



## Interim report for the period January – March 2003

- The Group's net sales for the quarter amounted to SEK 111 million (171). \*
- The Group's operating loss, EBIT, for the quarter was SEK -16 million (-21). \*
- The Group's liquid assets, including short-term investments, amounted to SEK 162 million (97) at the end of the quarter.

\* Frontec's pro forma results after structural changes are shown separately in the table below.

### THE GROUP IN SUMMARY

	3 MOS. JAN – MAR 2003	3 MOS. JAN – MAR 2002	12 MOS. JAN- DEC 2002
Net sales	111	171	553
Operating profit/loss, EBIT	-16	-21	-56
Profit/loss after net financial items	-17	-23	42
Operating margin, %	-14	-12	-10
Return on capital employed, %	-10	-15	23
Return on equity, %	-10	-16	23
Equity/assets ratio, %	60	34	62
Profit/loss per share after dilution, SEK*	-0.59	0.74	1.29
Average number of employees	474	809	736
No. of employees at end of period	462	784	510

\* The dilution effect is not taken into account in negative results

A number of major structural changes were implemented in the previous year. Pro forma comparative figures are provided below to facilitate comparisons.

### Frontec after structural changes (pro forma)

	3 MOS. JAN – MAR 2003	3 MOS. JAN – MAR 2002	12 MOS. JAN- DEC 2002
Net sales	111	114	427
Operating profit/loss, EBIT	-16	-15	-57
Profit/loss after net financial items	-17	-17	39
Operating margin, %	-16	-13	-13
Profit/loss per share after dilution, SEK*	-0.59	-0.51	1.25
Average number of employees	474	526	526
No. of employees at end of period	462	521	510

## **Frontec – a leader in integration**

Frontec is one of the leaders in Sweden in the integration of business processes and information flows.

With our operations expertise and tested integration concepts, we help our customers to be more competitive, improve their business opportunities and reduce administrative expenses. Frontec's unique working methods ensure high quality and fast results.

Together with our strategic partners Axway, IBM, Microsoft and SAP, we supply market-leading turnkey solutions in business integration. Frontec's services range from strategy and project management to development, operations and support.

Frontec has a large share of senior consultants with expertise in operations, architecture and technology. The average age of our employees is 39.

Our operations are based on strong local ties to customers and we have eight offices in Sweden, from Luleå in the north to Malmö in the south.

## **Market**

The market for IT consultants has stabilized at a lower level since autumn 2002. Customers are focusing on cost efficiencies and generally have restrained from new investments. Consequently, few new IT projects are being started. Prices remain under stiff pressure, and the first quarter of 2003 is the first during which renegotiated framework agreements have been fully reflected in lower prices.

In recent years many customers have taken advantage of a favorable recruitment climate to employ many of the people who have left IT companies, because of which the consulting market for general IT services has radically declined. Demand has not changed, however, for senior consulting and leading-edge competence.

Frontec has now streamlined its operations to focus on business integration. There is good demand for integration services, which is also expected to be one of the market segments that will grow most quickly once the economy rebounds.

## **Operations**

During the period Frontec had overcapacity relative to demand, which is reflected in weak results by several business units. The utilization rate, measured as the number of customer hours debited in relation to available hours for debitable staff, was 68% (65%) during the period. January was the worst month of the quarter, after which the utilization rate gradually improved. Prospects have improved as well and were clearly stronger at the end of the quarter than at the start.

Selective adjustments in personnel resources are being made to improve profitability.

## **Customers and major transactions**

Frontec's target group is large and medium-size companies and organizations. The manufacturing, retail and transportation segments are Frontec's most important, accounting for 58% of sales during the quarter. Then follow telecom and IT with 19% and the public sector with 13%.

A number of major agreements were signed during the quarter:

- SSAB selected Frontec for application outsourcing of production-critical systems.
- Post Danmark, the Danish postal service, signed an agreement to update its integration platform.
- Sandvik chose Frontec to modernize its logistics systems.
- Several customers signed agreements on integrated content management solutions, including the municipality of Ronneby, Skyways and Flexlink.
- Frontec renewed its framework agreement with Volvo IT. Volvo has been Frontec's largest customer for some time.
- At the beginning of the year Frontec was named by the Swedish Agency for Public Management as a full-service supplier of solutions for so-called 24/7 agencies and for the public sector's other information supply needs. As a result, Frontec was awarded a contract by the Swedish Migration Board for the further development of its central business systems.
- Frontec signed a framework agreement with Redcats Nordic AB (which includes the mail order companies Ellos and Josefssons) on deliveries of eBusiness solutions based on Microsoft's .NET platform.

## **Sales and results**

The Group's net sales for the period amounted to SEK 111 million (171). The operating loss, EBIT, was SEK -16 million (-21) and the loss after net financial items was SEK -17 million (-23).

Costs of SEK 4 million for measures implemented in autumn 2002 were charged against the quarter's operating result.

An additional settlement in connection with the sale of BlueLabs to Flextronics has resulted in a charge after net financial items of SEK 2 million. Flextronics' demand for SEK 34 million for future provisions for ITP pensions is still considered unfounded.

In the first quarter of 2002 net sales for comparable units amounted to SEK 114 million, with an operating loss of SEK -15 million.

## **Employees**

The average number of employees during the quarter was 474 (809) and the number of employees at the end of the quarter was 462 (784). The number of employees for comparable units was 521 as of March 31, 2002.

## **Liquid assets**

The Group's liquid assets, including short-term investments, amounted to SEK 162 million (97) as of March 31, 2003. In addition, the Group has unutilized bank overdraft facilities of SEK 20 million. The Group's cash flow for the quarter amounted to SEK -13 million (-16).

## **Investments**

The Group's net investments in tangible assets amounted to SEK 1 million (2) during the period.

## **Other**

### **Parent Company**

The Parent Company's net sales amounted to SEK 0 million (0) for the period. The operating loss for the period was SEK -3 million (-7).

The Parent Company's net investments for the period amounted to SEK 0 million. Liquid assets totaled SEK 145 million (46) at the end of the period.

## **Highlights following the conclusion of the period**

The Board of Directors has appointed Dennis Birgersson, former Vice President and COO of Frontec, as acting President.

Frontec AB (publ) and Acando AB are merging to form a new company, Acando Frontec AB (publ). The merger is described in a separate press release issued earlier today.

## **Accounting principles**

Frontec's interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR 20, Interim reporting.

Application of the Council's recommendations that took effect in 2003 has not resulted in any changes in opening balances. In other respects, the accounting principles are the same as in the latest annual report. The company's segment consists of one business area.

## **Information**

Interim report April-June 2003

August 13, 2003

Interim report July -September 2003

November 7, 2003

Solna, May 14, 2003

Frontec AB (publ)

### *The Board of Directors*

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

## **More information:**

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## Consolidated income statement (SEK million)

	3 MOS. JAN - MAR 2003	3 MOS. JAN - MAR 2002	12 MOS. JAN - DEC 2002
Net sales	111	171	553
Other operating income	3	1	5
<b>Total sales</b>	<b>114</b>	<b>172</b>	<b>558</b>
Personnel costs	-93	-142	-441
Other operating expenses	-35	-45	-158
Restructuring expenses	-	-	-
<b>Operating loss before depreciation/amortization, EBITA</b>	<b>-14</b>	<b>-15</b>	<b>-41</b>
Depreciation/amortization of tangible/intangible fixed assets	-2	-6	-15
<b>Operating loss, EBIT</b>	<b>-16</b>	<b>-21</b>	<b>-56</b>
Result from participations in associated companies	-	-	-
Result from participations in Group companies	-2	-2	101
Financial income and expenses	1	-	-3
<b>Profit/loss after net financial items</b>	<b>-17</b>	<b>-23</b>	<b>42</b>
Tax	-2	10	-1
<b>Net profit/loss for the year</b>	<b>-13</b>	<b>-70</b>	<b>41</b>
<b>Earnings/loss per share before dilution</b>	<b>-0.54</b>	<b>-0.74</b>	<b>1.32</b>
<b>Earnings/loss per share after dilution *</b>	<b>-0.52</b>	<b>-0.74</b>	<b>1.29</b>
<b>Average number of shares</b>	<b>31,412,110</b>	<b>31,405,110</b>	<b>31,408,025</b>
<b>Average number of shares after dilution</b>	<b>32,687,627</b>	<b>33,057,845</b>	<b>32,045,784</b>

\* The dilution effect is not taken into account in negative results

## Condensed consolidated balance sheet (SEK million)

	March 31 2003	March 31 2002	December 31 2002
Goodwill	-	65	-
Other intangible fixed assets	-	2	-
Tangible fixed assets	11	28	12
Financial fixed assets	2	-	2
Other current assets	132	207	137
Liquid assets and short-term investments	162	97	175
<b>Total assets</b>	<b>307</b>	<b>399</b>	<b>326</b>
Equity (Note 1)	185	136	202
Minority interests	-	-	-
Provisions	8	30	8
Interest-bearing liabilities	6	3	6
Non-interest-bearing liabilities	108	229	110
<b>Total equity, provisions and liabilities</b>	<b>307</b>	<b>399</b>	<b>326</b>

## Consolidated statement of cash flows (SEK million)

	Jan. 1, 2003	Jan. 1, 2002	Jan. 1, 2002
	March 31, 2003	March 31, 2002	Dec. 31, 2002
Cash flow from operating activities	-10	-14	-90
Cash flow from investing activities	-3	-2	147
Translation differences	-	-	-
Cash flow from financing activities	-	-	5
<b>Cash flow for the year</b>	<b>-13</b>	<b>-16</b>	<b>62</b>
Liquid assets and short-term investments at beginning of period	175	113	113
<b>Liquid assets and short-term investments at end of period</b>	<b>162</b>	<b>97</b>	<b>175</b>

## Notes

NOTE 1 - Equity (SEK)

	Jan. 1, 2003	Jan. 1, 2002
	March 31, 2003	March 31, 2002
<b>At beginning of the fiscal year</b>	<b>202,384</b>	<b>159,865</b>
New share issues	-	1,591
The year's translation difference	-127	-468
Profit/loss for the year	-16,952	41,396
<b>At end of fiscal year</b>	<b>185,305</b>	<b>202,384</b>