ADCORE
Digital Business Creators

Quarterly Report

January – March 2001

Adverse market—Adcore initiates rationalisation

- **Resolute rationalisation begins**
- **Net sales increase by 69%**
- **Operating profit excluding restructuring costs: SEK –42.4 m**
- **Restructuring costs total SEK 386.8 m.**
- **Adcore exits the French and Finnish markets**
- **Adcore—a preferred supplier to Ericsson**

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Market and outlook for the year

The year 2001 started with unexpected weakness—the early months of the year featured increasing concerns regarding the economy. After a fairly sharp slowdown in the US, followed by slowing demand in the Nordic region, unequivocal signs of similar progress in other European markets have been apparent for some time. The structural change that became apparent in the market in autumn 2000—the elimination of demand for basic Web solutions that affected Adcore to a limited extent—is now being followed by general cyclical influences, which have a far more broad-based impact. Client decision processes have become more protracted, while clients are delineating investment budgets more clearly: generally, projects focused on rationalising existing processes are being prioritised, while the attitude to new initiatives is more hesitant in the short term. Moreover, some price pressure is apparent in certain market segments.

Adcore remains convinced of long-term demand potential. However, the overall market conditions do necessitate resolute measures to interrupt the adverse profitability trend and to assure favourable long-term progress. The group will not achieve its previously announced growth objective for 2001 of 50% organic growth. In the current market conditions, Adcore expects positive second-quarter profits. However, adjusted for restructuring costs and before goodwill amortisation, Adcore's full-year operating margin will be significantly lower than the previous year.

Clients

Adcore won many new contracts early in the year, while much of its existing business continued to make favourable progress.

Coincident with its quarterly report, Ericsson also informed Adcore of its retained preferred supplier status within Management and IS/IT.

Other new clients, or existing clients that have declared their continued confidence in Adcore include Telia, OnOff, The Absolut Company, Systembolaget, Aneo, Astra Zeneca, Uponor, BT Cellnet and Philips Medical System.

In the first quarter, Adcore's five biggest clients were Ericsson, SEB, Telia, Telenor and SAS, which generated a total of 29% of consolidated sales. Adcore's 20 largest clients represented 46% of total sales.

Rationalisation programme

Background

Adcore is retaining its fundamental strategy: creating value for its clients by offering services within three main services spheres: Business Positioning—positioning and strategy, Business Launch—services in business and concept development and Digital Platforms—technology solutions.

Thus the organisation must harbour a broad spectrum of competencies, and the capacity to combine them in hard-hitting project teams, to complete its client undertakings. Within its Swedish organisational resources, Adcore currently has sufficient capacity to realise this strategy completely vis à vis clients, although its competency mix is not fully comprehensive on all other markets.

The purpose of acquiring enterprises outside Adcore's domestic market is to create a capable foundation for the company to grow to achieve the same delivery capacity it offers in Sweden. Adcore achieves this through both exchanging best practice and localised organic growth. There are markets where Adcore does not possess certain competencies, and in such cases, its intention is to make complementary acquisitions of enterprises that enable a complete services portfolio. Such acquisitions might be of technology enterprises to complement a strategic consulting practice. This local support is vital considering the specific qualities and standards applying on each market.

Current position

The market is now slowing at a point where the group has not completed its accumulation of local operations, and before the re-positioning of certain units is complete. In such cases, the obvious question is whether Adcore's strategy is feasible on all markets simultaneously, and moreover, within a reasonable time. In a position where the market is in robust growth, this is possible, but when market conditions feature a cyclical slowdown, it is necessary to concentrate resources where Adcore has the best prospects of success. First and foremost, Adcore considers that acquisition-led expansion will be very hard to implement, particularly considering the distinctly adverse progress on the stock market. Overall, conditions have changed distinctly, and to an extent, this new position necessitates new decisions.

Actions

Subsequent to a review of all the group's operational units, and Adcore’s assessment for the foreseeable future, it is apparent that the market does not offer the prospects for Adcore achieving its profitability objective in all units within a reasonable time. Accordingly, Adcore's corporate management has been working on an array of measures of varying nature for some time.

Against the background of the analysis it has undertaken, Adcore has made the decision to exit from the French and Finnish markets, and to take other measures mainly intended to adjust cost levels, and to some extent, modify its skills mix. The intention to free up management resources, which can subsequently be focused on those markets harbouring the group's remaining units, has been a key parameter in this decision process. These markets are Sweden, Denmark, Norway, the Netherlands, Belgium, Switzerland, Germany and the UK.

France

At present, Adcore's French operations comprise GroupeG, acquired last year, and the French operations of the former Cell Strategy. Both these units are pure strategic consulting practices, active on a market, which *per se*, is attractive and substantial.

Adcore's expansion into France would have necessitated further acquisitions with the intention of complementing the existing consulting activities with technology competencies to make a comprehensive customer offering. Considering share price performance and market conditions otherwise, implementing this original strategy is not practicable at present—these operations are currently loss-making. Accordingly, the entire French operations will be subject to an MBO, which will result in these activities being managed within the auspices of a development enterprise. Adcore's offices in Italy and the US will also be taken over through this transaction, which will be effective from 1 April onwards and affect about 75 professionals.

The resulting development enterprise is entirely autonomous, although Adcore has preferential rights upon any divestment, or the rights to share in potential capital gains within a 24-month period. The transaction requires decision at an EGM.

Finland

The core competencies Adcore harbours in Finland comprise a high level of technology expertise, within fields such as Linux. The strategy after the acquisition of Netmill just over a year ago was to consolidate this enterprise's competency profile with the intention of extending a comprehensive services portfolio to the Finnish market. However, this strategy has not been successful for a variety of reasons; at present, the company is running at a loss with unacceptably low utilisation. These operations do have of the prospects of profitability, but significant remedial action will be necessary to resolve the profitability problems. The fact that resources are limited, and that the Finnish market is of less strategic significance, has resulted in Adcore agreeing that the Finnish management will take over these operations from 1 April, a transaction affecting 93 employees. Adcore will provide certain resources during a transition period to support the Finnish management in its restructuring efforts.

This agreement stipulates Adcore retaining the rights to participate in potential value growth if this enterprise is divested within five years. The transaction requires decision at an EGM.

Other measures

Measures to assure efficiency and an optimal competency mix are being taken in other parts of the group. Adcore is undertaking a general review of its salary system, and will implement a higher share of floating, performance-related remuneration, in contrast to the current situation. Otherwise, Adcore will be undertaking a general review of its cost levels, while undertaking a series of less fundamental actions to modify its cost side.

Financial consequences

If these measures had taken full impact in the first quarter, they would have implied SEK 36.6 m profit gains, an SEK 35.4 m sales downturn and cash flow increasing by approximately SEK 35 m.

The above actions and other planned measures have resulted in Adcore posting restructuring costs in the first quarter totalling SEK 386.8 m. The expected cash flow effect is maximum SEK 80 m, over a twelve month period.

Restructuring costs

Restructuring existing operations	90.4
Capital losses from corporate divestments	296.4
Of which goodwill	*229.6*
Total	**386.8**

Sales and profit performance

Quarterly sales were SEK 430.5 m, up 69% on the corresponding period of 2000. Organic sales growth was 43%. Some 32% of consolidated sales were generated outside Sweden, against 14% in the first quarter of 2000.

Operating profit before goodwill amortisation decreased by SEK 465.1 m to a deficit of SEK -429.2 (31.9) m. Apart from the aforementioned restructuring costs, a weaker market, with the associated reduced billing rates, particularly in the group's foreign units, exerted a general adverse profit impact.

First-quarter group-wide billing rates (billable hours vs. billing staff’s external invoicing) was approximately 60%; there is no comparative figure for last year.

Distribution of profits

	Net sales			Operating profit		
	Q1 2001	**Q1 2000**	**Full year 2000**	**Q1 2001**	**Q1 2000**	**Full year 2000**
Sweden	292.5	217.9	1,073.9	17.8	37.8	170.6
Foreign units	149.8	36.2	348.9	-49.8	3.6	5.6
Group-wide	-11.7	0.0	-128.3	-10.4	-9.9	-56.9
Sub-total	**430.6**	**254.1**	**1,294.5**	**-42.4**	**31.5**	**119.3**
Divested units	-35.4	5.1	-70.9	31.3	-0.2	-1.7
Total exc. divested units	**395.2**	**259.2**	**1,223.6**	**-11.1**	**31.3**	**117.6**

Average billing per consultant over 12 months was SEK 1,218,000, down 3% on the full year 2000.

Quarterly net financial items were SEK -0.9 (-0.2) m. Profit before tax was SEK -456.8 (22.7) m.

Cash flow and financial position

First-quarter operating cash flow was SEK -60.4 m.

Total investments were SEK 96.0 m; SEK 90.7 m of this total comprised corporate acquisitions financed through non-cash issues of an aggregate SEK 80.6 m.

The closing balance of consolidated goodwill was SEK 1,176.3 (577.6) m, a net decrease of SEK 109.5 m since the end of last year. Total goodwill values include tax-deductible goodwill on the assets of acquired enterprises of SEK 479.2 (0) m, with SEK 6.8 m of quarterly goodwill amortisation relating to this item.

The closing balance of liquid funds was SEK 165.2 m, down SEK 36.4 m on 31 December 2000. The consolidated equity ratio at the end of the reporting period was 69%, against 82% at the end of 2000. The equity ratio excluding goodwill was 40.4%.

As of 31 March, customer receivables were SEK 375.5 m, against SEK 343.5 m as of 31 December, equivalent to 43 days' average sales, against 40 days as of 31 December 2000 (the definition of this indicator has been revised to allow for sales tax in customer receivables).

Change in shareholders' equity

As of 31 March, consolidated shareholders' equity was SEK 1,679.2 m, a SEK 375.3 m decrease on the previous reporting period, the change largely due to an SEK 80.6 m non-cash issue, the quarterly deficit of SEK –456.8 m and other items of SEK 0.9 m net.

Changes to group structure

In the first quarter, Adcore consolidated strategic consulting practice Cell Strategy, effective 1 January; Cell Strategy is active in several European countries. The former Cell Strategy's operations made an SEK 37.8 m sales contribution in the quarter. The transactions described above (under 'rationalisation programme') affect 26 people, implying some 70 professionals remaining within Adcore's organisational resources. These employees are fully integrated into Adcore's existing strategic consulting operations.

Human resources

The employee headcount was 1,948 at the end of the period, up by 201, or 11.5%, since 1 January. Adcore added 105 professionals through the quarter through acquisitions. In the first three months of the year, annualised personnel turnover was 11%.

Ownership structure

At the end of the quarter, Adcore had 32,640 shareholders. At this time, some 27% of Adcore's shareholders were foreign, excluding group employees' holdings. According to VPC's (the Central Swedish Securities Depository) share register, Adcore's five largest shareholders were as illustrated below (excluding foreign holdings indicated under custodian banks in the share register):

Owner	No. of shares	Proportion, %
berens/partner AG	16,319,876	10.8
Christer Jacobsson[1]	8,936,568	5.9
Nordea fonder	6,381,800	4.2
SEB fonder	4,086,800	2.7
2nd AP (National Pension Insurance) Fund	3,317,999	2.2

At the end of the period, the number of registered shares was 151,673,120, while full utilisation of existing stock option programmes issued by the former Information Highway would add 1,313,243 shares. A further 14,000,000 million shares would arise through full utilisation of the two existing warrants programmes that have been implemented subsequent to Adcore's formation.

Adcore's stock is quoted on OM Stockholm Exchange Attract 40. The latest price paid on 30 March was SEK 11.70, implying a 59% share price downturn since 31 December. At the end of the period, the group's market capitalisation was SEK 1,775 m, against SEK 4,201 m at 31 December 2000, a 57.8% reduction.

Parent company

The parent company, with its staff of 36, encompasses group support and overall development functions. The parent company's net profits for the period were SEK -37.9 m.

The closing balance of parent company liquid funds was SEK 134.2 m.

Accounting principles

The accounting principles were unchanged in the period.

[1] Inc. indirect holdings via Connect Network Holding

Forthcoming reports and Annual General Meeting 2001

Annual General Meeting	25 April
Second quarter	24 August
Third quarter	26 October
Fourth quarter/Financial Statement 2001	5 February 2002 (prel.)

Stockholm, 25 April 2001

Göran Wågström
CEO and President

This interim report has not been audited by the company auditors.

Summary Consolidated Income Statement, SEK m

	2001 January – March	2000 January – March	2000 January – December
Net sales	430,5	254,2	1 294,5
Operating costs	-472,9	-216,8	-1 175,2
Personnel costs	*-340,8*	*-164,2*	*-890,5*
Depreciation	*-16,8*	*-5,0*	*-33,1*
Other costs	*-115,3*	*-47,6*	*-251,6*
Items affecting comparability	-386,8[1]	-1,5	-153,7
Operating profit before goodwill amortisation	**-429,2**	**35,9**	**-34,4**
Goodwill amortisation	-26,7	-9,0	-95,8
Non-recurring write-down of goodwill	-	-	-1 329,0
Operating profit	**-455,9**	**26,9**	**-1 459,2**
Financial items	-0,9	-0,1	11,9
Profit after financial items	**-456,8**	**26,8**	**-1 447,3**
Tax	-	-2,3	-32,1
Deferred tax	-	-	275,4
Net profit	**-456,8**	**24,5**	**-1 204,0**

Summary Consolidated Balance Sheet, SEK m

	31 Mar. 2001	31 Mar. 2000	31 Dec. 2000
Assets			
Intangible assets	1 176,3	577,6	1 285,8
Fixed assets	225,1	69,4	171,4
Deferred tax receivables	274,0		274,0
Current receivables	205,0	70,9	241,2
Customer receivables	375,5	207,6	343,5
Liquid funds	165,2	745,3	201,5
Total assets	**2 421,1**	**1 670,8**	**2 517,4**
Liabilities and shareholders' equity			
Shareholders' equity	1 679,2	1 421,7	2 054,5
Provisions and long-term liabilities	66,2	59,2	47,4
Current liabilities	675,7	189,9	415,5
Total liabilities and shareholders' equity	**2 421,1**	**1 670,8**	**2 517,4**

[1] For specification see page 4

Cash Flow Statement, SEK m

	2001 January – March	2000 January - March	2000 January - December
Operating profit, in cash terms	-122,3	40,8	-0,5
Change in working capital	61,9	-51,5	-62,9
Cash flow from operations	**-60,4**	**-10,7**	**-63,4**
Cash flow from investment activity	-15,4	-57,4	-616,0
Cash flow from financing activity	39,5	655,2	722,7
Change in liquid funds	-36,3	587,1	43,3

Key figures

	2001 January – March	2000 January – March	2000 January – December
Operating margin before goodwill amortisation and items affecting comparability	Neg	14,7%	9,2%
Operating margin	Neg	10,6%	Neg
Profit margin	Neg	9,6%	Neg
Return on equity	Neg	3,0%	Neg
Return on capital employed	1 948	1 080	1 747
Employee headcount at the end of the period	1 882	982	1 275
Employee headcount, average	985	900	1 015
Sales per employee, 12 months, SEK 000	1 218	1 081	1 253
Sales per consultant, 12 months, SEK 000	159	173	765
Value-added per employee, SEK 000	124,1	691,8	153,1
Net financial assets, SEK m	69,4%	85,1%	82,0%
Equity ratio exc. goodwill, %	40,4%	77,2%	62,4%

Per share data

	2001 January - March	After full dilution
No. of shares at the end of the period	151 673 120	166 986 363
Ave. no. of shares in the period	148 774 479	164 090 509
Earnings per share, SEK	Neg	Neg
Operating cash flow per share	Neg	Neg
Shareholders’ equity per share, SEK	13,6	12,4

Quarterly and rolling 12-month data, SEK m

	2001	2000				00/01
	Q1	Q4	Q3	Q2	Q1	April-March
Net sales	430,5	417,3	327,4	295,6	254,2	1 470,8
Operating costs	-472,9	-383,9	-304,3	-264,7	-222,3	-1 425,8
Items affecting comparability	-386,8	-0,8	-43,2	-109,7	-	-540,5
Profit before goodwill amortisation	**-429,2**	**32,6**	**-20,1**	**-78,8**	**31,9**	**-495,5**
Goodwill amortisation	-26,7	-38,7	-36,1	-12,0	-9,0	-113,5
Non-recurring write-down, goodwill	-	-1 329,0	-	-	-	-1 329,0
Operating profit after depreciation	**-455,9**	**-1 335,1**	**-56,2**	**-90,8**	**22,9**	**-1 938,0**
Financial items	-0,9	2,2	2,4	7,5	-0,2	11,2
Profit after financial items	**-456,8**	**-1 332,9**	**-53,8**	**-83,3**	**22,7**	**-1 926,8**
Tax	-	-19,3	-5,1	-5,3	-2,4	-29,7
Deferred tax	-	275,4	-	-	-	275,4
Net profit	**-456,8**	**-1 076,8**	**-58,9**	**-88,6**	**20,3**	**-1 681,1**
Operating margin before goodwill amortisation and items affecting comparability	Neg	8,0%	7,1%	10,5%	12,5%	3,1%
Operating margin	Neg	Neg	Neg	Neg	9,0%	Neg
Cash flow from operations	-60,4	-63,4	58,3	90,2	-10,7	24,7
No. of employees	1 948	1 747	1 706	1 254	1 080	-