



Interim Report  
for Effnet Group AB (publ)  
*January-September 2001*



# **Effnet Group AB (publ)**

## **Interim Report for January-September 2001**

### **Effnet focuses according to plan**

- Net sales during the nine-month period increased to KSEK 8 018 (4 029).
- The operating result improved to KSEK –85 830 (-98 961) and the company posted a result after financial items of KSEK –78 606 (-83 026).
- The average negative cash flow per month declined significantly in the third quarter compared to the first quarter 2001, decreasing by 28% from KSEK –9 174 to KSEK –6 627.
- Liquid assets amounted to KSEK 201 259 at close of the period, equivalent to SEK 3.66 per share.
- The number of employees totaled 63 (87) at the close of the period, a decrease of 24 compared to one year earlier.
- Effnet increased its focus on completing products for Header Compression (HC) for the wireless network, mobile Internet and IP telephony markets.
- The program for increased organizational efficiency introduced in the second quarter proceeded. The effects of the actions taken are despite some lump-sum costs a significantly decreasing burn-rate and a lower general cost level during the third quarter.

### **Events after the end of the period**

- Norman Rasmussen stepped down as Chairman of the Board of Directors. Magnus Ryde, an Effnet board member since November 2000, was elected interim Chairman until the next shareholders' meeting.
- Wkit Security AB announced that the new version of their copy protection software, Don't Bother Burn, DBB 3.0 for CD-ROM, is ready for commercial use. The company will now focus on selling the software to computer game and CD manufacturers.
- Effnet decided to phase-out the IT securities services function currently offered from Wkit Security AB in Håverud, Dalsland. This measure is estimated to reduce Effnet's costs by SEK 8.4 million on an annual basis.

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Effnet innovates and licenses award-winning key technologies that resolve data speed, efficiency and security challenges in Internet Protocol (IP) networking and IT security. Effnet focuses on software development in Robust Header Compression (ROHC), a technology viewed as becoming essential for providers of IP-based wireless networks. Effnet's wholly owned subsidiary, Wkit Security, develops copy protection software. The Effnet group employs approx. 60 persons. Effnet Group AB shares are traded on Sweden's Nya Marknaden (symbol: EFFN).

Read more about Effnet at [www.effnet.com](http://www.effnet.com). Read about Wkit at [www.wkit.com](http://www.wkit.com).

## THIRD QUARTER 2001

### The Market

The market slowdown encountered by the telecom sector and many network market participants continued through the third quarter. Customers postpone decisions around larger license deals even if the interest in the technology is great. However, the demand for improved accessibility is still expected to spark a growing need for wireless, mobile Internet

### Operations

The hesitant and expectant atmosphere in the marketplace has affected Effnet's ability to close deals. In spite of the sluggish market, Effnet has not pulled back on its product development and completion efforts, and it continues to approach prospective buyers. This tenacity will provide Effnet a strong position when the market turns.

### Focus on Header Compression (HC)

In accordance with the program introduced at the end of the second quarter, Effnet has continued focusing resources on the development of its Header Compression solutions. Effnet believes Robust Header Compression (RoHC) will be essential for vendors producing an all-IP wireless community.

Interoperability testing that ended at the beginning of the third quarter resulted in the successful verification of functionality between different vendors with completed RoHC implementations. Siemens, Nokia, Ericsson and Effnet participated in the testing. Effnet was the only independent vendor that participated in the test that today is selling its RoHC solution to other manufactures.

During the next few months, Effnet will launch a number of new HC (Header Compression) products for wireless as well as wired IP telephony in the frontline of HC-technology. These products will be highly competitive alternatives to in-house development for any company in the network and communications infrastructure industries.

### Cost-cutting program

The cost-cutting and efficiency program launched at the end of the second quarter has resulted in a significantly reduced burn-rate as well as increased focus and more effective utilization of the company resources.

The negative cash flow per month in the third quarter was 28% lower than in the first quarter 2001.

Cash flow per month each quarter 2001(KSEK)	
1 <sup>st</sup> quarter 2001	- 9 174
2 <sup>nd</sup> quarter 2001	- 8 775
3 <sup>rd</sup> quarter 2001	- 6 627

The lower cost base and improved cash flow combined with an increased efficiency and productivity in the organization will put the company in a strong position when the market turns.

### The Effnet organization

Effnet has significantly reduced the number of employees compared to the same period last year. Over a period of one year the number of employees has decreased from 87 to 63.

Norman Rasmussen, Chairman of the Board of Directors, stepped down shortly after the end of the quarter. Mr. Rasmussen will remain as a member of the board, where he has served since November 1998. Magnus Ryde, an Effnet board member since November 2000, was elected interim Chairman until the next shareholders' meeting

### Wkit Security AB

A new version of the CD copy protection software Don't Bother Burn, DBB version 3.0, was finalized during the third quarter and launched on November 7. A number of manufacturers have evaluated and shown considerable interest in DBB 3.0 and Wkit will begin marketing and selling the product immediately.

Effnet intends to phase-out the IT securities services function currently offered from Wkit Security AB in Håverud, Dalsland and focus on marketing and sales of DBB from Effnet's Stockholm office. The measure is estimated to reduce costs by SEK 8.4 million per year and have a very limited impact on revenues. The closure of operations in Håverud may cause a need for write-offs during fourth quarter 2001. The write-off amount is estimated to approx. SEK 3 million.

## FINANCIAL RESULT

Net sales for the first nine-months in 2001 totaled KSEK 8 018 (4 029).

The Group reports an operating deficit of KSEK –85 830 (-98 961). The Group's result after financial items and tax was KSEK –78 606 (-83 026).

The result for the period July to September is affected by non-recurring costs of KSEK –7 264 due to the ongoing program of cost savings and increased efficiency. A number of issues have been attended to in line with the program during the period that have resulted in a significantly lower general cost level and negative cash flow, though initially with some lump-sum effects.

Sales and marketing expenses amounted to KSEK –29 467 (-32 304). The non-recurring effects due to the efficiency program amounted to KSEK –3 657.

Product and technology development costs, reported on a current basis, amounted to KSEK –33 809 (-27 694). Research and development operations within the group have expanded mainly through the build up of Effnet Labs in Tucson. Non-recurring effects of KSEK –2 874, also affect third quarter costs.

Administrative expenses amounted to KSEK –27 935 (-31 306) of which non-recurring effects amounted to KSEK -733.

Total depreciation for the first six-month-period amounted to KSEK –3 349 (-10 404) of which depreciation of goodwill accounted for KSEK –1 460 (-9 384).

### Financial position

Effnet's equity-to-assets ratio as of June 30, 2001 was 92.2 % (95.5 %, same period 2000). Liquid assets, including current investments, totaled KSEK 201 259 (311 959).

### Capital expenditure

Capital expenditure during the period totaled KSEK 1 807 (6 473) and comprised mainly office and computer equipment.

### Personnel

The number of employees at the close of the period totaled 63, which represents a decrease of 24 compared to the same period in 2000 (87). The average number of full-time employees for the period totaled 68 (76), including 11 (4) in the USA.

### Financial calendar

Year End report                      February 8, 2002

This Interim Report has not been audited by the Company's auditor.

Stockholm, 12 November 2001

### Effnet Group AB (publ)

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<b>Consolidated Profit and Loss Account (Summary) (SEK '000)</b>	<b>Notes</b>	<b>2001 Jan.-Sept.</b>	<b>2000 Jan.-Sept.</b>	<b>2001 July-Sept.</b>	<b>2000 July-Sept.</b>	<b>2000 Jan.-Dec.</b>
Net sales		8 018	4 029	1 819	313	5 091
Cost of goods sold		- 1 971	- 2 793	- 171	- 1 104	-4 365
<b>Gross profit</b>		<b>6 047</b>	<b>1 236</b>	<b>1 648</b>	<b>-791</b>	<b>726</b>
Selling expenses		- 29 467	- 32 304	- 10 423	- 12 281	-51 166
Administrative expenses		- 27 935	- 31 306	- 8 467	- 12 850	-37 067
Research and development costs		- 33 809	- 27 694	- 11 792	- 11 328	-41 571
Items affecting comparability	1	-	-	-	-	-153 129
Other operating income/expenses		-665	-8 893	- 552	- 4 270	-13 726
<b>Operating result</b>		<b>- 85 829</b>	<b>- 98 961</b>	<b>- 29 586</b>	<b>- 41 520</b>	<b>-295 933</b>
Financial items, net		7 224	15 935	1 847	7 633	14 020
<b>Result after financial items</b>		<b>- 78 605</b>	<b>- 83 026</b>	<b>- 27 739</b>	<b>- 33 888</b>	<b>-281 913</b>
Tax		0	0	0	48	0
<b>Result for the period</b>		<b>- 78 605</b>	<b>- 83 026</b>	<b>- 27 739</b>	<b>-33 840</b>	<b>-281 913</b>
Earnings per share, SEK	2	-1,43	- 1,58	- 0,49	-0,63	-5,31
Earnings per share after dilution, SEK		- 1,43	- 1,42	- 0,49	-0,57	-5,31

<b>Consolidated Balance Sheet (Summary) (SEK '000)</b>		<b>2001 30 September</b>	<b>2000 30 September</b>	<b>2000 31 December</b>
<b>ASSETS</b>				
<b>Fixed assets</b>				
Goodwill		18 010	178 296	19 470
Tangible assets		9 011	9 203	9 575
<b>Total fixed assets</b>		<b>27 021</b>	<b>187 499</b>	<b>29 045</b>
<b>Current assets</b>				
Inventories		1 043	823	1 262
Current receivables		11 227	14 362	9 677
Investments, interest bearing		175 022	265 663	167 101
Cash and bank balances		26 237	46 295	107 855
<b>Total Current assets</b>		<b>213 529</b>	<b>327 143</b>	<b>285 895</b>
<b>TOTAL ASSETS</b>		<b>240 550</b>	<b>514 642</b>	<b>314 940</b>
<b>EQUITY &amp; LIABILITIES</b>				
<b>Equity</b>	3	<b>221 729</b>	<b>491 245</b>	<b>300 046</b>
<b>Provisions</b>		<b>95</b>	<b>95</b>	<b>95</b>
<b>Long-term liabilities</b>		<b>-</b>	<b>500</b>	<b>-</b>
<b>Current liabilities</b>		<b>18 726</b>	<b>22 802</b>	<b>14 799</b>
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>240 550</b>	<b>514 642</b>	<b>314 940</b>

<b>Consolidated Cash Flow Statement</b>		<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
<b>Summary (SEK '000)</b>	<b>Notes</b>	<b>Jan. – Sept.</b>	<b>Jan. – Sept.</b>	<b>July – Sept.</b>	<b>July – Sept.</b>
Cash flow from day-to-day operations		- 81 063	- 71 488	- 32 924	- 27 664
Changes in working capital		8 883	-589	13 431	3 176
Investments		-1 517	-6 473	-389	-4 151
Financing		-	3 489	-	-
Change in liquid assets		-73 697	-75 061	-19 882	-28 639

<b>Per-share data (adjusted to reflect new share issues)</b>	<b>2001</b>	<b>2000</b>	<b>2000</b>
<b>Amounts in SEK</b>	<b>30 September</b>	<b>30 September</b>	<b>31 December</b>
Shareholders' equity per share	4,04	9,33	5,46
Shareholders' equity per share after full dilution	4,04	8,38	5,46
Shareprice per share	1,90	29,50	11,80

## Accounting principles and notes

The Swedish Financial Accounting Standards Council's (SFASC) standard on interim reporting (RR20) has been used at the preparation of this interim report.

The accounting principles used have not been changed in comparison to the principles used in the year-end report 2000. January 1, 2001 a number of new accounting standards came into force. The use of these standards has not meant any recalculation of net result or equity. The use of RR18, Earnings per share, means that the computation of average number of shares has been changed. The company has chosen not to use the new accounting standard on intangible assets from January 2001. No changes have been done regarding accounting estimates.

### Note 1. Items affecting comparability

At year-end 2000 goodwill from the purchase of Wkit Security AB was written down with KSEK –153 129. The amount was recorded as an item affecting comparability.

### Note 2. Earnings per share

Earnings per share before and after dilution have been calculated from the results according to the income statements.

Number of shares used in the calculations:	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>	<b>2000</b>
	<b>Jan-Sept</b>	<b>Jan-Sept</b>	<b>July-Sept</b>	<b>July-Sept</b>	<b>Jan.-Dec.</b>
Average number of shares	54 942 650	52 652 001	54 942 650	53 639 313	53 021 135
Number of shares at close of period	54 942 650	54 599 100	54 942 650	54 599 100	54 942 650

Share options outstanding give no dilution effect for any of the periods. At full utilization of share options 4 891 469 shares would be added at September 30, 2001.

### Note 3. Change in equity

<b>Amounts in SEK</b>	<b>2001</b>	<b>2000</b>	<b>2000</b>
	<b>30 September</b>	<b>30 September</b>	<b>31 December</b>
Opening balance	300 046	385 922	385 922
Result for the period	-78 606	-83 026	-281 913
New issue	-	187 225	195 483
Translation difference	289	1 124	554
Total equity	221 729	491 245	300 046