



Interim Report
for Effnet Group AB (publ)
January-September 1999



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- OEM contract signed with Ericsson Radio Systems AB.
- Agreement signed with SSH Communications Security Ltd of Finland for IPSEC cooperation in respect of Effnet's firewalls.
- R&D agreement signed with Power Micro Research Inc., of Austin, Texas.
- Decision taken to invest strongly in the US market, as a result of which, amongst other things, two of the four original researchers who founded Effnet will move their operations to the University of Arizona.
- VAR agreement signed with Cygate AB, as a result of which Effnet now has sales channels in Sweden, Finland, Denmark, Poland and the Baltic.
- Board resolution to apply for the company to be transferred to Stockholm Stock Exchange's "O-list".
- Decision taken to explore the possibility of having the company listed on the US stock market.
- Effnet's firewall was found in an independent evaluation performed by KeyLabs (Utah, USA) to be the fastest on the market.
- Net sales increased to SEK 1,182,000 (SEK 75,000).
- The result after financial items was a loss of SEK 34,382,000, compared with a loss of SEK 12,938,000 for the same period last year.
- The company had 50 employees at the end of the period, vs. 22 employees in the comparable year-ago period.

Markets

The Internet is currently expanding, and is expected to go on expanding, at an exponential rate. The number of users is doubling annually and the amount of information on the Net is doubling every month. According to many analysts, all communication, such as voice, video, data etc, will in future be Internet-based, using the so-called IP protocol. The implication of this explosive growth with new applications being added simultaneously is that companies which very fast can meet new customer-specific requirements will be a winner. Effnet's products and core technology are software based, which enables quick adaptability to customer driven requirements. Further, Effnet's products and technology are independent of standards such as ATM, DTM, Ethernet, Ipv6, and so .

Effnet's strategy in approaching the market is three-fold: through products sold under our own brand name, through OEM sales, and through licensing. In selling and marketing our own brand products we have reseller agreements covering Finland, Denmark, Poland and the Baltic countries, excluding Sweden. The first OEM-contract was signed with Ericsson Radio Systems AB and a number of license agreements are under discussion.

Post balance sheet events

- VAR agreement signed with Monarch Communications, Inc., USA
- Five-for-one stock split implemented.
- Decision approved at stockholders' meeting on October 14 to authorize management to issue up to 2,500,000 additional shares.
- Roger Undhagen, former sales and marketing manager for the Small-/Medium Line of Business EMEA (Europe, Middle East, Africa, Australia) at Cisco Systems, appointed CEO of Effnet AB.
- Karin Bjurel, former sales and marketing manager for Small-/Medium Line of Business at Cisco Systems, Sweden, appointed sales and marketing manager of Effnet AB.
- In November, Effnet became the "Grand Winner" in the prestigious competition for the European IST Prize.

Sales

The Company's sales during the period amounted to SEK 1,182,000 (SEK 75,000), whereof the major part is products under our own brand name.

Results

The Group's operating result was a loss of SEK 34,611,000, compared with a loss of SEK 13,032,000 for the same period last year. The result after financial items was a loss of SEK 34,382,000, compared with a loss of SEK 12,938,000 for the same period last year.

The costs of product and technology development are being charged as expense on the current year.

Financial position

Effnet's equity to assets ratio for the period is 85.9 % (59.9 %). Liquid assets for the period amount to SEK 36,709,000 (SEK 4,042,000).

Capital expenditure

Capital expenditure during the period totaled SEK 1,133,000 (SEK 0), and consisted principally of computer equipment.

Stock data

The number of stock units at the end of the period was 9,210,905 (1,319,700). The result after tax is a loss of SEK 3.73 per share, vs a loss of SEK 9.80 per share in the year-ago period.

Employees

The company had 50 (22) employees at the end of the period. The full time equivalent was at the end of the period 39 employees (13), 5 (1) of whom are in the USA.

Future aims

Over the next year, the expansion drive of the Internet will be towards broad-band solutions for the home, mobile Internet applications, and increased security requirements resulting from e-commerce. These forces, in combination with a strong growth in Internet traffic will lead to a requirement for greater band width throughout the Net. These developments are positive for Effnet, which has products and technologies that can help solve present and future bottlenecks in the Net.

A strong drive will take place in Effnet in the coming twelve months to increase the sale of products under its own brand name in Europe. The goals for the other product lines is to sign additional OEM contracts for customer driven development plus to implement a joint development program involving licensing of the technology with several partners in the USA.

Financial calendar

Year End Report 1999	February 15, 2000
Annual Report	March 21, 2000
Annual General Meeting	April 13, 2000
First Quarter, 2000 Report	May 4, 2000
Second Quarter, 2000 Report	August 17, 2000
Third Quarter, 2000 Report	November 2, 2000

The company's auditors have not reviewed this Interim Report for the first nine months of 1999.

Stockholm, November 30, 1999

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Effnet's business concept is to develop and market network products and network technologies that are distinguished by high efficiency and security. Effnet's current technology platform has resulted in the development of two different network products (routings and firewalls) whose purpose is respectively to sluice and filter information over data networks, such as the Internet or intranets. In 1998, Effnet grew from purely a development company into a commercial player in the network market. The company is now entering a phase in which the focus is on marketing and sales. Effnet's long-term objective is to be the world's leading supplier of network products and technologies. Effnet is currently based in three cities: Stockholm, Luleå and Boston. Effnet Group AB is listed on Stockholm Stock Exchange's New Market. The number of employees amounts to 50 persons.

Income Statement (SEK '000)	1999	1998
January – September		January - September
Net sales	1 182	75
Total	1 182	75
Goods for resale	- 364	0
Other external costs	- 22 130	- 9 270
Personnel costs	- 12 911	- 3 837
Depreciation of tangible and intangible assets	- 388	0
Total	- 35 793	- 13 107
Operating loss	- 34 611	- 13 032
Net interest income/expense	229	94
Loss after financial items	- 34 382	- 12 938
Estimated tax	0	0
Loss for the period	- 34 382	- 12 938

Balance Sheet (SEK '000)	1999	1998
at September 30		at September 30
Assets		
Fixed assets	1 538	0
Current assets	40 964	5 310
Total assets	42 502	5 310
Equity & liabilities		
Equity	36 500	3 180
Provisions	95	0
Current liabilities	5 907	2 130
Total equity & liabilities	42 502	5 310