

Interim Report May–October 1999

Connecta AB (publ)

Growth and profitability remain strong

- Net sales rose 82% during the period May–October 1999 to SEK 162.7 M (corresponding period of the preceding year: SEK 89.6 M).
- Operating profit¹ up 114% to SEK 18.2 M (8.5).
- On a rolling 12-month basis, sales amounted to SEK 305.4 M and operating profit¹ to SEK 43.6 M. The operating margin¹ on a rolling 12-month basis was 14.3%.
- The number of employees on October 31, 1999 was 416 (246).
- Itvision, a company within the Internet Based Training sector, was acquired during the period.
- Decision taken regarding action plan for international expansion.
- Forecast for 1999/2000 fiscal year: Connecta anticipates net sales of at least SEK 400 M, which is expected to yield operating profit¹ exceeding SEK 55 M.

¹ Before goodwill amortisation

Sales, earnings and financial position

Connecta reports net sales of SEK 162.7 M for the period May–October 1999 (corresponding period of the preceding year: SEK 89.6 M), up 82% compared with the year-earlier period.

Operating profit before goodwill amortisation rose 114% to SEK 18.2 M (8.5). The operating margin, before goodwill amortisation, rose to 11.2% (9.4).

Translated to 12-month figures – that is, the 12-month period ended October 31, 1999 – sales amounted to SEK 305.4 M and operating profit, before goodwill amortisation, to SEK 43.6 M, corresponding to an operating margin of 14.3%.

Pre-tax profit amounted to SEK 15 M (4.4). After estimated taxes, consolidated net profit amounted to SEK 10.1 M (2.5). Issue costs of approximately SEK 16 M were not taken into account in calculating tax for the period. The Group's actual tax costs, after a deduction for issue costs, is estimated at SEK 0.4 M. To ensure that comparability between different periods of the year is not distorted, this item will be adjusted in the final accounts.

Liquid funds amounted to SEK 119.3 M (24.8). In addition, approved overdraft facilities amount to SEK 10 M. The new issue of shares in connection with Connecta's listing on the OM Stockholm Stock Exchange provided a net contribution of SEK 106 M. Liquid assets have been charged with SEK 30 M pertaining to the sales consideration for Itvision and SEK 7.4 M pertaining to dividends for the 1998/99 fiscal year.

Investments, including financial leasing contracts, amounted to SEK 4.3 M (0).

Acquisitions

As previously announced, Connecta has acquired the Internet consulting company Itvision, which together with its clients provides tailor-made interactive training programs for Intranet and Intranet distribution. This company broadens Connecta's range of Internet and broadband services and is in line with the Group's strategic focus on helping companies and organisations to enter the digital economy.

Itvision currently has 11 employees and mainly conducts its operations in Stockholm. Its customers consist mainly of large Nordic companies, including Ericsson, SAS and Nordbanken. Littlewood's Stores is another major customer.

The sales consideration for Itvision was SEK 30 M, to which a supplementary payment of SEK 5 M may be added, depending on Itvision's future earnings trend.

The acquisition gave rise to consolidated goodwill which, including the estimated supplementary payment, has been preliminarily computed at SEK 32.6 M, to be amortised over 10 years.

Employees

The number of employees on October 31, 1999 was 416 (246), corresponding to an increase of 69% compared with a year earlier.

Operations – significant events

Connecta starts up two new Internet companies

To satisfy sharply increasing demand for Internet services, Connecta has started up two new companies:

Connecta eTech is Connecta's company for leading edge technology related to the new digital economy. The company refines Connecta's expertise in wireless Internet, web-development platforms, scaleable solutions and integration.

Connecta Industri offers Internet-based business development services to industrial companies. The company specialises in combining business development based on specific industry expertise with its specialist know-how in the development of web solutions. As a result, its clients can progress from an idea to an implemented solution in a very short time.

Agreement with Kungsörnen

Connecta Industri has entered into an agreement with Kungsörnen Försäljning & Logistik regarding Internet-based business development services aimed at increasing this customer's future efficiency and competitiveness. The agreement covers strategic work, the development of branding solutions for the Internet, operations supports for Intranet activities and relation-building services via an extranet.

Partner of Intenia

Connecta has become an Intenia VIP (Verified Interface Partner), whereby Intenia and Connecta will jointly develop workflow and e-commerce solutions based on Movex, Intenia's business administration system. Connecta's input will include delivery of Internet-based reporting systems for customers, distributors and personnel.

New business area organisation

An increasing number of customers have discovered that the distance between strategic decisions and their implementation is shrinking and are therefore turning to consulting companies with the ability to work at a strategic level, convert strategies into change-oriented projects and implement these projects. Against this background, Connecta has created a new organisation based on business areas. By introducing business areas, Connecta is able to support companies in various projects, from the concept stage to implementation.

Strategy business area. This business area consists of strategy consultants who understand the digital economy and are able to convert strategies and business development ideas into change-oriented projects.

Innovate business area Through this business area, Connecta delivers many of the business development projects that require access to all of Connecta's skills. The business area's offering to customers is based on creativity, design expertise, swift delivery and the ability to conduct projects that require the co-ordination of many different skills.

Business Solutions business area ERP systems are the heart of many company's IT solutions. Accordingly, many Internet-based e-commerce systems are connected to ERP systems. The Business Solutions business area is Connecta's center of excellence in matters concerning ERP systems and standard e-commerce packages.

Integration business area Many of the web solutions developed by Connecta are joined to existing basic systems. These are often heterogeneous systems that require considerable integration expertise. The Integration business area comprises business developers who possess the necessary Internet and integration expertise.

Networks business area. The advent of the Internet has resulted in a dramatic increase in digital communications. This has led to increasing demand for support in how to handle security, supervision, information storage and access to databases. Consultants in the Networks business area operate with expertise in these areas.

Change business area This business area prepares the organisations and employees of its customers for new markets by creating change strategies, planning, implementing and managing these processes, recruiting new executives and strengthening its customers' organisation during processes of change.

Navigate business area. With the help of this business area, Connecta guides recent graduates in engineering, business administration and systems sciences into the professional world. After a period as trainee consultants, participants receive career navigation to positions with Connecta's internal or external partners.

Connecta strengthens its Group management

To strengthen Connecta in preparation for planned growth and expansion in Sweden and internationally, Group Executive Committee has been formed.

In addition, Johan Wieslander has been appointed Chief Operating Officer (COO) and designated deputy to the President. Wieslander, who is already Executive Vice President, has held senior positions in Connecta for five years.

Connecta's Group Executive Committee will thereby comprise the following persons:

Christer Jacobsson	President and Chief Executive Officer
Johan Wieslander	Executive Vice President, Chief Operating Officer
Jan Maelum	Senior Vice President
Anders Swensson	Chief Financial Officer
Rolf Thorsell	Head of Change business area

Growth and international expansion

To date, Connecta has mainly expanded organically. The recent listing of the company's shares on the Stockholm Stock Exchange has improved the Group's potential for supplementing organic growth with growth through acquisitions.

While organic growth will continue to be the main strategy in Sweden, Connecta will acquire companies that contribute new skills and/or strategic customers, such as Itvision. In addition, the acquired companies must also fit in with efforts to create a complete consulting company for business development in the digital economy.

Connecta's Board of Directors has taken a decision regarding an action plan for the build-up of international operations, partly in order to provide better support to Swedish multinational companies. The new plans, which are more aggressive than the previous ones, are based on a network approach and a concept for finding and supporting entrepreneurs in expanding markets. The priority markets for foreign expansion are the UK, Germany and other Nordic countries. At present, Connecta works for customers in the UK, Germany, Poland and Denmark.

Connecta's international expansion will be based on quality. In many cases, the Group's assignments concern its customers' business strategies, a factor that necessitates quality regardless of the country in which the work is conducted. Accordingly, simply acquiring newly formed web bureaus is not sufficient and Connecta will therefore mainly focus on finding partners who combine strategic thinking with Internet expertise.

Market trend

Connecta's customers (and those of its competitors) are increasingly realising the importance of the areas of expertise in which Connecta specialises:

- Strategy and business development
- Expertise in integration; that is, the know-how and ability required to work in an Internet environment and combine this with traditional systems and large business support systems.

An increasing number of business-development assignments based on the Internet are being undertaken on behalf of established major companies. In many cases, however, such companies find it difficult to adjust their entire organisation to the needs of a new business logic and thus usually decide to start up new operations that operate parallel with the existing organisation. Accordingly, Connecta is focusing on further strengthening its expertise as a full-service supplier in business-launch projects.

In pace with the actions taken by established major companies and organisations, needs arise for the development of their employees. Accordingly, Connecta is focusing on continued development of its change-management expertise.

Millennium shift

Essentially all work aimed at preventing disruptions in connection with the New Year has been completed. The costs for the actions taken have been limited.

Share data

Since September 20, 1999, Series B Connecta shares have been listed on the OM Stockholm Stock Exchange's O List. Following the Initial Public Offering, the number of shareholders amounted to slightly more than 5,000. Foreign investors account for approximately 34% of the shares offered in connection with the IPO. More than 90% of Connecta's employees decided to subscribe for shares from the IPO.

Share trading during October has averaged 61 000 per day.

Following the new issue, the total number of shares is 16,500,000. In addition, convertible debentures and warrants outstanding correspond to 2,170,000 shares.

Condensed, consolidated income statement, SEK M

	1999/00 6 mos May –Oct	1998/99 6 mos May –Oct	1998/99 12 mos May– April
Net sales	162,7	89,6	232,3
Operating expenses	-142,8	-80,6	-196,7
Operating profit before depreciation	19,9	9,0	35,6
Depreciation, tangible fixed assets	-1,7	-0,5	-1,8
Operating profit before amortisation of goodwill	18,2	8,5	33,8
Amortisation of goodwill	-3,0	-3,4	-7,5
Operating profit	15,2	5,1	26,3
Financial items	-0,2	-0,7	-1,0
Profit after financial items	15,0	4,4	25,3
Taxes ¹	-4,9	-1,9	-9,8
Net profit for the period	10,1	2,5	15,5

¹ In calculating the taxes for the period, the issue costs of about SEK 16 M are not taken into account. The Group's actual tax charge for the first six months of the year, less issue costs, is estimated at SEK 0.4 M. In order not to affect comparability during the year, this adjustment will be made in the year-end accounts

Consolidated income statement, quarterly trend, SEK M

	99/00 3 mos. Aug-Oct	99/00 3 mos. May-July	98/99 3 mos. Feb-Apr	98/99 3 mos. Nov-Jan	98/99 3 mos. Aug-Oct	98/99 3 mos. May-July
Net sales	93,7	69,0	78,2	64,5	55,2	34,4
Operating expenses	-81,2	-61,6	-61,9	-54,2	-49,2	-31,4
Operating profit before depreciation	12,5	7,4	16,3	10,3	6,0	3,0
Depreciation, tangible fixed assets	-1,0	-0,7	-1,0	-0,2	-0,2	-0,4
Operating profit before amortisation of goodwill	11,5	6,7	15,3	10,1	5,8	2,6
Amortisation of goodwill	-1,5	-1,5	-2,4	-1,7	-1,8	-1,6
Operating profit after depreciation/amortisation	10,0	5,2	12,9	8,4	4,0	1,0
Financial items	-0,1	-0,1	-0,2	-0,1	-0,3	-0,4
Profit after financial items	9,9	5,1	12,7	8,3	3,7	0,6
Taxes ¹	-3,2	-1,7	-5,3	-2,7	-1,6	-0,2
Net profit for the period	6,7	3,4	7,4	5,6	2,1	0,4

¹. In calculating the taxes for the period, the issue costs of about SEK 16 M are not taken into account. The Group's actual tax charge for the first six months of the year, less issue costs, is estimated at SEK 0.4 M. In order not to affect comparability during the year, this adjustment will be made in the year-end accounts.

Condensed, consolidated balance sheets, SEK M

	Oct. 31, 1999	Oct. 31, 1998	April 30, 1999
Assets			
Intangible assets	37,3	7,7	5,1
Tangible receivables	12,4	5,9	9,8
Current receivables	79,2	42,1	56,6
Liquid funds	119,3	24,8	44,7
Total assets	248,2	80,5	116,2
Shareholders' equity and liabilities			
Shareholders' equity	135,1	13,2	26,1
Provisions and liabilities	36,4	24,9	28,7
Current liabilities	76,7	42,4	61,4
Total shareholders' equity and liabilities	248,2	80,5	116,2

Cash flow analysis, SEK M

	1999/00 6 mos. May-Oct	1998/99 6 mos. May-Oct	1998/99 12 mos. May-Apr
Cash flow from current operations	7,5	-0,3	22,5
Cash flow from investment activities	-39,5	-	-6,8
Cash flow from financial operations	106,6	15,8	19,7
Change in liquid fund	74,6	15,5	35,4

Key ratios

	1999/00 6 mos.	1998/99 6 mos.	1998/99 12 mos.
Operating margin before amortisation of goodwill	11,2%	9,4%	14,5%
Operating margin	9,3%	5,7%	11,3%
Profit margin ¹	9,2%	4,8%	10,9%
Return on shareholders' equity	17,2% *	7,5% *	51,1%
Return on capital employed	15,1% *	18,6% *	64,9%
*) pertains to 6 months			
Number of employees at end of period	416	246	316
Average number of employees	363	204	253
Sales/employee, SEK 000s	448	439	918
Added value/employee, SEK 000s	337	339	708
Equity/assets ratio ²	64%	46%	43%
Equity/assets ratio before dilution	54%	16%	23%
Per-share data			
Average number of shares	15 600 000	14 350 000	14 350 000
Earnings per share after calculated tax, SEK	0,65	0,17	1,06
Shareholders' equity per share, SEK	8,19	0,89	1,78
Per-share data after dilution			
Average number of shares	17 770 000	16 170 000	16 831 111
Earnings per share after calculated tax, SEK	0,60	0,18	1,0
Shareholders' equity per share, SEK	9,43	2,61	3,95

¹ Profit margin. Profit after financial items in relation to net sales during the period.

² Equity/assets ratio. In calculating the equity/assets ratio, shareholders' equity has been adjusted by SEK 24 M related to convertible debenture loans outstanding.

Parent Company

Net sales of the Parent Company during the period May-October 1999 amount to SEK 14.2 M (12.7).

Net loss after calculated tax¹ was SEK 2.9 M (loss: 2.5).

Liquid funds amounted to SEK 117.1 M (12.1) at the end of the period. In addition, there are approved overdraft facilities of SEK 10 M.

Forecast

The market for Internet consultants in Sweden continues to expand and order bookings remained highly favourable during the autumn. Demand for Connecta's services in the future is projected to be very strong. Connecta is currently working on a number of large and innovative projects for major companies in which Connecta's total-approach concept is demanded.

For the fiscal year May 1999 through April 2000, Connecta foresees net sales of at least SEK 400 M, which is expected to yield operating profit exceeding SEK 55 M.

Forthcoming reports

Interim report for the period May 1999 – January 2000 will be released on February 25, 2000.

The year-end report on operations in the 1999/00 fiscal year will be released on March 14, 2000.

Stockholm, November 9, 1999

Christer Jacobsson, President and CEO

This interim report is unaudited.

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Connecta AB is an Internet consulting company in the field of business development via the Internet. With its total-approach concept, Connecta can be a full-service supplier to large companies and organisations, offering consulting services that strengthen customers' ability to conduct business in the new digital economy. Connecta currently has about 420 employees.

¹ See description of taxes on page 2.