

Preliminary year-end report for the ConNova Group AB (publ) January - December 2000

Motala
2 February 2001

2000 in brief

- A sharp drop in demand took place in ConNova's markets in the first eleven months of 2000. The market recovered strongly in December but no deals were concluded in ConNova's target group in 2000. Turnover fell by 26% to SEK 25.7 million (SEK 34.7 m).
- The loss for the year amounted to -SEK 59.5 million (-SEK 21.8 m) which is better than the figure forecast by the management in the autumn. ConNova has decided to write down all remaining consolidated goodwill in the amount of SEK 16.5 million. The Parent Company has also written down shares in the subsidiaries ConNova Systems AB and ConNova TVX AB to their nominal value.
- As ConNova's existing customers have incorporated ConNova's products into their operations, ConNova's revenues from support and upgrades have climbed steeply compared with previous years. Thus management's long-standing strategy of building on ConNova's growing customer base to increase its continuing support and upgrade revenues significantly is succeeding thereby reducing ConNova's business risks.
- In May, Quiero TV in Spain started, as scheduled, to use ConNova's BizManager system in its operations. The project has progressed successfully and Quiero TV is today ConNova's largest BizManager-installation with over 300 simultaneous users, after just over six months in operation.
- BizManager has been enhanced during the year with regard to functionality, performance and quality. The work processes relating to delivery have also been enhanced.
- ConNova expanded its operations during the first half-year to meet the expected increase in volume. The company was one of the first in the IT industry to react to the change in market climate and implemented a cost-cutting programme in October and November. As the programme was implemented quickly, the company's reorganisation costs were much less than anticipated. The majority of the impact of the savings programme was apparent rapidly, it began in December 2000.
- The company's management group was bolstered during the year and December saw the recruitment of a new Managing Director, Christian Ekström, who will assume his position in February 2001.

2000 in retrospect

The turn of the millennium was followed by a marked but temporary decline in the European market for pay TV equipment, systems and software. The decline affected suppliers of customer management systems. For the first time in ConNova's history, no deals were concluded within ConNova's target group, either by ConNova or by its competitors. Consequently, projected sales to new customers were not completed during the year. The impact of this has been offset, but not fully offset, by a sharp rise in sales to the company's existing customer base.

In October, ConNova was one of the first IT companies to respond realistically to the adverse short-term change in the market climate, implementing measures to reduce its cost levels significantly. Staff cutbacks of around 30% and cost reductions at over 40% of the costs level prevailing at the time were implemented in October and November. The reorganisation costs were far less than expected and the effect of the savings programme was already apparent in December. As a result, the loss for the year was less than the management had projected before the cutbacks were introduced and the company's year-end financial position was therefore better than projected.

Towards the end of the year there was a strong surge in demand – a trend further strengthened in the beginning of 2001. ConNova's tender base has grown considerably and is currently the company's largest ever, both in terms of value and the number of tenders. The savings programme that was implemented at an early stage, combined with the strong recovery of the market, has provided ConNova with a favourable starting position for 2001.

During the year, the company has decided to use partners within sales, delivery and maintenance to a greater extent in order to reduce the need for in-house resources within sales and delivery. This will also reduce the sensitivity of ConNova's business results to fluctuations in delivery volumes.

The company's partner development programme progressed faster than planned in the autumn of 2000 and has led to tangible contracts and collaboration with regard to tenders, coming into effect as early as in January 2001, e.g. Cap Gemini Ernst & Young, Sema Group and NorSistemas SoluZiona.

Product development

In 2000, ConNova's flagship product BizManager and our access control product AccessManager were enhanced.

Both products have been further improved in terms of functionality, performance and quality. This will help reduce costs for systems deliveries and support, and will shorten lead-times.

Product development costs have, as in previous years, been charged to the year's profit/loss in their entirety.

Market position

In 2000 ConNova has, in a temporarily weak market, developed its position in the Pay TV segment by having BizManager put into operation by a growing number of companies. This has broadened ConNova's reference base considerably. The company has mainly strengthened its position in Southern Europe (with opportunities to extend this to Latin America) and in the market for digital terrestrial TV (DTT). With the launch of Quiero TV, ConNova has delivered BizManager to two out of the three "live" terrestrial TV operators in the world. This is a very exciting position for the company in a segment where most countries around the world are expected to begin DTT operations in 5 to 8 years' time and where around ten countries have already started planning and making tangible preparations. A couple of these have already initiated the system procurement process.

During the year, ConNova has continued work on its preparations to enter more market segments. Several segments of interest have been identified and the company is adhering to its plan to introduce BizManager in more segments in 2001.

Organisation

After expanding the organisation in the first half of the year, ConNova has, with its savings programme, reduced its number of employees. The company had 65 (61) employees on 31 December 2000, of which 51 remained on 31 January 2001 after all the redundancies had come into effect. ConNova also reduced its number of consultants to 6 (12) at the end of December. An office was opened in Stockholm during the year. This operation will be strengthened in 2001, focusing the company's planned activities in new market segments. The management group has been strengthened, and a new Managing Director, Christian Ekström was recruited during the autumn. He will take up the position in February 2001.

Order inflow and backlog

The inflow of orders for 2000 totalled SEK 10.1 million (SEK 27.5 m). It consists exclusively of maintenance and supplementary orders from existing customers, and is largely related to ConNova's flagship product, BizManager. The backlog of orders on 31 December 2000 totalled SEK 9.0 million (SEK 24.6 million).

Profit/loss

The loss for the year amounted to -SEK 59.5 million (-SEK 21.8 m) which is better than originally forecast by the management during the autumn. ConNova has decided to write down all its goodwill.

Turnover for 2000 was SEK 25.7 million (SEK 34.7 m), a decrease of 26%.

Expenses for the year amounted to SEK 103.3 million (SEK 63.5 m) and include the write-down of remaining goodwill in the amount of SEK 16.5 million. This equals an expense amounting to SEK 86.8 million before write-downs affecting comparability. The rise in costs is entirely attributable to the expansion process that occurred during the first half of the year, as well as to extraordinary costs incurred in conjunction with the cutbacks at the end of the year. The costs of product development amounted to SEK 17.8 million (SEK 18.9 m).

In the parent company, shares in subsidiaries ConNova Systems AB and ConNova TVX AB have been written down to their nominal value.

Investments

Investments in 2000 amounted to SEK 3.4 million, the majority of which relate to the procurement of computers and software.

Financing and liquidity

ConNova has a strong position. On 31 December 2000, the group's liquid assets amounted to SEK 37.6 million. Adding to this is an overdraft facility in the amount of SEK 8 million, which is authorised and available for ConNova but not currently used.

The Market

Different market segments continue to converge, making distinctions between them increasingly difficult. The market for subscriber management systems now shows a rising trend on the whole, although there was a slump in the European media segment in 2000. The steadily growing market for subscriber management systems within TV and so-called multi service operators (such as cable operators that supply several different types of services) is expected to be worth around a growing SEK 8 billion in ConNova's primary markets - Europe, Latin America and Southeast Asia - in 2001, and to grow further in subsequent years according to market research conducted by Chorleywood Consulting Ltd. The transition from analogous to digital broadcasting technology is in full swing within the satellite and cable segments. At the same time, digital terrestrial TV is being introduced and the introduction of information and entertainment services via new network types, e.g. via the mobile 3G networks, and high-speed data transmission via telephone lines (so-called ADSL) is anticipated.

It is expected that these developments will bring about further growth within the segments where ConNova already operates as well as opportunities for ConNova to enter new market segments where information and entertainment services are introduced. We believe that ConNova, with its BizManager product and longstanding experience of entertainment and information services systems, is well positioned to capitalise on the new market trend.

Continued expansion and improved financial result within the TV segment

The group will continue with its expansion process in the TV segment, which began in 1998. The temporary slump in the market in 2000 means that the time at which this segment will break even has now been delayed, and is now expected in 2002. The management believes that the existing cost level and the present revenue generating customer base, coupled with the current number of prospective customers, provide an excellent outlook for ConNova to improve its financial result and achieve break-even. The positive market trend can provide a basis for further rises in sales.

Focus on new market segments

In the light of technical developments within networks, entertainment and information services are being introduced within new areas, providing a growing market for the type of system sold by ConNova. Potentially attractive segments have already been identified and in 2001, ConNova plans to enter one or more markets besides TV.

In 2000 we have been able to verify that BizManager is a system platform well suited to many other industries, meaning that certain industry-specific adaptations only will be needed. This means that our focus on new market segments has excellent conditions to generate substantial revenues within a few years, despite relatively limited investments in product development. The conditions for healthy profitability in new segments are therefore excellent.

Ordinary Annual General Meeting and proposed dividend

The Annual General Meeting will be held on 26 April 2001. The Board of Directors proposes that no dividend payments be made to the shareholders for 2000.

Motala

2 February 2001

ConNova Group AB (publ)

The Board of Directors

Income statement, balance sheet and cash flow statement

Income Statement SEK thousand	The Group		The Parent Company	
	Jan. to Dec. 2000	Jan. to Dec. 1999	Jan. to Dec. 2000	Jan. to Dec. 1999
Operating income	25 687	34 657	2 693	2 563
Other external costs	-42 102	-33 209	-7 607	-6 399
Staff costs	-41 001	-26 939	-6 421	-7 408
Depreciation of tangible and intangible fixed assets	-3 684	-3 388	-381	-468
Items affecting comparability Depreciation of goodwill	-16 474	-		
Operating expenses	-103 261	-63 536	-14 409	-14 275
Loss before financial items	-77 574	-28 879	-11 716	-11 712
Result from participation in affiliated companies			-120 718	
Other financial items	2 479	-436	2 452	-51
Loss before appropriations	-75 095	-29 315	-129 982	-11 763
Appropriations			-	1 950
Pre-tax loss	-75 095	-29 315	-129 982	-9 813
Taxes	15 604	7 480	36 340	2 065
Loss for the year	-59 491	-21 835	-93 642	-7 748
The Consolidated Balance Sheet				
SEK thousand	31 Dec.	31 Dec.		
	2000	1999		
Goodwill	-	18 996		
Intangible assets	53	276		
Tangible assets	3 811	1 334		
Deferred tax claim	34 915	19 262		
Total fixed assets	38 779	39 868		
Current receivables	10 114	16 486		
Liquid assets	37 638	110 872		
Total current assets	47 752	127 358		
TOTAL ASSETS	86 531	167 226		
Shareholders equity	70 232	27 016		
Interest bearing liabilities	3 157	16 890		
Non interest bearing liabilities	13 142	123 320		1)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	86 531	167 226		

1) The 1999 amount includes a sum of SEK 103,738 thousand relating to payment for the new share issue decided by the general meeting of the company on 3 January 2000.

Key figures

	31 Dec. 2000	31. Dec 1999
Number of shares	4 414 400	3 214 400
Earnings per share, with account taken of outstanding warrants (equivalent to 410,000 / 150,000 shares)	-12,33	-6,49
Earnings per share (SEK), if no account is taken of outstanding warrants	-13,48	-6,79
Equity/assets ratio (per cent) 1)	81	78
Number of employees	65	61

The key figures refer to the Group.

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

Cash Flow statement

SEK thousand

The Group	
Jan. to Dec. 2000	Jan. to Dec. 1999

Cash flow from current operations prior the change in working capital	-54 986	-25 259
Change in working capital	-69	-583
Cash flow from current operations	-55 055	-25 842
Cash flow from investment operations	-3 416	-267
Cash flow from financing operations	-14 763	127 798
Cash flow for the year	-73 234	101 689
Liquid assets at the start of the period	110 872	9 183
Liquid assets at the end of the period	37 638	110 872

The new recommendations of the Swedish Financial Accounting Standards Council no. 9 relating to tax and no. 17 relating to writing down shares in subsidiaries applies from 31 December 2000. In accordance with this, deferred tax has been reported in both the income statement and balance sheet. In accordance with recommendation no. 5 of the Swedish Financial Accounting Standards Council - reporting an amendment in accounting principles – the figures of the comparative year have been converted in order to obtain comparability between the years.

The Annual Report is due to be ready for publication on 23 March 2001 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 years of 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.

Addresses and company details

ConNova Group
Box 231
Platensgatan 1
SE-591 23 Motala
Sweden

Tel: +46 141 237 600
Fax: +46 141 564 24
e-mail: info@connova.se
Web site: www.connova.se
Corporate identity. no.: 556423-7716

Additional information

For more information, please contact:

Björn Persson, CEO
Tel: +46 141 237 601
e-mail: bp@connova.se

Torbjörn Ullman, CFO
Tel: +46 141 237 685
e-mail: toul@connova.se