



INTERIM REPORT

1 January – 30 June 2000

- Income before tax declined to SEK 3.7 m (25.5)
- Net sales increased to SEK 166.8 m (140.3)
- The average number of employees was 361 (238)
- Company in Portugal acquired
- Venture capital and development company Softronic Ventures established
- Further development of ITM and partner agreement in the USA expanded

The managing director's remarks

Development during the first two quarters

The second quarter, which was shorter than the first by five business days, continued with a weak earnings trend. Operating income of SEK -1.8 million for the first two quarters was encumbered by development costs of SEK -8.8 million for ITM and provisions for client projects of SEK -2.0 million. Reallocated pension funds (SPP) improved operating income by SEK 3.8 million.

In addition to operating income, net financial items of SEK 5.6 million includes achieved earnings of SEK 5.0 million on financial investments.

Staffing for project consultants was 55% (including development of ITM), about 10 percent lower than last year. A number of major projects delivered in late 1999 have yet to be replaced with new sales of equal value. The assessment is that complexity of procurement and development has delayed client decisions to proceed with larger investments. There is nevertheless considerable underlying demand for consultant services within eBusiness, as shown by a higher number of outstanding tenders, among other factors.

This year Softronic, like many other IT consulting companies, was poorly positioned to meet demands within eBusiness. During the first two quarters we have altered our strategic plan to include a closer integration between IT consulting and management consulting.

Organic growth has declined due to higher employee turnover, this can be partly explained by changes in our strategic plan. However, Softronic has succeeded in recruiting more than 60 new employees during the first two quarters - even more are starting in August.

Softronic is well positioned for the rest of the year and will be able to capitalise on major international eBusiness projects. The positive result will be evident during the last two quarters.

ITM

An updated version of the insurance- and fund system has been released. ITM 3.0 contains full support for Unit Link, among other new features. In preparation for launch in the United States, the product has been adapted to the American market. A strategic alliance agreement has been closed with Scruggs Group in Dallas. The company's forecast for the first licence agreements from England and the United States during the second half, remains in effect.

Organic growth

Two new IT Partner units were started within Finance and Telecom during Q2. The new units will entail higher costs during Q3, but will also lead to organic growth and improved income in the fourth quarter. The company also opened Softronic Ventures in order to take full advantage of ideas and business opportunities within eBusiness and eStrategy in a separate venture capital and development company.

Expansion in Europe

Softronic has acquired Iberconsult, one of the leading independent management consulting companies in Portugal. The acquisition will take effect on 1 July. The company has good profitability and some 30 employees in Portugal and Spain. Two thirds of the purchase price of SEK 25 million will be paid in cash, with the remaining third paid through a directed issue. The acquisition strategy puts priority on European management consulting firms with expertise in the fields of eBusiness and eStrategy.

Key ratios

	2000 Jan-June	1999 Jan-June	1999 Full year
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Income

Earnings per share after tax (SEK)	<u>note 1</u>	0.12	0.83	1.53
Profit margin (%)		2.2	18.2	15.8
Return on equity (%)		5	45	37
Added value per employee (SEK m)		0.30	0.44	0.77

Sales

Net sales (SEK m)	167	140	311
Sales of consultant services (SEK m)	146	122	271
Thereof project consultants (SEK m)	98	104	217
Thereof resource consultants (SEK m)	19	18	35
Thereof management consultants (SEK m)	29	0	19
Sales of ITM licenses (SEK m)	0	3	9
Sales of hardware (SEK m)	21	15	31
Net sales per employee (SEK k)	463	590	1,123

Financial position

Equity (SEK m)	108	92	114
Equity/assets ratio (%)	64	63	53
Liquid assets (SEK m)	38	82	87
Interest-bearing debts	0	0	0

Employees

Average number during the period	362	238	277
Thereof billing consultants	326	218	250
Staff turnover, annual rate (%)	19	10	12
Employees at the end of the period	369	250	351

Billing ratio, hourly rate

Billing ratio (%)	<u>note 2</u>	55	65	60
Average hourly rate (SEK)		880	890	900

Sensitivity (period)

Billing ratio, +/- 5% (SEK m)	+/- 14	+/- 22
Hourly rate, +/- 50 SEK (SEK m)	+/- 9	+/- 15

Operating income per business area

	<u>Jan-June/00</u>		<u>Jan-June/99</u>		<u>Full year/99</u>	
	<u>Sales</u>	<u>Inc</u>	<u>Sales</u>	<u>Inc</u>	<u>Sales</u>	<u>Inc</u>
Project consultants (SEK m)	98	2.3	104	18.9	217	36.3
Resource consultants (SEK m)	19	1.9	18	3.6	35	5.4
Management consultants (SEK m)	29	1.4	-	-	19	0.9
Hardware (SEK m)	21	1.4	15	1.6	31	1.5
ITM Insurance (SEK m)	0	-8.8	3	0.6	9	-0.2
	167	-1.8	140	24.7	311	43.9

Quarterly data

	<u>Q2/00</u>	<u>Q1/00</u>	<u>Q4/99</u>	<u>Q3/99</u>	<u>Q2/99</u>	<u>Q1/99</u>	<u>Q4/98</u>	<u>Q3/98</u>	<u>Q2/98</u>	<u>Q1/98</u>
Net sales	82.0	84.8	100.3	70.4	71.4	68.9	60.6	42.2	46.0	44.6
Income before tax	- 0.8	4.5	13.6	10.1	11.3	14.2	11.8	4.6	6.2	4.6
Profit margin (%)	neg.	5.3	13.6	14.3	15.8	20.6	19.5	10.9	13.5	10.3

Income statement

SEK k	2000 Jan-June	1999 Jan-June	1999 Full year
Net sales	166,848	140,307	310,954
Hardware for resale	- 19,203	- 13,454	- 28,326
Other external costs	- 33,759	- 19,548	- 50,401
Costs of personnel note 3	- 110,732	- 79,876	- 179,972
Depreciation	- 4,970	- 2,760	- 8,357
Operating income	- 1,816	24,669	43,898
Net financial items note 4	5,564	838	5,265
Income after financial items	3,748	25,507	49,163
Tax	- 1,049	- 7,142	- 15,184
NET INCOME	2,699	18,365	33,979

Balance sheet

SEK k	31 Jun. 2000	31 Jun. 1999	31 Dec. 1999
ASSETS			
Intangible assets	45,998	10,435	48,206
Tangible assets	17,731	10,751	16,756
Total fixed assets	63,729	21,186	64,962
Current assets (excluding liquid assets)	67,772	43,860	61,519
Short term placements	12,720	7,918	17,509
Cash and bank	24,969	73,679	69,672
Total current assets	105,461	125,457	148,700
TOTAL ASSETS	169,190	146,643	213,662
EQUITY AND LIABILITIES			
Equity	107,821	91,997	113,472
Minority interest	26	-	26
Provisions	7,872	3,846	7,872
Liabilities, supplementary purchase price note 5	11,500	-	14,500
Current liabilities (none interest-bearing)	41,971	50,800	77,792
TOTAL EQUITY AND LIABILITIES	169,190	146,643	213,662

[note 6](#)

Cash flow statement

Summary			
SEK m	2000 Jan-June	1999 Jan-June	1999 Full year
Cash flow from current operations before changes in working capital	7.7	21.1	45.0
Changes in working capital	- 37.3	- 6.0	- 2.7
Cash flow from current operations	- 29.6	15.1	42.3
Cash flow from investing activities	- 6.7	- 2.7	- 36.8
Cash flow from financial activities	- 8.4	- 3.2	- 0.3
TOTAL CHANGE IN LIQUID FUNDS	- 44.7	9.2	5.2

Notes

note 1 Earnings per share after tax: The dilution effect of 1,120,000 warrants with expiration in June 2002 is not considerable and has not been taken into account. The warrants were subscribed by personnel in 1999. The redemption price is SEK 28.75 per share (market value per 30 June: SEK 31.50).

note 2 Billing ratio: The proportion of billed hours to full working hours, i.e., all eight-hour working days of the year (approximately 2,000 hours). Thus, holidays have not been taken into account.

note 3 Costs of personnel: Reallocated funds from SPP amounts to SEK 3.8 million (SEK 3.5 m was posted in first quarter) and reduce costs of personnel.

note 4 Net financial items: Includes capital gain from short term placements during second quarter 2000.

note 5 Liabilities, supplementary purchase price: Refers to estimated supplementary purchase price for Consultus (SEK 3.3 m plus 105,600 B series shares) and Bellatrix (SEK 1.5 m).

note 6 Cash flow statement: Payment for new share issues have not been taken into account since settlement was via offset of liabilities and thus has no effect on liquidity. Posted supplementary purchase prices have not been taken into account for the same reason. Investments during January-June 2000 were for equipment (SEK 3.7 m) and for disbursement of supplementary purchase price (SEK 3.0 m).

Parent company

Operations

Of net sales for Softronic group, 79% (84) is related to the parent company.

Net sales, income before tax

Net sales amount to SEK 131.0 m (123.0) including inter company sales of SEK 17.7 m (4.6). Operating income amounts to SEK 5.3 m (21.3), income before tax to SEK 10.8 m (27.9). Results includes no dividends from inter company (5.7).

Investments

Investments in equipment amounts to SEK 2.5 m (2.3).

Liquidity

Liquid assets including short term placements amounts to SEK 17.8 m (66.5).

Other information

Distribution of profits

A dividend for 1999 of SEK 8,350,200 (SEK 0.375 per share after bonus issue and stock split) was distributed in May 2000.

Bonus issue and split

The annual general meeting adopted a bonus issue and a 4:1 stock split which was carried out in June. The number of shares raised from 5,566,800 to 22,267,200 i.e. one old share became four new.

Warrants 2000

The annual general meeting adopted an issue of 280,000 warrants to be subscribed by personnel in June 2000. The warrant program has not yet been carried out.

Reports

Interim report, Jan-Sept	25 October 2000
Earnings report for 2000	February 2001

Review by the independent auditors

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

For further information about the interim report

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SOFTRONIC AB (publ), Corporate Registration Number 556249-0192
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