



1Q Report January 1 - March 31, 2002 for SwitchCore AB (publ)

Corporate identity number 556541-8869

- The Group's net sales for the period were SEK 8.0 million (1.5). Other operating income for the period was SEK 3.5 million (0). To a large extent, net sales consist of sales of commercial products as opposed to earlier quarters during which sales were primarily generated by the sale of reference designs and test units.
- The Group's operating loss for the period was SEK 33.8 million (45.5).
- Liquid funds and current investments at the period's end reached SEK 137.8 million (82.7).
- The equity/assets ratio at the period's end was 77.3% (79.3%).
- The expanded partnership with Intel is progressing according to plan. On January 21, both companies published the agreement, which gives Intel exclusive manufacturing and sales rights of SwitchCore's Gigabit Ethernet devices. The transfer of production responsibility for the devices Intel licenses from SwitchCore is expected to be completed after 2Q. As of that time, a considerable segment of SwitchCore's revenue will be generated within the framework of the partnership agreement.
- The company maintains its assessment that the expanded partnership with Intel will enhance the conditions for a gradual increase of volume sales. The company believes this will be noticeable in connection with the readjustment to volume production, which is expected to occur gradually during the second and third quarter. This is somewhat later than the company's previously forecasted completion by the end of 2Q. As announced, the company expects to continue to reach a positive cash flow within the framework of current financing.

Events after the period's end:

- On April 22, SwitchCore and Cicada Semiconductor Corporation launched a 16-port reference design for the Gigabit Ethernet market. The reference design addresses the need for less power, cost and space in the desktop and workgroup markets. Customers will now be able to deploy cost-effective 16-port switches in less space than current systems incorporating eight or fewer ports.

General information about the business

SwitchCore AB designs, develops, and markets integrated network devices for data and Internet communication. The devices are sold to network equipment manufacturers and suppliers. Dramatic growth in data communication forms the foundation of the company's business concept. Network equipment suppliers are successively taking on roles as systems integrators and distributors; specialized subcontractors, such as SwitchCore, drive these trends.

The core of SwitchCore's expertise is in its CXE technology, which is a design method. In brief, this means that performance-sensitive parts of integrated circuits are designed so that many functions fit onto a very small silicon surface. Advantages for customers include high performance, small chip size, and low power consumption. Together, this all contributes to SwitchCore being able to cut customers' manufacturing costs and time-to-market. The company has so far launched five products, CXE-16, CXE-1000, CXE-2000, CXE-2010 and CXE-5000.

Sales and results

- The Group's net sales for the period amounted to SEK 8.0 million (1.5). Other operating income for the period was SEK 3.5 million (0). To a large extent, net sales consist of sales from the sale of commercial

products as opposed to earlier quarters during which sales were primarily generated by the sale of reference designs and test units.

- The Group's operating loss for the period was SEK 33.8 million (45.5).

Financing and liquidity

Stockholders' equity stood at SEK 151.8 million on March 31, 2002, and equity per share was SEK 1.77 before the dilution effect of warrants.

Within the framework of SwitchCore's agreement with Credit Suisse First Boston (CSFB), and backed by authorization from the AGM, the company has the option to issue new stock to CSFB, for the equivalent of SEK 200 million. The option is limited by one of the terms of the agreement, which entitles CSFB to deny subscription should the market value of SwitchCore's shares fall below SEK 20. So far the company has utilized SEK 17 million.

The company has been granted credit up to a maximum SEK 50 million to finance up to 50% of the company's account receivables.

The cost-cutting program initiated in September 2001 was successful and reached full effect in 4Q, 2001. The objective was to reduce cost by 20% compared with the close of 2Q, 2001.

The parent company

- The parent company's net sales for the period amounted to SEK 8.0 million (1.5). Other operating income for the period reached SEK 3.5 million (0).
- Income after interest income/expense, net was SEK -40.3 million (-48.4).

Products, sales and marketing

SwitchCore's internal forecasts, based on ongoing customer agreements, are in line with independent market evaluators' predictions of cautious growth in the market for Gigabit Ethernet products during 2002. SwitchCore's customers operate on the Enterprise and MAN/Access markets. The initial Gigabit Ethernet volumes will first be visible within the Enterprise segment, while customers operating on the MAN/Access market are still susceptible to the general watchful business cycle within the telecom sector.

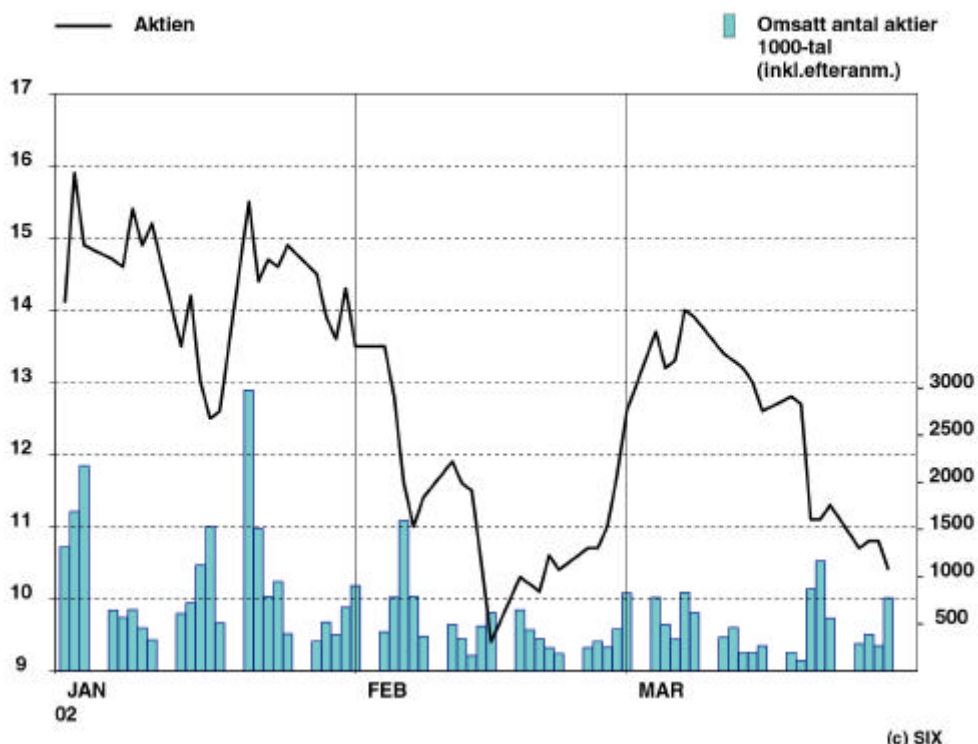
During the period SwitchCore has increased the number of design wins. SwitchCore now has about 45 design wins divided between some 30 customers. About half of the company's customers are expected to launch CXE technology-based products during 2002.

The cooperation agreement with Intel is progressing according to plan and has already generated new customer projects. SwitchCore's role as Intel distributor for the licensed products will be established in connection with the transition of production responsibility from SwitchCore to Intel.

SwitchCore's stocks

The company's stocks are quoted on the Stockholms Stock Exchange Attract 40 list. The average daily turnover of stocks for the January 1 – March 31, 2002 period was SEK 8.7 million. During the same period, the average number of traded stocks was 657,273 per day. The total number of stocks in the company at the end of the period was 86,027,805.

Switchcore



On March 31, 2002 the five main owners' stockholdings in the company were:

| | | |
|------------------------------|-----------|--------|
| Per Andersson ¹ , | 6,108,750 | (7.1%) |
| Christer Svensson, | 4,391,820 | (5.1%) |
| Capital Group, | 3,618,377 | (4.2%) |
| Skandia, | 3,146,625 | (3.7%) |
| Jan Nilsson (incl. company), | 2,746,825 | (3.2%) |

¹ Including 1,000,000 stocks lent to CSFB in connection with the agreement signed January 1, 2001.
 Source: SIS Ågarservice March 31, 2002

The board members, Per Andersson and Christer Svensson, have signed an agreement in which they agree to not dispose more than 20% of their holdings respectively during the period up until December 31, 2002. This agreement does not however apply to those stocks subscribed for in connection with the new stock issue with preferential rights for stockholders carried out in June 2001.

The company has previously issued 267,094 warrants as remuneration for Credit Suisse First Boston's commitment to subscribe for new stock for a maximum SEK 50 million. Because CSFB has so far subscribed for stocks equivalent to SEK 17 million, a further SEK 33 million can be called for before new warrants are issued.

Issued call options

During the period, the company issued 1,213,602 call options on warrants to employees in the Group – in line with the company's option scheme. The options give the right to subscribe for 2,253,602 stocks. The total number of outstanding call options is 5,342,008 and total dilution effect is 5.8%.

Organization and employees

The SwitchCore organization consists of a parent company, SwitchCore AB, first-tier subsidiaries SwitchCore Options AB, SwitchCore Singapore Private Limited, SwitchCore Taiwan AB (dormant) and SwitchCore in Stockholm AB (dormant), and one second-tier subsidiary SwitchCore Corporation (a wholly-

owned subsidiary of SwitchCore Options AB). The Singapore operations are focused on running contacts with the subcontractors that manufacture the company's products.

At the close of the period the distribution of the Group's employees was as follows:

The Group had 88 employees of whom 14% are female and 86% male: 68 in Sweden, 16 in the US and 4 in Asia. The average age is 35. In addition, the company employed 4 people on a project basis at the close of the period.

Investments

The Group's investments in tangible fixed assets totaled SEK 0.2 million, of which SEK 0.1 million was in the parent company. Examples of investments include development and testing tools, computer equipment, and office inventory. Investments in financial fixed assets were SEK 0 million.

R&D

As of January 1, 2002, the Group will adopt the Swedish Financial Accounting Standards Council's recommendation 15 (RR15). In brief, the recommendation means that development expenses related to new products are booked as assets if these expenses in all probability are expected to generate future financial earnings for the company. SwitchCore's interpretation of RR15 means that a new product must have advanced so far in the development phase that expenses are reported as assets only once the product has reached the production phase. All expenses prior to the production phase are written off on a continuous basis. The three-year depreciation plan begins when each product respectively is introduced on the market.

Patents

SwitchCore's patenting strategy is based on creating a patent portfolio protecting the most critical parts of the CXE-technology and safeguarding future product functionality by considering them for patents. In total SwitchCore owns four patents in Sweden and two in the US. In addition SwitchCore has submitted ten patent applications in the US and five in Sweden.

Partnership with Intel

SwitchCore and Intel announced their extended partnership agreement on January 21, 2002. The agreement includes development, marketing and distribution of affordable Gigabit Ethernet switching building blocks for enterprise and MAN solutions. The agreement is progressing according to plan and the transfer of production responsibility for SwitchCore's devices licensed for production by Intel is expected to be completed after Q2. SwitchCore's role as an Intel distributor for the licensed products will be established in connection with this transfer and a considerable portion of SwitchCore's earnings will be generated within the framework of this partnership.

SwitchCore fulfilled two of the agreement terms for prepaid royalties during 1Q, entitling the company to a payment of SEK 20 million, of which SEK 10 million was paid during the period. The company expects to fulfill the remaining terms for prepaid royalties during the current year. As previously announced, SwitchCore is entitled to receive the prepaid royalties during 2002, totaling SEK 40 million.

During 1Q, Intel initiated marketing activities for its licensed SwitchCore devices. The licensed devices are included in Intel's Media Switch product family and referred to as IXE5416 (CXE-16), IXE5216 (CXE-2010) and IXE5417 (CXE-5000). Due to Intel's strong market position, customer projects involving the licensed products are already underway.

Outlook for 2002

Both independent market evaluators and major industry players predict a cautious growth in the market for Gigabit Ethernet products during 2002. At this point, no changes are indicated for the data communication market.

In line with the company's previous prediction, the expanded agreement between SwitchCore and Intel signed in January 2002 is expected to strengthen conditions for a gradual increase in volume sales. The effect will be visible in connection with the transfer to volume production, estimated to occur during the second and third quarters. This is somewhat later than the earlier predicted completion by 2Q. The extension to the readjustment is because gathering in all the process data that forms the basis for adjusting the manufacturing process to give the best returns, takes longer than the company originally

predicted. In connection with the process data being collected and the manufacturing process being calibrated, production will gradually increase.

The company's forecasted gradual rising volume sales is based on estimates indicating that about one half of SwitchCore's customers will launch CXE technology-based products during the year. In addition, the effects of the partnership agreement with Intel will begin to be noticeable.

The company also feels the expanded partnership with Intel will have a positive effect on the company's cash flow. SwitchCore's capital will not be tied up in stock and accounts receivable to the same extent since Intel will be in charge of production and sales for three of the company's devices. Thus the company expects to achieve a positive cash flow through previously announced financing and financial plan.

Events after the period's end

On April 22, SwitchCore and Cicada Semiconductor Corporation launched a 16-port reference design for the Gigabit Ethernet market. The CXE-RDK2010 is a compact, cost-optimized design using Cicada's SimpliPHY(TM) and SwitchCore's CXE-2010. The reference design addresses the need for less power, cost and space in the desktop and workgroup markets. Customers will now be able to deploy cost-effective 16-port switches in less space than current systems incorporating eight or fewer ports.

Reports in 2002

Interim report January 1 - June 30, 2002
3Q report January 1 - September 30, 2002

July 25, 2002
October 24, 2002

Accounting principles

This interim report was prepared according to the Annual Accounts Act and Swedish Financial Accounting Standards Council recommendations.

Lund, Sweden, April 29, 2002

Henric Isacson, CEO, SwitchCore AB (publ)

The report has not been subject to any formal scrutiny by the company's auditors.

Financial position (KSEK)

| | Jan. 1, 2002 | Jan. 1, 2001 | Jan. 1, 2001 | Jan 1, 2000 |
|---|----------------------|----------------------|----------------------|----------------------|
| CONSOLIDATED INCOME STATEMENT | Mar. 31, 2002 | Mar. 31, 2001 | Dec. 31, 2001 | Dec. 31, 2000 |
| Net sales | 8 015 | 1 482 | 16 965 | 1 247 |
| Other operating income | <u>3 512</u> | <u>-6</u> | <u>10 682</u> | <u>466</u> |
| | 11 527 | 1 476 | 27 647 | 1 713 |
| Cost of goods sold | -3 955 | -891 | -9 914 | -805 |
| Other external costs | -21 083 | -19 627 | -108 874 | -84 462 |
| Personnel costs | -17 492 | -24 387 | -97 032 | -65 854 |
| Depreciation | -2 796 | -2 106 | -10 147 | -5 765 |
| Items affecting comparability 1) | <u>0</u> | <u>0</u> | <u>-4 702</u> | <u>0</u> |
| | -45 326 | -47 011 | -230 669 | -156 886 |
| Operating loss | -33 799 | -45 535 | -203 022 | -155 173 |
| Result from other securities | 0 | 0 | -8 889 ²⁾ | 0 |
| Interest income and expense, net | 786 | 1 140 | 4 074 | 7 063 |
| Loss after fin. income and expense, net | -33 013 | -44 395 | -207 837 | -148 110 |
| Tax | -99 | -315 | -1 373 | -529 |
| Earnings for the period | -33 112 | -44 710 | -209 210 | -148 639 |
| CONSOLIDATED BALANCE SHEET | Mar. 31, 2002 | Mar. 31, 2001 | Dec. 31, 2001 | Dec. 31, 2000 |
| ASSETS | | | | |
| Capitalized expenditure for R&D | 4 020 ³⁾ | 0 | 0 | 0 |
| Goodwill | 753 | 2 559 | 1 204 | 3 011 |
| Tangible fixed assets | 17 476 | 17 297 | 19 744 | 15 808 |
| Financial fixed assets | 0 | 8 889 | 0 | 8 889 |
| Current receivables | 36 300 | 23 157 | 31 622 | 15 704 |
| Cash and bank and current investments | 137 814 | 82 734 | 168 531 | 124 043 |
| Total assets | 196 362 | 134 636 | 221 101 | 167 455 |
| STOCKHOLDERS' EQUITY AND LIABILITIES | | | | |
| Stockholders' equity a) | 151 849 | 106 773 | 184 961 | 141 483 |
| Long-term liabilities | 200 | 3 036 | 511 | 3 028 |
| Current liabilities | 44 314 | 24 827 | 35 629 | 22 944 |
| Total stockholders' equity and liabilities | 196 363 | 134 636 | 221 101 | 167 455 |
| Key figures | | | | |
| Equity/assets ratio, % 4) | 77.3% | 79.3% | 83.7% | 84.5% |
| Earnings per share, SEK 5) 6) | -0.38 | -0.79 | -2.94 | -2.69 |
| Earnings per share, SEK 5) 7) | -0.36 | -0.72 | -2.75 | -2.44 |
| Equity per share, SEK 5) 8) | 1.77 | 1.89 | 2.15 | 2.52 |
| Rate of return, equity 9) | neg | neg | neg | neg |
| Rate of return, capital employed 10) | neg | neg | neg | neg |
| No. of stocks at period's end | 86 027 805 | 56 631 370 | 86 027 805 11) | 56 250 000 |
| Investments, SEK m | 0.2 | 1.0 | 6.6 | 12.7 |
| Operating cash flow, SEK m 12) | -33.4 | -48.8 | -200.9 | -164.4 |
| Average number of employees | 87 | 90 | 87 | 70 |

1) This item refers to costs in connection to cost-cutting program implemented August-September 2001.

2) The item refers to write-down of shares in CICADA Semiconductor Corp.

3) Capitalized costs for product development

4) Equity divided by total assets

- 5) Adjusted for shares issues and split
- 6) Calculated on average number of shares excl. dilution effects
- 7) Calculated on average number of shares incl. dilution effects
- 8) Calculated on number of shares at period's end excl. share options.
- 9) Net income minus standard tax in relation to adjusted equity
- 10) Result after depreciations + financial income in relation to capital employed
- 11) Pro forma after registration of new stocks (exercise of warrants) Jan., 2002
- 12) Operating loss before depreciation minus investments and change in working capital

a) Stockholders' capital has changed according to the following during the period

| | | |
|------------------------------|---------|---------|
| Opening balance | 184 961 | 141 483 |
| New share issue/rights issue | 0 | 10 000 |
| Loss for the period | -33 112 | -44 710 |
| Closing balance | 151 849 | 106 773 |

| CONSOLIDATED CASH FLOW STATEMENT | Jan. 1, 2002 Mar. 31, 2002 | Jan. 1, 2001 Mar. 31, 2001 | Jan. 1, 2001 Dec. 31, 2001 | Jan 1, 2000 Dec. 31, 2000 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| Cash flow from period's operations before changes in working capital | -28 393 | -45 979 | -195 487 | -142 925 |
| Cash flow from changes in working capital | -2 153 | -4 288 | -6 162 | -653 |
| Cash flow from period's operations | -30 546 | -50 267 | -201 649 | -143 578 |
| Cash flow from investment activities | -171 | -1 042 | -6 551 | -12 689 |
| Cash flow from financing activities | 0 | 10 000 | 252 688 | 237 663 |
| Cash flow for the period | -30 717 | -41 309 | 44 488 | 81 396 |
| Liquid funds at period's start | 168 531 | 124 043 | 124 043 | 42 647 |
| Liquid funds at period's end | 137 814 | 82 734 | 168 531 | 124 043 |