been able to quickly provide the companies it acquires with experience and new, advanced services that help them achieve growth and profitability.

Media Intelligence provides decision-making support in a complex world

The market in which Observer's clients operate is changing at an ever faster pace in terms of business activities and the flow of information, says Hans Strand, Executive Vice President and Head of the Media Intelligence division. The market has become more complex and decision-making more difficult. Media Intelligence is active in Business and Communication Intelligence, i.e. market monitoring and information evaluation and analysis, and is the larger of Observer's two operating areas.

Regardless of the industry Observer's clients are in, they need answers to three fundamental questions.

The first question is what is happening in the market that is pertinent to the client's business. The flood of information has increased not only in terms of speed but also in its scope and number of channels. For many companies, it is not enough to know their home market, since their operations extend across borders. Apart from print media, there are other channels to consider, such as radio, TV, the Internet, advertising and various other open sources. This has created growing demand for fast, comprehensive and international market monitoring.

The second question is how these market factors impact the client's business conditions. The information gathered from market monitoring must therefore be evaluated for use in decision-making. In other words, it is not enough to know how much information affects your business, competition or industry. Clients also need help in interpreting the flow of information about specific events.

The third question is how the client is perceived by the market and how this image influences its target groups. The client needs help to quickly interpret and analyze the value and consequences of its publicity.

Operations

Media Intelligence's mission is to simplify its clients' existence by providing them with information that will help them to make decisions. Efficient market monitoring requires the capacity to broadly monitor the wide range of information sources and channels now available. Observer currently monitors around 13,000 newspapers and periodicals in both their printed form and online version. It also monitors slightly more than 400 radio and TV stations, 60 news agencies and 2,000 web sites. With the help of modern technology and various search tools, Observer can provide highly reliable market monitoring with short lead times. In addition, it is part of an international network of leading media monitoring firms in various markets, enabling Observer to monitor markets in which it does not have its own operations.

It is not enough, however, to deliver quantitative results based on specific search profiles. As the amount of available information grows, it is becoming just as important to be able to sift and evaluate it. Observer therefore has a major advantage over competitors whose services are based on Internet search engines. Observer always has one or more people in the process who evaluate and carefully select relevant material from

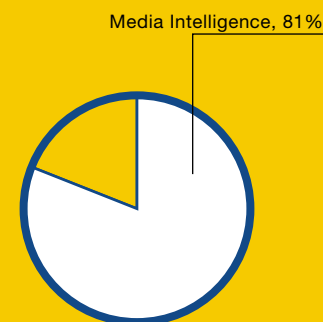
the vast amount of information that is collected.

Market monitoring results are further processed according to the client's specific needs. Drawing on its extensive experience in market monitoring and thorough understanding of its clients' needs, Media Intelligence provides highly-developed summaries and analyses.

An interesting development in recent years has been the broadening of Observer's client base. Demand for its services has grown within the same client organizations. Current clients work in PR, communication, Business Intelligence, IR, sales and executive functions.

An increasingly complex market has highlighted the importance of publicity as a part of external communication. As

MEDIA INTELLIGENCE'S SHARE OF REVENUE BY CORE BUSINESS



a result, client demand for measurement and evaluation of their communication activities is growing as well. The results of analyses and evaluations provide a sound basis for, and complement to, the communication strategies offered by PR firms, for example.

Observer's independent, impartial concepts make its services an effective foundation for clients' decisions regarding continued communication activities.

Continued strong prospects for Media Intelligence

With a strong position in all of its markets, Observer has good opportunities for further expansion. Its extensive experience and close client relationships help Observer to remain innovative and contribute to its development efforts.

During the year, Media Intelligence intensified its focus on various development projects. The purpose of these projects is to maintain high organic growth, add additional value to client services and facilitate continued international expansion.

Achievements in 2000

Demand for Media Intelligence's services

remained strong during the year, with significant efforts made to develop IT solutions, new services and new markets. The market for Observer's services is developing quickly, in conjunction with increased competition in Internet monitoring and media analysis.

Media Intelligence's operating revenue amounted to SEK 875.1 million. Demand for all value-added services rose, accounting for 28 percent (25) of revenue.

A large number of integration and development projects were implemented by the UK-based Romeike Media Intelligence, which was acquired in December 1999. These investments have not yet fully impacted earnings. The operating margin in the UK remains high as a result of better than expected growth. Efforts to further improve growth will require higher expenses, however, resulting in a slight future decline in the operating margin.

Future outlook

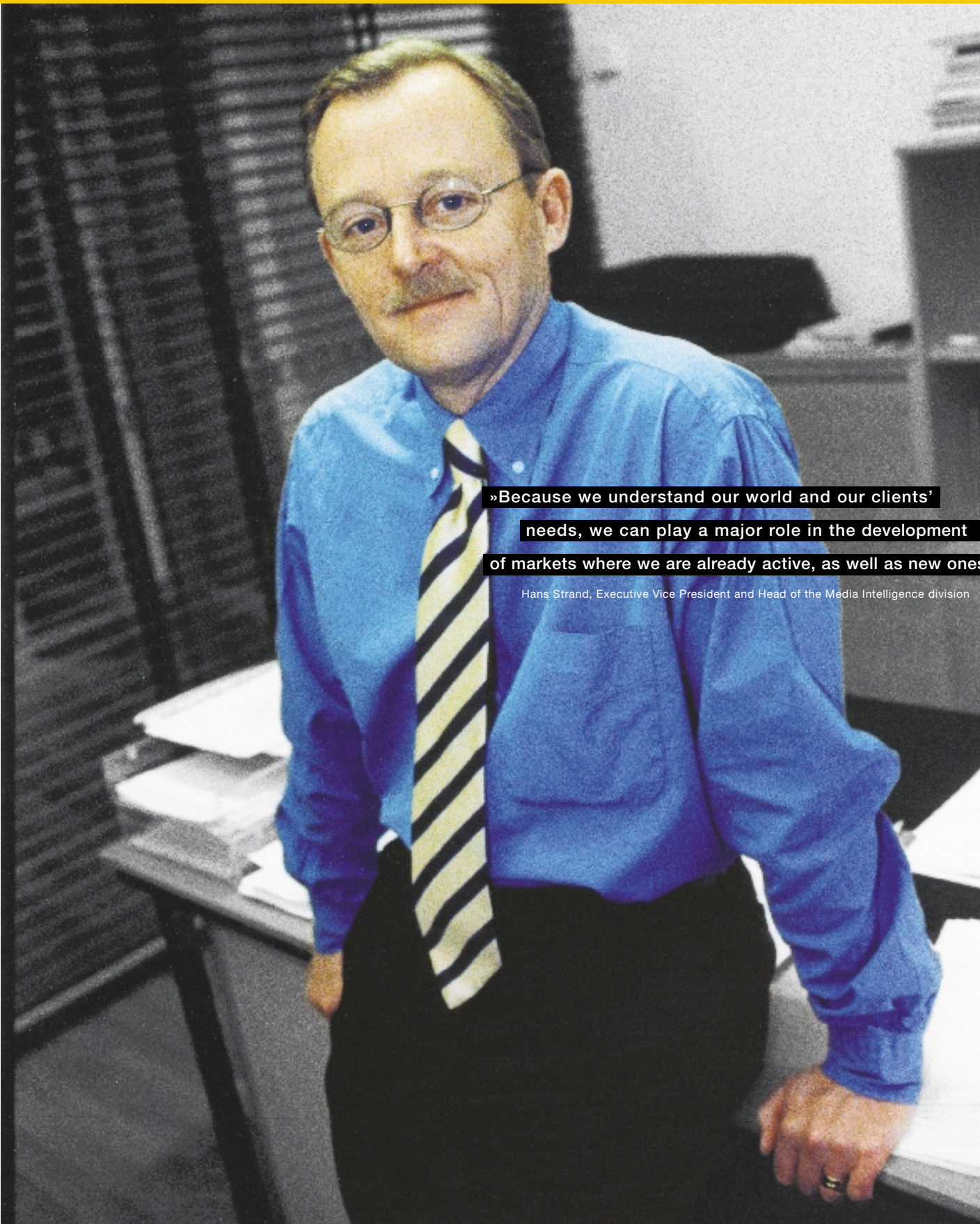
In established markets, an increasingly complex demand structure is driving steady growth in the number of clients.

Observer's services are commissioned by many different functions within the same companies, organizations and government agencies. Together with a strongly supply-driven market for its services, this enhances Observer's continued high organic growth. Growth potential is strong in countries such as Germany and the UK, where the market still has a relative low level of penetration.

Expansion will also be achieved through acquisitions, primarily in Europe, with larger countries in Southern and Eastern Europe a high priority.

Observer's Media Intelligence operations will continue to expand in both new and existing markets. The goal in established markets is to raise the share of value-added services to one third of client demand. This goal is highly achievable as Observer, an international leader, remains a forerunner in providing competitive high quality services. In addition, indications are that client demand for value-added services is rising.

Opportunities to grow through acquisitions are also good, since Observer's successful acquisition model is based on a uniform, scalable concept.



»Because we understand our world and our clients' needs, we can play a major role in the development of markets where we are already active, as well as new ones.«

Hans Strand, Executive Vice President and Head of the Media Intelligence division

Everyone wins through cooperation

Observer is constantly striving to develop its range of services – often in close cooperation with its clients. An example of such cooperation is outlined below, including how it led to a value-added result for both the client and Observer.

RONA HUNNISET, ACCOUNT MANAGER, BISS LANCASTER:

Mediadisk improved our efficiency and strengthened our competitiveness

Biss Lancaster Europe RSCG is one of the ten largest PR consultants in the UK. It is part of Euro RSCG Corporate Communications, Europe's third largest network of PR firms and one of the fastest growing networks in the industry.

"Our company is expansive with a strategic position at the heart of a dynamic PR network. To create quality and efficiency in our business, we must maintain coordinated, integrated media contacts that are quickly and easily accessible to all of our offices. In addition, our employees require information quickly on important media contacts when visiting clients or working outside the office."

"We have previously used the Mediadisk service in separate parts of the company for local media contacts and various types of projects. In our experience, Mediadisk is the most reliable and best adapted tool there is. That's why we turned to the Communications division to ask whether they could customize a solution with the help of Mediadisk that satisfied our need for coordinated, integrated media contacts."

"The Communications division quickly appointed two of its specialists to lead the project. They performed a thorough needs analysis after meeting and interviewing employees at our offices in the UK and the rest of Europe. They asked lots of questions and took the time to find out what we wanted and truly needed. After a month of comprehensive reviews and analyses, the project group was ready to present a proposal."

"The solution was a central Mediadisk application in which all of our media contacts were made available and could be accessed via our own systems. A test version was thoroughly trialed, after which we installed a pilot version accessible to all of our offices in the UK."

"So far the Mediadisk solution has surpassed our expectations in both speed and reliability. In the months ahead we will make sure that it is also accessible by our other European offices."

NICK ELLIOT, DIRECTOR, INTERNATIONAL BUSINESS DEVELOPMENT, COMMUNICATIONS DIVISION:

The solution became a new product

"After the first contact with Biss Lancaster, we concentrated on their need for a computer solution with speed and reliability. Mediadisk contains so much data that normal standardized solutions won't do."

"A small project group was created to conduct a thorough needs analysis. We had long conversations with the client's employees and asked many detailed questions. It is extremely important to get the basic facts straightened out before devising the right solution."

"We quickly realized that we couldn't create a new version of the Mediadisk program that met their needs. After having tried various alternatives, we eventually developed a unique solution. IT specialists from Sweden and the UK made themselves available to test and ensure the solution delivered what it promised."

"The end result benefited everyone. Our client, Biss Lancaster, got the solution they needed. And we were able to package the service as a new offering in the market – Mediadisk Anywhere."

About Mediadisk

Mediadisk is Europe's most extensive media database. It combines extensive information on thousands of media contacts with user-friendly software that makes it easy for Observer's clients to research, target and distribute to the right publications. Daily updates with more than 1,000 changes in European data ensure that Mediadisk is constantly up to date and reli-

able. Clients can subscribe to the type of information that best meets their needs, regardless of whether it involves a country, a select number of countries or all of Europe. Furthermore, clients can now subscribe to information in North America and Australia, due to Observer's strategic partnerships in these regions.

Communications reaches the right target groups

Expanding communication needs in PR and IR are a fundamental driving force for the Communications division. Operations have generated very high growth in recent years. An increase in information volumes and faster changes in the market are placing high demands on communication. Clients must communicate the right message to the right target group at the right time in order to reach their business objectives, says Steve George, the Head of the Communications division.

As part of its continued expansion and internationalization, Observer established a new division, Communications, in the autumn of 2000. Operations are currently conducted in the UK under the name Media Information and in Sweden, Finland and Denmark under the name BIT. During the spring of 2001, operations were established in Germany.

The division meets its clients' communication needs primarily by identifying and distributing information to select target groups, as well as by monitoring and evaluating the impact of that information.

Communications' clients consist mainly of businesses and organizations that have to proactively communicate with specific target groups. An important client category is publicly listed companies that must satisfy reporting requirements. Another important client category is PR firms.

The flood of news is increasing both in speed and scope as communication becomes more strategic for companies and public authorities. In recent years, the number of companies that have listed on the stock market has grown substantially, leading to an intense battle for attention in the media and the financial market. Establishing and maintaining

market relations by getting information to the right people is becoming increasingly important. The right recipients in this case are decision makers and opinion leaders who are strategically significant to the company.

The globalization trend has expanded the playing field outside home markets for Communications' clients. With employees in the media and financial market constantly on the move, companies must devote major resources to identifying their target groups and keeping that information up to date.

To reach select target groups, information must be distributed via the right channels. These have grown in number due to the increased use of Internet and mobile telephony. In addition, choosing distribution channels and handling releases are becoming increasingly time-consuming and costly. The clients that commission the division's services share a common need to distribute information quickly and reliably.

Operations

Communications' objective is to help companies and organizations to communicate with the right target groups via the right channels.

Its services include databases of players in the media and financial world. Clients are also provided communication solutions for distributing business information to strategically important target groups via various channels.

Media Information and BIT were integrated during the year, after which UK know-how on databases was exchanged for Nordic expertise in distribution solutions. In the process, Communications has become an international player.


Effective follow-up of a company or organizations' target groups require high capacity. Communications' database is updated daily by around 50 employees in the UK and the Nordic region. The size and experience of the team is critical to offer high-quality services and the latest information. In markets where it is not established, Communications can offer clients solutions directly or through co-operations with local firms.

The flexibility of services is high. Databases can be distributed either in

COMMUNICATIONS' SHARE OF REVENUE BY CORE BUSINESS

Communications, 19%





»Observer's aim in the Communications division is to offer a total concept to a growing number of clients at both a national and international level«

Steve George, Head of the Communications division

print or electronic form, in national or international editions. They can be installed in the client's system or accessed via a web interface and then continuously updated electronically. The division customizes its database solutions based on client needs. These solutions are developed and designed by employees with PR and IR competence and in close cooperation with clients. All in order to increase user-friendliness.

Communications division also works with focus groups to better understand client needs. By staying on the cutting edge of technological developments in the information area and introducing new services, the division is laying the foundation for strong demand. After a client learns about its target group, it is better able to implement communication activities. Communications understands the changing information needs of its clients and is able to offer a flexible choice of distribution channels. The division, which continuously develops effective and secure distribution solutions, currently offers more channels than any other company.

To ensure that the information it distributes has the greatest possible impact in the media and financial market, Communications continues to ally itself with

leading news agencies, financial real-time systems, stock web sites and news sites. Information can be published via the division on approximately 40 web sites and portals in the Nordic region. Via partners, English-language information reaches more than 2,000 web sites in the US. Communications offers its clients efficient distribution services, whether their information is distributed by fax, mail, e-mail or SMS.

So clients can stay informed of the results of press releases and other communication efforts, the division also offers monitoring and evaluation solutions, often together with the Media Intelligence division.

Highlights in 2000

The division's high growth continued during the year despite its focus on integrating Media Information and BIT. Growing communication needs in PR and IR and the introduction of new services provide the basis for strong market growth.

Communications' operating revenue amounted to SEK 210.8 million. Its operating margin was 32.1 percent.

Integration of the British and Nordic parts of the division has progressed well. In establishing Communications, Obser-

ver has created a platform for spreading its concept throughout Europe.

Future outlook

After a year focused on putting the new organization in place, Communications will concentrate on expansion and growth in new and existing markets in 2001. Communications was established in the German market during the spring. Being active in several markets, the division has become a more attractive partner for multinational companies.

Communications' continued expansion is expected to take place in Europe, primarily through organic growth in markets in which Observer is already active. In this way, it can achieve economies of scale by sharing facilities and developing joint services between companies. Growth will also be achieved through strategic acquisitions where synergies can be utilized.

By continuously monitoring trends and cooperating with clients to gain expertise, Communications has the opportunity to continue to drive the market.

The prospects are there, as Communications has a strong market position and its services provide clients significant added value in their businesses and communications.



Observer's range

Competition in the media market is growing rapidly. In an increasingly complex world, it becomes more difficult to gain an overview of reactions to specific events or a company's actions.

Observer's clients need to know how they are perceived by the market. How does their media image compare with that of the competition? What is happening in a client's industry and with regard to political decisions and investigations? Without outside assistance, this type of monitoring would require too many resources for Observer's clients.

Observer's clients are in different industries and have different reasons for utilizing its services. Market monitoring and analyses are a valuable instrument for understanding various media and for clients that want to know how they are portrayed in the market.

Business and Communication Intelligence

Observer is the world leader in Business and Communication Intelligence – market and media monitoring and targeted communication. Observer monitors and analyzes information on its clients' industries, ranging from competitive analyses to overall trends. These analyses give clients the knowledge they need to maintain and strengthen their competitiveness. The information is presented in accordance with the client's needs, whether in the form of original articles or customized summaries and analyses. Distribution is also tailored to the client's needs, either in electronic form or by fax or mail.

For each client, Observer creates a unique search profile in terms of content and scope. In this respect, it differs from many other companies. For example, there are a number of automated search engines in the market, primarily on the Internet. With these automated services, clients receive a large amount of information that hasn't been evaluated by professionals. Observer, on the other hand, provides selective, value-added information.

Observer monitors various media as well as political publications and public debate. On its own, it covers around 13,000 newspapers and periodicals, 400 radio and TV stations, 60 news agencies

and 2,000 web sites, in addition to political material such as government reports, rulings and proposals, and advertisements, campaigns and material from competitors. Observer's market monitoring is carried out by highly competent employees and places high demands on professional evaluation.

Tell Me More (TMM) is a production system for electronic monitoring developed by Observer. The system scans and digitalizes newspaper articles, after which the texts are processed, filtered and analyzed based on given search profiles. The articles that TMM selects are reviewed by an Observer employee to ensure the quality of their content. In 2000, TMM added a module for web monitoring. This year, TMM will be implemented in several countries, with preparations under way in all countries where Observer is currently active.

Value-added services

Based on each client's unique needs, Observer can summarize or independently analyze market monitoring results. The speed and precision of market monitoring are becoming increasingly important to decision-making and the evaluation of PR or other communication campaigns. These services primarily take the form of editorial and analytical services.

In *editorial services*, the media information collected as part of a specific client project is compiled in a summary. The purpose of these services is to provide the client a synopsis of its publicity. The advantage is that it gives them a better overview of media information that they can easily utilize.

Observer codes these summaries, so the material can be analyzed as needed. The summaries are distributed according to the client's wishes. Considerable added value is created for the client through the speed and high quality of electronic deliveries directly to the client's intranet or databases. Observer develops

powerful applications that make it easier for clients to analyze and internally distribute its summaries.

As with market monitoring services, high quality is ensured by skilled employees who professionally evaluate summarized information.

Analytical services provide clients an independent analysis of how the media covers certain issues. This might include how legislation in a particular area is going to change, how a company or its competitors are portrayed by the media, or how well a PR campaign has succeeded among its target groups.

The analysis is independent in that the analysts are not involved as advisors of the PR activity being evaluated. The quality of the services is based on strong structural capital, which is constantly replenished with new data, methods and processes. Observer also places great emphasis on attracting and retaining qualified employees.

Observer offers a number of analytical tools for evaluating PR or communication efforts. Clients also use these ana-

lyses as a basis for designing media and communication campaigns.

Competitive analyses show how the market sees the client. Comparisons with the competition are used for an industry overview or to show how the client stands relative to its closest competitor in terms of publicity.

International analyses provide information on the client's image in various countries. Again, clients can request a comparison of the publicity they receive with that of their competitors, in this case on the international level.

Issue analyses show how specific issues are covered by the media. Who are the most important players and what are they saying? What are the most important arguments being debated right now?

Event analyses provide a quick analysis of what the media is saying about a particular event in the client's market, such as a political decision, a share offering or so on.

Target group analyses show whether or not a client has reached its most important target groups via the media. These





groups include customers, decision-makers, trade organizations, etc.

Qualified services for target group communication

Precision and speed are the watchwords for information and communication businesses today. To be successful in an increasingly supply-driven information society, you must get your message to the right people at the right time. Communications is Observer's division for targeted distribution of information. Through BIT, Börslistans Informations-tjänst, the division is the leading distributor of financial information in Sweden, Denmark and Finland. In the UK, Media Intelligence is the market leader in target group identification. In the spring of 2001, operations were also established in Germany.

The distribution of publicity and financial information in the form of press releases is essential for effective, value-enhancing communication with strategic target groups. These groups primarily consist of the media, financial analysts and shareholders. The distribution of financial information is a growing service, as more companies join the stock market and the number of shareholders rises.

In addition to mail and fax, the Communications division utilizes a number of electronic services to distribute information. Electronic channels are increasing significantly in scope.

The technology to send these messages is constantly being enhanced to increase the choices available to clients and customize distribution to their specific needs. With a number of Communications' services, information can be uploaded to users' home pages or portals.

Using new technology, financial information can be distributed to mobile telephones. As a complement to faxing, the information is sent to the recipient by e-mail. The Communications division also sends information via satellite to

real-time systems such as TT and Reuters. Apart from the above-mentioned channels, clients can also have their releases distributed by mail. The division assumes responsibility for the entire distribution process.

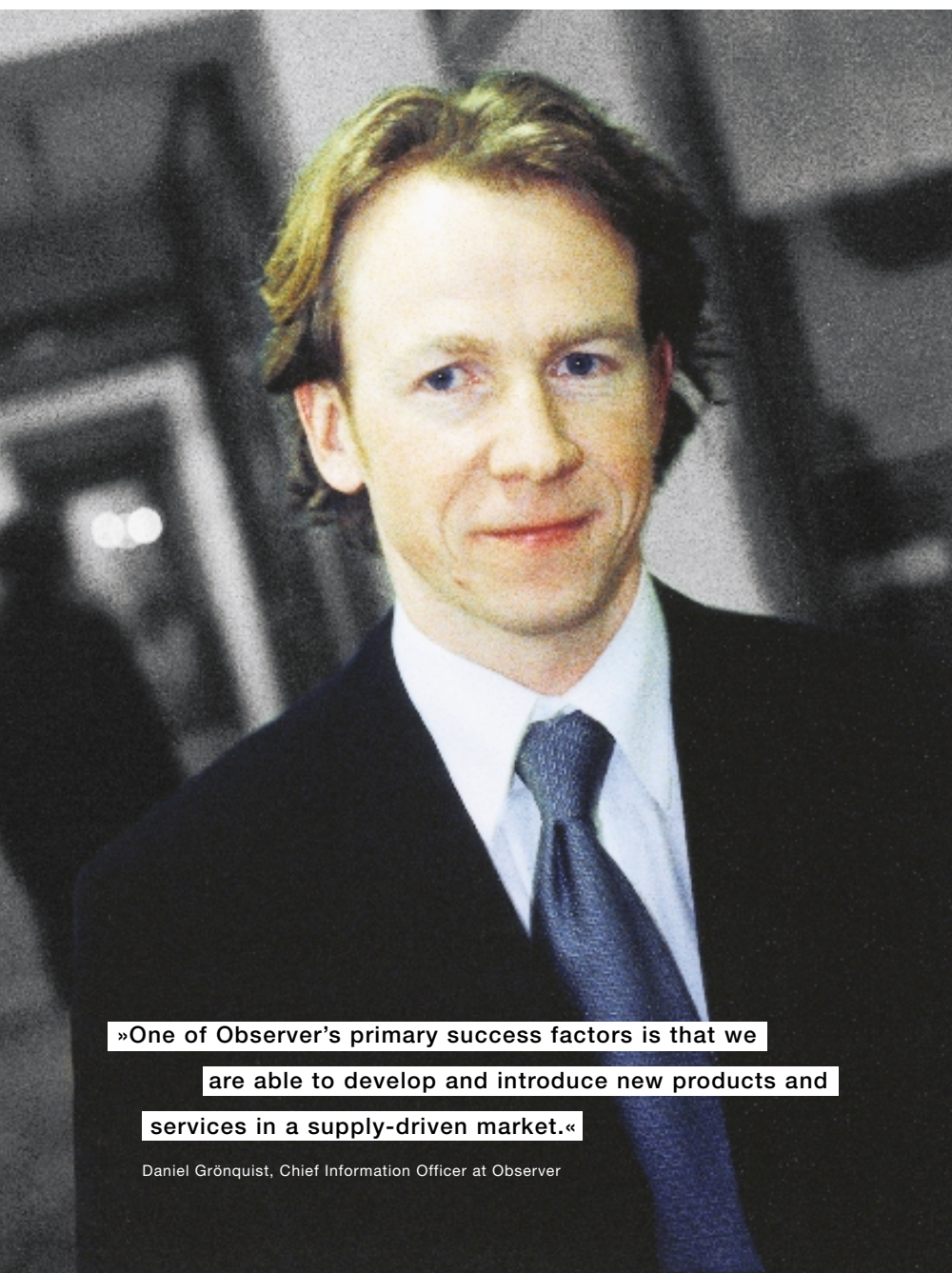
Target group identification

Through Mediadisk, the division offers target group-categorized databases containing information on select groups, primarily financial analysts and journalists. The databases are updated daily. With the help of this information, clients can communicate the right message and information to the right target group.



Business Design Center – a focus on service development

Business Design Center's role is to initiate, coordinate and communicate business development projects for the entire Observer group, says Daniel Grönquist, Chief Information Officer at Observer.



»One of Observer's primary success factors is that we
are able to develop and introduce new products and
services in a supply-driven market.«

Daniel Grönquist, Chief Information Officer at Observer

In Observer's operations, it is extremely important to work with business design and the development of new business models and production processes. It is a great challenge to continuously develop and offer new and improved services to clients in the supply-driven market Observer is active in. Increased use of new information technology is natural considering the rapid developments in this area, which are increasing the integration and interaction between Observer and its clients.

An important responsibility is to combine all of Observer's services in a uniform concept for its worldwide operations. This increases value, by assuring clients of what they will receive regardless of the country they are in. The scalability of products and services is naturally a significant, driving factor in the development of the concept.

The primary purpose of the Business Design Center is to ensure Observer's long-term competitiveness and capitalize on synergies between parallel development projects. Business Design Center also ensures that competencies and resources are shared and allocated between projects and that previous experience from development projects is utilized.

Service development

Observer puts great effort into the development of its existing services, while at the same time taking new approaches to further broadening its services. High



»Achieving scalability in our service range is a strong reason for the development of the Observer concept.«

demands are placed on projects that are incorporated into operations. A Business Design Center project must meet a number of criteria. For example, it must involve at least two companies in the Observer group and have significant international potential. The project must contribute value to client services and increase Observer's integration, i.e. improve the shared concept. Business Design Center is on the cutting edge of developments and its work is therefore firmly rooted in the latest research and technology.

Business Design Center's aim is to develop a complete service offering. Its operations are comparable to that of a research and development organization – without new products and services the business will not develop and clients will look elsewhere for partners. The projects are managed by Business Design Center, sometimes together with clients. Implementation and administration are handled by the group's subsidiaries.

Business Design Center's projects 2000/2001

New production system for editorial services and radio and TV monitoring will complement and strengthen the service offering for Observer's global clients. A shared production platform is being created for the countries clients want to monitor. From this platform, Observer can draft summaries and analyses. The new pro-

duction system, which will be launched during the second quarter of 2001, will allow Observer to offer multinational editorial services in a single language.

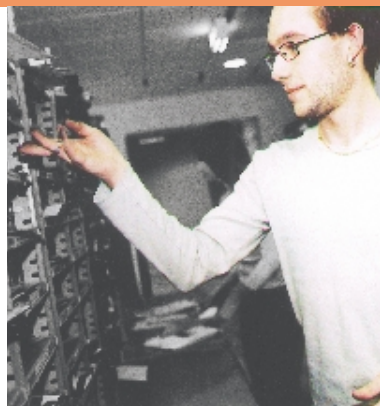
Global Offering will be a separate sales and coordination unit designed to offer clients turnkey solutions for coordinated global media monitoring and information evaluation. The demand for such a company is growing as Observer expands internationally and adds new global clients. Global Offering will be launched in the spring of 2001.

Portal services will make Observer's electronic services available to clients. Basically, this is a home page that the client subscribes to on Observer's portal. Information from Observer can be channeled however the client wants – a service that saves time and work for the client. The initial delivery of Observer's portal services is scheduled for the first quarter of 2001.

Communications Management will develop Observer's capabilities and concepts in analysis and consulting, while at the same time helping the group to define its services. For example, Observer is striving to raise its media and publicity analyses to the level of communication analyses and consulting. Utilizing its analysis competence, Observer has been able to develop processes to work with clients to enhance their communication and market monitoring. These collaborations will be supported through extensive training and systems for documen-

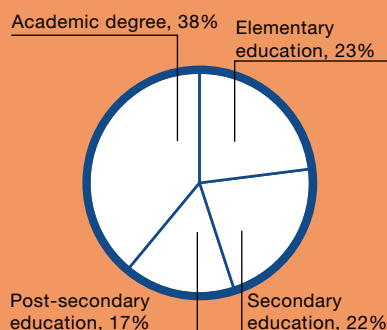


tation and skills development. All analysts in the Observer group will undergo this training in 2001. Communications Management prioritizes solutions in which Observer's analytical approach to communication can help clients to establish and follow up their objectives as well as evaluate the effects of their communication strategies. Based on the results of media and market analyses, Observer can advise clients on the most effective activities.

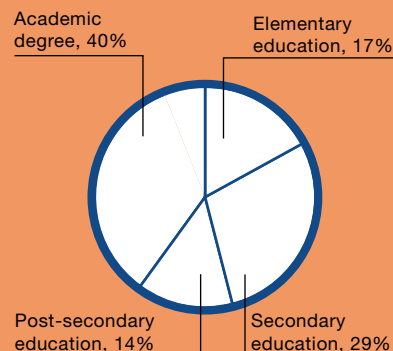


An attractive workplace for highly competent employees

EDUCATION LEVEL, MEDIA INTELLIGENCE



EDUCATION LEVEL, COMMUNICATIONS



Observer is a world-leading knowledge-based company in Business and Communication Intelligence. It is active in a dynamic international market and a fast-changing world.

The key to maintaining and strengthening a leading position in the market is the commitment and competence of employees. The group's working methods, systems and services are distinguished by diversity and creativity. All of which is a direct reflection of Observer's ability to utilize and develop its employees' knowledge, experience and enthusiasm.

Observer's success as a company is due in part to the ability of its employees to solve clients' problems. Interpreting market events from a client's perspective, requires knowledge, analytical ability, creativity and imagination, as well as the pedagogic ability to communicate the results to the client.

Employee profile

The overall education level of Observer's employees is high. No less than 38 per cent have an academic degree.

The staff has a wide range of competencies, represented by economists, political

scientists, sociologists, behavioral scientists, statisticians, humanists and journalists.

In addition to account managers, marketers and IT specialists who work on client projects, Observer has a staff responsible for collecting information made up of media researchers and readers, who are well-rounded educationally and have a thorough knowledge of business and social issues.

Stock option program to help secure Observer's future

Recruiting and retaining skilled, motivated employees is a high priority. For Observer to remain more successful than other companies in the industry, it is vital that it continues to internationalize and build its competencies. As an added incentive, Observer is therefore introducing a stock option program at the beginning of 2001 to complement the salary and benefits it already offers. The program extends over the years 2001–2003 and covers all employees.



The option program is a clear signal that it can be profitable to be part of the group's future and development. Those who remain employees can exercise the options after two years and no later than four years. Each option gives its holder the right to buy one Observer share at the strike price set at the time of allotment.

The exercising of the stock option program will be accounted for in the annual or quarterly reports.

NUMBER OF EMPLOYEES

Average 2000	Total	Men	Women
Sweden	416	188	228
Norway	174	61	113
Denmark	116	53	63
Finland	121	35	86
Baltic states	28	13	15
Germany	256	101	155
UK	577	188	389
Total	1 688	639	1 049

Observer has 1,800 employees in eleven countries. What is it like to work for this service-intensive, rapidly growing international leader? The employees we profile below point to the opportunities and challenges that are available, regardless of your background or how long you have worked for the company.



»There is a high ceiling in this company.

Jobs and responsibilities are delegated.

Ideas and initiatives are welcome.«

Samantha Manning, Communications division

Sam(antha) Manning, 25, works for Media Information in the UK, part of Observers' Communications division, where she is Sales, Marketing and Customer Care Manager.

In 2001, she will be based at BIT in Stockholm on a project to develop the Mediadisk service for the Nordic countries.

Sam joined what is now Observer four years ago after graduating from university with a BA and MA in English literature and philosophy. She took a temporary position as a typist at the software company that technically developed Mediadisk and was soon hired full-time.

Sam is positive about the opportunities that have opened up since Observer took over Media Information. The acquisition has

lifted competence and product quality, she feels.

Broader horizons, greater opportunities to expand and present a new, expanded range of products and services in the market and, not least, more international perspective and connections.

"There is a high ceiling in this company," she says. "Jobs and responsibilities are delegated. Ideas and initiatives are welcome. Lots of development opportunities are opening up to work at the group's various subsidiaries. My current project involves Copenhagen and Helsinki in addition to Stockholm."

What about her future career? Sam is working hard, hoping for some type of executive position a few years down the road.



Employees



»I enjoy being able to provide clients information that's important in their decision-making. It doesn't hurt, either, that I am getting a broad education in the process and learning about a whole range of social issues.«

Peter Skyhag, Media Intelligence division

Peter Skyhag, 30, is an editor for Observer's Swedish news service. His chief responsibilities are feature writing and news summaries.

Sometimes he will help out as a back-up on the lightning-quick overnight service, which warns clients of important radio or TV news on the morning of publication.

Peter was a liberal arts major in college, studying political science. He more or less stumbled into his job at Observer after a fellow student mentioned a summer job at the company. Peter applied, got the job and enjoyed it. When the opportunity for a permanent position came up, he said yes. He began with radio/TV monitoring before moving about a year ago to the news service desk.

What attracted him was being able to

work actively with clients within a defined industry and continuously follow up with a number of them to resolve their problems. His main area is banking, finance and insurance, although obviously there is the opportunity to change areas if needed.

"The big advantage is being able to follow what's going on," he says. "Sitting in the middle of all this news and helping clients collect information, comments and analyses, editorials and market reports is very interesting. I enjoy being able to provide clients information that's important in their decision-making. It doesn't hurt, either, that I am getting a broad education in the process and learning about a whole range of social issues." Advancement opportunities are very good, Peter feels.

Emi Bollweber, 41, is something of a veteran in the company. She has worked at Observer Argus Media in Germany for fifteen years and is now responsible for PR, marketing and internal communication.

Emi feels that working at Observer is a constant, stimulating challenge. Not only for her, but also her colleagues and the entire company. The market is always changing. You have to find new approaches for the market as a whole as well as the industries our clients work in. The international aspect and many cultures within the group contribute to an educational and exciting job.

"It takes time to learn to work and think in teams, even within a large international group," says Emi. "Here the process is facilitated by the positive atmosphere throughout the group as well as by Observer's

resources for technology, expansion and innovation. I feel secure being part of a company of Observer's size and position."

It is becoming more difficult for businesses to navigate through a steadily increasing range of media. In addition, the power of newspapers and radio and TV is tremendous, as is the impact of the images they project. With its knowledge and competence, Observer can help clients get oriented in a confusing world, take the right actions and make the appropriate strategic decisions.

"I find it to be a very educational challenge," adds Emi.

»The international aspect and many cultures within the group contribute to an educational and exciting job.«

Emi Bollweber, Media Intelligence division

PHOTO: MICHAEL LATZ



Observer strengthens its competitiveness

Observer is a fast-growing international company that operates in an environment where demands from clients are increasing and becoming more complex. At the same time there is growing competition in market monitoring, analysis and other forms of communication support.

Observer places considerable emphasis on benchmarking between its companies. The aim is to continuously develop the business and raise the quality and efficiency of the services it provides to clients.

Centrally, the group collects data in the form of key ratios on business-critical processes. This data, which is provided by each company in its monthly reports, serves as the basis for project groups appointed for benchmarking purposes.

There are four project groups dealing with Observer's production flows: news service, analysis, radio & TV, and press clippings. The groups are staffed by employees from different operations and use the statistics that are collected to analyze differences between the companies and propose actions. The projects have strict time frames and lead to action plans.

Another aspect of Observer's quality work is its continuous effort to integrate newly acquired companies and offer the same products and services in every country. This has resulted, for example, in the development of a common IT platform and a service package for internationally active clients.

Competitiveness is gained through dedicated, motivated employees

Observer feels that no service company can grow without the participation and

energy of its employees. It therefore uses a measurement method for human and market capital to periodically survey the group. Among the factors that are looked at are the success of the management and the sense of participation among employees. Others with a direct bearing on participation and

innovation include competence, responsibility and organizational efficiency. Just as important are the surveys and in-depth interviews with clients about their opinions of Observer. Questions cover Observer's range of services, the professionalism of its employees and its image as a whole.

»There is clearly an increase in demand for quality services at competitive prices and one-stop shopping.«

Anders Bjurstam, Senior Vice President, Business Administration



Important market factors for Observer's development

Observer operates in an environment characterized by globalization, expanding information flows and rapid technological development. The group's success is based on its ability to satisfy clients' various demands and needs, which vary in both complexity and knowledge content. The market is also distinguished by growing competition in increasingly interrelated segments. To remain a market leader, Observer must maintain a strong growth rate and good profitability.

What opportunities and obstacles, risks and threats does Observer face in the future? One positive factor is that the market for media and market monitoring and targeted communication is highly supply-driven. The innovations and service developments Observer is introducing will be quickly adopted. This is usually because services are developed based on contacts with clients and their needs. A close relationship with clients is critical. Observer's tens of thousands of clients have inspired new services, ideas and business opportunities. At the same time they serve as good examples and references for how Observer's services actually work.

Analyses of the markets in which Observer is not yet established show major expansion opportunities. Examples in Europe include France, Italy, Spain and, in the longer term, Eastern Europe. Naturally the dynamic US market is attractive, as are South America and Australia. Asia is a slumbering giant. Observer has the financial and technological resources it needs to expand. One uncer-

tainty is whether there are suitable companies to acquire, as most of the potential targets are family-owned. Another possible obstacle is access to the management personnel, key employees and specialists who can expand acquired businesses in line with the Observer concept.

Market development

There are at least two dimensions to the market's development. First, clients and their needs differ. And secondly, competition is growing. The dividing line between various market segments is being erased. Today's PR firms, news agencies and Internet-based firms all offer at least some of the same services as Observer.

Observer must be able to satisfy the more basic needs of national clients as well as the complex demands of regional and global clients. Client needs and increasing demands are resulting in constant pressure to develop more advanced technical solutions. It is strategically important for Observer to monitor, develop and apply new technology to see how it can be used in its business and made

operational for clients. Its solutions are based on standardized systems, which reduces the risk of technical problems and complications in their application.

Client demands are becoming more complex, with competitive pressures increasing every time a niche player appears on the scene. Although the competitive situation has changed, there is still no company that can match Observer's entire range of services in market and media monitoring and targeted communication. The group offers a diverse range of advanced turnkey solutions and an international base. In addition, it has the ability to customize services for clients and provide clients with better intelligence on the market's development.

Observer has built a foundation for its competitiveness and role as prime mover – industry leader and market innovator – by creating a group-wide organization to develop services and a common system for benchmarking between subsidiaries.

Acquisitions

Observer's expansion into different countries is achieved primarily through acquisitions. Before it establishes operations in a new country, the group conducts a thorough analysis of the society, market, competition and clients.

Observer's model is based on local conditions. The organization in the new country is provided additional expertise from Observer to improve its competitiveness and ability to play an active role

in the market. The acquisition and value enhancement model that has been used to date has proven highly successful.

Employees and competencies

Observer's markets are different geographically, economically and culturally. Observer is a multinational, multicultural company with a successful business. Cultural and business differences have not caused any major obstacles. Coordination is an ongoing priority, aided by the new Business Coordination Center, which continuously tracks differences in business and market cultures between companies.

Observer is a knowledge-based company dependent on the competencies of its employees. A high percentage have

academic degrees. What is striking is the number of employees with broad-based educations and training. Although demand for specialists has grown as the range of services becomes more complex, there has also been a strong increase in demand for these types of individuals.

The key aspects of the human resource development program include training and development opportunities, a recently introduced stock option program and a program that allows employees to work for Observer in another country for a short period of time.

Economic sensitivity

Historically, Observer's operations have remained relatively stable during normal

economic fluctuations, although of course a long-term overall recession would also affect the group.

From a short-term perspective, changes in news flows are the essential factor for Observer. Major sporting events, international political developments or other intensely monitored news events can temporarily impact the media attention on news relevant to Observer's clients.

Changes in the market, whether positive or negative, benefit Observer. Companies, organizations and institutions must follow developments and find out what is really happening.





Board of Directors



ÖRJAN HÅKANSON

Chairman. Stockholm. Born 1942.

Chairman since 1995. Chairman of Bibliotekstjänst AB. Member of the Board of Persea AB.

Holding in Observer AB: 0 Class A shares, 80,220 Class B shares.



ULF IVARSSON

Gothenburg. Born 1961.

Member of the Board since 1998. Chairman of Citat AB. Member of the Boards of Cygate AB, Dimension AB and Scribona AB. Partner in Nordic Capital.

Holding in Observer AB: 10,000 Class A shares, 0 Class B shares.



ROBERT LUNDBERG

President and Chief Executive Officer.

Täby. Born 1948. Member of the Board since 1995. Member of the Boards of On-line CC AB, MMXI Europe BV, Stockholms Specialresor AB, Citat AB and Dagens Industri Nya Medier AB.

Holding in Observer AB: 0 Class A shares, 25,521 Class B shares. Stock options corresponding to 35,000 Class B shares. Holds 29,030 warrants that entitle him to subscribe for 236,595 Class B shares.



ROLF EKEDAHL

Jönköping. Born 1949.

Member of the Board since 1998. Member of the Boards of Gunnebo AB, Håells Modulsystem AB, ROL Inredningar AB and INAC Instrumenteringar AB.

Holding in Observer AB: 0 Class A shares, 4,800 Class B shares.



SVEN-ÅKE LEWIN

Kullavik. Born 1952.

Member of the Board since 2000. Head of the e-Knowledge investment area at Bure Equity AB. Chairman of Mercuri International Group AB, Informator Training Group International AB and Vendator Institutet AB. Member of the Board of Vittra AB.

Holding in Observer AB: 0 Class A shares, 0 Class B shares.

Shareholdings as of March 2001. Holdings of shares, warrants and convertibles include family members and closely held companies.



HANS TSON SÖDERSTRÖM

Stockholm. Born 1945.

Member of the Board since 1998. President of SNS. Adjunct Professor at the Stockholm School of Economics. Member of the Board of Investment AB Öresund.

Holding in Observer AB: 2,000 Class A shares, 0 Class B shares.



HÅKAN BRYNGELSON

Lidingö. Born 1948.

Member of the Board since 1998. President of Vasakronan AB and Civitas Holding AB. Chairman of Fastighets AB Celtica and Alliansen. Member of the Boards of Vasakronan AB, Civitas Holding AB, Vasallen AB, Almega (the employers' organization for industrial and service companies) and Aldano AB.

Holding in Observer AB: 0 Class A shares, 2,017 Class B shares.

EMPLOYEE REPRESENTATIVES

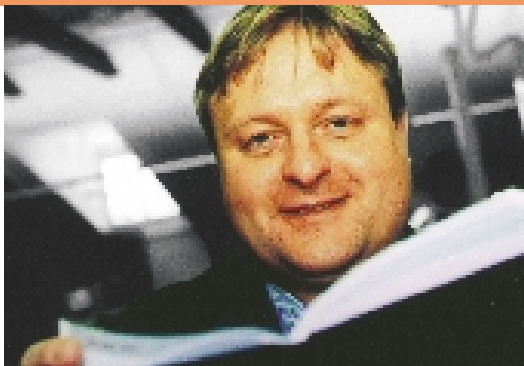


PER RYHØ

Västerhaninge. Born 1938.

Member of the Board since 1998. Employed by Observer Sverige AB. Appointed by the Salaried Employees Union.

Holding in Observer AB: 0 Class A shares, Stock options corresponding to 100 Class B shares.

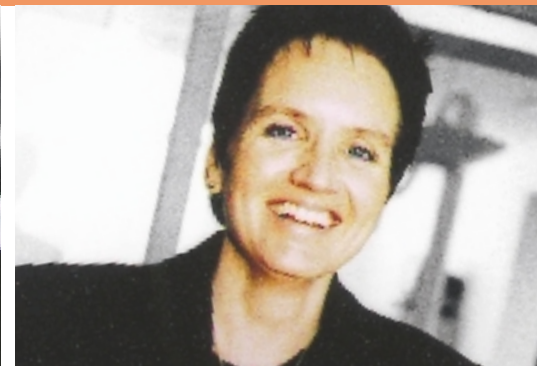


BO WAGENIUS

Deputy. Östersund. Born 1960.

Member of the Board since 2000. Employed by Observer Sverige AB. Appointed by the Salaried Employees Union.

Holding in Observer AB: 0 Class A shares, Convertible debentures with a nominal value of SEK 288,000 corresponding to 5,044 Class B shares. Stock options corresponding to 100 Class B shares.



LENA ERICSON

Täby. Born 1957.

Deputy board member since 1999, member of the Board since 2000.

Deputy since 1999. Employed by Observer Sverige AB. Appointed by the Swedish Union of Commercial Employees.

Holding in Observer AB: 0 Class A shares Stock options corresponding to 500 Class B shares.

Shareholdings as of March 2001. Holdings of shares, warrants and convertibles include family members and closely held companies.

Auditors

ERNST & YOUNG AB

Lars Träff. Born 1954.

Certified Public Accountant. Auditor for Observer since 1998.



Robert Lundberg

Steve George

Daniel Grönquist

Hans Strand

Jan-Erik Jansson

Per Blixt

Executive Management

ROBERT LUNDBERG

President and Chief Executive Officer. Born 1948.

Active in Observer since 1992, including as acting President in 1992–1994.

Holding in Observer AB: 0 Class A shares, 25,521 Class B shares. Holds 29,030 warrants that entitle him to subscribe for 236,595 Class B shares. Stock options corresponding to 35,000 Class B shares.

STEVE GEORGE

Executive Vice President and Head of the Communications division. Born 1956. Employed by Media Information (which was acquired by Observer in 1999) since 1984.

Holding in Observer AB: 0 Class A shares, 20,000 Class B shares, stock options corresponding to 15,000 Class B shares.

DANIEL GRÖNQVIST

Chief Information Officer. Born 1968. Employed since 1995.

Holding in Observer AB: 0 Class A shares, 0 Convertible debentures with a nominal value of SEK 720,000 corresponding to 26,966 Class B shares, stock options corresponding to 7,000 Class B shares.

HANS STRAND

Executive Vice President, Chief Operating Officer and Head of the Media Intelligence division. Born 1952. Employed since 1994.

Holding in Observer AB: 3,949 Class A shares and 6,347 Class B shares. Holds convertible debentures with a nominal value of SEK 1,080,000 corresponding to 40,449 Class B shares, stock options corresponding to 25,000 Class B shares.

JAN-ERIK JANSSON

Chief Financial Officer. Born 1949. Employed since 1997.

Holding in Observer AB: 0 Class A shares, 15,009 Class B shares. Holds convertible debentures with a nominal value of SEK 1,080,000, corresponding to 40,449 Class B shares, stock options corresponding to 5,000 Class B shares.

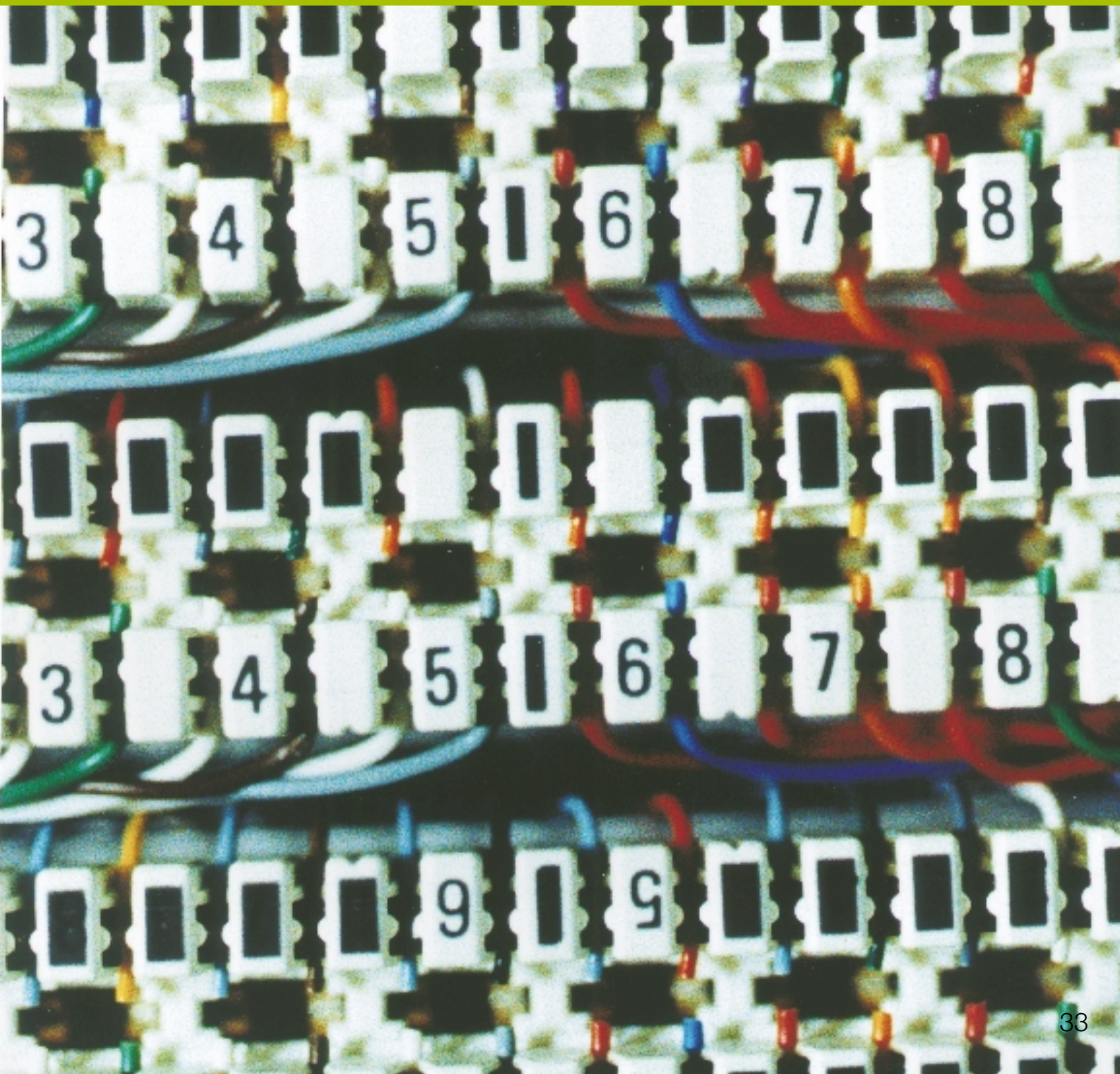
PER BLIXT

Senior Vice President, Corporate Communications. Born 1959. Employed since 1999.

Holding in Observer AB: 0 Class A shares, Holds convertible debentures with a nominal value of SEK 864,000 corresponding to 15,131 Class B shares, stock options corresponding to 5,000 Class B shares.

Shareholdings as of March 2001. Holdings of shares, warrants and convertibles include family members and closely held companies.

Financial review 2000



The share and ownership structure

Share capital as of February 28, 2001

The share capital in Observer AB amounts to SEK 83,265,663, divided among 28,510,747 Class A shares and 26,999,695 Class B shares¹, each with a par value of SEK 1.50. Class A shares have five votes each and Class B shares one vote each. All shares carry an equal right to the company's earnings and assets.

Changes in share capital

Since 1993 the share capital in Observer AB has changed as follows:

Year	Transaction	Increase in share capital, SEK	No. of new shares	Share capital, SEK	Total no. of shares
1995	New issue	24,713,520	2,471,352	24,763,520	2,476,352
1995	New issue	21,600,000	2,160,000	46,363,520	4,636,352
1997	Bonus issue	4,995,910	499,591	51,359,430	5,135,943
1997	Split	—	29,103,677	51,359,430	34,239,620
1997	Bonus issue	12	8	51,359,442	34,239,628
1999	New issue	681,599	454,399	52,041,041	34,694,027
2000	New issue	31,224,622	20,816,415	83,265,663	55,510,442

In 2000 the average number of shares after full dilution, i.e. after taking into account the future exercise of warrants and convertible debentures, amounts to 53,747,303.

Ownership structure

Both classes of shares are listed on the O-list of the OM Stockholm Exchange. In February 2001 Observer had 9,518 shareholders. Institutional investors such as pension funds and insurance companies own 62 percent of the shares. Foreign investors own 29 percent of the shares.

Largest shareholders as of February 28, 2001

Shareholder	No. of Class A shares	No. of Class B shares	Total no. of shares	Percentage of shares	Percentage of votes
Bure Equity AB ²	21,079,108	38,214	21,117,322	38	62
Chase Manhattan Bank	225,400	5,238,222	5,463,622	10	4
Fidelity	0	2,740,473	2,740,473	5	2
Skandia	586,173	1,936,080	2,522,253	5	3
SEB Funds	74,880	1,203,640	1,278,520	2	1
Handelsbanken	112,000	925,480	1,037,480	2	1
State Street Bank & Trust Co	22,984	1,002,931	1,025,915	2	1
Second National Pension Insurance Fund	662,186	341,875	1,004,061	2	2
Robur	22,500	942,000	964,500	2	1
SEB Tryggliv	838,500	0	838,500	2	2
Others	4,887,016	12,630,780	17,517,796	30	21
Total	28,510,747	26,999,695	55,510,442	100	100

Shareholding	No. of shares	Percentage of shares	No. of shareholders	Percentage of shareholders
1–1,000	1,968,064	3.6	8,186	86.0
1,001–10,000	2,978,225	5.4	1,174	12.3
10,001–50,000	1,835,462	3.3	83	0.9
50,001–100,000	1,201,740	2.2	17	0.2
100,001–	47,526,951	85.5	58	0.6
Total	55,510,442	100.0	9,518	100.0

¹ The Board of Observer AB proposes an Extraordinary General Meeting on 25 April 2001 to decide whether the articles of incorporation will be changed to consolidate the company's A and B class shares in a single share class.

² In the beginning of March 2001, Bure Equity sold 2,967,989 Observer B class shares as part of the future distribution of its total shareholding. After the sale, Bure's shareholding comprises 33 percent of capital and 58 percent of voting rights. Bure Equity AB's Board has proposed that for every six Bure shares, it will distribute one Observer share to its shareholders, corresponding in total to all shares held by Bure on the record date.

Convertible debenture loans

In 1997, Observer AB issued a convertible debenture loan with a nominal value of SEK 21.0 million to key employees. The loan matures on July 30, 2002 and carries a one-year variable interest rate of STIBOR minus 0.7 percentage points as of May 30. The subordinated debentures may be converted to a total of 786,067 Class B shares. Conversions are permitted during the period June 30, 2001–June 30, 2002 at a price of SEK 26.70 per share. In 1999 Observer AB issued another convertible debenture loan, with a nominal value of SEK 27.1 million, to key employees. The loan matures on July 30, 2004 and carries a one-year variable interest rate of STIBOR minus 0.7 percentage points as of May 30. The subordinated debentures may be converted to a total of 474,367 Class B shares. Conversions are permitted during the period June 30, 2003–June 30, 2004 at a price of SEK 57.10 per share. The convertible debenture loans have a maximum dilution of 2.3 percent.

Employee stock option program

In February 2001, an Extraordinary General Meeting voted to introduce a stock option program for permanent employees of the group. Allotments will be made during the years 2001, 2002 and 2003, with a maximum of 832,000 options per year. Each option can be exercised to subscribe for one Class B share. Allocation decisions will be made by the Board of Directors' Compensation Committee, of which the President is not a member. The options are divided into four employee categories with a maximum annual allotment of 100, 2,000, 8,000 and 40,000 options. The options will be allocated free of charge and have a strike price equal to the market value of the Observer share at the time of allotment. The options are tied to employment and become void if the holder leaves the company. The options expire on the fourth anniversary of

their date of allotment and can be exercised to acquire shares after two years. The social security contributions on the appreciation in the options' value will be taken up in the consolidated income statement as incurred. The options have a maximum dilution of 1.5 percent per year in 2001, 2002 and 2003.

Warrants

In 1995 Observer AB issued the President subordinated debentures with a nominal value of SEK 65,000 tied to 50,000 warrants. The warrants, which were purchased at a price of SEK 12.40, may be used to subscribe for 407,500 Class B shares at a price of SEK 10.72 per share during the period July 1, 1998 - June 30, 2002. The debenture loan was repaid in 1996. The warrants represent a maximum dilution of 0.7 percent.

Conversion provision

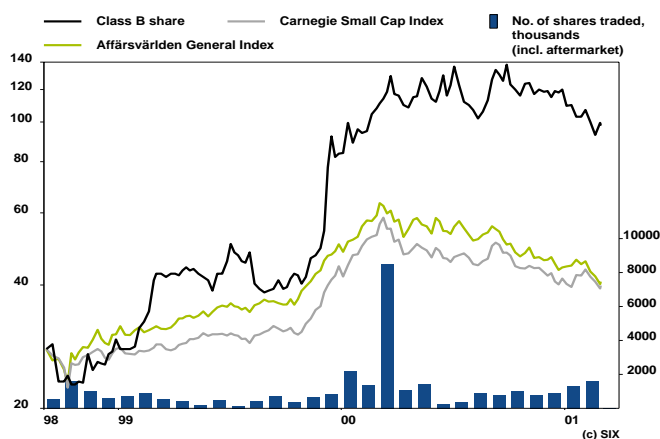
Observer AB's Articles of Association contain a provision in §6 that entitles holders of Class A shares to convert them to Class B shares.

Authorization

The Annual General Meeting of Observer AB on May 9, 2000 authorized the Board of Directors, until the next Annual General Meeting, to approve the issue on one or more occasions of not more than 2.0 million Class B shares with an exception to the shareholders' preferential right. The newly issued shares covered by this authorization are intended to be used strictly for acquisitions of companies or intangible assets.

SHARE PERFORMANCE

(Prices are restated to account for the rights issue in 2000.)



STOCK ANALYSTS WHO CONTINUOUSLY FOLLOW OBSERVER

Handelsbanken Markets

Enskilda Securities

Swedbank Capital Markets & Securities

Carnegie

Alfred Berg

Cazenove

Danske Capital

Deutsche Bank

Financial objectives and dividend policy

Financial objectives

Growth

Observer conducts its operations in expansive markets. Demand for media and market monitoring and communication services is growing by approximately 10 percent annually. In its existing geographic markets, Observer has a strong market position within its segments.

The Board of Directors' objective for the upcoming three-year period is for Observer to achieve annual organic growth of at least 10–15 percent. In addition, expansion will come about through acquisitions, primarily as an element in a continued international expansion.

Margins

Observer formulates profitability objectives in terms of margins. Objectives relate to operating margins before goodwill amortization and items affecting comparability and apply to long-term average levels. In connection with the acquisition of a new business or a major investment, a margin may fall below the long-term objective for a period of time.

Due to the acquisition of Romeike Group and divestment of Sifo Research & Consulting, Observer's margin objective has been revised to 22 percent from 18 percent previously.

The Board of Directors' long-term objective for the operating margin before goodwill amortization and items affecting comparability is 22 percent.

Return

Observer's return on operating capital is highly dependent on whether a business has developed through organic growth or been added by acquisition. Consequently, it is difficult to formulate a meaningful objective for the return on operating capital or equity for either the group as a whole or individual divisions. On the other hand, Observer has established an

objective for the return on major expansion investments, mainly acquisitions.

The Board of Directors' objective is to maintain a return on invested equity of at least 10 percent after tax.

This required return relates to investments in Swedish kronor at current inflation and interest rate levels. The required return on individual investments and acquisitions varies according to the type of investment and geographic market, etc.

Net debt/equity ratio

The book value of shareholders' equity is used as the basis for calculating the equity/assets and net debt/equity ratios. When assessing Observer's financial risk objectives, it should be remembered that the book value of the equity does not fully reflect the income and cash flow-generating capacity of the business.

The Board of Directors' objective is for the debt/equity ratio not to exceed 100 percent over the long term. The interest coverage ratio shall not fall below a multiple of four at current interest rate levels.

Dividend policy

Observer's operations generate a strong cash flow, resulting in high dividend capacity. However, since the group has good prospects of further expansion and operates in markets that offer opportunities for acquisitions, a portion of the cash flow it generates will be used to this end.

Against this background, the Board of Directors' objective is to maintain a dividend that over time averages around 30 percent of the Group's profit after full tax. When determining the dividend, the Board will take into consideration Observer's expansion opportunities, consolidation requirements, liquidity and the financial position in other respects.

Five-year summary

INCOME STATEMENTS

Amounts in SEK million	2000	1999	1998	1997	1996
Operating revenue	1,135.4	1,096.3	894.4	723.3	427.6
Operating expenses	-830.7	-928.6	-770.3	-615.4	-349.8
Amortization of goodwill	-87.1	-32.1	-13.6	-9.9	-2.5
Other depreciation/amortization	-34.2	-33.2	-21.9	-14.2	-6.8
Items affecting comparability ¹	398.6	-0.5	-5.3	-1.1	42.7 ²
Operating profit	582.0	101.9	83.3	82.7	111.2
Net financial income and expenses	-35.6	-6.1	-9.6	-5.7	1.5
Profit after financial items	546.4	95.8	73.7	77.0	112.7
Appropriations	—	—	—	-11.2	-33.9
Profit before tax	546.4	95.8	73.7	65.8	78.8
Tax	-81.0	-38.3	-23.7	-21.4	-5.4
Minority interests	-3.6	-6.6	-3.5	-2.6	—
Net profit for the year	461.8	50.9	46.5	41.8	73.4

BALANCE SHEETS

Amounts in SEK million	Pro forma ³					
	December 31 2000	December 31 1999	December 31 1999	December 31 1998	December 31 1997	December 31 1996
Goodwill	1,604.6	1,708.0	1,708.0	219.2	189.8	106.2
Other fixed assets	189.8	202.7	202.7	91.4	75.0	48.8
Current receivables	289.9	361.0	361.0	210.6	187.5	147.1
Financial assets	579.1	222.2	222.2	72.6	79.9	59.0
Total assets	2,663.4	2,493.9	2,493.9	593.8	532.2	361.1
Shareholders' equity	1,562.9	1,062.3	240.3	194.1	141.1	117.2
Minority share	7.7	9.0	9.0	8.8	3.2	—
Provisions	143.8	117.1	117.1	21.8	24.7	15.0
Current liabilities	257.5	371.4	371.4	251.7	196.2	160.5
Financial liabilities	691.5	934.1	1,756.1	117.4	167.0	68.4
Total equity and liabilities	2,663.4	2,493.9	2,493.9	593.8	532.2	361.1

1 Sale/write-down of participations in group companies and surplus insurance refund from Alecia pensionförsäkring (formerly SPP).

2 The entire amount is attributable to the divestment of the Norwegian subsidiary Sandberg AS.

3 The pro forma balance sheet has been prepared due to the acquisition of Romeike Group. The acquisition took place in December 1999, while the rights issue to partially finance the acquisition was floated in January 2000. In the short term, the entire purchase price was financed with a bank loan, due to which the group's debt/equity ratio was abnormally high on the closing day, December 31, 1999. The pro forma balance sheet shows the balance sheet after implementation of the rights issue.



KEY RATIOS

	2000	Pro forma ⁵ 1999	1999	1998	1997	1996
Margins						
Operating margin, %	23.8		12.3	11.4	12.9	16.6
Profit margin, %	48.1		8.7	8.2	10.6	26.3
Return						
Return on operating capital (ROOC), %	34		10	35	46	150
ROOC excluding goodwill amortization and items affecting comparability, %	352		259	292	302	339
Return on equity, %	51		23	28	39	104
Capital structure						
Operating capital, SEK million	1,683.0		1,783.2	247.7	231.4	126.6
Operating capital excluding goodwill, SEK million	78.4		75.2	28.5	41.6	20.4
Equity/assets ratio, %	59	43	10	34	27	32
Interest-bearing net debt, SEK million	112.4	711.9	1,533.9	44.8	87.1	9.4
Net debt/equity ratio, %	7	66	615	22	60	8
Interest coverage, multiple ¹	13.2		10.1	9.2	11.4	73.3
Cash flow						
Non-restricted cash flow, SEK million	43.1		-16.5	101.1	14.2	134.5
Investments						
Acquisition value of acquired operations, SEK million	63.7		1,482.7	34.7	90.7	146.6
Other investments, gross, SEK million	77.7		64.0	40.5	34.9	10.3
Employees						
Number of employees at year-end	1,675		1,794	1,089	949	580
Number of shares at year-end ⁶	55,510,442	34,694,027	34,694,027	34,239,628	34,239,628	34,239,628
Average number of shares ⁶	53,747,303	34,270,751	34,270,751	34,239,628	34,239,628	34,239,628
Number of shares added through rights issue		20,816,415				
Number of shares after rights issue		55,510,442				
Data per share²						
Amounts in SEK	2000		1999	1998	1997	1996
Operating revenue	21.12		24.84	20.28	16.40	9.70
Profit after full tax before dilution	8.59		1.15	1.06	1.13	2.22
Ditto excluding goodwill amortization and items affecting comparability ³	3.02		1.89	1.45	1.37	1.58
Profit after full tax and full dilution ⁴	8.37		1.12	1.04	1.12	2.20
Ditto excluding goodwill amortization and items affecting comparability ^{3, 4}	2.95		1.82	1.43	1.34	1.56
Shareholders' equity	28.16		5.38	4.40	3.20	2.66
Nonrestricted cash flow	0.80		-0.37	2.29	0.33	3.04
Dividend (proposed)	0.45		0.35	0.31	—	—

1 The definition has been changed compared with the annual report for 1999. Goodwill amortization is now reversed. Comparative figures from previous years have been restated.

2 Historical amounts have been restated to reflect the effects of the rights issue in January 2000.

3 In adjusting profit for the impact of items affecting comparability, consideration is given to the tax effect that these items are expected to have.

4 The calculation of profit after full tax and dilution has taken into account the future exercise of warrants and convertible debenture loans.

5 See Note 3 on page 37.

6 The number of shares has been adjusted for the split and bonus issue that were implemented in conjunction with the distribution of Observer AB (formerly Sifo Group AB) to Scribona's shareholders in September 1998.

Board of Directors' report

The Board of Directors and the President of Observer AB (publ) herewith present the annual report and consolidated financial statements for the financial year 2000. The Annual Report is prepared in accordance with the Annual Accounts Act. Observer follows the recommendations and directives of the Swedish Financial Accounting Standards Council and the Swedish Accounting Standards Board.

Group structure

Observer's core operations are separated into two divisions. Media Intelligence provides media and market monitoring, communication evaluations and analysis services. Communications provides databases of who's who in the media and financial world to clients primarily in IR and PR. It also provides communication solutions for distributing business information via various electronic channels including the Internet. The Group also included the SMG Consulting division, which is active in management and strategic consulting. During the year, the Group's operations were conducted in the UK, Sweden, Germany, Norway, Finland, Denmark, Estonia, Latvia and Lithuania. The headquarters and group management is located in Stockholm.

The parent company is the principal of Observer Sverige AB and BIT Börslistans Informationstjänst AB. Observer AB is a subsidiary of Bure Equity AB (publ) in Gothenburg (registration no. 556454-8781).

Name change

In June 2000, the parent company changed its name from Sifo Group AB to Observer AB. The name change, which was approved by the Annual General Meeting in May, is a result of the group's divestment of the Sifo Research & Consulting division during the spring.

Changes in the group structure

Media Intelligence division

In early 2000, an additional 30 percent of Argus Media in Germany was acquired. Argus Media has been merged with Observer RTV Medianauswertungen. The Group's ownership interest in the combined Observer Argus Media now amounts to 86 percent.

In June 2000, Norway's Imedia A/S was acquired from Schibsted and Telenor. Imedia has a turnover of approximately NOK 25 million. Its operations have been integrated into Observer Norway.

Communications division

During autumn of 2000, the operations of the subsidiaries Media Information in the UK and BIT (Börslistans Informationstjänst) in Sweden, Finland and Denmark were integrated into the new Communications division.

Group

In 2000, the operations of Observer Media Intelligence AB, the former division management, were integrated into the parent company.

Divestments

The Sifo Research & Consulting division was sold on January 1, 2000 to Research International, part of the London-based global communication group, WPP. Observer was paid SEK 600 million. Its capital gain amounted to SEK 335.0 million.

In February 2000, Observer sold its subsidiary Sifo Interactive Media in return for eight percent of the shares in MMXI Europe, 52,000 shares in Media Metrix USA (now Jupiter Media Metrix) and approximately SEK 44 million in cash. The company is active in Internet monitoring. The capital gain amounted to SEK 48.8 million. The stake in Nasdaq-listed Jupiter Media Metrix has been written down to its market value as of the closing day.

In September, Observer sold a small part of its UK operations in the form of the subsidiary Hollis Directories, which produces handbooks and catalogs. As a result, British operations have been concentrated on Media Intelligence and Communications. The sale generated proceeds of GBP 3.6 million for Observer, but no capital gain.

Revenue and profit

The Group's operating revenue amounted to SEK 1,135.4 million (1,096.3). For comparable units, the increase was 20 percent in local currency.

Operating profit before goodwill amortization and items affecting comparability amounted to SEK 270.5 million (134.5), double the previous year. The operating margin before goodwill amortization and items affecting comparability was 23.8 percent (12.3).

The items affecting profit comparability included in operating profit consist of capital gains of SEK 383.8 million (0) and an allocated pension insurance refund from Alecta pensionsförsäkring (formerly SPP) of SEK 14.8 million.

Net financial income and expenses amounted to SEK

–35.6 million (–6.1), primarily due to interest expenses for the financing of the acquisition of Romeike Group in the UK. The write-down of the shareholding in Nasdaq-listed Jupiter Media Metrix to its closing-day market value resulted in a charge against net financial income and expenses of SEK –6.5 million.

Profit before tax amounted to SEK 546.4 million (95.8). After tax, the group reported a net profit for the year of SEK 461.8 million (50.9). Profit after full tax, excluding goodwill amortization and items affecting comparability, amounted to SEK 2.95 (1.82) per share after full dilution.

The group's operating revenue and operating profit before goodwill amortization and items affecting comparability distributed by division are shown in the table on page 50.

Investments and financing

In 2000, investments in new businesses amounted to SEK 63.7 million (1,482.7). Other investments totaled SEK 77.7 million (64.0). Depreciation according to plan, excluding goodwill amortization, amounted to SEK 34.2 million (33.2). Goodwill amortization rose to SEK 87.1 million (32.1).

Shareholders' equity amounted to SEK 1,562.9 million (240.3) at year-end, corresponding to SEK 28.16 (5.38) per share.

In December 1999, GBP 110 million (SEK 1,514 million) was paid to acquire the UK-based Romeike Group. Depending on the profit earned by the acquired company during the period October 1, 1999–December 31, 2000, a supplemental purchase price of not more than GBP 17.5 million could be paid as well. The maximum supplemental purchase price requires a profit improvement of approximately 30 percent compared with the results for the period October 1, 1998–December 31, 1999. The Board of Directors does not expect a supplemental purchase price to be paid.

GBP 53.8 million of the acquisition was financed through loans from the sellers, GBP 2.0 million through a directed issue of 454,399 Class B shares to the sellers and GBP 54.2 million through a cash payment, which was refinanced through a short-term bank loan in SEK. GBP 10.1 million of the loan from the sellers was amortized in 2000.

In January 2000, Observer floated a rights issue of 20,816,415 new shares, receiving net proceeds of approximately SEK 825 million after issue expenses. The amount was used to repay the short-term bank loan.

As of year-end, the debt/equity ratio was 7 percent (615, pro forma after the rights issue 66). The interest coverage multiple rose to 13.2 (10.6). Goodwill on the balance sheet amounted to SEK 1,604.6 million (1,708.0).

Currency risks

Currency risks in the form of so-called transaction exposure are limited, since the group's sales are primarily in the local cur-

rency of each subsidiary's country of operations. Consequently, net flows are not hedged.

Currency risks attributable to so-called currency conversion exposure, i.e. the risk that fluctuations in exchange rates will affect the value in SEK of the group's net assets in foreign subsidiaries, are not hedged.

Highlights following the conclusion of the financial year

At year-end, certain preferential clauses expired in a shareholder agreement with SMG Consulting. As Observer no longer could be considered to have a decisive influence on SMG, SMG Consulting is not consolidated after year-end 2000. The stake in SMG Consulting has been sold to Normann & Partners AB as of March 31, 2001.

An Extraordinary General Meeting held on February 8, 2001 decided to introduce a stock option incentive program for Group employees. The program, which will allot options over three years to all permanent employees of the Group, will result in a maximum dilution of 1.5 percent during each of the three years 2001–2003.

During spring of 2001, the Communications division expanded its operations from the current platform in the Nordic region and the UK to include Germany.

In March 2001, Observer acquired Portugal's leader in media and market monitoring, Memorandum SA. Memorandum is a sophisticated, modern company with an extensive network of partners in Latin America and Spain.

Ireland's leader in media and market monitoring was acquired in late March 2001.

Future outlook

All the markets in which Media Intelligence and Communications operate are expected to grow in the years ahead. The Group is considered well-positioned for further growth. Its program of internationalization is progressing, which entails a continued focus on acquisitions and growth primarily in Europe.

Board work

During the year, the Board of Directors held nine meetings (14) during which minutes were kept. Procedural guidelines are in place for the Board and the President. Moreover, a Compensation Committee within the Board considers issues regarding the employment terms for the President and other senior executives.

Pension insurance refund from Alecta/SPP

The discounted present value of the surplus insurance refund from the Swedish pension insurance company Alecta (formerly SPP) amounts to SEK 14.8 million, which has been taken up in income as an item affecting comparability.

Research and development

Each year, Observer invests substantial sums in research and development. The goal of its development projects is to consolidate and develop Observer's position in new and existing markets. New services and IT tools provide additional business opportunities and enhance Observer's overall client services. In addition, they are an important element in the development of internal operations.

Office premises

At the start of 2000, Observer signed a lease on 14,000 square meters of office space in Stockholm. As part of the divestment of Sifo Research & Consulting, a contract on approximately half this space has now been entered into directly between Sifo Research & Consulting and the property owner. The move in June 2000 placed all of Observer's Stockholm operations under one roof.

After taking possession of its new leased premises, Observer finalized a previously signed contract to sell its office building in Sollentuna at book value.

Personnel

The Group had 1,675 (1,794) employees at year-end. For a distribution of the average number of employees and salaries, other remuneration and social insurance expenses by Board members, the President and other employees, please refer to Note 6.

Parent company

The parent company's operations comprise Group Management and two companies operating under commission agree-

ments, Observer Sverige AB and BIT Börslistans Informationstjänst AB. Parent company profit after financial items amounted to SEK 99.0 million (76.5). Net profit for the year was SEK 54.5 million (50.2).

Proposed distribution of earnings

According to the consolidated balance sheet, non-restricted shareholders' equity amounts to SEK 580,777 thousand, of which SEK 461,754 thousand was net profit for the year. No allocations to restricted reserves are required. The following unappropriated earnings in the parent company are at the disposal of the Annual General Meeting:

Retained earnings	SEK 203,148 K
Net profit for the year	SEK 54,542 K
	SEK 257,690 K

The Board of Directors and the President propose that the unappropriated earnings be distributed as follows:

To the shareholders, a dividend of	
SEK 0.45 per share or a total of	SEK 24,980 K
To be carried forward	SEK 232,710 K
	SEK 257,690 K

The earnings and financial position of the group and parent company in other respects are reflected in the following income statements, balance sheets, statements of cash flows and notes.

Stockholm, March 29, 2001

Örjan Håkanson
Chairman of the Board

Rolf Ekedahl

Ulf Ivarsson

Robert Lundberg
CEO

Hans Tson Söderström

Håkan Bryngelson

Lena Ericson

Bo Wagenius

Sven-Åke Lewin

Per Ryhd



Income statements

SEK thousand	Note	2000 Group	1999 Group	2000 Parent company	1999 Parent company
Net sales		1,135,372	1,101,712	333,199	278,719
Change in work in progress	28	—	–5,396	—	—
Operating revenue	1, 2	1,135,372	1,096,316	333,199	278,719
<i>Operating expenses</i>					
Project expenses		—	–132,137	—	—
Production expenses		–75,564	–21,607	–27,461	–21,096
Other external expenses	3, 4, 5	–185,492	–221,735	–87,173	–56,608
Staff costs	6	–569,588	–553,073	–160,973	–131,837
Amortization of goodwill	16	–87,134	–32,127	–600	–600
Other depreciation/amortization	7	–34,150	–33,232	–9,641	–4,430
Items affecting comparability	8	398,592	–473	8,498	—
Operating profit		582,036	101,932	55,849	64,148
<i>Result from financial investments</i>					
Result from participations in group companies	9	—	—	9,665	10,898
Result from participations in associated companies	10	—	–250	—	—
Result from other securities and receivables reported as fixed assets	11	—	1,754	—	—
Other interest income and similar profit/loss items	12	28,193	5,712	59,391	11,916
Interest expenses and similar profit/loss items	13	–63,815	–13,348	–25,893	–10,456
Profit after financial items		546,414	95,800	99,012	76,506
Group contributions		—	—	—	2,682
Other appropriations	14	—	—	–23,807	–13,874
Profit before tax		546,414	95,800	75,205	65,314
Tax	15	–81,046	–38,352	–20,663	–15,085
Minority interests		–3,614	–6,560	—	—
NET PROFIT FOR THE YEAR		461,754	50,888	54,542	50,229

COMMENTS TO THE CONSOLIDATED INCOME STATEMENTS

Operating revenue

Revenue structure

Revenue in the *Media Intelligence* division is generated from media and market monitoring as well as editorial and analytical services. Client projects usually extend over long periods of time. Revenue volume is dependent on the overall flow of news and varies according to its volume and nature. In general, major local events in business and society positively impact demand for the division's services.

The *Communications division* generates revenue by providing communication solutions for the distribution of business information via electronic channels including the Internet. Databases concerning "who's who" in the media and financial worlds. Revenue volume varies according to client report dates, particularly full-year and interim results.

SMG Consulting's revenue is primarily project-related consulting fees.

The Group's operating revenue 2000

The Group's operating revenue for the year amounted to SEK 1,135.4 million (1,096.3). In local currencies, operating revenue rose by 20 percent for comparable units. Organic growth was 19 percent when converted to Swedish kronor.

For *Media Intelligence*, operating revenue amounted to SEK 875.1 million (586.5). Organic growth was 17 percent. Revenue growth was good for all of *Media Intelligence's* companies. Editorial and analytical services continued to develop faster than basic services. Value-added services today account for 28 percent (25) of the entire division's operations and 38 percent (35) of *Observer's* Swedish operations.

For *Communications*, operating revenue amounted to SEK 210.8 million (86.3). Organic growth was 46 percent. Revenue growth was favorable throughout *Communications*.

SMG Consulting's operating revenue amounted to SEK 44.3 million (42.7).

Operating expenses

Expense structure

The large part of *Media Intelligence's* and *Communications's* expenses are fixed and consist of staff costs, fees for media use, and IT and distribution expenses. *SMG Consulting's* expenses consist largely of staff costs, a significant share of which varies in the form of bonuses or other performance-related compensation.

Profit

Observer's operating profit before goodwill amortization and items affecting comparability amounted to SEK 270.5 million (134.5). *Romeike Group* was included for all of 2000, as opposed to only three months in 1999.

The Group's operating margin before goodwill amortization and items affecting comparability rose to 23.8 percent (12.3).

For *Media Intelligence*, operating profit before goodwill amortization and items affecting comparability amounted to SEK 205.0 million (109.2). *Media Intelligence's* operating margin was 23.4 percent (18.6).

For *Communications*, operating profit before goodwill amortization and items affecting comparability amounted to SEK 67.6 million (31.6). *Communications's* operating margin was 32.1 percent (36.6).

Investments to develop IT solutions, new services and new markets continue to be significant. The aim of development projects is to maintain high organic growth, add value to client services and facilitate a continued international expansion. A large number of projects were undertaken, including further development of a service package designed for international clients and a joint IT platform for production and delivery systems.

The profit trend has been favorable in all countries of operation. After a slightly downward trend during the first half of 2000, growth and profit margins for Swedish operations returned to previous levels late in the year.

The operating margin in the UK remains high. The efforts to further improve growth will result in higher expenses and a slight decline in the operating margin.

Operating profit before goodwill amortization and items affecting comparability for *SMG Consulting* amounted to SEK 5.1 million (5.4), corresponding to an operating margin of 11.5 percent (12.6).

The Group's net financial income and expenses amounted to SEK -35.6 million (-6.1). At the beginning of the year, the financial net was charged with the cost of financing the entire *Romeike Group* acquisition. This charge was reduced through the rights issue. At the end of April, *Observer* received the proceeds from the sale of *Sifo Research & Consulting*, which further reduced the charge against net financial income and expenses.

Profit before tax was SEK 546.4 million (95.8).

The Group's profit for the year after tax amounted to SEK 461.8 million (50.9).

Profit per share excluding goodwill amortization and items affecting comparability amounted to SEK 2.95 (1.82) after full dilution.

Profit per share after tax and full dilution was SEK 8.37 (1.12)

OPERATING REVENUE

Amounts in SEK million	2000	1999	Growth	Organic growth
Media Intelligence	875.1	586.5	49%	17%
Communications	210.8	86.3	144%	46%
SMG Consulting	44.3	42.7	4%	6%
Divisions	1 130.2	715.5	58%	
Divested units	21.7	415.1		
Group eliminations	-16.5	-34.3		
Group	1 135.4	1 096.3	4%	

OPERATING PROFIT BEFORE GOODWILL AMORTIZATION AND ITEMS AFFECTING COMPARABILITY (EBITA)

Amounts in SEK million	2000	1999	Margin 2000	Margin 1999
Media Intelligence	205.0	109.2	23.4%	18.6%
Communications	67.6	31.6	32.1%	36.6%
SMG Consulting	5.1	5.4	11.5%	12.6%
Divisions	277.7	146.2	24.6%	20.4%
Divested units	5.3	-5.7		
Group eliminations	-12.5	-6.0		
Group	270.5	134.5	23.8%	12.3%

The amount for 1999 includes *Romeike Group* for only three months.



Balance sheets

ASSETS, SEK THOUSAND	Note	Dec 31, 2000 Group	Proforma ¹ Dec 31, 1999 Group	Dec 31, 1999 Group	Dec 31, 2000 Parent company	Dec 31, 2000 Parent company
OPERATING ASSETS						
Fixed assets						
<i>Intangible fixed assets</i>						
Goodwill	16	1,604,580	1,707,976	1,707,976	10,050	10,650
Other intangible fixed assets	17	36,567	51,504	51,504	32,463	6,426
		1,641,147	1,759,480	1,759,480	42,513	17,076
<i>Tangible fixed assets</i>						
Buildings and land	18	65,466	86,008	86,008	—	—
Equipment	19	86,754	63,590	63,590	35,461	12,801
		152,220	149,598	149,598	35,461	12,801
<i>Other fixed assets</i>						
Participations in group companies	20	—	—	—	1,076,561	383,033
Participations in associated companies		—	45	45	—	—
Other long-term receivables		1,043	1,568	1,568	1,685	1,143
		1,043	1,613	1,613	1,078,246	384,176
Current assets						
<i>Current receivables</i>						
Accounts receivable		201,162	265,160	265,160	69,729	53,936
Receivables from group companies		—	—	—	17,846	10,153
Tax receivables	21	32,528	33,529	33,529	11,262	—
Other receivables		25,074	6,683	6,683	9,603	2,219
Prepaid expenses and accrued income	22	31,148	55,611	55,611	18,142	18,825
		289,912	360,983	360,983	126,582	85,133
Operating assets, total		2,084,322	2,271,674	2,271,674	1,282,802	499,186
FINANCIAL ASSETS						
Fixed assets						
<i>Long-term receivables</i>						
Receivables from group companies		—	—	—	—	—
Other long-term securities holdings	23	23,087	3,484	3,484	6,338	19
Other long-term receivables		8,137	—	—	7,348	—
		31,224	3,484	3,484	13,686	19
Current assets						
<i>Current receivables</i>						
Receivables from group companies		—	—	—	545,171	917,919
Other current receivables		3,397	—	—	3,404	—
		3,397	—	—	548,575	917,919
<i>Short-term investments</i>						
Other short-term investments		4,126	—	—	4,025	—
		4,126	—	—	4,025	—
Cash and bank balances		540,361	218,700	218,700	81,852	48,968
Financial assets, total		579,108	222,184	222,184	648,138	966,906
TOTAL ASSETS		2,663,430	2,493,858	2,493,858	1,930,940	1,466,092

1 The pro forma balance sheet has been prepared due to the acquisition of Romeike Group. The acquisition took place in December 1999, while the rights issue to partially finance the acquisition was floated in January 2000. In the short term, the entire purchase price was financed with a bank loan, due to which the group's debt/equity ratio was abnormally high on the closing day, December 31, 1999. The pro forma balance sheet shows the balance sheet after implementation of the rights issue.

EQUITY AND LIABILITIES, SEK THOUSAND	Note	Dec 31, 2000 Group	Pro forma ¹ Dec 31, 1999 Group	Dec 31, 1999 Group	Dec 31, 2000 Parent company	Dec 31, 1999 Parent company
EQUITY	24					
<i>Restricted equity</i>						
Share capital		83,266	83,266	52,041	83,266	52,041
Share premium reserve		820,501	817,357	26,582	820,501	26,582
Restricted reserves/Statutory reserve		78,358	32,324	32,324	9,274	9,274
		982,125	932,947	110,947	913,041	87,897
<i>Non-restricted equity</i>						
Profit brought forward		119,023	78,465	78,465	203,148	180,763
Net profit for the year		461,754	50,888	50,888	54,542	50,229
		580,777	129,353	129,353	257,690	230,992
Total equity		1,562,902	1,062,300	240,300	1,170,731	318,889
MINORITY SHARE IN EQUITY		7,674	9,002	9,002	—	—
UNTAXED RESERVES	14	—	—	—	50,051	26,305
OPERATING LIABILITIES						
<i>Provisions</i>						
Provisions for taxes	21	42,596	26,552	26,552	—	—
Other provisions	25	100,147	90,550	90,550	—	—
		142,743	117,102	117,102	—	—
<i>Long-term liabilities</i>	26					
Other liabilities	27	660	1,245	1,245	620	620
		660	1,245	1,245	620	620
<i>Current liabilities</i>						
Work in progress	28	—	1,753	1,753	—	—
Accounts payable		59,648	68,906	68,906	34,998	16,523
Liabilities to group companies		—	—	—	511,487	2,498
Tax liabilities	21	39,433	25,932	25,932	20,995	11,669
Other liabilities		38,636	115,941	115,941	24,735	59,020
Accrued expenses and deferred income	29	119,731	157,619	157,619	42,205	33,338
		257,448	370,151	370,151	634,420	123,048
Operating liabilities, total		400,851	488,498	488,498	635,040	123,668
FINANCIAL LIABILITIES						
<i>Provisions</i>						
Provisions for pensions and similar commitments		1,082	1,253	1,253	—	—
		1,082	1,253	1,253	—	—
<i>Long-term liabilities</i>	26					
Bank overdraft facility	30	—	25,493	25,493	—	—
Liabilities to group companies		—	—	—	3,690	3,689
Convertible debenture loans	31	48,074	39,578	39,578	48,074	48,074
Other liabilities	32	620,783	805,979	805,979	—	70,000
		668,857	871,050	871,050	51,764	121,763
<i>Current liabilities</i>						
Short-term loans		12,524	47,144	869,144	—	857,129
Current liabilities to group companies		—	—	—	22,416	11,732
Accrued expenses and deferred income	29	9,540	14,611	14,611	938	6,606
		22,064	61,755	883,755	23,354	875,467
Financial liabilities, total		692,003	934,058	1,756,058	75,118	997,230
TOTAL EQUITY AND LIABILITIES		2,663,430	2,493,858	2,493,858	1,930,940	1,466,092
Pledged assets	33	1,636,401	1,563,149	1,563,149	63,050	63,050
Contingent liabilities	34	5,291	20,849	20,849	731,055	863,283



COMMENTS TO THE CONSOLIDATED BALANCE SHEETS

Operating capital

Change in operating capital

Operating capital is defined as operating assets less operating liabilities. A large part of operating capital consists of goodwill that has arisen from business acquisitions. In total, operating capital decreased to SEK 1,683.0 million (1,783.2). The decrease is attributable to the amortization of acquired goodwill and divestment of Hollis Directories. Operating capital excluding goodwill increased to SEK 78.4 million (75.2).

Amounts in SEK million	2000	1999
Goodwill	1,604.6	1,708.0
Other fixed assets	189.8	202.7
Current receivables	289.9	361.0
Provisions	-143.8	-117.1
Operating liabilities	-257.5	-371.4
Operating capital	1,683.0	1,783.2
Less goodwill	-1,604.6	-1,708.0
Operating capital excl. goodwill	78.4	75.2

The return on operating capital was 34 percent (10).

Goodwill

In most acquisitions Observer has made, only a small portion of the acquisition value of the acquired business has consisted of shareholders' equity. As a result, the majority has been reported as goodwill on the consolidated balance sheet. Because Observer is an knowledge business, it expects these proportions to apply to future acquisitions as well. Goodwill on the balance sheet and the amortization of goodwill in the income statement are therefore significant items in Observer's accounts.

Acquisitions that entail significant market positions and which are of long-term strategic significance to the Group's operations are classified as strategic acquisitions, with goodwill amortized over 20 years. For acquisitions of complementary operations in markets where the Group is already established, the amortization period for goodwill is 10 years. For acquisitions of complementary products, the amortization period for goodwill is five years.

Of the total goodwill item of SEK 1,604.6 million, SEK 1,565.8 million (1,687.1) is goodwill amortized over 20 years, while the remaining SEK 38.1 million is goodwill amortized over 10 years.

Interest-bearing net debt

Amounts in SEK million	2000	1999
Financial fixed assets	31.2	3.5
Financial current assets	7.5	—
Cash and bank balances	540.4	218.7
Financial provisions	-1.0	-1.3
Financial long-term liabilities		
Bank overdraft facility	—	-25.5
Convertible debenture loans	-48.0	-39.6
Other long-term liabilities	-620.7	-806.0
Financial current assets	-22.1	-883.7
Interest-bearing net debt	-112.7	-1,533.9

Amortization of current and long-term liabilities

A rights issue was floated in January 2000 as part of the financing of the acquisition of UK based Romeike Group. The proceeds of SEK 825 million were used in their entirety to repay a short-term bank loan raised in connection with the acquisition in December 1999 (Financial current liabilities). During the year, the Group also repaid GBP 10.1 million in interest-bearing promissory notes to the sellers (Other long-term liabilities). The promissory notes have a term of five years but are redeemable at the holder's request.

Divestment of subsidiaries

During the year, the group received SEK 600 million in proceeds from the sale of the Sifo Research & Consulting division. During the year it also divested the subsidiary Sifo Interactive Media in return for eight percent of the shares in MMXI Europe, 52,000 shares in Media Metrix USA (now Jupiter Media Metrix) and approximately SEK 44 million in cash.

Convertible debenture loans

Observer AB has issued two convertible debenture loans, the first for SEK 20,998 thousand in 1997 and the second for SEK 27,806 thousand in 1999. The convertible debenture loans target key executives.

Available financing

Available financing in the form of confirmed bank overdraft facilities amount to SEK 135.3 million, the majority of which is in Sweden and the UK. As of the closing day, the overdraft facilities had not been utilized.

Shareholders' equity

Consolidated shareholders' equity amounts to SEK 1,562.9 million (240.3), corresponding to SEK 28.16 per share after full dilution. The change in shareholders' equity is as follows:

Amounts in SEK million	
Shareholders' equity brought forward, Jan. 1, 2000	240.3
Rights issue	825.1
Dividend	-19.4
Change in accounting principles	-5.1
Translation difference for the year	60.2
Net profit for the year	461.8
Shareholders' equity carried forward, Dec. 31, 2000	1,562.9

The rights issue was implemented to partially finance the acquisition of Romeike Group. During the year, the Romeike Group was capitalized through the conversion of intra-group loans of GBP 59.9 million to share capital.

The change in accounting principles refers to the transfer of non-restricted earnings to deferred tax due to differences in accounting principles in foreign subsidiaries compared with Swedish practice. The conversion difference for the year amounts to SEK 60.2 million (-14.9). Since shareholders' equity in foreign group companies is not hedged against exchange rate fluctuations, conversion differences arise in their consolidation. A change of +/-10 percent in the value of the Swedish krona affects consolidated shareholders' equity by +/- SEK 173 million.

Statements of cash flows

SEK THOUSAND	Note	2000 Group	1999 Group	2000 Parent company	1999 Parent company
Operating activities					
Operating profit		582,036	101,932	55,849	64,148
Depreciation/amortization		121,286	65,359	10,241	5,030
Capital gains		-383,757	—	—	—
Other non-cash items		-1,602	-10,846	—	—
		317,963	156,445	66,090	69,178
Interest received		25,103	4,211	59,391	11,916
Dividends received		—	—	10,754	11,189
Interest paid		-65,213	-8,794	-12,127	-2,220
Income tax paid		-34,485	-33,619	-22,600	-17,665
Cash flow from operating activities before changes in working capital		243,368	118,243	101,508	72,398
Increase/decrease in accounts receivable		-23,527	-28,259	-15,793	-17,910
Increase/decrease in other current receivables		-49,870	-12,157	347,452	-839,007
Increase/decrease in accounts payable		6,910	7,792	18,475	6,102
Increase/decrease in other current operating liabilities		-56,066	-38,192	464,288	21,071
Cash flow from operating activities		120,815	47,427	915,930	-757,346
Investing activities					
Investment in intangible fixed assets		-11,388	-30,627	-27,119	-6,426
Business acquisitions	1	-63,706	-1,482,657	—	-49,966
Business divestments	2	550,866	-246	—	—
Investment in tangible fixed assets		-66,288	-33,345	-31,558	-10,201
Divestment of tangible fixed assets		—	2,660	339	433
Increase/decrease in financial fixed assets		-22,638	4,978	-705,564	30,728
Cash flow from investing activities		386,846	-1,539,237	-763,902	-35,432
Financing activities					
Issue in kind		—	27,264	—	27,264
Rights issue		825,144	—	825,144	—
Loans raised		9,116	771,791	—	31,070
Amortization of debt		-192,684	-2,309	-69,999	-15,200
Increase/decrease in current financial liabilities		-822,310	868,311	-846,445	812,049
Dividend to shareholders		-19,429	-17,120	-19,429	-17,120
Group contribution/shareholder contribution		—	—	-8,415	2,682
Cash flow from financing activities		-200,163	1,647,937	-119,144	840,745
Cash flow for the year		307,498	156,127	32,884	47,967
Liquid assets at beginning of year		218,700	68,307	48,968	1,001
Translation difference		14,163	-5,734	—	—
Liquid assets at year-end		540,361	218,700	81,852	48,968

COMMENTS TO THE STATEMENTS OF CASH FLOWS

Changes in non restricted cash flow

The Group's non restricted cash flow, i.e. cash flow from operating activities less investments in fixed assets (excluding business acquisitions) amounted to SEK 43.1 million (-16.5). The increase in non-restricted cash flow compared with the previous year is primarily attributable to changes in working capital. Cash flow from operating activities before changes in working capital increased to SEK 243.4 million (118.2).

Business acquisitions

At the beginning of the year an additional 30 percent of Germany's Argus Media was acquired. Argus Media has merged with Observer RTV Medianauswertungen. The Group's ownership interest in the combined Observer Argus Media now amounts to 86 percent. The Norwegian operations were complemented during the year through the acquisition of Imedia Norge from Schibsted and Telenor. Together, these acquisitions had the following impact on the Group's liquid assets:

	2000 Group	1999 Group
Business acquisitions		
Intangible fixed assets	69,409	1,545,509
Tangible fixed assets	1,121	82,417
Financial fixed assets	—	69
Other current assets	18,120	194,071
Provisions	—	-103,723
Long-term liabilities	-2,629	—
Current liabilities	-27,310	-143,859
Minority share in equity	5,651	—
Total purchase price	64,362	1,574,484
Liquid assets in acquired businesses	-656	-91,827
Impact on the Group's liquid assets (Note 1)	63,706	1,482,657

Business divestments

During the year, Observer divested the Sifo Research & Consulting division, Sifo Interactive Media and Hollis Directories. The total value of the divested assets and liabilities, purchase prices and the impact on the Group's liquid assets amounted to:

	2000 Group	1999 Group
Business divestments		
Intangible fixed assets	170,559	—
Tangible fixed assets	39,143	377
Financial fixed assets	4,933	34
Other current assets	187,380	2,682
Provisions	-3,154	—
Long-term liabilities	-45,457	—
Current liabilities	-146,876	-1,202
Capital gain/loss	383,756	-473
Total purchase price	590,284	1,418
Liquid assets in divested businesses	-39,418	-1,704
Share of existing operations sold	—	40
Impact on the Group's liquid assets (Note 2)	550,866	-246

Liquid assets at year-end

Liquid assets consist of cash and bank balances excluding the utilized portion of bank overdraft facilities. In addition, another SEK 135.3 million was available in unutilized bank overdraft facilities at year-end.

Accounting principles

Consolidated accounts

The consolidated accounts comprise Observer AB and the companies in which Observer AB at year-end directly or indirectly held more than 50 percent of the voting rights had an otherwise decisive influence. The consolidated financial statements have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation on consolidated accounts and by applying the purchase accounting method. Companies acquired during the year are included in consolidated income statement as of the date possession. Companies divested during the year are excluded as of their date of sale.

Foreign subsidiaries' financial statements are translated to Swedish kronor using the current method. Foreign subsidiaries' assets and liabilities on the balance sheet are converted at closing day exchange rates, while all income statement items are converted at average exchange rates for the year. Items included in shareholders' equity are converted at historical rates. Exchange rate differences that arise as a result are applied directly against shareholders' equity. Associated companies are not subsidiaries, but rather companies in which the parent company directly or indirectly holds at least 20 percent of the voting rights of all participations. Participations in associated companies are reported in accordance with the equity method.

Classification of balance sheet items

Assets and liabilities have been divided into operating assets/operating liabilities and financial assets/financial liabilities. Interest-bearing assets/liabilities have been classified as financial.

Valuation principles

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency have been recalculated at closing day rates. Exchange rate gains and losses on financial receivables and liabilities are reported among financial items. Operations-related exchange rate gains and losses are reported in operating profit.

Receivables

Receivables have been reported at the amount which is expected to be received, after an individual assessment.

Work in progress

Where outcome is certain, work in progress at fixed price is reported at acquisition value plus a share of estimated profit proportionate to the share of estimated total expenses accounted for by accrued closing day expenses. In cases where the outcome cannot be estimated with great certainty, the valuation is made according to the lowest value principle.

Goodwill

In most acquisitions Observer has made, only a small portion of the acquisition value of the acquired business has consisted of shareholders' equity. As a result, the majority has been reported as goodwill on the consolidated balance sheet. Because Observer is an knowledge business, it expects these proportions to apply to future acquisitions as well. Goodwill on the balance sheet and the amortization of goodwill in the income statement are therefore significant items in Observer's accounts.

Acquisitions that entail significant market positions and which are of long-term strategic significance to the Group's operations are classified as strategic acquisitions, with goodwill amortized over 20 years. For acquisitions of complementary operations in markets where the group is already established, the amortization period for goodwill is 10 years. For acquisitions of complementary products, the amortization period for goodwill is five years.

Other intangible fixed assets

Depending on the nature of development projects, development expenses are written off or accrued under the heading Other intangible fixed assets. Reporting on the balance sheet is done at acquisition value less accumulated amortization. Amortization is made over three to five years according to plan based on the economic lives of the assets.

Tangible fixed assets

Tangible fixed assets are reported at acquisition value less accumulated depreciation according to plan based on the economic lives of the assets. Equipment is depreciated over three to 10 years and office buildings over 50 years.

Leases

During the year, the Group entered into financial leases. Operational and financial leases of lesser value are reported as operating expenses in the income statement.

Taxes

The year's tax expense refers to tax payable on taxable profit for the year as well as deferred tax. Taxes are estimated in accordance with the applicable tax regulations in each country. In calculating the deferred tax on untaxed reserves, the availability of tax-deductible provisions for future use has been taken into account.

Statement of cash flows

The statement of cash flows was prepared according to the indirect method. The reported cash flow covers transactions that result in receipts and disbursements. Cash and bank balances are classified as liquid assets.



Notes

All amounts are in SEK thousand unless otherwise indicated.

Note 1. OPERATING REVENUE AND OPERATING PROFIT PER DIVISION AND MARKET

Division	Operating revenue		Operating profit	
	2000	1999	2000	1999
Media Intelligence	875,058	586,475	204,979	109,157
Communications	210,841	86,320	67,634	31,638
SMG Consulting	44,251	42,702	5,101	5,388
	1,130,150	715,497	277,714	146,183

Divested operations	21,722	415,130	5,336	-5,695
Group eliminations	-16,500	-34,311	-12,472	-5,956

Operating revenue and operating profit before goodwill amortization and items affecting comparability 1,135,372 1,096,316 270,578 134,532

Amortization of goodwill			-87,134	-32,127
Items affecting comparability			398,592	-473
Operating profit			582,036	101,932

Market	Operating revenue per market	
	2000	1999
Sweden	350,172	312,901
Other Nordic countries	249,856	189,375
Rest of Europe	527,546	213,221
USA	2,576	—
	1,130,150	715,497

Divested operations	21,722	415,130
Group eliminations	-16,500	-34,311
Total	1,135,372	1,096,316

Note 2. INTERCOMPANY SALES

Intercompany sales amounted to 2.7 percent (4.6). For the parent company, internal sales amounted to 1.7 percent (0.9).

Note 3. OTHER EXTERNAL EXPENSES

This income statement item includes a state subsidy of 1,629 (1,235).

Note 4. AUDITING EXPENSES

	Group		Parent company	
	2000	1999	2000	1999
Ernst & Young				
Auditing assignments	2,353	1,630	372	250
Other assignments	4,637	487	466	149
Other auditors				
Auditing assignments	46	27	—	—
Other assignments	15	—	—	—
Total	7,051	2,144	838	399

Auditing assignments refer to the audit of the annual report, accounting records and administration of the Board of Directors and the President as well as other tasks incumbent on the company's auditors. All other work is considered other assignments.

Note 5. LEASES

In 2000, the Group maintained office leases, financial leasing and other operative leasing on market terms.

Financial leasing

In 2000, only initial interest of 237 was paid and charged against profit. Lease fees will be paid as of January 2001. Leased assets have not been booked as fixed assets.

The acquisition value and present value of liabilities for future minimum lease fees amounts to 12,236.

Reconciliation of minimum leasing fees	Estimated present value	Nominal value
Due date within one year	3,604	3,662
Due date between one and five years	8,632	9,172
Total minimum lease fees	12,236	12,834

Variable fees

Interest expenses vary with changes in the STIBOR rate.

Contract terms

The lessee retains the right to acquire the asset when the contract expires as well as to extend the contract.

Re-leasing

The acquisition value and present value of liabilities for future minimum fees for leased equipment which is re-leased outside the Group amounts to 5,665.

Note 6. PERSONNEL

Average no. of employees	2000 No. of employees	2000 Of whom men	1999 No. of employees	1999 Of whom men
Sweden				
Parent company	380	162	365	145
Subsidiaries	36	26	327	139
Norway	174	61	92	37
Denmark	116	53	100	51
Finland	121	35	96	23
Baltic states	28	13	23	10
Germany	256	101	213	84
UK ¹	577	188	126	41
Total	1,688	639	1,342	530

¹ The average number of employees in the UK was 505 (of whom 165 were men) during the period October 1-December 31, 1999. In the table above, the average number of employees has been estimated for the period January 1-December 31, 1999.



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SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

	2000		2000		1999		1999	
	Salaries and other remuneration		Social security expenses		Salaries and other remuneration		Social security expenses	
	(of which bonuses etc)		(of which pension expenses)		(of which bonuses etc)		(of which pension expenses)	
Board and President								
Sweden								
Parent company	5 219	(1 907)	3 302	(1 379)	2 338	(385)	1 114	(343)
Subsidiaries	2 893	(645)	1 436	(414)	3 696	(127)	1 919	(762)
Norway	1 704	(365)	578	(234)	4 193	(252)	777	—
Denmark	1 434	(412)	114	(114)	1 198	—	7	—
Finland	987	(271)	253	(185)	793	(59)	206	(61)
Baltic states	—	—	—	—	33	—	—	—
Germany	1 970	(130)	320	(216)	2 676	(81)	419	(68)
UK (3 months 1999)	4 880	(55)	568	(69)	3 102	(174)	374	(40)
Total	19 087	(3 785)	6 571	(2 611)	18 029	(1 078)	4 816	(1 274)
Other employees								
	2000		2000		1999		1999	
	Salaries and other remuneration		Social security expenses		Salaries and other remuneration		Social security expenses	
	(of which bonuses etc)		(of which pension expenses)		(of which bonuses etc)		(of which pension expenses)	
Sweden								
Parent company	99 722	(3 503)	40 709	(6 252)	86 882	(332)	33 445	(5 295)
Subsidiaries	10 142	(111)	5 274	(1 976)	101 660	(2 919)	40 932	(10 144)
Norway	54 174	(78)	7 065	(177)	73 559	—	11 148	(452)
Denmark	36 320	—	623	—	36 594	—	683	—
Finland	29 088	—	7 226	(4 421)	24 463	(664)	5 436	(3 828)
Baltic states	1 526	—	565	—	888	—	366	(103)
Germany	73 103	(920)	13 578	—	60 136	—	11 652	—
UK (3 months 1999)	128 173	(15 556)	9 802	(1 913)	25 522	(2 219)	2 634	(548)
Total	432 248	(20 168)	84 842	(14 739)	409 704	(6 134)	106 296	(20 370)

The amount for presidents of companies operating under commission agreements is reported under subsidiaries.

Compensation paid to the members of the Board of Directors and senior executives

Salaries and other benefits

Directors' fees in 2000 amounted to 650 (538), of which 175 (163) was paid to the Chairman of the Board.

Salary and other remuneration paid to the President in 2000 amounted to 3,195 (1,800), of which bonuses accounted for 1,362 (385). The Executive Vice President's salary and other remuneration amounted to 1,374 (—), of which bonuses accounted for 545 (—). Salary and other remuneration paid to the Executive Vice President covers the period June–December 2000. The President holds 29,030 warrants with the right to subscribe for 236,595 Class B shares in Observer AB at a price of SEK 10.72 between July 1, 1998 and June 30, 2002. In 2001, the President was allotted 35,000 stock options with the right to subscribe for 35,000 Class B shares in Observer AB at a price of SEK 100 between March 2003 and March 2005. In 2001, the Executive Vice President was allotted 25,000 stock options with the right to subscribe for 25,000 Class B shares in Observer AB at a price of SEK 100 between March 2003 and March 2005.

Other senior executives have previously subscribed for convertible promissory notes in the total nominal amount of 3,744.

Pensions

The terms of the President's pension allow him to retire at age 60. In other respects, the pension terms for the President and other senior executives essentially follow the national pension scheme.

Notice of termination and severance pay

The President and certain company executives have agreements entitling them to severance if they are asked to leave their positions at the company's request. In none of these cases does the severance pay exceed two annual salaries.

Note 7. OTHER DEPRECIATION/AMORTIZATION

	Group		Parent company	
	2000	1999	2000	1999
Other intangible assets	3,955	9,325	1,082	—
Buildings and land	1,273	933	—	—
Equipment	28,922	22,974	8,559	4,430
Total	34,150	33,232	9,641	4,430

Note 8. ITEMS AFFECTING COMPARABILITY

	Group		Parent company	
	2000	1999	2000	1999
Capital gain/loss on divested businesses	383,756	–473	—	—
Surplus insurance refund from Alecia pensionsförsäkring (formerly SPP)	14,836	—	8,498	—
Total	398,592	–473	8,498	—

The surplus insurance refund from Alecia pensionsförsäkring (formerly SPP) amounts to SEK 16.2 million. These funds have been discounted by 5 percent and taken up as SEK 14.8 million in revenue. SEK 3.4 million has been paid out in cash, while SEK 12.8 million has been reported as current and long-term receivables. The funds are expected to be utilized between the years 2001–2004.



Note 9. RESULT FROM PARTICIPATIONS IN GROUP COMPANIES

	Group		Parent company	
	2000	1999	2000	1999
Dividends from group companies	—	—	10,754	11,189
Result from divestment of shares in subsidiary	—	—	-1,089	—
Write-down of participations in group companies	—	—	—	-291
Total	—	—	9,665	10,898

Note 10. RESULT FROM PARTICIPATIONS IN ASSOCIATED COMPANIES

In 2000 participations in associated companies were divested. In 1999, -250 related to write-downs of participations in associated companies.

Note 11. RESULT FROM OTHER SECURITIES AND RECEIVABLES REPORTED AS FIXED ASSETS

	Group		Parent company	
	2000	1999	2000	1999
Interest	—	1,754	—	—
Total	—	1,754	—	—

Note 12. OTHER INTEREST INCOME AND SIMILAR PROFIT/LOSS ITEMS

	Group		Parent company	
	2000	1999	2000	1999
Interest	25,454	1 966	59,239	8,776
Exchange rate differences	2,739	—	—	—
Capital gain on sale	—	3,746	152	3,140
Total	28,193	5,712	59,391	11,916

The parent company's interest includes interest income from group companies of 54,329 (8,614).

Note 13. INTEREST EXPENSES AND SIMILAR PROFIT/LOSS ITEMS

	Group		Parent company	
	2000	1999	2000	1999
Interest	-60,257	-13,059	-26,079	-10,169
Exchange rate differences	3,041	-289	186	-287
Write-down of current assets	-6,599	—	—	—
Total	-63,815	-13,348	-25,893	-10,456

The parent company's interest includes interest expenses from group companies of -19,625 (-1,113).

Note 14. OTHER APPROPRIATIONS/UNTAXED RESERVES

	Group		Parent company	
	2000	1999	2000	1999
Appropriations				
Allocation to accrual reserve	—	—	18,746	13,874
Difference between book depreciation and depreciation according to plan	—	—	5,000	—
Shareholder contribution	—	—	61	—
Total	—	—	23,807	13,874

Untaxed reserves

Tax allocation reserve 1998	—	—	3,066	3,066
Tax allocation reserve 1999	—	—	9,365	9,365
Tax allocation reserve 2000	—	—	13,874	13,874
Tax allocation reserve 2001	—	—	18,746	—
Difference between book depreciation and depreciation according to plan	—	—	5,000	—
Total	—	—	50,051	26,305

Note 15. TAX

	Group		Parent company	
	2000	1999	2000	1999
Tax paid	-57,830	-36,118	-20,663	-15,085
Deferred tax	-23,216	-2,234	—	—
Total	-81,046	-38,352	-20,663	-15,085

Note 16. GOODWILL

	Group		Parent company	
	2000	1999	2000	1999
Acquisition values brought forward	1,778,189	258,066	12,000	12,000
Purchases/acquisitions	77,115	1,499,949	—	—
Sales/disposals	-194,816	—	—	—
Translation differences	71,086	20,174	—	—
Accumulated acquisition values carried forward	1,731,574	1,778,189	12,000	12,000
Amortization brought forward	-70,213	-38,852	-1,350	-750
Sales/disposals	35,069	256	—	—
Translation differences	-4,716	510	—	—
Amortization for the year	-87,134	-32,127	-600	-600
Accumulated amortization carried forward	-126,994	-70,213	-1,950	-1,350
RESIDUAL VALUE ACCORDING TO PLAN CARRIED FORWARD	1,604,580	1,707,976	10,050	10,650

Note 17. OTHER INTANGIBLE ASSETS

	Group		Parent company	
	2000	1999	2000	1999
Acquisition values				
brought forward	66,884	32,181	6,426	—
Purchases/acquisitions	12,480	33,327	27,119	6,426
Sales/disposals	-39,774	—	—	—
Reclassifications	1,326	1,512	—	—
Translation differences	194	-136	—	—
Accumulated acquisition values carried forward¹	41,110	66,884	33,545	6,426
Amortization brought forward	-15,380	-4,575	—	—
Sales/disposals	14,832	—	—	—
Reclassifications	—	-1,512	—	—
Translation differences	-40	32	—	—
Amortization for the year	-3,955	-9,325	-1,082	—
Accumulated amortization carried forward	-4,543	-15,380	-1,082	—
RESIDUAL VALUE ACCORDING TO PLAN CARRIED FORWARD	36,567	51,504	32,463	6,426

¹ The group's licensing fees brought forward amount to 4,558 (9,766), while the remaining amount relates to development expenditures brought forward.

Note 18. BUILDINGS AND LAND

	Group		Parent company	
	2000	1999	2000	1999
Acquisition values brought forward	104,004	41,573	—	—
Purchases/acquisitions	513	61,393	—	—
Sales/disposals	-39,584	—	—	—
Reclassifications	—	—	—	—
Translation differences	2,761	1,038	—	—
Accumulated acquisition values carried forward	67,694	104,004	—	—
Depreciation brought forward	-17,996	-17,067	—	—
Purchases/acquisitions	—	-82	—	—
Sales/disposals	17,454	—	—	—
Reclassifications	-341	—	—	—
Translation differences	-72	86	—	—
Depreciation for the year	-1,273	-933	—	—
Accumulated depreciation carried forward	-2,228	-17,996	—	—
RESIDUAL VALUE ACCORDING TO PLAN CARRIED FORWARD	65,466	86,008	—	—

The property held by the Swedish part of the group was sold during the year. The tax assessment value in the previous year amounted to 13,823 and the residual value according to plan for land to 1,359. The balance sheet item includes two properties in the UK which are leased long-term. Future lease commitments amount to only a symbolic sum.

Note 19. EQUIPMENT

	Group		Parent company	
	2000	1999	2000	1999
Acquisition values				
brought forward	196,499	120,431	31,369	24,314
Purchases/acquisitions	65,775	86,296	31,446	10,201
Sales/disposals	-75,529	-6,429	-764	-3,146
Reclassifications	-231	-1,926	-48	—
Translation differences	4,047	-1,873	—	—
Accumulated acquisition values carried forward	190,561	196,499	62,003	31,369
Depreciation brought forward	-132,909	-81,983	-18,568	-16,851
Purchases/acquisitions	—	-31,543	-983	—
Sales/disposals	58,675	—	425	2,713
Translation differences	-2,537	1,665	—	—
Reclassifications	1,886	1,926	1,143	—
Depreciation for the year	-28,922	-22,974	-8,559	-4,430
Accumulated depreciation carried forward	-103,807	-132,909	-26,542	-18,568
RESIDUAL VALUE ACCORDING TO PLAN CARRIED FORWARD	86,754	63,590	35,461	12,801

Note 20. PARTICIPATIONS IN GROUP COMPANIES

Company	Registered address	Reg. no	No. of shares	Holding, per cent	Currency	Nominal value in each currency	Book value (SEK 000)
Observer AB	Sollentuna	556027-9514					
BIT Börslistans Informationstjänst AB	Solna	556317-1916	10 000	100,00	SEK	100 000	9 650
IMU-Testologen AB	Stockholm	556121-3066	1 000	100,00	SEK	100 000	9 000
Observer Utvecklings AB	Stockholm	556408-1981	500	100,00	SEK	500 000	513
Media Intelligence (UK) Ltd	London	3858850	60 303 363	100,00	GBP	60 303 363	872 541
Observer Group AB	Stockholm	556581-9678	1 000	100,00	SEK	100 000	100
Observer Danmark A/S	Copenhagen	163.529	6	100,00	DKK	550 000	13 418
Observer Eesti OÜ	Tallinn	—	320	100,00	EEK	160 000	90
Observer Holding GmbH	Fellbach	—	—	100,00	DEM	50 000	20 449
Observer Latvija Sia	Riga	—	200	100,00	LVL	4 000	85
Observer Media Intelligence AB	Stockholm	556124-8740	1 000	100,00	SEK	100 000	100
Observer Norge AS	Oslo	923 836 683	30 000	100,00	NOK	30 000 000	41 330
Observer Sverige AB	Stockholm	556042-1017	1 000	100,00	SEK	100 000	63 050
Oy BIT Börslistans Informationstjänst Ab	Helsinki	585.399	60	100,00	FIM	60 000	3 726
Oy Observer Finland Ab	Helsinki	684.094	250 150	100,00	FIM	25 015 000	37 507
Oy Pressfax Ab	Helsinki	723.051	150	100,00	FIM	15 000	24
Presseklipp AS	Oslo	935 307 090	3 000	100,00	NOK	3 000 000	3 834
S2S Scenario to Strategy AB	Stockholm	556305-7164	2 500	100,00	SEK	250 000	250
Observer Guidance AB	Stockholm	556560-6182	60	60,00	SEK	60 000	60
Observer Internet Research AB	Stockholm	556578-9756	1 000	100,00	SEK	100 000	100
SMG Consulting AB	Stockholm	556333-8838	5 000	50,00	SEK	500 000	535
SMG North America Inc.	Delaware	—	401 000	100,00	USD	100 000	0
UAB Observer	Kaunas	—	400	100,00	LTL	40 000	199
							1 076 561
Indirectly owned subsidiaries							
Observer Argus Media GmbH	Fellbach	812378494	—	86,00	DEM	1 050 000	
Romeike Ltd	London	2255420	2	100,00	GBP	2	
Media Information Ltd	Chesham	1499817	405 100	100,00	GBP	405 100	
BIT Börslistans Informationstjeneste A/S	Copenhagen	178.670	—	100,00	DKK	500 000	
SMG Sweden AB	Stockholm	556202-3373	6 240	100,00	SEK	624 000	
SMG Danmark A/S	Copenhagen	179.894	62	100,00	DKK	30 000	
SMG Finland Oy	Helsinki	378.560	100	100,00	FIM	15 000	

The list contains Observer's operating companies. Indirectly owned dormant companies are not included. A complete statutory specification of participations in group companies can be obtained from Observer AB.

Note 21. TAX RECEIVABLES AND TAX LIABILITIES

	Group		Parent company	
	2000	1999	2000	1999
Tax receivables				
Tax receivables	14,490	2,625	11,262	—
Deferred tax receivables	18,038	30,904	—	—
Total	32,528	33,529	11,262	—
Tax liabilities				
Tax liabilities	-39,433	-25,932	-20,995	-11,669
Deferred tax liability	-42,596	-26,552	—	—
Total	-82,029	-52,484	-20,995	-11,669

Note 22. PREPAID EXPENSES AND ACCRUED INCOME

	Group		Parent company	
	2000	1999	2000	1999
Prepaid rent	5,705	7,949	4,963	3,178
Other prepaid expenses	24,945	22,724	13,179	7,426
Accrued income	498	24,938	—	8,221
Total	31,148	55,611	18,142	18,825

Note 23. OTHER LONG-TERM SECURITIES HOLDINGS

	Group		Parent company	
	2000	1999	2000	1999
Other shares and participations	23,087	3,484	6,319	—
Other securities	—	—	19	19
Total	23,087	3,484	6,338	19

Note 24. SHAREHOLDERS' EQUITY

Group	Share capital ¹	Restricted reserves	Non-restricted reserves	Total
Balance brought forward				
at beginning of year	52,041	58,906	129,353	240,300
Rights issue	31,225	793,919	—	825,144
Dividend	—	—	-19,429	-19,429
Change in accounting principles ²	—	—	-5,130	-5,130
Transfer between restricted and non-restricted equity	—	26,707	-26,707	—
Translation difference for the year	—	19,327	40,936	60,263
Net profit for the year	—	—	461,754	461,754
BALANCE CARRIED				
FORWARD AT YEAR-END	83,266	898,859	580,777	1,562,902

(Note 24 continues on page 55)



(Continued from page 54)

Parent company	Share capital ¹	Share premium capital	Statutory reserve	Non-restricted equity	Total
Balance brought forward at beginning of year	52,041	26,582	9,274	230,992	318,889
Dividend	—	—	—	-19,429	-19,429
Rights issue	31,225	793,919	—	—	825,144
Group contribution paid	—	—	—	-8,415	-8,415
Net profit for the year	—	—	—	54,542	54,542
BALANCE CARRIED FORWARD AT YEAR-END	83,266	820,501	9,274	257,690	1,170,731

¹ The share capital on the closing day comprised 55,510,442 shares with a par value of SEK 1.50, of which 28,537,029 were Class A shares and 26,973,413 Class B shares. Class A shares carry five votes each and Class B shares one vote each.

² The change in accounting principles refers to the transfer of non-restricted earnings to deferred tax due to differences in accounting principles in foreign subsidiaries compared with Swedish practice.

Note 25. OTHER PROVISIONS

Other provisions refer in their entirety to provisions for expenses in connection with the restructuring of acquired businesses.

Note 26. LONG-TERM LIABILITIES

Of the long-term liabilities in the Group, 0 (2,256) refers to liabilities that fall due for payment more than five years after the closing day.

Note 27. OTHER LIABILITIES

Included among Other liabilities are 620 in warrants subscribed for in 1995 by Robert Lundberg, President of Observer AB. The promissory notes were tied to detachable warrants to subscribe for new shares in Observer AB and consisted of a loan portion of 65, which was repaid in 1996, and a second portion of 50,000 warrants with an issue price of SEK 12.40, totaling 620. After the terms were adjusted in connection with the rights issue in early 2000, the warrants now may be exercised to subscribe for 407,500 Class B shares at a price of SEK 10.72 between July 1, 1998 and June 30, 2002.

Note 28. WORK IN PROGRESS

	Group		Parent company	
	2000	1999	2000	1999
Accrued expenses	—	29,501	—	—
Invoiced advances	—	-31,254	—	—
Total	—	-1,753	—	—

The year's change in accrued expenses on the balance sheet was reported in the income statement in 1999 under Change in work in progress.

Note 29. ACCRUED EXPENSES AND DEFERRED INCOME

	Group		Parent company	
	2000	1999	2000	1999
Vacation compensation liability	26,189	39,109	13,498	9,947
Other accrued staff costs	31,585	56,900	16,355	13,391
Other accrued expenses	52,294	51,206	13,290	16,606
Deferred income	19,203	25,015	—	—
Total (operating and financial)	129,271	172,230	43,143	39,944

Note 30. BANK OVERDRAFT FACILITY

The limit granted on the Group's joint bank overdraft facility amounts to 50,000 (50,000). In addition, 85,320 (84,300) in bank overdraft facilities is available to Group companies (primarily in the UK).

Note 31. CONVERTIBLE DEBENTURE LOANS

Observer AB has issued two convertible debenture loans. Loan 1 for 20,988 was issued in 1997, while loan 2 for 27,086 was issued in 1999. Both loans have been subscribed for, acquired by or are intended to be made available for subscription by key employees of the Group. At year-end 2000 a subsidiary of Observer AB held convertibles with a nominal value of 8,496 (loan 2). These convertibles are booked in Media Intelligence UK Ltd at acquisition value, 18,045. In the consolidated balance sheet as of December 31, 2000 they are reported as long-term securities holdings. Based on its holding of this debenture loan, Media Intelligence UK Ltd issued warrants covering 97,000 shares to key group employees in 2000. The exercise price is approximately SEK 112.

Loan 1 matures on July 30, 2002. The conversion period is June 30, 2001–June 30, 2002. Following the rights issue in early 2000, the conversion price was recalculated at SEK 26.70. The loan carries an interest rate of the one-year Stibor less 0.7 percentage points. Loan 1 entitles its holders to convert to a total of 786,067 Class B shares.

Loan 2 matures on July 30, 2004. The conversion period is June 30, 2003–June 30, 2004. Following the rights issue in early 2000, the conversion price was recalculated at SEK 57.10. The loan carries an interest rate of the one-year Stibor less 0.7 percentage points. Loan 2 entitles its holders to convert to a total of 474,367 Class B shares.

Note 32. OTHER LONG-TERM LIABILITIES

Approximately half the acquisition of Romeike Group in 1999 was financed through the issuance of interest-bearing loan notes to the sellers. The notes mature in five years, but may be redeemed prior to that at the holder's request. The notes, which are denominated in GBP and carry an interest rate of Libor less 1.5 percentage points, have been bank-guaranteed by Observer AB. In 2000, GBP 10.1 million was repaid to the sellers.

Note 33. PLEDGED ASSETS

	Group		Parent company	
	2000	1999	2000	1999
Related to long-term liabilities to credit institutions				
Real estate mortgages	—	20,000	—	—
Other pledged assets				
Chattel mortgages	1,300	4,017	—	—
Other pledged assets	—	72	—	—
Participations/net assets in Group companies	1,635,101	1,539,060	63,050	63,050
Total	1,636,401	1,563,149	63,050	63,050

Note 34. CONTINGENT LIABILITIES

	Group		Parent company	
	2000	1999	2000	1999
Guarantees on behalf of Group companies	1,770	15,937	727,534	858,871
Other contingent liabilities	3,521	4,912	3,521	4,412
Total	5,291	20,849	731,055	863,283



Audit report

To the general meeting of the shareholders of Observer
AB (publ) AB

Corporate identity number 5566027-9514

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Observer AB (publ) for the the financial year 2000. These accounts and the administration of the company are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opi-

nion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has in any other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the financial position of the company's and the group's financial position and of the results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the general meeting of the shareholders that the income statements and the balance sheets of the parent company and the group be adopted, that the profit for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Stockholm, March 29, 2001

Ernst & Young AB

Lars Träff
Authorized Public Accountant