



## Interim Report January–June 2002

### SECOND QUARTER SUMMARY

- Net revenues increased by 13.6 percent to MSEK 317.9 (279.7).
- Cash flow after capital expenditures was positive, amounting to MSEK 2.6 (–52.6).
- Writedown of inventories and provision for purchasing commitment in a total amount of MSEK 42.3 (32.2).
- The operating result amounted to MSEK –36.6 (–29.1).
- The operating result not including writedowns was MSEK 5.7 (3.1).

### HALF YEAR SUMMARY

- Net revenues declined by 11.0 percent to MSEK 583.9 (655.7).
- Cash flow after capital expenditures was positive, amounting to MSEK 38.0 (–132.7).
- Writedown of inventories and provision for purchasing commitment in a total amount of MSEK 43.1 (33.5).
- The operating result amounted to MSEK –42.8 (13.0).
- The operating result not including writedowns was MSEK 0.3 (46.5)

### MARKET

#### Telecom

The market for products in infrastructure for wireless telecom continued to be weak during the second quarter, marked by a low level of capital spending and a wait-and-see attitude. Nonetheless, LGP has noted that demand in the Company's telecom segment has improved, which meant some rise in the flow of new orders and slightly higher sales.

Despite a generally weak market, LGP's sales have developed somewhat better than the market as a whole compared to the previous quarter. This is due, in part, to the fact that the need for the type of products offered by LGP has increased in existing and new networks, that these products are procured early in the roll-out of new networks and that LGP is one of the market-leading companies in this segment.

#### Europe

The rate of expansion of GSM networks in Eastern Europe has brought increased sales, while the market continued on a weak note in the rest of Europe. Sales of LGP's 3G-related products saw a favorable development in the region.

#### North and South America

Continued expansion of the GSM networks meant sales at a stable level in North and South America.

#### Asia

In Asia the market situation is divided. Increased uncertainty and slower sales marked the market situation in China, while sales in South East Asia developed well.

#### Contract manufacturing

Contract manufacturing sales were stable during the second quarter.

### NET REVENUES

Net revenues for the quarter increased by 13.6 percent to MSEK 317.9 (279.7).

### RESULT

The operating result for the second quarter amounted to MSEK –36.6 (–29.1), a drop of MSEK 7.5. This result has been charged with a provision of MSEK 3.4 for bad debts. The operating result was also affected negatively by a writedown of inventory and provisions for purchasing commitments in a total amount of MSEK 42.3 (32.2), of which MSEK 38.3 (28.9) is attributable to telecom products and MSEK 4.0 (3.3) refers to contract manufacturing.

The inventory writedown relating to telecom products is due primarily to a rapidly changing market situation, and a thereby partially obsolete product line. In one case, manufacturing of customer-specific products was initiated without subsequent receipt of an order. Despite major efforts, it has proven impossible to sell this inventory in its entirety. Action has been taken to reduce the risk of similar problems in the future. Inventory writedowns and provisions for purchasing commitments are divided as follows:

Inventory intended for the North American market	7.6
Inventory intended for the Chinese market	16.3
<u>Other obsolescence</u>	<u>14.4</u>
Total	38.3

The operating result was affected negatively by realized and unrealized foreign exchange losses of MSEK –5.3 (0.9).

The result after financial items was MSEK –38.5 (–34.4).

## CAPITAL TIED UP

Accounts receivable amounted to MSEK 253.0 (219.6), which is equivalent to 23.8 (16.2) percent of net revenues during the past 12 months, while inventories amounted to MSEK 184.4 (282.6), equivalent to 17.3 (20.8) percent of the same net revenues. The planned investment in a new head office on the Company's site in Sollentuna was deferred already in the late fall of 2001. This decision remains unchanged. This property is carried in the balance sheet at MSEK 92.4.

## CAPITAL EXPENDITURES

Capital expenditures during the quarter were low and amounted to MSEK 2.1 (28.2) relating to machinery and equipment, and MSEK 1.2 (66.2) relating to buildings and land. MSEK 2.8 (–) in product development has been capitalized and is reported under Other intangible assets.

## FINANCIAL POSITION

As of June 30, 2002 the equity ratio stood at 68.3 percent (56.6). At the beginning of the year this figure was 70.3 percent. Liquid funds at the end of the quarter amounted to MSEK 41.2 (18.6), while net liabilities amounted to MSEK 179.6 (370.2). Unutilized committed credit facilities amounted to MSEK 150.0 (60.0). As in the first quarter, cash flow after capital expenditures during the second quarter was positive, amounting to MSEK 2.6 (–52.6). The positive cash flow during the year was applied to reduce borrowing.

## EMPLOYEES

The number of employees as of June 30, 2002 was 865 (845). These figures include temporary personnel for the summer months. At the beginning of the year the number of employees was 719. The average number of employees during the quarter was 807 (886).

## PARENT COMPANY

The result after financial items for the first six months of the year was MSEK –7.9 (–2.9). Shareholders' equity as of June 30, 2002 was MSEK 861.8 (669.1). Capital expenditures during the first six months of the year amounted to MSEK 0.0 (5.4). Liquid funds at the end of the period amounted to MSEK 0.0 (0.0).

## ACCOUNTING PRINCIPLES

From January 1, 2002 LGP has implemented the following new recommendations from the Swedish Financial Accounting Standards Council: RR 1:00 Consolidated reporting, RR 15 Intangible assets, RR 16 Provisions, contingent liabilities and assets, RR 17 Writedowns, RR 21 Loan costs and RR 23 Information about closely affiliated parties. Implementation of RR 1:00, RR 16, RR 17, RR 21 and RR 23 has not had any major effect on results or financial position. According to RR 15 Intangible assets, expenses for development of new products should be reported as intangible assets to the extent such expenses with a high degree of certainty will lead to future economic benefits for the company. The cost of such intangible assets shall be amortized over their estimated useful life. Under LGP's application of the new rules, all development projects are carefully assessed. To justify capitalization of sunk costs, LGP's judgment has to be that customer orders will be received with a high degree of certainty. Under the accounting principles previously applied by LGP, all expenses for development of new products were expensed.

From January 1, 2002 foreign exchange translation differences attributable to operations are reported on a net basis as other income/expense. Comparative data have not been recalculated.

In all other respects the same accounting principles and calculation methods have been applied for the semi-annual report as for the most recent annual report.

## OUTLOOK

In the previous interim report dated April 23, 2002 the following outlook was offered: "No forecast for 2002 is offered. However, LGP finds no reason to have a different opinion on the telecom market during 2002 than other players. At present, LGP is noting a slowly increasing flow of orders in the telecom segment. The order situation for mechanical products is stable."

LGP has now the following opinion: No signs of improvement have been seen for the telecom market as a whole during the first six months of the year, and future prospects remain uncertain. In LGP's opinion, its niche of the telecom market will see a weakly positive development during the remainder of the year. The order situation for mechanical products is stable.

**ANALYSTS' AND PRESS MEETING**

At 8:30 a.m., Wednesday, August 21, at Operaterassen, Stockholm

**SCHEDULE OF FUTURE INFORMATION**

Interim Report January–September	October 22, 2002
Financial Report for 2002	January 30, 2003
Annual General Meeting	March 20, 2003
Interim Report January–March	April 24, 2003
Interim Report January–June	July 11, 2003
Interim Report January–September	October 17, 2003

Stockholm, August 21, 2002

Board of Directors

This interim report has been reviewed by LGP's auditors.

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# SUMMARY CONSOLIDATED STATEMENTS OF INCOME

	April–June 2002	April–June 2001	Jan.–June 2002	Jan.–June 2001	Jan.–Dec. 2001
MSEK					
Net revenues	317.9	279.7	583.9	655.7	1 134.7
Cost of goods sold	–286.8	–246.8	–500.9	–519.5	–922.2
<b>Gross profit</b>	<b>31.1</b>	<b>32.9</b>	<b>83.0</b>	<b>136.2</b>	<b>212.5</b>
Selling expenses	–25.6	–22.9	–47.4	–44.2	–91.2
Administrative expenses	–16.5	–15.4	–34.7	–33.7	–62.9
Research and development expenses	–20.3	–23.4	–38.9	–45.5	–87.2
Other operating income/expense	–5.3	–0.3	–4.8	0.2	1.6
<b>Operating result</b>	<b>–36.6</b>	<b>–29.1</b>	<b>–42.8</b>	<b>13.0</b>	<b>–27.2</b>
Financial items	–1.9	–5.3	–8.3	–8.2	–20.3
<b>Loss/profit after financial items</b>	<b>–38.5</b>	<b>–34.4</b>	<b>–51.1</b>	<b>4.8</b>	<b>–47.5</b>
Taxes	7.3	9.8	9.3	–2.8	11.2
<b>Net loss/profit for the period</b>	<b>–31.2</b>	<b>–24.6</b>	<b>–41.8</b>	<b>2.0</b>	<b>–36.3</b>

# DEPRECIATION AND AMORTIZATION

	April–June 2002	April–June 2001	Jan.–June 2002	Jan.–June 2001	Jan.–Dec. 2001
MSEK					
Amortization of goodwill	–4.9	–4.9	–9.8	–9.8	–19.7
Amortization of other intangible assets	0.0	–	0.0	–	–
Depreciation of tangible fixed assets	–22.6	–20.0	–44.3	–42.7	–86.9
<b>Total</b>	<b>–27.5</b>	<b>–24.9</b>	<b>–54.1</b>	<b>–52.5</b>	<b>–106.6</b>

# PER-SHARE DATA ADJUSTED FOR STOCK DIVIDENDS, NEW ISSUES AND SPLITS \*

		April–June 2002	April–June 2001	Jan.–June 2002	Jan.–June 2001	Jan.–Dec. 2001
Earnings per share, SEK	Before dilution	–1.03	–0.89	–1.38	0.07	–1.31
	After dilution	–1.03	–0.89	–1.38	0.07	–1.31
Shareholders' equity per share, SEK	Before dilution	33.14	32.26	33.14	32.26	34.69
	After dilution	33.14	32.26	33.14	32.26	34.69
Average number of shares outstanding, thousands	Before dilution	30 250	27 764	30 250	27 764	27 791
	After dilution	30 250	27 764	30 250	27 764	27 791
Number of shares outstanding, thousands	Before dilution	30 250	27 764	30 250	27 764	30 250
	After dilution	30 250	27 764	30 250	27 764	30 250

\* Option programs outstanding generate no dilutive effects.

# NET REVENUES BY BUSINESS AREA

	April–June 2002	April–June 2001	Jan.–June 2002	Jan.–June 2001	Jan.–Dec. 2001
MSEK					
Telecom	224.1	215.5	399.3	514.8	877.7
Contract manufacturing	93.8	64.2	184.6	140.9	257.0
<b>Total</b>	<b>317.9</b>	<b>279.7</b>	<b>583.9</b>	<b>655.7</b>	<b>1 134.7</b>

# NET REVENUES BY GEOGRAPHIC MARKET

MSEK	April–June 2002	April–June 2001	Jan.–June 2002	Jan.–June 2001	Jan.–Dec. 2001
Europe <sup>1)</sup>	256.9	216.3	460.1	506.7	910.5
North and South America	32.8	26.2	60.6	75.4	113.9
Asia	23.5	36.9	52.8	72.6	106.8
Other	4.7	0.3	10.4	1.0	3.5
<b>Total</b>	<b>317.9</b>	<b>279.7</b>	<b>583.9</b>	<b>655.7</b>	<b>1 134.7</b>

1) Contains among other things OEM sales to Ericsson, Nokia, Siemens and Motorola where the final destination can be outside Europe.

# SUMMARY CONSOLIDATED BALANCE SHEETS

MSEK	June 30, 2002	Dec. 31, 2001	June 30, 2001
Goodwill	345.1	355.0	366.1
Other intangible fixed assets	5.1	–	–
Tangible fixed assets	596.8	631.8	638.8
Financial assets	4.7	4.3	2.4
Inventories	184.4	228.1	282.6
Short-term receivables	289.6	219.4	272.8
Cash and bank balances	41.2	54.1	18.6
<b>Total assets</b>	<b>1 466.9</b>	<b>1 492.7</b>	<b>1 581.3</b>
Shareholders' equity	1 002.5	1 049.6	895.8
Provisions	32.2	38.3	49.7
Interest-bearing liabilities	220.8	269.6	388.8
Non-interest-bearing liabilities	211.4	135.2	247.0
<b>Total shareholders' equity and liabilities</b>	<b>1 466.9</b>	<b>1 492.7</b>	<b>1 581.3</b>

# CONSOLIDATED CASH FLOW

MSEK	Jan.–June 2002	Jan.–June 2001
Cash flow from current operations	46.9	82.3
Change in working capital	5.3	–98.7
Cash flow from investment operations	–14.2	–116.3
Cash flow after capital expenditures	38.0	–132.7
Cash flow from financing operations	–51.0	96.5
Change in liquid funds	–13.0	–36.2

# KEY FINANCIAL INDICATORS

	June 30, 2002	June 30, 2001
Operating margin, %	–7.3	2.0
Profit margin, %	–8.7	0.7
R&D in percent of revenues <sup>1)</sup>	6.7	6.2
Return on equity, % <sup>2)</sup>	–8.4	8.1
Return on capital employed, % <sup>2)</sup>	–6.3	7.8
Equity ratio, %	68.3	56.6
Market price of share, SEK	29	89

<sup>1)</sup> Not including amortization of goodwill, but including capitalized development expense.

<sup>2)</sup> Refers to return during the past 12 months.

## CHANGE IN SHAREHOLDERS' EQUITY

	Jan.–June 2002	Jan.–June 2001
<b>MSEK</b>		
Opening balance	1 049.6	928.6
Dividend	–	–37.5
Translation difference	–5.3	2.7
Net result for the period	–41.8	2.0
Closing balance	1 002.5	895.8

## CONSOLIDATED STATEMENT OF INCOME, BY QUARTER

	Q 2 2002	Q 1 2002	Q 4 2001	Q 3 2001	Q 2 2001	Q 1 2001	Q 4 2000	Q 3 2000
<b>MSEK</b>								
Net revenues	317.9	266.0	249.9	229.1	279.7	376.0	386.9	314.0
Cost of goods sold	–286.8	–214.1	–218.6	–184.1	–246.8	–272.7	–271.3	–212.4
<b>Gross profit</b>	<b>31.1</b>	<b>51.9</b>	<b>31.3</b>	<b>45.0</b>	<b>32.9</b>	<b>103.3</b>	<b>115.6</b>	<b>101.6</b>
Selling expenses	–25.6	–21.8	–23.3	–23.7	–22.9	–21.3	–25.3	–21.0
Administrative expenses	–16.5	–18.2	–14.8	–14.4	–15.4	–18.3	–20.8	–12.8
Research and development expenses	–20.3	–18.6	–22.1	–19.6	–23.4	–22.1	–20.0	–14.8
Items affecting comparability	–	–	–	–	–	–	–8.2	–
Other operating income/expense	–5.3	0.5	1.2	0.2	–0.3	0.5	–0.2	0.4
<b>Operating result</b>	<b>–36.6</b>	<b>–6.2</b>	<b>–27.7</b>	<b>–12.5</b>	<b>–29.1</b>	<b>42.1</b>	<b>41.1</b>	<b>53.4</b>
Financial items	–1.9	–6.4	–7.0	–5.1	–5.3	–2.9	–0.7	–1.9
<b>Result after financial items</b>	<b>–38.5</b>	<b>–12.6</b>	<b>–34.7</b>	<b>–17.6</b>	<b>–34.4</b>	<b>39.2</b>	<b>40.4</b>	<b>51.5</b>
Taxes	7.3	2.0	9.7	4.3	9.8	–12.6	–13.2	–15.9
<b>Net result for the period</b>	<b>–31.2</b>	<b>–10.6</b>	<b>–25.0</b>	<b>–13.3</b>	<b>–24.6</b>	<b>26.6</b>	<b>27.2</b>	<b>35.6</b>

## CONSOLIDATED BALANCE SHEET, BY QUARTER

	Q 2 2002	Q 1 2002	Q 4 2001	Q 3 2001	Q 2 2001	Q 1 2001	Q 4 2000	Q 3 2000
<b>MSEK</b>								
Goodwill	345.1	350.1	355.0	359.9	366.1	371.0	376.0	386.0
Other intangible fixed assets	5.1	2.3	–	–	–	–	–	–
Tangible fixed assets	596.8	611.8	631.8	641.2	638.8	558.9	500.9	404.0
Financial assets	4.7	4.7	4.3	2.6	2.4	2.8	2.7	1.5
Inventories	184.4	218.9	228.1	270.8	282.6	290.7	229.9	190.6
Short-term receivables	289.6	220.6	219.4	233.0	272.8	301.5	314.2	303.3
Cash and bank balances	41.2	47.4	54.1	30.3	18.6	48.5	54.8	42.4
<b>Total assets</b>	<b>1466.9</b>	<b>1455.8</b>	<b>1492.7</b>	<b>1537.8</b>	<b>1581.3</b>	<b>1573.4</b>	<b>1478.5</b>	<b>1327.8</b>
Shareholders' equity	1002.5	1035.0	1049.6	887.7	895.8	956.9	928.6	900.1
Provisions	32.2	37.5	38.3	50.5	49.7	49.1	49.1	71.1
Interest-bearing liabilities	220.8	228.5	269.6	407.6	388.8	313.3	241.6	178.0
Non-interest-bearing liabilities	211.4	154.8	135.2	192.0	247.0	254.1	259.2	178.6
<b>Total shareholders' equity and liabilities</b>	<b>1466.9</b>	<b>1455.8</b>	<b>1492.7</b>	<b>1537.8</b>	<b>1581.3</b>	<b>1573.4</b>	<b>1478.5</b>	<b>1327.8</b>

# KEY FINANCIAL INDICATORS, BY QUARTER

	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1	Q 4	Q 3
	2002	2002	2001	2001	2001	2001	2000	2000
Earnings per share, SEK	-1.03	-0.35	-0.90	-0.48	-0.89	0.96	0.98	1.28
Operating margin, %	-11.5	-2.3	-11.1	-5.5	-10.4	11.2	12.7 <sup>2)</sup>	17.0
Profit margin, %	-12.1	-4.7	-13.9	-7.7	-12.3	10.4	12.6 <sup>2)</sup>	16.4
R&D in percent of revenues <sup>3)</sup>	6.5	6.9	7.8	7.5	7.5	5.2	4.5	3.9
Return on equity, % <sup>4)</sup>	-8.4	-7.4	-3.7	3.9 <sup>2)</sup>	8.1 <sup>2)</sup>	14.1 <sup>1,2)</sup>	14.6 <sup>1,2)</sup>	13.6 <sup>1,2)</sup>
Return on capital employed, % <sup>4)</sup>	-6.3	-5.7	-1.9	4.6 <sup>2)</sup>	7.8 <sup>2)</sup>	17.3 <sup>1,2)</sup>	18.3 <sup>1,2)</sup>	17.7 <sup>1,2)</sup>
Equity ratio, %	68.3	71.0	70.3	57.7	56.6	60.8	62.8	67.8
Shareholders' equity per share, SEK	33.1	34.2	34.7	32.0	32.3	34.5	33.4	32.4
Market price of share, SEK	29	53	77.5	57.5	89	130	233	235
Average number of shares outstanding, thousands	30 250	30 250	27 791	27 764	27 764	27 764	27 764	27 764
Number of shares outstanding at end of period, thousands	30 250	30 250	30 250	27 764	27 764	27 764	27 764	27 764

<sup>1)</sup> Not including surplus funds from SPP.

<sup>2)</sup> Not including items affecting comparability.

<sup>3)</sup> Not including amortization of goodwill, but including capitalized development expenses.

<sup>4)</sup> Refers to return over the most recent 12-month period.

The LGP Group develops, manufactures and markets telecom products that improve radio coverage, capacity and data transmission speed in mobile communication networks all over the world. LGP conducts advanced research and development in the field of integrated radio and RF filter solutions. The Group has three telecom development units and some ten sales companies outside Sweden.

In its niche, the Group is also a leading contract manufacturer of advanced industrial components.

The Group has a total of five production units and about 850 employees. LGP Telecom Holding is listed on the Attract40 list of the Stockholm Stock Exchange.

## LGP Telecom Holding AB

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