Year-end Report

Effnet Group AB (publ)

January-December 2002

EFFNET

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- In October, Effnet Group AB (publ) acquired Factum Electronics AB from Teracom AB. Factum develops and sells systems for digital radio (DAB) and digital stereo sound for television according to the NICAM principle. Factum's sales totaled SEK 19,689,000 between January and December 2002 and personnel numbered 12 full-time employees by year's end.

- During the year, Effnet Group implemented substantial cost-cutting measures to bring expenses in line with revenues.

- The board of directors adopted a new strategy for the Group – to acquire technology companies with strong potential. Acquiring Factum was the first step in implementing this strategy.

- Net sales for the year totaled SEK 9,920,000 (10,223,000) and for the fourth quarter totaled SEK 6,440,000 (2,215,000). These figures include sales from Factum, which totaled SEK 5,738,000.

- Operating loss for the year amounted to SEK –61,994,000 (-142,717,000). Net loss for the year totaled -55,422,000 (-133,575,000) or SEK –1.01 (-2.43) per share.

- Liquid assets at year's end amounted to SEK 121,769,000 (179,833,000) SEK or 2.22 (3.27) per share.

- Shareholders' equity at year's end totaled SEK 110,950,000 (166,659,000) or SEK 2.02 (3.03) per share.

- The number of full-time employees of the Group numbered 20 (29) at year's end.

Significant events after year's end

- In January, the board members acquired 2,171,100 shares in Effnet Group AB (publ) through a jointly owned company. The four board members now control a total of 6,387,599 shares or 11.6 percent of Effnet Group AB.

BUSINESS OPERATIONS

Effnet Group AB (publ) is the parent company of a group of technology companies in the expansion or transitional phase, each with strong global market potential and unique product offerings.

The company's primary focus is on developing and managing these technology companies. During 2002, the board decided to take advantage of the parent company's strong financial position and the favorable market for corporate acquisitions by intensifying its search for technology companies with strong growth potential.

The Group operates in three business areas:

Header Compression

Effnet develops and sells Effnet Header Compression, a software application that increases the efficiency, speed, and reliability of IP traffic in fixed, mobile, and satellite networks. Effnet is a global industry leader with unique expertise. Its customers include manufacturers of network products and telecommunications systems.

The subsidiary Effnet AB handles operations within the Header Compression industry. They have offices in Stockholm and Luleå.

Digital Broadcasting

The Group develops and sells systems for digital radio (DAB) and digital stereo sound for analogue TV broadcasting, NICAM, through its subsidiary Factum Electronics AB. The Group acquired Factum, located in Linköping, in October.

The NICAM market, which the company dominates worldwide, has shown a sluggish rise during the year. The market for digital radio has been weak, awaiting a political resolution and for a general rise in the world market.

Copy Protection Software

Effnet sells the copy protection software Don't Bother Burn (DBB) for CD-ROMs through its subsidiary Wkit Security AB. An agreement was reached with Sonopress, Europe's biggest CD manufacturer, during the year.

FOURTH QUARTER 2002

Net sales totaled SEK 6,440,000 (2,215,000). This includes fourth quarter sales for the newly acquired Factum of SEK 5,738,000. Operating expenses decreased as a result of the previous year's cost-saving measures. At the same time, further cost-cutting measures were implemented in the fourth quarter. Taken together, costs amounted to SEK 27,926,000 (59,196,000). Operating loss was reduced to SEK 22,479,000 (56,388,000). The result after financial items was SEK –20,396,000 (–55,065,000).

FINANCIAL STATEMENT 2002

Business during the financial year was characterized primarily by a major restructuring aimed at redirecting the Group's activities – from research and development to marketing and sales – and at trimming the Group's expenditures to match expected revenues.

Profit and Loss

Net sales totaled SEK 9,920,000 (10,233,000). This includes fourth quarter sales for Factum, which amounted to SEK 5,738,000. The Group's income from other sources, including property sales, amounted to SEK 1,460,000 (593,000). The Group's total revenue amounted to SEK 11,380,000 (10,826,000).

Operating expenses dropped to SEK 73,374,000 (153,543,000) as an effect of the cost-cutting program. External costs fell to SEK 31,238,000 (39,823,000) and personnel costs decreased to SEK 38,792,000 (83,868,000). Depreciation and amortization amounted to SEK 1,525,000 (4,580,000) and write-downs to SEK 1,291,000 (22,991,000). In the 2001 income statement, costs affecting comparability amounting to SEK 41,768,000 were reported, but these were

redistributed in comparative figures according to the appropriate cost classification, see note 2. Operating loss amounted to SEK 61,994,000 (142,717,000). The result after financial items totaled SEK –55,422,000 (–133,670,000). The Group does not report any income tax.

Investments and Divestitures

The parent company acquired Factum Electronics AB in October. In May, a property owned by Wkit Security AB was sold. Other than that, the Group's companies only invested marginally in new equipment during the year, while redundant computers and equipment were divested or scrapped.

Financial Position

On December 31, 2002, the Group's liquid assets totaled SEK 121,769,000 (179,833,000), of which SEK 89,067,000 (159,554,000) comprised short-term investments. In addition, Factum has an overdraft facility of SEK 2,000,000. The Group's cash flow for the year totaled SEK –56,675,000 (-95,643,000).

As of January 1, consolidated equity amounted to SEK 110,950,000 (166,659,000), of which SEK 125,389,000 (300,234,000) was restricted capital. During the year, the parent company transferred SEK 175,000,000 from restricted to non-restricted equity.

The Group's financial objective is to achieve a positive cash flow and positive financial performance as soon as possible.

Dividend

At present, no funds are being generated from operations and therefore the board of directors does not recommend issuing a dividend to shareholders.

BOARD OF DIRECTORS AND MANAGEMENT

During the year, Effnet's board of directors has included Magnus Ryde, chairman, Svante Carlsson, Göran E. Larsson, and Hans Runesten. The latter two have also served as chief executive officer and executive vice president, respectively, since August. The board of directors held 16 meetings during the year. The main issues the board dealt with this year were: formulating a new strategy; restructuring the existing business activities; organizing a new Group structure; and evaluating possible acquisitions.

A new management group was formed during the year. In addition to the changes mentioned above, Bo Hagerf, who was previously vice president of engineering, was appointed chief executive officer for Effnet AB, responsible for the Group's header compression operations, and Wkit Security AB. Factum Electronics AB was headed by its chief executive officer, Johan Ericsson. Krister Moberger was recruited as chief financial officer in December 2002, and Mats Nordström was recruited as director of sales and marketing in January 2003.

PROSPECTS FOR 2003

The major restructuring measures and cutbacks over the past two years have been aimed at bringing the Group's expenses in line with expected revenues. Even though these cost cutbacks have been implemented fully, the board of directors will not make a statement about the Group's prospects.

Stockholm, February 11, 2002

Göran E. Larsson
Chief Executive Officer

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

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Consolidated Profit and Loss Account (Summary)	**Fourth quarter**		**Twelve-month period**	
In thousands SEK	**2002**	**2001**	**2002**	**2001**
Net sales	6,440	2,215	9,920	10,233
Capitalized development costs (note 1)	-1,369	-	-	-
Other operating income	376	593	1,460	593
Gross Profit	**5,447**	**2,808**	**11,380**	**10,826**
Other external costs	-14,897	-6,311	-31,238	-39,823
Personnel costs	-11,799	-26,473	-38,792	-83,868
Depreciation and amortization	-374	-1,231	-1,525	-4,580
Write-downs	-1,291	-22,991	-1,291	-22,991
Other operating expenses	435	-2,190	-528	-2,281
Total Operating Expenses (note 2)	**-27,926**	**-59,196**	**-73,374**	**-153,543**
Operating result	**-22,479**	**-56,388**	**-61,994**	**-142,717**
Financial net	2,083	1,323	6,572	9,047
Result after financial items	**-20,396**	**-55,065**	**-55,422**	**-133,670**
Tax	0	95	0	95
Result for the period	**-20,396**	**-54,970**	**-55,422**	**-133,575**
Earnings per share, SEK (before and after dilution)	-0.37	-1.00	-1.01	-2.43

Consolidated Cash Flow Statement (Summary)	**Fourth quarter**		**Twelve-month period**	
In thousands SEK	**2002**	**2001**	**2002**	**2001**
Cash flow from day-to-day operations	-19,872	-14,391	-56,675	-95,643
Changes in working capital	9,175	-7,555	-552	1,328
Investments	-581	247	-497	-1,270
Financing	-	-	-	-
Exchange rate difference in liquid assets	-76	274	-340	462
Change in liquid assets	**-11,354**	**-21,425**	**-58,064**	**-95,123**

Consolidated Balance Sheet (Summary) In thousands SEK	**2002 Dec. 31**	**2001 Dec. 31**
Fixed assets	**1,427**	**4,254**
Inventories	1,619	-
Current receivables	7,180	12,490
Liquid assets (note 3)	121,769	179,833
Total Current assets	**130,568**	**192,323**
Total assets	**131,995**	**196,577**
EQUITY, PROVISIONS, & LIABILITIES		
Equity	110,950	166,659
Provisions	4,446	7,355
Current liabilities	16,599	22,563
Total equity, provisions, and liabilities	**131,995**	**196,577**

Change in equity In thousands SEK	**2002**	**2001**
Opening balance	166,659	300,046
Loss for the year	-55,422	-133,575
Exchange rate difference	-287	188
Shareholders' equity at year's end	**110,950**	**166,659**

Accounting Policies and Notes
The Swedish Financial Accounting Standards Council's (SFASC) standard on interim reporting (RR20) has been used in the preparation of this year-end report.

1) In the earnings reports during 2002, development costs were capitalized for a total of SEK 1,369, 000. During the fourth quarter, the company chose to expense these charges.

2) Effnet has chosen not to report non-comparable items separately but instead to present each cost according to its cost classification. Comparative figures for 2001 have been converted in accordance with this principle. During 2001, a total of SEK 41,768,000 was reported as items affecting comparability, including a goodwill write-down of SEK 17,307,000 and costs for closing offices of SEK 24,461,000, broken down as follows: personnel costs SEK 9,939,000; costs for premises SEK 8,323,000; write-downs of current assets SEK 1,071,000; fixed assets SEK 4,613,000; and other expenses SEK 515,000.

3) Liquid assets include short-term investments and bank deposits, which in previous reports were accounted separately.

Five-year Overview, thousands SEK	2002	2001	2000	1999	1998
Net sales	9,920	10,233	5,091	2,272	75
Operating result	-61,994	-142,717	-295,933	-49,805	-17,822
Result after financial items	-55,422	-133,670	-281,913	-48,493	-17,633
Balance sheet total	131,995	196,577	314,940	394,191	9,477
Equity	110,950	166,659	300,046	385,922	6,392
Equity/assets ratio	84.1	84.8 %	95.3 %	97.9 %	67.4 %
Return on equity	Neg	Neg	Neg	Neg	Neg
Number of shares, ‘000					
- at end of period	54,943	54,943	54,943	52,055	35,055
- after dilution*	54,943	54,943	54,942	52,055	35,055
Average number of shares, ‘000					
- during the period	54,943	54,943	53,021	42,096	31,672
- after dilution	54,943	55,594	53,021	42,096	31,672
Earnings per share*	-1.01	-2.43	-5.32	-1.15	-0.56
Shareholders' equity per share*	2.02	3.03	5.46	7.41	0.18
Liquid assets per share*	2.22	3.27	5.20	7.43	0.16

* When calculating dilution, only outstanding options that entitle holders to shares at a subscription price that is less than the share price at year’s end were included, which means that dilution was only relevant in 2001. When converting key ratios, dilution is only included if it has a negative effect on earnings per share, which was not the case in any year. A total of 4,117,877 shares will be added with full dilution of all outstanding options.

Report Calendar 2003	
Annual Report 2002	mid-April
Annual Meeting	April 30
Interim Report January-March 2003	April 30
Interim Report January-June 2003	July 31
Interim Report January-September 2003	October 31
Financial Report 2003	January 2004

Effnet Group AB (publ), registration number 556520-0028, has its headquarters in Stockholm. The company has been listed on Sweden's Nya Marknad (symbol: EFFN) since April 1999, and its shares are traded on the Stockholm Stock Exchange (OM Stockholmsbörsen AB).