



Interim Report
for Effnet Group AB (publ)
January-March 2001



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Events during the period

- Continued focus on the commercialization of Effnet technology according to the new strategy.
- Net sales totaled KSEK 1 075 (1 940).
- An operating deficit of KSEK –30 256 (-20 180) and a deficit of KSEK –28 265 (-15 753) after financial items were reported.
- Liquid assets amounted to KSEK 247,465.
- The number of employees totaled 75 at the close of the period, an increase of 17 compared with same period previous year.
- Marika Philipson was appointed CFO and Executive vice president of Effnet Group.
- A share option program for all employees that was accepted by an extra general meeting in November 2000 was launched in February.

Events after the close of the period

- Effnet has signed a licensing agreement with Agere Systems (former Lucent Microelectronics regarding Effnet's Robust Header Compression (ROHC) technology. This is Effnet's first license agreement in the market for Mobile Internet Communications.
- Effnet and University of Arizona announced in April a joint research project in high-performance Internet Protocol (IP) packet forwarding and firewalling for IPv6.
- Effnet opened a new research and development facility for advanced technologies for IP in Tucson, Arizona. The Effnet labs will be developing the next-generation IP within Effnet's technology as well as Multicast IP fast-forwarding.
- Örjan Grinndal has been appointed CEO Effnet Group AB. Tony Svensson, previously CEO of Effnet Group AB, has returned to Silicon Valley as full time CEO of Effnet, Inc. Marika Philipson has been named interim CEO until Örjan Grinndal assumes his post on May 7.
- Bo Hagerf has been appointed VP of Engineering. His job will be to lead all product development activities within the company, and to coordinate research activities.

Effnet innovates and licenses award-winning key technologies that resolve data speed, efficiency and security challenges in Internet Protocol (IP) networking and IT security. Effnet's modular IP packet processing technology -- the EffnetEdge™ Toolkit -- as well as its complete firewall and router technology for hardware manufacturers, enable optimized performance. The wholly owned subsidiary, Wkit Security, offers data encryption and copy protection technologies, and security audit services for public and private sector companies. With more than 75 employees, the Effnet group operates in Stockholm, Luleå and Häverud, Sweden, and Tucson, Arizona and in Silicon Valley, California. Effnet Group AB shares are traded on Sweden's Nya Marknaden (symbol: EFFN).

Read more about Effnet at www.effnet.com. Read about Wkit at www.wkit.com.

The development of the network market

The emergence of the Internet, as a network of networks, has changed the rules of the game for manufacturers of network equipment. Prior to that, manufacturers of servers, routers, processor chips and related equipment could design and build products that offered varying levels of speed. The market was dominated by LANs (local area networks) and WANs (wide area networks). Manufacturers could offer levels of security that were good enough for the needs of these isolated networks and their users.

Through the Internet, all the LANs and WANs instantly became virtually "connected" to each other. Additionally, the ability to view graphics on the formerly text-only Internet created a deep demand on bandwidth. The result is a acute awareness of the need for both efficient speed and optimal data security without sacrifice on either side of the equation. This increasing bandwidth, combined with the growth in broadband communication, exponentially increases the demand for fast and secure Internet access.

Over the next few years, electronic commerce, mobile Internet and expansion in broadband use are expected to drive up the number of users and the volume of information on the Internet. As the Internet expansion progresses, new bottlenecks will be discovered that will be difficult to resolve using traditional technologies. These bottlenecks identify some of Effnet's opportunities for business. Furthermore, security aspects will become more important, along with maintaining and improving performance levels.

Effnet in the network market

Until recently, manufacturers of networking components focused either on speed or on security. Today, the industry is seeing a convergence of these two requirements. Effnet's solutions are capable of high security without sacrificing performance. In pace with the rapid expansion of broadband and mobile Internet, the Company's technology will become even more attractive. The long-term goal is to become a leading provider of core technologies for the network and communications industries.

First quarter 2001

Effnet has during the first quarter experienced an increasing interest in its technology, despite the slowdown affecting companies in the network market. Effnet is negotiating with potential licensees for its technology.

Negotiations during the first quarter with Agere Systems (the former Lucent Microelectronics) resulted in a signed contract beginning of April. This is Effnet's first license agreement in the market for Mobile Internet Communications. Effnet's technology is considered to have great potential on the mobile communications market. Effnet's Header Compression technology has received a great deal of interest in this market.

To assure a position in the frontline of Internet Protocol technology, Effnet opened a research laboratory in Tucson, Arizona. Effnet is also an active participant in a project with the University of Arizona Computer Science Department concerned with research and development of high-performance Internet Protocol (IP) forwarding and fire-walling for IPv6, the next generation IP.

Effnet has reinforced its management team in line with the new strategy. Marika Philipson was during the period appointed CFO and executive vice president of Effnet Group. After the close of the period, Örjan Grinndal was appointed CEO of Effnet Group AB. Marika Philipson will act as interim CEO until Örjan Grinndal assumes his post on May 7. Furthermore, Bo Hagerf has been appointed VP of Engineering. Tony Svensson, previously CEO of Effnet Group AB, has returned as full time CEO of Effnet Inc, Silicon Valley.

Effnet is involved in a dispute with two former executives and founders of Wkit Security AB, a data security company acquired in 2000. The dispute has to do with certain performance-related clauses in the purchase contract.

Financial result

Effnet's net sales during the period totaled KSEK 1 075 (1 940).

The Group reports an operating deficit of KSEK -30 256 (-20 180). The Group's result after financial items was a deficit of KSEK -28 265 (-15 753).

The strengthening of the sales and marketing organization in Europe and North America continued during the first quarter. Selling and marketing expenses amounted to KSEK 9 130 (8 264).

The costs of product and technology development, reported on a current basis, amounted to KSEK 9 670 (6 031). The development of Effnet's technology platform is advancing with an increased focus on technology for mobile communications.

Administrative expenses amounted to KSEK 10 794 (7 386). The increase reflects the build-up of a full functional organization.

Effnet is striving for lower company costs. Total costs decreased significantly in comparison with the fourth quarter of 2000. As planned, all costs increased compared to the first quarter of last year. The main reasons were that the costs in Wkit Security AB were not consolidated into the books the first quarter last year and that Effnet Inc. was in an early development phase.

Total depreciation during the first quarter amounted to KSEK -1 043 (-217) of which depreciation of goodwill was KSEK -487 (0).

Financial position

Effnet's equity-to-assets ratio at 31 March 2001 was 96.0 % (97.6 %, same period last year). Liquid assets, including current investments, totaled KSEK 247 465 (369 733).

Capital expenditure

Capital expenditure during the period totaled KSEK 754 (1 164) and consisted mainly of expenditure on computer equipment.

Personnel

The number of employees at the close of the period totaled 75, which is an increase of 17 persons in comparison with the same period last year (58). The average number of full time employees at the close of the period totalled 72 (48), including 7 (5) in the USA.

A new incentive program for employees was launched in February. An Extra General meeting in November accepted the incentive program, which comprised 2,1 million share options. Of the total option program 815 000 options were distributed in February 2001 at strike price 10 SEK per share.

Financial calendar

Interim report January - June	27 August 2001
Interim report January - September	12 November 2001

This Interim Report has not been audited by the Company's auditor.

Stockholm, 25 April 2001

Effnet Group AB (publ)

Marika Philipson
Interim CEO

For further information, please contact:
Marika Philipson Tel.: +46 (0)708 32 44 56
CFO, Interim CEO

Consolidated Profit and Loss Account		2001	2000	2000
(Summary) (SEK '000)	Notes	Jan. – March	Jan. - March	Jan. - December
Net sales		1 075	1 940	5 091
Cost of goods sold		- 1 253	- 496	- 4 365
Gross profit		-178	1 444	726
Selling expenses		- 9 130	- 8 264	- 51 166
Administrative expenses		- 10 794	- 7 386	- 37 067
Research and development costs		- 9 670	- 6 031	- 41 571
Items affecting comparability	1	-	-	-153 129
Other operating income/expenses		-484	57	- 13 726
Operating result		- 30 256	- 20 180	- 295 933
Financial items, net		1 991	4 427	14 020
Result after financial items		- 28 265	- 15 753	- 281 913
Tax		0	0	0
Result for the period		- 28 265	- 15 753	- 281 913
Earnings per share, SEK	2	- 0,51	- 0.30	- 5.31
Earnings per share after dilution, SEK		- 0,51	- 0.30	- 5.31

Consolidated		2001	2000	2000
Balance Sheet (Summary) (SEK '000)		31 March	31 March	31 December
ASSETS				
Fixed assets				
Goodwill		18 983	-	19 470
Tangible assets		9 714	2 732	9 575
Financial assets		5	5	5
Total fixed assets		28 702	2 737	29 050
Current assets				
Inventories		1 043	495	1 262
Current receivables		6 259	8 462	9 672
Investments, interest bearing		212 311	301 197	167 101
Cash and bank balances		35 154	68 536	107 855
Total Current assets		254 766	378 690	285 890
TOTAL ASSETS		283 469	381 427	314 940
EQUITY & LIABILITIES				
Equity	3	272 209	372 178	300 046
Provisions		95	95	95
Current liabilities		11 165	9 154	14 799
TOTAL EQUITY & LIABILITIES		283 469	381 427	314 940

Consolidated Cash Flow Statement (SEK '000)	2001 Jan. – March	2000 Jan. – March	2000 Jan. - December
Cash flow from day-to-day operations	- 26 999	- 15 544	- 111 899
Changes in working capital	229	-2 446	-2 084
Investments	- 754	- 1 164	- 7 682
Financing	0	1 804	9 508
Change in liquid assets	- 27 524	-17 350	-112 157

Per-share data (adjusted to reflect new share issues)	2001 31 March	2000 31 March	2000 31 December
Amounts in SEK			
Shareholders' equity per share	4,95	7.15	5,46
Shareholders' equity per share after full dilution	4,95	6.78	5,46
Shareprice per share	3,69	126,00	11,80

Accounting principles and notes

The Swedish Financial Accounting Standards Council's (SFASC) standard on interim reporting (RR20) has been used at the preparation of this interim report.

The accounting principles used have not been changed in comparison to the principles used in the year-end report 2000. January 1, 2001 a number of new accounting standards came into force. The use of these standards has not meant any recalculation of net result or equity. The use of RR18, Earnings per share, means that the computation of average number of shares has been changed. The company has chosen not to use the new accounting standard on intangible assets from January 2001. No changes have been done regarding accounting estimates .

Note 1. Items affecting comparability

At year-end 2000 goodwill from the purchase of Wkit Security AB was written down with KSEK –153 129 . The amount was recorded as an item affecting comparability.

Note 2. Earnings per share

Earnings per share before and after dilution have been calculated from the results according to the income statements.

	2001 31 March	2000 31 March	2000 31 December
Number of shares used in the calculations:			
Average number of shares	54 942 650	52 054 525	53 021 135
Number of shares at close of period	54 942 650	52 054 525	54 942 650

Share options outstanding give no dilution effect for any of the periods. At full utilization of share options 3 799 669 shares would be added at March 31, 2001.

Note 3. Change in equity

Amounts in SEK	2001 31 March	2000 31 March	2000 31 December
Opening balance	300 046	385 922	385 922
Result for the period	-28 265	-15 753	-281 913
New issue	-	1 804	195 483
Translation difference	428	205	554
Total equity	272 209	372 178	300 046