

INTERIM REPORT FOR THE PERIOD JANUARY-SEPTEMBER 2004
HiQ INTERNATIONAL AB
(publ), company registration number 556529-3205

HiQ – good demand and strong development in 2004

- Net sales increase by 21 percent to SEK 354.9 (292.4) million
- Profit before goodwill (EBITA) increases by 81 percent to SEK 40.0 (22.1) million, equivalent to an EBITA margin of 11.3 (7.6) percent
- Pre-tax profit increases by SEK 17.9 million to SEK 25.6 (7.7) million
- Profit after tax increases by SEK 12.9 million to SEK 13.7 (0.8) million
- Earnings per share increase by SEK 0.27 to SEK 0.29 (0.02)
- Cash flow from operations during the period amounts to SEK 16.3 million
- HiQ has once again been selected as a preferred supplier by Ericsson and has signed a 3-year framework agreement covering research & development
- In August HiQ acquired the IT consultancy Cats, which has around 50 employees – thereby strengthening its position in the finance and industry sectors
- HiQ has been selected as A-level supplier to the Swedish Defence Materiel Administration (FMV) and the Swedish Agency for Public Management in the procurement by of IT services for 51 authorities
- A reduction in the share premium reserve has been completed, increasing the unrestricted distributable equity by SEK 180 million
- A nominating committee has, according to the decision made by the AGM, been formed including Peter Rönström, Caroline af Ugglas, Anders Ljungh and Ken Gerhardsen

2004 in brief

HiQ are specialised in advanced, high-tech solutions and has seen a marked increase in demand for its services over the year. In a competitive market, HiQ has continued to gain market shares, increase net sales and strengthen profits.

Throughout 2004 HiQ has exploited the opportunities to grow. The work on specialising the service range and broadening the operations to several business sectors pays off. Today HiQ is able to focus entirely on winning new orders and further strengthening and advancing its position. Following the downturn, there is once again a great need for investment in new customised products and systems. HiQ is well equipped to meet the growing demand. During the period HiQ recruited 101 employees.

In August HiQ announced the acquisition of the IT consultancy Cats, with around 50 employees. HiQ

Cats strengthens HiQ in Stockholm as well as in the important finance and industry sectors.

After the end of the period HiQ has established a new office in Karlskrona in order to better be able to meet the needs from existing and new clients in the region. HiQ employs approximately 10 people in Karlskrona at present.

The telecoms sector continues to drive technological development and during the year the propensity to invest has strengthened substantially. This is true for both suppliers and operators. Operators are increasingly focusing on developing services and increasing the content available on mobile terminals. Telecoms suppliers are continuing to invest in developing both mobile terminals and infrastructure. The development in the telecom sector favours HiQ since the company has over ten years' experience of working on high-tech development in the telecoms industry. HiQ works with suppliers, operators and end-users as well as with regulatory issues.

HiQ is an IT and management consultancy that focuses on high-tech solutions in the fields of communication and simulation technology. The company is a leader in these fields and the Nordic region is its domestic market. HiQ employs around 500 people at offices in Sweden, Finland and Denmark. HiQ is listed on Stockholmsbörsen. For more information, please visit www.hiq.se.

The market

The positive trend in the market that we experienced in the first half of 2004 is continuing. HiQ is currently enjoying a high level of demand in all the geographical markets. The market continues to be competitive, however HiQ continues to win new business.

Rapid technological development is creating a need for integration and new development. Many companies are demanding advanced, customised solutions in order to be sure of maintaining their competitiveness in an increasingly high-tech market. Clients are, however, focusing on cost control and improved efficiency.

Market demand in Stockholm and Gothenburg has improved over the period. During the downturn HiQ succeeded in strengthening its position and is today well equipped to meet the demands of a more positive market situation. The acquisition of Cats has strengthened our position in Stockholm as well as within the finance and industry sectors. HiQ will be able to exploit opportunities for growth in these sectors better.

In Copenhagen and Skåne HiQ continues to develop very positively and our strong position in the Öresund region has been strengthened further. Today HiQ employs around 90 consultants in the region, making it a significant player in this telecoms-intensive and growing part of the Nordic region.

The establishment of a new office in Karlskrona has further strengthened HiQ's position in southern Sweden. Blekinge, with Karlskrona as its base, is a region that has experienced substantial expansion in recent years and is home to a number of large corporations such as Vodafone and Ericsson – important clients with whom HiQ has framework agreements.

HiQ's Finnish business continues to develop strongly. During the period we have consolidated our very strong position in the development of systems for the gaming & entertainment market, a segment in which demand remains high. HiQ Softplan also enjoys a very strong position in the telecoms sector.

HiQ's business in Arboga operates within the defence sector, where major clients include the Swedish Defence Materiel Administration (FMV) and Land Systems Hägglunds. HiQ is continuing to work on broadening its offering to other defence-

related clients and our expertise in simulation technology is now giving rise to business with clients other than FMV.

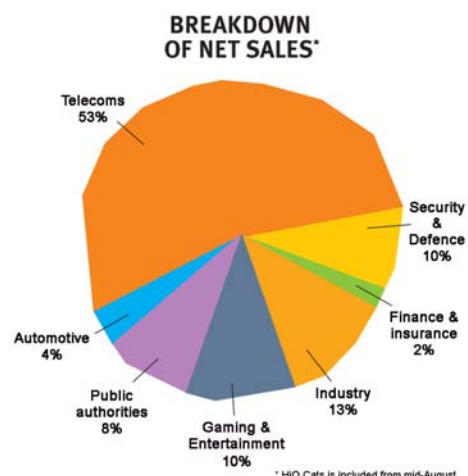
Development of market areas

During the period HiQ strengthened its position in all the sectors and regions in which it operates.

Examples of agreements signed during the third quarter:

- At the beginning of July HiQ announced its cooperation with the Swedish lottery company Folkspel. HiQ has assisted Folkspel with the customisation and implementation of the OnNet gaming platform in connection with the launch of a new gaming concept in Sweden.
- In August HiQ signed a three-year framework agreement with Teracom.
- In August HiQ also presented a new project to Vägverket Produktion. HiQ had been responsible for producing a new solution for communication between vehicles, head office and the customer.
- In September HiQ was selected as A-level supplier in the joint procurement by FMV and the Swedish Agency for Public Management of IT services for 51 authorities.
- In September HiQ announced an agreement with ComHem for total project management when ComHem launches telephony via the cable TV network in autumn 2004.

HiQ's net sales for the past 12 months are divided between the following market sectors:



Telecoms is the sector that continues to set the tone as regards technological development. Demand from telecoms suppliers has increased in respect of

both terminals and infrastructure. The convergence between fixed and mobile telephony is creating new business for HiQ among telecoms suppliers. New phone models are rapidly being developed and end-users are demanding increased content, which makes great demands of both operators and manufacturers. During the period HiQ signed a three-year framework agreement with Ericsson covering research and development.

In line with the expansion of the third generation mobile network there is also increasing demand for 3G phones in the market. This is noticeable not least among telecoms operators, from which there is increasing demand for HiQ's services within testing and verification, e.g. for testing terminals and services on the new networks. HiQ is continuing to win new orders and clients within the mobile telephony segment. Over the year HiQ has signed framework agreements with Vodafone, Telenor AB and Teracom.

HiQ is continuing to help develop the market for **gaming & entertainment** via the Internet and mobile channels. New technology and increased bandwidth are enabling convergence between telecoms and other industries such as gaming. Together with its clients, HiQ is developing new, innovative gaming services. HiQ has, for example, developed a mobile gaming solution that enables betting directly via the mobile terminal.

HiQ's business within the **security and defence** sector is developing positively. During the third quarter the Swedish government presented a proposal to Sweden's 2004 Defence Review, which will reduce the uncertainty concerning the defence sector's future and orientation. The use of civil technology is increasing within areas such as security, emergency services and traditional defence.

An increased IT maturity is seen in the **public sector** and the demand for advanced system solutions increases. This favours HiQ, that is continuing to win new assignments. The public procurement procedure in this sector means that a framework agreement is, if possible, even more important here than in other sectors. A framework agreement and is generally a requirement for doing business. In September HiQ was selected as A-level supplier to 51 authorities as part of joint framework agreement procurement by the Swedish Agency for Public Management and FMV.

Following the acquisition of Cats, HiQ's presence in the **finance** sector has increased substantially. HiQ develops, manages and tests transaction-intensive systems for clients such as OMX etc.

The acquisition of Cats also strengthens HiQ within the **industry** sector, particularly in the newspaper industry. Here HiQ works with clients such as Västsvenskt Tidningsstryckeri, Tidningsstryckarna (which publishes Aftonbladet, among others) and La Montagne. The newspaper industry is currently characterised by an increased need for integration and development of control systems in printing houses, an area in which HiQ can offer the very highest level of expertise.

Acquisition of IT consultancy Cats

In August HiQ announced the acquisition of Cats, a profitable and specialised IT consultancy. HiQ Cats works with systems development of business critical solutions with high requirements on reliability and availability within the finance and industry sectors. The present managing director Dag Sundman founded the company in 1985. The company is consolidated into HiQ's accounts from the 18th of august 2004.

Client survey 2004

In August HiQ carried out a survey among its existing clients as a follow-up to the survey carried out in 2003. The results show that over the year HiQ has increased still further the quality and level of service which it provides to its clients – an important step in our efforts to deliver the best possible results at all times.

Invoicing and profit

HiQ's net sales during the period January-September increased by SEK 62.5 million to SEK 354.9 (292.4) million, an increase of 21 percent.

Profit before goodwill (EBITA) increased by SEK 17.9 million to SEK 40.0 (22.1) million, equivalent to an EBITA margin of 11.3 (7.6) percent.

Operating profit (EBIT) increased by SEK 17.4 million to SEK 24.1 (6.7) million, which corresponds to an EBIT margin of 6.8 (2.3) percent.

Consolidated net financial items for the period amounted to SEK 1.6 (1.0) million.

Pre-tax profit increased by SEK 17.9 million to SEK 25.6 (7.7) million.

Employees

At the end of the period HiQ had 489 employees (376), of whom 457 (342) are active staff.

During the period HiQ has recruited 101 new employees. Thereto comes the acquisition of Cats with approximately 50 employees.

Investments

The Group made net investments during the period of SEK 49.9 million. This includes goodwill arising from the acquisition of HiQ Cats of SEK 42.3 million.

The purchase price of Cats was SEK 56.2 million, of which SEK 30.8 million is paid through a new issue of 2 124 301 HiQ shares.

Investments in new premises account for SEK 1.7 million, investments in equipment SEK 1.6 million and investments in financial leasing SEK 3.2 million. For the corresponding period last year the Group made net investments of SEK 0.0 million, of which investments in financial leasing accounted for SEK -0.4 million.

Financial position

Cash flow from operations was positive and amounted to SEK 16.3 (17.3) million.

As at 30 September, the Group had liquid assets of SEK 83.6 (62.3) million. Liquid assets reduced by SEK 23.4 million this year due to the dividend of SEK 21.1 million that was paid out to shareholders on 7 May this year and as a result of the acquisition of Cats.

Interest-bearing net funds at the end of the period amounted to SEK 75.8 (56.5) million.

Shareholders' equity was SEK 272.1 (239.5) million at the end of the period and the equity/assets ratio was 65.4 (70.1) percent.

Warrants

On 29 April 2004 the Annual General Meeting approved a warrant programme aimed at employees of HiQ. All the warrants are acquired by the employees at market price.

The warrant programme consists of two series, the first of which was issued in May and aimed at all employees. The second series will be issued in November and is aimed primarily at new employees. The number of warrants in series one and two will amount to a maximum of 1,000,000 in

total, with each warrant entitling the holder to subscribe for one share.

In the first series a total of 561,400 warrants were issued. Series two may thus encompass a maximum of 438,600 warrants. The dilution effect on full utilisation of all the outstanding warrant programmes will be approximately 2.5 percent. The options run for 2 years and shares may be subscribed for in May and November 2006 respectively.

Reduction in share premium reserve

In the third quarter the SEK 180 million reduction in the share premium reserve passed by the AGM became legally effective. The aim is to increase unrestricted distributable funds and thereby increase opportunities to transfer funds generated to the shareholders. Following the reduction, unrestricted equity in the parent company amounts to approximately SEK 224.7 million.

IFRS

During the period a review was carried out of the effects that the transition to IFRS will have on HiQ's reported financial position and results.

HiQ's assessment is that the transition to IFRS will affect the company as follows:

- Goodwill will no longer be amortized according to plan, but rather the value will be continually reviewed.
- The transition to IFRS will not result in any material changes in respect of HiQ's financial position or development.

Certain aspects remain unclear as regards which regulations will apply with effect from 1 January 2005, as well as their practical application.

Accounting principles

This interim report has been prepared in accordance with Swedish Annual Accounts Act and with the recommendations and pronouncements of the Swedish Financial Accounting Standards Council. The accounting principles are the same as in the last annual report, with the exception that RR29 "Employee Benefits" is applied with effect from 1 January 2004. The introduction of RR 29 has not affected profits or shareholders' equity in the period.

Events after the end of the period

- In October HiQ established a new office in the telecoms-intensive Karlskrona region. Its Managing Director is Arne Borg. Arne has 15

years of experience from the IT and telecoms industries and a broad network in the Karlskrona region.

- A nominating committee has, according to the decision made by the AGM, been formed including Peter Rönström, Caroline af Ugglas, Anders Ljungh and Ken Gerhardsen

Outlook

HiQ assesses that the positive development seen in the year to date will continue, and that demand for customised technical solutions and IT investments will continue to increase.

The complexity of new products and systems is creating demand for knowledge in the areas of simulation, advanced systems development, testing and verification; knowledge that HiQ possesses.

We believe that the market for consulting services will continue to be competitive, with great demands on suppliers as regards quality, skills and financial stability. In such a market situation HiQ is well positioned and well proportioned to be able to continue to grow and be profitable.

HiQ's main strategy is to be a specialised service company within the Nordic region and with Nordic clients as a base. HiQ's growth strategy is based on organic growth supplemented with strategic acquisitions. HiQ will continue to give priority to quality, profits and growth.

HiQ does not make any forecasts.

Parent company

Profit after tax for HiQ International AB was SEK -4.4 (34.3) million. As at 30 September the company's interest-bearing net funds amounted to SEK 45.5 (43.1) million. Adjusted shareholders' equity was SEK 288.4 (262.2) million and the equity/assets ratio was 80.3 (86.2) percent.

The company's net investments during the period amounted to SEK 56.1 (0.1) million, which is entirely attributable to the acquisition of Cats.

Other reporting dates for 2004

Year-end release 2004 8 February 2005

Stockholm, 26 October 2004

The Board of HiQ International AB

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

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HiQ bases its market offering on expertise within communication, software development and simulation

HiQ works in the following areas:

Telecoms: Development & testing of infrastructure and platforms, network planning, billing, procurement, IT strategies, development of support systems and business

Mobile terminals & applications: Development & testing of mobile terminals and applications

Simulation for testing, training & education: Development & testing of simulators

Platforms for gaming: Development of gaming platforms for Internet gaming and other mobile channels

Business-critical systems: Development of transaction intensive systems as well as workflow and support systems

Automotive IT & telematics: Development & testing of products, mobile applications and support

HiQ International Group
Company registration number 556529-3205

Income Statement

SEK 000s	Jan-Sep 2004	Jan-Sep 2003	July-Sep 2004	July-Sep 2003	RTM	Full Year 2003
Operating income	354 943	292 428	121 569	89 004	465 487	402 972
Operating expenses, excluding depreciation	-312 066	-266 928	-104 086	-80 235	-408 859	-363 721
Operating profit before depreciation (EBITDA)	42 877	25 500	17 483	8 769	56 628	39 251
Depreciation and write-down, tangible fixed assets	-2 847	-3 387	-1 008	-1 046	-5 225	-5 765
Operating profit before intangible depreciation (EBITA)	40 030	22 113	16 475	7 723	51 403	33 486
Depreciation, intangible fixed assets	-15 980	-15 450	-5 681	-5 152	-21 069	-20 539
Operating profit (EBIT)	24 050	6 663	10 794	2 571	30 334	12 947
Financial items	1 568	1 047	464	233	2 184	1 663
Pre-tax profit	25 618	7 710	11 258	2 804	32 518	14 610
Tax	-11 903	-6 914	-4 902	-2 551	-15 584	-10 595
Profit after tax	13 715	796	6 356	253	16 934	4 015
Profit per share before dilution, SEK	0,29	0,02	0,13	0,01	0,36	0,09
Profit per share after dilution, SEK	0,29	0,02	0,13	0,01	0,36	0,09

Balance Sheet

SEK 000s	September 2004	September 2003	Full Year 2003
ASSETS			
Intangible fixed assets	174 035	149 235	146 415
Tangible fixed assets	14 944	13 248	11 436
Financial fixed assets	14 680	19 940	13 861
Total fixed assets	203 659	182 423	171 712
Accounts receivable	66 417	54 896	58 399
Other current assets, excl. liquid assets	62 342	41 914	42 367
Liquid assets	83 579	62 335	106 990
Total current assets	212 338	159 145	207 756
Total assets	415 997	341 568	379 468
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES			
Shareholders' equity	272 136	239 455	246 012
Non-interest bearing provisions	18 504	20 042	18 235
Long-term non-interest bearing liabilities	11 508	0	11 508
Long-term interest-bearing liabilities	7 423	6 010	5 614
Short-term, non-interest bearing liabilities	104 859	74 676	96 726
Short-term, interest bearing liabilities	1 567	1 385	1 373
Total shareholder's equity, provisions and liabilities	415 997	341 568	379 468

	Jan-Sep 2004	Jan-Sep 2003	July-Sep 2004	July-Sep 2003	RTM	Full Year 2003
Key figures						
Gross profit (EBITDA)	42 877	25 500	17 483	8 769	56 628	39 251
Operating profit before intangible depreciation (EBITA)	40 030	22 113	16 475	7 723	51 403	33 486
Operating profit (EBIT)	24 050	6 663	10 794	2 571	30 334	12 947
Gross margin (EBITDA margin)	12,1%	8,7%	14,4%	9,9%	12,2%	9,7%
Operating margin before intangible amortisation (EBITA margin)	11,3%	7,6%	13,6%	8,7%	11,0%	8,3%
Operating margin (EBIT margin)	6,8%	2,3%	8,9%	2,9%	6,5%	3,2%
Profit margin	7,2%	2,6%	9,3%	3,2%	7,0%	3,6%
Capital employed	281 126	246 850	281 126	246 850	281 126	252 999
Operating capital	196 302	182 943	196 302	182 943	196 302	144 683
Return on operating capital	14,1%	3,4%	6,3%	1,4%	16,0%	7,4%
Return on shareholders' equity	5,3%	0,3%	2,5%	0,1%	6,6%	1,6%
Financial position						
Expensed investments in computers	1 009	1 125	316	373	1 480	1 596
Liquid assets	83 579	62 335	83 579	62 335	83 579	106 990
Interest-bearing net cash	75 834	56 512	75 834	56 512	75 834	101 329
Shareholders' equity	272 136	239 455	272 136	239 455	272 136	246 012
Equity/assets ratio	65,4%	70,1%	65,4%	70,1%	65,4%	64,8%
Change in shareholders' equity						
Amount at the start of the period	246 012	243 815	234 765	243 377	239 455	243 815
Dividends	-21 080	0	0	0	-21 080	0
Warrant premiums	891	0	0	0	891	0
New share issue in connection with redemption of warrants	415	0	0	0	415	0
New share issue in connection with acquisition	30 802	0	30 802	0	30 802	0
Translation difference	1 381	-5 156	213	-4 175	4 719	-1 818
Profit for the period	13 715	796	6 356	253	16 934	4 015
Amount at the end of the period	272 136	239 455	272 136	239 455	272 136	246 012
Cash flow analysis						
Cash flow before change in operating capital & investments	31 525	18 117	9 690	2 992	52 246	38 838
Change in operating capital	-15 224	-783	-4 736	-6 327	-2 973	11 468
Cash flow before investments	16 301	17 334	4 954	-3 335	49 273	50 306
Cash flow from investments	-28 994	652	-26 169	-464	-29 129	517
Cash flow after investments	-12 693	17 986	-21 215	-3 799	20 144	50 823
Cash flow from investments activities	-10 718	-2 748	9 378	-754	1 100	9 070
Change in liquid assets	-23 411	15 238	-11 837	-4 553	21 244	59 893
Liquid assets at the start of the period	106 990	47 097	95 416	66 888	62 335	47 097
Liquid assets at the end of the period	83 579	62 335	83 579	62 335	83 579	106 990
Employees						
Number of employees	489	376	489	376	489	381
Number of employees in duty at end of period	457	342	457	342	457	351
Number of employees recruited (acquisition excl.)	101	19	35	7	116	34
Average number of employees	386	365	413	346	377	361
Value added per employee	577	512	189	152	771	706
Turnover per employee	920	801	294	257	1 236	1 116
Operating profit per employee	62	18	26	7	81	36
Share data						
No. of shares at end of period, thousands	49 000	46 844	49 000	46 844	49 000	46 844
Average no. of shares before dilution, thousand	47 212	46 844	47 938	46 844	47 120	46 844
Average no. of shares after dilution, thousand	47 405	46 906	48 138	46 906	47 299	46 934
Profit per share before dilution, SEK	0,29	0,02	0,13	0,01	0,36	0,09
Profit per share after dilution, SEK	0,29	0,02	0,13	0,01	0,36	0,09
Shareholders' Equity per share, SEK	5,55	5,11	5,55	5,11	5,55	5,25