

Preliminary year-end report for the ConNova Group AB (publ) January - December 1999

Motala
4 February 2000

1999 in brief

- ConNova's turnover rose by 39% to SEK 34.7 million (SEK 25.0m). The increase is mainly due to systems sales and related activities. December 1999 was the first month that the company showed a profit since the start of its expansion in 1997. The full-year loss was -SEK 28.6 million (-SEK 28.3m).
- Another two key orders for the new main product, BizManager, from large operators in Europe have significantly strengthened ConNova's customer base for systems, while also building a platform for the expansion of the company's support activities. New customers contracted in 1999 have already generated substantial additional orders for 2000.
- The suitability of our main product, BizManager, for the utility, Internet and telecoms market segments has been verified. A new share issue of SEK 109 million, adopted by the general meeting of the company held on 3 January 2000, provides a platform for the company to invest in these new segments.
- Activities designed to increase growth through partnerships have been initiated.
- The company's market position was strengthened in 1999. The sales office in London has been a success and the company has established a customer and prospective customer base in southern Europe.

The name ConNova refers in this report to the ConNova Group AB (publ) and its subsidiaries

The market

The steady growth in the world market for subscriber management systems in the media sector was valued in 1999 at around SEK 15 billion. This growth is expected to continue at a rate of around 30% per year. The transition from analogue to digital broadcasting technology has got under way during 1999 and developments are expected to lead to an increased need over the next few years for support systems of the type supplied by ConNova. At the same time, many countries have started to plan for the introduction of digital terrestrial television. At the end of 1999, three countries had initiated concrete projects for digital terrestrial TV – Sweden, the UK and Spain. ConNova supplies systems for subscriber management and billing in two of these countries, and in Sweden, ConNova also supplies systems for access control. This places ConNova in a leading position within this new segment.

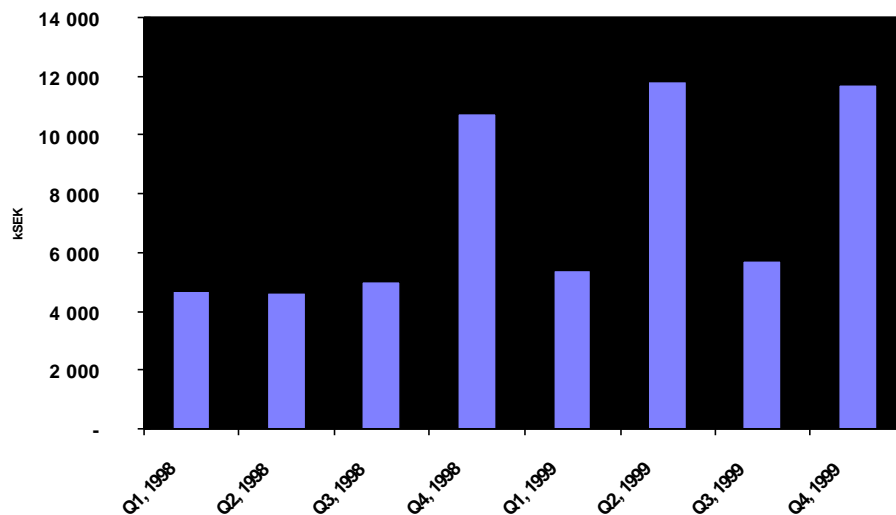
During 1999, it also became increasingly clear that operators in the deregulated utility market, just like operators in the Internet market, will soon be needing new and more modern systems. This also applies to telecoms operators who are introducing information services, e.g. via WAP. ConNova management's view is that very few business deals requiring general subscriber management systems have been completed in this field. With its position in the TV market and its newly adopted decision to invest in new market segments, ConNova believes that it is in a position to benefit considerably from the expected positive developments in the market over the next few years.

1999 in retrospect

ConNova has been activating and developing a prospective customer base that it started to build up in 1998. This has led to two orders for systems from leading European operators in the TV segment. Earnings from support services are rising while new orders help form a basis for further growth in the

sales of support services and in revenues from upgrades. As some customers' orders in 1999 came in later than expected, revenues were also delayed, and this limited the turnover increase for the year.

Due to deregulation and stiffer competition in other market segments such as utility, telecoms and the Internet, ConNova saw a significant rise in demand for modern customer management and billing systems in these segments during the autumn. After a favourable evaluation of BizManager's suitability in these new segments, the company carried out a new share issue which raised SEK 109 million before issue costs. This capital gives the company a strong financial position and it will be used mainly for sales and marketing activities in new segments of the market.



Operating income on a quarterly basis.

Product development

ConNovas main product, BizManager, was further developed in 1999. The product's functionality has been enhanced in response to customers' increased requirements.

ConNova also produced a new version of AccessManager in 1999 and developed interfaces to a number of third-party products that are prevalent in the market. ConNova has therefore been able to shorten its delivery times for supplying products to new customers, thereby strengthening its competitiveness and accelerating future income flow.

Product development costs of SEK 18.9 million were charged to the year's result in their entirety.

Market position

ConNova strengthened its market position in the Pay-TV segment in 1999 by stepping up its marketing and sales activities. The company's position was greatly strengthened in southern Europe in particular, and we secured orders in 1999 from two of Europe's larger Pay-TV projects. The company's main product, BizManager, has been very well received in the market, and received two honourable mentions at an international billing fair in London in May 1999.

A partnership agreement was signed with Sema Group's head office for Telecoms in London and another was signed with Geneva. Geneva is a UK company operating in the telecoms market.

Organisation

ConNova's staff has grown by 14 people, 8 of whom are employed and 6 of whom are consultants. The number of employees on 31 December was 61. The company also took on another 12 consultants. In December 1999, ConNova initiated a new recruitment campaign to increase its delivery resources and to build up an organisation for penetrating new market segments. This campaign will lead to a number of new recruitments in the first quarter of 2000. Activities aimed at opening new offices in Stockholm and Linköping were also initiated in 1999.

Order inflow and backlog

The inflow of orders for 1999 was SEK 27.5 million (SEK 42.1m). This inflow consisted mainly of systems-related orders for delivery within 6 - 12 months, while most of 1998's order value was accounted for by several-year service agreements for the service agency activities in ConNova TVX. Many of the new customers contracted in 1999 have also placed sub-orders within the frameworks of larger orders. These are expected to generate substantial additional revenues in 2000 and the following years. The backlog of orders on 31 December 1999 was SEK 24.6 million (SEK 31.7m).

Results

The company's loss for 1999 was -SEK 28.6 million (-SEK 28.3m), and development costs totalling SEK 18.9 million (SEK 18.9m) were charged to the results. The loss for the year was unevenly spread, due to an uneven order inflow and delivery rate. The company showed a profit in December, which was one of the goals of the new share issue in 1997.

Turnover for 1999 was SEK 34.7 million (SEK 25.0m), a rise of 39%. Turnover for systems sales and related activities climbed 48% to SEK 26.2 million (SEK 17.7m) which is entirely due to the company's substantial investments in systems sales. Turnover for the ConNova TVX customer service operations rose by 10% to SEK 8.5 million (SEK 7.3m).

Operating costs in 1999 climbed to SEK 63.5 million (SEK 53.8m), due to increased investments in marketing and sales, as well as rising staff numbers and increased consultancy resources needed in conjunction with the first customer delivery projects. The orientation of the development initiatives in 1999 was determined entirely by customer requirements, as opposed to 1998, where the development work was largely of a basic nature.

Investments

Investments in 1999 were negligible since all costs for the procurement of PCs, development tools and product development were charged to the result. See cash flow analysis.

Financing and liquidity

ConNova's financial position is strong. The company's liquid assets on 31 December 1999 were SEK 110.9 million. There is also a granted but unused credit facility of SEK 8 million.

The new millennium

During 1998 and 1999, ConNova implemented a project designed to ensure that all its current products were Y2K-proof. The project was completed in early 1999. The potential problems discovered have been simple to rectify and ConNova has therefore not been affected by any problems or unexpected costs in connection with the transition to the new millennium.

Investment in new market segments

After the recently implemented new issue, ConNova is also investing in the utility, Internet and telecoms segments. The utility and Internet markets are expected to generate orders first. Investments in 2000 will mainly relate to market mapping, marketing and sales. ConNova has also got in touch with a number of potential customers and partners in the new segments. These initial contacts have indicated that there is a strong need for systems solutions of the type supplied by ConNova.

On the product side of ConNova's business, BizManager is a suitable platform, and only a few industry-specific customisations are expected. This means that the investment in new market segments has excellent chances of generating substantial income within a few years, with only relatively limited investments on the product development side as a result. There are thus excellent chances of achieving healthy profitability in the future.

The plans for 2000 include establishing ConNova as a potential supplier in at least two of the three new segments, as well as the setting up of a prospective customer base and the recruitment of staff for marketing, sales, customisation and delivery. No substantial income is expected to be generated by the new segments during 2000.

Outlook for the future

ConNova is continuing its expansion in the TV segment. ConNova expects to achieve profitability within this segment in 2000. At the same time, ConNova will be investing heavily in establishing BizManager in new market segments. The investment in new market segments is not expected to lead to any substantial income during 2000 and the results as a whole are therefore not expected to be positive in 2000.

Ordinary Annual General Meeting and proposed dividend

The Annual General Meeting will be held on 14 April 2000. The Board of Directors proposes that no dividend payments be made to the shareholders for 1999.

Motala, 4 February 1999

ConNova Group AB (publ)

The Board of Directors

Income Statement, Balance Sheet and Statement of Source and Application of Funds

Income Statement SEK Thousand	The Group		The Parent Company	
	1999	1998	1999	1998
Operating income	34 657	24 998	2 562	2 421
Other external costs	-33 211	-26 168	-6 398	-4 162
Staff cost	-26 940	-24 267	-7 409	-5 011
Depreciation of tangible and intangible fixed assets	-3 388	-3 411	-468	-419
Operating expenses	-63 539	-53 846	-14 275	-9 592
Profit/loss prior to financial items	-28 882	-28 848	-11 713	-7 171
Net financial income/expenses	-435	606	-51	621
Profit/loss before appropriations	-29 317	-28 242	-11 764	-6 550
Appropriations	0	0	1 950	0
Pre-tax profit/loss	-29 317	-28 242	-9 814	-6 550
Taxes	670	-58	-106	-58
Profit/loss for the year	-28 647	-28 300	-9 920	-6 608

The Consolidated Balance Sheet	31 Dec. 1999	31 Dec. 1998
SEK Thousand		

Goodwill	18 997	21 519
Intangible fixed assets	276	439
Tangible assets	1 333	1 768
Total fixed assets	20 606	23 726
Current receivables, etc	16 486	7 933
Liquid Assets	110 872	9 183
Total Current assets	127 358	17 116
TOTAL ASSETS	147 964	40 842
Shareholders equity	7 754	29 231
Interest-bearing liabilities	16 890	0
Non-interest bearing liabilities and provisions 1)	123 320	11 611
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	147 964	40 842

1) the 1999 amount includes a sum of SEK 103.738 thousand relating to payment for the new issue decided by the general meeting of the company on 3 January 2000

Key Figures

	1999	1998
Number of shares	3 214 400	3 080 000
Earning per share (SEK), with account taken of outstanding warrants (equivalent to 150.000 shares)	-8,52	-8,80
Earning per share (SEK), if no account is taken to warrants	-8,91	-9,18
Equity/assets ratio (per cent) 1)	75	72
Number of employees	61	53

Key figures refer to the Group

1) Including payment for the new issue decided on 3 January 2000, settlement date 27 December 1999

Statement of Source and Application Funds

SEK Thousand

	The Group	
	1999	1998
Cashflow from the current operations prior to changes in working capital	-25 259	-24 914
Change in working capital	-583	4 856
Cash Flow from the current operation	-25 842	-20 058
Cash flow from investment operations	-267	-449
Cash flow from financial operations	127 798	0
Cash flow for the year	101 689	-20 507
Liquid assets at the start of the period	9 183	29 690
Liquid assets at the end of the period	110 872	9 183

The Annual Report is due to be ready for publication on 15 March 2000 and will be distributed to directly registered shareholders together with the notification of the Annual General Meeting. The Annual Report can also be ordered from the company's offices or downloaded from ConNova's web site, www.connova.se

ConNova specialises in developing and supplying business support systems for multimedia operators handling pay-TV, the Internet, broadband and telecoms services. The company has 15 year's experience of the industry. ConNova's services extend from consulting services to the development of software adapted to meet the market's latest requirements. Within the framework of ConNova TVX AB, ConNova also runs customer services on an assignment basis for European pay-TV operators. ConNova's current customers are mainly to be found in the fields of cable TV, DTT (Digital Terrestrial Television), multimedia and telecommunications.

At the international billing systems trade fair held in London in May 1999, ConNova's customer management system BizManager was awarded two honourable mentions, one for "Overall Best Contribution to Billing" and the other for "Most Innovative Billing Product".

The ConNova Group AB (publ) has been listed on the OM Stockholm Stock Exchange's O list since 1997.

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