

HiQ – INTERIM REPORT FOR THE PERIOD JANUARY-SEPTEMBER 2003

HiQ is an IT and management consultancy that focuses on high-tech solutions in the fields of communication, software development and simulation. The company is a leader in these fields and the Nordic region is its domestic market. HiQ employs around 400 people at offices in Sweden, Finland and Denmark. HiQ is listed on Stockholmsbörsen. For more information, please visit www.hiq.se.

Interim report for HiQ International AB (publ), company identity no. 556529-3205.

- **Net sales were SEK 292.4 (304.5) million.**
- **Profit before goodwill (EBITA) was SEK 22.1 (11.5) million, equivalent to a margin of 7.6 (3.8)%.**
- **Profit after tax was SEK 0.8 (-6.0) million.**
- **Earnings per share were SEK 0.02 (-0.13).**
- **In January, HiQ received an order worth SEK 27 million from the Swedish Defence Material Administration (FMV) for the development of simulators for JAS 39 Gripen and the development of a simulator in connection with a current leasing contract with Hungary.**
- **In February, HiQ signed a framework agreement with Vodafone Sweden as one of four suppliers.**
- **In March, HiQ was designated as preferred supplier in R&D, IS/IT and Technical Documentation in a framework agreement with Ericsson.**
- **In May HiQ received an order worth SEK 25 million from FMV for the development of simulators for the fighter aircraft JAS 39 Gripen.**
- **Sales to customers within the Telecoms sector developed well. During the third quarter contracts were signed with Ericsson, Multikabel, Nokia, Siemens, Song Networks, Sony Ericsson, Tele2, TeliaSonera, Teracom, Vodafone and 3, among others.**
- **Sales to customers within Industry & Energy developed well. During the third quarter agreements were signed with AstraZeneca, Bombardier, Novo Nordisk Engineering and Senea, among others.**
- **During the third quarter HiQ signed framework agreements with the Swedish Emergency Management Agency and the Swedish National Post and Telecom Agency.**

In brief

In a stable market framework agreements and long-term customer relations continue to grow in importance. Customers are choosing to work with suppliers with good references and financial stability. Instead of using a wide range of different suppliers, customers are building closer relationships with a select group of partners. The consequences for HiQ are that we are strengthening relations with our framework agreement customers and gaining market shares.

Suppliers are still being forced out of the IT sector, bringing demand and supply more into equilibrium in a market which has been characterised for some time by over-establishment and pressure on prices.

New technology is increasing the complexity of products and systems and the use of IT is increasing in all companies. This creates a greater need for simulation, testing and verification. In addition, there is an increasing need to integrate new and existing systems in order to secure investments that have already been made. For HiQ, this trend means an increase in the number of orders that we receive for Testing & verification as well as within Integration.

HiQ's market offering is based upon expertise within communication, software development and simulation. These services are in demand from customers in all the sectors in which HiQ operates.

HiQ's net sales for the period are divided between the following market sectors: Telecoms 48 (48)%, Defence 16 (20)% and other sectors 36 (32)%. Over 25% of sales were to customers outside Sweden, compared with a third a year ago.

Market trends in the third quarter

In the third quarter new contracts were signed with both existing and new customers in all of HiQ's market sectors. The share of projects in which HiQ is the overall contractor has increased year on year.

Telecoms (48%)

HiQ works with suppliers, operators and users. For suppliers HiQ provides development and testing of infrastructure, terminals and platforms. For operators HiQ's assignments involve network planning, billing issues, development of support systems and business. For users HiQ develops mobile applications as well as working on procurement and IT strategies.

The telecom sector continues to develop through structural adjustment, consolidation among operators and the transition to third-generation mobile telephony. We see good opportunities for winning more business within the operator segment and on the terminals side.

HiQ has continued to capture market share and increase sales to both suppliers and operators. The share of assignments related to terminals continues to increase. The share of 3G assignments has had a stable development. Today 3G has been launched and is a market which HiQ is involved in developing together with suppliers, operators and users.

During the third quarter new contracts were signed with Bassett, Ericsson, Glocalnet, Nokia, the Swedish National Post and Telecom Agency, Siemens, Song Networks, Sony Ericsson, Tele2, TeliaSonera, Teracom, Vodafone and 3, among others.

Telecoms is one of HiQ's core skills. We believe our market position will remain strong with good development in this area. Expertise in telecoms is now in demand from more and more sectors.

Defence (16%)

HiQ develops and tests training simulators and provides expertise in procurement, modelling & simulation as well as business development for the defence sector.

The use of civil technology is increasing within areas such as security, emergency services and traditional defence. HiQ has experience of working with both defence and civil technology. This makes us a good partner for existing as well as new customers in the defence sector.

On the basis of new framework agreements we have intensified sales of new types of assignment and customers. As a result of this, during the third quarter HiQ received a new assignment from Lockheed Martin and also increased the number of assignments within the framework for platforms, internationalisation and network-based defence for the Swedish Defence Materiel Administration (FMV).

Among other things, HiQ is working on assignment planning tools for Helicopter 15, information architecture for the Landsort minehunter, the areas of application of telematics and system architecture issues in connection with the procurement of communications systems between UAV (Unmanned Aerial Vehicles) and other systems.

Other sectors (36%)

HiQ works with high-tech companies in the energy, medical and manufacturing industries. The contracts cover software development and simulation for business-critical support systems, products and mobile applications as well as telecoms expertise.

Advanced IT solutions are increasingly in demand from the industrial sector, which has resulted in increased sales for HiQ within the Industry & Energy sector. During the third quarter HiQ signed contracts with AstraZeneca, Bombardier, General Electric, IL Recycling, ITT Flygt, Novo Nordisk Engineering and Senea, among others.

HiQ conducts software development for workflow, web and support systems as well as offering telecoms expertise for customers in the public sector.

During the third quarter HiQ signed contracts with Copenhagen Airport, the National Swedish Police Board, the National Swedish Tax Board, SMHI and the Swedish Agency for Public Management, among others.

HiQ develops and implements new Internet gaming platforms for customers within Entertainment & Gaming.

Within the gaming sector, new technologies and improved bandwidth are creating opportunities for new mobile services. Interest in entertainment and gaming is growing fast and this is a market, which HiQ is involved in developing together with customers in a number of countries.

During the third quarter HiQ signed contracts with Svenska Spel (the Swedish state lottery) and Veikkaus (the Finnish state lottery), among others, and we see good opportunities for winning more contracts in this sector.

HiQ is involved in software development, testing and integration for customers within Finance & Insurance. HiQ has long and broad experience of transaction-intensive systems for the financial sector.

During the third quarter HiQ signed contracts with NeoNet Technology and Skandia, among others. This in a sector still affected by a low propensity to invest.

HiQ works with software development, simulation and project management for customers in the automotive industry. This sector is characterised by widespread use of high-tech products and systems and, in our assessment, HiQ has good opportunities to gain market shares in the future.

During the third quarter HiQ signed contracts with Scania and Volvo Cars, among others.

Invoicing and profit

HiQ's net sales amounted to SEK 292.4 (304.5) million.

Profit before goodwill (EBITA) was SEK 22.1 (11.5) million, equivalent to a margin of 7.6 (3.8)%.

Operating profit (EBIT) was SEK 6.7 (-1.7) million, which corresponds to a margin of 2.3 (-0.6)%.

Consolidated net financial items for the period amounted to SEK 1.0 (1.5) million.

The pre-tax profit (PTP) was SEK 7.7 (-2.2) million.

Accounting principles

This interim report has been prepared in accordance with Recommendation no. 20 of the Swedish Financial Accounting Standards Council. The accounting principles are the same as in the last annual report, with the exception of the new recommendations that are applied as of 2003. Application of the new recommendations has not led to any changes in the report. One of the new recommendations applied as of 2003 is RR25 on the reporting of segments. HiQ has one line of business – consulting services –, which forms the primary basis of its classification.

Employees

At the end of the period HiQ had 376 employees (456), of whom 342 (428) were on duty.

The reduction is due to adaptation to the current market situation, decided and completed in 2002.

Local recruitment is being carried out in several regions.

Investments

The Group made net investments during the period of SEK 0.0 million. Investments in financial leasing account for SEK -0.4 million. For the corresponding period last year the Group made net investments amounting to SEK 100.4 million (including the acquisition of Softplan), of which investments in financial leasing account for SEK 1.4 million.

Financial position

HiQ's financial position is strong and the cash flow from operations is positive.

As of 30 September the Group had liquid assets of SEK 62.3 (41.1) million.

Interest-bearing net funds amounted to SEK 56.5 (32.6) million at the end of the period.

Shareholders' equity was SEK 239.5 (261.3) million at the end of the period and the equity/assets ratio was SEK 70.1 (73.3)%.

Events after the end of the period*Business*

- HiQ is developing mobile test tools for remote reading of electricity meters for Senea
- HiQ is developing a customer care and billing system for Multikabel of the Netherlands

Premises

In October a contract was signed to relocate the head office and HiQ's Stockholm office to new centrally located premises. HiQ's new premises are well suited for further development of the business and will be leased at a rent appropriate for the market.

The lease runs from 2004 inclusive and the company will move into the new premises after the turn of the year. In conjunction with the signing of the lease in October, HiQ received a liquidity injection (not income affecting) of around SEK 15 million in October. Adjusted for this injection, HiQ's liquid assets as of 30 September amount to SEK 77.3 million.

Outlook

Technological development is continuing, while at the same time structural adjustment in the markets in which HiQ's customers operate is leading to increased competition and demands for greater efficiency. Increased use of new technology and improved communication are natural and necessary competitive tools for companies and businesses.



We believe that the market for consulting services will continue to be competitive, with companies disappearing and consolidating. This will bring demand and supply more into equilibrium.

Overall, this creates new business opportunities for specialised service companies with a clear service offering such as HiQ.

We see good opportunities for HiQ to continue to gain market share, particularly in sectors where communications expertise is an important ingredient, and to exploit opportunities that arise in the market.

HiQ's main strategy of organic growth supplemented with strategic acquisitions remains.

As always, HiQ gives priority to quality, profits and growth, in that order. Our long-term financial objectives to achieve an operating margin before goodwill of 15% and growth of 30% remain.

HiQ does not give any forecasts.

Parent company

Profit after tax for HiQ International AB was SEK 34.3 (1.5) million. As at 30 September the Company's interest-bearing net funds amounted to SEK 43.1 (-8.3) million. Adjusted shareholders' equity was SEK 262.2 (204.3) million and the equity/assets ratio 86.2 (80.3)%.

The company's net investments during the period were SEK 0.1 (128.3) million.

Other reporting dates for the financial year 2003

The year-end release for 2003 will be presented on 3 February 2004.

Stockholm, 28 October 2003

The Board of Directors of HiQ International AB

This report has not been reviewed by the Company's auditors.

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Income Statement

| SEK 000s | Jan-Sep 2003 | Jan-Sep 2002 | July-Sep 2003 | July-Sep 2002 | LTM | Full year 2002 |
|---|-----------------|-----------------|------------------|------------------|----------------|-------------------|
| Operating income | 292 428 | 304 450 | 89 004 | 92 038 | 401 771 | 413 793 |
| Operating expenses, excluding depreciation | -266 928 | -288 858 | -80 235 | -87 739 | -385 727 | -407 657 |
| Operating profit before depreciation (EBITDA) | 25 500 | 15 592 | 8 769 | 4 299 | 16 044 | 6 136 |
| Depreciation, tangible fixed assets | -3 387 | -4 102 | -1 046 | -1 358 | -4 746 | -5 461 |
| Operating profit before intangible depreciation (EBITA) (Note 1) | 22 113 | 11 490 | 7 723 | 2 941 | 11 298 | 675 |
| Depreciation, intangible fixed assets | -15 450 | -13 213 | -5 152 | -5 187 | -20 586 | -18 349 |
| Operating profit (EBIT) | 6 663 | -1 723 | 2 571 | -2 246 | -9 288 | -17 674 |
| Extraordinary items (see Note 2) | 0 | -2 000 | 0 | 0 | -3 768 | -5 768 |
| Financial items | 1 047 | 1 479 | 233 | 244 | 1 685 | 2 117 |
| Pre-tax profit | 7 710 | -2 244 | 2 804 | -2 002 | -11 371 | -21 325 |
| Tax | -6 914 | -3 732 | -2 551 | -883 | -6 392 | -3 210 |
| Profit after tax | 796 | -5 976 | 253 | -2 885 | -17 763 | -24 535 |

Before dilution

| | | | | | | |
|--|------|-------|------|-------|---|-------|
| Profit per share before items affecting comparability, SEK | 0,02 | -0,10 | 0,01 | -0,06 | - | -0,45 |
| Profit per share after items affecting comparability, SEK | 0,02 | -0,13 | 0,01 | -0,06 | - | -0,54 |

After dilution

| | | | | | | |
|--|------|-------|---|---|---|-------|
| Profit per share before items affecting comparability, SEK | 0,02 | -0,10 | - | - | - | -0,45 |
| Profit per share after items affecting comparability, SEK | 0,02 | -0,13 | - | - | - | -0,54 |

Note 1. Non-recurring costs related to adjustments of operations have reduced the income for the full year 2002 with 29 MSEK

Note 2. Costs related to the wind up of HiQ East OY (Q2 2002) and HiQ A/S (Q4 2002)

Balance Sheet

| SEK 000s | Sep 2003 | Sep 2002 | Full Year 2002 |
|---|----------------|----------------|-------------------|
| ASSETS | | | |
| Intangible fixed assets | 149 235 | 172 871 | 168 674 |
| Tangible fixed assets | 13 248 | 18 575 | 17 133 |
| Financial fixed assets | 19 940 | 18 918 | 15 470 |
| Total fixed assets | 182 423 | 210 364 | 201 277 |
| Accounts receivable | 54 896 | 59 988 | 70 977 |
| Other current assets, excl. liquid assets | 41 914 | 44 874 | 47 718 |
| Liquid assets | 62 335 | 41 080 | 47 097 |
| Total current assets | 159 145 | 145 942 | 165 792 |
| Total assets | 341 568 | 356 306 | 367 069 |
| SHAREHOLDERS' EQUITY, RESERVES AND LIABILITIES | | | |
| Shareholders' equity | 239 455 | 261 344 | 243 815 |
| Non-interest bearing provisions | 20 042 | 15 283 | 23 004 |
| Long-term interest-bearing liabilities | 6 010 | 8 196 | 6 844 |
| Short-term, non-interest bearing liabilities | 74 676 | 69 308 | 91 406 |
| Short-term, interest bearing liabilities | 1 385 | 2 175 | 2 000 |
| Total shareholder's equity, reserves and liabilities | 341 568 | 356 306 | 367 069 |

| | Jan-Sep 2003 | Jan-Sep 2002 | July-Sep 2003 | July-Sep 2002 | LTM | Full Year 2002 |
|--|-----------------|-----------------|------------------|------------------|--------|-------------------|
| Key figures | | | | | | |
| Gross profit (EBITDA) | 25 500 | 15 592 | 8 769 | 4 299 | 16 044 | 6 136 |
| Operating profit before intangible depreciation (EBITA) | 22 113 | 11 490 | 7 723 | 2 941 | 11 298 | 675 |
| Operating profit (EBIT) | 6 663 | -1 723 | 2 571 | -2 246 | -9 288 | -17 674 |
| Gross margin (EBITDA margin) | 8,7% | 5,1% | 9,9% | 4,7% | 4,0% | 1,5% |
| Operating margin before intangible depreciation (EBITA margin) | 7,6% | 3,8% | 8,7% | 3,2% | 2,8% | 0,2% |
| Operating margin (EBIT margin) | 2,3% | -0,6% | 2,9% | -2,4% | -2,3% | -4,3% |
| Profit margin | 2,6% | -0,7% | 3,2% | -2,2% | -2,8% | -5,2% |
| Capital employed | 246 850 | 271 715 | - | - | - | 252 659 |
| Operating capital | 182 943 | 228 759 | - | - | - | 204 193 |
| Return on operating capital | 3,4% | -1,0% | 1,4% | -1,0% | -4,5% | -11,1% |
| Return on shareholders' equity | 0,3% | -2,4% | 0,1% | -1,1% | -7,1% | -10,2% |
| Financial position | | | | | | |
| Capitalised investments in computers | 1 125 | 874 | 373 | 182 | 1 566 | 1 315 |
| Liquid assets | 62 335 | 41 080 | - | - | - | 47 097 |
| Interest-bearing net cash | 56 512 | 32 585 | - | - | - | 39 622 |
| Shareholders' equity | 239 455 | 261 344 | - | - | - | 243 815 |
| Equity/assets ratio | 70,1% | 73,3% | - | - | - | 66,4% |
| Change in shareholders' equity | | | | | | |
| Amount at the start of the period | 243 815 | 238 979 | 243 377 | 263 264 | - | 238 979 |
| Dividends | 0 | -21 478 | 0 | 0 | - | -21 478 |
| New share issue in connection with the redemption of warrants | 0 | 4 283 | 0 | -42 | - | 4 283 |
| New share issue in connection with acquisition | 0 | 47 314 | 0 | 0 | - | 47 314 |
| Warrant premiums | -363 | -131 | 0 | 0 | - | -305 |
| Translation difference | -4 793 | -1 647 | -4 175 | 1 007 | - | -443 |
| Profit for the period | 796 | -5 976 | 253 | -2 885 | - | -24 535 |
| Amount at the end of the period | 239 455 | 261 344 | 239 455 | 261 344 | - | 243 815 |
| Cash flow analysis | | | | | | |
| Cash flow before change in operating capital & investments | 18 117 | -8 712 | 2 992 | -1 273 | - | -14 320 |
| Change in operating capital | -783 | -10 483 | -6 327 | -5 763 | - | 2 037 |
| Cash flow before investments | 17 334 | -19 195 | -3 335 | -7 036 | - | -12 283 |
| Cash flow from investments | 652 | -54 156 | -464 | -1 207 | - | -54 774 |
| Cash flow after investments | 17 986 | -73 351 | -3 799 | -8 243 | - | -67 057 |
| Cash flow from investments activities | -2 748 | -19 199 | -754 | -468 | - | -19 475 |
| Change in liquid assets | 15 238 | -92 550 | -4 553 | -8 711 | - | -86 533 |
| Liquid assets at the start of the period | 47 097 | 133 630 | 66 888 | 49 791 | - | 133 630 |
| Liquid assets at the end of the period | 62 335 | 41 080 | 62 335 | 41 080 | - | 47 097 |
| Employees | | | | | | |
| Number of employees | 376 | 456 | - | - | - | 432 |
| Number of employees in duty at end of period | 342 | 428 | - | - | - | 406 |
| Number of employees recruited | 19 | 14 | 7 | 4 | 24 | 19 |
| Average number of employees | 365 | 406 | 346 | 402 | 374 | 405 |
| Value added per employee | 512 | 541 | 152 | 159 | 705 | 729 |
| Turnover/employee | 801 | 750 | 257 | 229 | 1 074 | 1 022 |
| Operating profit/employee | 18 | -4 | 7 | -6 | -25 | -44 |
| Share data | | | | | | |
| <i>Before dilution</i> | | | | | | |
| No. of shares, thousands | 46 844 | 46 844 | 46 844 | - | - | 46 844 |
| Average no. of shares, thousand | 46 844 | 45 112 | 46 844 | 46 844 | 46 844 | 45 545 |
| Profit per share before items affecting comparability, SEK | 0,02 | -0,10 | 0,01 | -0,06 | -0,32 | -0,45 |
| Profit per share after items affecting comparability, SEK | 0,02 | -0,13 | 0,01 | -0,06 | -0,38 | -0,54 |
| Equity per share, SEK | 5,11 | 5,58 | - | - | - | 5,20 |
| <i>After dilution</i> | | | | | | |
| Average no. of shares, thousand | 46 906 | 45 112 | - | - | - | 45 565 |
| Profit per share before items affecting comparability, SEK | 0,02 | -0,10 | - | - | - | -0,45 |
| Profit per share after items affecting comparability, SEK | 0,02 | -0,13 | - | - | - | -0,54 |