

Interim report January – June 2002

Second quarter

- Revenues for the second quarter totalled SEK 68.2 million (71.6m).
- Earnings net of financial items for the second quarter amounted to SEK -1.4 million (15.7m).
- Sales revenues rose by 19 per cent compared to the first quarter, in line with seasonal trends.
- Cost-saving measures have helped reduce Q2 costs by approximately SEK 3.5 million compared to the first quarter.
- International launch of Frango Controller and agreements have recently been signed with customers such as Hexagon and Mövenpick Dienstleistungs.

Six months

- Revenues for the period January – June rose by 5 per cent to SEK 125.5 million (119.2m).
- Earnings net of financial items amounted to SEK -18.9 million (12.4m) for the reporting period. The decline in earnings is attributable to weaker market conditions for software, unrealised exchange losses of SEK 6.4 million and to the net effect of higher development expenses in the income statement, which was SEK 7.3 million higher than last year.
- The average number of permanent employees for the period was 233 (199), an increase of 17 per cent compared with the previous year.
- The weak start to the year justifies further cost-saving measures.
- The equity ratio at the end of the period was 42 per cent (51%).

Frango in brief

Frango is a leading software company that specialises in the field of corporate financial control for organisations and groups. The company develops and sells software and services through its international network of subsidiaries and distributors. Frango is headquartered in Stockholm. The Frango share is quoted on the 'O' list of the Stockholm Stock Exchange (Stockholmsbörsen).



Significant events during the period April – June 2002

Frango Controller was launched internationally in April. The new product has already made a positive contribution to sales revenues, and agreements have recently been signed with customers such as Hexagon in Sweden and Mövenpick Dienstleistungs and Reichle & De-Massari in Switzerland.

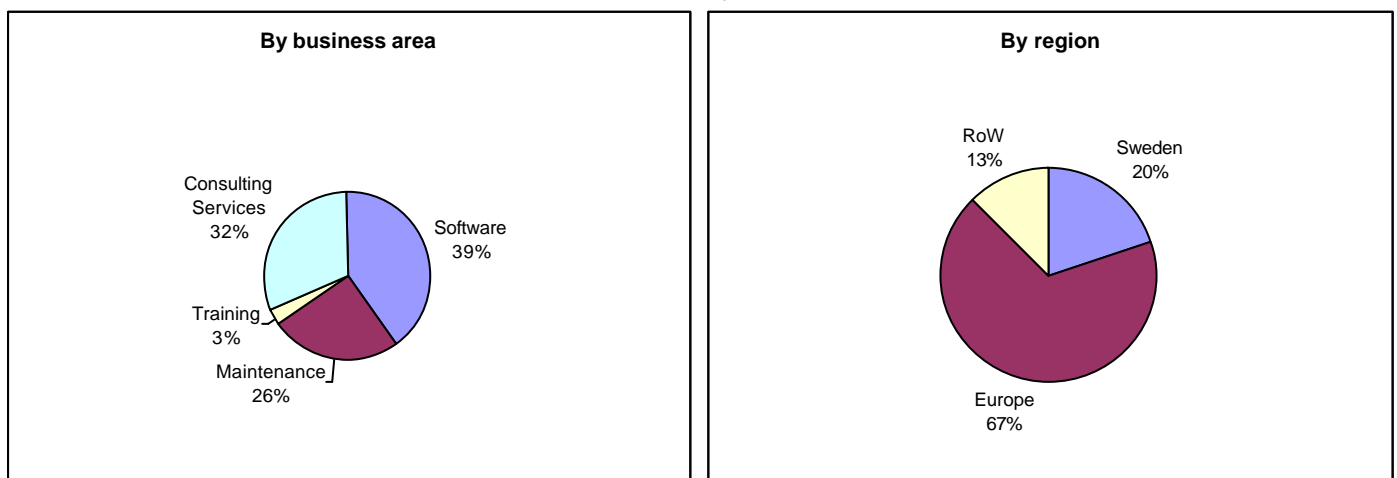
Frango moved its head office and Swedish sales company to new premises in July. The move has helped reduce costs and provides better opportunities for using office space more efficiently.

Sales trends and earnings

January – June 2002

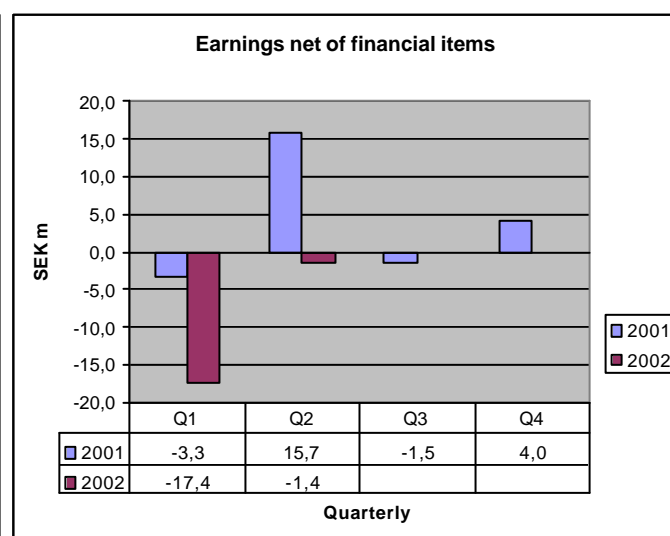
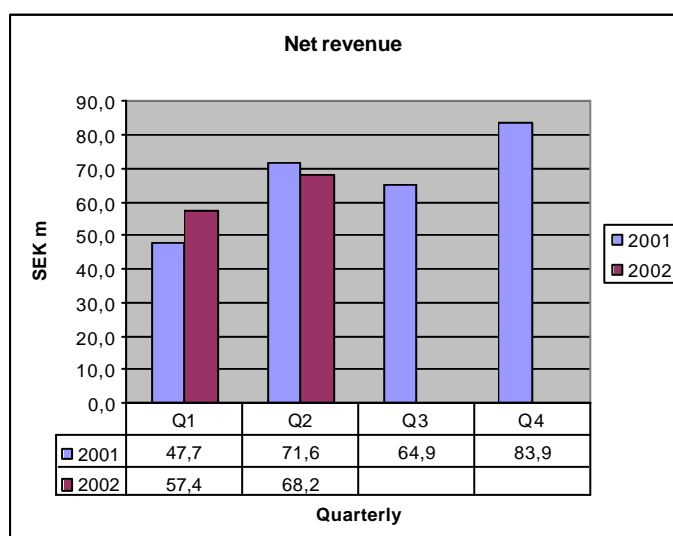
The first half of the year has been weaker than expected. The period has been characterised by more cautious attitudes and investment trends in software have been affected by the slow rate of economic development. Further, the international launch of Frango Controller has led to some delays in the conclusion of licence agreements. By comparison, the first six months of last year was a period of very high growth. Revenues during that period accounted for 45 per cent of total revenues for the year and generated a very good financial performance. This year, the trend is expected to revert to more traditional levels. During the past four years, sales during the first six months have on average accounted for 41 per cent of overall sales for the year. Sales trends are accordingly expected to improve during the second half of 2002, partly as the benefits of product releases earlier in the year start to come through, partly as the will to invest in software improves, as anticipated. In addition, the benefits of ongoing cost-saving measures will start to show during the second half of the year. However, the market climate continues to be characterised by a considerable degree of uncertainty.

Net revenue January – June 2002



Revenues for the first six months of 2002 rose from SEK 119.2 million to SEK 125.5 million, an increase of 5 per cent compared with the corresponding period of the previous year. The proportion of revenues attributable to new licences during the period was 39 per cent, compared with 47 per cent for 2001. Customers outside Sweden accounted for 80 per cent (81%) of overall revenues from software licences. Revenues from software licences were down on the previous year and amounted to SEK 49.7 million (56.2m). Revenues for maintenance and consulting services continued to show strong growth, rising by 39 per cent and 12 per cent respectively. Earnings net of financial items totalled SEK -18.9 million, to be compared with SEK 12.4 million for the previous year. The decline is primarily attributable to the reduction in licence sales, which to a certain extent also has an impact on revenues from consulting services. Further, additional marketing and internal training costs incurred in relation to the product launches have been charged to the income statement. A stronger krona has produced negative exchange rate differences of SEK -4.3 million. The situation last year was the opposite, resulting in positive exchange rate differences of SEK 2.1 million. External royalty costs rose by SEK 2.4 million compared to the previous year. The net effect of development expenses on the income statement was SEK 7.3 million higher than last year.

Operating expenses before the capitalisation of development expenses rose from SEK 118.0 million to SEK 150.3 million, an increase of 27 per cent or SEK 32.3 million compared with the corresponding period of the previous year. Of overall operating expenses, a total of SEK 6.1 million (11.3m), attributable to the development of new products, has been reported as capitalised development expenditure in accordance with the Swedish Financial Accounting Standards Council's recommendation (recommendation no. 15) pertaining to Intangible assets. It should also be noted that cost-saving measures have resulted in lower operating expenses overall for the second quarter, compared with both the first quarter of 2002 and the fourth quarter of 2001.



April – June 2002

Sales revenues during the period April – June 2002 were down compared with the corresponding period last year, from SEK 71.6 million to SEK 68.2 million. This is primarily attributable to a decline in revenues from licence sales compared with last year, although revenues from consulting services were also marginally lower. The proportion of revenues attributable to new licences during the second quarter was 46 per cent, compared with 53 per cent for the second quarter of 2001.

Earnings net of financial items amounted to SEK -1.4 million, compared with SEK 15.7 million for the second quarter of 2001. Operating expenses rose by SEK 12.2 million compared with the previous year, from SEK 61.1 million to SEK 73.3 million, an increase of 20 per cent. Personnel expenses increased by 13 per cent compared with the previous year. Of the increase in other external costs (SEK 5.8 million), negative exchange rate differences account for SEK 2.4 million.

Rolling 12 months

Based on the developments noted during a rolling twelve-month cycle, from July 2001 to June 2002, revenues amounted to SEK 274.3 million, to be compared with SEK 238.1 million as at 30 June 2001. This corresponds to a 15 per cent improvement in revenues.

Earnings net of financial items calculated on a rolling twelve-month basis amounted to SEK -16.3 million, compared with the second quarter of the previous year, when rolling twelve-month earnings amounted to SEK 28.9 million. In addition to the above-mentioned comments relating to the first six months of the year, the earnings calculated on a rolling twelve-month basis were significantly affected by the period of generally poor economic development witnessed during the second half of 2001. Further, non-recurring costs of around SEK 8 million were charged to the income statement for the last six months of 2001.

Product development

The company's new software, Frango Controller, was launched internationally during the second quarter of 2002. Overall, the product has taken more than two years to develop. An earlier version of Frango software, Frango Consolidator, has continued to be developed separately, which means that the company can now offer customers two consolidation systems: Frango Consolidator and Frango Controller. The new version of Frango Consolidator was launched in March. The overall development and maintenance costs for the period January – June 2002 amounted to around SEK 20 million (18m), including development expenses of SEK 6.1 million (11.4m) that have been capitalised in the balance sheet. These development expenses are related to the development of Web-based add-ons to Frango Controller, to the

development of manual and online help for Frango Controller and to costs related to the international version of Frango Controller. During the period 1 January 2001 to 30 June 2002, a total of SEK 20.1 million (11.4m) relating to the development of new products has been capitalised in the balance sheet. Depreciation has already begun and depreciation of SEK 2.3 million (0m) has been charged to the net earnings for the period.

Market

The market for business systems during the first half of the year has been sluggish, as other suppliers have already reported. The market for analytical tools has also been affected and is similarly characterised by more cautious attitudes, thus affecting the will to invest in software. This has led to longer sales cycles, the delay or postponement of more orders and a greater degree of uncertainty when assessing the frequency of orders concluded and the timing thereof. The view of company management is that the market growth expected for the first six months of the year has either failed to materialise or been negative. However, Frango has continued to capture market share. The company's business sector should experience a recovery in market growth during the second half of the year, which continues during 2003, as approximately 40 per cent of the company's potential target group have yet to invest in adequate systems for group reporting. Such systems will, however, be necessary to fulfil the requirements of new international accounting standards (IAS) within the EU by no later than 2005.

Employees

The average number of employees rose during the period to 233 (199), corresponding to an increase of 17 per cent. At the end of June, the number of employees was 244, to be compared with 221 last year. By a combination of a company-wide employment freeze and natural redundancies it is expected that the number of employees, and accordingly personnel expenses, will be reduced.

Liquidity, investments and financial position

The company's financial position remains healthy. The company reported a negative cash flow for the period, SEK -15,4 million (-11.3m). The Group's liquid funds at the end of the period amounted to SEK 18.2 million (29.2m). Including short-term investments, liquid assets amounted to SEK 19.6 million (34.3m). As in the past, business activities have been financed with funds generated internally and shareholders' equity. The Group has no bank loans. The company has a short-term bank overdraft facility of SEK 20 million. At the end of June, this facility had not been used. The company expects to report a positive cash flow for the full year. The equity ratio at the end of June was 42 per cent (51%). Investments for the period amounted to SEK 8.6 million (16.0m), including SEK 6.1 million (11.4m) relating to capitalised

development expenditure for software. The purchase of computers and peripheral equipment accounted for most of the remaining expenditure. Shareholders' equity at the end of the period amounted to SEK 68.3 million. The reduction in shareholders' equity – SEK 15.3 million since the turn of the year – is the result of a SEK -14.4 million reduction in net earnings for the period and negative translation differences of SEK -0.9 million.

Parent Company

Parent Company revenues amounted to SEK 30.3 million (31.3m), including intra-group invoicing of SEK 30.3 million (31.3m). Earnings net of financial items amounted to SEK -17.2 million (0.6m). Investments for the period amounted to SEK 1.0 million (1.8m). The Parent Company's liquid funds at the end of the period, including short-term investments, amounted to SEK 2.1 million (4.0m).

Developments in the share price

The year has been characterised by a low turnover and falling share prices. During the first six months of 2002, a total of 647,547 shares (718,326) were traded, with share purchases representing a turnover of SEK 49.5 million (88.6m) for the period. This corresponds to an average share price of around SEK 76 (123). The highest closing price noted for the share during the period was on 3 and 4 January, when the share closed at SEK 97 and the lowest closing price noted for the share was on 18 June, when the share closed at SEK 43. A total of 193,364 shares were traded in the second quarter (450,084), representing a turnover of SEK 11.5 million (54.1m), which corresponds to an average share price of SEK 59 (120). On 28 June, the Frango share closed at SEK 50. Frango's market capitalisation at the end of June was SEK 231 million. The share was listed on the 'O' list of Stockholmsbörsen on 23 April 1999. The initial share price was SEK 62. Institutional investors account for around 30 per cent of shareholdings. Approximately 65 per cent of the total number of shares are today in market circulation.

Prospects

Earnings during the past twelve months have been adversely affected by the generally poor developments in economic growth and the growing concern since the third quarter of 2001. The weak start to the year justifies further cost-saving measures, the benefits of which will start to be felt during the second half of the year. Further, higher sales revenues are expected during the second half of the year, in line with seasonal trends.

In the longer-term perspective, it is felt that demand for the company's products will remain buoyant and be accompanied by strong growth and good profitability. The company's clear focus on its core business, supplying systems for group financial control, has ensured that the company has a strong market position.

Frango has historically outperformed the market. Frango has benefited from this positive market trend, which has been driven by the increasing trend towards internationalisation seen in recent years, making the preparation of consolidated financial statements and financial reporting far more complex. The financial markets have progressed rapidly, demanding improvements in corporate transparency and reporting speed. At the same time, legal requirements for statutory consolidation have become increasingly extensive and detailed, and are being introduced in a growing number of countries. It is expected that these underlying business drivers will continue to prevail, even in the longer-term perspective. The recent debate following the Enron case and similar cases has also illustrated the need for reliable, standardised system solutions that can provide effective support to executive management teams and other parties involved in the management and administration of groups of companies. The implementation of new international accounting standards (IAS) within the EU by no later than 2005 has also meant that many companies have been compelled to review their requirements for group reporting systems, and this is expected to boost Frango's revenues.

Auditing

The company's auditors have not reviewed this interim report.

Accounting principles

The accounts have been prepared in accordance with the recommendations issued by the Swedish Financial Accounting Standards Council (Redovisningsrådet) and the interim report has been prepared in accordance with the council's recommendation pertaining to interim reports, RR 20. For information on the accounting principles applied and definitions of key ratios, please see Frango's Annual Report 2001, page 37 and page 27 respectively.

Release of next financial report

The interim report for the third quarter of 2002 will be published on 11 October 2002.

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Consolidated Income Statement

<i>SEK '000</i>	6 months 2002	6 months 2001	Change in %	Rolling 12 months	Full year 2001
Software	49 730	56 237	-11,6%	116 232	122 739
Maintenance	32 055	23 074	38,9%	60 005	51 024
Consulting Services	39 835	35 539	12,1%	88 263	83 967
Training	3 921	4 370	-10,3%	9 835	10 284
Net revenue	125 541	119 220	5,3%	274 335	268 015
Operating expenses					
Other external expenses	-54 770	-36 250	51,1%	-106 822	-88 302
Personnel expenses	-89 385	-78 404	14,0%	-181 916	-170 935
Capitalised devt. expenditure software	6 115	11 371		8 706	13 961
Depreciation of fixed assets	-6 145	-3 306	85,9%	-10 442	-7 602
Operating earnings	-18 644	12 631		-16 139	15 136
<i>Operating margin</i>	-15%	11%		-6%	6%
Interest income and other financial items	129	339		488	698
Interest expenses and other financial items	-340	-525		-693	-878
Net interest income	-211	-186		-204	-180
Earnings net of financial items	-18 855	12 445		-16 343	14 957
<i>Profit margin</i>	-15%	10%		-6%	6%
Tax on net earnings	4 424	-3 319		4 344	-3 399
Minority share of net earnings	4	0		2	-2
Net earnings	-14 427	9 125		-11 997	11 555
Earnings per share, SEK	-3,16	2,00		-2,63	2,53
Earnings per share after full dilution, SEK	-2,89	1,88		-2,41	2,32

Consolidated Balance Sheet

<i>SEK '000</i>	30 June 2002	30 June 2001	31 December 2001
Assets			
Intangible fixed assets	17 389	11 371	13 577
Tangible fixed assets	13 318	13 898	15 438
Total fixed assets	30 707	25 270	29 015
Accounts receivable	65 903	72 774	73 570
Other current assets excl. liquid funds	48 239	25 108	39 469
Short-term investments	1 424	5 063	8 017
Cash and bank balances	18 199	29 224	28 558
Total current assets	133 765	132 169	149 613
Total assets	164 472	157 439	178 629
Shareholders' equity and liabilities			
Shareholders' equity	68 326	80 269	83 577
Minority shares	7	9	11
Provisions, interest-bearing	2 998	1 995	2 495
Provisions, non-interest bearing	6 388	3 324	5 326
Interest-bearing liabilities	524	1 360	380
Current liabilities	86 228	70 481	86 839
Total shareholders' equity and liabilities	164 472	157 439	178 629

Results by quarter

SEK '000s	2000				2001				2002	
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2
Software	10 443	31 606	29 657	35 734	18 692	37 545	26 317	40 185	18 338	31 392
Maintenance	6 243	6 969	8 242	9 532	10 973	12 101	13 084	14 867	16 555	15 500
Consulting Services	10 365	9 389	13 623	17 219	16 454	19 085	21 971	26 457	21 460	18 374
Training	789	1 967	2 752	2 162	1 542	2 829	3 561	2 353	1 005	2 916
Net revenue	27 841	49 932	54 274	64 647	47 660	71 560	64 933	83 862	57 357	68 183
% of total net sales for the year	14%	25%	28%	33%	18%	27%	24%	31%		
Revenue growth in %	31%	56%	60%	52%	71%	43%	20%	30%	20%	-5%
Operating expenses										
Other external expenses	-12 697	-16 131	-15 366	-20 833	-15 660	-20 591	-21 332	-30 720	-28 416	-26 354
Personnel expenses	-26 579	-27 800	-29 151	-33 548	-39 631	-38 773	-43 800	-48 732	-45 482	-43 903
Capitalised devt. expenditure software	0	0	0	0	5 806	5 565	756	1 835	2 530	3 586
Depreciation of fixed assets	-1 115	-1 329	-1 461	-1 705	-1 538	-1 768	-1 952	-2 345	-3 064	-3 080
Operating earnings	-12 551	4 671	8 297	8 561	-3 362	15 994	-1 395	3 900	-17 076	-1 568
Net interest income	315	47	-252	-173	83	-269	-128	134	-360	149
Earnings net of financial items	-12 236	4 718	8 045	8 389	-3 280	15 725	-1 523	4 034	-17 436	-1 419
Profit margin %	-43,9%	9,4%	14,8%	13,0%	-6,9%	22,0%	-2,3%	4,8%	-30,4%	-2,1%
Tax on net earnings	3 425	-1 321	-2 252	-1 319	918	-4 237	113	-193	4 177	248
Minority share of net earnings	0	-4	-1	3	0	0	-1	-1	6	-2
Net earnings	-8 810	3 393	5 792	7 072	-2 362	11 487	-1 411	3 841	-13 254	-1 173

Cash flow	6 months	6 months	Full year
	2002	2001	2001
Earnings net of financial items	-18 855	12 445	14 957
Depreciation, provisions, capital gains etc	10 651	3 489	9 071
Tax paid	-734	-3 319	-2 397
Change in tax liabilities/receivables	1 783	2 301	-2 192
Change in working capital	96	-10 380	-3 685
Cash flow from operations	-7 060	4 536	15 754
Investment operations	-8 436	-15 804	-24 460
Financing operations	143	-24	-1 003
Cash flow	-15 352	-11 292	-9 709

Financial ratios	6 months	6 months	Rolling	Full year
	2002	2001	12 months	2001
Capital employed, SEK m	71,9	83,6	71,9	86,5
Equity ratio, %	42%	51%	42%	47%
Return on capital employed, %			-20%	20%
Return on total capital, %			-10%	10%
Return on equity, %			-16%	15%
Average number of permanent employees	233	199		209
Number of employees	244	221		234

Per share data

Earnings per share, SEK	-3,16	2,00	-2,63	2,53
Earnings after full dilution, SEK	-2,89	1,88	-2,41	2,32
Shareholders' equity, SEK	14,97	17,58	14,97	18,31
Shareholders' equity after full dilution, SEK	13,32	16,57	13,32	16,29
Share price, SEK	50,50	103,00		91,50
Dividend, SEK	-	-	-	-
Number of shares at the end of the period	4565000	4565000	4565000	4565000
Average number of shares	4565000	4565000	4565000	4565000
Number of outstanding options	566000	280000	566000	566000
Average number of shares and outstanding option	4988000	4845000	4988000	4988000