



M2S in brief

M2S is Europe's leading e-learning company in IT-training. The software programs, which are marketed under the brand names Wit and TutorWin, can be delivered in 11 languages. M2S has its own operations in Denmark, France, Ireland, Norway, Switzerland, Spain, UK, Sweden and Germany. Currently, M2S has more than 10,000 customers in 22 countries, of which Germany accounts for more than half of operations. M2S is listed on the Attract 40 list of the OM Stockholm Exchange

M2S Sverige AB

INTERIM REPORT January 1 – September 30, 2001

Unless otherwise stated, figures are for the period January 1 – September 30 2001.

Figures in parentheses are for year-earlier period.

- Sales increased by 44 percent to SEK 246.0 M (170.8). For comparable units,¹ sales increased by 8 percent.
- Operating loss amounted to SEK 87.2 M (51.3), including restructuring costs of SEK 22.3 M, before goodwill amortization and to SEK 534.5 M (loss: 57.0) after amortization and write-down of goodwill by SEK 418 M.
- Earnings per share amounted to a loss of SEK 28.73 (–3.61).
- Sales in M2S's foreign markets increased by 43 percent and amounted to SEK 198.7 M (139.1), corresponding to 89 percent (81) of total Group sales.
- Acquisition goodwill was written down by SEK 418 M, which was charged against earnings for the third quarter. Following this write-down, Group goodwill amounts to SEK 118 M.
- A program of measures comprising further cuts in costs and personnel, with the purpose of creating conditions for profitability in the Group, was carried out during the third quarter, resulting in Group earnings being charged with costs of SEK 22.3 M. During the year, costs within e-learning have, in total, been reduced by slightly more than 40 percent, corresponding to approximately SEK 45 M per quarter.
- A rights issue in an amount of approximately SEK 95 M is planned for November to strengthen the Group's financial position and to secure its future.
- AcadeMedia is the new principal owner of the company after having acquired the entire holding of the former principal owner, Harald Nilsson, corresponding to 21.1 percent of the equity and 38.1 percent of the votes, on October 18.

Third quarter 2001

Sales in the third quarter decreased by 4 percent and amounted to SEK 80.9 M (84.1). Sales in Sweden decreased during the third quarter by 57 percent and amounted to SEK 4.4 M (10.5). Sales in foreign markets decreased by 7 percent to SEK 67.7 M (73.0), corresponding to 87 percent (88) of total Group sales. Total sales included exchange gains of SEK 8.8 M (0.6).

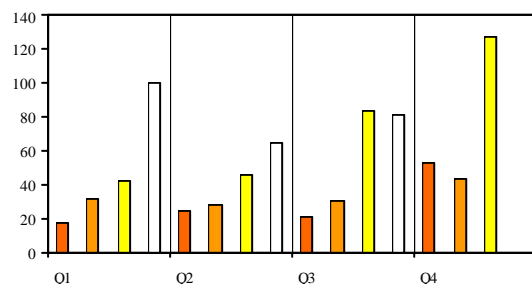
amortization and writing down of goodwill amounted to SEK 480.4 M (26.7) and the loss after financial items was SEK 482.8 M (25.4).

January-September, 2001

Sales

During the first nine months of the year, Group sales amounted to SEK 246.0 M (170.8), an increase of 44 percent. For comparable units¹, sales increased by 8 percent. Sales included exchange gains of SEK 21.6 M (2.1). During July and August, sales developed largely in accordance with the revised plan established in July, when it was judged that the market for the remainder of the year would continue to be weak, with zero growth. Historically, third quarter sales have often been the year's weakest due to the July and August vacation period.

Sales per quarter 1998-2001, SEK M

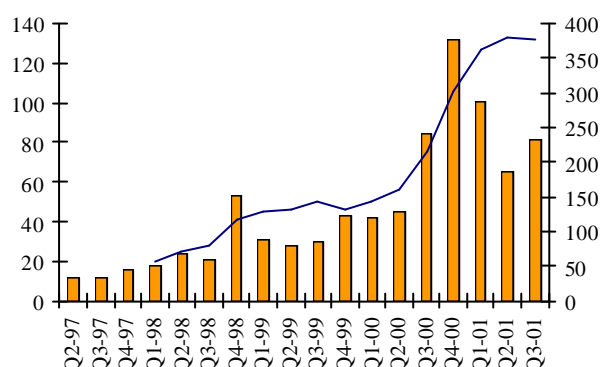


For the third quarter, the operating loss amounted to SEK 53.8 M (loss: 22.6), before goodwill amortization and write-down of goodwill. Earnings were charged with nonrecurring costs of SEK 22.3 M for the action program in August. The loss after

¹ Increase in sales for comparable units has been calculated on the basis that sales for Prokoda AG, which was acquired in June 2000, have been included pro-forma for the period January to May 2000.

Given this background and bearing in mind the current market conditions, the fact that third quarter sales exceeded those of the second quarter is a positive factor. However, third quarter sales were lower than expected, which can primarily be explained by a further weakening of the market during September. There remains substantial restraint with regard to investment in training, IT and related services in Europe generally. Sales in M2S's foreign markets during the first nine months of the year amounted to SEK 198.7 M (139.1), corresponding to an increase of 43 percent. For comparable units,¹ sales increased by 2 percent. Sales in Sweden decreased by 19 percent and amounted to SEK 25.6 M (31.7).

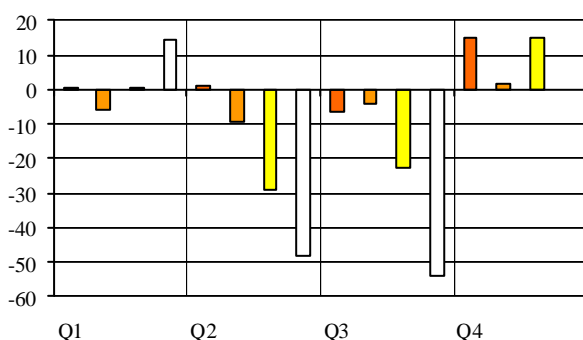
Sales per quarter and rolling 12 months, SEK M



Earnings

The Group operating loss before goodwill amortization amounted to SEK 87.2 M (loss: 51.3) including restructuring costs of SEK 22.3 M, and, after goodwill amortization and write-down of the acquisition goodwill by SEK 418 M, to SEK 534.5 M (loss: 57.0). The loss after financial items amounted to SEK 538.1 M (loss: 56.0). The earnings share amounted to a loss of SEK 28.73 (loss: 3.61). The negative earnings, resulting from the second and third quarters, can primarily be explained by lower sales than expected in all markets, as well as restructuring costs for the implementation of the program of measures.

Operating profit/loss before taxes and writing down of goodwill per quarter 1998-2001, SEK M



¹ Increase in sales for comparable units has been calculated on the basis that sales for Prokoda AG (see earlier footnote) have been included pro-forma for the period January to May 2000.

Operations

In Germany, demand remained favorable within Customized training programs, particularly for projects based on SAP. Other e-learning sales in Germany also developed positively and large orders were secured during the quarter from Deutsche Post, Deutsche Telekom and a regional department of justice, among others.

Sales in Sweden, Norway and Denmark remained weak during the third quarter and the market was characterized by restraint, with customers choosing to postpone training projects that are not considered essential for their operations.

The Swiss market is developing well and is increasing in importance. To date, this market has been relatively underdeveloped with regard to e-learning, but demand is increasing strongly both within desktop and SAP. Customers include Swisslife and Die Mobiliar.

In Spain, operations and sales continued to develop favorably and during the third quarter, a strategically important order was secured from the Wall Street Institute training company for Office training.

Sales and number of employees by country

	Sales, SEK M		Number of employees ⁽¹⁾	
	Jan-Sep 01	Jan-Sep 00	Oct 1, 01	Oct 1, 00
Germany ⁽²⁾	159.8	80.2	230	248
Sweden ⁽³⁾	25.6	31.7	61	93
Norway	5.9	12.6	8	14
Denmark	6.5	16.6	17	22
Spain	11	9.9	23	28
UK	8.1	10	11	10
Switzerland ⁽²⁾	5.3	5.9	6	9
France	1.7	2.7	11	7
Finland	0.5	1.2	-	7
Ireland ⁽⁴⁾	-	-	8	15
Total	224.4	170.8	375	453

- 1) Corresponds to number of full-time employees.
- 2) Prokoda in Germany and Switzerland consolidated as of June 1, 2000.
- 3) Including personnel active in Group-wide functions for business and product development, and production. The number of employees in these functions amounted to 26 (43) as of September 30, 2001, whereas 35 (50) were active in Swedish operations. Sales amounted to SEK 47.4 M (31.7) including other operating revenues (exchange-rate gains resulting from receivables in foreign currencies) of SEK 21.6 M (2.1).
- 4) Production company, to be closed down as of October 31, 2001.

Action program

The action program announced in the six-month report, intended to reduce costs by a total of 15 percent, including personnel reductions of about 90 persons, was carried out during the third quarter. These measures have largely been carried out according to plan, although with a certain delay in Germany, for legal reasons. Of the approximately 90 individuals served notice, more

than half have left the Group. Furthermore, it is planned that the UK subsidiary be divested to the local management, which is expected to take place during the fourth quarter, and the Irish subsidiary is to be closed down as of October 31. Nonrecurring costs for these measures amount to SEK 22.3 M, which were charged against third quarter earnings.

The measures that have been carried out were decided in mid-July, based on forecast zero growth during the second half of the year. Sales during July and August were at the same level as during the year-earlier period. During September, however, sales were slightly more than 15 percent lower than expected, which has necessitated a further downward adjustment of prospects for the remainder of the year.

Given the background of the current market evaluation, both of the remainder of 2001, and for 2002, the Board of Directors has decided to further reduce the Group's costs during the fourth quarter by at least SEK 40 M annually through measures involving both cost-cutting and structural changes.

The new cost reductions also include further cutbacks in product development and management. It is intended that the Norwegian and Danish operations be spun off to local management. The President has temporarily reduced his salary by 30 percent and other members of management by 20 percent on a voluntary basis. Nonrecurring costs for these measures are estimated to amount to approximately SEK 10 M. Since the Board of Directors approved these measures after the close of the report period, these costs will be charged against fourth-quarter earnings.

In total, the action program, including the one which will be implemented during the fourth quarter, reduced the costs of e-learning operations by slightly more than 40 percent, corresponding to about SEK 45 M per quarter, and the number of employees was reduced from 477 at the beginning of the year to slightly more than 300 after the full effects of the action program.

Since it is in the process of being divested, supervised training operations are not part of the action program. About 95 persons are employed in supervised training operations, which means that the company will have approximately 210 employees after divestment of the supervised training operations and full effect of the action program. The action program is expected to have full effect as of the first quarter of 2002.

Following the implementation of the action program and divestment of supervised training operations, the Group's cost mass is estimated to total approximately SEK 65 M per quarter, to be compared to approximately SEK 110 M per quarter, before capitalization of product development and goodwill amortization.

Future outlook

Companies and organizations will continue to have a major need to train their personnel in the future. At the start of an economic slowdown, these companies and organizations can rapidly reduce their training costs, which also occurred in the second and third quarters. During and after a period of recession – when fewer employees are expected to produce more – efficient and well-educated employees once again become an important competitive factor. The use of interactive training solutions – e-learning – is, in this context, necessary to fulfill the demands to quickly and cost-effectively train a high number of employees, with each employee's individual training needs being taken into consideration. During the remainder of 2001 and most likely also the major part of 2002, we will continue to see a cautious market.

However, during this period, many projects will be implemented and M2S has now adapted its operations to these market conditions. In the longer term, however, it is our view that pent-up needs and new training requirements will lead to strong demands for training using interactive educational solutions. The restructuring measures now being implemented are thus creating favorable long-term opportunities for M2S, with its scalable business model.

Despite an anticipated weak market during the third quarter, M2S achieved sales of approximately SEK 81 M. M2S thus makes the assessment that its market shares are increasing in the countries and market segments in question. In total, M2S is creating relative strength and a favorable market position in Europe as conditions for its future profitability.

It is estimated that sales for full-year 2001 will amount to approximately SEK 330-350 M, with a loss before goodwill amortization of SEK 100-120 M, including restructuring costs of approximately SEK 33 M.

Based on the uncertain market conditions, however, there is a large amount of uncertainty in this forecast.

New share issue

Subject to the approval of the Special General Meeting, the Board has decided to implement a new share issue of approximately 26 to 38 million Series B shares to a share price of SEK 2.50, with preferential rights for the Company's shareholders. The objective of the new share issue is to strengthen the Company's financial position, thus securing its future. The share issue is expected to generate approximately SEK 65 M to SEK 95 M for the Company before issue expenses. The prospectus will be sent to shareholders at the beginning of November.

Write-down of goodwill

During the third quarter, an estimate of the future earnings capacity of the German operations was performed. Due to a weak market trend, the operating profit and cash flows – during Q4 2000 and the current year – were lower than anticipated when the acquisition was made. Based on this trend, the future earnings capacity of the German operations has been revised. Accordingly, in the third quarter, a write-down of goodwill totaling SEK 418 M was implemented for the German operations' e-learning unit. The market value of the German operations was calculated by the future forecast cash flows being discounted using a discount factor of 20 percent. After this reevaluation, the value of German operations in the Group now totals SEK 150 M.

Following this write-down, the Group's goodwill totals approximately SEK 118 M, which will be amortized over periods of 5-20 years. Goodwill amortization per quarter amounts to about SEK 4.5 M after write-down.

New principal owner of the Group

On October 18, AcadeMedia, a Swedish e-learning company listed on the O List of the Stockholm Exchange, acquired the entire shareholding in M2S of founder and former principal owner Harald Nilssone. This corresponds to 21.1 percent of the capital and 38.1 percent of the voting rights in the Company.

Liquidity and financial position

The net disposable assets of the Group, including an overdraft facility of SEK 29.3 M, amounted to SEK 17.1 M (191.7) on September 30, 2001. The equity/assets ratio totaled 39 (85) percent. The Company's interest-bearing liabilities at the end of

the period totaled SEK 87.0 (22.6) M and the Group's accounts receivable totaled SEK 81.4 (84.1) M at September 30, 2001.

The Group's liquidity and financial position are under pressure. If the imminent share issue does not generate a minimum of SEK 65 M and the sale of the supervised training operations in Germany is not implemented, or the Company does not secure an extension of the loan of SEK 50 M, the Company must find other financial solutions to have sufficient liquid assets to be able to continue to conduct operations.

Raising of loan

In July, a loan totaling SEK 50 M was raised from SEB, and a consortium consisting of founder, principal owners and investors, among others. In conjunction with this loan, the Company's founder, Harald Nilsson, transferred a total of 811,640 call options from his own Series B shareholding to other financiers.

Investments

The Group's investments in fixed assets, excluding the acquisition of subsidiaries, totaled SEK 43.9 M (13.1) during the period. Of this, SEK 34.5 M (-) pertains to investments in product development, which was capitalized in accordance with the new accounting recommendations. Direct investments amounts to SEK 6.5 M (13.1). The remaining amount is attributable to currency-rate changes and investments in brands.

Changed accounting principles from 2001

As an adaptation to the recommendation of the Swedish Financial Accounting Standards Council regarding the capitalization of development costs for such products as software, the Company has capitalized certain development costs as of the 2001 fiscal year, which will be depreciated over three years. Capitalized development costs pertain to investments in M2S learning platforms and production tools, as well as the development of new titles (e-learning courses), which are being developed in 11 different languages. The Company's accounting principles remain otherwise unchanged in relation to the latest year-end report.

Future financial reports

Year-end Report, Jan-Dec 2001

January 30, 2002

Stockholm, October 23, 2001

M2S Sverige AB (publ), Corporate Identity No. 556375-7011

Board of Directors

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I have reviewed this interim report in accordance with the recommendation issued by the Swedish Institute of Public Authorized Accountants. A review is considerably limited in scope compared with an audit. Nothing has come to my attention that causes me to believe that this nine-month report does not comply with the requirements of the Securities and Clearing Operations Act and the Annual Accounts Act.

Stockholm, October 23, 2001.

Björn Fernström

Authorized Public Accountant

Consolidated income statement, SEK thousands

	<u>2000/2001</u>					
	2001	2000	2001	2000	2000	Rolling
	<u>Jan-Sept</u>	<u>Jan-Sept</u>	<u>July-Sept</u>	<u>July-Sept</u>	<u>full year</u>	<u>12 months</u>
Net sales	245 904	170 782	80 868	84 079	302 452	377 575
Capitalized work on own account	29 195	-	7 934	-	-	29 195
	275 099	170 782	88 802	84 079	302 452	406 770
Operating expenses						
Goods for resale	-6 046	-6 417	-4 608	-600	-6 525	-6 155
Personnel costs	-178 407	-122 476	-70 518	-62 810	-182 637	-238 568
Other external costs	-162 103	-83 054	-63 670	-37 367	-130 072	-209 121
Depreciation of fixed assets	-15 758	-10 170	-3 784	-5 891	-19 409	-24 996
Depreciation of intangible fixed assets	-29 276	-5 652	-8 566	-4 135	-11 204	-452 841
Write-down of goodwill	-418 013	-	-418 013	-	-	-
Total operating expenses	-809 603	-227 769	-569 159	-110 803	-349 847	-931 681
Operating profit/loss	-534 504	-56 987	-480 357	-26 724	-47 395	-524 911
Interest income and similar items	262	2 641	-315	1 795	3 892	1 513
Interest expenses and similar items	-3 872	-1 627	-2 102	-488	-2 384	-4 628
Profit/loss after financial items	-538 114	-55 973	-482 774	-25 417	-45 887	-528 026
Tax on earnings in period ¹⁾	-6 181	-883	-6 173	-82	-312	-5 610
Minority share in results for the period	-	898	-	1 009	-	-898
Net profit/loss	-544 295	-55 958	-488 947	-24 490	-46 199	-534 534
Profit/loss per share	-28,73	-3,61	-25,88	-1,43	-2,92	-28,79
Number of shares at close of period	19 041 390	17 120 346	19 041 390	17 120 346	18 087 418	19 041 390
Average number of shares	18 944 057	15 266 820	19 041 390	17 120 346	15 810 791	18 568 718

1) Reversal of deferred taxes recoverable

Consolidated balance sheet, SEK thousands

	<u>2001-09-30</u>	<u>2001-06-30</u>	<u>2000-12-31</u>	<u>2000-09-30</u>
Assets				
Intangible fixed assets ¹⁾	141 621	566 044	559 203	312 836
Tangible fixed assets	39 154	44 570	46 668	36 195
Financial fixed assets	2 940	11 280	12 767	12 071
Inventories	2 462	4 572	9 299	4 897
Accounts receivable - trade	81 376	70 933	123 299	84 074
Current receivable ²⁾	40 004	45 161	29 022	33 959
Short-term investments	-	-	-	143 554
Cash and bank balances	8 536	8 615	22 417	14 566
Total assets	316 093	751 175	802 675	642 152
Liabilities and equity				
Shareholders' equity ³⁾	124 581	619 831	660 036	544 346
Minority share	-	-	-	-5 290
Provisions	22 274	1 017	26 970	-
Long-term liabilities	44 423	45 517	27 142	24 672
Current liabilities	124 815	84 810	88 527	78 424
Total liabilities and equity	316 093	751 175	802 675	642 152

¹⁾ Acquisition goodwill	70 077
Goodwill arising from purchase of net assets of acquired companies	48 262
Product development	23 282
	<hr/>
	141 621

²⁾ Product development in progress	23 312
Pre-aid expenses	12 447
VAT receivable	3 054
Other	1 191
	<hr/>
	40 004

³⁾ Shareholders' equity brought forward, Jan 1, 01	660 036
New share issues after issue expenses	15 414
Translation difference	-4 604
Reversal deferred taxes recoverable	-1 970
Profit/loss for period	-544 295
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Shareholders' equity at close of period	124 581

Consolidated cash flow statement, SEK thousands

	<u>2001</u>	<u>2000</u>	<u>2000</u>
	<u>Jan-Sept</u>	<u>Jan-Sept</u>	<u>full year</u>
Current operations			
Payments from customers	266 179	161 543	253 987
Payments to suppliers and employees	-312 800	-230 377	-313 531
Cash flow from current operations before paid interest and income tax	-46 621	-68 834	-59 544
Interest received	262	2 641	3 892
Interest paid	-3 872	-1 627	-2 384
Paid income tax	-1 015	-843	-525
Cash flow from current operations	-51 246	-68 663	-58 561
Investment operations			
Acquisition of subsidiaries	-	-68 608	-129 004
Acquisition of fixed assets	-9 356	-13 148	-101 473
Product development	-34 527	-	-
Sales of equipment	25	-	14
Cash flow from investment operations	-43 858	-81 756	-230 463
Financing operations			
New share issue	15 414	262 061	260 094
Net change in loans	65 714	-40 896	-36 345
Cash flow from financing operations	81 128	221 165	223 749
Change in liquid assets	-13 976	70 746	-65 275
Liquid assets at beginning of year	22 417	87 419	87 419
Exchange rate diff. in liquid assets	95	-45	273
Liquid assets at end of period	8 536	158 120	22 417

Consolidated sales and earnings per quarter, SEK thousands

Operating margin	Operating profit/loss as a percentage of net sales
Profit margin	Net profit/loss as a percentage of net sales
Return on equity	Profit/loss after tax divided by average equity
Return on capital employed	Operating profit/loss plus fin. income as a

	percentage of average capital employed.
Capital employed	Balance sheet total less non-interest bearing liabilities. Average capital employed has been calculated as opening plus closing capital employed divided by two.
Shareholders' equity	Shareholders' equity at year-end. Average equity has been calculated as the average of opening plus closing equity. In the event of new share issues, a weighted average has been used.
Equity/assets ratio	Equity as a percentage of balance sheet total
Investments	Net investment during the year including financial leasing obligations and goodwill
Sales per employee	Net sales during the year divided by the average number of employees
No of shares at period-end	Number of shares at period-end adjusted for bonus issues and split
Earnings per share	Profit/loss after tax divided by average number of shares
Earnings per share after full dilution	Profit/loss after tax divided by average number of shares plus a supplement for the effect of full redemption of all outstanding warrants.
Equity per share	Equity at period end divided by number of shares at period end

Group key figures

	<u>2001</u>	<u>2000</u>	<u>2000</u>	<u>Rolling</u>
	<u>Jan-Sept</u>	<u>Jan-Sept</u>	<u>full year</u>	<u>12 months</u>
Operating margin, %	-217	-33	-16	-139
Profit margin, %	-221	-33	-15	-142
Return on equity, %	-139	-14	-12	-136
Return on capital employed, %	-119	-16	-11	-135
Equity/ assets ratio, %	39	85	82	38
Investments, SEK 000	43 883	13 148	101 473	135 403
Average number of employees	427	270	319	432
Number of employees at period end	375	453	477	375
Sales per employee, 12-month basis SEK 000	768	843	948	874
No. shares at period end ¹	19 041 390	17 120 346	18 087 418	19 041 390
Earnings per share, SEK	-28,73	-3,61	-2,92	-28,79
Earnings per share after full dilution, SEK	-27,92	-3,56	-2,79	-27,96
Equity per share, SEK	6,54	31,80	36,49	6,54

¹ Adjusted for bonus issue and split

<u>Period</u>	<u>Net sales, SEK</u> <u>thousands</u>	<u>Operating-</u> <u>result, SEK</u> <u>thousands</u>	<u>Operating</u> <u>margin %</u>
Q1 1998	17 680	667	3,8
Q2 1998	24 387	1 349	5,5
Q3 1998	21 881	-6 396	neg
Q4 1998	51 876	14 787	28,5
Q1 1999	31 284	-5 695	neg
Q2 1999	27 794	-9 215	neg
Q3 1999	29 955	-4 260	neg
Q4 1999	43 202	1 744	4,0
Q1 2000	42 110	281	0,7
Q2 2000	44 593	-30 544	neg
Q3 2000	84 079	-26 724	neg
Q4 2000	131 670	9 592	7,3
Q1 2001	100 397	4 495	4,5
Q2 2001	64 638	-58 643	neg
Q3 2001	80 868	-480 357	neg