



### M2S in brief

M2S's business idea is to develop, produce and market interactive e-learning programs. The programs are marketed under the trade names Wit and TutorWin and are available in eleven languages. As Europe's leading player in the e-learning IT training market, M2S has established subsidiaries in Denmark, Finland, France, Ireland, Norway, Switzerland, Spain, Great Britain, Sweden and Germany. M2S is listed on the Stockholm Stock Exchange's Attract 40 list.

## M2S Sverige AB

### Interim Report 1 January – 30 June 2001

If not otherwise stated, the figures below are for the period 1 January – 30 June 2001.

Figures in brackets are for the same period last year.

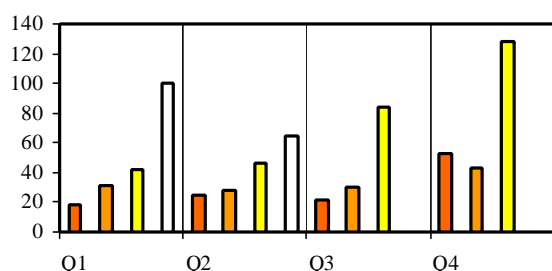
## Increased turnover in a weak market

- Turnover increased by 90 percent to SEK 165.0 (86.7) million. Turnover increased by approximately 10 percent for comparable units<sup>1</sup>.
- Operating loss before amortization of goodwill was SEK –34.7 (–28.7) million and SEK –54.1 (–30.3) million after amortization of goodwill.
- Earnings per share was SEK –2.93 (–2.13).
- Sales from M2S overseas markets increased by 100 percent to SEK 131.0 (65.5) million which is 86 (76) percent of the Group's total sales.
- Sales from the Swedish market increased slightly to SEK 21.2 (20.6) million.
- During the third quarter a new cost reduction program will be carried out, to further reduce costs and staff levels with the aim of generating conditions for profitability in the Group.
- In July, a loan of SEK 26 million was arranged with the bank SEB and a consortium including a group of the company's major shareholders.

### Second quarter 2001

Turnover increased by 45 percent in the second quarter to SEK 64.6 (44.6) million. Sales in the Swedish market fell in the second quarter to SEK 5.8 (7.8) million. Sales from M2S overseas markets increased by 45 percent to SEK 53.2 (36.8) million, which is 90 (83) percent of the Group's total sales. Included in this figure is a currency rate fluctuation contribution of SEK 5.6 million.

#### Turnover per quarter 1998 – 2001 in SEKm



Operating loss in the second quarter was SEK –49.3 (–29.2) million before amortization of goodwill and was SEK –58.6 (–30.5) million after amortization of goodwill. Earnings after financial items was SEK –59.0 (–31.0) million.

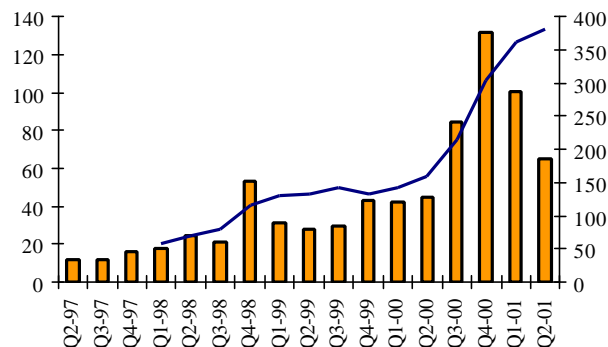
### First half year 2001

#### Sales

Group turnover in the first half year was SEK 165.0 (86.7) million, an increase of 90 percent. Turnover for comparable units<sup>1</sup> increased by approximately 10 percent. The year began with

relatively weak sales in all markets which nevertheless recovered strongly at the end of the first quarter. However, the expected continued sales growth in the second quarter did not materialise. No large orders were received in this period which is mainly attributable to customers delaying large investment decisions. Group overseas sales in the first half year were SEK 131.0 (65.5) million, an increase of 100 percent. Turnover for comparable units<sup>1</sup> increased by approximately 10 percent. Sales in Sweden increased slightly to SEK 21.2 (20.6) million, which was weaker than expected. Demand has been weak and hesitant in the second quarter, particularly in the Nordic markets. The European market in general has also been characterised by caution in the investment in information technology and related services.

#### Turnover per quarter and rolling twelve months in SEKm

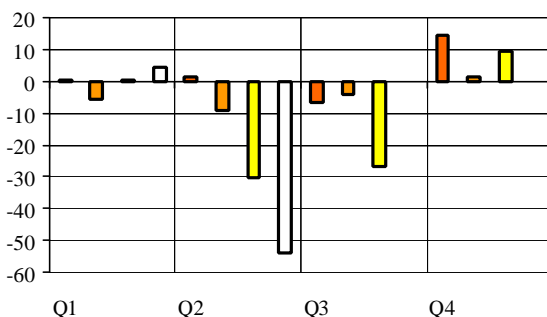


<sup>1</sup> Turnover increases for comparable units have been calculated so that turnover of Prokoda AG is adjusted to proforma for the period January to May 2000.

## Earnings

The Group's operating loss before amortization of goodwill was SEK -34.7 (-28.7) million and after amortization of goodwill was SEK -54.1 (-30.3) million. Earnings after financial items was SEK -55.3 (-30.6) million. Earnings per share was SEK -2.93 (-2.13). Negative earnings relate to the second quarter only and are primarily a result of lower sales levels than expected in all markets and the lack of large orders.

### Operating income/loss before tax per quarter 1998 – 2001 in SEKm



## The Operations

The proportion of so-called Custom projects has continued to increase during the first half year, particularly in Germany and Denmark. In Germany, Custom project demand has been strong mainly in SAP projects and therefore preparations are now being made in other subsidiaries to meet the expected demand in SAP projects. An important order was also received from the German state owned Bfa, Bundesversicherungsanstalt für Angestellte, regarding e-learning for Lotus Notes and SAP R3's application for Human Resources.

The German operation have in the second quarter been organised into two legal entities, one focussing on e-learning and one focussing on traditional instructor-led training. The future ownership of the instructor-led training unit is under review and talks have been conducted with potential buyers as well as strategic alliance partners.

In Sweden, an important order has been signed in co-operation between M2S and Pricewaterhouse Coopers for a large multinational company's global SAP implementation. In Denmark, an agreement has been entered into with Carlsberg for an e-Procurement solution for implementation in seven countries.

An important break-through in the so-called Soft Skills area has also been achieved in Denmark with an agreement with Grundfos for a training program for sales staff. The previously reported cooperation with Adecco in France has been terminated as therefore sales in France only amounts to SEK 1.1 million in the first half year. However, the French market is considered to be able to give good sales levels in the second half year. In Spain at the beginning of July, a strategically important order from the training company Wall Street Institute was received for Office training.

	Turnover SEKm		No. of employees <sup>(1)</sup>	
	Jan-Jun 01	Jan-Jun 00	Jun 01	Jun 00
Germany <sup>(2)</sup>	98.5	25.4	251	246
Sweden <sup>(3)</sup>	34.0	21.2	76	80
Norway	5.1	6.7	13	14
Denmark	5.2	13.8	18	19
Spain	9.5	7.0	25	25
Great Britain	7.3	9.3	12	7
Switzerland <sup>(2)</sup>	3.9	2.1	7	8
France	1.1	0.6	13	3
Finland	0.4	0.6	1	7
Ireland <sup>(4)</sup>	-	-	11	11
<b>Total</b>	<b>165.0</b>	<b>86.7</b>	<b>427</b>	<b>420</b>

- 1) Equivalent to total number of full time employees.
- 2) Prokoda Germany and Switzerland consolidated from 1 June 2001.
- 3) Includes the joint Group functions of business/product development and production. At the end of June 2001 there were 29 (40) employees in these functions and 47 (40) in the Swedish company. Turnover was SEK 34.0 (21.2) million including an exchange rate contribution of SEK 12.8 (0.6) million.
- 4) Production company.

## Cost reduction program

The previously announced costs and staffing reduction program was carried out in the second quarter. The program has been carried out in general according to plan, with some rescheduling in Germany and has resulted in a reduction in costs of around 15 percent and a reduction in the number of employees by more than 50. The costs reduction will give full effect in the third quarter.

The weak and hesitant market is now expected to continue for the rest of the year. In the third quarter, further reductions in costs and personnel will therefore be made, to create the conditions for profitability in the Group. The program will reduce costs by a further 20 percent. The program will cost SEK 20–25 million and will be charged to third quarter earnings. The costs reduction are expected to give full effect from the first quarter of 2002.

## Future Prospects

Despite a generally weak market, M2S achieved an increase in turnover of 90 percent in the first half year and a turnover increase of approximately 10 percent for comparable units<sup>1</sup>. The market is expected to remain weak and hesitant for the rest of the year. M2S considers the growth shown by the company in both the first half year and the second to be higher than market growth in the different countries and market segments in which the company operates.

The current movement towards Custom and other more advanced solutions continues and the ability to supply services in project management, implementation, integration, technology and pedagogic will become more important. In summary, M2S relatively strong market position in Europe, generates a good basis for future profitability. This is reinforced by higher growth rates than the market growth rates in the different countries and market segments in which the company operates.

The previously stated goal of achieving a 50 percent turnover increase in 2001 and positive operating income after goodwill and before capitalization of specific development costs will not be achieved.

<sup>1</sup> Turnover increases for comparable units have been calculated so that turnover of Prokoda AG is adjusted to proforma for the period January to May 2000.

## Investments

The Group's investments in fixed assets in the period was SEK 37.4 (3.6) million excluding subsidiary acquisitions. Investment in product development was SEK 25.3 (–) million of this amount which has been capitalized in accordance with the new accounting recommendations. The first half year direct investments were SEK 4.8 million, as opposed to SEK 3.6 million in the same period last year. The remainder relates to currency rate fluctuations and the revaluation of leasing contracts.

## Liquidity and financial position

Group net liquid assets including an overdraft facility of SEK 34.7 million as at 30 June 2001 was SEK 25.8 (238.9) million. The equity/assets ratio at 30 June 2001 was 83 (84) percent. The company's interest bearing liabilities at the end of the period was SEK 45.5 (25.3) million. The Group's accounts receivable was SEK 70.9 (74.8) million at 30 June 2001.

## Loan

In July, a loan of SEK 26 million was arranged with the bank SEB and a consortium of the founder and main shareholders. In association with the loan, the company's main shareholder Harald Nilsson has issued to the consortium's members 374,640 call options on his own holding of series B shares. After the loan, net liquid assets are SEK 51.8 million including an overdraft facility of SEK 34.7 million. The company's interest bearing liabilities at the end of the period was SEK 71.5 million including the loan, the net debt equity ratio was 6 percent and the equity/assets ratio was 80 percent.

## Goodwill

There are currently signs that the Group's goodwill is too high and needs to be adjusted. However, due to the structural changes in the German subsidiary, as described above, there is currently no adequate and verifiable basis for making a correct goodwill adjustment. A revaluation will be carried out at the latest by year end.

## Parent company

The parent company's sales were SEK 49.4 (46.9) million, of which SEK 28.9 (26.6) were sales to the Group company. Parent company earnings were SEK –20.1 (–11.8) before disposals and tax.

## Changed accounting principles from 2001

In accordance with the Swedish Financial Accounting Standards Council's recommendation on capitalization of development costs for items such as software, the company will from the accounting year 2001 capitalize specific development costs, which will be depreciated over three to five years. Capitalized development costs include investment in M2S's e-learning platform and production tools and development of new titles (e-learning courses) which are developed in eleven different languages. The company's accounting principles are otherwise unchanged on last year end.

## M2S ten largest shareholders 30 June 2001

Owner	Number of A shares	Number of B shares	Proportion of capital %	Proportion of votes %
Harald Nilsson	627 490	3 398 040	21,1	38,1
Skandia	–	896 900	4,7	3,5
Robur	–	883 410	4,7	3,5
Särimner Förvaltnings AB	–	558 840	2,9	2,2
Carl Kleman through company <sup>(1)</sup>	81 227	440 767	2,7	4,9
AFA Sjukförsäkrings AB	–	434 300	2,3	1,7
Mats Klyvare	–	405 416	2,1	1,6
Carl-Diedric Hamilton through company <sup>(1)</sup>	–	321 732	1,9	1,4
Carnegie funds	–	354 200	1,7	1,3
Overseas shareholders and assets managers <sup>(2)</sup>	–	6 636 894	34,9	26,1
Others	–	4 002 174	21,0	15,7
<b>Total</b>	<b>708 717</b>	<b>18 332 673</b>	<b>100,0</b>	<b>100,0</b>

- 1) Hamilton and Kleman each own 16 percent of the shares in the company Särimner Förvaltnings AB
- 2) Of which Prkoda's former shareholders own 2,303,418 shares.

## Coming information releases

Interim Report Jan – Sept 2001 25 October 2001  
Interim Report Jan – Dec 2001 January 2002

Stockholm 17 July 2001

M2S Sverige AB (publ) org nr 556375-7011

## The Board

I have performed a review of this interim report and in accordance with the recommendations set out by the Swedish Institute of Authorized Public Accountants, FAR. A review is significantly limited in scope compared to an audit. I have found nothing to suggest that this interim report does not comply with the requirements set out in the Securities and Clearing Operations Act and the Annual Accounts Act

Stockholm 17 July 2001

Björn Fernström  
Authorized Public Accountant

## Questions regarding the report, please contact:

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## Consolidated income statement, in thousand SEK

	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2000</u>	<u>2000/2001</u>
	<u>Jan-Jun</u>	<u>Jan-Jun</u>	<u>Apr-Jun</u>	<u>Apr-Jun</u>	<u>Year</u>	<u>Rolling</u>
						<u>12 months</u>
Net turnover	165 035	86 703	64 638	44 593	302 452	380 784
Capitalized expenditure	21 261	-	8 136	-	-	21 261
	<b>186 296</b>	<b>86 703</b>	<b>72 774</b>	<b>44 593</b>	<b>302 452</b>	<b>402 045</b>
<b>Operating expenses</b>						
Cost of goods	-1 438	-5 816	-941	-4 997	-6 525	-2 147
Personnel expenses	-107 889	-59 667	-60 439	-36 504	-182 637	-230 859
Other external expenses	-98 434	-45 686	-53 920	-29 844	-130 072	-182 820
Depreciation tangible fixed assets	-11 974	-4 280	-5 541	-2 423	-19 409	-27 103
Depreciation intangible fixed assets	-20 709	-1517	-10 576	-1 369	-11 204	-30 396
<b>Total operating expenses</b>	<b>-240 444</b>	<b>-116 966</b>	<b>-131 417</b>	<b>-75 137</b>	<b>-349 847</b>	<b>-473 325</b>
<b>Operating expenses after amortization of goodwill</b>	<b>-54 148</b>	<b>-30 263</b>	<b>-58 643</b>	<b>-30 544</b>	<b>-47 395</b>	<b>-71 280</b>
Financial income	576	846	498	268	3 892	3 622
Financial expenses	-1 770	-1 140	-845	-700	-2 384	-3 014
<b>Loss after financial items</b>	<b>-55 342</b>	<b>-30 557</b>	<b>-58 990</b>	<b>-30 976</b>	<b>-45 887</b>	<b>-70 672</b>
Tax on the periods earnings	-7	-801	-	-224	-312	482
Minority share in period's earnings	-	-112	-	-12	-	112
<b>Net earnings for the period</b>	<b>-55 349</b>	<b>-31 470</b>	<b>-58 990</b>	<b>-31 212</b>	<b>-46 199</b>	<b>-70 078</b>
Earnings per share SEK	-2,93	-2,13	-3,10	-2,14	-2,92	-3,87
Total no of shares at period's end	19 041 390	17 120 346	19 041 390	17 120 346	18 087 418	19 041 390
Average number of shares	18 895 390	14 340 058	19 041 390	14 618 087	15 810 791	18 088 457

## Consolidated balance sheet, in thousand SEK

<b>Assets</b>	<u>2001-06-30</u>	<u>2000-12-31</u>	<u>2000-06-30</u>
Intangible fixed assets	566 044	559 203	317 501
Tangible fixed assets	44 570	46 668	31 550
Financial assets	11 280	12 767	10 418
Stock in trade	4 572	9 299	4 056
Accounts receivable	70 933	123 299	74 824
Short term receivables	45 161	29 022	34 701
Short term investments	-	-	-
Cash and bank balances	8 615	22 417	205 349
<b>Total assets</b>	<b>751 175</b>	<b>802 675</b>	<b>678 399</b>
<b>Liabilities and equity</b>			
Shareholders' equity <sup>1)</sup>	619 831	660 036	570 675
Minority interest	-	-	-4 281
Provisions	1 017	26 970	1 058
Long term liabilities	45 517	27 142	26 227
Short term liabilities	84 810	88 527	84 720
<b>Total liabilities and equity</b>	<b>751 175</b>	<b>802 675</b>	<b>678 399</b>

<sup>1)</sup> Opening balance	660 036 SEK
Issue costs	15 414 SEK
Translation difference	-269 SEK
Net loss for the period	-55 349 SEK
Closing balance	619 831 SEK

## Consolidated turnover and earnings per quarter in thousand SEK

<u>Period</u>	<u>Net turnover in</u> <u>thousand SEK</u>	<u>Operating</u> <u>income/loss in</u> <u>thousand SEK</u>	<u>Operating</u> <u>margin %</u>
Q1 1998	17 680	667	3,8
Q2 1998	24 387	1 349	5,5
Q3 1998	21 881	-6 396	neg
Q4 1998	51 876	14 787	28,5
Q1 1999	31 284	-5 695	neg
Q2 1999	27 794	-9 215	neg
Q3 1999	29 955	-4 260	neg
Q4 1999	43 202	1 744	4,0
Q1 2000	42 110	281	0,7
Q2 2000	44 593	-30 544	neg
Q3 2000	84 079	-26 724	neg
Q4 2000	131 670	9 592	7,3
Q1 2001	100 397	4 495	4,5
Q2 2001	64 638	-58 643	neg

## Consolidated cash flow statement, in thousand SEK

	2001	2000	2000
	Jan-Jun	Jan-Jun	Year
<b>Operating activities</b>			
Payments from customers	217 401	86 713	253 987
Payments to suppliers and employees	-223 463	-120 527	-313 531
<b>Cash flow from operating activities before interest paid and income tax</b>	<b>-6 062</b>	<b>-33 814</b>	<b>-59 544</b>
Interest received	576	846	3 892
Interest paid	-1770	-1141	-2 384
Income tax paid	-3 011	-889	-525
<b>Cash flow from operating activities</b>	<b>-10 267</b>	<b>-34 998</b>	<b>-58 561</b>
<b>Investment activities</b>			
Acquisition of subsidiaries	-	-68 608	-129 004
Acquisition of fixed assets	-37 409	-3 638	-101 473
Disposal of fixed assets	10	-	14
<b>Cash flow from investment activities</b>	<b>-37 399</b>	<b>-72 246</b>	<b>-230 463</b>
<b>Financing activities</b>			
New share issues	15 414	263 487	260 094
Net changes in loans	18 375	-38 230	-36 345
<b>Cash flow from financing activities</b>	<b>33 789</b>	<b>225 257</b>	<b>223 749</b>
<b>Change in liquid funds</b>	<b>-13 877</b>	<b>118 013</b>	<b>-65 275</b>
Opening liquid funds	22 417	87 419	87 419
Exchange rate difference in liquid funds	75	-83	273
<b>Closing liquid funds</b>	<b>8 615</b>	<b>205 349</b>	<b>22 417</b>

## Group key ratios

	2001	2000	2000	2000/2001
	Jan-Jun	Jan-Jun	Year	Rolling 12 mths
Operating margin %	-33	-35	-16	-19
Profit margin %	-34	-35	-15	-18
Return on equity %	-9	-15	-12	-12
Return on capital employed %	-8	-15	-11	-11
Equity/assets ratio %	83	84	82	83
Investment in thousand SEK	37 409	3 638	101 473	60 426
Average no. of employees	444	198	319	424
Number of employees at the end of the period	427	420	477	427
Sales per employee, annualised in thousand SEK	744	876	948	899
No. of shares at the end of the period	19 041 390	17 120 346	18 087 418	19 041 390
Earnings per share SEK	-2,93	-2,13	-2,92	-3,87
Earnings per share after full dilution SEK	-2,85	-2,10	-2,79	-3,76
Equity per share SEK	32,55	33,33	36,49	32,55

<sup>1</sup> Adjusted for script issues and splits.

## Definition key ratios

Operating margin	Operating income/loss as a percentage of net turnover.
Profit margin	Net profit as a percent of net turnover.
Return on equity	Earnings after tax divided by average shareholders' equity.
Return on capital employed	Operating income/loss plus financial income as a percentage of average capital employed.
Capital employed	Total assets less non interest bearing liabilities. Average capital employed has been calculated as the opening plus the closing capital employed divided by two.
Shareholders' equity	Shareholders' equity at the end of the year. Average shareholders' equity is calculated as the opening plus the closing shareholders' equity divided by two. In the event of new issues, a weighted average is used.
Equity/assets ratio	Shareholders' equity as a percent of total assets.
Investments	Net investments made in the period including financial leasing contracts and goodwill.
Sales per employee	Net turnover for the period divided by the average number of employees.
Number of shares at the end of the year	The number of shares at the year end adjusted for script issues and splits.
Earnings per share	Earnings after tax divided by the average number of shares.
Earnings per share after full dilution	Earnings after tax divided by the average number of shares, adjusted for the redemption of all outstanding warrants.
Equity per share	Shareholders' equity at the period end divided by the number of share at the period end.