



## Interim financial statements for the first half of 2003

### **Summary:**

EuroCom Industries (ECI) improved its earnings capacity in H1 2003. Revenue totalled DKK 191 million (+4%) and EBIT was DKK 23 million, up from a loss of DKK 4 million in H1 2002. Profit before tax was DKK 20 million, up from a loss of DKK 10 million last year. The results are in line with ECI's forecasts and, in spite of rather difficult market conditions, performance was in line with the company's plans. Profit before tax for 2003 is expected to be DKK 25-35 million.

At its ordinary meeting held today, the Board of Directors of EuroCom Industries A/S (ECI) considered and adopted the company's financial statements for the six months ended 30 June 2003. The interim financial statements are unaudited.

### **Highlights of the period:**

- ECI increased revenue by 4% to DKK 191 million.
- ECI retained its market position within MF/HF and VHF equipment for commercial vessels.
- Quota reductions in the fisheries sector have put that market segment under pressure, while sales in the market for large pleasure craft and other vessels remained robust.
- The AIS market is characterised by intense competition, and sales were therefore lower than expected.
- ECI's restructuring is progressing according to plan, and revenue and profit are progressing in line with the forecasts made.
- Operating profit (EBIT) was DKK 23 million, a DKK 27 million improvement on H1 2002.
- Profit before tax (EBT) was DKK 20 million.
- For the full year, ECI forecasts revenue growth of approximately 5% relative to 2002 and a profit before tax in the range of DKK 25-35 million.

*EuroCom Industries (www.eci.dk) is a leading global supplier of maritime communication equipment. ECI develops, produces and markets maritime communication equipment for all types of vessels.*

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**Financial highlights**

DKK '000

	<u>2003</u> H1	<u>2002</u> H1
<b>Income statement</b>		
Revenue	190,798	183,711
Operating profit/(loss) before amortisation of goodwill	24,474	(2,088)
Operating profit/(loss) (EBIT)	22,584	(3,978)
Profit/(loss) before tax	19,842	(10,053)
Net profit/(loss)	19,842	(10,053)
<b>Balance sheet</b>		
Total assets	278,777	299,921
Capital employed	189,874	217,495
Equity (note 1)	60,596	(7,988)
<b>Cash flow statement</b>		
Cash flows from operating activities	10,809	(8,892)
Cash flows from investing activities	(704)	(3,130)
Cash flows from financing activities	8,308	(649)
<b>Key ratios</b>		
Operating margin before goodwill	12.8%	(1.1)%
Operating margin	11.8%	(2.2)%
Return on capital employed (ROCE)	11.8%	(1.6)%
Return on equity (ROE)	39.2%	(56.5)%
Equity ratio	21.7%	(2.7)%

## Performance in H1 2003

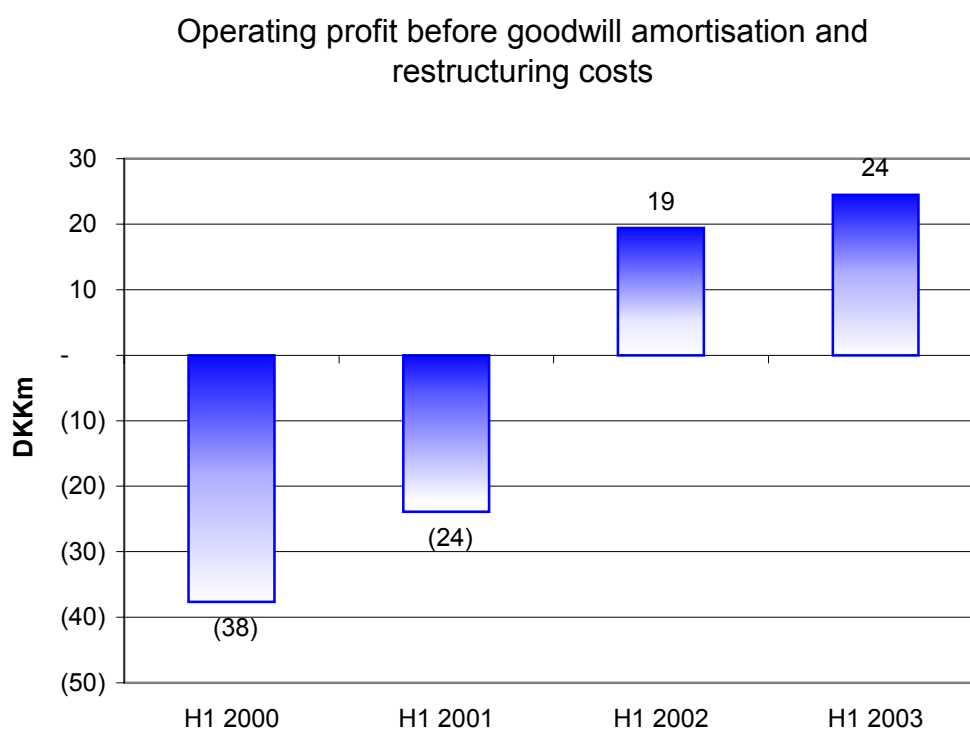
Revenue totalled DKK 191 million, which was DKK 7 million or 4% more than in H1 2002.

The positive trend in operating profit (EBIT) continued, and EBIT was a profit of DKK 23 million in H1 2003 compared with a loss of DKK 4 million in H1 2002. The operating margin was 12%.

Profit before tax was DKK 20 million, up from a loss of DKK 10 million in H1 2002 and a loss of DKK 37 million in H1 2001.

Company performance and revenue growth follow management's plans, and the results are in line with the forecast made in announcement No. 25 of 30 April 2003.

No tax is payable on the profit for the period as the Company has tax losses carried forward.



## **Production costs**

Production costs accounted for 66% of revenue, which was on a level with H1 of last year. However, there was a not insignificant shift between variable and fixed production costs. The ratio of fixed costs to total costs was reduced to less than 5%, reflecting a continuing effect of recent years' restructuring (outsourcing, purchasing, production, etc.)

## **Product development costs**

Product development costs amounted to DKK 11 million compared with DKK 13 million in H1 2002. As previously announced, it was decided in 2002 to close down all activities at Ballerup, Denmark, including the product development activities. Redundancies at the R&D Department in Ballerup became effective in the course of the year, mainly during H2 2002. On the other hand, the build-up of ECI's new Aalborg-based R&D Department began. The build-up of activities at Aalborg has taken place gradually in a managed process as and when sustainable development projects have been initiated, which is the reason why total product development costs were lower than in H1 2002.

## **Sales and distribution costs**

Sales and distribution costs amounted to DKK 12 million, up from DKK 11 million in H1 2002. The closure of ECI's activities at Ballerup in 2002 affected sales and distribution costs in H1 2002 compared with H1 2003, when activities had been re-established at Aalborg.

## **Administrative expenses**

Administrative expenses amounted to DKK 16 million compared with DKK 18 million in H1 2002. Generally, savings were achieved in administrative expenses, especially for external assistance and rental costs at Ballerup.

## **Goodwill amortisation**

Amortisation of goodwill was on a level with H1 2002.

## **Financial items**

Net financial items for the period amounted to DKK 3 million against DKK 6 million in H1 2002. The reduction was partially attributable to a combination of a reduction of debt and a lower interest rate level.

## **Cash flow statement**

Cash flows from operating activities amounted to an inflow of DKK 11 million against an outflow of DKK 9 million in H1 2002. Working capital tied up in inventories has been reduced by DKK 10 million to DKK 71 million since 30 June 2002.

## **Equity**

ECI's equity stood at DKK 61 million at 30 June 2003, which brought the return on equity to 39% in H1 2003.

## **Market**

ECI retained its position in the market for retrofitting of communication equipment in commercial vessels. Moreover, ECI largely retained its position in the market for newbuilt vessels in spite of keener price competition from yen-based competitors.

The fisheries sector felt the impact of the strong reductions of quotas in the EU in Q2 2003, which had an adverse impact on sales of equipment for fishing vessels. Conversely, the market for large pleasure craft and other types of vessels remained robust.

Against the backdrop of this market situation, we achieved the budgeted revenue for H1 2003 in our traditional basic business: radio and satellite communication for safety purposes, which is considered to be satisfactory.

Sales of the new product – AIS – fell short of expectations during the period as new suppliers without any previous track record in the maritime sector have joined the market. The market has become highly competitive, and ECI has decided not to sell at the low prices which the new market players are operating with.

Sales of SatCom (satellite-based communication), which is not safety equipment, fell short of the expected level as a result of the strong pressure on prices exerted by the new market players.

## **Outlook for 2003**

No events have occurred since the end of the period which may have a material adverse impact on the company's outlook.

The activity level is expected to remain unchanged for commercial vessels, pleasure craft and other types of vessels. A minor improvement is expected in the fisheries market.

Overall, ECI therefore retains the forecast of sales for the traditional product area, radio and satellite communication for safety purposes.

The AIS market will also be subject to intense competition in H2 2003, and ECI's sales of AIS products are therefore expected to remain below the originally budgeted level.

Overall, sales within commercial satellite communication are expected to increase, although less than originally forecast.

ECI expects revenue to increase by approximately 5% relative to 2002 for the year ending 31 December 2003.

Profit before tax is expected to be in the range of DKK 25-35 million. The forecast profit is in line with the previous forecast made in announcement No. 25 of 30 April 2003, in which a pre-tax profit of DKK 20-35 million was forecast.

**Income statement**

	<b>2003 H1 DKK '000</b>	<b>2002 H1 DKK '000</b>
<b>Revenue</b>	<b>190,798</b>	<b>183,711</b>
Cost of sales	126,485	122,242
Production development costs	11,059	13,279
<b>Gross profit</b>	<b>53,254</b>	<b>48,190</b>
Sales and distribution costs	12,219	10,578
Administrative expenses	16,563	18,200
Goodwill amortisation	1,890	1,890
<b>Capacity costs</b>	<b>30,672</b>	<b>30,668</b>
<b>Profit/(loss) before restructuring costs</b>	<b>22,582</b>	<b>17,522</b>
Restructuring costs	0	21,500
<b>Operating profit/(loss)</b>	<b>22,582</b>	<b>(3,978)</b>
Financial income	1,980	97
Financial expenses	4,722	6,172
<b>Net financial items</b>	<b>(2,742)</b>	<b>(6,075)</b>
<b>Profit/(loss) before tax</b>	<b>19,840</b>	<b>(10,053)</b>
Tax on profit/loss for the period	0	0
<b>Profit/(loss) for the period</b>	<b>19,840</b>	<b>(10,053)</b>

**Assets**

	<b>2003</b>	<b>2002</b>
	<b>H1</b>	<b>H1</b>
	<b>DKK '000</b>	<b>DKK '000</b>
Goodwill	34,331	38,110
IT project	619	3,000
Capitalized R & D costs	3,348	728
<b>Intangible assets</b>	<b>38,298</b>	<b>41,838</b>
Leasehold improvements	3,100	3,943
Land and buildings	19,442	20,342
Production plant and machinery	3,565	8,501
Other fixtures and fittings, tools and equipment	1,279	2,189
Automobiles	639	402
<b>Property, plant and equipment</b>	<b>28,025</b>	<b>35,377</b>
Deposits	1,973	1,902
<b>Long-term financial assets</b>	<b>1,973</b>	<b>1,902</b>
<b>Total fixed assets</b>	<b>68,296</b>	<b>79,117</b>
Raw materials and consumables	39,797	41,631
Work in progress	55,204	42,745
Manufactured goods and goods for resale	13,042	23,759
<b>Inventories</b>	<b>108,043</b>	<b>108,135</b>
Trade receivables	70,737	81,063
Other receivables	292	(279)
Deferred tax asset receivable	22,763	22,763
<b>Receivables</b>	<b>93,792</b>	<b>103,547</b>
<b>Cash</b>	<b>8,646</b>	<b>9,122</b>
<b>Total current assets</b>	<b>210,481</b>	<b>220,804</b>
<b>Total assets</b>	<b>278,777</b>	<b>299,921</b>

**Equity and liabilities**

	<b>2003</b>	<b>2002</b>
	<b>H1</b>	<b>H1</b>
	<b>DKK '000</b>	<b>DKK '000</b>
Share capital	21,875	4,375
Reserves	18,881	(2,310)
Profit/(loss) for the period	19,840	(10,053)
<b>Shareholders' equity</b>	<b>60,596</b>	<b>(7,988)</b>
Restructuring costs	6,285	19,200
Warranty commitments and other obligations	2,952	9,306
<b>Provisions</b>	<b>9,237</b>	<b>28,506</b>
Bank debt	99,788	99,896
Mortgage debt	3,231	4,759
<b>Long-term debt</b>	<b>103,019</b>	<b>104,655</b>
Portion of long-term debt due within one year	1,406	1,241
Bank debt	16,207	128,709
Trade payables	52,879	33,479
Debt to Group company (EMG)	24,000	0
Other payables	11,433	11,319
<b>Short-term debt</b>	<b>105,925</b>	<b>174,748</b>
<b>Total debt</b>	<b>208,944</b>	<b>279,403</b>
<b>Total equity and liabilities</b>	<b>278,777</b>	<b>299,921</b>

**Cash flow statement**

	<b>2003</b>	<b>2002</b>
	<b>H1</b>	<b>H1</b>
	<b>DKK '000</b>	<b>DKK '000</b>
Profit/(loss) for the period	19,840	(10,053)
Adjustments (note 1)	6,544	30,606
Change in working capital (note 2)	(12,833)	(22,546)
<b>Cash flows from operations before financial items</b>	<b>13,551</b>	<b>(1,993)</b>
Interest, etc. received	1,980	97
Interest, etc. paid	(4,722)	(6,172)
<b>Cash flows from ordinary activities</b>	<b>10,809</b>	<b>(8,068)</b>
Income taxes paid	0	(824)
<b>Cash flows from operating activities</b>	<b>10,809</b>	<b>(8,892)</b>
Purchase of property, plant and equipment	(967)	(130)
Capitalized R & D costs		(3,000)
Sale of property, plant and equipment	263	0
<b>Cash flows from investing activities</b>	<b>(704)</b>	<b>(3,130)</b>
Instalments on long-term debt	(692)	(649)
Proceeds from short-term loan raised	9,000	0
<b>Cash flows from financing activities</b>	<b>8,308</b>	<b>(649)</b>
Total cash flows	18,413	(12,671)
Cash and cash equivalents at 1 January	(25,974)	(106,916)
<b>Cash and cash equivalents at 30 June</b>	<b>(7,561)</b>	<b>(119,587)</b>

**Notes to the cash flow statement**

	<b>2003</b>	<b>2002</b>
	<b>H1</b>	<b>H1</b>
	<b>DKK '000</b>	<b>DKK '000</b>
<b>Note 1, Adjustments</b>		
Depreciation	6,039	7,021
Impairment and revaluation	0	0
Interest, etc. received	(1,980)	(97)
Interest, etc. paid	4,722	6,172
Income tax on the profit/loss for the period	0	0
Other adjustments	112	14,363
Adjustment of other provisions	(2,349)	3,147
<b>Total adjustments</b>	<b>6,544</b>	<b>30,606</b>
<b>Note 2, Change in working capital</b>		
Change in receivables	(14,066)	(8,479)
Change in inventories	(14,123)	2,385
Change in trade payables	15,425	(16,428)
Change in deposits	(69)	(24)
<b>Total change in working capital</b>	<b>(12,833)</b>	<b>(22,546)</b>

## Shareholders' equity

DKK '000	Share capital	Share premium account	Retained earnings	Proposed dividends	Total
<b>Shareholders' equity at 1 January 2003</b>	<b>21,875</b>	<b>18,881</b>	<b>0</b>	<b>0</b>	<b>40,756</b>
Profit/loss for the year	0	0	19,840	0	19,840
<b>Shareholders' equity at 30 June 2003</b>	<b>21,875</b>	<b>18,881</b>	<b>19,840</b>	<b>0</b>	<b>60,596</b>

The interim financial statements are unaudited.