

Speed

Innovation

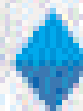
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Annual report 2000

EFFNET GROUP AB



EFFNET

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Effnet is a high technology company with unique network solutions for making the Internet and mobile communications safer and faster.

### Information to shareholders

#### Annual General Meeting 2001

The Annual General Meeting will be held on Thursday, April 25. Special notification will be given no more than six weeks and no less than four weeks prior to the Meeting. The right to participate in the General Meeting is reserved for shareholders who are included in the shareholders= register of Värdepapperscentralen VPC AB (The Securities Register Center) no later than April 12, 2001, and who, no later than 4.00 p.m. on Tuesday April 17, 2001, have also notified us of their intention of attending the Meeting. Shareholders who have registered their shares through nominees such as the trust department of a bank or other nominee must, in good time prior to April 12, temporarily register the shares in their own name with the Securities Register Center (VPC), to secure the right to participate in the Meeting.

# This is Effnet

## Business concept

Effnet develops and, through licensing, provides award-winning technology that offers manufacturers of network products a combination of high efficiency, high speed and high reliability. Effnet's aim is to become a recognized leading global supplier of integrated network solutions in the creation of an infrastructure for the Internet and data communications.

## Speed, reliability and efficiency

In 2000, the Board of Directors decided that operations would in future concentrate on sales of the well-known IP-based network technology software under license, while the manufacture of hardware would be delegated to other market players. Consequently, Effnet licenses its technology to manufacturers of Internet products and data communications. The Effnet trademark shall therefore be synonymous with speed, reliability and efficiency.

## Research and development

Effnet shall foster and develop the close relationship it has had with the research community since its inception with the unique opportunities such a relationship offers for translating advanced research results into practical applications. In November 2000, Effnet was granted a patent on its revolutionary technology for the classification of IP-packets in firewalls. This is an important milestone in the Company's development and its plans to achieve a commanding position in this field.

## Additional competence

The acquisition of data security company Wkit Security AB presents new market opportunities and broadens Effnet's area of competence. Wkit is one of the pioneers in the growing market for CD-ROM data security and copy protection.

## Business strategy

Each contract signed is preceded by a selling-in period, during which our customers acquire confidence in the expertise of our personnel and the unique benefits of our technology. Our sales strategy is based on collaboration both with manufacturers of consumer products as well as system suppliers and their sub-suppliers. A licensing fee is paid when the contract is signed. During implementation, Effnet receives a fee and, depending on the terms of the contract, a subsequent stream of payments in the form of royalties.

# The year in brief

## March

- ◆ Effnet signs first licensing agreement for its award-winning "packet forwarding technology" with a large, autonomous chip manufacturer.

## April

- ◆ Effnet acquires all shares in data security firm Wkit Security AB to enhance its expertise in the high-growth security field. The price is 1,650,000 newly issued shares in Effnet. Wkit has 17 employees.



## May

- ◆ The Board of Directors of Effnet Group decides on a 5:1 split, with five new shares for every share held. This raises the number of shares from 10,535,905 to 52,679,525 shares. The face value changes from SEK 2.50 to SEK 0.50.
- ◆ Software from Wkit stops transmission of viruses via e-mail. The WMS (Wkit Mail Scanner) software checks all incoming e-mail before it is opened, protecting users from all known ways of distributing virus-infected e-mail messages.

## June

- ◆ Effnet signs partnership agreement with global semiconductor supplier STMicroelectronics. Through this agreement, STMicroelectronics can integrate Effnet's award-winning IP-technology into its own products. The agreement cements long-term cooperation within the framework of the Effnet TPP (Technology Partner Program) to establish strategic partners.
- ◆ Tony Svensson appointed to succeed Tomas Althén as new president of the Effnet Group. Tony is based at Effnet's office in Mountain View, USA. Mats Olsson leaves the board of Effnet Group.

### September

- ◆ Effnet sponsors Network Processor Summit at the Network Fair in Atlanta, USA. All visitors to the Fair are able to learn about the Company's network processor technology.
- ◆ Effnet changes corporate strategy, decides to focus efforts on licensing its IP-based technology and winds down its hardware manufacturing operations.
- ◆ Wkit signs five-year agreement with Danish CD-manufacturer SDC Group, one of Europe's leading companies in the field. The SDC Group will implement DBB copy-protection in its sales process. The agreement is estimated to be worth SEK 10 million per year over the five-year period.

### October

- ◆ Mikael Degermark, one of the founding members of Effnet, received the Framsteget (Progress) Award presented by the Swedish technical journal Ny Teknik, for the best IT-research project in Sweden. The technology, called IP Header Compression, boosts wireless Internet performance and will optimize next-generation wireless broadband networks.

### November

- ◆ Two new Members of the Board elected at an Extraordinary General Meeting on November 29.
- ◆ A new global options program is adopted at the same meeting. The program ensures that current and future employees will receive options. The options program comprises 1,900,000 staff options, secured against 2,100,000 call options.
- ◆ Effnet is granted a Swedish national patent on its revolutionary technology for classification of IP-packets in firewalls.

### December

- ◆ Wkit wins contract to provide data security services to Dubai Internet City (DIC). DIC, which will be the world's first tax-free zone for computer companies, is owned by the Dubai Government, and aims to be the Middle Eastern equivalent of Silicon Valley.



Navigation

# Chairman's statement:

## A turbulent and dynamic year

2000 was a year of radical and turbulent change for Effnet. In many ways, it was also a year of constructive action and consolidation.

### Change of strategy

The Board's decision to change the Company's business strategy was a decisive factor. Operations were concentrated exclusively on licensed sales of the Company's well-established IP-based network technology software, while hardware manufacturing was subcontracted to other players.

This change of strategy was preceded by a comprehensive analysis of Effnet's strengths and weaknesses. Obvious strengths were the Company's close connections with the research community, its proven ability to innovate and unique expertise in translating technical innovation into practical applications. Conversely, we were clearly too small to manage a costly and resource-intensive three-way interaction between technological development, manufacturing and marketing. A consolidation of activities will enhance our chances of gaining a global lead in technologies for chip, board and systems suppliers.

Simply put, the decision means that Effnet is licensing its technology to establish a trademark synonymous with speed, reliability and efficiency. This is being achieved through close collaboration with those companies that have signed licensing agreements with Effnet within the framework of its Technology Partner Program (TPP).

This change in strategy also offers our customers substantial benefits as licensees. They can utilize all or parts of Effnet's entire platform technology. Our licensed technology offers a markedly superior alternative for those who face a choice between purchasing proprietary technology or developing IP-packet processing solutions in-house. The Effnet solution enables companies to enhance their competitive edge by accelerating time-to-market, avoiding the risks of time and resource-consuming in-house development.

Prior to the Board's approval of this new business strategy, the former president of the company resigned, in company with a number of directors and members of the executive. The Company's head of US operations, Tony Svensson, was appointed

president and CEO of the Effnet Group. The undersigned, who has been a Member of the Board for the past two years, became the new Chairman. Stephen Pink, Ph.D., Professor of Computer Communications at the University of Arizona and one of Effnet's founders, was appointed Chief Technology Officer (CTO). Early in 2001, Marika Philipson was appointed Executive Vice President and CFO.

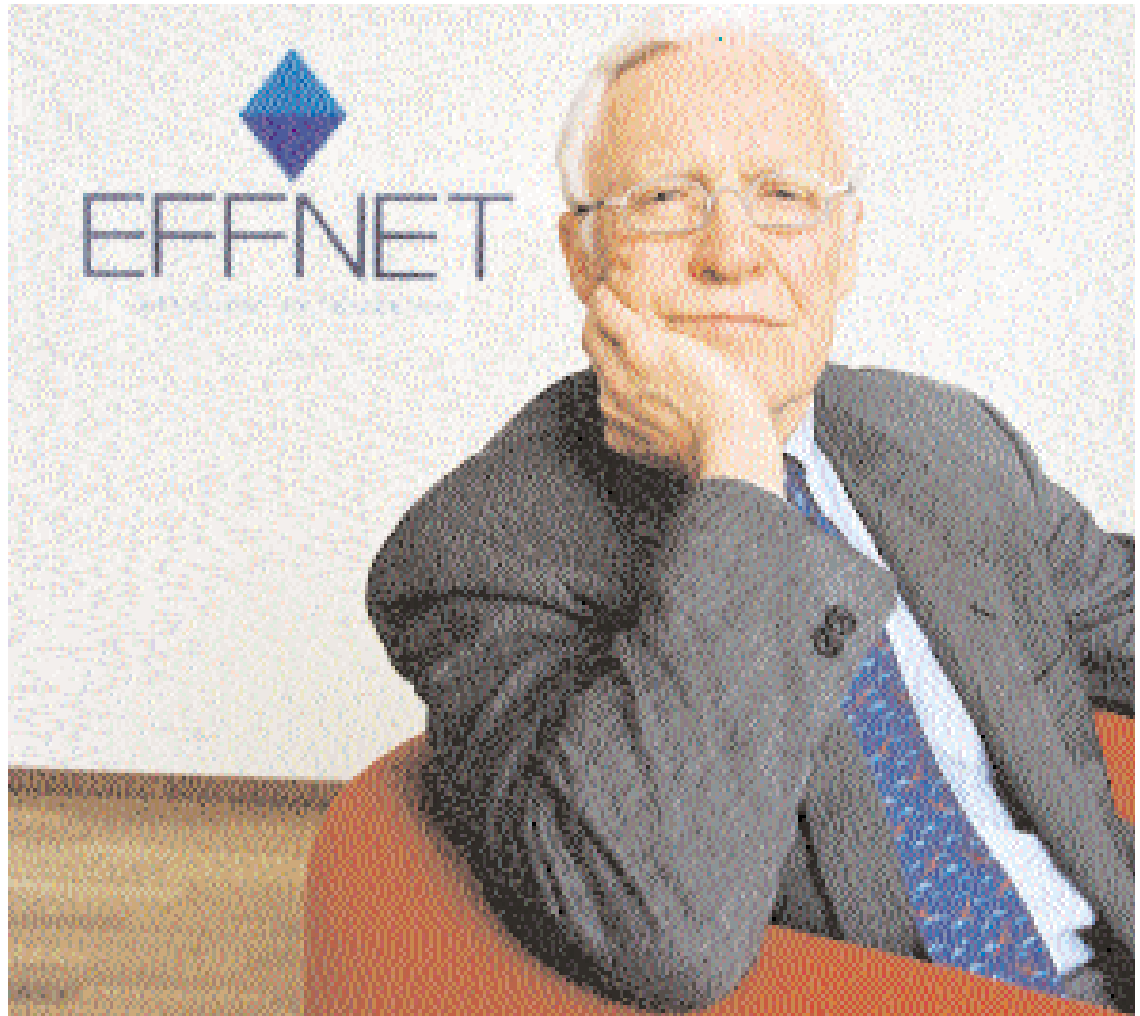
### Stock market collapse

Hardly surprisingly, the sharp decline noted both by Nasdaq in the USA and the OM Stockholm Stock Exchange during the year, combined with a crisis in confidence affecting IT-companies in general, had a negative impact on Effnet too. The shares, listed on the OM Stockholm Stock Exchange's "New Market", fell from its market price of SEK 61 at the start of the year to SEK 11.80 at year-end. Effnet was unable to position itself as distinct from IT-consultancy firms, with the result that the share was drawn down in the general collapse. Effnet's good prospects and successful product introductions and business deals nevertheless received several favorable reviews in the media.

### Market highlights

An initial result of this change of strategy, and one which attracted considerable attention on the market, was Effnet's IP Header Compression product, which offers a leading position in wireless Internet. The product enhances the performance of mobile networks and optimizes next-generation wireless broadband networks. IP Header Compression is based on a new standard developed for the Internet by Mikael Degermark, one of Effnet's founders. His research team is involved in a project to develop an international standard in this field. The product has also won the "Framtidspris" Award, presented by the Swedish technical journal Ny Teknik (New Technology).

At the start of the year, we also signed the first licensing agreement for our award-winning "Routing Lookup" technology, with a leading chip manufacturer. This marks a clear breakthrough for our technology. The agreement covers a period of several years, and is expected to yield a substantial return.



### Effnet broadens its competence

The acquisition of data security company Wkit Security AB means a substantial increase in market potential and a broadening of Effnet's competence. The market for data security is growing rapidly and Wkit is at the forefront in its field. A contract to protect the client from pirate copying of CD ROMs – stretching over a period of several years and estimated to be worth MSEK 50 – has been signed with Denmark's SDC Group, one of Europe's leading manufacturers of CDs.

Effnet also signed a contract with STMicroelectronics, a global supplier of semiconductors. Effnet's technology extends the range of applications

for STMicroelectronics hardware.

To this should be added the potential generated by our participation in work on the new IPv6 standard for mobile and wireless communication. The previous IPv4 standard is hopelessly inadequate to handle the rapid and worldwide growth in the number of IP addresses. Effnet technologies are easily adapted and integrated into client products.

### Important Swedish patent

Securing a national patent for our revolutionary classification technology for IP-packets in firewalls is also a notable achievement. The patent secures



## The Company has positioned itself for a commercial breakthrough, with a new business strategy and an executive focused on generating business and licensing technology

Effnet's leading position and protects the most crucial elements of our technology. We see the granting of this patent as confirmation that we are the market leader in this field. We consequently have a good chance of securing patents in several other countries.

### Research

Effnet shall maintain and develop its close collaboration with the research community and its unique opportunities for translating advanced research results into practical applications. Members of Effnet's executive management and others associated with the Company are engaged in several research-intensive projects in different parts of the world. The work being conducted by Stephen Pink and his research group at the University of Arizona is strategically important.

### Competence development

An advanced technology company like Effnet is extremely dependent on the competence of its employees. To retain existing staff and to continue to attract new employees, a new options program was introduced in November 2000. According to this program, current and future employees will receive buyer's options that entitle the holder to acquire shares in the Company over a period of several years. The program comprises a total of 2,100,000 buyer's

options. We shall in a number of ways also actively stress the fact that Effnet is an exciting and innovative company to work for – a company open to new ideas and technically radical projects.

### Looking ahead

Effnet's business activities present considerable risks – and great opportunities. The returns generated by licensing may vary from substantial to marginal, depending on the company the contract has been signed with, the product involved and the market's response.

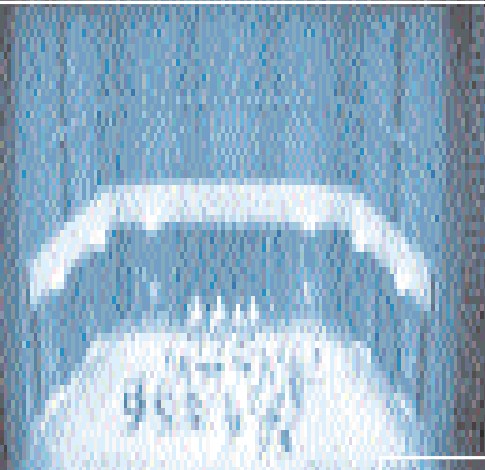
At the same time, Effnet has great potential in a highly dynamic field, with a technically innovative, advanced and in many respects unique position. What we have to do now is convince the market about the benefits we offer. It is reasonable to assume that number of licensing agreements signed will increase and provide considerable market leverage. The approval of our patent and the awards received for our technologies are extremely positive signals.

The market for our IP technology is both stable and dynamic, with no risk of a sudden slowdown like that experienced by the IT consulting industry. Internet communication will continue to expand. Gigantic markets, such as in Asia, which offer huge if latent potential, await to be tapped.

Effnet has every chance of playing a crucial role in a market that has only just started to grow.

Norman Rasmussen

*Chairman*



Precision



# The New Effnet

Effnet's decision to revise its corporate strategy involves a number of changes.

The most important decision – to withdraw from manufacturing the hardware and to license the technology instead – will enable the company to respond more flexibly to market demands, for one thing. Customer needs, product scenario and market strategy will now be the decisive factors and depends on Effnet having the resources and capacity to meet such demands. This new strategy places great demands on flexibility, but will also dramatically increase the number of prospective customers and opportunities for greater profitability.

## CUSTOMER STRATEGY

The change of strategy and focus on core competence opens up new opportunities and markets for Effnet. IP technology is already important and will become increasingly essential in future. We are entering a phase of development where IP technology is now being integrated into areas where it was previously rare, such as telephony. With the move towards greater integration of systems and functions, Effnet's technology is becoming increasingly relevant and applicable in increasing numbers of fields and an expanding range of products. Increasing mobility, combined with ever rising demand for additional services and functions, fuels demand for technology that can handle huge quantities of data, despite limited capacity.

Effnet markets technology for the implementation and optimization of information systems. The versatility of the technology makes it appropriate for a large number of different applications around the world, ensuring a large client base. For Effnet, the whole world is its marketplace. Marketing efforts are focused first and foremost on the most IT-intensive areas of Europe and North America.

## BUSINESS STRATEGY

We adopt a multi-stage approach in our dealings with customers, where the execution of the contract is preceded by a "selling-in" process. Once the contract is signed, the customer pays a sum of money, a licensing fee. This is followed by a process of integration/implementation, where Effnet is normally

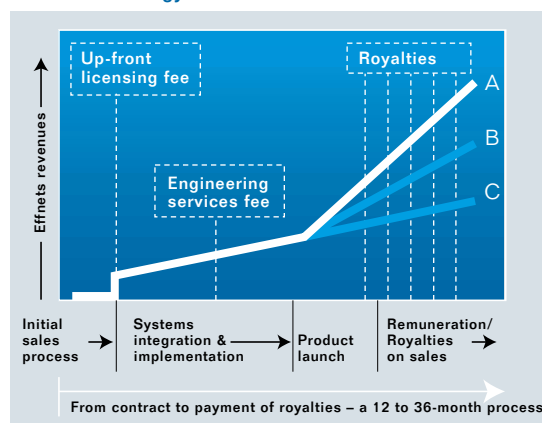
paid an engineering services fee, for integrating the technology.

Depending on the type of licensing agreement signed – e.g. a development license or full commercial license – a regular stream of payments in the form of royalties will follow.

## NEW BUSINESS RELATIONSHIPS

The new Effnet's basic business strategy is to seek collaboration and sign partnership agreements with customers. The current sales strategy is based on collaboration and partnership agreements with manufacturers of consumer products as well as system suppliers and their sub-contractors. The creation of stable profitability by forming strategic alliances and signing long-term collaboration agreements will establish a basis for continued growth.

Sales process and revenues generated by Effnet technology



## ORGANIZATION

This new strategy places new demands on the organization. This applies particularly to the sales organization, where the sale of licenses makes quite different demands on marketing strategies and methods, as compared to sales of hardware. This new strategy also requires a well-established R&D department, to provide a high degree of application customization and flexibility.

As a natural consequence of these major structural changes, changes have also been made at management level, both in the Group and at subsidiaries.

The Group is now represented at four locations around the world. The R&D department is primarily located in Luleå (Sweden), with additional R&D functions in Mountain View (USA), Tucson (USA) and Stockholm (Sweden). There are sales offices in Mountain View and Stockholm. The majority of Group administration is handled by the head office in Stockholm.

All operations of WKit Security AB, apart from some administration and limited sales representation in Stockholm, are located in Håverud (Sweden). The main organizational changes required by this change in strategy have been implemented during 2000, and the organization is now ready to meet the challenges posed by this new strategy.

#### PERSONNEL

At year-end 2000, the Effnet Group comprised a total of 75 employees. The rate of employee turnover, at approximately 30 percent, has been relatively high during 2000. The reason for this high rate of turnover is mainly attributable to Effnet's change of strategy. During the fall, Effnet has recruited competent personnel both to replace those who have left the Company, and to complement the current workforce with staff appropriate to Effnet's new business strategy – i.e. people with an increasingly high level of technical expertise.

Effnet is determined to become an attractive and stimulating employer, dedicated to the needs and

development of its personnel. The change of business strategy has placed Effnet's technology in focus. Effnet is well positioned with respect to the fierce market competition for engineers with the appropriate expertise. Some 27 percent of Effnet personnel are women, as are 43 percent of Group management.

#### MARKET OBJECTIVES

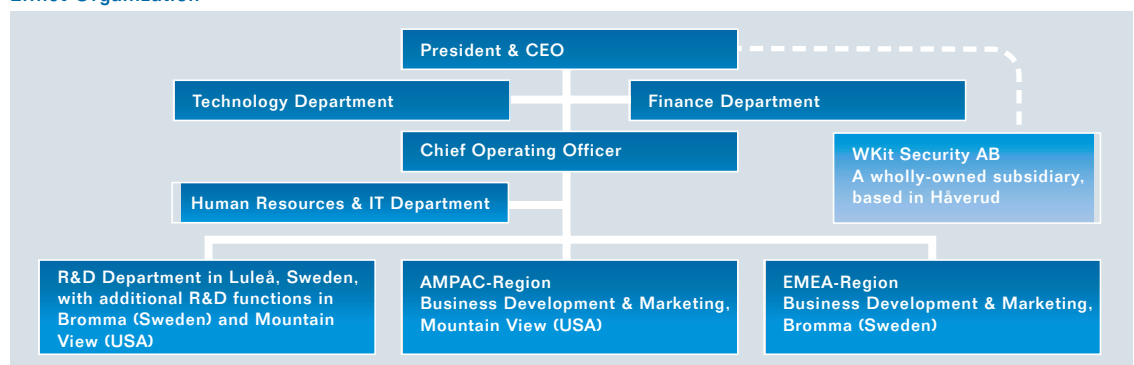
Effnet has established two primary objectives: to penetrate the key markets in Europe and North America within the next two years – and to become a widely recognized and significant supplier of technology to systems suppliers and producers of communication products.

#### FINANCIAL OBJECTIVES

As a matter of policy, Effnet refrains from reporting detailed forecasts and expectations in official contexts. The reason for this is the difficulty of providing estimates that offer an acceptable degree of precision, given the fact that we sell licenses in a market subject to constant change and featuring unique products. This applies particularly to revenue distribution over a given period, in conjunction with short-term forecasts.

By implementing this strategy, Effnet is determined to have achieved sustainable long-term profitability, not later than year-end 2003.

Effnet Organization



# Wkit Security AB



The Effnet Group's wholly-owned subsidiary, Wkit Security, is a data security company, offering security-related services and products to companies and public sector organizations. One product developed by Wkit Security is the Don't Bother Burn (DBB) copy-protection system. The company also conducts security analyses of customers' internal and external data communications and offers training and consultancy in the field of data security.

## PRODUCTS AND SERVICES

### Don't Bother Burn (DBB)

DBB is an advanced copy-protection system for CD-ROMs. It can be used, for example, by makers of computer games who wish to prevent unauthorized copying of their products. The DBB system differs from competing products mainly in that it is simple for CD manufacturers to integrate into their own production processes.

### Security audit

Wkit Security's security services are designed to satisfy most commercial, industrial and public administration requirements with respect to information system security. A security audit is conducted to provide the client company's management with decision data on which a data security strategy can be based. The client can also sign a framework agreement with Wkit, covering operations manage-

ment/service supervision, regular security checks and training.

## THE YEAR IN BRIEF

### April

- ◆ Effnet Group AB, in need of additional expertise in the data security field, acquires Wkit Security AB. Wkit Security signs an agency agreement with PR and communication company Schindler, Parent & Compagnie GmbH (SPCIE). The agreement gives Wkit broad potential to enter the European market.

### May

- ◆ When the devastating Loveletter computer virus spread across the world, Wkit Security developed the Love Letter Remover (WLLR) program, which removed the virus from infected computers.

### August

- ◆ Launch of Wkit's WMS (Wkit Mail Scanner) software. WMS puts a stop to viruses attached to incoming e-mail, by warning the user before he/she opens the message. Wkit Security achieves a market breakthrough for its security services and advertises for 10 new data security consultants, for immediate employment at its Håverud facility in Dalsland.

### September

- ◆ Wkit Security signs five-year contract with one of Europe's leading CD-manufacturers, SDC Group, which plans to implement Wkit's DBB copy-protection system.

### December

- ◆ Despite stiff competition, Wkit Security wins a contract with the Dubai Government to supply data security services to Dubai Internet City, the world's first tax-free zone for IT companies.





Direction



# Technology and the market

Ever since its foundation, one of Effnet’s strongest competitive advantages has been its close collaboration with the research community. This relationship means that the company can continually upgrade its technologies to ensure faster, more secure and more efficient datacom applications. Ongoing research ensures that Effnet’s technology platform, EffnetEdge Toolkit, is constantly improved, thereby extending the Company’s technical lead over rival technologies.

The technologies developed are patented, implemented and packaged for subsequent inclusion in the technology platform. Licensing the technology cuts time to market, so that technical innovations can be rapidly realized in the form of new products. The fact that the patent application process is already well advanced by the time the products reach the market offers a further competitive advantage, permitting a more aggressive approach on the licensing market.

This was the year (2000) in which Effnet was granted a patent for its revolutionary IP packet classification technology. The patent secures Effnet’s technological lead in “embedded” technology for optimized IP processing. The patent also clears the way for Effnet’s algorithm-based solutions for high-performance firewalls and routers.

## TECHNOLOGY

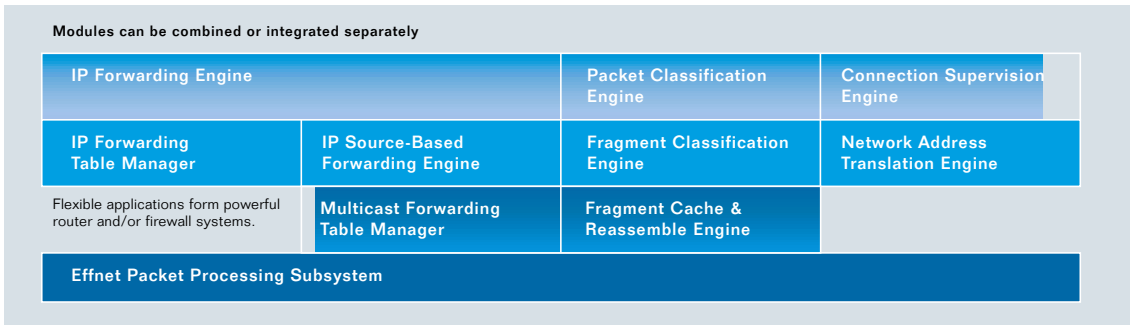
### EffnetEdge Toolkit

Effnet’s products can be adapted for different computer platforms and to customers’ specific requirements. EffnetEdge Toolkit platform technology, featuring the patented algorithms for efficient and secure Internet communication, will be extended to comprise specific solutions for mobile and wireless communication.

In 2000, operations were focused on the licensing of technology. Through collaboration between the Company’s licensees, manufacturers of network components and system designers, the EffnetEdge Toolkit technology modules are adapted for the components, chips, boards and system designs of respective client companies.

With Effnet’s Technology Partner Program (TPP) and products such as Secure-IT™ (a.k.a. DBB) from subsidiary Wkit Security, the licensee is able to use parts of Effnet’s platform technology, or the complete range of modules. Effnet’s licensed technology offers a markedly superior alternative for companies who face a choice between purchasing proprietary technology or developing IP-packet processing solutions in-house.

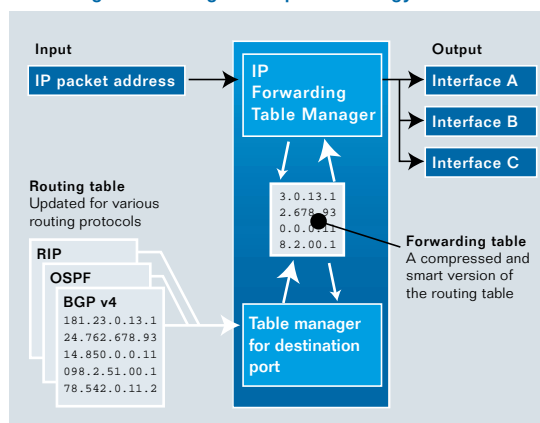
### EffnetEdge™ Toolkit Modules



## Routing lookup technology

Routers, which determine the route taken by a packet in a data network, have a routing table which is updated by one or more routing protocols. The most important component in Effnet Forwarding Technology is the method used to translate the routing table into a compressed forwarding table, optimized for rapid lookup by minimizing memory consumption. In other words, Effnet's system speeds the entire process.

### EffnetEdge™ Routing Lookup Technology

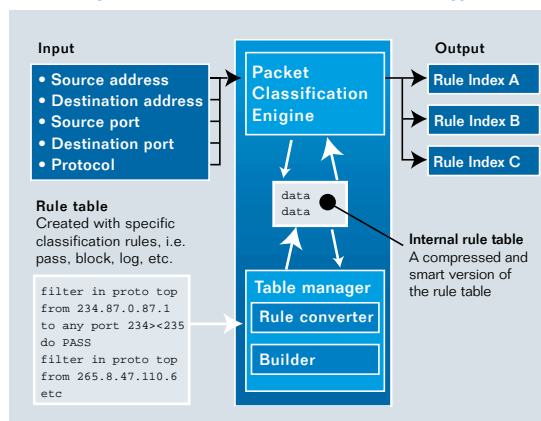


This technology ensures that the data that arrives at the router is correctly directed to its destination address. Previously, data was directed by a "routing table". By means of an algorithm, Effnet has now compressed the original router table, transforming it into a forwarding table, and created a unique and extremely high-speed forwarding table lookup technique. This compression and upgrade has speeded up the process while simultaneously releasing software or chip capacity previously in use.

## Technology for packet classification

Effnet has developed a high performance technique for data traffic classification. Although the actual technology differs from Effnet Forwarding Technology, the fundamental design criteria are the same – maximum compression and minimum memory consumption. Firewall products based on this technology tolerate substantially higher loading than products based on conventional techniques. Most importantly, the client never needs to make a choice between security and performance – Effnet offers both.

### EffnetEdge™ Packet Classification Technology

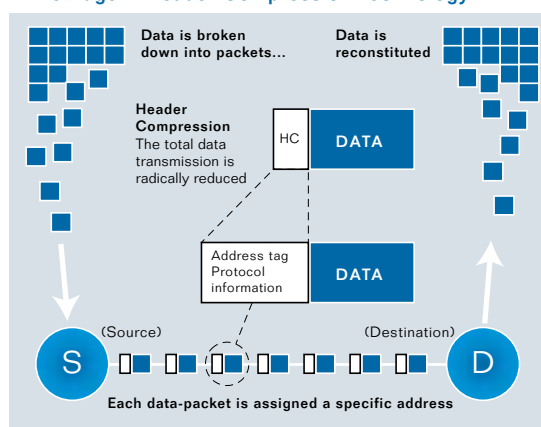


This technology is like a firewall, where the rules governing classification (rules) for data input and output are arranged in a type of classification table. This enables non-authorized data to be screened out.

## IP Header Compression

Header Compression offers considerable efficiency gains for the transmission of certain types of data, where data load is insignificant in size compared to the IP header. Even greater efficiency gains are possible if the speed of the transmission media is limited. Due to its success in research and development, Effnet is definitely in the lead in terms of the development and establishment of this standard.

### EffnetEdge™ Header Compression Technology



Digital communication such as telephony, datacom and communication between mobile operators is broken down into packets for reasons of security. There is a not insignificant risk that data may be lost, destroyed, wrongly addressed etc. The header is a bearer of unique data for each communication process, and enables the contents of the communication to be reconstituted, should the threat scenario become real.



### Firewall/Router software stack

Effnet has developed software for an integrated router and firewall. This is utilized by both the firewall component (Effnet Filtering Technology) and the router component (Effnet Forwarding Technology).

### THE MARKET

Effnet's unique competence places the Company at the heart of the two fastest growing areas in information technology, IP networks and IT security. The market for Effnet's technologies is expanding, because IP will continue to be the standard for information processes. The growth in demand for faster network architectures and increased bandwidth will continue, in pace with an increasing demand for sophisticated packet processes. According to market analyst IDC, the global market for semiconductors in network products will increase from an estimated value of USD 1.5 billion in 1999 to USD 3.3 billion by 2003. The transfer from the current IPv4 standard to IPv6 is accelerating the development of new software and hardware for network components. Clients will benefit directly from the efficiency of Effnet's IP packet technology solutions.

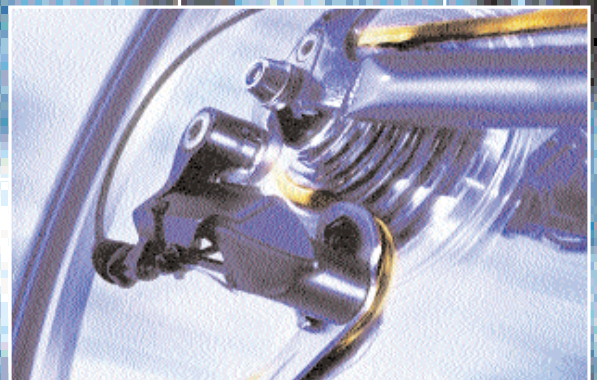
Effnet has identified four key areas for its IP technology:

- ◆ The market for network processors
- ◆ The rest of the market for programmable communication processors
- ◆ The mobile communication market with Ericsson, Motorola, Nokia, Samsung, Siemens etc.
- ◆ The firewall and router market

By using the globally-respected Luleå algorithm for rapid transmission and filtering of IP-based data, Effnet has positioned itself as a leading supplier of high-performance networks. With the introduction of IP Header Compression for wireless connections with low transmission speeds, Effnet technology now embraces the new and fast-growing market for wireless Internet communication.

With the acquisition of data security firm Wkit Security AB, Effnet has enhanced its expertise in the IT-security field. This market is expected to note substantial future growth.

Position



# Effnet positions itself

## ENVIRONMENT

### A rapidly changing world

#### Advances in technology

The market for network components for telecom and data has enjoyed vigorous growth in the past few years and is expected to continue to grow very fast. Typical for these markets is the blistering pace of technological development and the constant demand for still greater efficiency and enhanced performance. Increasing quantities of data are being transmitted between different systems and networks. Effnet – with leading-edge technology in precisely those areas which increasingly attract the most attention – finds itself very well positioned for the future.

#### Internet

Expansion of the Internet as a medium for the dissemination of information and a host of other services is expected to continue. The choice of services and opportunities for communication, especially in integrated systems and in combination with mobile services will eventually lead to a sharp increase in demand for advanced technical solutions with stringent performance requirements.

#### IP-based services

IP-based technology is having ever increasing impact, particularly within the telecom industry. In the future, IP-based technology will be the predominant form of data transmission, even for voice. The integration of voice and data with IP-based technology opens up a huge range of possibilities. The new technology places demands on technical solutions that can boost performance and enhance the efficiency of data processing and transmission.

#### Increased mobility

Networks for mobile communication are being rapidly expanded, presenting an ideal market for Effnet technology. The mobile communications market is currently one of the fastest expanding markets and is expected to remain so for some time to come. Many of the technical solutions on which

mobile services for consumers and corporate users are based are only limited by capacity and performance in terms of the services they can provide. Already, the ability to surf the Internet, send and receive e-mail, fax and make phone calls wherever the user may be, is considered self-evident. In future, it will be possible to offer a large number of other services via a wireless connection. This places and will continue to place severe demands on effective technology for the packeting and dissemination of data.

### Risk analysis

#### The market and competition

The market comprises an extremely large number of players, offering their customers a broad range of different solutions and services. Effnet's main strength is its technological lead over its competitors, thanks to its patented technology. Seeking to collaborate with the major players on the market and offering them Effnet's solutions, rather than competing with them, will establish the most favorable market conditions for the Company. At present, the main threat derives from the possibility that potential customers might choose to develop alternative technology themselves, instead of selecting Effnet's technology.

Up to a certain point, it is possible to boost the efficiency and performance of a system simply by adding more memory, but this approach naturally has its limits. In future, with a sharp increase in the number of end-users and the amount of data transmitted, it will no longer be possible to compensate by a mere increase in capacity.

#### Sales

Because Effnet has the whole world as its market, in conjunction with the long-drawn-out nature of the sales process associated with licensing agreements, Effnet is likely at some time to be exposed to a degree of foreign exchange risk. At present, there is no general solution as to how transactions between different currency areas should be handled within the Group. The best way to avoid foreign exchange risks is to structure each agreement on an individual basis.

The lengthy sales processes, combined with a market that is notoriously difficult to forecast, create considerable difficulties when predicting future sales. The lack of reliable forecasts can pose a problem when communicating with investors and when drafting internal forecasts.

#### Liquidity

At the time of preparing this annual report, Effnet's liquidity is good. At current cost levels, Group liquid funds, without the addition of contributions from sales revenues, will be adequate for a further couple of years. The lengthy sales processes concomitant with licensing agreements nevertheless pose a limited risk, however slight, of a shortfall in liquidity before a positive cash-flow can be secured. If a situation develops where the cash-flow from operations fails to grow fast enough to cover operating costs, it may then become necessary to seek new capital from investors.

### RESEARCH & DEVELOPMENT

Since Effnet's establishment in 1997, its close and – compared with its competitors – unique relationship with the research community has been a cornerstone of the Company's operations. Effnet's founders were research scientists at Luleå University of Technology, and the Company was started with a view to commercializing research findings.

The founders, all of whom are still associated with the Company, are actively employed at various research institutes in Europe and the USA. In conjunction with Effnet's other considerable research contacts at many levels, and through its own intensive research activities, the Company has established a technological edge over its competitors. This also assures access to a broad and impressive network of contacts, ensuring insights into the latest innovations as well as updates on the latest advances in data science. Effnet has subsequently demonstrated its ability to translate research findings into practical commercial applications in the form of products and services.

In the long term, this close contact with research centers and institutes awards Effnet a strategically important status in its dealings with local and gov-

ernment authorities, other companies and research agencies, especially in the international arena. For example, Effnet participates in the work of establishing international standards in several areas, including wireless Internet.

One example is the new product, IP Header Compression, which has given Effnet a leading position in this field. The IP Header makes it possible to build faster, cheaper and more secure wireless networks. The core of the system is a new standard developed for the Internet by Effnet staffers Mikael Degermark (one of the original founders), Björn Nordgren (Chief Engineer) and Stephen Pink (Effnet's CTO and one of its founders).

During the year, Mikael Degermark also received two prestigious awards. The first was the Framsteget 2000 Award, presented by Swedish technical journal *Ny Teknik*, for the best Swedish IT research project of the year. The second was the Chester Carlsson Research Prize, awarded by the Royal Swedish Academy of Engineering Sciences for, among other things, the development of standards for IP-processing technology for wireless Internet.

The Company's distinguished research reputation directly contributes to the development, upgrade and modification of Effnet's platform technology and products. Effnet seeks patents for the new technologies it develops, implements them and integrates them into the products it develops, markets and licenses.

Another important consequence of the close relationship between research and practical application are the excellent opportunities created for attracting well-qualified personnel from universities and other companies. It is an unusual and, for potential employees, an extremely attractive position, from which Effnet naturally wishes to extract the maximum benefit.

### PATENTS & CONTRACTS

#### Patents

Effnet's goal is to patent all innovations that constitute or will constitute a competitive edge. Patenting will ensure that such innovations are secured exclusively for application in the Company's own

products but, even more importantly, will permit aggressive promotion of Effnet's innovative technologies to the licensing market.

Firewall apparatus and method of controlling network data packet traffic between internal and external networks

This patent application for Sweden and the corresponding international PCT application describes first-generation Effnet IP Packet Classification Technology as a powerful technology for monitoring sessions and a unique method for reliable fragment filtration, based among other things on a revolutionary algorithm for data traffic classification.

A Swedish national patent was awarded on November 13, 2000. Subsequent to an international novelty evaluation report by PRV (the Swedish Patent & Registration Office), the international patent application has been referred to the European Patents Office (EPO), in preparation for international validation of patentability. The EPO is one of a number of reviewing agencies within PCT that has made a favorable though not binding pronouncement on the patentability of this innovative technology. The international application has now been submitted for approval in several countries and is being processed under the national laws applying within the respective countries.

Method and system for fast routing lookups

This patent applied for in the USA and the corresponding international patent application (including Sweden) describe first-generation Effnet Routing Lookup Technology, also known as the Luleå algorithm. When the research findings were presented in 1997, the method attracted considerable attention, as the first software-based routing lookup which could offer gigabit performance on standard hardware. The technology, which has since been radically refined by Effnet, is still used in the Company's products.

The US application is currently under consideration by the US Patent Office.

A positive report on the international patentability evaluation has been issued for the international application. Based on this, Effnet has sought

to register patents in a number of countries, under national law.

Method and system for efficient routing table compression and fast routing lookups

This patent application describes second-generation Effnet Routing Lookup Technology. Compared with the original Luleå algorithm, this second-generation technology offers multiple performance gains while significantly improving capacity to handle enormous routing tables to achieve optimal future compatibility. The technology will be featured in forthcoming versions of Effnet products. An application for a national Swedish patent is currently under consideration by PRV (the Swedish Patent & Registration Office) and an evaluation for international validation of patentability will be initiated for a corresponding international patent application in April, 2001.

Following a number of additional breakthroughs on the research front, Effnet expects to submit applications for at least five new patents during 2001. Some of these are related to second-generation Effnet IP Packet Classification Technology, which comprises a number of innovations that significantly improve the already superior performance of Effnet's firewall products.



Sorting





# Administration report

## Type and focus of operations

### EffnetEdge

A new strategy that focuses on Effnet's core strengths was adopted in September, following a thorough review of the Company's strengths and weaknesses. The new strategy focuses resources on licensing the Company's proprietary technology, its Effnet Edge IP packet processing software. In adopting this strategy, Effnet will be licensing its technology in two ways:

- ◆ EffnetEdge™ Toolkit technology, through Technology Partner Program (TPP) licensing agreements, will be integrated into chips, boards and systems produced by suppliers of fixed-line and wireless network components, and
- ◆ manufacture of hardware-designed instructions and Effnet's firewalls/routing lookup stacks will be licensed to manufacturers of OEM-marked routers and firewalls.

Effnet's licensed technology offers a markedly superior alternative for companies who face a choice between purchasing proprietary technology or developing IP-packet processing solutions in-house for implementation in their products. Effnet is determined to become a respected, world-leading player in integrated technology solutions for manufacturers of network products, components and equipment that are engaged in building Internet and datacom infrastructures.

Effnet signed three important contracts during the year, two of which fell within the parameters of the Effnet Technology Partner (TPP) program. These two customers, one of which is ST Microelectronics, are global suppliers of semiconductor products and/or network components. The third customer is SDC Group, which signed a contract with Wkit Security AB, concerning copy-protection technology for CD-ROMs.

During the year, Effnet was awarded a patent for its firewall and underlying packet classification technology by PRV (the Swedish Patent & Registration Office). The Company plans to patent the technology in other countries.

Mikael Degermark, one of Effnet's founding members, received the Chester Carlsson Research Prize 2000, awarded for groundbreaking research in the field of Internet development – research that has resulted in new algorithms and the development of IP Header Compression technology. This IP Header Compression technology has led to the development of international standards that enable effective wireless communication over the Internet.

## The Market

Effnet offers patented and award-winning technologies under license. At the close of 2000 and during the early part of 2001,

Effnet slimmed operations in line with its new business strategy. The Company is currently engaged in broad discussions with prospective customers about licensing its technology.

## Wkit Security AB

Wkit Security specializes in data security products/services and copy-protection software for CD-ROMs.

Wkit Security AB signed a new five-year copy-protection contract with the Danish CD-manufacturer, SDC Group, consolidating current collaboration with the company. The contract is estimated to be worth SEK 10 million a year, or SEK 50 million over the full period.

## Highlights during and after the financial year

Wkit was acquired in 2000 by means of a stock swap. The price was 1 650 000 newly issued shares in Effnet. Goodwill arising in connection with the acquisition amounted to SEK 187 million. After a write-down at year-end 2000, goodwill now totals SEK 19 million.

In the third quarter, Effnet realigned its business strategy to focus on the licensing of its technology.

This strategic realignment is a response to the rapid growth of the network market, which is based on a combination of standard components and advanced solutions. Effnet's technology is also well matched to benefit from the current trend towards Internet Protocol (IP) networks and data security. In line with its new business strategy, Effnet shall primarily offer its firewall/routing solutions under license, via partners. This change of strategy has necessitated radical restructuring, mainly within the sales organization, although it has also had an impact on other aspects of the business.

The total average number of employees rose during the period to 72 (37) persons, of whom 5 (0) in the USA and 1 (0) in the Netherlands. At an extraordinary general meeting held in November, a decision was taken to introduce a new staff incentive program, involving a total of 2,100,000 warrants, of which 688,002 had been issued by the end of February 2001.

Norman Rasmussen, a member of Effnet's Board of Directors for the past two years, was appointed Chairman during the year. Tony Svensson, former president of Effnet Inc., was appointed CEO of Effnet Group AB. Stephen Pink, Ph.D., professor of Computer Communications at the University of Arizona, and a founding member of Effnet, was appointed CTO of Effnet Group AB. On February 14, 2001, Marika Philipson was appointed CFO of Effnet Group AB. In June 2000, Mats Olsson left the Board of Directors. At an extraordinary general meeting in November, two new members –

Magnus Ryde and Scott Macomber – were elected to the Board of Directors. Both are actively engaged in the microelectronics sector in Silicon Valley, California.

#### The work of the Board

The Board of Directors conducted ten meetings during the financial year. The Board has devoted most of its time to issues related to the change in business strategy and the acquisition of Wkit Security AB.

#### Ownership structure

Effnet Group AB was introduced on the OM Stockholm Stock Exchange New Market list in April 1999. The number of shareholders at year-end was 14 083. Apart from the founding members, the largest shareholders are institutional investors.

#### Sales, earnings and financial position

	2000	1999	1998	1997
Net turnover	5,091	2,272	75	—
Operating result	–295,933	–49,805	–17,822	–1,938
Result after financial items	–281,913	–48,493	–17,633	–1,936
Balance sheet total	314,940	394,191	9,477	4,560
Equity ratio	95.3%	97.9%	67.4%	74.9%
Return on total assets	–79.5%	–24.0%	–251.2%	–42.5%

Consolidated net turnover amounted to SEK –295 933 k (SEK –49 805 k), which includes items affecting comparability amounting to SEK –153,129 k. The result after financial items was SEK –281,913 k (SEK –48,493 k).

Sales and marketing expenses amounted to SEK 51 166 k, an increase of SEK 27,771 k compared with the preceding year. This increase in sales and marketing expenses is primarily attributable to costs incurred in connection with the establishment of the office in Mountain View.

Expenses incurred for product and technological development are reported on a current basis and amounted to SEK 41 571 k (21 309 k). The increase in expenses incurred for product and technological development may be attributed largely to the implementation of an organized and planned establishment phase in both the USA and Sweden.

Administrative expenses rose sharply to SEK –37,067 k (SEK –8,944 k). Apart from the planned increase associated with the increased costs consistent with the administration of a growing organization, this increase also partly derives from changes in executive management during the second and third quarter.

Given the change in the market value of IT companies noted in the past six months, the goodwill reported in Wkit Security AB has been written down. After this write-down, goodwill amounted to SEK 19,470 k.

Effnet's equity ratio, on December 31, 2000, was 95.3%

(97.9%). The company's liquid funds amounted to SEK 274,956 (SEK 386,979 k).

#### Research & Development

During the year, R&D has focused mainly on further development of the existing technology. The cost of research and development accounts for approximately 30 percent of the Group's combined operating costs, excluding items affecting comparability.

#### Future growth

The Company's long-term objective is to become a respected, world-leading supplier of integrated technology solutions for IP networks and of specific components for manufacturers engaged in the creation of infrastructures for the Internet and data communication. We aim to do this by licensing core technology and hardware design to manufacturers of systems and network components.

#### Effnet's objectives in 2001 are:

- ◆ To focus on opportunities where the strengths of Effnet's IP packet processing solutions offer the greatest market leverage, e.g. Effnet's robust Header Compression technology for wireless communication, and Packet Classification and Routing Lookup technologies for the wire-based sector.
- ◆ To gain recognition in these key areas as the leading supplier of IP packet processing technology.
- ◆ To continue to build up the engineering, sales, marketing and support organization that is crucial to implementation of the new business strategy and the achievement of established financial goals.
- ◆ To increase Wkit's sales in both of its business sectors, systems security and copy protection.

#### Proposed treatment of accumulated loss

Consolidated non-restricted equity as shown in the consolidated balance sheet amounts to SEK –281,913 k.

#### Effnet Group AB (Publ).

It is proposed that the net losses at the disposal of the Annual General Meeting, stated in Swedish kronor, be treated as follows:

Loss brought forward	—
Net loss for the year	–103,740,432
<b>TOTAL</b>	<b>–103,740,432</b>

The Board of Directors and President propose that the accumulated loss be offset against the share premium reserve.

For a more detailed description of Parent Company and Group earnings and financial position, please refer to the following income statements and balance sheets, cash flow statements and supplementary disclosures. All sums are expressed in thousands (k) of Swedish kronor, unless otherwise stated.



# Income statement

SEK k	Notes	GROUP		PARENT COMPANY	
		2000	1999	2000	1999
Operating income etc.					
Net sales	1	5,091	2,272	2,717	1,800
Cost of goods sold		-4,365	-714	—	—
Gross income		726	1,558	2,717	1,800
Selling expenses		-51,166	-23,395	-156	—
Administrative expenses		-37,067	-8,944	-23,590	-8,457
Research and development costs		-41,571	-21,309	-3,372	—
Items affecting comparability	2	-153,129	—	—	—
Other operating income		530	2,353	—	—
Other operating expenses		-14,256	-68	—	—
Operating profit/loss	3,4,5	-295,933	-49,805	-24,401	-6,657
Profit/loss from financial investments					
Profit/loss on participations in Group companies	6	—	—	-92,708	-42,392
Result from securities and receivables		—	345	—	—
Interest income		14,681	1,004	13,906	1,291
Interest expenses and similar income statement items		-661	-37	-538	-470
Profit/loss after financial items		-281,913	-48,493	-103,741	-48,228
Tax on profit for the year		—	93	—	—
Minority participation in net result for the year		—	11	—	—
NET PROFIT/LOSS FOR THE YEAR		-281,913	-48,389	-103,741	-48,228

# Balance sheet

SEK k	Notes	GROUP		PARENT COMPANY	
		2000	1999	2000	1999
ASSETS					
Fixed assets					
Intangible assets					
Goodwill	7	19,470	—	—	—
Total intangible assets		19,470	—	—	—
Tangible assets					
Land and buildings	8	2,001	—	—	—
Equipment and computers	9	7,574	1,793	562	91
Total tangible assets		9,575	1,793	562	91
Financial assets					
Participations in Group companies	10	—	—	10,144	5,881
Other securities held as fixed assets		5	5	5	5
Total financial assets		5	5	10,149	5,886
Total fixed assets		29,050	1,798	10,711	5,977
Current assets					
Inventories etc.					
Finished products inventories		1,262	312	—	—
Total inventories etc.		1,262	312	—	—
Current receivables					
Accounts receivable Btrade		2,665	953	—	2,999
Receivables from Group companies		—	—	49,073	33,753
Other receivables		2,883	2,592	864	1,132
Prepaid expenses and accrued income	11	4,124	1,557	257	92
Total current receivables		9,672	5,102	50,194	37,976
Current investments					
Interest-bearing current investments		167,101	—	167,101	—
Total current investments		167,101	—	167,101	—
Cash & bank balances		107,855	386,979	88,663	375,697
Total current assets		285,890	392,393	305,958	413,673
TOTAL ASSETS		314,940	394,191	316,669	419,650

SEK k	Notes	GROUP		PARENT COMPANY	
		2000	1999	2000	1999
EQUITY AND LIABILITIES					
Equity	12				
Restricted equity					
Share capital (54 942 650 shares at a par value of SEK 0.50)		27,471	2,603	27,471	2,603
Restricted reserves		554,488	431,722	368,052	431,747
Total restricted equity		581,959	434,325	395,523	434,350
Accumulated deficit					
Loss brought forward		—	—	—	–19
Non-restricted reserves		—	–14	—	—
Loss for the year		–281,913	–48,389	–103,741	–48,228
Total accumulated deficit		–281,913	–48,403	–103,741	–48,247
Total equity		300,046	385,922	291 782	386,103
Minority interest		—	58	—	—
Provisions					
Deferred taxes	13	95	95	—	—
Total provisions		95	95	—	—
Current liabilities					
Accounts payable B trade		6,079	4,059	1,418	1,200
Liabilities to Group companies		—	—	21,806	30,850
Income tax liability		—	391	—	—
Other current liabilities		994	439	22	90
Accrued expenses and deferred income	14	7,726	3,227	1,641	1,407
Total current liabilities		14,799	8,116	24,887	33,547
TOTAL EQUITY AND LIABILITIES		314,940	394,191	316,669	419,650
MEMORANDUM ITEMS					
Pledged assets		None	None	None	
Contingent liabilities		None	None	None	None

# Funds statement

SEK k	Notes	GROUP		PARENT COMPANY	
		2000	1999	2000	1999
CURRENT OPERATING ACTIVITIES					
Operating profit/loss		-295,933	-49,805	-24,401	-6,657
Adjustments for items not included in cash flow					
Depreciation and write-downs		16,363	562	110	21
Write-down of goodwill		153,129	—	—	—
Other items		462	-19	—	—
Total adjustments for items not included in cash flow		-125,979	-49,262	-24,291	-6,636
Interest received		14,681	1,004	13,906	1,291
Interest paid		-662	-37	-538	-470
Unrealized exchange losses		61	—	—	—
Income tax paid		—	93	—	—
Minority share in operating profit/loss		—	11	—	—
Cash flow from current operating activities prior to changes in operating capital		-111,899	-48,191	-10,923	-5,815
Cash flow from changes in operating capital					
Change in inventories		-949	-312	—	—
Change in receivables		-2,763	-2,075	-12,218	-37,973
Change in current liabilities		1,628	5,032	-8,660	33,537
Cash flows from current operating activities		-113,983	-45,546	-31,801	-10,251
Investment activities					
Acquisition of tangible fixed assets		-6,632	-1,510	-580	-112
Acquisition of subsidiary company	15	-1,050	—	-3,126	—
Acquisition of financial assets		—	—	-92,708	-42,392
Profit/loss from securities and receivables		—	—	—	45
Capital contribution, subsidiary		—	—	—	-5
Divestment of associated company		—	-5	—	-5,881
Purchase of shares in associated company		—	345	—	—
Cash flows from investment activities		-7,682	-1,170	-96,414	-48,345
Financing activities					
New share issue		10,658	427,887	8,283	434,250
Increase in minority interest		—	57	—	—
Increase in provisions		—	93	—	—
Decrease in long-term liabilities		-1,150	—	—	—
Cash flows from financing activities		9,508	428,037	8,283	434,250
Change in liquid funds		-112,157	381,321	-119,933	375,654
Liquid funds at start of year		386,979	5,658	375,697	43
Exchange rate difference arising on liquid funds		134	—	—	—
LIQUID FUNDS AT YEAR-END	16	274,956	386,979	255,764	375,697

# General disclosures and notes

## Accounting principles and valuation principles

These accounts have been prepared in full compliance with the rules governing the preparation of the income statement and balance sheet, as determined in the Swedish Annual Accounts Act of 1996. The accounting and valuation principles are unchanged compared with the preceding year.

### Consolidated accounts

The consolidated accounts include subsidiary companies in which the Company, directly or indirectly, controls more than 50 percent of the voting rights. The consolidated financial statements are prepared according to the purchase method.

Where the consolidated acquisition value of shares exceeds the value of the Company's net assets as shown in the funds statement, the difference thereby arising is reported as consolidated goodwill. Companies acquired during the year are reported in the consolidated accounts in amounts pertaining to the period subsequent to the date of acquisition. The tax effect is taken into consideration when evaluating assets and liabilities at Group and company level, and is disclosed as deferred taxes recoverable and deferred tax liability.

The non-cash issue made during the year in conjunction with the acquisition of Wkit Security AB has been reported in the consolidated accounts at the market value of the issued shares, in accordance with recommendation RR 1:96 of the Swedish Financial Accounting Standards Council. In the Parent Company accounts, in a departure from this recommendation, the share issue has been reported at the approved offering price, which was below market value.

### Translation of income statements and balance sheets of foreign subsidiaries

Foreign subsidiaries are classified as independent companies and the current method has therefore been applied in translating their income and balance sheets. This means that the assets and liabilities of foreign companies are translated at the year-end rates. All income statement items are translated at the average exchange rate. Translation differences arising are entered directly under shareholders' equity.

### Accounts receivable

Accounts receivable are valued individually, at net realizable value.

### Foreign exchange receivables and liabilities

Foreign exchange receivables and liabilities are reported at year-end exchange rates. Exchange gains/losses arising on

operating receivables/liabilities are reported net under other operating income or, alternatively, under operating expenses.

Foreign exchange gains/losses attributable to sales income and operating expenses are reported among other operating income and operating expenses.

### Account of Group contributions

Effnet observes the recommendation of the Swedish Financial Accounting Standards Council with respect to the reporting of Group contributions/shareholder contributions, by which Group contributions are reported according to their economic significance.

### Inventories

Inventories are valued at the lower of cost (according to the "first in/first out" principle) or market value.

### Development costs

Expenses for technique and product development, patent and rights are written off on a current basis.

### Income taxes

Provisions are made for paid and deferred tax. Deferred income taxes recoverable, pertaining to losses carried forward, are not included.

### Fixed assets

In the income statement, depreciation according to plan, calculated on the original acquisition value and based on the estimated economic life of the assets, is charged against operating profit, whereby the following percentages have been applied:

Buildings	5%
Inventories and computers	20–33%
Goodwill	10%

The depreciation period on goodwill is justified by the technology transferred to the Effnet Group through the acquisition of Wkit Security AB.

### Exchange rates

The following rates have been applied in translating the income statements and balance sheets of foreign subsidiaries.

Income statements (average rate for the year)	
2000	USD 9.17 (8.28)
Balance sheets (closing day rate)	
2000	USD 9.40 (8.46)

# Supplementary disclosures and notes

(Amounts in SEK k, unless otherwise stated)

## NOTE 1 | Net sales distributed by geographical market

Net sales distributed by geographical market as follows:	Group		Parent company	
	2000	1999	2000	1999
Europe	3,256	2,272	1,800	1,800
North America	1,835	—	917	—
Total	5,091	2,272	2,717	1,800

Sales to subsidiary companies account for 100% of Parent Company sales.

## NOTE 2 | Items affecting comparability

This income statement item applies in its entirety to the write-down of goodwill arising on the acquisition of Wkit Security AB.

## NOTE 3 | Information about fees and remuneration to the Companies auditors

	Group	Parent company
Ernst & Young AB audit assignment	454	327
Other assignments	328	328
Total	782	655

## NOTE 4 | Personnel

	Group		Parent company	
	2000	1999	2000	1999
<b>Average no. of employees</b>				
Men	57	33	2	2
Women	15	4	—	—
Total	72	37	2	2

### Employees distributed by country

Sweden	66	37	1	—
The Netherlands	1	—	—	—
USA	5	—	1	—
Total	72	37	2	—

Salaries and other remuneration distributed by country and between Members of the Board, the President and other employees	2000		1999	
	Board & President	Other employees	Board & President	Other employees
Parent company	2,825	1,938	889	382
Social security contributions, of which pension costs	1,215	728	516	198
	571	269	199	65
Subsidiaries in Sweden	2,605	25,610	405	15,135
Social security contributions, of which pension costs	1,033	9,004	133	3,462
	525	1,486	—	267
Subsidiaries in the USA	5,589	5,803	—	307
Social security contributions, of which pension costs	503	522	—	28
	—	—	—	—
Total for the Group	11,019	33,351	1,294	15,824
Total social security contributions	2,751	10,254	804	3,688

**NOTE 4 | Personnel (cont.)**

Tony Svensson, President of the Parent Company since June 2000, received a salary for the full twelve-month period of SEK 5,640 k, including a "sign-on fee". Tony Svensson is also President of and employed by the American subsidiary, from which he receives his salary and remuneration. As an employee of the American company, the President pays his own pension costs. Tomas Althén, former President of the Company, received salary and benefits amounting to SEK 3,052 k.

The Annual General Meeting held in November 2000 approved remuneration in an amount of USD 53 k to be divided between the Members of the Board. No remuneration has been paid to the Board in 2000. Directors of the Board were nevertheless compensated for travel and living expenses when on company business. Two Directors of the Board, Svante Carlsson and Stephen Pink, are also employees of the Company. During the year, the Chairman of the Board, Norman Rasmussen, has been remunerated for

special assignments in an amount of SEK 403 k. Pension payments for key executives of the Group and Parent Company are in compliance with the usual terms and conditions. Pension costs incurred by key executives of the Group and Parent Company amounted to SEK 1,096 k and SEK 571 k respectively.

Should the Company decide to terminate the President of the Parent Company's contract of employment, the President shall be entitled to compensation equivalent to 18 months' salary. Should the President of the Parent Company choose to resign at his own request, he will be required to give 12 months' notice.

During the year, the President of the Company, Tony Svensson, has been awarded 672,000 gratuitous options, of which 72,000 have been vested during the year. The options have a strike price of SEK 54.

**NOTE 5 | Depreciation on tangible and intangible assets**

	Group		Parent company	
	2000	1999	2000	1999
Selling expenses	-487	-62	—	—
Administration expenses	-305	-34	-87	-21
Research and development expenses	-1,315	-442	-22	—
Other operating costs	-14,256	—	—	—
Total	-16,363	-538	-109	-21

**NOTE 6 | Income from participation in Group companies**

	Parent company	
	2000	1999
Write-down of shares in Group companies		
Conditional shareholder contribution	-92,708	-42,392
Total	-92,708	-42,392

The shareholder contribution made during the year has been used to cover losses and entered as a receivable from subsidiaries. The Group contribution made in 2000 and the shareholder contribution made in 1999 were entered as an increase in the balance sheet item "Participations in Group companies", whereby that part used to cover losses was written-down by a corresponding amount.

**NOTE 7 | Goodwill**

	Group		Parent company	
	2000	1999	2000	1999
Acquisition value, January 1	—	—	—	—
Purchases	186,855	—	—	—
Accumulated acquisition value, December 31	186,855	—	—	—
Planned depreciation for the year	-14,256	—	—	—
Accumulated planned acquisition, December 31	-14,256	—	—	—
Write-down	-153,129	—	—	—
Planned residual value, December 31	19,470	—	—	—

Goodwill arising on the acquisition of Wkit Security AB has been written down in the final accounts in an amount of SEK 153 129 k. The acquisition was paid for in the Company's own shares. This amount has been revalued in the final accounts at the year-end market rate.

**NOTE 8 | Land and buildings**

	2000	Group 1999	Parent company 2000	Parent company 1999
Acquisition value, January 1	—	—	—	—
Purchases via acquisition of companies	2,062	—	—	—
Accumulated acquisition value, December 31	2,062	—	—	—
Planned depreciation for the year	-61	—	—	—
Accumulated planned depreciation, December 31	-61	—	—	—
Planned residual value, December 31	2,001	—	—	—
Tax assessment value:				
Buildings	288	—	—	—
Land	66	—	—	—
Total	354	—	—	—

**NOTE 9 | Inventories and computers**

	2000	Group 1999	Parent company 2000	Parent company 1999
Acquisition value, January 1	2,605	1,094	112	—
Purchases	6,758	1,605	581	112
Purchases via acquisition of companies	1,789	—	—	—
Sales/disposals	—	-94	—	—
Accumulated acquisition value, December 31	11,152	2,605	693	112
Planned depreciation, January 1	-812	301	-21	—
Depreciation arising on acquisition of companies, January 1	-720	—	—	—
Sales/disposals	—	26	—	—
Depreciation for the year	-2,046	-537	-110	-21
Accumulated depreciation, December 31	-3,578	-812	-131	-21
Planned residual value, December 31	7,574	1,793	562	-91

**Rented assets**

Current rental and leasing agreements pertain to commercial premises, leasing of vehicles and office equipment. The rental agreements for office premises run until year-end 2002, while the leasing agreements are to a maximum of three years. During 2000, rental costs for premises amounted to SEK 4,412 k while other rental and leasing costs amounted to SEK 933 k.

**NOTE 10 | Participations in Group companies**

			Parent company	
			2000-12-31	1999-12-31
Acquisition value, January 1			5,881	5,881
Purchases			4,263	—
Acquisition value, December 31			10,144	5,881
Company name	Corp.ID no.	Registered office	Book value	Book value
Venture Capital and Management in Luleå AB	556527-1540	Luleå	1,380	—
Wkit Security AB	556551-9906	Vänernsberg	3,951	—
Effnet Holding AB	556526-6516	Luleå	4,813	1,295
Effnet Networking AB	556546-4558	Luleå	—	100
Effnet Inc	—	Mountain View	—	8,651
Effnet AB	556546-4566	Luleå	—	100
			10,144	10,146

All subsidiary companies are 100% fully-owned, apart from Effnet Holding AB, in which wholly-owned subsidiary Venture Capital and Management in Luleå AB has a 29.6% interest. Effnet Holding AB has a 100% controlling interest in all indirectly-owned companies.



**NOTE 11 | Prepaid expenses and accrued income**

	2000	Group 1999	Parent company 2000	Parent company 1999
Prepaid insurance premiums	410	178	96	76
Other items	3,714	1,379	161	16
Total	4,124	1,557	257	92

**NOTE 12 | Change in equity**

Group	Share capital	Restricted reserves	Non-restricted reserves	Profit/loss for the year
Amount at start of year	2,603	431,722	-14	-48,389
New share issue and options program	619	10,039	—	—
Bonus issue	23,424	-23,424	—	—
Acquisition of Wkit Security AB	825	184,000	—	—
Translation differences	—	554	—	—
Treatment of losses in accordance with decision by AGM	—	-48,403	14	48,389
Profit/loss at year-end	—	—	—	-281,913
Amount at year-end	27,471	554,488	—	-281,913

The accumulated translation difference amounted to SEK 573 k.

Parent company	Share capital	Restricted reserves	Non-restricted reserves	Profit/loss for the year
Amount at start of year	2,603	431,747	-19	-48,228
New share issue and options program	1,444	7,976	—	—
Bonus issue	23,424	-23,424	—	—
Treatment of losses in accordance with decision by AGM	—	-48,247	19	48,228
Profit/loss at year-end	—	—	—	-103,741
Amount at year-end	27,471	368,052	—	-103,741

**NOTE 13 | Provisions**

	2000	Group 1999	Parent company 2000	Parent company 1999
Deferred tax	95	95	—	—
Total	95	95	—	—

**NOTE 14 | Accrued expenses and deferred income**

	2000	Group 1999	Parent company 2000	Parent company 1999
Accrued vacation pay	2,101	877	—	261
Accrued social security contributions	1,960	804	209	156
Other items	3,665	1,546	1,432	990
Total	7,726	3,227	1,641	1,407

**NOTE 15 | Acquisition of subsidiary companies**

Wkit Security AB was acquired during the year. The acquisition was paid for with newly issued shares in Effnet Group AB, corresponding to a market value of SEK 184 800 k. Acquisition costs in connection with the purchase amounted to SEK 3 126 k. The value of the assets and liabilities acquired were as follows:

Goodwill	186,855
Tangible assets	3,206
Accounts receivable – trade	1,382
Other current receivables	362
Liquid funds	2,076
Long-term liabilities	-1,150
Accounts payable – trade	-537

**NOTE 15 | Acquisition of subsidiary companies (cont.)**

Other current liabilities	-4,243
Purchase sum	187,951
Newly issued shares in Effnet Group	-184,825
Cash purchase sum	3,126
Liquid funds in the acquired company	-2,076
Impact on consolidated liquid funds	1,050

**NOTE 16 | Liquid funds**

Of total consolidated liquid funds amounting to SEK 274,956 k at year-end, the sum of SEK 167,101 k pertains to interest-bearing current investments. These current investments, which have an average coupon of 4 to 5 months, are treated as liquid funds in the "Funds statement".

Stockholm February 26, 2001

Norman Rasmussen  
Chairman

Svante Carlsson

Tomas Althén

Magnus Ryde

Scott Macomber

Stephen Pink

Sven-Åke Bergkvist

Tony Svensson  
President

My audit report is hereby submitted on February 27, 2001

Olof Cederberg  
Authorized Public Accountant

**TO THE GENERAL MEETING OF  
THE SHAREHOLDERS OF EFFNET GROUP AB**

Corp. ID: 556520-0028

I have audited the annual accounts, the consolidated financial statements, the accounting records and the administration of the Board of Directors and President of Effnet Group AB for the financial year January 1st 2000 to December 31st 2000. These accounts and the administration of the company are the responsibility of the Board of Directors and the President. My responsibility is to express an opinion on the annual accounts, the consolidated financial statements and the administration, based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Sweden. Those standards require that I plan and perform the audit to obtain reasonable assurance that the annual accounts and consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts and administration report. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well

as evaluating the overall presentation of information in the annual accounts and consolidated financial statements. I have examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability to the company, if any, of any Board Member or the President, and whether they have in any other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. I believe that my audit provides a reasonable basis for my opinion as expressed below.

The annual accounts and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and thereby provide a true and fair picture of the net result and financial position of the Parent Company and the Group, in accordance with generally accepted auditing standards in Sweden.

I therefore recommend that the income statements and balance sheets of the Parent Company and the Group be adopted, and that the loss reported by the Parent Company be dealt with as proposed in the administration report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm February 27, 2001

Olof Cederberg  
Authorized Public Accountant

# The Effnet Board of Directors



## **Norman Rasmussen**

*Chairman of the Board of Effnet with effect from 2000 and a Member of the Board since 1998. Born 1928.*

Chairman and Founder of Three Plus Inc., an Internet company engaged in software development in the field of technical publishing for the Internet. Founded and led the IBM

Cambridge Science Center, 1964–1973, active within IBM in the USA and Europe, 1953–1974. Started a number of computer companies between 1975 and 1990. Was President of SoftTech Inc. between 1991 and 1996.

*Shareholding in Effnet: 75,000 warrants, 50,000 shares.*



## **Svante Carlsson**

*Member of the Board since 1997 and Chairman of the Board 1998-2000. Born 1956.*

Member of the Boards of TelecomCity and Soft Center in Ronneby. Professor of Computer Science at the University of Karlskrona/Ronneby, and earlier Head of Department of Computer Science and Electrical Engineering at Luleå University of Technology. Specialist in algorithm efficiency.

Has conducted research and supervised doctoral students in the design of efficient algorithms and data structures. A member of the management of University College in Karlskrona/Ronneby, with strategic responsibility for development of the business and broader community. One of the founders and former head of the Centre for Distance-Spanning Technology (CDT) at Luleå University of Technology.

*Shareholding in Effnet: 2,487,500 shares.*



## **Tomas Althén**

*Member of the Board since 1997 and former President of the Effnet Group AB. Born 1958.*

Tomas Althén was President of the Effnet Group AB until the year 2000. Chairman of the Boards of Kipling Holding AB and Aspiro AB. Member of the Boards of several small startups. M.Sc. in Mathematics and Computer Science. Ten years experience of growth companies, combined with technical and business development and collaboration with universities.

Tomas Althén has earlier worked as Training Director and Executive Vice President of the EC-group, Telelogic AB, as well as Business Area Manager at Ericsson Software Technology.

*Shareholding in Effnet: 991,650 shares.*



## **Stephen Pink**

*Member of the Board since 1997. Born 1948.*

Professor of Computer Science at the University of Arizona, USA, since November 1999. Earlier Professor of Data Communication at Luleå University of Technology, Research Director at the Hewlett-Packard Internet Research Institute (IRI) at the Swedish Institute of Computer Science (SICS). Profound experience of internet technology and a broad network of international contacts, after many years of working for American computer companies and conducting research in the field, dating from 1981.

Until 1997, Director of Internet Research at the SICS laboratory, which gained international recognition under his leadership. Director and Senior Research Scientist at Computer and Network Architecture (CNA).

*Shareholding in Effnet: 1,891,050 shares.*



## **Sven-Åke Bergkvist**

*Member of the Board since 1998. Born 1955.*

Lawyer and partner of Mannheimer Swartling Advokatbyrå. Broad experience of corporate taxation, including restructuring and major tax cases. Worked as tax consultant for a number of consulting agencies and large companies, 1984–1993.

Researcher and teacher in the field of tax law at the University of Uppsala, 1981-1984. Member of the Boards of several companies, including M&M Medical AB, Aspiro AB, Optosof AB and Ulvsunda Real Estate BV.

*Shareholding in Effnet: 75,000 warrants.*



## **Scott Macomber**

*Member of the Board since November 2000. Born 1957.*

Holds BS degree from University of Michigan and MSEE degree in Electrical Engineering and an MBA from Stanford University. Until recently he was President of Silicon Image (SIMG), where he was responsible for developing and

implementing the strategies on which the company's success was grounded, leading to its listing on NASDAQ. Scott started his career as an engineer at Bell Laboratories. He has held a number of management positions at LSI Logic.

*Shareholding in Effnet: 0.*



## **Magnus Ryde**

*Member of the Board since November 2000. Born 1956.*

Holds a BS in Industrial Management & Engineering, with MS degrees from Industrial Engineering Executive and Executive MBA programs. Magnus Ryde is President of EquipNET and FlexICs, both new Silicon Valley companies. He is also a

Member of the Board of Micronic Laser System AB. Magnus has been President of Taiwan Semiconductor Manufacturing Company, where he was responsible for the company's business interests in North America.

*Shareholding in Effnet: 0.*

The figures on the individual shareholdings of Members of the Board refer to the situation pertaining at the time of preparing the Annual Report, namely February 2000.



B



A



G



F



E



D



C

Executive  
management



# Effnet management

## Tony Svensson <sup>A</sup>

*Chief Executive Officer of Effnet Group AB since June 2000 and President of Effnet Inc. since May 2000. Born 1953.*

MBA from Stanford Graduate School of Business and an MSCE from Chalmers University of Technology. Tony Svensson has led several consulting assignments at companies such as Intel, Network Appliance, Nortel, Lucent and Sun Microsystems. He has held numerous sales, marketing and engineering positions in a range of different fields.

*Shareholding in Effnet: 672,000 warrants.*

## Marika Philipson <sup>B</sup>

*Chief Financial Officer and Executive Vice President since February 2001. Acting CFO since October 2000. Born 1965.*

A Bachelor of Science in Business Administration and former Executive Vice President of Finance & Administration at Skyways Holding AB (1998–2000). Marika has also held the posts of CFO at Solitair Kapital AB (1996–1998) and Group Controller at Inter Forward Holding GmbH, Germany (1993–1995).

*Shareholding in Effnet: 3,000 shares.*

## Michael Nilsson <sup>C</sup>

*Director of Research & Development since August 2000. Born 1962.*

Michael has an M.Sc. in Mechanical Engineering from Linköping Institute of Technology. He has held positions as System Engineer and Project Manager at Saab Aerospace (1983–1996), and as Project Manager at Centek, the Development Center at Luleå University of Technology (1996–1997 and 1999–2000). He has also held the position of Project Officer at the European Commission, Directorate of Information Society Technologies/Programme for Research, Technology Development and Demonstration (1998).

*Shareholding in Effnet: 20,000 warrants.*

## Joseph Bassi <sup>D</sup>

*Vice President of Business Development & Sales, AMPAC, since June 2000.*

BA in Economics from the University of San Francisco, with a Masters in International Management from the American Graduate School of International Management, Northwestern University. Before joining Effnet, he held a senior role in business development at Sun Microsystems. He has previously held senior business development, marketing and sales roles at Lucent Technologies, The Softbridge Group, Corporate Class Software, Lotus and IBM.

*Shareholding in Effnet: 444,000 warrants.*

## Pia Rosling <sup>E</sup>

*Vice President of Sales, Marketing & Product Management, EMEA. Born 1963.*

Pia has a Masters in Business Administration from the University of Lund and more than 10 years experience in the IT industry, sales and marketing. Most recently she was Sales Director for the Work Station Department at IBM, with responsibility for the reseller and distribution channels in Sweden. Prior to this she led numerous assignments as sales manager at IBM, focused on major accounts.

*Shareholding in Effnet: 50,000 warrants.*

## Pia Hovland <sup>F</sup>

*Human Resources Director since September 2000. Born 1965.*

Holds a Bachelor of Science in Computer & Systems Sciences, as well as a Diploma in Strategic HR Management. As HR Director, Pia was a member of the Executive Management Team at Britannia Airways, and has several years experience as Line Manager and Human Resources Manager.

*Shareholding in Effnet: 25,000 warrants.*

## Stephen Pink <sup>G</sup>

*CTO of Effnet Group, Member of the Board and joint founder. Born 1948.*

Professor of Computer Science at the University of Arizona, USA, since November 1999. Earlier Professor of Data Communication at Luleå University of Technology, Research Director at the Hewlett-Packard Internet Research Institute (IRI) at the Swedish Institute of Computer Science (SICS). Extensive experience of internet technology and a broad network of international contacts, after many years of working for American computer companies and conducting research in the field, dating from 1981. Until 1997, Director of Internet Research at the SICS laboratory, which gained international recognition under his leadership. Director and Senior Research Scientist at Computer and Network Architecture (CNA).

*Shareholding in Effnet: 1,891,050 shares.*

The figures on the individual shareholdings of Members of the Board refer to the situation pertaining at the time of preparing the Annual Report, namely February 2000.

# The Effnet share and ownership structure

The Effnet share was introduced on the OM Stockholm Stock Exchange, New Market, on April 6 1999.

## Share capital

Effnet's share capital amounted to SEK 27,471 k at year-end, distributed among 54,942,650 shares, each with a nominal value of SEK 0.50. Each share corresponds to one (1) vote.

### Share capital growth

Year	Month	Event	No. of share	Share-capital, SEK
1999	April	New share issue	1,842,181	2,302,726
1999	November	5:1 split	9,210,905	2,302,726
1999	December	New share issue	10,410,905	2,602,726
2000	April	Bonus issue	10,410,905	26,027,262
2000	May	New share issue	10,535,905	26,339,762
2000	June	5:1 split	52,679,525	26,339,762
2000	July	New share issue	54,329,525	27,164,762
2000	Sep-Dec	New emissions/ new subscription promissory note	54,942,650	27,471,325
At year-end		54,942,650	27,471,325	

## Price trend

During the first few months of 2000, the market value of the Effnet share rose sharply, and at the beginning of March it was being traded at the record price of SEK 217.00. Since then, in common with the rest of the stock market and in particular with other IT industry shares, the share fell sharply in value over the remaining months of the year and, by year-end, the market value had fallen to SEK 11.80, the lowest rate for the year.

The most recent price paid for the share, on December 29 2000, was SEK 11.80, corresponding to a total stock market value of SEK 648,323,270. Since the closing day, the market rate has fallen further and, on February 26 2001, was at SEK 5.90.

The turnover rate for the Effnet share amounted to 258 percent in 2000, compared with the 123 percent average noted for companies listed on the OM Stockholm Stock Exchange for the period.

## Dividend policy

At present, no funds are being generated from operations, and there are therefore no plans to issue a dividend to shareholders.

The Board of Directors is of the opinion that

funds generated from operations should be reinvested to finance continued growth and product development, as this expansive phase is expected to continue for some time to come. For this reason, Effnet will continue to pursue a restrictive dividend policy over the next few years.

## Effnet's owners

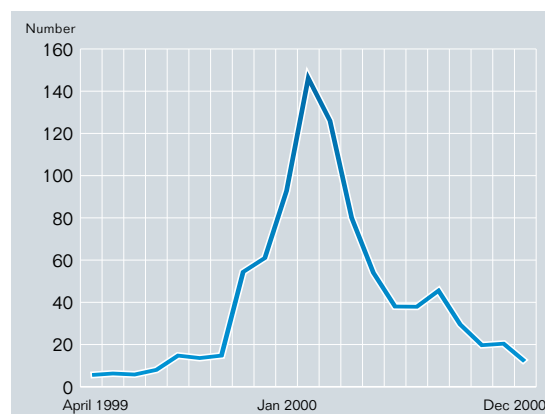
At year-end 2000, Effnet had a total of 14,083 shareholders

The 25 largest shareholders controlled approximately 60 percent of the voting rights. The number of foreign investors totalled 1,134, controlling shares corresponding to 48.94 percent of the voting rights. Effnet's Board of Directors had combined holdings corresponding to 9.77 percent of the overall voting rights.

### Per share data (adjusted for share issues)

	2000	1999	1998	1997
Amount in SEK	Jan-Dec	Jan-Dec	Jan-Dec	Sep-Dec
No. of shares at close of period	54,942,650	52,054,525	35,054,525	29,410,000
Average no. of shares	53,021,135	42,096,370	31,671,625	25,367,500
Profit per share	-5.17	-1.15	-0.56	-0.08
Profit per share after full dilution	-5.17	-1.08	-0.53	-0.08
Equity per share	5.46	9.17	0.20	0.13
Equity per share after full dilution	5.46	8.58	0.19	0.13
Market rate at year-end	11.80	61.00	—	—
Rate/equity, %	216	665	—	—

### Effnet share performance since its introduction on the New Market



**Effnet's 25 largest shareholders**

Ranked by share of voting rights as per December 31 2000	No. of shares	As perc. of: votes	capital
Chase Manhattan Bank	5,550,444	10.10	10.10
Credit Agricole Indosuez	4,711,775	8.38	8.38
Clearstream Baring SA	2,949,135	5.37	5.37
Svante Carlsson	2,487,500	4.53	4.53
Mikael Degermark	2,166,025	3.94	3.94
Smith Barney Inc.	1,868,850	3.40	3.40
Livförsäkrings AB Skandia	1,814,900	3.30	3.30
M&G Innovator Fund	1,396,933	2.54	2.54
Banco Småbolagsfond	1,291,000	2.35	2.35
Tomas Althén	991,650	1.80	1.80
AMF Pensionsförsäkring AB	977,000	1.78	1.78
SJP Grater Euro, Bank of New York	894,500	1.63	1.63
Bancos Teknik & Innovationsfond	875,700	1.59	1.59
BNP Switzerland LTD	868,000	1.58	1.58
Carlson Småbolagsfond	716,000	1.30	1.30
Danske Bank International SA	554,340	1.01	1.01
Catella Reavinstfond	400,000	0.73	0.73
Credit Suisse First Boston	318,500	0.58	0.58
Merril Lynch International	315,561	0.57	0.57
KPA Pensionsförsäkring AB	310,000	0.56	0.56
SIS Segainstersettle AG	254,600	0.46	0.46
Enskilda Securities AB	243,400	0.44	0.44
Förenings sparbanken AB	223,304	0.41	0.41
Banco PPM Teknik & Innovation	215,000	0.39	0.39
SHB FRKN Conventum Fondkommission	209,877	0.38	0.38
Total	32,603,994	59.32	59.32

**Shareholder categories**

Shareholder	As percentage of: voting rights	capital
Swedish institutions	22.20	22.20
Swedish private individuals	28.86	28.86
Foreign institutions	48.05	48.05
Total	100.00	100.00

**Distribution of shareholdings by country**

Country	As percentage of: voting rights	capital
Sweden	51.15	51.15
Luxembourg	18.16	18.16
Great Britain	16.80	16.80
USA	4.07	4.07
Switzerland	3.53	3.53
Denmark	3.31	3.31
Belgium	0.32	0.32
Other countries	2.66	2.66
Total	100.00	100.00

**Ongoing options program at year-end**

Redemption price (SEK)	Subscription period	Total no. of options	Options not yet issued
56 kr	010701–011231	1,000,000	0
216 kr	020101–020630	1,500,000	1,081,630
54 kr	000701–091231	2,500,000	892,223
		5,000,000	1,973,853

In November 2000, a new options program was adopted, comprising 2 100 000 call options. No options had been issued by year-end.

**Shareholder statistics**

Size of holdings	No. of shares	%	No. of shareholders	%	Voting rights	%
1–500	1,588,727	2.88	8,858	78.42	1,588,727	2.88
501–1 000	1,851,308	3.36	2,081	14.79	1,851,308	3.36
1 001–10 000	8,597,343	15.92	2,812	19.99	8,597,343	15.92
10 001–50 000	5,343,707	9.69	253	1.8	5,343,707	9.69
50 001–100 000	2,845,085	5.16	39	0.28	2,845,085	5.16
100 001–	34,716,480	62.98	40	0.28	34,716,480	62.98
Total	54,942,650	100.00	14,083	100.00	54,942,650	100.00

# Glossary

## Algorithm

Description of a step-by-step method for solving a particular type of problem.

## Board

Tool for combining microchips to bigger system.

## CD-ROM

A CD-ROM is a CD disc with enhanced functionality to store text, images and sound.

## Chip

A microchip stores data memory and provides the logic circuit for microprocessors.

## Effnet Packet Classification Technology

Effnet's data structures and algorithms for efficient packet filtering and methods for building a firewall based on these.

## Effnet Routing Lookup Technology

The data structure and algorithm invented by Effnet for efficient routing lookup and the method for building a router based on it.

## E-mail

Electronic mail. A method for electronic transfer of messages. Usually, e-mail refers to the transfer of messages over the Internet.

## Firewall

A (special) computer that can filter data traffic between networks. Used typically to protect internal networks when these are linked to the global Internet.

## internet

Physically, an internet is a collection of packet-switching networks linked by routers based on the TCP/IP protocol. The TCP/IP protocol makes the networks for connected terminals and computers look like a single large network. When internet is written with a capital I@, this refers to the global Internet.



## IP

Internet Protocol. The protocol for data transfer which is the basis of the Internet. All Internet traffic is transferred in the form of IP packets. IP specifies the IP packet format and the rules that determine how the field in the IP packet's address should be interpreted.

## IPv4, IPv6

The most commonly used current IP version is Internet Protocol Version 4 (IPv4), but IP Version 6 (IPv6) is coming soon. IPv6 will permit much longer Internet addresses, 128 bits instead of 32 bits, so that many more users will be able to surf the Internet.

## Network

A number of interlinked systems that use specific transmission techniques to exchange data when connected. The network's hubs are link-layer autonomous units called routers – or link-layer dependent units – called bridges or switches.

## Router

A (special) computer connected to several networks which forwards IP-traffic from one network to another. A routing table is used for routing lookup. A router is independent of the transfer mode selected for IP traffic, which can be Ethernet, ADSL, ATM or some other mode.

## Routing Table

The database which determines how IP traffic is to be forwarded. It is normally formed of routing protocols which exchange information with other routers.

# Addresses

## EMEA (EUROPE, MIDDLE EAST, AFRICA)

### Regional offices

Stockholm, HQ – Sales,  
Marketing & Administration  
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Sweden  
Tel: +46 (0)920 756 00  
Fax: +46 (0)920 756 10  
development@effnet.com

## AMPAC (NORTH- AND SOUTH AMERICA, ASIA, PACIFIC REGION)

### Regional offices

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Innovation  
Security  
Speed

