

January - March 05

framfab

Interim report

January - March 2005

Framfab AB (publ)

- prepared in accordance with IFRS

- **Net revenue** for January-March was SEK 87.6 million (87.5). Net revenue per employee on an annual basis was SEK 1,058 thousand (962), a 10% increase from the first quarter of 2004.
- **Earnings after tax** for January-March more than doubled from 2004 to SEK 5.6 million (2.3). Framfab posted an operating profit for the fifth quarter in succession.
- **Earnings per share** for January-March amounted to SEK 0.00 (0.00).
- The quarter's cash flow was SEK 5.8 million (-33.6). Cash flow from operating activities totaled SEK 6.2 million (-29.5) for January-March. Liquid funds, including short-term investments, were SEK 165.7 million as of March 31.

Framfab is a leading European Interactive Marketing and Web Consulting Business. Most of Framfab's customers are large international companies, including 3M, American Express, AXA, Barclays Capital, Cadbury Schweppes, Carlsberg Breweries, the Coca-Cola Company,

Danske Bank, DuPont, Ericsson, Hydro Texaco, Kellogg's, Kraft Food International, Nike, Nobel Biocare, Philip Morris International, Philips, Postbank, Rezidor SAS, SAAB, Sara Lee Douwe Egberts, Swedish Match, Vodafone, Volvo Car Corporation, Volvo Group and

UBS. Framfab operates in Denmark, Germany, the Netherlands, Switzerland, Sweden and the United Kingdom. The company is quoted on the O-list of Stockholmsbörsen (ticker symbol FRAM). For additional information, see www.framfab.com.

A word from the CEO

All business indicators are in the right direction and in delivering this fifth successive quarter of profitability in Framfab we can publish one of our best quarterly operating results in recent years. With positive cash-flow, and solid organic development of the business all Framfab colleagues should be proud of what is being achieved.

Our operational strategy was set at the start of 2004 and remains in place today. All efforts during the first quarter of 2005 have been applied to maintain and further develop the positive momentum in our business. There have been some notable major account developments.

Worthy of particular comment is the turnaround in the Swedish business, and the world class performance levels observable in the Danish subsidiary, both run by Jesper Andersen. Synergies available through collaboration between these business units, operational effectiveness, and the ability to work together in teams is behind our success.

The UK, German and Netherlands businesses also continue to develop in the right direction. The German trading entities were fully integrated during the first quarter as we continue to seek out operational improvements and implement organizational best practice there. Cooperation between all countries is improving and we fully understand the underlying dynamics of the business. We continue to evaluate a number of potential acquisitions but have nothing specific to report at this time. Our criteria for M&A activity are:

- Earnings enhancing deals – profitable companies acquired at the right price
- Similar market positioning – we know our zone and there is no business benefit to extending our 'go to market' proposition at this time
- Geographic – by doing deals with a positive effect in our current geographies we open the door for cost reduction and enhanced market positioning
- High quality revenues – Blue chip clients with multi-year, profitable client relationships

Ongoing strategy execution will lead to scale advantages, improved positioning, and continued profitability growth.

Steve Callaghan
CEO & President

Market

There are two important trends in our market today;

Firstly, one of the most interesting developments in our marketplace is the continued rise in broadband Internet access. According to Forrester Research, of the 47% of European Union (EU) consumers who now have Internet access at home, on average one third of these are provided their access over a broadband connection¹. Furthermore in some countries this rises to close to one half of all consumers using a broadband connection². With increasing competition between broadband service providers resulting in consumer pricing being driven down, the proportion of broadband users across Europe will continue to increase³. For many new Internet users, especially pre-teens, their only experience of the Internet is through broadband.

The richer and higher quality user experience available via broadband is changing consumer behaviors. For example, the average amount of time spent online by European broadband consumers is 12 hours per

week, double the amount for the dial-up users⁴. Broadband has also helped contribute to the sharp rise in popularity of sophisticated online services like iTunes.

Secondly, Marketers, in addition to having their budgets increased, are diverting more of their budgets to online versus traditional channels. They are under pressure to improve campaign effectiveness and deliver measurable return on investment (ROI). When marketing activity is coupled with a consultative, business value driven approach, the Internet provides an unparalleled channel to measure business impact, iterate using positive feedback, and to continuously improve. Given the level of experience companies have had with e-business solutions, clients expect their advisors to provide more strategic advice rather than just manage tactical requirements. Recent figures from PricewaterhouseCoopers (PwC) and the World Advertising Research Centre (WARC) show that online advertising spend has now overtaken radio advertising spend (3.9% of overall advertising spend compared to 3.8% respectively)⁵.

Framfab has deep capabilities in developing engaging online user experiences and functionally rich websites. This coupled with our focus on delivering business benefits positions us ideally to lead the industry and benefit from these market trends.

¹ Forrester Research, European devices and access 2004, 27th August 2004.

² Forrester Research, The European online consumer, 16th March 2005.

³ Forrester Research, Europe's broadband focus will shift beyond price cuts, 2 July 2004.

⁴ Forrester Research, European devices and access 2004, 27th August 2004.

⁵ Interactive Advertising Bureau, Online comes of age as 2004 adspend tops £653 million, 5th April 2005.

Operations

The Group

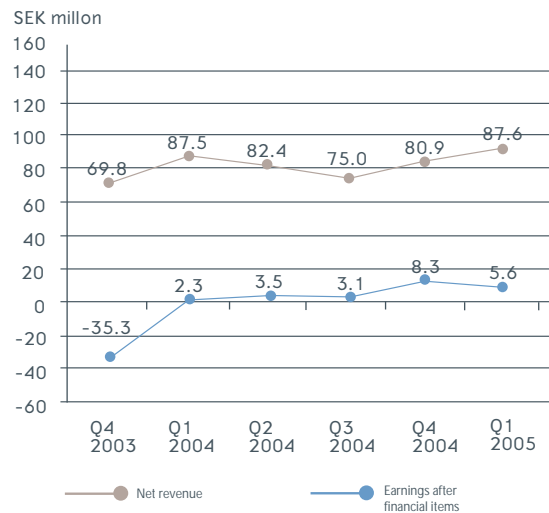
Net revenue was SEK 87.6 million (87.5) in the first quarter. Net revenue per employee on an annual basis grew by 10% from the first quarter of 2004 to SEK 1,058 thousand (962).

Framfab in Denmark, Germany (including Switzerland), UK and Sweden all reported operating profits for January-March. The Group as a whole posted a profit for the fifth consecutive quarter, as well as one of the best operating performances since the beginning of 2000. The improvement was due to marketing efforts, training, a focus on key clients and greater capacity utilization. In addition, market prospects advanced tentatively during the quarter. The measures adopted in the Netherlands boosted operating earnings but did not yet generate a profit – activities to address the situation will continue to receive top priority during the first half of 2005.

Amortization of intangible assets totaled SEK 0.1 million (0.1) in the first quarter, while operating earnings rose by 59% to SEK 5.1 million (3.2). A total of SEK 1.0 million was charged to Group earnings for costs associated with investigating and analyzing prospective acquisitions. Earnings after financial items came to SEK 5.6 million (2.3).

Employee-related costs accounted for 72% (68) of the total. Subcontractors represented 8% (12) of all employee-related costs for the first quarter. While costs for subcontractors can generally change with less than one month's notice, costs for employees are ordinarily adjustable after four months.

The number of employees totaled 334 (362) on March 31, as opposed to 327 at the beginning of the year.



Denmark

Framfab Denmark posted an operating profit for the tenth consecutive quarter. Operating earnings were SEK 5.5 million (3.9), up by 41% from the first quarter of 2004, and the operating margin was 22%. The first and fourth quarters are generally the most profitable times of year. The company won two new clients during the first quarter. Net revenue increased from the first quarter of 2004 to SEK 24.6 million (22.6). Employees totaled 82 (70) at the end of the quarter, as opposed to 77 at the beginning of the year.

Germany

Framfab Germany, including Swiss operations, reported first quarter operating earnings of SEK 0.4 million, a SEK 0.8 million increase from the first quarter of 2004, and an operating margin of 3%. The company won three new clients, including Triumph International and Vöslauer Mineralwasser AG. Net revenue was SEK 11.5 million (11.5) in the first quarter. Employees totaled 53 (56) at the end of the quarter, as opposed to 58 at the beginning of the year.

The Netherlands

Framfab Netherlands continued to partner with the UK company. Operating earnings increased by SEK 2.6 million in the first quarter compared to the same period last year, but remained weak at SEK -0.5 million, while the operating margin was -14%. Net revenue rose by 6% from the first quarter of 2004 to SEK 3.5 million (3.3). Activities to address the situation will continue to receive top priority during the first half of 2005. Employees totaled 21 (24) at the end of the quarter, as opposed to 17 at the beginning of the year.

Sweden

Framfab Sweden reported first quarter operating earnings of SEK 4.0 million, a SEK 0.7 million improvement from the first quarter of 2004, and an operating margin of 17%. Net revenue was down by SEK 3.1 million from the first quarter of 2004 to SEK 24.2 million. The company attracted one new client. Employees totaled 102 (139) at the end of the quarter, as opposed to 103 at the beginning of the year.

UK

Framfab UK posted operating earnings of SEK 1.9 million, down SEK 0.4 million from the first quarter of 2004, as well as an 8% operating margin. The company attracted three new clients. Net revenue was up by 4% from the first quarter of 2004 to SEK 23.8 million. The company hired a number of key employees for the purpose of strengthening its market position. Employees totaled 68 (64) at the end of the quarter, as opposed to 63 at the beginning of the year.

Operations by country

SEK million	Denmark	Germany	Netherlands	Sweden	UK	Parent company & elm.	Total
January - March 2005							
External net revenue	24.6	11.5	3.5	24.2	23.8	0.0	87.6
Operating earnings	5.5	0.4	-0.5	4.0	1.9	-6.2	5.1
Operating margin	22%	3%	-14%	17%	8%	n/a	6%
Investments	0.0	0.3	0.0	0.1	0.3	0.0	0.7
No. of employees	82	53	21	102	68	8	334
January - March 2004							
External net revenue	22.6	11.5	3.3	27.3	22.8	0.0	87.5
Operating earnings	3.9	-0.4	-3.1	3.3	2.3	-2.8	3.2
Operating margin	17%	-3%	-94%	12%	10%	n/a	4%
Investments	0.0	0.0	0.0	0.1	0.0	0.0	0.1
No. of employees	70	56	24	139	64	9	362

Financial position

The first quarter's cash flow was SEK 5.8 million (-33.6). Cash flow from operating activities amounted to SEK 6.2 million (-29.5). Liquid funds, including short-term investments, were SEK 165.7 million as of March 31. No significant restructuring items remained at the end of 2004.

Trade accounts receivable were down by SEK 18.4 million to SEK 55.7 million from December 31 to March 31. Trade accounts receivable decreased from 92% of the latest quarter's revenue on December 31 to 64% on March 31. Including work-in-progress and net advance payments from clients, the corresponding figures were 79% at the end of March and 90% at the end of December. Excluding short-term investments and liquid funds, working capital rose from SEK 17.5 million on December 31 to SEK 18.4 million on March 31. The equity/assets ratio was 80% at the end of March. Approximately SEK 1.3 billion in unutilized tax loss carryforwards for Swedish operations remained and was not included in the balance sheet.

On January 15, 2004, Framfab signed an agreement to acquire Paregos Mediadesign AB. Newly issued shares and liquid funds permitted payment of SEK 12.0 million in acquisition costs. Depending primarily on Paregos' financial performance in 2004, an additional purchase sum of up to SEK 5.5 million may also be payable. Any additional purchase sum will be determined during the second quarter of 2005.

Share data

The profit after tax of SEK 5.6 million (2.3) for January-March corresponded to SEK 0.00 (0.00) per share. Shareholders' equity per share was SEK 0.25 (0.13) at the end of March. The parent company had 1,149,532,904 registered shares as of March 31.

Parent Company

Net revenue totaled SEK 2.5 million (2.4), of which SEK 2.5 million (2.4) was for internal invoicing, in January-March. Including distributions from subsidiaries in the amount of SEK 6.1 million (0.0), earnings after financial items came to SEK 0.6 million (-6.0). Total investments in financial fixed assets amounted to SEK 0.0 million (13.5). As of March 31, liquid funds were SEK 118.0 million and shareholders' equity in the parent company was SEK 227.2 million, of which SEK 57.5 million was capital stock.

Accounting Policies

This interim report has been prepared pursuant to IAS 34, Interim Financial Reporting, which adheres to Recommendation 31, Interim Financial Reporting for Groups, of the Swedish Financial Accounting Standards Council. Note 1 of the Group's 2004 annual report describes the accounting principles employed by this interim report. The note states that International Financial Reporting Standards (IFRS) are to be complied with as of 2005 and that comparative information for 2004 is to be recalculated in accordance with the new principles.

Appendix 1 of this interim report indicates the impact of the recalculation on shareholders' equity at the beginning of the year, as well as earnings and shareholders' equity by quarter for 2004.

Upcoming Financial Reports

2005 Schedule

- The Annual General Meeting will be held on June 21
- The Interim report for January-June will be released on July 21
- The Interim report for January-September will be released on October 21

Stockholm, April 26, 2005

Board of Directors

The company's auditors have not reviewed this report.

For additional information, go to www.framfab.com or contact

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Summary of Income Statements

SEK million	Jan-Mar 2005	Jan-Mar 2004	Jan-Dec 2004
Services Revenue	87.1	87.2	324.7
Other operating revenue	0.5	0.3	1.1
Net revenue	87.6	87.5	325.8
Costs of operation	-81.3	-83.0	-307.9
Operations earnings before depreciation and amortization	6.3	4.5	17.9
Depreciation / write-downs of tangible assets	-1.1	-1.2	-3.9
Amortization / write-down of intangible assets	-0.1	-0.1	-0.4
Operating earnings	5.1	3.2	13.6
Result from shares in Group companies	-	-	2.0
Net financial items	0.5	-0.9	1.6
Earnings after financial items	5.6	2.3	17.2
Tax	-	-	7.9
Earnings for the period	5.6	2.3	25.1
Earnings per share, SEK	0.00	0.00	0.03

Summary of Balance Sheets

SEK million	Mar 31 2005	Dec 31 2004
Assets		
Intangible assets	82.9	80.0
Tangible assets	6.0	6.3
Financial fixed assets	18.4	18.2
Total fixed assets	107.3	104.5
Trade accounts	55.7	74.1
Other current assets	32.9	23.0
Liquid funds	165.7	159.5
Total current assets	254.3	256.6
Total assets	361.6	361.1
Shareholders' equity and liabilities		
Shareholders equity ¹	288.7	278.9
Long-term interest-bearing liabilities	1.0	0.9
Long-term non-interest-bearing liabilities	1.2	1.3
Short-term interest-bearing liabilities	0.4	0.4
Short-term non-interest-bearing liabilities	70.3	79.6
Total liabilities	72.9	82.2
Total shareholders' equity and liabilities	361.6	361.1
¹ Shareholders' Equity		
At beginning of the year	278.9	83.9
Issue of new shares	-	172.4
Translation differences	4.2	-2.5
Earnings for the period	5.6	25.1
At end of the period	288.7	278.9

Contingent liabilities by sureties given in the Group has decreased by SEK 1.6 million compared to December 31, 2004 and was SEK 6.7 million on March 31, 2005. In the parent company the contingent liabilities decreased by SEK 1.7 million compared to December 31, 2004 and was SEK 1.3 million on March 31, 2005.

Summary of Cash Flow Statement

SEK million	Jan-Mar 2005	Jan-Mar 2004	Jan-Dec 2004
Cash flow from operations	6.9	4.8	20.1
Changes in working capital	-0.7	-34.3	-56.6
Cash flow from operating activities	6.2	-29.5	-36.5
Acquisition/divestment of subsidiaries	0.0	-4.0	-2.6
Cash flow from other investing activities	-0.4	-0.1	-2.3
Cash flow before financing	5.8	-33.6	-41.4
Cash flow from financing activities	0.0	0.0	146.0
Cash flow for the period	5.8	-33.6	104.6
Liquid funds at beginning of the period	159.5	55.0	55.0
Translation differences in liquid funds	0.4	0.8	-0.1
Liquid funds at end of the period	165.7	22.2	159.5

Summary by Quarter

SEK million	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003
Net revenue	87.6	80.9	75.0	82.4	87.5	69.8
Operating earnings before depreciation	6.3	6.2	3.4	3.8	4.5	-39.2
Operating earnings	5.1	5.3	2.4	2.7	3.2	-42.0
Earnings after financial items	5.6	8.3	3.1	3.5	2.3	-35.3
Total growth, Q/Q	8%	8%	-9%	-6%	25%	30%
No. of employees at end of period	334	327	334	319	362	387

Key Ratios

SEK million	Jan-Mar 2005	Jan-Mar 2004	Jan-Dec 2004
Change in net revenue	0.1%	20.6%	27.3%
Operating margin before depreciation of tangible assets	7.2%	5.1%	5.5%
Operating margin	5.9%	3.7%	4.2%
Profit margin	6.4%	2.6%	5.3%
Equity/assets ratio	79.8%	47.9%	77.2%
Return of capital employed ¹	8.7%	-90.3%	9.4%
Return of shareholders' equity ¹	11.8%	-140.4%	12.6%
Average No. of employees	331	364	346
No. of employees at end of the period	334	362	327
of which, outside Sweden	224	214	215
Revenue per employee, SEK thousand ²	1,058	962	943
Earnings per employee, SEK thousand ²	63	36	40
No. of shares at end of the period	1 149,532,904	786,094,932	1 149,532,904
Average No. of shares	1 149,532,904	774,601,580	978,770,330
Shareholders' equity per share, SEK	0.25	0.13	0.24
Cash flow per average No. of shares, SEK	0.01	-0.04	0.11

¹ Rolling 12-months

² Annual rate

Appendix 1
Effect of changed accounting principles to IFRS

SEK million	Q 4 2003	Q 1 2004	Q 2 2004	Q 3 2004	Q 4 2004	Year 2004
Earnings after tax						
Earlier GAAP		0.3	1.4	1.1	14.2	17.0
Adjusted amortization of intangible assets		2.0	2.1	2.0	2.0	8.1
Adjusted earnings according to IFRS		2.3	3.5	3.1	16.2	25.1

SEK million	Dec 31 2003	Mar 31 2004	Jun 30 2004	Sep 30 2004	Dec 31 2004
Shareholders' equity					
Earlier GAAP	83.9	98.0	263.3	260.5	271.2
Adjusted amortization of intangible assets	-	2.0	4.1	6.1	8.1
Changed translation differences	-	-	-	-0.1	-0.4
Adjusted earnings according to IFRS	83.9	100.0	267.4	266.5	278.9