



## Interim report for the period January – September 2002

- The Group's net sales amounted to SEK 91 million (173)\* for the third quarter.
- The Group's operating loss, EBIT, was SEK -4 million (-18)\* for the third quarter.
- The Group's profit was SEK 54 million (-27)\* for the period January-September.
- The sale of BlueLabs was completed with a reported gain of SEK 98 million. BlueLabs had 259 employees and sales of SEK 294 million in 2001.
- The operations of Frontec netSolution were divested during the quarter. In 2001, netSolution had 21 employees and sales of SEK 33 million.
- Following the conclusion of the quarter, Frontec acquired portions of the operations of Meridium Sverige AB, a consulting firm specializing in Microsoft .NET technology.

\* Frontec's pro forma results after structural changes are shown on page 2.

## The Group in summary

(Amounts in SEK million)	3 months Jul-Sep 2002	3 months Jul-Sep 2001	9 months Jan-Sep 2002	9 months Jan-Sep 2001	12 months Jan-Dec 2001
Net sales	91	173	430	690	932
Operating profit/loss, EBIT	-4	-18	-43	-23	-105
Profit/loss after net financial items	96	-15	53	-27	-108
Operating margin, %	-4	-10	-10	-3	-11
Return on capital employed, %	57	neg.	28	neg.	neg.
Return on equity, %	58	neg.	29	neg.	neg.
Equity/assets ratio, %	66	46	66	46	34
Profit/loss per share*, SEK	2.79	-0.53	1.56	-0.97	-3.41
Average number of employees	623	995	717	1,030	1,021
No. of employees at end of period	473	970	473	970	961

\* The dilution effect is not taken into account in negative results

## Continued focus on integration

Following the recent structural changes, Frontec consists solely of its eBusiness operations. The sale of BlueLabs to Flextronics was finalized in July and in August the operations of Frontec netSolution were sold to TietoEnator. As a result, two of Frontec's business areas, BlueLabs and Venture Zone, have been eliminated and are no longer separately reported. The divestments have significantly strengthened Frontec's financial position. Following BlueLabs' sale, the Group's remaining goodwill amounts to only SEK 180,000.

The purchase price for BlueLabs is based partly on the balance sheet as of July 31, 2002, although a final determination has not been made. Flextronics has issued a claim for SEK 34 million in respect of future provisions for ITP pensions (supplementary pensions for salaried employees). Frontec has reported pension provisions in accordance with current accounting principles and therefore is of the opinion that the claim is unfounded. Furthermore, a settlement of customary guarantees has not yet been determined. The purchase price is estimated at slightly over SEK 180 million, the capital gain at SEK 100 million and the liquidity effect at SEK 175 million.

In July, 98 employees subscribed for a convertible debenture loan of SEK 7,398,000. The conversion price has been set at SEK 5.80, with the conversion in 2006. After conversion to shares, the share capital will be diluted by a maximum of 3.7%.

## Frontec following structural changes - pro forma

(Amounts in SEK million)	3 months Jul-Sep 2002	3 mont Jul-Sep 2001	9 months Jan-Sep 2002	9 months Jan-Sep 2001	12 months Jan-Dec 2001
Net sales	77	92	305	393	531
Operating profit/loss, EBIT	-14	-19	-46	-30	-99
Profit/loss after net financial items	89	-15	50	-48	-108
Operating margin, %	-18%	-21%	-15%	-8%	-19%
Profit/loss per share*, SEK	2.50	-0.61	1.49	-1.76	-3.39
Average no. of employees	482	571	508	607	557
No. of employees at end of period	473	545	473	545	543

\* The dilution effect is not taken into account in negative results

Frontec is now a streamlined consulting company focused on integrated eBusiness solutions. Our structural capital in the form of work procedures and competencies allows us to reliably and in the quickest way possible help customers to get their processes and IT support to work together. Frontec offers integration services in three dimensions: mental, where we get the parties involved to understand benefits and consequences; structural, where processes work together; and technical, where systems and technical components communicate with each other.

At present, there are no signs of an improvement in the market. There is still stiff competition and price pressure, particularly with regard to traditional development projects. Due to the focus customers have placed on costs and a favorable recruitment situation, few major new projects are reaching the market. Frontec, however, has strong customer relations. Together with a strong balance sheet, this gives it good opportunities to strengthen its positions. Frontec and outside sources expect integration to become a strong growth segment of the IT industry.

The utilization rate was 67% (70%) during the third quarter. The rate is measured as billable hours relative to the total time available for billable employees. The slightly lower utilization rate compared with the previous year is compensated by a better mix of senior consultants, which has led to a marginal improvement in average hourly rates.

Frontec has signed framework agreements with a number of strategic customers in order to strengthen relationships and maintain volumes. In several cases, these agreements have directly led to increased order bookings. During the period, new framework agreements were signed with the county councils in Halland and Skåne on IT services and with Banverket, the authority responsible for rail traffic in Sweden, on business development.

A number of project agreements were also signed during the quarter. For example, Frontec has been given responsibility by Capio to implement a project to coordinate purchasing and payment routines, while Mölnlycke Health Care has signed an agreement on support and further development of an existing integration platform.

Frontec is working continuously to improve profitability by adapting its size and competencies to the needs of the market and its customers, and by reviewing its costs. During the quarter, around 20 employees were released at the company's unit in Luleå, while other units instead have recruited personnel.

### **Sales and results**

The Group's net sales amounted to SEK 91 million (173) for the quarter and SEK 430 million (690) for the period. Pro forma net sales amounted to SEK 77 million (92) for the quarter and SEK 305 million (393) for the period. The decrease in sales is primarily due to a lower utilization rate for both the quarter and period.

The operating loss, EBIT, was SEK -4 million (-18) for the quarter and SEK -43 million (-23) for the period. Pro forma EBIT amounted to SEK -14 million (-19) for the quarter and SEK -46 million (-30) for the period. The improved quarterly result is mainly attributable to lower costs, while the higher loss for the period is largely due to a lower utilization rate.

Profit after net financial items amounted to SEK 96 million (-15) for the quarter and SEK 53 million (-27) for the period. The period includes capital gains on divested subsidiaries of SEK 102 million.

### **Employees**

The average number of employees was 623 (995) for the quarter and 717 (1,030) for the period. The number of employees at the end of the period was 473 (970), a decrease of

488 since December 31, 2001. The decrease is mainly due to divested companies (359) and employees affected by the restructuring program approved in the fourth quarter of 2001 (106).

### **Liquid assets**

The Group's liquid assets, including short-term investments, amounted to SEK 184 million (119) as of September 30, 2002. During the third quarter, initial proceeds of SEK 176 million were received from the sale of BlueLabs, as were proceeds of SEK 7,398,000 from the convertible debenture loan. In addition, the Group has an unutilized credit line of SEK 20 million.

### **Investments**

The Group's net investments in tangible assets amounted to SEK 1 million (29) for the period.

### **Other**

#### **Parent Company**

The Parent Company's net sales amounted to SEK 4 million (18) for the period, with an operating loss of SEK -10 million (-23).

The Parent Company's net investments amounted to SEK 0 million (39) for the period. Liquid assets totaled SEK 171 million (57) at the end of the period.

#### **Highlights following the conclusion of the period**

Frontec has acquired portions of Meridium Sverige AB, a consulting firm specializing in Internet and software technology, in particular Microsoft technology. As a result, Frontec will employ around 40 of Meridium's 50 employees and take over the majority of its customer contracts. Recently it was also announced that Frontec had been named a Microsoft Gold Certified Partner.

The operations will be managed by Frontec Business Solution AB, a company 51% owned by Frontec AB that is in the process of changing its name to Frontec Meridium AB.

#### **Accounting principles**

Frontec's interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 20 on interim reporting.

As of the current fiscal year, Frontec applies the accounting recommendations of the Swedish Financial Accounting Standards Council that took effect on January 1, 2001 and January 1, 2002. Adaptation to the recommendations that entered into force for the fiscal year beginning January 1, 2001 was not fully implemented during the previous fiscal year, as it began back on July 1, 2000. The application of recommendation RR 9 on income taxes constitutes a change in accounting principles and has resulted in the restatement of the opening equity balance by SEK 1,402,000.

With the exception of the above, the accounting principles applied are the same as in the latest annual report.

This interim report has not been reviewed by the company's accountants.

## Information

Year-end report 2002                      February 20, 2003

Solna, November 20, 2002  
Frontec AB (publ)

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## Consolidated income statement (SEK million)

	3 MONTHS JUL-SEP 2002	3 MONTHS JUL-SEP 2001	9 MONTHS JAN-SEP 2002	9 MONTHS JAN-SEP 2001	ROLLING 12 MONTHS OCT 2001 SEP 2002	12 MONTHS FULL YEAR 2001
Net sales	91	173	430	690	672	932
Other operating income	1	1	2	8	1	7
<b>Total sales</b>	<b>92</b>	<b>174</b>	<b>432</b>	<b>698</b>	<b>673</b>	<b>939</b>
Personnel costs	-72	-138	-346	-518	-530	-702
Other operating expenses	-23	-47	-117	-178	-201	-262
Restructuring expenses	-	-	-	-1	-44	-45
<b>Operating profit/loss before depreciation/amortization, EBITA</b>	<b>-3</b>	<b>-11</b>	<b>-31</b>	<b>1</b>	<b>-102</b>	<b>-70</b>
Depreciation/amortization of tangible/intangible assets (Note 1)	-1	-7	-12	-24	-23	-35
<b>Operating profit/loss, EBIT</b>	<b>-4</b>	<b>-18</b>	<b>-43</b>	<b>-23</b>	<b>-125</b>	<b>-105</b>
Result from participations in associated companies	-	-	-	-	-1	-1
Result from participations in Group companies	98	-	102	-	93	-9
Financial income and expenses	2	3	-6	-4	5	7
<b>Profit/loss after net financial items</b>	<b>96</b>	<b>-15</b>	<b>53</b>	<b>-27</b>	<b>-28</b>	<b>-108</b>
Tax	-	-	1	-	11	10
<b>Net profit/loss for the year</b>	<b>96</b>	<b>-15</b>	<b>54</b>	<b>-27</b>	<b>-17</b>	<b>-98</b>
Earnings/loss per share before dilution	3.05	-0.53	1.71	-0.97	-0.57	-3.41
Earnings/loss per share after dilution	2.79	-0.53*	1.56	-0.97*	-0.57*	-3.41*
Average number of shares	31,409,675	29,393,740	31,406,648	28,430,037	28,349,276	28,781,529
Average number of shares after dilution	34,332,677	30,329,364	34,329,651	30,832,058	30,278,589	30,906,972

\* The dilution effect is not taken into account in negative results.

## Results per division (SEK million)

		3 MONTHS JUL-SEP 2002	3 MONTHS JUL-SEP 2001	9 MONTHS JAN-SEP 2002	9 MONTHS JAN-SEP 2001	ROLLING 12 MONTHS OCT 2001 SEP 2002	12 MONTHS FULL YEAR 2001
<b>eBusiness</b>	<b>Net sales</b>	<b>78</b>	<b>96</b>	<b>302</b>	<b>412</b>	<b>437</b>	<b>547</b>
	<b>Operating profit/loss, EBIT</b>	<b>-13</b>	<b>-17</b>	<b>-31</b>	<b>-12</b>	<b>-76</b>	<b>-57</b>
	<b>Operating margin</b>	<b>-17%</b>	<b>-18%</b>	<b>-10%</b>	<b>-3%</b>	<b>-17%</b>	<b>-10%</b>
<b>BlueLabs</b>	<b>Net sales</b>	<b>7</b>	<b>58</b>	<b>108</b>	<b>214</b>	<b>188</b>	<b>294</b>
	<b>Operating profit/loss, EBIT</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>16</b>	<b>-8</b>	<b>7</b>
	<b>Operating margin</b>	<b>71%</b>	<b>5%</b>	<b>1%</b>	<b>7%</b>	<b>-4%</b>	<b>2%</b>
<b>Venture Zone</b>	<b>Net sales</b>	<b>6</b>	<b>27</b>	<b>20</b>	<b>97</b>	<b>51</b>	<b>128</b>
	<b>Operating profit/loss, EBIT</b>	<b>2</b>	<b>-3</b>	<b>-1</b>	<b>-10</b>	<b>-7</b>	<b>-16</b>
	<b>Operating margin</b>	<b>33%</b>	<b>-11%</b>	<b>-5%</b>	<b>-10%</b>	<b>-14%</b>	<b>-13%</b>

### Condensed consolidated balance sheet (SEK million)

	Sep 30 2002	Sep 30 2001	Dec 31 2002
Goodwill	-	68	67
Other intangible fixed assets	-	4	2
Tangible fixed assets	14	44	36
Financial fixed assets	-	1	1
Other current assets	126	255	251
Liquid assets and short-term investments	184	119	112
<b>Total assets</b>	<b>324</b>	<b>491</b>	<b>469</b>
Equity (Note 2)	213	226	159
Minority interests	-	1	1
Provisions	13	3	42
Interest-bearing liabilities	7	25	4
Non-interest bearing liabilities	91	236	263
<b>Total equity, provisions and liabilities</b>	<b>324</b>	<b>491</b>	<b>469</b>

### Consolidated statement of cash flows (SEK million)

	2002-01-01 2002-09-30	2001-01-01 2001-09-30	2001-01-01 2001-12-31
Cash flow from operating activities	-87	75	91
Cash flow from investing activities	152	1	-2
Translation differences	-	-1	-1
Cash flow from financing activities	6	-14	-33
<b>Cash flow for the year</b>	<b>71</b>	<b>61</b>	<b>55</b>
Liquid assets and short-term investments at beginning of period	113	58	58
<b>Liquid assets and short-term investments at end of period</b>	<b>184</b>	<b>119</b>	<b>113</b>

Cash flow from operating activities includes a tax payment of SEK 42 million.

### Notes

#### NOTE 1 – Depreciation/amortization

Of depreciation/amortization for the quarter, SEK 0 million consists of amortization of goodwill (SEK 1 million).

#### NOTE 2 – Equity (SEK thousands)

	2002-01-01 2002-09-30	2001-01-01 2001-09-30	2001-01-01 2001-12-31
<b>At beginning of fiscal year</b>	<b>159,865</b>	<b>245,739</b>	<b>245,739</b>
New share issues	1,591	6,769	9,296
Dividend	-	-	-524
Effect from change in accounting principle	-1,402	-	1,402
The year's translation difference	-458	628	2,045
Profit/loss for the year	53,038	-27,470	-98,093
<b>At end of fiscal year</b>	<b>212,634</b>	<b>225,666</b>	<b>159,865</b>