



GLOCALNET

10 November 1999

Interim Report 1 January 1999 – 30 September 1999

Significant events during the third quarter

- Aggressive marketing campaign with HemEl implemented
- Glocalnet—the world's first IP-based pre-selection service
- Brisk customer base expansion
- Manifold increase in traffic volumes
- Traffic revenues expand by 53%
- Margin gains sustain

After the end of the period

- Share issue raises SEK 26.5 m, SEK 15 m from Brummer & Partners
- Glocalnet sues Greek partner for SEK 7.4 m

In August, Glocalnet and HemEl implemented a joint direct marketing initiative, plus advertising in Sweden's major daily newspapers and a radio advertising campaign, whereby HemEl's customers in the Stockholm region were offered value-for-money telephony services. This offer, subject to highly attractive pricing, raised considerable interest, with Glocalnet visible as a competitive alternative to the market's existing operators.

In September, the new pre-selection service was brought into operation, by which subscribers are able to make calls via a pre-selected operator, in a service directly comparable to Sweden's incumbent operator, Telia. Glocalnet is the world's first company to offer such a service based on Internet technology. In this sector, IP technology is regarded as the future of all communications, and Glocalnet enjoys a leading position in this process, with its well-extended IP platform.

The launch of Glocalnet's pre-selection service and the marketing promotions resulted in the robust expansion of its customer base and traffic volumes. At the end of the period, Glocalnet had approximately 40,000 customers, compared to 17,000 at the end of the first half-year. Traffic volumes increased fourfold during the third quarter as a consequence of the pre-selection reform and new customers.



Our active collaborations with companies such as Cisco, which provides our hardware, ensure sufficient capacity for handling expanded traffic volumes. The capacity of our customer services function is also assured, as demonstrated in tests undertaken by parties including news agency TT. Such tests indicate that Glocalnet customer service is openly accessible and able to offer good service from the very night Sweden's pre-selection reform became effective.

After the end of the period, Glocalnet's customer base has continued to expand; additional marketing campaigns have been initiated, already yielding results. Currently, our customer base has passed the 45,000 mark, while in rolling monthly terms, traffic volumes now exceed 7.5 million minutes.

In accordance with the authorisation the Board gained from the Annual General Meeting in April, Glocalnet implemented a new issue of 500,000 class B shares with a par value of SEK 0.50 at a price of SEK 53 in October. This new issue, totalling SEK 26.5 m, was targeted at institutional investors. Asset managers Brummer & Partners Kapitalförvaltning subscribed for 283,000 shares (approx. SEK 15 m) via its Zenit fund, Aragon fund management for 94,000 shares (approx. SEK 5 m), the Pomona group for 66,000 shares (approx. SEK 3.5 m) and CMA Europe for 57,000 shares (approx. SEK 3 m).

During the second quarter, Glocalnet dissolved the collaboration with its Greek distributor ATS Ltd., because this company had not fulfilled its undertakings. Subsequently, Glocalnet negotiated with this company regarding un-paid receivables of SEK 7.4 m, although without reaching any settlement. Accordingly, on 27 October, Glocalnet submitted a summons application to the Stockholm district court. Provisions for receivables against ATS Ltd. totalling SEK 7.4 m were made in the half-year financial statement, implying that potential credit losses influenced income to their full extent as early as in the half-year financial statement.

In the spring, Glocalnet adopted a new strategy focusing on partnerships with companies that have strong brands and extensive customer bases. Accordingly, Glocalnet will also wind down its collaboration with its distributor in Turkey, which will not imply any credit losses.

(Figures in brackets as of 30 September 1998)

Turnover and revenues

Glocalnet's consolidated gross turnover, including other operating revenue, was kSEK¹ 16,702 (5,863), an increase of 185%. Consolidated traffic revenues represented kSEK 15,696 (1,512) of turnover. Excluding Greece, turnover for the period was kSEK 10,066, an increase of 53% in traffic revenues between the second and third quarters because of the extended customer base.

Plentiful customer inflows since the pre-selection reform have yet to influence revenues and income for the period significantly, since a high proportion of these subscribers registered during September. Accordingly, the expansion of our customer base and subsequent traffic volume gains will have a sustained positive influence on revenues and income in forthcoming periods.

Network expenses and margins

Fixed and variable network expenses amounted to a total of kSEK 14,594 (2,283) in the nine-month period. Gross margins were 13% for the period, an improvement on the 11% registered in the first half-year. Third-quarter gross margins for the traffic improved to 20% thanks to expanded volumes and ongoing tendering for traffic terminated with the company's suppliers.

Expenses and operating income

For the nine-month period, total expenses including depreciation were kSEK 35,335 (16,277), with personnel at kSEK 16,943 (8,665) the single biggest expenses item, corresponding to 48% of the total cost mass. Other expenses excluding network expenses were kSEK 13,801 (5,823), attributable to marketing campaigns, customer service, billing, external consulting, support and administration. Depreciation stood at kSEK 4,590 (1,788). In the third quarter, expenses contracted to kSEK 10,237, from kSEK 11,341 during the previous quarter—the result of the completion of the company's installation of its new customer care and billing systems.

Operating income for the period was kSEK -33,226 (-12,696), implying third-quarter operating income of kSEK -11,073, an improvement on the second-quarter figure of kSEK -11,674. The net income was kSEK -40,311 (-12,124), due to the non-recurring write-down of kSEK 7,470 receivables from the company's Greek partner ATS Ltd., in the half-year financial statement.

¹ SEK 000

Assets and liabilities

As of the end of the period, total assets amounted to kSEK 32,833 (39,588), consisting of fixed assets of kSEK 18,138 (11,506) and short-term assets of kSEK 14,695 (28,815). Shareholders' equity was kSEK 14,166, long-term liabilities kSEK 713 and current liabilities were kSEK 17,954.

Investments in fixed assets

In the nine-month period, investments in fixed assets amounted to kSEK 15,200 (12,682), primarily comprising network hardware equipment from Cisco, as well as software and equipment for the company's new customer care and billing systems from Portal Software.

Cash flow

For the nine-month period, cash flow before financing was kSEK -44,476 (-19,372), sourced mainly from the company's operating income and investments in equipment. A new issue was implemented after the end of the period, which raised kSEK 26,387 for the operations.

Financial position

As of the end of the period, bank assets stood at kSEK 5,410, which exclude funds raised by the new issue implemented after the end of the period (during October).

Forthcoming reports

The company intends to release its Financial Statement for 1999 on 28 February 2000.

Market and prospects

Glocalnet is in resolute growth, with the number of customers and sales per customer increasing. Thereby, traffic volumes are rising daily; new marketing activities are planned. The company is focusing on expanding its customer base. The potential harboured by our collaboration with Birka Energi is also producing concrete results in the form of revenues. In early-November 1999, Glocalnet's turnover corresponded to an annualised rate of approximately SEK 60 m, while our growth continues. Extensive initiatives with implementing new customer care and billing systems, improved processes vis-a-vis customers and investments in network capacity expansion provide the foundation for our continued expansion. With our new marketing strategy and focus on the now-established IP technology, Glocalnet is well equipped and positioned to face the future.



Sustained efforts on the Swedish market will imply ongoing initiatives within our partnership with Birka Energi, but also concerted efforts aimed at establishing new partnerships. This most recent growth demonstrates that Glocalnet's business concept works. The company is now recruiting to be able to approach new potential partners actively. Our ambition is to become the No. 3 player on the Swedish private subscriber fixed telephony market.

With its success on the Swedish market, Glocalnet can now take its next step towards becoming a European services operator. Several more national markets are due to be deregulated, exposing an opportunity for international expansion through Glocalnet's business concept, based on extensive customer bases and strong brands. New opportunities can be exploited utilising Sweden and Birka Energi as a reference.

Glocalnet' infrastructure—in terms of networks, systems, processes and organisational resources—harbours the capacity for growth with new partners and customers. This means that additional volume expansion will confer improved margins.

Additionally, Glocalnet's growing customer base implies the opportunity to launch new services. We have prepared for this and developments will be rapid. New services will mean the ability to increase revenues, expand margins and enable additional price reductions, to our customers' benefit—and all conforming to our vision of zero-tariff basic telephony with advanced supplementary services.

Appendices:

- Income Statement
- Balance Sheet
- Cash Flow Analysis

Glocalnet AB's stock is listed on the Reuters page of Aragon, a Swedish investment bank and is a next-generation telecommunications company. The Company markets its services together with local marketing partners such as Birka Energi, with which Glocalnet has close cooperation. Glocalnet's headquarters are located in Stockholm, Sweden.

Glocalnet AB's financial reports and other related information is available on our home page www.glocalnet.com

For further information please contact:

Mr. Stefan Krook
Chief Executive Officer

Mr. Mikael Hedlöf
Executive Vice President and CFO

Glocalnet AB
P.O. Box 6896
SE-113 86 Stockholm
Visiting address: Västmannagatan 44 A
Tel: +46 8 566 34 100
Fax: +46 8 566 34 141
stefan.krook@glocalnet.com
mikael.hedlof@glocalnet.com
Home page: www.glocalnet.com

(All amounts in KSEK)

	<u>July - September</u>		<u>January - September</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Revenues				
Traffic revenue	4519	914	15696	1512
Other revenue	415	4008	1006	4350
Total revenue	<u>4934</u>	<u>4922</u>	<u>16702</u>	<u>5863</u>
 Operating Expenses				
Network expenses	-4101	-1257	-14594	-2283
Direct sales expenses	-296	-58	-744	-304
Other external expenses	-4480	-2522	-13057	-5519
Personnel costs	-5461	-3662	-16943	-8665
Depreciation fixed assets	-1669	-1002	-4590	-1788
Total operating expenses	<u>-16007</u>	<u>-8501</u>	<u>-49929</u>	<u>-18560</u>
 Operating income	-11073	-3579	-33226	-12696
 Financial items	51	162	390	572
Income after financial items	<u>-11022</u>	<u>-3417</u>	<u>-32836</u>	<u>-12124</u>
Extraordinary expenses	0	0	-7,474	0
Net income for the period	<u>-11022</u>	<u>-3417</u>	<u>-40311</u>	<u>-12124</u>

CONSOLIDATED BALANCE SHEET

(All amounts in KSEK)

	January - September	
	<u>1999</u>	<u>1998</u>
ASSETS		
Machinery & equipment	18138	11506
Total Fixed Assets	<u>18138</u>	<u>11506</u>
Accounts receivable	621	461
Other receivables	3421	823
Prepaid expense and accrued income	5243	1977
Cash & Cash equivalents	5410	24821
Total short-term assets	<u>14695</u>	<u>28082</u>
TOTAL ASSETS	<u>32833</u>	<u>39588</u>
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital	1550	1000
Premium fund	78259	42113
Total restricted equity	<u>79809</u>	<u>43113</u>
Retained losses	-25332	-3115
Net loss for the period	-40311	-12124
Total unrestricted equity	<u>-65643</u>	<u>-15239</u>
Long-term liabilities – leasing	713	1761
Total long-term liabilities	<u>713</u>	<u>1761</u>
Accounts payable	12340	3890
Leasing	115	153
Other liabilities	5499	5910
Total current liabilities	<u>17954</u>	<u>9953</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	<u>32833</u>	<u>39588</u>

CONSOLIDATED CASHFLOW STATEMENT

(in SEK thousands)

	January - September 1999	January - September 1998
Operating income before depreciation	-28636	-10916
Net financial income	390	580
Extraordinary Expenses	-7474	
Cash flow before investing activities	-35720	-10336
Changes in working capital	3114	3646
Capital expenditures	-15200	-12682
Sale of equipment	3331	
Cash flow before financing	-44476	-19372
Changes in long-term liabilities	-329	1761
Proceeds from the issue of new shares	26387	0
Rounding	1	-1
Change in cash during period	-18417	17612
Data per share		
Shareholders equity	4.57	13.94
Profit/Loss,	-13.00	-6.06
Number of shares outstanding	3100	2000