



**Effnet Group AB (publ)**

**INTERIM REPORT  
January – June 2003**



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- Net sales for the second quarter amounted to MSEK 9.7 (0.7), and to MSEK 14.7 (2.5) for the period from January to June. The Group's significant sales growth is due to the fact that the sales figures now include sales generated by Factum Electronics, which was acquired at the close of 2002, and to the Group's new strategy of intensified sales activities as well as to normal seasonal fluctuations.
- Sales of the subsidiary Effnet AB continued to grow according to plan. After undergoing extensive quality audits by some of the world's leading telecommunications suppliers, Effnet has during the last six months been entrusted with delivering its software to these new customers, located in North America and Europe.
- Despite strong sales reported by Factum Electronics AB during the second quarter, total sales remained somewhat below the level budgeted for the first six months of the year. Factum Electronics signed and delivered breakthrough orders to customers in both Europe and Asia during this period. The delivery of a digital radio system intended for Digital Multimedia Broadcasting applications to a major Korean TV and radio broadcasting company received particular attention.
- Operating expenses for the second quarter amounted to MSEK 11.2 (16.9). Operating expenses for the six-month period totaled MSEK 19.4 (32,7).
- The Group's operating result for the second quarter was MSEK -1.4 (-14.6), an improvement of more than SEK 13 million. The first six months showed an improvement of over SEK 23 million, with the operating result totaling MSEK -4.6 (-27.9). The result for the period from January to June was MSEK -2.8 (-25.0), or SEK -0.05 (-0.46) per share.
- Liquid assets at the close of the period totaled MSEK 114.2 (MSEK 121.8 at year end), or SEK 2.08 (2.22) per share. Stockholders' equity at the close of the period amounted to MSEK 108.2 (MSEK 111.0 at year end), or SEK 1.97 (2.02) per share.
- Hans Runesten was appointed CEO on May 1, 2003.

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#### BUSINESS OPERATIONS

Effnet Group AB (publ) develops and manages technology companies in the fields of digital communications and security. In 2002 the board adopted a new three-element strategy:

- bring the subsidiaries' expenses in line with expected short-term revenues;
- increase sales considerably by focusing on market activities;
- take advantage of the favorable market for corporate acquisitions, using the Group's strong financial position.

The necessary cost-cutting programme has now been fully implemented and the Group's focus is on developing sales. This redirection contributed to the significant sales growth experienced during the second quarter, despite a difficult market situation.

The Group currently consists of three business segments.

#### Header Compression

Effnet AB develops and sells Header Compression software - which increases the efficiency, speed, and security of IP traffic in mobile, fixed, and satellite networks - to network product manufacturers.

#### Digital Broadcasting

Factum Electronics AB develops and sells components and systems for digital audio broadcasting (DAB) and digital stereo sound in television broadcasting (NICAM). Its customers include radio and television stations and their network operators.

#### Copy protection

Business operations within the third business segment, the copy protection

software Don't Bother Burn (DBB) for CD-ROMs, developed and sold by Wkit Security AB, has been characterized by low activity during the period.

#### Geographic markets

The Effnet Group operates in an international market, and 77 percent of the Group's sales stem from exports.

Sales MSEK	2003 Jan-Jun	2002 Jan-Jun
Europe	8.9	0.1
North America	2.9	2.4
Asia and rest of the world	2.9	-
<b>Total net sales</b>	<b>14.7</b>	<b>2.5</b>

#### SECOND QUARTER 2003

Net sales amounted to MSEK 9.7 (0.7). Operating expenses fell to MSEK 11.2 (16.9), of which MSEK 4.7 (8.9) was personnel costs. The increase in operating expenses compared to the first quarter is related to the higher cost of goods sold due to the second quarter's increased sales. The Group's operating loss for the period was MSEK 1.4 (14.6), an improvement of more than SEK 13 million. The loss for the period after financial items was MSEK 0.6 (13.2). The Group's cash flow from current operations for the quarter was MSEK -1.6 (-18.9). Only marginal investments in equipment were made during the period.

#### THE PERIOD JANUARY-JUNE 2003

Net sales amounted to MSEK 14.7 (2.5). Several factors explain the Group's strong sales growth: the sales figures now include sales generated by Factum Electronics, which was acquired at the close of 2002, and to the Group's new strategy of intensified sales activities as well as to normal seasonal fluctuations that indicate favorable sales during the

second and fourth quarters and weaker sales during the first and third quarters.

Sales of the subsidiary Effnet AB continued to grow according to plan. After undergoing extensive quality audits by some of the world's leading telecommunications suppliers, Effnet has during the last six months been entrusted with delivering its software to these new customers, located in North America and Europe.

Despite strong sales reported by Factum Electronics AB during the second quarter, total sales remained somewhat below the level budgeted for the first six months of the year. Factum Electronics signed and delivered breakthrough orders to customers in both Europe and Asia during this period. The delivery of a digital radio system intended for Digital Multimedia Broadcasting applications to a major Korean TV and radio broadcasting company received particular attention.

Although operating expenses now include Factum Electronics, expenses dropped to MSEK 19.4 (32.7), of which MSEK 8.3 (18.6) was personnel costs. This reduction is an effect of the implementation of a cost-savings programme, including the closure of the U.S. operations which alone resulted in savings of around SEK 6 million per quarter compared to 2002. In spite of these reductions, sales within the Header Compression segment rose and the company was able to further develop its products within this segment.

The Group's operating loss was MSEK 4.6 (27.9), an improvement of more than SEK 23 million. Loss after financial items was MSEK 2.8 (25.0), or SEK 0.05 (0.46) per share. The company does not expect to incur any income tax during the foreseeable future due to tax loss carry-forwards from previous years.

### **Employees and investments**

The average number of employees during the period was 27 (37). Only marginal investments in equipment were made during the period.

### **Financial position**

The Group's stockholders' equity at the close of the period stood at MSEK 108.2 (MSEK 111.0 at year-end), or SEK 1.97 (2.02) per share. At the close of the period, the Group had MSEK 114.2 (MSEK 121.8 at year-end) in liquid assets, of which MSEK 109.3 (89.1) consisted of short-term investments. Cash flow from current operations for the period was MSEK -7.3 (-35.7), or SEK -0.13 (-0.65) per share.

### **THE BOARD**

The parent company's Board of Directors for the period consisted of Magnus Ryde (Chairman), Svante Carlsson, Göran E. Larsson and Hans Runesten. Göran E. Larsson served as acting CEO up until April 30, and Hans Runesten served as acting VP during the same period. Hans Runesten assumed the position of CEO on May 1. The Board has held nine board meetings and numerous work meetings during the period. Main issues addressed by the Board during the period include strategy follow-up and current business activities, as well as assessments of potential acquisitions.

### **OUTLOOK FOR 2003**

The Group's objective is to achieve a positive cash flow and profitability as soon as possible. However, it is not expected that this objective will be achieved during the third quarter.

Stockholm, July 31, 2003

Hans Runesten, CEO

<b>Consolidated income statement, in summary, MSEK</b>	<b>2003 Apr-Jun</b>	<b>2002 Apr-Jun</b>	<b>2003 Jan-Jun</b>	<b>2002 Jan-Jun</b>	<b>2002 Jan-Dec</b>
Net sales	9.7	0.7	14.7	2.5	9.9
Capitalized development expenses (note 1)	-	0.7	-	1.4	-
Other operating income	0.1	0.9	0.1	0.9	1.5
<b>Total income</b>	<b>9.8</b>	<b>2.3</b>	<b>14.8</b>	<b>4.8</b>	<b>11.4</b>
External costs	-6.5	-6.9	-11.0	-12.5	-31.3
Personnel costs	-4.7	-8.9	-8.3	-18.6	-38.8
Depreciations and amortization	0.0	-0.3	-0.1	-0.8	-2.8
Other operating expenses	-	-0.8	-	-0.8	-0.5
<b>Total operating expenses</b>	<b>-11.2</b>	<b>-16.9</b>	<b>-19.4</b>	<b>-32.7</b>	<b>-73.4</b>
<b>Operating result</b>	<b>-1.4</b>	<b>-14.6</b>	<b>-4.6</b>	<b>-27.9</b>	<b>-62.0</b>
Financial income/expense net	0.8	1.4	1.8	2.9	6.6
<b>Result after financial items</b>	<b>-0.6</b>	<b>-13.2</b>	<b>-2.8</b>	<b>-25.0</b>	<b>-55.4</b>
Tax	-	-	-	-	-
<b>RESULT FOR THE PERIOD</b>	<b>-0.6</b>	<b>-13.2</b>	<b>-2.8</b>	<b>-25.0</b>	<b>-55.4</b>

<b>Consolidated cash flow statement, in summary, MSEK</b>	<b>2003 Apr-Jun</b>	<b>2002 Apr-Jun</b>	<b>2003 Jan-Jun</b>	<b>2002 Jan-Jun</b>	<b>2002 Jan-Dec</b>
Cash flow before change in working capital	-0.5	-12.2	-2.4	-24.9	-57.5
Change in working capital	-1.1	-6.7	-4.9	-10.8	0.3
<b>Cash flow from current operations</b>	<b>-1.6</b>	<b>-18.9</b>	<b>-7.3</b>	<b>-35.7</b>	<b>-57.2</b>
Investments	0.0	-0.2	-0.1	-0.2	-0.5
Financing activities	-	-	-	-	-
Exchange rate difference in liquid funds	0.0	-0.1	-0.1	-0.2	-0.4
<b>CHANGE IN LIQUID ASSETS</b>	<b>-1.6</b>	<b>-19.2</b>	<b>-7.5</b>	<b>-36.1</b>	<b>-58.1</b>

Average no. of stocks, thousands (note 2)	54,943	54,943	54,943	54,943	54,943
Earnings per share, SEK (note 2)	-0.01	-0.24	-0.05	-0.46	-1.01
Cash flow from current operations per share, SEK (note 2)	-0.03	-0.35	-0.13	-0.65	-1.04

<b>Consolidated balance sheet, in summary</b>	<b>2003</b>	<b>2002</b>	<b>2002</b>
<b>MSEK</b>	<b>Jun 30</b>	<b>Jun 30</b>	<b>Dec 31</b>
<b>ASSETS</b>			
Tangible fixed assets	1.1	1.6	1.4
Capitalized development expenses (note 1)	-	1.4	-
<b>Fixed assets</b>	<b>1.1</b>	<b>3.0</b>	<b>1.4</b>
Inventories	1.6	-	1.6
Current receivables	10.7	11.6	7.2
Liquid assets (note 3)	114.2	143.7	121.8
<b>Total current assets</b>	<b>126.5</b>	<b>155.3</b>	<b>130.6</b>
<b>TOTAL ASSETS</b>	<b>127.6</b>	<b>158.3</b>	<b>132.0</b>
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>			
Stockholders' equity	108.2	145.9	111.0
Provisions	4.2	1.7	4.4
Current liabilities	15.2	10.7	16.6
<b>TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES</b>	<b>127.6</b>	<b>158.3</b>	<b>132.0</b>

<b>Changes in stockholders' equity</b>	<b>2003</b>	<b>2002</b>	<b>2002</b>
<b>MSEK</b>	<b>Jan-Jun</b>	<b>Jan-Jun</b>	<b>Jan-Dec</b>
Stockholders' equity at period's start	111.0	166.7	166.7
Loss for the period	-2.8	-25.0	-55.4
Translation difference	0.0	4.2	-0.3
<b>Stockholders' equity at period's end</b>	<b>108.2</b>	<b>145.9</b>	<b>111.0</b>
No. of stocks, thousands (note 2)	54,943	54,943	54,943
Stockholders' equity per share, SEK (note 2)	1.97	2.66	2.02
Liquid funds per share, SEK (note 2)	2.08	2.62	2.22
Stock exchange quotation at period's end, SEK	1.50	1.37	1.35
Quotation/stockholders' equity	76 %	52 %	67 %
Market capitalization, MSEK	82.4	75.3	74.2
Debt-equity ratio	85 %	92 %	84 %

### Accounting principles and notes

This Interim Report was prepared according to the Swedish Financial Accounting Standards Council's recommendation on interim reporting (RR20). The accounting and valuation principles are the same as those used for the 2002 Annual Report. Unless otherwise stated, all figures are in Swedish kronor, millions (MSEK).

1) Product development is now customer related and thus is no longer capitalized.

2) Dilution is only included in the conversion of key figures if it has a negative effect on earnings per share, which is not the case. Full dilution of all outstanding stock options adds 4,117,877 stocks.

3) Liquid assets include short-term investments and bank deposits.

<b>Quarterly data</b> (MSEK)	Q1	Q2	Q3	Q4	Whole year
Turnover					
2001	1.1	5.1	1.8	2.2	10.2
2002	1.8	0.7	1.0	6.4	9.9
2003	5.0	9.7			
Result after financial items					
2001	-28.3	-22.6	-27.7	-55.1	-133.7
2002	-11.9	-13.1	-10.0	-20.4	-55.4
2003	-2.2	-0.6			
Cash flow from current activities					
2001	-27.2	-25.5	-19.6	-22.0	-94.3
2002	-16.8	-18.9	-10.8	-10.7	-57.2
2003	-5.7	-1.6			

<b>The largest stockholders</b> of Effnet Group AB (publ), as per June 30, 2003	No. of stocks	Share of votes and capital
Four Invest AB	5,692,760	10.4 %
Degermark, Mikael	2,166,025	3.9 %
Pink, Stephen	1,866,050	3.4 %
Carlsson, Svante	1,492,492	2.7 %
SIS Segaintersettle AG	1,378,375	2.5 %
Fastighetsbolaget Reglaget AB	1,300,000	2.4 %
Credit Agricole Indosuez	1,111,678	2.0 %
Enskilda Securities AB	901,458	1.7 %
Thorell, Johan	522,948	1.0 %
Edvardsson, Bo	510,000	0.9 %
Stockholm Realty Alpha KB	405,000	0.7 %
Fastighetsaktiebolaget Ladan	400,000	0.7 %
JP Morgan Chase Bank	400,000	0.7 %
Falk, Arne	325,000	0.6 %
Danske Bank International S.A.	313,035	0.6 %
Total - the largest stockholders	18,784,821	34.2 %
Other stockholders	36,157,829	65.8 %
Total	54,942,650	100.0 %

For further information, please contact

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This report has not been subject to review by the company's auditors.

Reports 2003

Interim report January 1-September 30, 2003: October 31  
 Financial statement January 1-December 31, 2003: January 30, 2004

Effnet Group AB (publ), corporate identity number 556520-0028, is located in Stockholm, Sweden.

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The company's stock was introduced on the New Market list in April 1999 and is traded on the Stockholm Stock Exchange.