



## **PRESS RELEASE**

**Stockholm, Sweden, November 6, 2000**

### **Interim Report for the Period Jan. 1 – Sep. 30, 2000**

#### **Highlights in the Period**

Third quarter:

- Traffic revenues of SEK 81.4 m for the nine-month period, up 401%
- Customer base reaches 100,000, a 150% increase in 12 months
- Glocalnet links up to a consortium, which applies for a UMTS license
- Glocalnet launches *G-telephony*-nationwide calls for a fixed monthly fee
- New Internet-based customer care technology platform implemented

First half-year:

- Launch of new graphical profile
- Distributor agreement with home electronics retail chain Expert
- Two new issues totaling SEK 160.6 m
- Glocalnet resolves on Danish start-up
- Glocalnet share quoted on OM Stockholm Exchange's O-list

#### **After the End of the Period**

- Danish organizational resources hired and in place
- Fixed and mobile traffic agreements complete in Denmark

**During the first quarter**, Glocalnet launched its new graphical profile with a major marketing campaign. Glocalnet reached a distributor agreement with home electronics retail chain Expert, implying that Glocalnet services are now marketed through all Expert's 225 nationwide Swedish outlets. Two new issues were effected, raising a total of SEK 160.6 m for the company.

**During the second quarter**, Glocalnet's customer base expanded to 90,000 as a result of the campaign initiated in the first quarter. This campaign encompassed TV, the evening press, direct mail and telemarketing.

Glocalnet resolved to start up operations in Denmark, with the intention of being ready to launch services at the end of 2000.

Glocalnet's share was quoted on OM Stockholm Exchange's O-list. No new issue was effected coincident with this flotation.



**During the third quarter**, revenues continued to expand robustly as a consequence of the customer influx the company experienced during the second and third quarters. As of September 30, the customer base amounted to 100,000, including 4,000 businesses. In September, call minutes amounted to 27.5 million, 638% higher than in September 1999.

Glocalnet linked up to a consortium comprising Ratos, Teracom and Nomura, which intends to build an open, neutral UMTS (third-generation mobile telephony) network. This letter of intent implies Glocalnet being able to purchase capacity, and having the option to become a stakeholder.

Glocalnet's two-year contract with Birka Energi, which expired in August, was not renewed; during the current year, this alliance has not generated any notable customer influx.

*G-telephony* was launched at the end of September, allowing Glocalnet customers to make zero-tariff calls to other customers for a modest monthly fee of SEK 19. Thus Glocalnet has become the first player in Sweden to replace floating-rate call tariffs with fixed fees. Meanwhile, a new www-based customer care platform was brought into production, which initially, enables the rationalization of customer care but will eventually function as an integrated part of Glocalnet's services offering.

**After the end of the period**, Glocalnet completed the hiring of its Danish organizational resources, which will be headed up by Mr. Flemming Kluge, whose previous appointments including heading up a division of Danish mobile operator Sonofon. Additionally, Glocalnet has reached agreements with TeleDenmark regarding interconnect on the fixed-line network and with Sonofon regarding the purchase of mobile capacity. Substantial elements of Glocalnet's technology resources have been transferred to the development of mobile services.

### **Financial Reporting**

(The following figures apply to the group, unless otherwise stated. Figures in brackets are comparatives for the first nine months of 1999.)

#### **Revenues**

Glocalnet's total revenues amounted to SEK 77.8 (16.7) m during the first nine months of 2000. Traffic revenues, excluding non-recurring discounts, were SEK 81.4 (16.3) m, an increase of 401% on the corresponding period of the previous year. Third-quarter traffic revenues, excluding non-recurring discounts, amounted to SEK 32.7 m, up 16% on the second quarter. As of September 30, 2000, the total customer base was 100,000 (40,000), 150% more than one year previously. During the first nine months of 2000, the customer base expanded by 38,000. The heavy influx of customers resulted in discounts of SEK 4.1 (0.6) m being granted, which are an



element of Glocalnet's customer recruitment expenses. In September, 71,200 pre-select customers used Glocalnet services; the average revenue generated from preselect customers was SEK 150, and has been fairly stable in 2000.

### **Network Expenses and Margins**

Network expenses were SEK 61.1 (14.6) m, mainly comprising floating expenses. The gross margin for the period was 22% - 9% higher than the previous year. Gross margins in the third quarter were slightly higher than during the second, largely attributable to a reduction in discounting. The third-quarter gross margin excluding discounting was 24%, which was slightly lower than the previous quarter.

### **Operating Expenses and Earnings**

Operating expenses excluding network expenses were SEK 90.4 (42.8) m. Excluding items affecting comparability, expenses rose by SEK 55.1 m on the corresponding period of the previous year. Direct sales expenses increased sharply, to SEK 6.2 (0.7) m, an increase related to robust expansion of the customer base, with implications including significant expenses arising from customer pre-selection. Other external expenses include expenses for marketing, external customer services and consultants for services development, and amounted to SEK 48.9 (13.1) m, with much of this upturn on the previous year relating to direct marketing expenses, which comprise some 50% of the other external expenses items for the period. Personnel expenses were SEK 26.6 (16.9) m, rising consistently with recruitment. The employee headcount at the end of the period was 71 (45), 6 professionals being located in Denmark. Depreciation of tangible fixed assets was SEK 8.7 (4.6) m.

Operating expenses for the third quarter, excluding network expenses, were SEK 28.5 m, with about 40 % of this total relating to direct expenses for customer recruitment, the Danish start-up and development expenses for new services.

Operating earnings for the period were SEK -73.6 (-40.7) m. As a consequence of increased interest income relating to new issues in the first quarter, Glocalnet's net interest income improved to SEK 1.8 (0.4) m, and thereby earnings after financial items were SEK -71.8 (-40.3) m.

### **Assets and Liabilities**

Total assets at the end of the period were SEK 181.0 (32.8) m, comprising fixed assets of SEK 36.2 (18.1) m, current receivables of SEK 36.7 (9.3) m, plus cash of SEK 108.1 (5.4) m. Shareholders' equity was SEK 108.7 (14.2) m, long-term liabilities were SEK 13.8 (0.7) m and current liabilities were SEK 58.5 (18.0) m.

The increase in current receivables was primarily attributable to increased customer receivables and accrued income relating to Glocalnet's brisk sales growth. An increase to liquid funds and shareholders' equity was the consequence of two new issues implemented in the first quarter, which totaled SEK 160.6 m. The change in current



liabilities mainly relates to accounts payable and accrued expenses, explained by an expanded cost mass. The increase to long-term liabilities related to leasing financing and raising an SEK 5 m loan.

### **Investments in Fixed Assets**

Investments in fixed assets stood at SEK 24.1 (15.2) m during the period, SEK 9.4 (0.0) m financed through leasing. The majority of investments during the period were in hardware used for the operation of the company's billing and reporting systems. A significant element of third-quarter investments related to the development of a www-based customer care platform.

### **Cash Flow**

Cash flow before financing activities for the period was SEK -68.8 (-43.9) m, with the corresponding item after financing activities being SEK 94.8 (-18.4) m. The positive actual for the period's financing activities was explained by the two new issues effected in the first quarter.

### **Parent Company**

Total parent company revenues for the first three quarters were SEK 53.2 (14.9) m, with earnings after financial items of SEK -88.3 (-35.4) m. Parent company investments in fixed assets in the period were SEK 24.1 (15.1) m.

### **Forthcoming Reports**

The company intends to publish its financial statement for the year 2000 on January 16, 2001.

### **Market and Outlook**

Glocalnet's revenues are sustaining high-paced growth, with operating revenues growing 23% on the previous quarter. Traffic volumes had expanded to a level of some 30 million call minutes per month at the end of October - volume gains of some 200% on the level prevailing at the end of 1999.

Growth opportunities are even more pronounced within mobile telephony, where the user base is in continuous increase, with new applications being developed on an ongoing basis. Mobile services are also starting to compete, as an alternative to fixed telephony, although until the present, services operators have had problems securing access to network capacity. As a consequence of further deregulation, the apportionment of 3G licenses and an evaluation model for such licenses that favors extensive network build-outs, access to network capacity is expected to become far more open.



Apart from a broad-based services offering and competitive pricing, a strong brand is also a prerequisite for success. Glocalnet is well positioned ahead of its mobile services launch and ongoing expansion within fixed telephony:

- The campaigns Glocalnet has rolled out during the year have produced a stronger brand - expected to further consolidate through the launch of the *G-telephony* launch.
- Through its agreement with mobile operator Sonofon in Denmark, Glocalnet has taken its first step towards the launch of mobile services; it will also be possible to utilize the development initiatives Glocalnet has now embarked upon, and which are being intensified, for mobile services in Sweden. In Sweden, Glocalnet is in negotiations with the established GSM operators, with the intention of securing an agreement regarding the purchase of mobile capacity.
- The existing customer base confers Glocalnet with the opportunity to reduce its expenses for recruiting mobile customers.
- Glocalnet's customer care and billing systems are ready for new services and are dimensioned for growth - the same can also be said of our organizational resources and processes.

Glocalnet also intends to expand its fixed telephony customer base going forward, although expenses for recruiting customers through autonomous campaigns have increased, and the company will not secure high growth through organic means exclusively. Therefore, the management is considering acquisition opportunities of other customer bases as a complement to Glocalnet's own initiatives to maintain its growth rate. It is unlikely that the target of 130,000 customers at the end of the year will be achievable by exclusively organic means.

The launch of *G-telephony* is expected to facilitate customer recruitment looking ahead, although in the short-term, may exert an adverse impact on Glocalnet's traffic margin. As the customer base expands, the share of calls between Glocalnet customers will increase, implying a potential reduction of margins as a share of sales. Nevertheless, new customers will generate revenues from calls to other operators' networks, international calls and calls to mobile phones, implying an anticipated positive aggregate earnings effect.

Ongoing marketing initiatives, Glocalnet's start-up in Denmark and the development of mobile services will imply new revenue sources. Such initiatives necessitate substantial resources and will result in significantly higher expenses during the fourth quarter of 2000. The management assesses that these non-recurring expenses will amount to SEK 20 m and, alongside the Sonofon agreement, will enable the launch of mobile services in Denmark during the first half-year 2001. Ongoing negotiations with Swedish operators are expected to result in a Swedish mobile services launch in the same period.



Within fixed telephony, Glocalnet will further sharpen its profitability focus through:

- Rationalization enhancements and the optimization of traffic and processes;
- New revenues from sources such as fixed subscriptions and Internet access;
- Active pursuit of a consolidation of the market's customer bases.

Glocalnet's objective is that its fixed telephony operations in Sweden will make a positive contribution to the company's earnings within 18 months.



<b>CONSOLIDATED INCOME STATEMENT SEK 000</b>	<b>Q 3 - 2000</b>	<b>Q 3 - 1999</b>	<b>9 months - 2000</b>	<b>9 months - 1999</b>
<b>OPERATING REVENUE</b>				
Gross Traffic Revenue	32,662	5,082	81,410	16,259
Discounts	-1,326	-563	-4,062	-563
<b>Net Traffic Revenue</b>	<b>31,336</b>	<b>4,519</b>	<b>77,348</b>	<b>15,696</b>
Other Operating Revenue	11	415	446	1,006
<b>Total Operating Revenue</b>	<b>31,347</b>	<b>4,934</b>	<b>77,794</b>	<b>16,702</b>
<b>OPERATING EXPENSES</b>				
Network Expenses	-24,971	-4,101	-61,051	-14,594
Direct Sales Expenses	-1,563	-296	-6,183	-744
Other External Expenses	-14,200	-4,480	-48,872	-13,057
Personnel Expenses	-9,406	-5,461	-26,605	-16,943
Depreciation of Tangible Fixed Assets	-3,350	-1,669	-8,699	-4,590
Unrealised Exchange Differences	9	0	9	0
Items Affecting Comparability	0	0	0	-7,474
<b>Total Operating Expenses</b>	<b>-53,481</b>	<b>-16,007</b>	<b>-151,401</b>	<b>-57,402</b>
<b>Operating Earnings</b>	<b>-22,134</b>	<b>-11,073</b>	<b>-73,607</b>	<b>-40,700</b>
<b>FINANCIAL ITEMS</b>				
Interest Income	1,000	68	2,922	611
Interest Expenses	-412	-17	-1,107	-221
<b>Total Financial Items</b>	<b>588</b>	<b>51</b>	<b>1,815</b>	<b>390</b>
<b>Earnings After Financial Items</b>	<b>-21,546</b>	<b>-11,022</b>	<b>-71,792</b>	<b>-40,311</b>
<b>NET EARNINGS</b>	<b>-21,546</b>	<b>-11,022</b>	<b>-71,792</b>	<b>-40,311</b>



Glocalnet

**CONSOLIDATED BALANCE SHEET  
SEK 000**

**Sep 30 2000    Dec 31 1999    Sep 30 1999**

**ASSETS**

**FIXED ASSETS**

Machinery and Equipment	36,233	20,840	18,138
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<b>Total Fixed Assets</b>	<b>36,233</b>	<b>20,840</b>	<b>18,138</b>
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**CURRENT ASSETS**

**Current Receivables**

Customer Receivables	6,956	5,981	621
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Other Receivables	5,663	3,297	3,421
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Prepaid Expenses and Accrued Income	24,058	8,618	5,243
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<b>Total Current Receivables</b>	<b>36,677</b>	<b>17,896</b>	<b>9,285</b>
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<b>Cash and Bank Balances</b>	<b>108,132</b>	<b>13,314</b>	<b>5,410</b>
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<b>Total Current Assets</b>	<b>144,809</b>	<b>31,210</b>	<b>14,695</b>
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<b>TOTAL ASSETS</b>	<b>181,042</b>	<b>52,050</b>	<b>32,833</b>
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**SHAREHOLDERS EQUITY AND LIABILITIES**

**SHAREHOLDERS EQUITY**

**Restricted Equity**

Share Capital	2,167	1,800	1,550
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Share Premium Reserve	265,748	104,480	78,259
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**Accumulated Loss**

Accumulated Loss	-87,407	-25,332	-25,332
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Net Earnings	-71,792	-62,078	-40,311
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<b>Total Shareholders Equity</b>	<b>108,716</b>	<b>18,870</b>	<b>14,166</b>
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**Long-Term Liabilities**

Leasing Commitments	8,822	4,217	713
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Other Long-Term Liabilities	5,000	0	0
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<b>Total Long-Term Liabilities</b>	<b>13,822</b>	<b>4,217</b>	<b>713</b>
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**Current Liabilities**

Leasing Commitments	5,926	4,170	115
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Accounts Payable	36,439	15,249	12,340
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Other Liabilities	711	866	975
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Accrued Expenses and Deferred Income	15,429	8,678	4,524
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<b>Total Current Liabilities</b>	<b>58,505</b>	<b>28,963</b>	<b>17,954</b>
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**TOTAL SHAREHOLDER EQUITY AND  
LIABILITIES**

<b>181,042</b>	<b>52,050</b>	<b>32,833</b>
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**CONSOLIDATED CASH FLOW STATEMENT**  
**SEK 000**

	<b>Q 3 - 2000</b>	<b>Q 3 - 1999</b>	<b>9 months - 2000</b>	<b>9 months - 1999</b>
<b>Operations</b>				
Payments from Customers	26,415	2,138	61,381	6,035
Payments to Suppliers and Employees	-52,488	-15,664	-117,289	-38,290
<b>Cash Flow From Operations Before Interest and Income Tax Paid</b>	<b>-26,072</b>	<b>-13,526</b>	<b>-55,908</b>	<b>-32,255</b>
Interest Received	1,000	45	2,922	377
Interest Paid	-412	-43	-1,107	-157
<b>Cash Flow From Operations</b>	<b>-25,484</b>	<b>-13,525</b>	<b>-54,093</b>	<b>-32,035</b>
<b>Investment Activities</b>				
Acquisitions of Tangible Fixed Assets	-7,105	-4,130	-14,658	-15,200
Sale of Tangible Fixed Assets	0	0	0	3,331
<b>Cash Flow From Investment Activities</b>	<b>-7,105</b>	<b>-4,130</b>	<b>-14,658</b>	<b>-11,869</b>
<b>Financing Activities</b>				
New Issue	176	-115	161,635	26,388
New Debt	0	0	5,000	0
Amortization of Debt	-1,289	-563	-3,074	-900
<b>Cash Flow From Financing Activities</b>	<b>-1,114</b>	<b>-679</b>	<b>163,561</b>	<b>25,487</b>
Effect of exchange rate on cash	9	0	9	0
<b>CASH FLOW FOR THE PERIOD</b>	<b>-33,694</b>	<b>-18,333</b>	<b>94,818</b>	<b>-18,417</b>
Cash at Beginning of Period	141,826	23,743	13,314	23,827
<b>CASH AT END OF PERIOD</b>	<b>108,132</b>	<b>5,410</b>	<b>108,132</b>	<b>5,410</b>



## CONSOLIDATED KEY RATIOS

Millions of SEK

	Q 3 - 2000	Q 3 - 1999	9 months - 2000	9 months - 1999
Revenue	31.3	4.9	77.8	16.7
Network Expenses <sup>1)</sup>	-25.0	-4.1	-61.1	-14.6
Gross Profit <sup>2)</sup>	6.4	0.8	16.7	2.1
Traffic Margin <sup>3)</sup> , %	20%	9%	21%	7%
Gross Margin <sup>4)</sup> , %	20%	17%	22%	13%
Gross Margin <sup>4)</sup> Before Discounts, %	24%	25%	25%	15%
Earnings Before Depreciation and Financial Items	-18.8	-9.4	-64.9	-36.1
Operating Earnings	-22.1	-11.1	-73.6	-40.7
Earnings Before Tax	-21.5	-11.0	-71.8	-40.3
Cash Flow From Operations	-25.5	-13.5	-54.1	-32.0
Cash Flow From Investment Activities	-7.1	-4.1	-14.7	-11.9
Cash Flow After Investment Activities	-32.6	-17.7	-68.8	-43.9

### Other Data

	Sep 30 2000	Dec 31 1999	Sep 30 1999
Shareholders' Equity	108.7	18.9	14.2
Cash and Bank Balances less Interest Bearing Debt	88.4	4.9	4.6
Net Capital Employed <sup>5)</sup>	20.3	13.9	9.6
Return On Equity <sup>6)</sup> , %	Neg	Neg	Neg
Return On Capital Employed <sup>7)</sup> , %	Neg	Neg	Neg
Equity/Assets Ratio <sup>8)</sup> , %	60%	36%	43%

### Data Per Share

	Q 3 - 2000	Q 3 - 1999	9 months - 2000	9 months - 1999
Number of Outstanding Shares at End of Period <sup>9)</sup>	43,339,925	31,000,000	43,339,925	31,000,000
Loss Per Share, SEK	-0.50	-0.36	-1.66	-1.30

- 1) Costs for network capacity and telephony traffic
- 2) Revenue less Network Expenses
- 3) Difference between Net Traffic Revenue and Network Expenses divided by Net Traffic Revenue
- 4) Gross Profit divided by Revenue
- 5) Equity and interest-bearing debt, less liquid assets
- 6) Net Earnings divided by average Equity during the period
- 7) Operating Earnings divided by average Capital Employed during the period
- 8) Equity divided by Total Assets
- 9) Number of shares has been adjusted for comparability due to the share split 1:10 in May 2000



Stockholm, Sweden, November 6, 2000

Stefan Krook  
Chief Executive Officer

We have performed a summary review of the Interim Report for the period January 1, 2000 – September 30, 2000 and have adhered to the recommendations issued by the Swedish Institute of Authorised Public Accountants (FAR).

A summary review is significantly limited in extent compared to a full audit. Nothing has emerged to indicate that the Interim Report fails to satisfy the requirements of the Annual Accounts Act.

Stockholm, Sweden, November 6, 2000

PriceWaterhouseCoopers KB

Michael Bengtsson  
Authorised Public Accountant

*Glocalnet develops and provides communication services sold directly to the end customer or alongside marketing partners. This year, Glocalnet intends to become Sweden's third largest fixed private telephony player. The company's vision is to become a leading operator of Internet-based services in Northern Europe. Glocalnet has strategic collaborations with corporations such as Cisco Systems and Portal Software. Glocalnet is headquartered in Stockholm, Sweden, and the company's stock is quoted on Stockholm Exchange's O list.*

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