



Press release

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New stage in Cell Network's action programme to restore profitability

Cell Network is concentrating its resources in Germany on the profitable management consultancy market and is withdrawing from the unprofitable web design market by selling its stake in Aperto. Meanwhile, the Cell Media/Communication business area, which includes Journalistgruppen, Propello and Cell Interactive TV, has been sold off.

"This is an important stage in our action programme to restore profitability and to restructure and refocus the Group," says CEO Niklas Flyborg. "We are now consolidating our operations to become a profitable, albeit smaller business. In addition, our cash position is strengthened and we avoid commitments that put a strain on the Group. We are building a solid platform for future expansion whilst retaining profitability."

Several German web consultants have ended up in financial difficulty due to a dramatically changed market, and this also applies to Aperto.

During the first six months of the year, Aperto recorded a gross profit from operations equivalent to minus SEK 15 million. The forecast for the rest of the year indicates continued losses, and the company now has urgent need of a capital injection. In the beginning of July, the management of Aperto gave notice of redundancy to 70 of the company's staff of just above 90 people.

On 11 July, Cell Network transferred its 51 percent stake in Aperto to the German company DeltaVest. At the same time, Cell Network is giving Aperto a capital injection of DEM 3 million. All Cell Network's obligations to Aperto and those who sold it to Cell Network in September 2000 will thus cease.

Cell Network thereby avoids future commitments in the form of such things as performance-based additional purchase sums equivalent to SEK 70 – 300 million, and anticipated losses for the second six months of the year equivalent to at least SEK 15 million. The deal means a reduction in the Group's goodwill in excess of SEK 200 million and capital losses of approx. SEK 140 million.

Cell Network will henceforth be collaborating with Aperto when this is commercially justified in order to satisfy customer demand.

Cell Network's operations in Germany are now focusing on the significantly more profitable management consultancy market through Cell Consulting, which is 18 percent owned by Cell Network. Cell Consulting commenced operations in January 2001 and these are progressing ahead of plan with some 70 people now employed. The customers include Lufthansa, Deutsche Post and MAN. Cell Network has undertaken to finance the operation during 2001 through a maximum loan of SEK 100 million. During 2002, Cell Network can convert this loan into shares in Cell Consulting, whereby Cell Network will become the majority owner.

Refocus

Cell Network will, at the same time, continue to refocus its business by selling the Cell Media / Communication business area.

Subsidiaries Journalistgruppen and Propello have been sold to Bure Equity. Subsidiary Cell Interactive TV has, as has previously been reported, been sold to SPARKidea Consulting in London. Cell Media / Communication employs around 200 people.

Henceforth, Cell Network will also continue to have access to the expertise which the sold companies possess.

- As a subsidiary, we provided a joint offer to customers whenever it was right to do so, comments MD of Journalistgruppen, Anders Lugn. This is something we will continue to do when we are part of Bure Equity. Customer benefit comes first, with ownership second.

The deal will strengthen Cell Network's cash position, and represents an important step in the refocusing of the Group which is now under way. The deal is a logical step in the process to create a profitable, well established and focused consulting company within business development, systems development and convergence.

More measures implemented

Cell Network has made a range of major and minor changes in the second quarter as it strives towards its priority goal, profitability for all business units as well as the Group as a whole. Around 110 people in total will be leaving the company in Spain and in Scandinavia.

All staff at the e-Learning unit in Gothenburg have been given redundancy notices. A number of these will be employed within other units in Gothenburg, so Cell Network will be maintaining its expertise in e-Learning.

The Örebro and Västerås offices will be closed, and their staff have been given redundancy notices. Some operations will be moved to other units within Cell Network Sweden. Cuts have also been made in Malmö and Borlänge as well as at the Group headquarters in Stockholm.

In Norway, cuts have been made in Oslo whereas the Molde office has been closed and the operation moved to Stavanger. In Spain, half the workforce have been given notice of redundancy.

The staff reductions that have been made are estimated to involve structural costs of SEK 35-40 million. When they have been implemented, the monthly savings are estimated to be around SEK 6-8million.

Continuing as planned

"We are now in the middle of the programme of measures called Push for Profit, which we adopted in the spring," says CEO Niklas Flyborg. "As planned, we are continuing to look over all parts of the Group. Units that are not considered able to show a profit within a reasonable time will be sold or closed."

"As we have stated earlier, we have seen the utilisation rates for our consultants for the second quarter develop in the direction of being lower than we had calculated in our internal forecasts. In Scandinavia, the tougher market in particular, but also the lower number of days worked, has meant that it has not been possible to sustain the positive trend in utilisation rate in the second quarter. A number of larger strategic projects have been secured, but the market is marked by greater uncertainty and longer decision-making times. Certain markets outside Scandinavia are considerably weaker than we had anticipated, whilst others are showing a good level of profitability. The development of the Cell Telecom business area is somewhat below expectations. However, Cell Telecom has managed to place sales with new customers to compensate for the cancellations and the loss of projects with Ericsson. Within Cell ITS, losses have continued to fall according to plan and the company is at a turning point and reached profitability in June.

"This is a tough programme of changes we are carrying out," says Niklas Flyborg, "but we are convinced that we will achieve our goal of creating a profitable and focused consultancy company within IT/ Internet and telecommunications. By refocusing our business and continuing to invest in management consulting we are also moving higher up the value chain. We have prioritised the five segments of financial services, telecom, automotive, public, and retail, which today represent 70 percent of the turnover."

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Cell Network AB is a leading consulting company focused on the IT/Internet, Telecom and Media/Communication. The company delivers business-critical solutions taking full responsibility for strategy, technology, design and content. Clients include Ericsson, Volvo, the Swedish Defence Material Administration (Försvarets Materielverk), Telia, General Electric, AstraZeneca, Telenor and Statoil.

Cell Network is listed on the Stockholm stock exchange's Attract 40/ O-list and has about 1.400 employees in 13 countries. Read more about Cell Network AB at www.cellnetwork.com