Interim Report

Effnet Group AB (publ)

January–June 2002

EFFNET

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- Sales during the six-month period amounted to SEK 2,499,000 (6,199,000).
- Operating loss improved to SEK –27,896,000 (–56,243,000) for the six-month period. The result after financial items improved to SEK –25,043,000 (–50,866,000), a reduced loss of SEK 25,823,000 compared to the same period last year.
- The level of costs and negative cash flow have been significantly lower compared to the same period last year. The average level of costs per month during the six-month period has been reduced to SEK 5,488,000 (10,531,000) and the negative cash flow to SEK 5,576,000 (8,974,000).
- Liquid funds at the close of the period totaled SEK 143,729,000, or SEK 2.62 per share.
- The number of employees at the end of the period amounted to 29 (70).
- The third testing session in the series of compatibility tests between Ericsson, Nokia, Siemens and Effnet was conducted in April. The test results were very positive for Effnet's ROHC products.
- In May Wkit Security AB concluded its installation of DBB for Sonopress in Germany. This means that Sonopress now can offer DBB copy protection to its CD-ROM customers.
- Effnet has appointed Remium Securities as the new sponsor for its "Nya Marknaden" quotation. Remium will also be a market maker in the Effnet share.

Events after the end of the period

- Effnet signed a sales agreement with NEC Corporation concerning licensing of Effnet's Robust Header Compression (ROHC) technology. NEC intends to integrate ROHC into the next generation's Radio Network Controller, (RNC).

Effnet develops and sells embedded software that increases the efficiency, speed and security of IP traffic on fixed and mobile networks to manufacturers of network products. Effnet techniques enable optimal performance for IP packet processing. Effnet's wholly-owned subsidiary, Wkit Security AB is specialized in developing copy protection software. The company has operations in Stockholm, Sweden and Tucson, Arizona. Effnet Group AB is quoted on the New Market in Sweden (symbol: EFFN). More information can be found at www.effnet.com and www.wkit.com.

SECOND QUARTER 2002

New agreement in an increasingly active market

Immediately after the end of the period, the signing of a licensing agreement with NEC Corporation was announced. NEC intends to integrate Robust Header Compression (ROHC) into the next generation's Radio Network Controller (RNC). The selection of Effnet as a technology supplier is confirmation of Effnet's position at the cutting edge of technological innovation in the field. NEC Corporation is one of the world's leading suppliers of computer and tele-communications products. NEC has more than 140,000 employees and annual sales of approximately USD 40 billion.

This spring has been characterized by increased activity on the market and the agreement with NEC is not merely confirmation that Effnet has attractive products to offer. It is also a clear indication that the demand for Effnet's products is on the rise. Both large and mid-sized players appear to be ready to proceed towards next generation technology, where ROHC is necessary. Effnet has a range of completed products in this area and Effnet's continual world-class product research and development means that new competitive products will be launched in accordance with the market's needs. During the second half of the current year, the market for Effnet's products it expected to increase.

Effnet's revenue during the first half of the year has definitely not met expectations as the result of unexpectedly weak growth in the telecommuni-cations industry. The goal of attaining a positive monthly return during the last quarter of this year remains due to increased interest and demand for Effnet's products in combination with Effnet's significantly lower costs.

Tests as a part of development work

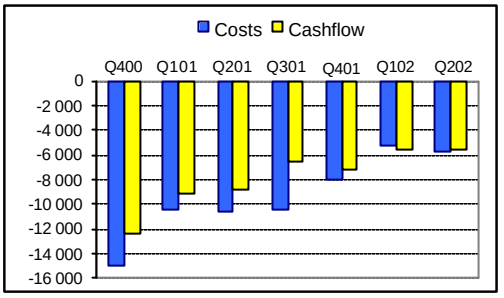
During the second quarter, the third in a series of test sessions concerning ROHC solutions was conducted. The tests are taking place in cooperation with Ericsson, Nokia and Siemens. This test session was conducted at Ericsson in Luleå. The two previous test sessions were conducted at Siemens's laboratory in Roke Manor, England and at Effnet in Tucson, Arizona. The tests are being done so the companies will have the opportunity to test their respective solutions against the others' in terms of compatibility. The test results have been positive for Effnet and confirm Effnet's position as a world leader in the field.

A more cost-effective organization

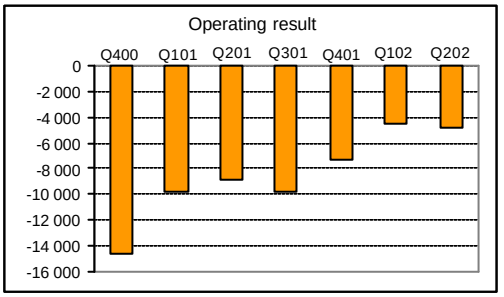
As a result of the cost savings and efficiency program that was implemented, the level of costs and negative cash flow have been significantly lower than last year. Today, Effnet is a streamlined and cost-effective organization ready to meet an upswing in the market. Despite a significant increase in activity, primarily in sales and marketing, during the year's second quarter, a low level of costs has been preserved. The goal of adjusting costs to short-term revenue stands firm for the future.

Average costs, cash flow and operating losses per month for each quarter. Non-recurrent items are not included below (SEK thousand)

	Costs	Cash flow	Operating result
4th quarter 2000	-14,968	-12,334	-14,614
1st quarter 2001	-10,444	-9,174	-9,838
2nd quarter 2001	-10,618	-8,775	-8,910
3rd quarter 2001	-10,468	-6,627	-9,862
4th quarter 2001	-7,991	-7,142	-7,252
1st quarter 2002	-5,305	-5,625	-4,435
2nd quarter 2002	-5,672	-5,528	-4,806



Effnet's measures to increase efficiency and reduce costs have resulted in a considerably lower level of costs and a significantly lower monthly cash flow.



The decreasing negative operating loss makes it possible for Effnet to quickly become profitable once sales increase.

In all essentials, Effnet is a new company today compared to the same period last year. The last year's changes have resulted in a company with a new focus, a new business plan, a new organization and a range of new products on a new market.

New market maker

In May Effnet appointed Remium Securities as the new sponsor for its "Nya Marknaden" quotation. Remium Securities will also be a market maker in the Effnet share.

FINANCIAL STATEMENT

Effnet's sales amounted to SEK 2,499,000 (6,199,000) during the first half of 2002. Revenue has not met expectations but ongoing business negotiations are expected to contribute to increased sales during the remainder of the year.

The group's operating result amounted to SEK –27,896,000 (–56,243,000). The result after financial items amounted to SEK –25,043,000 (–50,866,000). Losses have been reduced to less than half compared to the same period last year.

Personnel costs during the first half of the year have been reduced to SEK –18,622,000 (–36,985,000). The strong reduction in the number of employees resulted in halving personnel costs compared to the same period last year. Despite increased costs for intensified customer work in Japan and the U.S. among other places, other external costs have also been cut almost in half compared to the same period last year.

Total write-downs for the period amounted to SEK –841,000 (–2,114,000) of which goodwill write-downs comprised SEK 0 (–974,000).

Research and development

The total research and development costs have been reduced because of a focus on the selection of products and the fact that the majority of products have been completed. During the period, the costs amounted to SEK –11,406,000 (-22,017,000), of which SEK 1,369,000 (0) are capitalized in the balance sheet following the Swedish Financial Accounting Standards Council's (SFASC) recommendation, RR 15, which took effect on January 1, 2002.

Financial position

Effnet's debt/equity ratio on June 30, 2002 was 92.2 % (96.5 %, at the same time last year). Liquid funds, including current investments, amounted to SEK 143,729,000 (221,141,000), or SEK 2.62 (4.02) per share.

Investments

Investments in material fixed assets during the period amounted to SEK 59,000 (1,429,000) and comprised primarily computer equipment.

Personnel

The number of employees at the end of the period totaled 29, down 41 from one year ago (70). The average number of full-time employees during the period was 36 (75), 11 (12) of whom were based in the U.S.

Financial Calendar

Interim Report July–Sept November 1, 2002

This report has not been examined by the company's auditors.

Stockholm, July 31, 2002

Effnet Group AB (publ)

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Consolidated Profit and Loss Account (Summary) (SEK thousand)	Notes	2002 Jan.–June	2001 Jan.–June	2002 April–June	2001 April–June	2001 Jan.–Dec.
Net sales		2,499	6,199	660	5,124	10,233
Capitalized development costs		1,369	-	659	-	-
Other operating income		934	371	934	371	593
Gross profit		**4,802**	**6,570**	**2,253**	**5,495**	**10,826**
Other external costs		-12,462	-23,230	-6,894	-12,208	-30,985
Personnel costs		-18,622	-36,985	-8,863	-18,213	-73,929
Depreciation and write-downs of tangible assets		-841	-2,114	-313	-1,061	-4,580
Items affecting comparability	1	-	-	-	-	-41,768
Other operating expenses		-773	-484	-773	-742	-2,281
Operating result		**-27,896**	**-56,243**	**-14,590**	**-26,729**	**-142,717**
Financial net		2,853	5,377	1,426	3,386	9,047
Returns after financial items		**-25,043**	**-50,866**	**-13,164**	**-23,343**	**-133,670**
Tax		-	-	-	-	95
Result for the period		**-25,043**	**-50,866**	**-13,164**	**-23,343**	**-133,575**
Earnings per share, SEK	2	- 0.46	- 0.92	- 0.24	-0.42	-2.43
Earnings per share after dilution, SEK		- 0.46	- 0.92	- 0.24	-0.42	-2.43

Consolidated Balance Sheet (Summary) (SEK thousand)		2002 30 June	2001 30 June	2001 31 December
ASSETS				
Fixed assets				
Goodwill		-	18,496	-
Tangible assets		1,570	9,635	4,254
Capitalized expenditure for research and development		1,369	-	-
Financial assets		-	5	-
Total fixed assets		**2,939**	**28,136**	**4,254**
Current assets				
Inventories		-	1,043	-
Current receivables		11,630	8,635	12,490
Investments, interest bearing		122,736	175,482	159,554
Cash and bank balances		20,993	45,659	20,279
Total current assets		**155,359**	**230,819**	**192,323**
TOTAL ASSETS		**158,298**	**258,955**	**196,577**
EQUITY & LIABILITIES				
Equity	3	**145,939**	**249,882**	**166,659**
Provisions	4	**1,644**	**95**	**7,355**
Current liabilities		**10,715**	**8,978**	**22,563**
TOTAL EQUITY & LIABILITIES		**158,298**	**258,955**	**196,577**

Consolidated Cash Flow Statement (SEK thousand)	2002	2001	2002	2001
Notes	Jan. –June	Jan. –June	April–June	April–June
Cash flow from day-to-day operations	-24,931	- 48,180	-12,208	- 21,297
Changes in working capital	-10,815	- 4,548	-6,748	-4,533
Investments	-221	-1,128	-186	-374
Financing	-	-	-	-
Exchange rate difference in cash	-137	338	-88	-122
Change in liquid assets	-36,104	-53,518	-19,230	-26,326

Per-share data (adjusted to reflect new share issues)	2002 30 June	2001 30 June	2001 31 December
Shareholders' equity per share	2.66	4.55	3.03
Shareholders' equity per share after full dilution	2.66	4.55	3.03
Price per share	1.37	3.39	2.78

Accounting Policies and Notes

The Swedish Financial Accounting Standards Council's (SFASC) standard on interim reporting (RR20) has been used in preparing this interim report.

As of January 1, 2002, Effnet switched from classifying its income statement according to function to classifying the income statement according to cost, which means that the comparative figures from the previous year have been converted according to the current principle. As of January 2002, the company applies RR 15, the recommendation on intangible assets, which means that expenses for certain development projects are reported in the balance sheet as assets. Otherwise, all applied accounting principles remain unchanged compared with the principles used in the 2001 annual report. No other changes related to estimates and assessments have taken place.

Note 1. Items affecting comparability

In the year-end report for 2001, costs related to office closures and restructuring have been recorded as items affecting comparability, SEK –41,768,000.
Items affecting comparability in 2001 included:

	Total
Personnel costs	- 9,939
Premises	- 8,323
Write-down of current assets	- 1,071
Write-down of fixed assets	- 4,613
Write-down of goodwill	- 17,307
Other	- 515
	- 41,768

Note 2. Earnings per share

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

Number of shares used in the calculations:	2002 Jan.–June	2001 Jan.–June	2002 April–June	2001 April–June	2001 Jan.–Dec.
Average number of shares	54,942,650	54,942,650	54,942,650	54,942,650	54,942,650
Number of shares at end of period	54,942,650	54,942,650	54,942,650	54,942,650	54,942,650

Outstanding subscription options do not result in any dilution effect for any of the periods. With full utilization of the options, 2,862,902 shares would be due on June 30, 2002.

Note 3. Changes in equity

Amount in SEK thousand	2002 30 June	2001 30 June	2001 31 December
Opening balance	166,659	300,046	300,046
Loss for the period	-25,043	-50,866	-133,575
New share issue	-	-	-
Translation difference	4,323	702	188
Total equity	145,939	249,882	166,659

Note 4. Provisions
The provisions, SEK 1,644,000, consist entirely of provisions for cost of premises in Mountain View, California.