

## **INTERIM REPORT FOR AU-SYSTEM AB (PUBL) JANUARY - JUNE 2000**

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*AU-System (Swedish registration number: 556186-7309) is a leading supplier of consulting services and solutions for the development of advanced wireless and Internet technologies, applications and associated services. Following the merger with SandbergTrygg, Sweden's leading business-to-business marketing services agency, the company also offers integrated services for marketing communications. Major clients include Ericsson, Telia, MeritaNordbanken and Singapore Telecom. AU-System was established in 1974 and currently employs more than 800 staff in offices in Sweden, the U.K., the U.S. and in Singapore. AU-System is listed on the O-List of the OM Stockholm Exchange, under the symbol AUS. For more information, please visit [www.ausystem.com](http://www.ausystem.com).*

### **AU-System Reports Strong Growth in Revenue and Profitability.**

- **The revenue was SEK 392.3 million (198.6 m), an increase of 98%. The organic growth was 70%.**
- **The profit before depreciation and amortisation (EBITDA) was SEK 26.9 million (-1.2 m). This is equivalent to a margin prior to depreciation and amortisation of 6.9% (-0.6%). The 1999 profit includes SEK 17.2 million regarding costs for Stock Appreciation Rights (SARs) to employees.**
- **Operating profit (EBIT) was SEK 15.9 million (-4.3 m). This is equivalent to an operating margin of 4.1% (-2.2%).**
- **Profit after financial items was SEK 11.2 million (6.6 m), an increase of 70%.**
- **New subsidiaries were established in Singapore, London and San Diego.**
- **AU-System and IBM closed a strategic service partnership agreement to collaborate on providing mobile e-business solutions to customers of both companies world-wide.**

## Market development

The demand for the company's telecom and mobile internet services has been very strong during the first half of 2000. Revenue increased by 98% compared with the same period the preceding year. We expect demand to continue to be strong for the rest of the year. However, it should also be noted that available billable hours is one of the most significant variables affecting operating result. This will fluctuate from quarter to quarter as a result of, among other factors, public holidays and staff vacation, this particularly influences the third quarter.

By focusing our services on technologies in the early stage of the technology lifecycle our market conditions are characterised by strong demand and limited competition both in Sweden and on the international market.

AU-System offers services and solutions to three main customer groups: telecommunications equipment suppliers; network operators and service providers; and large corporate clients. By participating in the development of the technology infrastructure, by offering our services to telecom equipment suppliers, and by leveraging this knowledge in offering services to operators and large corporate clients in building applications and solutions for when the technology reaches a wider acceptance, the company has a strong, highly competitive position. This strategy is known as our catalyst approach.

Our knowledge in emerging wireless technologies such as WAP, Bluetooth and UMTS gives the company the opportunity to internationalise the business. To take advantage of this opportunity two international offices have been established during the first half year in London and San Diego. Our office in Singapore, which was established in December 1999 and formally opened in March 2000, had 17 employees at the end of the period. Our ambition is to establish two more international offices during the second half-year.

To be able to meet the demand from our customers, recruitment of top quality people is very important. The company is attractive as an employer, and during the first half-year we have managed to attract the people needed. To support further expansion and meet our recruitment needs the company has looked outside the hot areas of Stockholm and Lund and established a new office in Östersund, Sweden.

## Acquisitions

As part of its strategy of pursuing strategic complementary acquisitions, the Company completed the acquisitions of Media Communications Int AB (Medcom) and SandbergTrygg AB during the first half of 2000.

### **Medcom**

On February 4, 2000, AU-System acquired Medcom, an IT security consultancy firm based in Stockholm. Medcom had 20 employees specialising in providing a full range of IT security solutions, including PKI, secure communications and

security verification solutions, and was acquired to help the Company strengthen its resources with regard to security technology. Medcom has now been fully integrated as a Business Unit within AU-System.

The acquisition of Medcom has been consolidated as of February 1 and goodwill will be depreciated over 10 years.

#### **SandbergTrygg**

On March 3, 2000, AU-System acquired SandbergTrygg, one of Sweden's leading business-to-business marketing communications agencies. SandbergTrygg had 89 employees with offices in Stockholm, Gothenburg and Malmö. As part of the consideration paid for SandbergTrygg, the Company issued an aggregate amount of 4,906,950 shares subsequent to the stock split.

SandbergTrygg focusses on providing strategic marketing, interactive design and traditional advertising services to large Swedish companies including Scania, SKF and ABB. SandbergTrygg also provide marketing strategy services to Ericsson and Telia, thus complementing the technology services provided by AU-System to those clients.

SandbergTrygg will remain a separate subsidiary and brand within the AU-System group in order to ensure the continuous development of its specialised marketing competence in a focused environment. SandbergTrygg is included in AU-System's overall business model where the cross-fertilisation between technical expertise and marketing competence adds value for our clients.

AU-System also capitalises on cross-selling opportunities resulting from the acquisition by marketing technology solutions to SandbergTrygg's customer base and offering marketing and communications expertise to the company's technology clients. SandbergTrygg already act as marketing and branding advisers to Ericsson and Telia, AU-System's two largest clients.

The acquisition of SandbergTrygg has been consolidated as of March 1 and goodwill will be depreciated over 10 years.

## **International Expansion**

As part of AU-System's strategy to leverage its expertise in wireless technologies in order to expand internationally the Company established its first international office in Singapore in March 2000. At the end of the period the office had 17 employees and the capacity to deliver solutions locally. During the second quarter 2000 the company has also established new offices in London and San Diego.

AU-System initially intends to focus its international expansion on offering wireless technology solutions to network operators and service providers. The Company will focus on being present in regions with high wireless penetration. The strategy is to establish hubs based on strong customer demand, supported by AU-System's strategic co-operations with Ericsson and IBM.

## Revenue and profit

AU-System's revenue increased by 98% to SEK 392.3 million (198.6 m) in 2000. The organic growth was 70% during the period.

The profit before depreciation and amortisation (EBITDA) was SEK 26.9 million (-1.2 m). The 1999 profit includes SEK 17.2 million regarding costs for Stock Appreciation Rights (SARs) to employees.

The profit after financial items was SEK 11.2 million (6.6 m), an increase of 70%.

During the reporting period the margin was affected by;

- costs for establishing international offices (Singapore, London and San Diego)
- integration costs related to the acquisition of SandbergTrygg and MedCom,
- high organic growth and introduction costs for new staff,
- costs for internal resources used in the IPO process,
- costs for moving to new premises in Lund, Sweden.

We consider these costs as ongoing operating expenses.

As of June 30, 2000 the company has not included any refund money from the Swedish Pension fund SPP in the income statement. According to SPP the AU-System Group has SEK 8.3 millions in funds which can be reclaimed in accordance with SPP regulations.

Income tax has been recorded only for the acquired companies. AU-System has not recorded any charge for income tax, reflecting its unutilised tax losses carried forward.

## Employees

AU-System had an average of 643 employees over the period, compared with 353 for the same period the preceding year, an increase of 82%.

At the end of the period the number of employees was 782 (369), an increase of 112 %. This includes 82 employees taken on in an outsourcing arrangement with Ericsson, and 109 employees added through the acquisitions of SandbergTrygg and MedCom.

## Financial position

At the end of the period the Company had interest bearing cash assets of SEK 231.7 million (76.7 m) and an interest bearing debt of SEK 145.0 million (90.0 m).

Shareholders' equity totalled SEK 348.9 million (-2.7 m) at the end of June. The increase is due to profits from 1999 and the period under review, and the new issue of shares in connection with AU-System's listing on the OM Stockholm Exchange on June 21, 2000.

The receivable from trade debtors was SEK 168.1 million. Less than 3% of this amount was to "start up" companies.

The equity/assets ratio was 52.3% (-1.4%).

## Investments

Investments in the subsidiaries accounted for SEK 191.0 million. SEK 19.0 million was invested in tangible assets and new premises. The cash-flow effect for the investments over the period was SEK -125.0 million (+39.1 m).

## Parent Company

During the period the group's structure was reorganised and the operating business of the Swedish subsidiaries was transferred to the Parent Company, AU-System AB, as of January 1, 2000.

AU-System AB's revenue for the first six months was SEK 340.5 million (2.1 m). Profit after tax was SEK 10.4 million (-23.8 m).

The parent company's interest bearing net cash at the end of June was SEK 109.6 million (-25.3 m). Shareholders equity was SEK 395.5 million (20.3 m). The company received SEK 224.9 million as a result of the IPO as of 21 June 2000. In addition SEK 90.0 million was received as a result of a new issue in connection with the acquisition of SandbergTrygg.

The company's net investments for the first six months amounted to SEK 210.5 million.

## Share data

Earnings per share after full tax on a fully diluted basis was SEK 0.11 year to date 2000. At the end of the period, shareholders' equity per share on a fully diluted basis was SEK 3.71.

The parent company had 80,803,375 outstanding shares and 5,500,000 new shares under issue as of June 30. On a fully diluted basis, including all outstanding

options and reserved shares, the maximum number of shares was 104,527,207 as of that date.

## **Shareholdings**

As of June 30, 2000 AU-System had 5,857 shareholders and the free float amounted to 43.6%. The company's largest shareholders are Schroder Ventures (33.0%), Ericsson (11.0%) and IBM (2.6%) on a fully diluted basis.

## **The Annual General Meeting**

The shareholders Annual General Meeting was held in Stockholm April 14, 2000. It was decided to perform a share split of 1:25 and that the new nominal value of each share shall be SEK 0.01. A new Board of Directors was elected consisting of Johan Vunderink (Chairman, co-founder of Origin), Bengt Halse (CEO Saab), Peter Sandberg (CEO Emerging Technologies), Ulf Jonströmer (CEO BrainHeart Capital), Jöran Hoff (General Manager Ericsson Business Innovation), Graham Wrigley (Partner Schroder Ventures) and Tomas Franzén (CEO AU-System). Ulf Mimer (Ericsson Business Innovation) was elected Deputy Director.

## **Important events after the end of the period under review:**

AU-System has established a Wireless development centre in Umeå.

AU-System has established an incubator for technical innovations in mobile internet.

## **Future prospects**

Our financial ambition is a yearly organic revenue growth of 30 to 40% with a long term EBITDA margin of 15%.

We expect the market for our services to continue to be strong.

We will continue to focus on deliverance of high quality performance in our customer assignments. Our ambition is to be the number one on quality in the mind of our customers.

Our efforts to make AU-System the most attractive employer in the business for highly skilled staff will continue.

Our strong growth combined with profitability encourages us to continue to invest in internationalisation and incubation.

## **Telephone conference**

AU-System will be holding two telephone conference calls on August 25. President and CEO Tomas Franzén and CFO Jan Bengtsson will present the company and the interim report and hold a Questions and Answers session.

The first call will be at 9 AM CET (Swedish).  
Dial-in number: +44 208 515 2308

The second call will be at 10.30 AM CET (9.30 AM GMT) (English).  
Dial-in number: +44 208 515 2310

Presentation material can be obtained from [www.ausystem.com](http://www.ausystem.com) on August 25

## **Upcoming financial reports**

The Interim Report for the period January – September will be presented on November 7, 2000.

Stockholm, Sweden  
August 25, 2000

For the Board of Directors:

Tomas Franzén, President and CEO

The company's auditors have not reviewed this Interim Report.

### **For additional information, please contact:**

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## Summary Consolidated Income Statement

	April - June 2000	April - June 1999	Jan - June 2000	Jan - June 1999	Full Year 1999
Revenue	221.7	106.1	392.3	198.6	402.3
Operating expenses*	-209.1	-114.4	-365.3	-199.9	-385.0
Depreciation of tangible fixed assets	-2.2	-1.3	-4.5	-2.9	-6.0
Depreciation of intangible fixed assets (amortisation of goodwill)	-4.9	-0.2	-6.5	-0.2	-0.4
<b>Operating profit</b>	<b>5.6</b>	<b>-9.8</b>	<b>15.9</b>	<b>-4.3</b>	<b>10.8</b>
Profit from participation in group companies	0.0	0.0	0.0	11.7	11.7
Net financial items	-1.9	-0.5	-4.7	-0.8	-2.8
<b>Profit after financial items</b>	<b>3.7</b>	<b>-10.3</b>	<b>11.2</b>	<b>6.6</b>	<b>19.7</b>
Income tax	-1.7	0.0	-1.7	0.0	0.0
<b>Net income</b>	<b>2.0</b>	<b>-10.3</b>	<b>9.6</b>	<b>6.6</b>	<b>19.7</b>

\* April - June 1999 includes costs for stock appreciation rights (SARs) of SEK 17.2 million to employees

## Summary Consolidated Balance Sheet

	June 2000	June 1999	Dec 1999
<b>Fixed assets</b>			
Intangible fixed assets	184.0	3.3	3.1
Tangible fixed assets	28.1	6.3	13.5
Financial fixed assets	3.2	2.9	3.0
<b>TOTAL FIXED ASSETS</b>	<b>215.3</b>	<b>12.5</b>	<b>19.6</b>
<b>Current assets</b>			
Trade debtors	168.1	73.7	122.7
Other receivables	52.0	25.7	11.6
<b>TOTAL CURRENT ASSETS</b>	<b>220.1</b>	<b>99.4</b>	<b>134.3</b>
Cash and similar assets	231.7	76.7	50.8
<b>TOTAL ASSETS</b>	<b>667.1</b>	<b>188.6</b>	<b>204.7</b>
Total equity	348.9	-2.7	13.7
Total provisions	1.3	0.0	0.0
Total long term liabilities	105.0	50.0	50.0
Total short term liabilities	211.9	141.3	141.0
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>667.1</b>	<b>188.6</b>	<b>204.7</b>



## Consolidated Cash Flow Statement

	Jan - June 2000	Jan - June 1999	Full Year 1999
Cash flow from the current operations before changes in working capital	22.3	9.7	15.3
Change in working capital	-15.4	-2.9	-55.8
<b>Cash flow from the current operations</b>	<b>6.9</b>	<b>6.8</b>	<b>-40.5</b>
Cash flow from investing activities	-121.7	39.1	28.5
Cash flow from financing activities	295.7	-8.3	23.7
<b>Current year cash flow</b>	<b>180.9</b>	<b>37.6</b>	<b>11.7</b>
Opening balance of liquid funds	50.8	39.1	39.1
Closing balance of liquid funds	231.7	76.7	50.8

## Key Ratios

	Jan - June 2000	Jan - June 1999	Full Year 1999
<b>Revenue, profit and cash flow, MSEK</b>			
Revenue	392.3	198.6	402.3
Operating profit before depreciation and amortisation(EBITDA)	26.9	-1.2	17.3
Operating profit before amortisation of goodwill (EBITA)	22.4	-4.1	11.3
Operating profit (EBIT)	15.9	-4.3	10.8
Operating profit (EBIT) excluding costs for SARs	15.9	12.9	28.0
Financial net excluding gain from sold subsidiaries	-4.7	-0.8	-2.8
Profit after financial items	11.2	6.6	19.7
Cash flow	180.9	37.6	11.7
Cash flow per share, SEK	2.1	0.4	0.1
Cash flow per share fully diluted, SEK	1.9	0.4	0.1
<b>Financial position, MSEK</b>			
Equity	348.9	-2.7	13.7
Equity per share, SEK	4.04	-0.03	0.16
Equity per share, fully diluted, SEK	3.71	-0.03	0.15
Total assets	667.1	188.5	204.7
Equity/assets ratio	52.3%	-1.4%	6.7%

## Key Ratios

	Jan - June 2000	Jan - June 1999	Full Year 1999
<b>Profitability</b>			
Operating margin before depreciation and amortisation (EBITDA)	6.9%	-0.6%	4.3%
Operating margin before amortisation of goodwill (EBITA)	5.7%	-2.1%	2.8%
Operating margin (EBIT)	4.1%	-2.2%	2.7%
Operating margin (EBIT) excluding costs for SARs	4.1%	6.5%	7.0%
Return on equity	5.3%	22.3%	-5.0%
Return on capital employed	5.6%	11.9%	31.4%
Interest-coverage ratio	3.0	5.5	6.0
Net earnings per share, full tax, before dilution SEK	0.111	0.088	0.263
Net earnings per share, full tax, fully diluted, SEK	0.102	0.088	0.212
<b>Employees</b>			
Average number of employees	643	353	387
Number of employees at end of period	782	369	443
Revenue per employee, kSEK	610	563	1039
EBITA per employee, kSEK	35	-12	29
<b>Data per share</b>			
Share price at end of period	50	-	-
Number of shares at end of period	86,303,375	75,000,000	75,000,000
Number of shares fully diluted at end of period	99,519,634	75,000,000	92,966,750
Average number of shares	80,651,688	75,000,000	75,000,000
Weighted average number of shares fully diluted	94,151,247	75,000,000	92,966,750