

1998 Financial Statement

- Information Highway underwent rapid growth in 1998; total group sales amounted to SEK 455.2 (326.5) m, a 40% increase.
- Group operating profit before goodwill amortisation amounted to SEK -51.1 (24.2) m. Non-recurring costs burdened group profit by a total of SEK 39.8 m.
- In the period November-December, operating profit before goodwill amortisation emerged at SEK 0.6 m, comparable with the level indicated in the October report. No non-recurring costs burdened profit in November or December.
- Consultancy revenues climbed 78% to SEK 125.6 (70.3) m; profit before goodwill amortisation for these activities was SEK 6.9 m.
- Product sales expanded by 35% to SEK 345.8 (256.2) m. The product operation's full-year profit before goodwill amortisation was SEK -31.4 m, with this number burdened by non-recurring costs of SEK 33.6 m.
- A new group management has been appointed, including a new President and CEO Göran Wågström.
- At the end of the period, personnel amounted to 244, against 187 at the beginning of 1998.

1998—turbulent times for Information Highway

The year was a turbulent period for Information Highway, but despite internal problems, growth remained brisk, 40% on 1997. This expansion should be considered a clear signal that the market considers Information Highway's skills and concentration on high-technology and Internet-related business skills as very attractive. High customer confidence is evident in the multitude of client contracts signed during the year.

Those problems that arose in 1998 were primarily of a structural nature; the extremely rapid organic and acquisition-related growth Information Highway has experienced since its 1994 incorporation has revealed a number of shortcomings, primarily in the production activities. Basically, this relates to unsatisfactory stock control and margin monitoring. Contributors include the distribution of inventories over three geographically distinct locations. Additionally, the company accumulated organisational resources sufficient to handle volumes greater than those realised. Greater problems than anticipated were experienced when integrating acquired companies.

During October, the company formulated and initiated an extensive remedial programme, implying the appointment of a new group management. Additionally, the product sales activities undertook a range of measures, reducing personnel by 20%, merging all activities into one company, centralising inventories to a single location, while revising the financial system. These measures have elicited non-recurring costs that burdened 1998 profit. Additionally, a number of problems with supplier deliveries eroded the third and fourth-quarter earnings figures.

The market

The market for Internet-oriented services remains very healthy, and still subject to high growth. Information Highway's position as a leading provider of advanced Internet solutions with a high technology content conforms closely to the market's evolution. An increasing proportion of businesses are demanding Internet solutions integrated with business-critical applications. In order to succeed in this sphere, extensive operational and technological expertise—within both applications and hardware—is a prerequisite. Information Highway's skills cover both areas, providing the foundation for the company's continued progress.

The business performance of the product and consultancy operations remains sound even if billing rates in a number of consultancy companies were down early in the fourth quarter. This position improved during December—all consultancy units are running at capacity going into 1999.

The outlook for Information Highway

Information Highway is highly attractive to expert prospective employees and intends to continue to hire the best skills the market has to offer. Currently, the inflow of skilled personnel is very healthy; by accentuating the business synergies between the consultancy and product operations, as well as between group companies, Information Highway will deliver turnkey systems solutions to an even greater extent. Collaboration with clients will be consolidated by means of a new account management function, intended to co-ordinate activities for major clients. Information Highway also proposes to augment the collaboration with leading hard and software suppliers.

Consequently, Information Highway will be striving to create increased business synergies between companies. Additionally, higher-precision control systems will be implemented throughout the operations, which will undergo sustained robust growth.

Sales

Information Highway is maintaining its resolute growth; for the full year 1998, sales amounted to SEK 455.2 (326.5) m, up 40% on 1997. Fourth-quarter sales were SEK 133.5 (118.3) m.

Profit

Group profit before goodwill amortisation was SEK -51.1 (24.2) m; this figure was burdened by non-recurring costs totalling SEK 39.8 m. Profit net of financial items was SEK -67.0 (20.5) m.

Profit—product sales

Operating profit before items affecting comparability amounted to SEK 2.2 m for the full year 1998, while the corresponding number for the fourth quarter was SEK -2.5 m. For November-December, the figure was SEK 3.2 m.

Persistent supplier delivery problems have exerted a detrimental impact on earnings; volumes sold do not correspond to the organisational resources in place. For this reason, the company has re-organised, with the ensuing costs burdening profit (see “Items affecting comparability” below).

Items affecting comparability

In the income statement, the products sales item of SEK 33.6 m includes non-recurring write-downs reported in previous quarters of SEK 14 m on inventories, and SEK 3.0 m and SEK 16.6 m on rental inventories. These burdened fourth-quarter earnings, with the latter comprising the following:

Inventory value write-down	SEK 7.2 m
Revised bonus from suppliers recalculated because of changed terms	SEK 2.4 m
Provisions for customer losses	SEK 1.0 m
Redundancy costs	SEK 5.5 m
Development costs	<u>SEK 0.5 m</u>
Total	SEK 16.6 m

Profit—consultancy operations

Operating profit before items affecting comparability amounted to SEK 6.9 m, with the corresponding fourth-quarter item at SEK -0.4 m. Early in the fourth quarter, a number of consultancy companies were running below capacity, with the ensuing detrimental impact on earnings. For November-December, the corresponding profit figure was SEK 0.3 m.

Profit—group-wide / parent company

Operating profit before items affecting comparability amounted to SEK -20.4 m, with the corresponding fourth-quarter item at SEK -8.4 m. The November-December figure was SEK-2.9 m.

A reorganisation of the parent company has been initiated, which will reduce costs in 1999 by about 40%. Net profit for the year was subject to costs for redundancies as well as heavy development costs (see "Items affecting comparability" below).

Items affecting comparability

The SEK 6.2 m burdening net profit for the year consists of the following items:

Redundancy costs	SEK 1.5 m
Development costs	<u>SEK 4.7 m</u>
Total	SEK 6.2 m

Operating profit before goodwill amortisation

Apart from goodwill amortisation according to plan, the company has made a SEK 5.0 m non-recurring goodwill write-down, relating to goodwill of activities the company no longer pursues.

Financial position

The company has a healthy financial position. Liquidity was consolidated during the fourth quarter; liquid funds amounted to SEK 35.4 (64.4) m at the end of the financial year. The equity ratio was 36.2 (55.1) %.

Personnel

At the end of the financial year, Information Highway's personnel complement amounted to 244 (193 men and 51 women), compared to 187 (153:34) at the end of the previous year. The consultancy activities employ 169 people while 54 are active in product sales.

The average number of employees during the year was 239: 186 men and 53 women.

Acquisitions

Three companies were acquired during 1998; product companies DexpertGruppen and LiGa were acquired during the first quarter, while in August, Norwegian IT services provider Info-Expert AS was acquired, thereby becoming the first acquisition outside Sweden.

Number of shares and share price

On 21 April 1998, the Annual General Meeting authorised the Board to effect targeted new issues totalling a maximum of 200,000 shares to be used as part payment for company acquisitions in the period until the next AGM is held. No part of this authorisation has been utilised.

<i>Total number of shares outstanding</i>	
<i>as at 31 December 1997</i>	3,295,750
Issues attendant to acquisitions January-March	116,000
<i>Total number of shares outstanding</i>	
<i>as at 31 December 1998</i>	3,411,750
Authorisation by the AGM for further acquisitions	200,000
Convertible programme, 1997	170,000
Options programme, 1998	170,000

According to the terms of the 1997 offer to employees, the company has issued convertible debentures with the conversion rate set at SEK 105. Each debenture can be converted into a share during the period 31 May 2000 - 31 May 2002. 170,000 new shares will be issued upon full conversion.

According to the terms of the 1998 options offering to employees, each option entitles the holder to subscribe for one new share at SEK 250 during the period 1 July 2001 - 15 February 2002. The price of the options was set at SEK 15, and a further 170,000 shares will be issued upon full utilisation of the offer. Shareholders representing just over one-quarter of the share capital have issued a guarantee to all options holders covered by the 1998 incentive programme and who remain employees of the Information Highway group on 15 February 2002, conferring such option holder the right to acquire their options at SEK 15 if the closing share price lies below SEK 265 on that date, and if no shares have been subscribed for.

During the period, the share price has fluctuated between a peak of SEK 207 in April and a low of SEK 50 in November.

Dividends

The group has no distributable funds and, consequently, no dividend payment has been proposed.

Forthcoming reports

The Annual Report will be available at the group head offices from 2 March 1999.

The Annual General Meeting will be held on 16 March 1999.

The first-quarter report will be published on 27 April 1999.

The second-quarter report will be published on 16 August 1999.

The third-quarter report will be published on 25 October 1999.

The 1999 financial statement will be published on 26 January 2000.

Sundbyberg, Sweden, 27 January 1999

Göran Wågström
CEO/President

Please direct any questions arising from this report to our CFO, Katarina Nyberg, or CEO Göran Wågström, tel. + 46 (0) 8 635 1500.

Income Statement¹⁾

January – December 1998 (SEK M)	Product sales	Consultancy	Group- wide	Eliminations	Total 1998	Total 1997
Net sales	345.8	125.6	4.9	-21.1	455.2	326.5
Operating costs	-343.6	-118.7	-25.3	21.1	-466.5	-302.3
<i>Operating profit before items affecting comparability</i>	2.2	6.9	-20.4		-11.3	24.2
Items affecting comparability	-33.6	0.0	-6.2		-39.8	
<i>Operating profit before goodwill amortisation</i>	-31.4	6.9	-26.6		-51.1	24.2
Goodwill amortisation			-10.5		-10.5	-4.1
Goodwill write-down			-5.0		-5.0	
<i>Operating profit after goodwill amortisation</i>			-42.1		-66.6	20.1
Net financial position					-0.4	0.4
<i>Profit net of financial items</i>					-67.0	20.5
Tax					14.0	-6.6
<i>Net profit for the year</i>					-53.0	13.9

October-December 1998 ²⁾ (SEK M)	Product sales	Consultancy	Group-wide	Eliminations	Total 1998
Net sales	107.0	39.1	2.2	-14.8	133.5
Operating costs	-109.5	-39.5	-10.6	17.5	-142.1
<i>Operating profit before items affecting comparability</i>	-2.5	-0.4	-8.4		-8.6
Items affecting comparability	-16.6	0.0	-6.2		-22.8
<i>Operating profit before goodwill amortisation</i>	-19.1	-0.4	-14.6		-31.4
Goodwill amortisation			-3.0		-3.0
Goodwill write-down			-5.0		-5.0
<i>Operating profit after goodwill amortisation</i>			-22.6		-39.4
Net financial position					-0.5
<i>Profit net of financial items</i>					-39.9
Tax					8.4
<i>Net profit for the period</i>					-31.5

¹⁾ No relevant comparable figures are available for the respective business areas in 1997.

²⁾ No relevant comparable figures are available for the corresponding period of 1997.

Balance Sheet

(SEK M)	1998 31 Dec	1997 31 Dec
<i>Intangible fixed assets</i>	38.3	29.8
<i>Tangible fixed assets</i>	24.7	13.0
Inventories	28.2	24.4
Customer receivables	90.6	87.4
Liquid funds	35.4	64.4
Other current assets	29.7	11.8
<i>Total current assets</i>	183.9	188.0
<i>Total assets</i>	246.9	230.8
<i>Shareholders' equity</i>	89.3	127.2
Non-interest bearing long-term liabilities	0.7	3.4

Interest-bearing long-term liabilities	41.9	17.1
<i>Total long-term liabilities</i>	42.6	20.5
Accounts payable	73.6	53.0
Other liabilities	41.4	30.3
<i>Total current liabilities</i>	115.0	83.3
<i>Total liabilities and shareholders' equity</i>	246.9	230.8

Key figures

	1998 31 Dec	1997 31 Dec
<u>Data per share, SEK</u>		
Earnings per share	neg.	4.98
Shareholders' equity per share	26.2	38.59
Dividend per share	-	0.50
<u>Ratios, %</u>		
Operating margin before goodwill amortisation	neg.	7.4
Operating margin after goodwill amortisation	neg.	6.2
Return on capital employed	neg.	23.4
Return on equity	neg.	22.3
Equity ratio	36.2	55.1

Statement of Change in Financial Position

(SEK M)	1998 Jan-Dec	1997 Jan-Dec
<u>Ongoing operations</u>		
Operating profit	-66.6	20.2
Adjustment of items not included in cash flow	24.7	2.8
<i>Cash flow from ongoing operations before change in working capital</i>	-41.9	23.0
<u>Change in working capital</u>		
Inventories	-3.8	-16.7
Current receivables	-10.6	-43.7
Current liabilities	31.7	35.8
<i>Cash flow from change in working capital</i>	17.3	-24.6
<i>Cash flow from ongoing operations</i>	-24.7	-1.6
<u>Investment activity</u>		
Acquisitions of fixed assets	44.3	36.5
<i>Cash flow from investment activity</i>	44.3	36.5
<u>Financing activity</u>		
New issue	16.8	75.9
Dividends	-1.6	-
Change in borrowing	24.8	17.0
<i>Cash flow from financing activity</i>	39.9	92.9
Liquid funds, opening balance	64.4	9.6
<i>Change in liquid funds</i>	-29.0	54.8
Liquid funds, closing balance	35.4	64.4