



# Carmen Systems AB

## Year-End Report 1 January 2004 – 31 December 2004

### Year 2004

- Net sales increased by 16% to SEK 220.8 million (190.7).
- Operating income increased by 51% to SEK 24.9 million (16.5). Operating margin was 11.3% (8.6).
- Profit before tax increased by 45% to SEK 29.3 million (20.2).
- Net profit increased by 42% to SEK 20.2 million (14.2).
- Cash flow from operating activities amounted to SEK 35.9 million (5.5).
- In January 2004, Carmen Systems signed a long-term rental agreement with Delta Air Lines and its low-fare service, Song. Delta is the world's second largest airline.
- Several other key deals further strengthened Carmen Systems' position in our target markets.

### Important events after Year-End

- In February 2005, Rail Gourmet Spain signed a long-term rental agreement for Carmen Crew Pairing and Carmen Crew Rostering.
- In February 2005, DSB, Denmark's largest provider of passenger rail services, signed an agreement with Carmen Systems for the development of a new passenger fleet solution for its national and international passenger services.

### A word from CEO, Per Norén

2004 saw Carmen Systems deliver strong financials and achieve true market breakthrough in North America. The year also brought new agreements with Virgin Atlantic Airways and Britannia Airways, increased demand for Carmen's software products in the European airline market, and an interesting, new segment in mid-sized airlines.

We see an increased need for advanced, and perhaps more importantly, effective, resource optimization in all markets. The Airline industry showed an 8% increase in traffic in 2004, sparked by an unexpectedly strong economy. Profitability, however, is still the key concern and at today's levels and load factors, carriers will have to seriously consider further reducing capacity. This poses continued opportunities for Carmen in the future. Carmen now leads the global airline crew planning segment, assisting 22 of the world's 100 largest airlines. We see huge potential for further penetration, especially in the North American and Asian markets. This growth will be aided by the launch of our Integrated Crew Management System in 2005. The solution will provide optimization in all phases of the crew management process and spans the entire spectrum of crew resource management, from long-term planning to day of operation. The software products used are Carmen Manpower Planning, Carmen Crew Pairing, Carmen Crew Rostering, Carmen Crew Tracking and Carmen Crew Recovery.

The Railway industry is also facing great changes and Carmen is committed to assisting railway operators as these changes take place. Different markets, however, pose different challenges and require different methodologies. Our strategy is simple, to continue to use our domain knowledge, work close to the client, and apply optimization in the most beneficial way. We now have a reference implementation at Europe's largest railway, Deutsche Bahn, which is showing significant savings. This further strengthens our foothold in this sector.

In 2005 we will continue to deepen our presence in the airline and railway markets and to enter new market segments and industries where we see clear business opportunities.

## Key highlights for 2004

### North American Airline market expansion

**Delta Air Lines**, the world's second largest airline in terms of passengers carried, signed a long-term agreement for Carmen Crew Pairing and Carmen Crew Rostering which was implemented during the year. Our optimization software solution already achieves considerable savings. Delta's low-fare service, Song, is also included in the agreement.

**Mexicana** signs a long-term rental agreement for Carmen Tail Assignment to further improve aircraft utilization and link commercial planning with the planning of aircraft and crew.

During 2004, Carmen Systems started to expand sales, marketing and operations in North America at our subsidiaries in the US, Carmen Systems Inc. and in Canada, Carmen Systems Ltd.

### Extended Airline agreements and new customers in Europe

**Finnair** began initial production plans with Carmen Manpower Planning to assist in further integration of their crew planning process.

**Virgin Atlantic Airways**, Britain's second largest airline, signed a long-term agreement for the use of Carmen Crew Pairing and Carmen Crew Rostering for all 3,800 crew.

**Britannia Airways**, the world's leading holiday airline, and part of the TUI AG Group signed a long-term contract for Carmen Crew Pairing, Carmen Crew Rostering and the crew request system, Carmen InterBids.

**Malmö Aviation**, voted Best Domestic Airline in Sweden in 2004, worked with flight crew to reduce crew costs with the support of Business Consulting advice and analysis from Carmen Systems.

### Other important highlights

**Deutsche Bahn's** Passenger Division made public that Carmen's Crew Pairing and Crew Rostering software, in production within the long-distance operation, showed savings of up to 7 per cent in crew efficiency.

**Bortz Media & Sports Group** and Carmen Systems combined their experience in scheduling and optimization to provide software for future NHL match scheduling.

## Financials 2004

### Net sales

Net sales for 2004 increased by 16 per cent to SEK 220.8 million (190.7). Carmen Systems' growth has been organic and is geographically derived from sales to the airline markets in Europe and North America. Sales show an increase for all quarters with a stronger increase in the second and third quarters.

Product revenues were the major growth driver in 2004 with a 36 per cent increase. Product revenues amounted to SEK 128.8 million (94.6) and accounted for 58 per cent (50) of total sales. Due to the increased product revenues recurrent revenues were strengthened.

Service revenues amounted to SEK 92.0 million (96.0) with a decline of -4 per cent compared to 2003 as an effect of lower service revenues in business unit Railway.

Airline revenues increased by 41 per cent to SEK 171.0 million (121.6), which represents 77 per cent (64) of total sales.

Railway revenues declined by 28 per cent to SEK 49.6 million (69.1) as an effect of lower service revenues compared to 2003. Railway revenues represent 23 per cent (36) of total sales.

### Results and profitability

All levels of profit and margins have continued to progress positively. Operating income (EBIT) increased 51 per cent and amounted to SEK 24.9 million (16.5), which is equivalent to an operating margin of 11.3 per cent, an increase of 2.7 percentage points compared to 2003.

The improvement in profit is mainly due to the increase in product revenues.

Total operating costs increased 14 per cent in 2004 compared to 2003. The increase in cost is mainly derived from sales- and administrative expenses. The primary cause for the increase in operating costs is the strengthening of Carmen Systems global organization, particularly the expansion in the global sales force.

Currency translation adjustments as a net within other operating income and other operating costs were affected by SEK -1.7 million (- 2.0) mainly due to the weak US dollar.

The profit before tax was SEK 29.3 million (20.2). During the period the company's net financial items were positive at SEK 4.4 million (3.7), of which currency translation differences had a positive effect of SEK 0.8 million (0.4).

Return on Equity increased to 12.1 per cent (10.0) and return on capital employed increased to 18.3 per cent (14.4). The increased profitability on all levels is mainly attributable to increased profit margins.

### Research and development

Total R&D costs amounted to SEK 52.4 million (48.6). The company's total R&D costs is divided between; R&D expenses of SEK 18.3 million (17.0) attributable to research and development of new software products and Cost of Goods Sold (CoGS) of SEK 34.0 million (31.6) attributable to development of new versions stipulated in clients long term rental agreements. During 2004, Mexicana Airlines signed a long term agreement and began the implementation of Carmen Tail Assignment, bringing the product to the capitalization stage. Capitalization amounts to SEK 2.8 million.

### Financial position and liquidity

As of 31 December 2004, liquid funds and short-term investments amounted to SEK 155.5 million (122.6), of which SEK 69.3 million (91.0) consisted of short-term investments in Swedish commercial papers with high liquidity and credit ratings. Equity/assets ratio was 73.6 per cent (71.5).

At the end of the period the Group's shareholders' equity amounted to SEK 183.6 million (149.1).

### Cash flow and Investments

Cash flow from operating activities amounted to SEK 35.9 million (5.5). Positive cash flow from operating activities consists of SEK 31.6 million (21.1) before changes in working capital and SEK 4.3 million (-15.8) in decreased tied-up working capital.

Cash flow used in investment activities amounted to SEK -11.9 million (-8.9). Investments have been made predominantly in IT infrastructure and computers and amounts to SEK 9.4 million (8.8). The other significant part of investments is capitalized development costs of SEK 2.8 million (0).

Cash flow from financing activities amounted to SEK 8.8 million (-0.1). A new issue of shares contributed to the cash flow with SEK 13.8 million. The new share issue was attributable to the exercise of options under the 2001 incentive program. The options were exercisable until 1st December 2004, and all of the options under the program were exercised. Carmen also paid out a dividend in 2004 amounting to SEK 4 million.

The cash flow for the period was SEK 32.9 million (-3.6). The main explanation for the liquid assets funds increase is due to the increase from operating activities.

### Personnel

The number of employees was on average 187 (172), an increase of 15 people compared to year-end 2003. The total number of working staff at December 31, 2004 was 195 (177).

### Dividend

The Board of Director's and the CEO propose to the annual general shareholders meeting that SEK 16 per share be paid in dividend for the year 2004.

### Parent Company

Net sales amounted to SEK 219.3 million (183.2) and profit before tax amounted to 19.2 million (13.3).

### Important events after Year-End

In February 2005, Carmen Systems signed a long term rental agreement with Rail Gourmet in Spain for the use of Carmen Crew Pairing and Carmen Crew Rostering.

In February 2005, DSB, Denmark's largest provider of passenger rail services, signed an agreement with Carmen Systems for the development of a new passenger fleet solution for its national and international passenger services.

The same accounting principles and calculation methods have been used in this report as in the Annual Report for 2004. The company's auditors have not reviewed this report.

Göteborg, 10 February 2005

Per Norén  
*Chief Executive Officer*

For further information, please contact

Per Norén, CEO,  
Phone: +46 31 7208101 Mobile: +46 703 368101  
E-mail: per.noren@carmensystems.com

or

Jan-Olof Ohlsson, CFO,  
Phone: +46 31 7208191 Mobile: +46 739 788191  
E-mail: jan-olof.ohlsson@carmensystems.com

### **The Carmen Systems Group**

Carmen Systems develops, markets and implements resource optimization solutions for clients found primarily in the transportation industry. Carmen's software solutions improve our clients' productivity and bottom-line profitability. Our solutions combine the latest in research and technology and include; analysis, simulation, development, implementation. The company headquarter's is in Göteborg, Sweden with offices in Austin (Texas), Copenhagen, Montreal, Singapore and Stockholm. In 2004, 22 airlines used Carmen Systems' planning solutions. Carmen's railway clients include Deutsche Bahn and Green Cargo.

## Profit and loss Statement

### Carmen Systems Group

	Q4	Q4	Jan-Dec	Jan-Dec
<i>Amounts in SEK 000s</i>	2004	2003	2004	2003
<b>Operating income</b>				
Net sales	59 434	58 101	220 770	190 677
Cost of Goods Sold (CoGS)	-28 977	-27 886	-111 346	-100 760
<b>Gross Profit</b>	<b>30 457</b>	<b>30 215</b>	<b>109 424</b>	<b>89 917</b>
Selling Expenses	-12 216	-8 342	-38 430	-30 262
Administrative expenses	-7 904	-7 075	-28 295	-24 782
Research and development expenses	-4 180	-4 561	-18 337	-17 018
Other operating income	1 248	651	4 762	1 314
Other operating expenses	-3 231	-1 801	-4 186	-2 695
<b>Operating income (EBIT)</b>	<b>4 173</b>	<b>9 087</b>	<b>24 937</b>	<b>16 474</b>
Financial income	1 817	1 685	5 921	4 528
Financial expenses	-581	-287	-1 533	-832
<b>Profit before tax</b>	<b>5 409</b>	<b>10 485</b>	<b>29 325</b>	<b>20 170</b>
Tax on profit for the period/year	-2 196	-2 849	-9 071	-5 731
Minority interests in net profit	0	-264	-70	-208
<b>Net Profit for the year</b>	<b>3 213</b>	<b>7 372</b>	<b>20 184</b>	<b>14 231</b>
EPS, basic	9,63	22,23	60,52	42,91
EPS, diluted	9,21	21,25	57,87	41,02
Average no. of shares, basic	333 524	331 640	333 524	331 640
Average no. of shares, diluted	348 804	346 920	348 804	346 920

## Consolidated cash flow statement

	Jan-Dec	Jan-Dec
<i>Amounts in SEK 000s</i>	2004	2003
Current activities		
Profit before tax	29 325	20 170
Adjusted for depreciation and amortization	8 409	6 356
Other items affecting the cash flow	-6 132	-5 429
<b>Cash flow from operating activities before changes in working capital</b>	<b>31 603</b>	<b>21 097</b>
Cash flow from/used in changes in working capital	4 304	-15 630
<b>Cash flow from/used in operating activities</b>	<b>35 907</b>	<b>5 467</b>
Cash flow used in investment activities	-11 857	-8 896
Cash flow used in/from financing activities	8 824	-135
<b>Cash flow for the period</b>	<b>32 873</b>	<b>-3 564</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>122 628</b>	<b>126 192</b>
<b>Cash and cash equivalents at end of period</b>	<b>155 502</b>	<b>122 628</b>

## Consolidated balance sheet

	Dec 31, 2004	Dec 31, 2003
<i>Amounts in SEK 000s</i>		
<b>ASSETS</b>		
<b>Fixed assets</b>		
Intangible assets	11 972	4 894
Tangible assets	14 532	12 055
Financial assets	122	123
<b>Total fixed assets</b>	<b>26 626</b>	<b>17 071</b>
<b>Current assets</b>		
Inventories	0	0
Current receivables	67 410	68 668
Liquid funds	155 502	122 628
<b>Total current assets</b>	<b>222 912</b>	<b>191 296</b>
<b>TOTAL ASSETS</b>	<b>249 538</b>	<b>208 367</b>

## SHAREHOLDERS' EQUITY AND LIABILITIES

<b>Shareholders' equity</b>	<b>183 581</b>	<b>149 087</b>
Minority shareholdings	0	765
Provisions	7 750	3 714
Interest-bearing long-term liabilities	434	1 382
Non interest-bearing current liabilities	57 773	53 419
<b>Total liabilities</b>	<b>65 957</b>	<b>58 515</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>249 538</b>	<b>208 367</b>

## Changes in Group's shareholders' equity

	Dec 31, 2004	Dec 31, 2003
<i>Amounts in SEK 000s</i>		
Opening shareholders' equity on 1 Jan	149 087	134 961
Dividend	-3 980	0
New share issues	18 565	0
Translation differences	-274	-105
Profit for the period	20 184	14 231
<b>Ending Shareholders' equity on Dec 31</b>	<b>183 581</b>	<b>149 087</b>

## Key Ratios

	Jan-Dec 2004	Jan-Dec 2003
Operating profit (EBITDA)	32,8	24,2
Gross margin, % (EBITDA)	14,8%	12,7%
Operating margin, %	11,3%	8,6%
Return on capital employed, %	18,3%	14,4%
Return on equity, %	12,1%	10,0%
Equity/assets ratio, %	73,6	71,5
Total R&D Costs	-52 362	-48 623
Total R&D costs as % of sales	24%	25%
No. of employees, average	187	172
Yearly sales per employee SEK thousands	1 182	1109
Yearly costs per employee SEK thousands	-1 049	-1013
Yearly EBIT per employee SEK thousands	134	96