



GLOCALNET

Interim report

1 January 1999 – 30 June 1999

Main events in the period

Second quarter:

- Swedish customer base expands 52%
- Gross margin improves
- Greek activities liquidated
- New partnership with VIP Calling
- New Chairman — Jan Prising
- Share issue raises SEK 27 m
- Glocalnet initiates an aggressive marketing campaign with HemEl
- Large important investment in new billing & customer support system

First quarter:

- Prefix service launched
- Collaboration agreement with Cisco Systems
- Partnerships begin in Turkey and Spain

In the first half-year 1999, Glocalnet's customer base expanded rapidly. At the end of the second quarter, the customer base amounted to 17,375 — expansion of about 52 per cent on the first quarter. In August, Glocalnet kicked off a campaign alongside utility HemEl, which made a distinct contribution to the expansion after 30 June 1999. As of 19 August 1999, Glocalnet's customer base amounted to about 28,500, an increase of approximately 64 per cent since the end of the second quarter, and 150 per cent up on the first quarter. This robust customer growth is primarily attributable to Glocalnet's subsidiary Stockholm Telecom, which services utility Birka Energi's customers. Alongside increasing customer awareness, the progressively intensifying partnership with Birka Energi and upgraded marketing initiatives via HemEl (Birka Energi's end customer brand name) have contributed to this favourable progress. In autumn 1999, Stockholm Telecom's operations will be pursued under the Glocalnet name, with the company's legal entity undergoing a change of name to Glocalnet Scandinavia.

Glocalnet's gross margin (including fixed network expense) performed very favourably; in the second quarter, the company achieved an average gross margin of 4 per cent, which can be set against the average first-quarter figure of -10 per cent; a 14 percentage point increase. This comparison excludes traffic from the now-liquidated Greek activities. The structural realignment that has prevailed within the company in the same period — in the form of a focus on skills areas including traffic capacity tendering — has been a key contributor in this context. Alongside increasing volumes, this provided favourable effects in traffic tendering prices.



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In February 1999, Glocalnet became Europe's first player to launch an IP-based telephony service comparable to regular telephony both in terms of usage and quality. The service entails a prefix — 9508 — being keyed in before the desired number. In September 1998, regulator PTS (the National Post and Telecom Agency) introduced a new prefix system, which marks the first step towards the introduction of equal access, on 11 September 1999.

Additionally, Glocalnet entered an agreement with ATS Ltd. of Greece in February, the intention being to consolidate Glocalnet's European market position. ATS Ltd. was to function as a distributor for Glocalnet on the Greek market. In April, Glocalnet announced that telephone traffic had ceased being routed to ATS, the reason being that ATS Ltd. was unable to fulfil its undertaking to Glocalnet. Accordingly, Glocalnet's Board was unable to justify any increased exposure.

In the spring and early summer, Glocalnet pursued discussions with ATS Ltd. intended to find a solution, although this proved unsuccessful. Glocalnet's total exposure to ATS Ltd. is approximately SEK 7 m. Glocalnet has categorised this as a bad debt, and accordingly, has posted an extraordinary expense of approximately SEK 7 m in its interim six-month financial statement for 1999. Thereby, Glocalnet has no remaining financial exposure in Greece. Glocalnet intends to pursue legal action against ATS Ltd. unless an agreement can be reached during August.

In March, Glocalnet entered a marketing and technology-oriented partnership with Cisco. Apart from utilising Cisco's latest network technology, the partnership implies Glocalnet also gaining the opportunity to influence Cisco's product development, while the companies collaborate on marketing and PR issues. Additionally, Glocalnet was able to exchange its existing network equipment for new Cisco products in 1999 without any extraordinary write-down being necessary.

In March, Glocalnet announced that it had signed letters of intent with companies under formation in Spain and Turkey. With the assistance of Glocalnet's specialist IP technology competencies, IT systems and infrastructure, these companies were intended to quickly establish activities for supplying operator services in these countries. Glocalnet was to provide support in the form of expertise, and primarily to gain remuneration in the form of options to acquire stakes in these companies. Glocalnet evaluated these projects in the summer, which resulted in the liquidation of the project in Spain. Although the Turkish project will continue, Glocalnet has no financial risk exposure in this country.

In April, Glocalnet entered a partnership with VIP Calling Inc. of the US, a leading IP telephony services operator in that market. Like Glocalnet, VIP Calling Inc. builds its network on Cisco technology, which facilitates the collaboration. This deal also implies the opportunity for the creation of global IP-based telephony network with coverage in South America, North America, Europe and Asia.



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In June, the Board of Glocalnet AB (publ) proposed the appointment of Jan Prising — previously a leading executive at Whirlpool, Ratos, the SABA group and elsewhere — as a new Board member to the company's Extraordinary General Meeting of 9 August. The EGM duly adopted the Board's proposal and subsequently, the Board appointed Mr. Prising as Chairman. Mr. Prising is a member of the Executive Board of one of Europe's biggest equity funds — Compass Partners — and a strategic adviser to Compass Partners' International Strategic Advisory Boards in London and New York. Mr. Prising was formerly CEO of Whirlpool Europe and the SABA group, as well as a member of Ratos and Electrolux's group executive management teams. Since 1992, Mr. Prising has functioned as an adviser to a broad array of major international corporates and equity funds. Mr. Prising is also active as a private investor in various new European growth companies.

Coincident with Jan Prising taking up his position, Acting Chairman Andrin Bachmann—Glocalnet's co-founder and a main owner—resigned. Mr. Bachmann remains as a Board member, but did not return to his operational position within Glocalnet.

In June, Glocalnet initiated a marketing campaign based on the message that the Swedish population will now gain the opportunity to make phone calls at reasonable prices. Alongside HemEl, an aggressive pricing strategy was initiated. Glocalnet has introduced a four-tier pricing structure: SEK 0.19 per minute 24 hours a day for all domestic calls, SEK 0.89 per minute in the Nordic region, SEK 0.99 per minute to Belgium, France, Germany, Ireland, the Netherlands, Switzerland, the UK and US, and SEK 1.99 per minute to mobile phones. Alongside Glocalnet, HemEl intends to become one of the biggest players on the Swedish private telephony market. This autumn, the Swedish population will gain the opportunity to choose their main telephony supplier via operator pre-selection. Coincident with this campaign, those HemEl customers that opt for Glocalnet as their preferred operator before 31 August will not only gain a cheaper call rate, but also free calls worth SEK 200.

In the first half-year, Glocalnet made its biggest investment so far. Infranet, from Portal Software, is an extensive customer support, billing and payment system that integrates a multiplicity of internal and external systems and means that it will be possible to automate and rationalise internal support processes. The system's open architecture means that it is scalable at the same rate as the company grows. The investment also favours the company's strategic partnership with Cisco, since Portal Software works alongside Cisco to ensure that Cisco's IP equipment is always compatible with Portal's. The result is that technical specialists from Glocalnet, Cisco and Portal will be able to work together to develop new IP-based services. The system is designed to handle any new service, and accordingly, Glocalnet will be able to create new advanced supplementary services without necessitating any new investments in customer support, billing or payment systems.



(Figures in brackets as of 30 June 1998)

Turnover and revenues

Glocalnet's consolidated gross turnover, including other operating revenue, amounted to kSEK¹ 11,769 (940) in the first half-year 1999. Consolidated traffic revenue provided kSEK 11,177 of this total, against kSEK 3,979 for the full year 1998. The company's gross turnover in the first quarter, and one month into the second quarter, includes a contribution from ATS Ltd., which implies that first-quarter turnover is slightly higher than the second-quarter number. Turnover during the first half-year excluding Greece amounted to kSEK 5,133.

Operating expenses and operating income

The biggest operating expense is personnel, which amounted to kSEK 11,482, corresponding to 34 per cent of the company's total expenses, versus 40 per cent in the first quarter of 1999. Network expenses amounted to kSEK 10,493, or 31 per cent of the company's total expenses, against 32 per cent in the first quarter of 1999. In the first half-year 1999, network expenses were relatively high due to the now-liquidated activities in Greece. Network expenses for the period, excluding the Greek operations, amounted to kSEK 4,511. Income before tax and extraordinary expenses for the period was kSEK -21,815. An extraordinary expense of approximately SEK 7 m relating to the activities in Greece implied that net income for the period amounted to kSEK -29,289.

Investments in fixed assets

During the first half-year 1999, investments in fixed assets amounted to kSEK 11,071, primarily comprising software and equipment for the company's new billing system, and network equipment (gateways).

Financial position

At the end of the first half-year, the company's financial position was secure. In May and June, Glocalnet AB implemented a preferential rights issue targeted at its existing shareholders, who were offered the opportunity to acquire shares for a total value of SEK 27.1 m at a price of SEK 35 per share. The issue was fully subscribed and will increase the share capital by SEK 387,500, and the share premium reserve by SEK 25.9 m. As of 30 June 1999, the funds generated from the issue were not fully paid, and accordingly in the interim six-month financial statement, the issue is classified as ongoing under restricted equity.

Subsequent to this issue, the main owners are Catella IT with 23 per cent of the votes and 7 per cent of the capital, Glocalnet's Chief Executive Officer and co-founder Stefan Krook and family at 19 and 33 per cent respectively, and the other co-founder, Andrin Bachmann, at 11 and 23 per cent respectively. In order to secure sustained expansion, actions aimed at raising further capital will be pursued during the fourth quarter of the current year. Negotiations with the various financiers are currently in hand.

¹ SEK '000



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Parent company

The parent company's revenues amounted to kSEK 10,086 in the first half-year, while income before tax and extraordinary expenses was kSEK -18,308. Investments amounted to kSEK 11,017.

Nine-month report

The company's nine-month report for 1999 will be published on 10 November 1999.

Market overview; external factors

Since its incorporation two years ago, Glocalnet has witnessed robust expansion on a European market in rapid transformation. As a leading European operator of Voice-over-IP services, the company has already developed the new generation of communication technology — and put it into operation. Many of the company's competitors have either not implemented, or succeeded in commercialising, this new technology. Even fewer have subsequently succeeded in achieving the problematic migration from existing platforms to IP-based topologies. In this phase, Glocalnet has the opportunity to win market share.

Initially, Glocalnet's strategic focus was technology oriented. Expansion was to be effected via partners assuming overall responsibility for marketing and customer administration, in for example, Greece, Turkey and Spain. During 1999, the company's strategies were realigned to become more market focused. These new strategies imply that like a services operator, the company will develop and produce telecommunication services, simultaneous with marketing and administration being handled in collaboration with partners with established brands, billing systems and customer bases. Examples of such “3B” (brand, billing and base) partners include Birka Energi.

Additionally, Glocalnet's own brand will also appear alongside its partners' — analogous to, say, Intel stamping all PCs with "Intel Inside". By being the hub of the network, handling business processes internally but simultaneously collaborating with external strategic partners that undertake certain costly and time-consuming administrative tasks, Glocalnet gains a crucial cost advantage over the majority of its competitors. This factor has laid the foundation for the company's aggressive pricing strategy.

Considering the fact that consumer prices for basic telecom services in Europe are expected to continue their decline in the coming years, sustained services development and time-saving measures for their launch will become increasingly important. Despite lower price becoming the key sales argument for the next one-three years, the ability to offer that "special" service or



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characteristic will become more important in the longer term. The integrated communication services of tomorrow will probably be offered via IP-based technological platforms and systems, which Glocalnet already has in production.

The high-octane technological progress within IP means that dependence on traditional switches is receding sharply, altering the business prospects the various players face. Eventually, this will imply the convergence of computing and telecom, affecting both operators and providers. Accordingly, tomorrow's winners will be those companies able to discern and adapt to the new business logic. Therefore, many next-generation of telcos, resembling Glocalnet, are preparing for IPOs in the US. The first company to be listed was Net2Phone, recently quoted on NASDAQ.

Prospects

The company anticipates sustained margin expansion as a consequence of the impact of its intensifying focus. The company foresees its customer base continuing to expand briskly. The company now expects to meet or exceed its previous forecast of five-fold customer base expansion (35,000 by the end of the year). By means of our successful 3B partnership with Birka Energi, Sweden's biggest electricity distributor, we will garner experience from the deregulation of the Swedish telecom market, allowing the company to plan a successful entry into other European markets as "The smart choice in a new world of communication."

Glocalnet AB, quoted on Aragon Fondkommission's Reuters page, is a next-generation telco. The company markets its services in close collaboration with partners on local markets, like electricity distributor Birka Energi. Glocalnet is headquartered in Stockholm, Sweden.

Glocalnet AB's financial reports and other related information is available on the Internet at <http://www.glocalnet.com>

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<http://www.glocalnet.com> – partner & investor orientation

<http://www.glocalnet.se> – customer orientation



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FINANCIAL DATA

HALF-YEAR		Six months ending June 30		Change	Percent
		1999	1998		
Turnover	(KSEK)	11,769	597	11,172	1871%
Cash flow before financial items	(KSEK)	-26,366	-7,513	-18,853	-251%
Loss after financial items	(KSEK)	-21,815	-8,710	-13,104	-150%
Capital expenditures	(KSEK)	11,071	8,680	2,391	28%
Net cash outflow after investments	(KSEK)	-29,963	-16,603	-13,360	-80%
Shareholder's equity	(KSEK)	25,303	31,287	-5,984	-19%
Net capital employed	(KSEK)	2,952	5,666	-2,714	-48%
Return on equity	%	Neg	Neg	N/a	N/a
Return on net capital employed	%	Neg	Neg	N/a	N/a
Equity ratio	%	53,77	79,88	-26,11	N/a



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CONSOLIDATED INCOME STATEMENT

(All amounts in KSEK)

	<u>Second quarter</u>		<u>Halfyear</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Operating Income				
Traffic revenue	4,605	422	11,177	597
Other revenue	487	343	591	343
Total revenue	5,093	765	11,769	940
Operating Expenses				
Network expenses	-3,815	-1,025	-10,493	-1,026
Direct sales expenses	-300	-118	-448	-118
Other external expenses	-5,018	-2,203	-8,577	-3,161
Personnel costs	-5,959	-3,142	-11,482	-4,968
Depreciation fixed assets	-1,611	-734	-2,922	-787
Total operating expenses	-16,702	-7,222	-33,923	-10,060
Operating income	-11,609	-6,457	-22,154	-9,120
Financial items	171	410	339	410
Income after financial items	-11,438	-6,047	-21,815	-8,710
Extraordinary expenses	-7,474	0	-7,474	0
Tax	0	0	0	0
Net income for the period	-18,912	-6,047	-29,289	-8,710



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CONSOLIDATED BALANCE SHEET

(All amounts in KSEK)

	<u>Halfyear</u>	
	<u>1999</u>	<u>1998</u>
ASSETS		
Machinery & equipment	15,677	8,505
Total Fixed Assets	15,677	8,505
Accounts receivable	954	465
Other receivables	4,592	1,084
Prepaid expense and accrued income	2,091	1,426
Cash & Cash equivalents	23,743	27,687
Total short-term assets	31,380	30,662
TOTAL ASSETS	47,057	39,167
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital	1,163	1,000
New issue of shares – ongoing	26,503	0
Premium fund	52,258	42,113
Total restricted equity	79,924	43,113
Retained losses	-25,332	-3,115
Net loss for the period	-29,289	-8,710
Total unrestricted equity	-54,621	-11,825
Long-term liabilities – leasing	1,042	1,761
Total long-term liabilities	1,042	1,761
Accounts payable	15,267	2,626
Leasing	349	306
Other liabilities	1,867	1,467
Accrued expenses and prepaid income	3,229	1,718
Total current liabilities	20,712	6,117
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	47,057	39,167



CONSOLIDATED CASH FLOW STATEMENT

(All amounts in KSEK)

	<u>Second quarter</u>		<u>Halfyear</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Income after financial items	-11,504	-6,047	-21,815	-8,710
Depreciation	1,611	734	2,922	787
Extraordinary expense	-7,474	0	-7,474	0
Cash flow from operations before changes in working capital	-17,367	-5,313	-26,367	-7,923
Changes in working capital	9,526	1,048	7,519	97
Cash flow from operating activities	-7,841	-4,265	-18,848	-7,826
Investments in fixed assets	-8,966	-7,955	-11,071	-8,680
Sale of fixed assets	3,331	0	3,331	0
Cash flow before financing	-13,476	-12,220	-26,588	-16,506
Changes in long-term liabilities – leasing	0	1,762	0	1,761
Investments in subsidiaries	0	0	0	0
Group contributions	0	0	0	0
Proceeds from new issue of shares	26,503	0	26,503	0
Cash flow from finance activities	26,503	1,762	26,503	1,761
Rounding	2	2	1	0
Change in cash & cash equivalents	13,029	-10,456	-84	-14,746



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