

# Carmen Systems AB

## Year-End Report 1 January 2003 – 31 December 2003

### Year 2003

- Net sales increased by 18% to SEK 190.7 million (162.1).
- Operating income increased by 48% to SEK 16.5 million (11.1).
- Profit before tax amounted to SEK 20.2 million (14.6).
- Several key deals further strengthened Carmen Systems' position, especially in the airline market.

### Important events after year-end

- In January 2004, Carmen Systems signs a long-term agreement with one of the North American mega carriers.

### A word from CEO, Per Norén

2003 proved that Carmen Systems performs successfully even in tough market conditions. Thanks to an excellent Q4 we were able to record strong growth, while at the same time improving our profitability. One of our key objectives for 2003, which was to transform Carmen from a high-growth company to an increasingly profitable company with long-term sustainable growth, was met.

The last few years have brought great challenges for our target industries. Global events and market downturns have continued to put pressure on the airline and railway sectors in 2003. This is not a one-off occurrence; it is a permanent structural change.

For many enterprises in these sectors, remaining profitable has become secondary to just remaining in business at all. Many companies have been forced to fight back with massive cost reductions, stringent efficiency measures, and new, streamlined business models. The companies in our key markets that have been able to adapt well are positioned to become the leaders in profitability. Our primary role is to support our current and future clients in building a stronger position in the industry by controlling cost structures and changes to their business strategy.

My view is that our core business and our business model coupled with our strategy is well tuned to assist our clients to make this necessary transformation possible, especially in times of change and where there is a strong demand on running profitable organizations.

I also believe that the next three years will show an increasing demand and growth for optimization software and services in general. That is promising given Carmen Systems' established position in the airline and railway market. Carmen has the necessary global presence and knowledge to meet these opportunities.

### Year 2003

During 2003, Carmen Systems maintained the position as the leading resource optimization company in the airline and railway markets. Several key deals, which further strengthened our position in the airline market were closed.

## Key highlights for 2003

### Extended Airline agreements and new clients in Europe

**British Airways** expands their use of Carmen Systems' optimization solutions to cover the crew scheduling for all 13,000 cabin crew.

**KLM** signs a long-term agreement for Carmen Crew Rostering for their 7,500 cabin crew members resulting in substantial reductions of crew costs as well as a dramatically reduced planning time.

**Finnair** signs contract for Carmen Crew Pairing and Carmen Crew Rostering. The market launch of the "Crescendo" implementation methodology provides an instant return on investment with 7 per cent savings on direct costs from the first month.

**Air France** enters a long-term agreement for Carmen Crew Pairing. The agreement automatically provides Air France access to all future versions of Carmen's optimization solutions.

### North American market expansion

**In the beginning of 2003, Northwest Airlines**, the world's fourth largest airline, signs a long-term agreement for the use of Carmen Crew Pairing for planning the schedules of over 15,000 crew members. The project is an important breakthrough in the US market.

**Aeroméxico** installs Carmen's Integrated Operations Control to manage disruptions and further improve performance on the day of operation.

During 2003, Carmen Systems has started to increase the operations, sales and marketing in North America from our US and Canadian subsidiaries, Carmen Systems Inc. and Carmen Systems Ltd, respectively.

### Other important highlights

**Philippine Airlines (PAL)**, announces the successful implementation of Carmen's Crew Pairing solutions in October, three months ahead of schedule.

**Saudi Arabian Airlines** signs a long-term agreement for both Carmen Crew Pairing and Carmen Crew Rostering to schedule and roster 6,000 crew members in December 2003.

**Deutsche Bahn**, one of Europe's largest railway companies, announces partial acceptance of Carmen's crew planning systems in December 2003.

**Green Cargo**, Sweden's largest railway cargo carrier, continues to use and improve VADIS, a real-time control system for optimal distribution of freight cars. Yearly savings are estimated to be EUR 7 million.

Strengthening of academic partnerships with participation in the industrial advisory board of **Massachusetts Institute of Technology**, (MIT) Global Airline Industry program.

Carmen Systems was named **Swedish IT Company** of the Year 2003 by Veckans Affärer, Sweden's largest business weekly magazine.

At the end of 2003 we redefined our business structure with the creation of two business units, Airline and Railway, and a Global Services division. This new structure allows us to develop a sharper focus on the challenges that face each sector. At the same time, it creates opportunities for business development.

### Important events after year-end

In January 2004, Carmen Systems signed a long-term agreement with one of the North American mega carriers, which covers the products Carmen Crew Pairing and Carmen Crew Rostering, including Bid-Lines and Preferential Bidding System (PBS). Implementation began during Q4 2003.

## Financials 2003

### Net sales

Net sales increased by 18% to SEK 190.7 million (162.1) with 50% in recurrent product sales and 50% in sales of services. Sales of services became the major growth driver 2003 with a 26% sales increase. Sales of products growth ended at 10%. Sales from the Airline sector represents 64% and sales from the Railway sector represents 36% of total sales. Carmen Systems expansion has been organic.

## Results

The operating income (EBIT) increased 48 % and amounted to SEK 16.5 million (11.1), which is equivalent to an operating margin of 9 %, an increase of 2 % compared with 2002.

The operating income increase of SEK 5.4 million compared to last year is mainly due to the following:

Improved gross profit has had a positive effect of SEK 20.4 million due to increased sales together with increased productivity in implementation projects.

Increased selling expenses have had an impact of SEK -6.9 million mainly due to an increased sales force to cover both new geographical areas within the airline sector and new clients within the railway sector.

Increased administrative expenses have had an impact of SEK -5.5 million mainly as a result of a strengthened organization for continued growth and further expansion.

Currency translation adjustments affecting operating income by SEK -2.0 million (-0.4), mainly due to a volatile US dollar.

The profit before tax was SEK 20.2 million (14.6). During the period the company's net financial items were positive at SEK 3.7 million (3.4), of which currency translation differences had a positive effect of SEK 0.4 million (-1.2).

## Research and development

Research and development costs amounted to SEK 48.6 million (47.7). No R&D costs were capitalized during 2003. Amortization of last year's capitalization is included in current years' expense.

## Financial position and liquidity

As of 31 December 2003, liquid funds and short-term investments amounted to SEK 122.6 million (126.2), of which SEK 91.0 million (107.4) consisted of short-term investments in Swedish commercial papers with high liquidity and credit ratings. Equity/assets ratio was 71.5% (68.6%).

At the end of the period the Group's shareholders' equity was SEK 149.1 million (135.0).

## Cash flow

Cash flow from operating activities amounted to SEK 5.5 million (22.5 m). Positive cash flow from operating activities consists of SEK 21.1 (16.0) million from operating activities before changes in working capital and SEK -15.6 (6.6) million in increased tied-up operating working capital.

Cash flow used in investment activities amounted to SEK -8.9 million (7.6). Cash flow used in financing activities amounted to SEK -0.1 million (0.6).

Cash flow for the period was SEK -3.6 million (14.4 m). The main reason for the liquid assets funds decrease is due to a repayment of a wrongly submitted tax refund in 2002 of SEK 18 million.

## Dividend

The Board of Directors and the CEO propose to the annual general shareholders meeting that SEK 12 per share be paid in dividend to the shareholders for the year 2003.

## Parent Company

Sales amounted to SEK 183.2 million (156.2) during 2003 and profit before taxes amounted to SEK 13.3 million (6.5).

## Personnel

The number of employees was on average 172 (153), an increase of 19 people compared to year-end 2002. The total number of staff as at December 31, 2003 was 177 (158).

The same accounting principles and calculation methods have been used in this report as in the Annual Report for 2003. The company's auditors have not reviewed this report.

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### The Carmen Systems Group

Carmen Systems' develops and implements resource optimization solutions for airlines and railways. The solutions consist of applications based on the latest research combined with services such as analysis, simulation, development and support of clients' business processes. Carmen Systems' head office is located in Göteborg, Sweden. The offices in Copenhagen, Leon, Madrid, Miami, Montreal, Singapore and Stockholm support the clients globally. In 2003, 16 international airlines used Carmen Systems' planning solutions. Carmen's railway clients include Deutsche Bahn, SJ, and Green Cargo.

## Profit and loss Statement

### Carmen Systems Group

Amounts in SEK 000s

	2003	2002
<b>Operating income</b>		
Net sales	190 677	162 082
Cost of goods sold	-69 155	-60 975
<b>Gross Profit</b>	<b>121 522</b>	<b>101 107</b>
Selling expenses	-30 262	-23 369
Administrative expenses	-24 782	-19 313
Research and development expenses	-48 623	-47 704
Other operating income	1 314	1 521
Other operating expenses	-2 695	-1 121
<b>Operating income (EBIT)</b>	<b>16 474</b>	<b>11 121</b>
Financial income	4 528	5 253
Financial expenses	-832	-1 808
<b>Profit before tax</b>	<b>20 170</b>	<b>14 566</b>
Tax on profit for the period/year	-5 731	-4 347
Minority interests in net profit	-208	-303
<b>Profit for the period</b>	<b>14 231</b>	<b>9 916</b>
EPS, before dilution	42,91	31,03
EPS, after dilution	41,02	29,62
No. of shares, before dilution	331 640	319 531
No. of shares, after dilution	346 920	334 811

## Consolidated cash flow Statement

Amounts in SEK 000s

	2003	2002
Current activities		
Profit after financial items	20 170	14 566
Adjusted for items not included in the cash flow	6 356	4 657
Other items affecting the cash flow	-5 429	-3 251
<b>Cash flow from operating activities before changes in working capital</b>	<b>21 097</b>	<b>15 972</b>
Cash flow from changes in working capital	-15 630	6 565
<b>Cash flow from operating activities</b>	<b>5 467</b>	<b>22 537</b>
Cash flow used in investment activities	-8 896	-7 552
Cash flow used in financing activities	-135	-614
<b>Cash flow for the period</b>	<b>-3 564</b>	<b>14 371</b>
<b>Liquid funds at beginning of period</b>	<b>126 192</b>	<b>111 821</b>
<b>Liquid funds at end of period</b>	<b>122 628</b>	<b>126 192</b>

## Consolidated balance sheet

Amounts in SEK 000s

2003-12-31 2002-12-31

### ASSETS

#### Fixed assets

Intangible assets	4 894	6 117
Tangible assets	12 055	8 421
Financial assets	123	46
<b>Total fixed assets</b>	<b>17 071</b>	<b>14 584</b>

#### Current assets

Inventories	0	4 237
Current receivables	68 668	51 595
Liquid funds	122 628	126 192
<b>Total current assets</b>	<b>191 296</b>	<b>182 024</b>

### TOTAL ASSETS

**208 368 196 608**

### SHAREHOLDERS' EQUITY AND LIABILITIES

#### Shareholders' equity

**149 087 134 961**

Minority shareholdings	765	530
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Provisions	3 714	2 226
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Non interest-bearing long-term liabilities	1 382	1 517
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Non interest-bearing current liabilities	53 419	57 374
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#### Total liabilities

**58 516 61 117**

### TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES

**208 368 196 608**

## Changes in Group's shareholders' equity

Amounts in SEK 000s

2003-12-31 2002-12-31

Opening shareholders' equity on 1 Jan	134 961	122 446
New share issues		3 301
Translation differences	-105	-702
Profit for the period	14 231	9 916
<b>Ending Shareholders' equity on December 31</b>	<b>149 087</b>	<b>134 961</b>

## Key Ratios

2003-12-31 2002-12-31

Operating margin, %	8,6%	6,9%
Return on capital employed, %	14,4%	12,4%
Return on equity, %	10,0%	7,7%
Equity/assets ratio, %	71,5	68,6
R&D costs as % of sales	25%	29%
No. of employees, average	172	153