



## **PRESS RELEASE**

Observer AB is quoted on the Attract 40 section of Stockholmsbörsen's O-list and has approximately 27,000 shareholders.

**Stockholm, Sweden, October 29, 2002**

### **Observer AB (publ) Interim report January – September 2002**

**Further improvement in the operating margin. Operations in the U.S. reported positive organic growth.**

- The group's operating revenue rose to SEK 1,272.3 million (954.8), an increase of 33.3 percent. Organic growth in local currency was -2 percent (9).
- Operating profit before goodwill amortization and items affecting comparability rose to SEK 234.3 million (160.6). For comparable units, profit rose by 8 percent. The operating margin improved to 18.4 percent (16.8).
- All regions improved their profits compared to the third quarter 2001. The quarterly operating margin rose to 17.6 percent compared to 16.2 percent in the corresponding period of the previous year.
- Profit per share after tax and full dilution, excluding goodwill amortization and items affecting comparability, amounted to SEK 2.22 (1.68).
- Cash flow from operating activities was further strengthened to SEK 165.5 million (16.2).
- The integration of Bacon's of the U.S. is progressing according to plan, and the company reported positive organic growth during the third quarter.

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#### **Comment by Observer CEO Robert Lundberg**

"The market in several countries appears to have stabilized. Whether this will result in a general improvement depends on economic development and is therefore difficult to determine. The positive profit trend is a consequence of our cost controls. The focus on operating margins will continue until we have seen clear evidence of an improved economy.



## **Market**

A number of underlying trends indicate good long-term prospects for Observer's services. Globalization, growing information flows and rapid technological developments are giving businesses and organizations more reason than ever to monitor developments in their industries and society. At the same time, there is a growing need to improve communication in Public Relations (PR) and Investor Relations (IR) and evaluate the results of communication activities.

### *Media Intelligence*

The weak economy has distinguished the market in 2002. The flow of relevant business news has been weak and media coverage has declined due to poor advertising spending.

Slow economic development has led to less PR and IR activity. Observer's Media Intelligence services, on the other hand, continue to resist the slowdown better than the market for PR services in general. While leading global PR firms have reported negative growth of around 10 percent in 2002, Observer has developed significantly better.

A broad range of services, an international presence and the opportunity to utilize economies of scale remain decisive factors for maintaining a strong market position and good profitability. The market for analytical services remains good.

### *Communication Tools*

Growth in *Communication Tools*' services is also being affected by the weak economy, which has slowed IR and PR activity.

As a result of lower client activity, the number of projects in the Publish (distribution) area has declined. In the Select (database) area, revenue is based on annual subscriptions and has remained stable despite current market conditions. Select's sales in key markets such as the U.S. and UK are progressing well.

With the acquisition of Bacon's of the U.S. in late 2001, Observer's operations in the Select (database) area have grown, which has meant a greater seasonal variation in the group's revenue. Normally, Select's sales in the U.S. are concentrated in the first and fourth quarters.

## **Revenue**

Operating revenue amounted to SEK 1,272.3 million (954.8), an increase of 33.3 percent. Of this total, *Media Intelligence* accounted for SEK 975.1 million (763.1) and *Communication Tools* for SEK 313.3 million (203.6).

Organic growth in local currency remains stable at the same level as earlier in the year, amounting to -2 percent in both the third quarter and the period January-



September. Organic growth in the Nordic countries was -5 percent, while the rest of Europe as a whole reached +1 percent.

In comparison with the third quarter of the previous year (pro forma), Bacon's of the U.S. reported positive organic growth for the period July-September 2002. The company is consolidated as of December 2001.

In the Nordic countries, value-added services accounted for 38 percent (38) of *Media Intelligence's* revenue, while in the UK and Germany the share was 8 percent (5).

### **Profit**

The group's operating profit before goodwill amortization and items affecting comparability amounted to SEK 234.3 million (160.6). Operating profit was charged during the period with SEK 8.1 million for integration costs in the U.S.

The operating margin rose to 18.4 percent (16.8). The *Media Intelligence* division reached an operating margin of 18.2 percent (15.4) and *Communication Tools* 26.0 percent (24.8).

As a result of cost controls, good operating margins were maintained during the seasonally weak third quarter. In all regions, margins improved compared to the corresponding period of the previous year. The third quarter's operating margin was 17.6 percent, against 16.2 percent last year.

Net financial income and expenses amounted to SEK -52.8 million (-25.2), which includes a net interest expense of SEK -58.0 million, exchange rate effects of SEK +5.9 million and other items of SEK -0.7 million.

Profit after tax for the period amounted to SEK 19.4 million (21.9). Profit per share after tax and full dilution, excluding goodwill amortization and items affecting comparability, amounted to SEK 2.22 (1.68). The lower tax charge during the second and third quarters is due to the U.S. acquisition, which will also reduce taxes in the future.

Profit was not charged with any provisions for social security expenses on potential benefits that would arise from the appreciation in value of employee stock options.

### **Growth and profit objective**

Observer's long-term financial objective remains unchanged. The objective is to maintain annual organic growth of at least 10-15 percent. In addition, expansion will be achieved through acquisitions.



The group strives to maintain a long-term operating margin before goodwill amortization and items affecting comparability of 22 percent. Acquisitions of companies with low margins and special investments may temporarily result in a lower margin, however.

### **Financial position**

In addition to high organic growth, Observer's growth strategy is based on acquisitions in new geographic markets. Acquisitions of companies with strong market positions lead to considerable goodwill. The total goodwill item on the balance sheet amounts to SEK 2,707.1 million. Since December 31, 2001 goodwill has decreased by SEK 344.1 million, of which SEK 250.8 million consists of exchange rate effects.

Cash flow from operating activities improved to SEK 165.5 million (16.2). The group's financial position is strong and liquid assets amounted to SEK 400 million at the end of the period.

In order to improve flexibility in the company's capital structure, the Board of Directors will consider at the next Annual General Meeting whether to complement Observer's dividend policy with a proposal to repurchase its own shares.

Shareholders' equity amounted to SEK 1,981.2 million (1,700.9) at the end of the period, or SEK 29.15 per share (30.64). The debt/equity ratio was 47 percent (37). In June the company's long-term financing was strengthened through a USD 175 revolving credit facility. The financing has a final maturity of five years and further strengthens the financial base.

Following the issue of 11,194,276 new shares in April, the conversion of convertible debenture loans and the exercise of warrants, there were 67,957,325 shares outstanding as of September 30.

### **Accounting principles**

The interim report has been prepared in compliance with recommendation RR 20 of the Swedish Financial Accounting Standards Council's on Interim Financial Reporting.

### **Acquisitions/divestments**

In August Observer acquired the U.S. broadcast news monitoring firm Media Pulse, which is part of a cooperative of around 30 firms active throughout the U.S. The company, which has a turnover of approximately USD 2 million, is being integrated into Bacon's.

Observer's holding in Jupiter Media Metrix was divested during the period without impacting earnings.



### **Outlook**

Long-term development potential for Observer's services is good. Expectations are that Observer will continue to grow faster than the underlying market and maintain long-term organic growth of 10-15 percent a year. Efforts to expand geographically through acquisitions are continuing as well.

The cost base has been reduced, at the same time that the client offering has been expanded to include a number of new services. The expansion in North America creates the opportunity for attractive offerings for multinational clients.

The market in several countries appears to have stabilized. Whether this means that we will also soon see a general improvement will depend on the economy which at present is difficult to determine. The aim is to return as quickly as possible to an operating margin before goodwill amortization and items affecting comparability of 22 percent.

Stockholm, October 29, 2002

Robert Lundberg  
President and CEO

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### **Observer AB**

Observer's operations are divided into two divisions. The *Media Intelligence* division, which is active in Business and Communication Intelligence, offers media and market monitoring and communication evaluations. It currently operates in the U.S., the UK, Sweden, Canada, Germany, Norway, Finland, Denmark, Portugal, Ireland, Estonia, Latvia and Lithuania. A special marketing unit for multinational clients has been established in London.

The *Communication Tools* division offers communication tools for clients primarily in IR and PR. The division builds databases with information on strategically important target groups in the media and financial world. Clients are also offered tools and channels for distributing and publishing business information and evaluating communication activities. Operations are conducted in the U.S., the UK, Sweden, Canada, Finland, Germany and Norway.

## OBSERVER – Interim report January – September 2002

<b>Consolidated income statement</b>						
	<b>Jan-Sep 2002</b>	Jan-Sep 2001	Jul-Sep 2002	Jul-Sep 2001	Oct-Sep 2001/2002	Jan-Dec 2001
Amounts in SEK million						
Operating revenue	<b>1,272.3</b>	954.8	397.8	323.5	1,676.2	1,358.7
Operating expenses	<b>-985.2</b>	-757.8	-310.8	-257.7	-1,303.7	-1,076.3
Other depreciation/amortization	<b>-52.8</b>	-36.4	-16.8	-13.5	-67.6	-51.2
<b>EBITA</b>	<b>234.3</b>	<b>160.6</b>	<b>70.2</b>	<b>52.3</b>	<b>304.9</b>	<b>231.2</b>
Amortization of goodwill	<b>-119.2</b>	-73.1	-39.1	-26.5	-153.7	-107.6
<b>Operating profit</b>	<b>115.1</b>	<b>87.5</b>	<b>31.1</b>	<b>25.8</b>	<b>151.2</b>	<b>123.6</b>
Net financial income and expenses	<b>-52.8</b>	-25.2	-16.9	-13.3	-66.9	-39.3
<b>Profit before tax</b>	<b>62.3</b>	<b>62.3</b>	<b>14.2</b>	<b>12.5</b>	<b>84.3</b>	<b>84.3</b>
Tax	<b>-41.4</b>	-40.8	-12.9	-12.5	-54.8	-54.2
Minority interests	<b>-1.5</b>	0.4	-0.7	-0.2	-2.6	-0.7
<b>Net profit for the period</b>	<b>19.4</b>	<b>21.9</b>	<b>0.6</b>	<b>-0.2</b>	<b>26.9</b>	<b>29.4</b>

<i>Profit per share after tax, SEK:</i>						
Before dilution	<b>0.31</b>	0.39	0.01	0.00	0.45	0.53
Excl. goodwill amortization and items affecting comparability	<b>2.25</b>	1.71	0.59	0.47	3.00	2.47
After dilution	<b>0.34</b>	0.41	0.01	0.01	0.44	0.54
Excl. goodwill amortization and items affecting comparability	<b>2.22</b>	1.68	0.58	0.47	2.93	2.42

<b>Consolidated balance sheet</b>			
	<b>Sep 30 2002</b>	Sep 30 2001	Dec 31 2001
Amounts in SEK million			
Goodwill	<b>2,707.1</b>	2,112.0	3,051.2
Other fixed assets	<b>225.3</b>	208.8	246.6
Current receivables	<b>314.5</b>	313.1	344.3
Tax receivables	<b>45.3</b>	52.3	39.7
Financial assets	<b>434.1</b>	442.2	239.9
<b>Total assets</b>	<b>3,726.3</b>	<b>3,128.4</b>	<b>3,921.7</b>
Equity	<b>1,981.2</b>	1,700.9	1,681.1
Minority shares	<b>5.8</b>	3.8	4.5
Provisions	<b>0</b>	50.2	29.2
Current liabilities	<b>308.6</b>	229.2	325.1
Tax liabilities	<b>62.2</b>	72.1	58.3
Financial liabilities	<b>1,368.5</b>	1,072.2	1,823.5
<b>Total equity and liabilities</b>	<b>3,726.3</b>	<b>3,128.4</b>	<b>3,921.7</b>
Operating capital	<b>2,938.3</b>	2,354.5	3,287.8
Operating capital excl. goodwill	<b>231.2</b>	242.5	236.6
Interest-bearing net debt	<b>934.4</b>	630.0	1,583.6

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<b>Operating revenue</b>	<b>Jan-Sep</b>	<b>Jan-Sep</b>	<b>Jul-Sep</b>	<b>Jul-Sep</b>	<b>Oct-Sep</b>	<b>Jan-Dec</b>
Amounts in SEK million	<b>2002</b>	2001	2002	2001	2001/2002	2001
<i>Geographic distribution</i>						
Sweden	<b>273.9</b>	284.0	81.8	83.9	378.0	388.1
Denmark	<b>56.5</b>	57.5	17.5	19.0	76.6	77.6
Norway	<b>74.6</b>	80.5	23.4	25.6	104.6	110.5
Finland	<b>62.5</b>	64.4	18.9	20.2	85.3	87.2
Baltic states	<b>4.2</b>	3.1	1.6	1.1	5.3	4.2
<i>Total, Nordic and Baltic</i>	<b>471.7</b>	489.5	143.2	149.8	649.8	667.6
Germany	<b>128.2</b>	125.5	42.5	45.3	174.3	171.6
UK	<b>314.0</b>	317.8	104.1	111.4	423.4	427.2
Portugal	<b>19.8</b>	12.7	6.8	5.9	25.7	18.6
Ireland	<b>15.3</b>	9.4	5.0	4.5	20.4	14.5
<i>Total, rest of Europe</i>	<b>477.3</b>	465.4	158.4	167.1	643.8	631.9
USA	<b>243.9</b>	-	72.1	-	279.2	35.3
Canada	<b>95.5</b>	11.8	29.2	11.8	125.5	41.8
<i>Total, North America</i>	<b>339.4</b>	11.8	101.3	11.8	404.7	77.1
<b>Divisions</b>	<b>1,288.4</b>	<b>966.7</b>	<b>402.9</b>	<b>328.7</b>	<b>1,698.3</b>	<b>1,376.6</b>
Divested units	-	-	-	-	-	-
Group eliminations	<b>-16.1</b>	-11.9	-5.1	-5.2	-22.1	-17.9
<b>Group</b>	<b>1,272.3</b>	<b>954.8</b>	<b>397.8</b>	<b>323.5</b>	<b>1,676.2</b>	<b>1,358.7</b>
<i>Divisions</i>						
Media Intelligence	<b>975.1</b>	763.1	312.4	262.7	1,287.1	1,075.1
Communication Tools	<b>313.3</b>	203.6	90.5	66.0	411.2	301.5
<b>Divisions</b>	<b>1,288.4</b>	<b>966.7</b>	<b>402.9</b>	<b>328.7</b>	<b>1,698.3</b>	<b>1,376.6</b>

## Operating profit before goodwill amortization and items affecting comparability

<b>EBITA</b>	<b>Jan-Sep</b>	<b>Jan-Sep</b>	<b>Jul-Sep</b>	<b>Jul-Sep</b>	<b>Oct-Sep</b>	<b>Jan-Dec</b>
Amounts in SEK million	<b>2002</b>	2001	2002	2001	2001/2002	2001
<i>Geographic distribution</i>						
Nordic and Baltic	<b>97.0</b>	84.5	26.8	21.7	131.8	119.2
Rest of Europe	<b>98.7</b>	81.9	36.1	28.3	123.5	106.6
North America	<b>62.9</b>	1.7	13.6	1.7	77.4	16.3
<b>Divisions</b>	<b>258.6</b>	<b>168.1</b>	<b>76.5</b>	<b>51.7</b>	<b>332.7</b>	<b>242.1</b>
Group eliminations	<b>-24.3</b>	-7.5	-6.3	0.6	-27.8	-10.9
<b>Group</b>	<b>234.3</b>	<b>160.6</b>	<b>70.2</b>	<b>52.3</b>	<b>304.9</b>	<b>231.2</b>
<i>Divisions</i>						
Media Intelligence	<b>177.1</b>	117.7	59.0	39.6	221.3	161.9
Communication Tools	<b>81.5</b>	50.4	17.5	12.1	111.4	80.2
<b>Total, divisions</b>	<b>258.6</b>	<b>168.1</b>	<b>76.5</b>	<b>51.7</b>	<b>332.7</b>	<b>242.1</b>

## OBSERVER – Interim report January – September 2002

<b>Consolidated statement of cash flows</b>						
	<b>Jan-Sep 2002</b>	Jan-Sep 2001	<b>Jul-Sep 2002</b>	Jul-Sep 2001	<b>Oct-Sep 2001/2002</b>	<b>Jan-Dec 2001</b>
Amounts in SEK million						
<i>Operating activities</i>						
Operating profit	<b>115.1</b>	87.5	31.1	25.9	151.2	123.6
Amortization/depreciation	<b>172.1</b>	109.4	56.0	39.8	221.5	158.8
Other non-cash items	<b>-6.6</b>	2.9	-7.0	33.5	-14.8	-5.3
Net of interest and dividends	<b>-73.6</b>	-33.2	-12.8	-21.5	-80.5	-40.1
Income tax paid	<b>-41.1</b>	-63.5	-14.4	-20.7	-35.1	-57.5
Change in working capital	<b>-0.4</b>	-86.9	6.0	-43.1	3.2	-83.3
<b>Cash flow from operating activities</b>	<b>165.5</b>	<b>16.2</b>	<b>58.9</b>	<b>13.9</b>	<b>245.5</b>	<b>96.2</b>
<i>Investing activities</i>						
Business acquisitions	<b>-25.9</b>	-430.6	-25.9	-289.4	-1,010.0	-1,414.7
Business divestments	-	-	-	-	-	-
Investments in non-financial fixed assets	<b>-49.3</b>	-29.8	-11.7	-7.7	-86.3	-66.8
Divestment of non-financial fixed assets	<b>4.0</b>	5.1	0.1	2.4	2.5	3.6
Increase/decrease in financial assets	<b>0.5</b>	-1.3	0.0	-1.9	-1.8	-3.6
<b>Cash flow from investing activities</b>	<b>-70.7</b>	<b>-456.6</b>	<b>-37.5</b>	<b>-296.6</b>	<b>-1,095.6</b>	<b>-1,481.5</b>
<i>Financing activities</i>						
Rights issue	<b>424.2</b>	-	9.7	-	426.0	1.8
Increase/decrease in long-term financial liabilities	<b>-190.1</b>	311.4	-7.5	312.9	548.6	1,050.1
Increase/decrease in current financial liabilities	<b>-93.7</b>	-17.1	2.5	-5.0	-86.4	-9.8
Dividend to shareholders	<b>-25.2</b>	-26.1	-	-	-24.1	-25.0
<b>Cash flow from financing activities</b>	<b>115.2</b>	<b>268.2</b>	<b>4.7</b>	<b>307.9</b>	<b>864.1</b>	<b>1,017.1</b>
Cash flow for the period	<b>210.0</b>	-172.2	26.1	25.2	14.0	-368.2
Liquid assets at beginning of period	<b>200.2</b>	540.3	371.0	367.2	408.1	540.3
Translation difference	<b>-9.8</b>	40.0	3.3	15.7	-21.7	28.1
Liquid assets at end of period	<b>400.4</b>	408.1	400.4	408.1	400.4	200.2





## OBSERVER – Interim report January – September 2002

Key financial highlights	Jan-Sep 2002	Jan-Sep 2001	Jul-Sep 2002	Jul-Sep 2001	Oct-Sep 2001/2002	Jan-Dec 2001
Operating margin (EBITA margin)	18.4%	16.8%	17.6%	16.2%	18.2%	17.0%
Return on equity					2%	2%
Excl. goodwill amortization					10%	8%
Equity/assets ratio	53%	54%	53%	54%	53%	43%
Debt/equity ratio	47%	37%	47%	37%	47%	94%
Interest coverage, multiple	4.6	5.2	4.0	4.5	4.7	5.1
<i>Profit per share after tax</i>						
Before dilution, SEK	0.31	0.39	0.01	0.00	0.45	0.53
Excl. goodwill amortization and items affecting comparability	2.25	1.71	0.59	0.47	3.00	2.47
After full dilution, SEK	0.34	0.41	0.01	0.01	0.44	0.54
Excl. goodwill amortization and items affecting comparability	2.22	1.68	0.58	0.47	2.93	2.42
Equity per share, SEK (at end of period)	29.15	30.64	29.15	30.64	29.15	30.25
No. of shares at end of period, thousands	67,957	55,510	67,957	55,510	67,957	55,578
No. of shares after dilution, thousands	69,568	57,577	69,568	57,577	69,568	57,515
Average number of shares, thousands	61,715	55,510	67,675	55,510	60,103	55,525
No. of employees at end of period	2,512	2,306	2,512	2,306	2,512	2,580



## OBSERVER – Interim report January – September 2002

Shareholders' equity					
Amounts in SEK thousand	Share capital	Restricted reserves	Non-restricted reserves	Profit for the year	Total
<b>Opening balance, Jan 1, 2002</b>	<b>83,367</b>	<b>995,121</b>	<b>573,136</b>	<b>29,429</b>	<b>1,681,053</b>
<i>Previous year's earnings disposition</i>					
Transfer to non-restricted reserves			29,429	-29,429	0
Rights issue and conversion	18,569	405,625			424,194
Dividend			-25,187		-25,187
Change in accounting principles					0
Transfer between restricted and non-restricted equity		130,867	-130,867		0
Translation difference for the period		-107,024	-11,168		-118,192
Net profit for the period				19,375	19,375
<b>Closing balance, Sep 30, 2002</b>	<b>101,936</b>	<b>1,424,589</b>	<b>435,343</b>	<b>19,375</b>	<b>1,981,243</b>

For definitions, see Annual Report 2001.

### Financial report schedule 2003:

February 18, 2003 Year-end report for 2002  
 May 6, 2003 Interim report January-March 2003  
 August 5, 2003 Interim report January-June 2003  
 October 30, 2003 Interim report January-September 2003

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**Further comments on the interim report will be provided at a telephone conference with Observers AB's management at 1:00 p.m. (CET) on October 29. To participate, please phone +44 (0) 20 8240 8244. Use code: Observer.**