

Interim report January – September 2002

Third quarter

- Earnings net of financial items for the third quarter amounted to SEK -5.6 million (-1.5m), including non-recurring costs of SEK 4.9 million for a savings programme.
- Revenues for the third quarter totalled SEK 58.3 million (64.9m).
- The number of employees has been reduced by 30 people since May this year, corresponding to 12 per cent of the company's workforce. Savings of SEK 18.5 million calculated on a full-year basis. The full effect of these measures will be noticed from the fourth quarter.
- Contracts for Frango Controller were signed with the Swedish Postal Service (Posten i Sverige), Gamma Holding in the Netherlands and the Raiso Group in Finland, among others.
- The company reported a positive cash flow for the period, SEK 2.9 million.

Nine months

- Earnings net of financial items amounted to SEK -24.5 million (10.9m) for the reporting period. The decline in earnings is attributable to weaker market conditions for software, non-recurring costs amounting to SEK 4.9 million, unrealised exchange losses of SEK 7.6 million, the net effect of higher development expenses in the income statement, which was SEK 8.3 million higher than last year and higher depreciation of SEK 4.3 million.
- Revenues for the period January to September totalled SEK 183.9 million (184.2m).
- The average number of employees for the period was 226 (210).
- The equity ratio at the end of the period was 41 per cent (49%).

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 July – September 2002

Magnus Larson resigned from his position as Managing Director of Frango in September. To replace him, Frango's Board of Directors has appointed Tom Löfstedt, the company's founder, as acting MD. Tom Löfstedt thus resumes a fully operational role in the company. The board intends to discuss whether to make this appointment permanent or to initiate a recruitment process prior to next year's Annual General Meeting of shareholders. Severance pay to the Managing Director has been included under non-recurring costs.

During the quarter, contracts for Frango Controller were signed with the Swedish Postal Service (Posten i Sverige), Gamma Holding in the Netherlands and the Raiso Group in Finland, among others.

Frango has signed a co-operation agreement with software supplier BAAN, a division of Invensys Plc. BAAN will offer its customers Frango's products as part of its iFinance solution. BAAN has more than 15,000 customers, operating primarily in manufacturing industries.

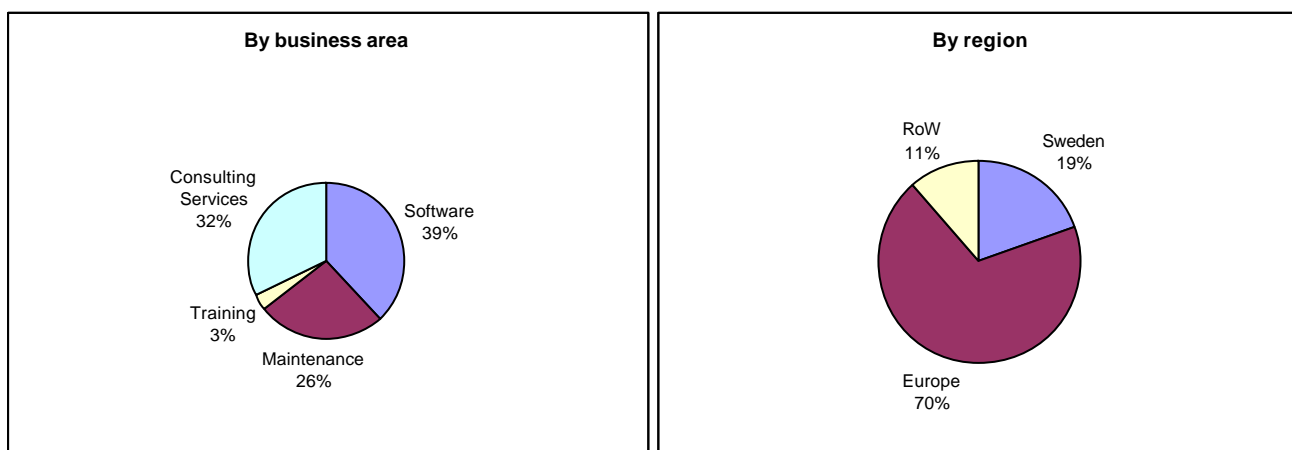
Frango has also signed a marketing agreement with DataNet Group GmbH regarding the distribution of Frango's products in Austria, the Czech Republic, Hungary, Slovakia, Slovenia and Croatia.

Sales trends and earnings

January - September 2002

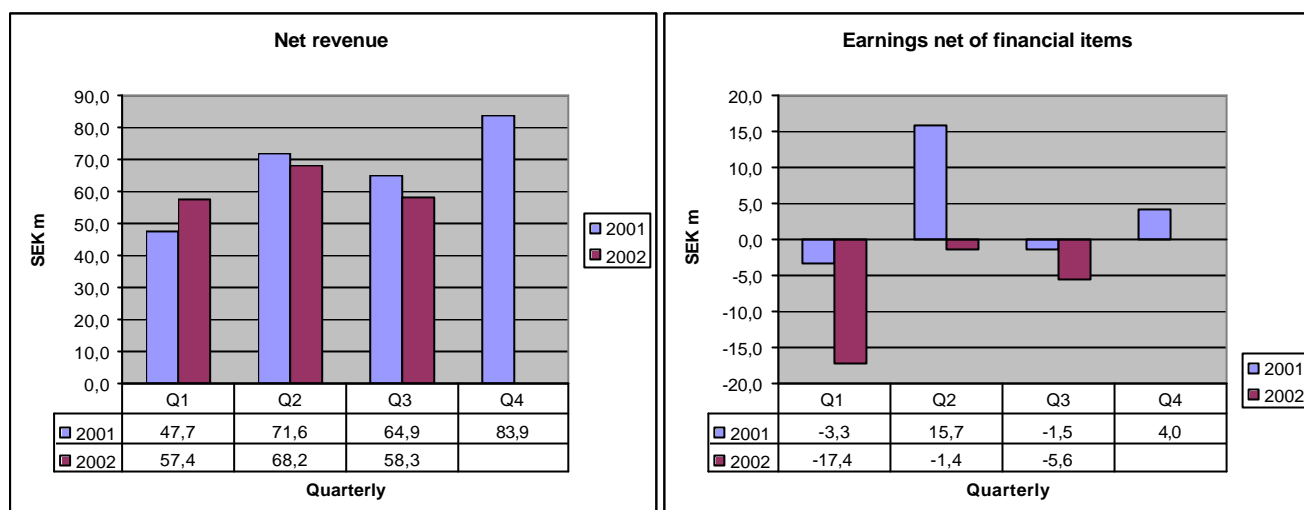
The first nine months of the year have been weaker than expected. The period has been characterised by more cautious attitudes and investment trends in software have been adversely affected by the slow rate of economic development. The international launch of Frango Controller has been well received in evaluation processes. In addition to software installations ordered by new customers, several installations are currently being implemented for existing customers, who will together make up an important reference group. The last quarter of the year is traditionally Frango's strongest quarter.

Net revenue January – September 2002



Revenues for the first nine months of 2002 amounted to SEK 183.9 million, virtually the same level as the previous year. The proportion of revenues attributable to new licences during the period was 39 per cent, compared with 45 per cent for 2001. Customers outside Sweden accounted for 81 per cent (83%) of overall revenues. Looking at Europe as a whole, which is Frango's main market, sales rose by 7 per cent, whereas to other markets, sales were considerably lower compared to the previous year, declining by 35 per cent. Revenues from software licences were SEK 12.3 million lower than the previous year and amounted to SEK 70.2 million (82.6m). Revenues for maintenance continued to show strong growth, rising by 34 per cent. Revenues from consulting services improved slightly, by 4 per cent. Earnings net of financial items totalled SEK -24.5 million, to be compared with SEK 10.9 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 -3.7 million. The situation last year was the opposite, resulting in positive exchange rate differences of SEK 3.9 million. External royalty costs rose by SEK 2.1 million compared to the previous year. The net effect of development expenses on the income statement was SEK 8.3 million higher than last year. Cost-saving measures taken during the period have generated non-recurring costs. Since May this year, the number of employees has been reduced by 30 people, and these redundancies have led to a number of severance packages. Including the severance pay for the Managing Director, non-recurring costs amount to SEK 4.9 million. These measures have led to a reduction in personnel expenses, which, based on a calculation for the full year, amounts to SEK 18.5 million. The full benefit of these measures will start to show from Q4 onwards.

Operating expenses, before the capitalisation of development expenses, rose from SEK 185.0 million to SEK 214.7 million compared with the corresponding period of the previous year. Of overall operating expenses, a total of SEK 6.8 million (12.1m), 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. The cost-saving measures already taken have resulted in lower operating expenses overall for the third quarter compared with earlier quarters of 2002 and the previous year (see table below).



	9 months 2002	9 months 2001	Change in %	Q3 2002	Q2 2002	Change in %
Operating expenses						
Other external expenses	-68 079	-61 507	10,7%	-17 127	-24 550	-30,2%
Personnel expenses	-128 449	-122 203	5,1%	-39 064	-43 903	-11,0%
Depreciation of fixed assets	-9 545	-5 258	81,6%	-3 401	-3 080	10,4%
Adjusted operating expenses	-206 073	-188 967	9,1%	-59 592	-71 533	-16,7%
Exchange rate differences	-3 709	3 924		109	-1 804	
Non-recurring costs	-4 900	0		-4 900	0	
Capitalised devt. expenditure software	6 828	12 127	-43,7%	713	3 586	-80,1%
Operating expenses net	-207 854	-172 917	20,2%	-63 670	-69 751	-8,7%

July – September 2002

Sales revenues during the period July – September 2002 were down compared with the corresponding period last year, from SEK 64.9 million to SEK 58.3 million. This is primarily attributable to a fall in revenues from licence sales, although revenues from consulting and training services were also on the decline. Revenues from maintenance continued to improve, rising by 25 per cent. The proportion of revenues attributable to new licences during the third quarter was 35 per cent, compared with 41 per cent for the third quarter of 2001. The economy showed no signs of improvement during the quarter. Despite the positive reception of Frango Controller, the company is still at the stage where sales of new licences for Frango Controller do not yet compensate for the decline in sales for Frango Consolidator.

Earnings net of financial items amounted to SEK -5.6 million, to be compared with SEK -1.5 million for the third quarter of 2001. Adjusted for non-recurring costs, this is an improvement compared to the previous year. Non-recurring personnel expenses of SEK 4.9 million were charged to quarterly earnings. Overall operating expenses, including non-recurring costs, fell by 4 per cent compared with the corresponding period of the previous year and by 9 per cent compared with the second quarter. Personnel expenses, adjusted for non-recurring costs, were down 11 per cent compared with the second quarter.

Rolling 12 months

Based on the developments noted during a rolling twelve-month cycle, from October 2001 to September 2002, revenues amounted to SEK 267.7 million, to be compared with SEK 248.8 million as at 30 September 2001. This corresponds to an 8 per cent improvement in revenues.

Earnings net of financial items calculated on a rolling twelve-month basis amounted to SEK -20.4 million, compared with the third quarter of the previous year, when rolling twelve-month earnings amounted to SEK 19.3 million. In addition to the above-mentioned comments relating to the first nine 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 last six months of 2001. Further, non-recurring costs of around SEK 8 million were charged to the income statement for the fourth quarter 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. This means that the company can now offer customers two consolidation systems: Frango Consolidator and Frango Controller. The overall development and maintenance costs for the period January – September 2002 amounted to around SEK 29 million (26m), including development costs of SEK 6.8 million (12.1m) that have been capitalised in the balance sheet. The capitalised development expenses are related to the development of Web-based add-ons to Frango Controller, to manual and online help costs for Frango Controller and to costs related to the international version of Frango Controller. Continued development efforts will focus improving further the functionality of Frango Controller. During the period 1 January 2001 to 30 September 2002, a total of SEK 20.8 million (12.1m) relating to the development of new products has been capitalised in the balance sheet. Depreciation has already begun and depreciation of SEK 3.7 million (0m) has been charged to the net earnings for the period.

Market

The market for business systems during the first nine months of the year has been sluggish. 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 amount of orders concluded and the timing thereof. The view of company management is that the anticipated market growth has either failed to materialise or been negative. Frango, however, has continued to capture market share in Europe. The company's

business sector should experience a recovery in market growth during 2003. IDC forecasts a growth rate of 11 - 13 per cent in 2003 for Frango's market segments. Around 40 per cent of the company's potential target groups have yet to invest in adequate systems for group reporting. Such systems will, for many of these companies, be necessary to fulfil the requirements of new international accounting standards (IAS) within the EU by no later than 2005. In the European market, there have been signs of increasing activity to evaluate group controlling systems in preparation for the transition to IAS in 2005.

Employees

The average number of employees during the period was 226 (210). At the end of September, the number of employees was 226, to be compared with 234 last year. Since the beginning of May, the number of employees has been reduced by 30 people, which will result in a reduction in personnel expenses.

Liquidity, investments and financial position

The company's financial position is satisfactory. The company reported a negative cash flow for the nine months, SEK -12.4 million (-8.2m). The Group's liquid funds at the end of the period amounted to SEK 20.9 million (29.4m). Including short-term investments, liquid assets amounted to SEK 22.2 million (37.4m). The company reported a positive cash flow for the third quarter, SEK 2.9 million. Liquid funds have thus been reinforced since the end of the second quarter. 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 bank overdraft facility of SEK 10 million. At the end of September, this facility had not been used. The cash flow at the end of the year is generally positive. For the full year, the company expects to report a positive cash flow and liquid funds, including short-term investments, are expected to return to or exceed the levels reported for the beginning of the year, SEK 36.6 million. The equity ratio at the end of September was 41 per cent (49%). Investments for the period amounted to SEK 10.3 million (20.5m), including SEK 6.8 million (12.1m) 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 63.1 million. The reduction in shareholders' equity - SEK 20.5 million since the turn of the year - is the result of a SEK -19.4 million reduction in net earnings for the period and negative translation differences of SEK -1.1 million.

Parent Company

Parent Company revenues amounted to SEK 44.8 million (47.4m), including intra-group invoicing of SEK 44.8 million (45.7m). Earnings net of financial items amounted to SEK -21.8 million (1.6m). Investments for the period amounted to SEK 1.6 million (2.4m). The Parent Company's liquid funds at the end of the period, including short-term investments, amounted to SEK 3.0 million (4.0m).

Developments in the share price

The year has been characterised by a low turnover and falling share prices. During the first nine months of 2002, a total of 873,424 shares (990,202) were traded, with share purchases representing a turnover of SEK 57.8 million (117.3m) for the period. This corresponds to an average share price of around SEK 66 (118). The highest share price noted during the period was on 3 and 4 January, when the share closed at SEK 97 and the lowest share price was on 25 September and 30 September, when the share closed at SEK 24. A total of 225,877 shares were traded in the third quarter (271,876), representing a turnover of SEK 8.3 million (28.7m), which corresponds to an average share price of SEK 37 (105). On 30 September, the Frango share closed at SEK 23. Frango's market capitalisation at the end of September was SEK 106 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 for the past twelve months have been significantly affected by the weak and uncertain economic climate. The weak start to the year justified a number of cost-saving measures. Some non-recurring costs have been charged to third quarter earnings. At the same time, these measures will help reduce cost levels, which, if calculated on the basis of a full year, would correspond to SEK 18.5 million in personnel expenses alone. Additional cost reductions of around SEK 3 million can be added to this figure. The benefits of those cost-reduction measures taken will have a positive effect on earnings during the fourth quarter. Further, higher sales revenues are expected during the fourth quarter, 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. Further, Frango's new software, Frango Controller, has received a very positive reception from the market.

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. The recent debate following a number of accounting scandals 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. Further, the implementation of new international accounting standards (IAS) within the EU by no later than 2005 means that many companies will need to review their requirements for group reporting systems, and this trend will help boost Frango's revenues.

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 year-end report for 2002 will be released on 22 January 2003.

Stockholm, 11 October 2002

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Review report

We have reviewed this Interim Report in accordance with the recommendation issued by the FAR^{*)}. A review is substantially less comprehensive in scope than an audit. Nothing has come to our attention, indicating that this Interim report does not satisfy the requirement of the Swedish Annual Accounts Act.

Stockholm, 11 October 2002

Owe Wallinder

Authorised Public Accountant

Anders Malmeby

Authorised Public Accountant

^{*)} The Swedish Institute of Authorised Public Accountants

Consolidated Income Statement

<i>SEK '000</i>	9 months 2002	9 months 2001	Change in %	Rolling 12 months	Full year 2001
Software	70 206	82 554	-15,0%	110 391	122 739
Maintenance	48 451	36 158	34,0%	63 318	51 024
Consulting Services	59 707	57 510	3,8%	86 164	83 967
Training	5 496	7 931	-30,7%	7 848	10 284
Net revenue	183 859	184 153	-0,2%	267 721	268 015
Operating expenses					
Other external expenses	-71 788	-57 582	24,7%	-102 508	-88 302
Personnel expenses	-133 349	-122 203	9,1%	-182 080	-170 935
Capitalised devt. expenditure software	6 828	12 127		8 663	13 961
Depreciation of fixed assets	-9 545	-5 258	81,6%	-11 890	-7 602
Operating earnings	-23 995	11 236		-20 095	15 136
<i>Operating margin</i>	-13%	6%		-8%	6%
Interest income and other financial items	197	518		378	698
Interest expenses and other financial items	-653	-832		-699	-878
Net interest income	-455	-314		-321	-180
Earnings net of financial items	-24 450	10 922		-20 416	14 957
<i>Profit margin</i>	-13%	6%		-8%	6%
Tax on net earnings	5 017	-3 206		4 824	-3 399
Minority share of net earnings	2	-1		1	-2
Net earnings	-19 431	7 715		-15 590	11 555
Earnings per share, SEK	-4,26	1,69		-3,42	2,53
Earnings per share after full dilution, SEK	-3,90	1,59		-3,13	2,32

Consolidated Balance Sheet

<i>SEK '000</i>	30 September 2002	30 September 2001	31 December 2001
Assets			
Intangible fixed assets	16 671	12 127	13 577
Tangible fixed assets	12 249	15 905	15 438
Total fixed assets	28 920	28 032	29 015
Accounts receivable	62 362	76 931	73 570
Other current assets excl. liquid funds	39 423	21 008	39 469
Short-term investments	1 326	8 032	8 017
Cash and bank balances	20 894	29 412	28 558
Total current assets	124 005	135 384	149 613
Total assets	152 925	163 416	178 629
Shareholders' equity and liabilities			
Shareholders' equity	63 068	79 553	83 577
Minority shares	9	11	11
Provisions, interest-bearing	3 157	2 261	2 495
Provisions, non-interest bearing	6 180	2 616	5 326
Interest-bearing liabilities	451	811	380
Current liabilities	80 060	78 164	86 839
Total shareholders' equity and liabilities	152 925	163 416	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	Q 3
Software	10 443	31 606	29 657	35 734	18 692	37 545	26 317	40 185	18 338	31 392	20 476
Maintenance	6 243	6 969	8 242	9 532	10 973	12 101	13 084	14 867	16 555	15 500	16 396
Consulting Services	10 365	9 389	13 623	17 219	16 454	19 085	21 971	26 457	21 460	18 374	19 872
Training	789	1 967	2 752	2 162	1 542	2 829	3 561	2 353	1 005	2 916	1 575
Net revenue	27 841	49 932	54 274	64 647	47 660	71 560	64 933	83 862	57 357	68 183	58 319
% of total net sales for the year	14%	25%	28%	33%	18%	27%	24%	31%			
Revenue change in %	31%	56%	60%	52%	71%	43%	20%	30%	20%	-5%	-10%
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	-17 018
Personnel expenses	-26 579	-27 800	-29 151	-33 548	-39 631	-38 773	-43 800	-48 732	-45 482	-43 903	-43 964
Capitalised devt. expenditure software	0	0	0	0	5 806	5 565	756	1 835	2 530	3 586	713
Depreciation of fixed assets	-1 115	-1 329	-1 461	-1 705	-1 538	-1 768	-1 952	-2 345	-3 064	-3 080	-3 401
Operating earnings	-12 551	4 671	8 297	8 561	-3 362	15 994	-1 395	3 900	-17 076	-1 568	-5 351
Net interest income	315	47	-252	-173	83	-269	-128	134	-360	149	-244
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	-5 595
<i>Profit margin %</i>	<i>-43,9%</i>	<i>9,4%</i>	<i>14,8%</i>	<i>13,0%</i>	<i>-6,9%</i>	<i>22,0%</i>	<i>-2,3%</i>	<i>4,8%</i>	<i>-30,4%</i>	<i>-2,1%</i>	<i>-9,6%</i>
Tax on net earnings	3 425	-1 321	-2 252	-1 319	918	-4 237	113	-193	4 177	248	593
Minority share of net earnings	0	-4	-1	3	0	0	-1	-1	6	-2	-1
Net earnings	-8 810	3 393	5 792	7 072	-2 362	11 487	-1 411	3 841	-13 254	-1 173	-5 004

Cash flow	9 months	9 months	Full year
	2002	2001	2001
Earnings net of financial items	-24 450	10 922	14 957
Depreciation, provisions, capital gains etc	13 609	5 706	9 071
Tax paid	-1 204	-3 206	-2 397
Change in tax liabilities/receivables	1 703	843	-2 192
Change in working capital	7 744	-2 003	-3 685
Cash flow from operations	-2 598	12 262	15 754
Investment operations	-9 895	-19 938	-24 460
Financing operations	70	-571	-1 003
Cash flow	-12 422	-8 248	-9 709

Financial ratios	9 months	9 months	Rolling	Full year
	2002	2001	12 months	2001
Capital employed, SEK m	66,7	82,6	66,7	86,5
Equity ratio, %	41%	49%	41%	47%
Return on capital employed, %			-26%	20%
Return on total capital, %			-12%	10%
Return on equity, %			-22%	15%
Average number of permanent employees	226	210		209
Number of employees	226	234		234

Per share data

Earnings per share, SEK	-4,26	1,69	-3,42	2,53
Earnings after full dilution, SEK	-3,90	1,59	-3,13	2,32
Shareholders' equity, SEK	13,82	17,43	13,82	18,31
Shareholders' equity after full dilution, SEK	12,29	16,42	12,29	16,29
Share price, SEK	23,20	92,00		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 options	4988000	4845000	4988000	4988000