

Interim ReportEffnet Group AB (publ)January–September 2002



# **Effnet Group AB (publ)**

# **Interim Report January–September 2002**

- Sales during the period January September amounted to SEK 3,480,000 (8,018,000).
- Operating loss improved to SEK -39,515,000 (-86,329,000) for the nine-month period. The result after financial items amounted to SEK -35,026,000 (-78,605,000). Since the revenue continues to be far below expectations it resulted in a profit warning sent out by the management in the middle of September.
- The average level of costs per month for the nine-month period amounted to SEK 5,220,000 (10,483,000) and the negative cash flow to 5,190,000 (8,189,000).
- Liquid funds at the close of the period totaled SEK 133,123,000, or SEK 2.42 per share.
- The number of full-time employees at the end of the period amounted to 27 (63).
- In August Örjan Grinndal left his post as CEO of Effnet Group AB. Effnet board member Göran E Larsson was appointed acting CEO. Executive Vice President Marika Philipson also left the company. Hans Runesten, also an Effnet board member, was appointed acting Executive Vice President.
- On August 29 Effnet Group AB held an Extra general meeting during which the shareholders
  decided, in accordance with the suggestion from the board, to reduce the Company's share
  premium reserve by SEK 175 million. The decision is subject to acceptance from the district court
  in accordance with the Swedish Companies Act.

### Events after the end of the period

- In the beginning of October the board and the management of Effnet Group AB (publ) decided to decrease the personnel by an additional 15 employees. This action was taken as a part of the previously announced cost reduction program. The measures will be completed during the fourth quarter 2002. Two of the company's founders, Stephen Pink and Mikael Degermark, have already left the company.
- On the 14<sup>th</sup> of October Effnet Group AB acquired the company Factum Electronics from Teracom. Factum develops and sells systems for digital radio, DAB, as well as digital stereo sound in TV broadcasting, NICAM. Factum had a turnover of SEK 14,000,000 during the period January – September this year. Factum Electronics has approximately 20 employees and is situated in Linköping.

Effnet Group AB (publ) is a parent company in a group of wholly owned subsidiaries. Effnet AB develops and sells integrated software, Header Compression, to manufacturers of network products. Wkit Security AB is specialized in developing copy protection software. Factum Electronics AB develops and sells systems for digital radio, DAB, as well as digital stereo sound in TV broadcasting, NICAM. Effnet Group AB shares are traded on Sweden's Nya Marknaden (symbol: EFFN). Read more at <a href="https://www.effnet.com">www.effnet.com</a>, <a href="https://www.wkit.com">www.wkit.com</a> and <a href="https://www.factum.se">www.effnet.com</a>, <a href="https://www.wkit.com">www.wkit.com</a> and <a href="https://www.factum.se">www.effnet.com</a>, <a href="https://www.wkit.com">www.wkit.com</a> and <a href="https://www.factum.se">www.effnet.com</a>, <a href="https://www.wkit.com">www.wkit.com</a> and <a href="https://www.factum.se">www.wkit.com</a> and <a href="https://www.factum.se">www.factum.se</a>.

### **THIRD QUARTER 2002**

A new management team took over on August 15 with the goal of adapting current operating expenses to the company's short-term income and benefitting from the favorable market for corporate acquisitions.

Short- and medium-term market conditions for the company's main products in the field of header compression have not developed according to expectations during the period. Most 3G players (the next generation mobile network) have postponed their investment decisions, which has had a negative impact on Effnet's sales. In the field of data security, sales of the company's copy protection software for CD-ROMs have also been very weak. Because of these factors, the company's income is far below expected levels and unfortunately, no crucial improvements in these fields can be seen in the near future.

As a consequence of the company's disappointing sales, the company's Board of Directors and management has formulated a cost-cutting program that includes reducing the number of employees by fifteen. This program is currently under implementation and it should be completed during fourth quarter 2002. One effect of the program will be an increased concentration of the company's operational functions to Sweden.

Effnet has a strong financial position in a world where companies that are searching for capital today offer yield levels far above what has been commonly seen in recent years. The Board of Directors has therefore decided to intensify its efforts to build up a small portfolio of technology companies with strong potential for the future through selective acquisitions. As a first step in this strategy, after the end of the reporting period the company acquired Factum Electronics AB from Teracom AB.

### FINANCIAL STATEMENT

Effnet's sales amounted to SEK 3,480,000 (8,018,000) during the first nine months of 2002. The revenue continues to be far below expectations and resulted in a profit warning sent out by the management in the middle of September.

The group's operating result amounted to SEK -39,515,000 (-86,329,000). The result after financial items amounted to SEK -35,026,000 (-78,605,000). Losses have been reduced to less than half compared to the same period last year.

Personnel costs continue to decrease as a direct consequence of the cost cutting measures that where implemented earlier this year and amounted to SEK -26,993,000 (-57,395,000) for the period January - September.

Total write-downs for the period amounted to SEK -1,151,000 (-3,349,000) of which goodwill write-downs comprised of SEK 0 (-1,460,000).

### Research and development

Total costs for research and development during the period amounted to SEK -15,914,000 (-33,809,000), of which SEK 1,369,000 (0) was capitalized in the balance sheet in compliance with RR 15, the Swedish Financial Accounting Standards Council recommendation that went into force on January 1, 2002.

### Financial position

Effnet's equity/asset ratio on September 30, 2002 was 91.7 % (92.2 %, at the same time last year). Liquid funds, including current investments, amounted to SEK 133,123,000 (201,259,000), or SEK 2.42 (3.66) per share.

#### **Investments**

Investments in material fixed assets during the period January – September amounted to SEK 84,000 (-1,517,000) and comprised primarily computer equipment.

#### Personnel

The number of full-time employees at the end of the period totaled 27, down 36 from one year ago (63). The average number of full-time employees during the period was 29 (68), 11 (11) of whom were based in the U.S.

### Financial Calendar

Earnings Release 2002 on February 11, 2003

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

Stockholm, November 1, 2002

### Effnet Group AB (publ)

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Consolidated Profit and Loss A	ccount	2002	2001	2002	2001	2001
(Summary) (SEK thousand)	Notes	July-Sept	July-Sept	Jan Sept	Jan Sept	JanDec.
Net sales Capitalized development costs		981 -	1,819	3,480 1,369	8,018	10,233
Other operating income		150	-	1,084	-	593
Gross profit		1,131	1,819	5,933	8,018	10,826
Other external costs		-5,410	-9,629	-17,872	-33,512	-30,985
Personnel costs		-8,370	-20,410	-26,993	-57,395	-73,929
Depreciation and write-downs of		210	1 226	1 151	2 240	4.500
tangible assets Items affecting comparability	1	-310 1,531	-1,236	-1,151 1,531	-3,349	-4,580 -41,768
Other operating expenses	1	-190	-130	-963	-91	2,281
other operating expenses		170	130	703	71	2,201
Operating result		-11,619	-29,586	-39,515	-86,329	-142,717
Financial net		1,636	1,847	4,489	7,724	9,047
Returns after financial items		-9,983	-27,739	-35,026	-78,605	-133,670
Tax		-	-	-	-	95
Result for the period		-9,983	-27,739	-35,026	-78,605	-133,575
Earnings per share, SEK Earnings per share after dilution,	SEK 2	- 0.18 - 0.18	- 0.49 - 0.49	- 0.64 - 0.64	-1.43 -1.43	-2.43 -2.43
Consolidated Balance Sheet			2002	2001		2001
Consolidated Balance Sheet (Summary) (SEK thousand)		30 Se	2002 eptember	2001 30 September		2001 ecember
		30 Se				
(Summary) (SEK thousand) ASSETS		30 Se				
(Summary) (SEK thousand)  ASSETS Fixed assets		30 Se		30 September	31 D	
(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill		30 Se	eptember -	30 September 18,010	31 D	ecember -
(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill Tangible assets	rob and day		- 1,299	30 September	31 D	
(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill Tangible assets Capitalized expenditure for resea	rch and dev		- 1,299 1,369	30 September 18,010 9,011	31 D	4,254
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(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill Tangible assets Capitalized expenditure for resea Total fixed assets  Current assets Inventories	rch and dev		1,299 1,369 <b>2,668</b>	18,010 9,011 27,021	31 D	4,254 4,254
(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill Tangible assets Capitalized expenditure for resea Total fixed assets  Current assets Inventories Current receivables	rch and dev		1,299 1,369 <b>2,668</b>	18,010 9,011 27,021	31 D	4,254 4,254 12,490
(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill Tangible assets Capitalized expenditure for resea Total fixed assets  Current assets Inventories Current receivables Investments, interest bearing	rch and dev		1,299 1,369 <b>2,668</b> 7,490 103,228	18,010 9,011 27,021 1,043 11,229 175,022	31 D	4,254 4,254 4,254
(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill Tangible assets Capitalized expenditure for reseat Total fixed assets  Current assets Inventories Current receivables Investments, interest bearing Cash and bank balances	rch and dev		1,299 1,369 <b>2,668</b> 7,490 103,228 29,895	18,010 9,011 27,021 1,043 11,229 175,022 26,237	31 D	4,254 4,254 4,254 12,490 159,554 20,279
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(Summary) (SEK thousand)  ASSETS Fixed assets Goodwill Tangible assets Capitalized expenditure for reseat Total fixed assets  Current assets Inventories Current receivables Investments, interest bearing Cash and bank balances Total current assets  TOTAL ASSETS  EQUITY & LIABILITIES			1,299 1,369 2,668 7,490 103,228 29,895 140,613	18,010 9,011 27,021 1,043 11,229 175,022 26,237 213,531 240,552	31 D	4,254 4,254 4,254 12,490 159,554 20,279 192,323 196,577
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<b>Consolidated Cash Flow Statement</b>	2002	2001	2002	2001
(SEK thousand)	July-Sept	July-Sept	Jan Sept	Jan Sept
Cash flow from day-to-day operations	-11,595	-32,774	-36,803	-81,252
Changes in working capital	1,088	13 431	9,727	8,883
Investments	33	-389	84	-1,517
Financing	-	_	_	-
Exchange rate difference in cash	-132	-150	-264	188
Change in liquid assets	-10,606	-19,882	-46,710	-73,697

Per-share data (adjusted to reflect new share is:	sues) 2002	2001	2001
	30 September	30 September	31 December
Shareholders' equity per share	2.39	4.04	3.03
Shareholders' equity per share after full dilution	2.39	4.04	3.03
Price per share	1.33	1.90	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

The item affecting comparability, SEK 1,531,000, results from the release of the provisions for costs of premises in Mountain View, California. 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	2001	2002	2001	2001
	July-Sept	July-Sept	Jan Sept	Jan Sept	JanDec
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, 1,916,702 shares would be due on September 30, 2002.

## Note 3. Changes in equity

Amount in SEK thousand	2002 30 September	2001 30 September	2001 31 December	
Opening balance	166,659	300,046	300,046	
Loss for the period	-35,026	-78,605	-133,575	
New share issue	· -	· -	-	
Translation difference	-247	289	188	
Total equity	131,386	221.729	166,659	