

**3Q Report January 1 – September 30, 2002 for SwitchCore AB (publ)**  
**Corporate identity number 556541-8869**

**Breakthrough orders and continued good sales**

- The company's net sales for the period totaled SEK 49,5 million (11,7). Other operating income for the period was SEK 5,5 million (7,4). During 3Q net sales increased with 70% compared to 2Q. Sales amounted to SEK 26,2 million compared to SEK 15.3 million during 2Q.

- The Group's operating loss for the period was SEK -91,7 million (-158,0).

- During 3Q SwitchCore received several substantial orders, including orders valued at more than SEK 5,000,000 each from two of the company's Asian customers operating in the enterprise network segment.

- Liquid funds and current investments at the period's end reached SEK 72,0 million (193,8). As previously announced on September 30, 2002, once the restructuring scheme has been completed, the company expects to achieve a positive cash flow within the framework of current financing, which includes the company's option to raise up to SEK 50 million against account receivables (factoring) with SHB. The company bases its forecast on an expected, continued, positive market trend for the company's products, a stable US dollar rate, and a continued successful partnership with Intel.

- On September 30, the board decided to carry out a restructuring plan to reduce the company's costs and further focus on sales and product development. The earlier communicated measures are now implemented. The effects are expected to enable the company to achieve a positive cash flow sooner than previously planned, and to make the company independent of any further financing within the framework of the company's agreement with Credit Suisse First Boston (CSFB). The restructuring plan means that approximately 20 (of 96 total) employees will be let go as a result of the changes. The plan will provide SwitchCore with an estimated reduction in costs of around SEK 30 million annually. The measures will have full effects in 2Q 2003.

- During the period, SwitchCore and Intel have developed new versions of the Company's CXE-16 and CXE-2010 products. The products, called IXE-5416 and IXE-5216, are included in the cooperation agreement with Intel and will be available for volume deliveries during the first six months of 2003. Production responsibility for these products was phased out to Intel during 3Q.

- SwitchCore expects the satisfactory 3Q order bookings to continue during 4Q. The Company maintains its previous predictions of cautious growth in the market for Gigabit Ethernet products during 2002.

**Events after the period's end:**

- One of SwitchCore's Asian customers placed an order valued at over SEK 7 million, the single largest order ever for SwitchCore. The customer operates in the enterprise network segment and most of the order will be delivered during 2002.

**General information about the business**

SwitchCore AB is a fabless semiconductor company that designs, develops, and markets integrated silicon devices for network equipment manufacturers and suppliers, worldwide. SwitchCore's CXE technology significantly increases the bandwidth and performance of switches and routers. With SwitchCore's components customers can reduce manufacturing costs for their complete products and achieve shorter lead times to market. Customers include suppliers of network devices such as Intel, Asanté Technologies and Allied Telesyn. The SwitchCore Group has about 95 employees, offices in Lund, Sweden. The Company also has offices in Stockholm in Sweden, San Jose, Ca, and Boston, Ma, in the US, and Singapore in Asia. The Company is listed on the Stockholm Börse's O-list/Attract 40 under the SCOR ticker. For more information visit <http://www.switchcore.com>

Footnote: The figures in parenthesis correspond to the figures for the same period last year.

### **Comments by the CEO**

"We see a cautious positive growth in the enterprise network segment. We received several breakthrough orders in 3Q and the start of 4Q. This shows that our customers appreciate our products and that we are still a competitive company. We predict that the good 3Q order bookings will continue during 4Q," says Henric Isacsson, SwitchCore's CEO.

"The restructuring scheme decided on by the board on September 30, will be carried out as a means to achieve a positive cash flow sooner than previously planned, and to make the company independent of any further financing within the framework of the company's agreement with Credit Suisse First Boston. Given the current market situation, we feel that SwitchCore will be able to achieve a positive cash flow within the framework of its existing financing as a result of the restructuring plan," he continues.

"To sum up the situation, I am optimistic about SwitchCore's future. We will continue to focus on sales, product development and cost control. Our partnership with Intel remains successful and we expect a stable, positive market trend for our products," he concludes.

### **Sales and results for the period**

- The Group's net sales for the period amounted to SEK 49,5 million (11,7). Other operating income for the period was SEK 5,5 million (7,4).

- The Group's operating loss for the period was SEK 91,7 million (158).

The result for the period includes the cost of the restructuring plan of SEK 5,6 million and a reversal of last year's restructuring scheme of SEK 0,4 million. In total SEK 5,2 million has impacted the result for the period.

- The Group's result for the period includes an exchange loss of SEK 2,4 million of which SEK 1,9 million is included in operating costs and the remaining SEK 0,5 million is included in financial items. The exchange rate fluctuation refers solely to USD.

### **3Q sales and results**

- The Group's net sales for 3Q totaled SEK 26,2 million (7,4). Other operating income for 3Q was SEK 0,1 million (3,4).

- The Group's operating loss for 3Q was SEK 22,7 million (50).

### **Financing and liquidity**

Stockholders' equity stood at SEK 94,8 (234,7) million on September 30, 2002 and equity per share was SEK 1,10 (2,74) before the dilution effect of warrants. In carrying out the announced restructuring plan, SwitchCore intends to make itself independent of the agreement with Credit Suisse First Boston (CSFB). The company judges that after carrying out the restructuring plan, it will be able to achieve a positive cash flow within the framework of its existing financing, which includes raising up to SEK 50 million against account receivables (factoring) with SHB.

As a result of the Company's restructuring scheme, the board has decided to not utilize the company's agreement with CSFB during the remainder of the agreement period, which runs until February 21, 2003. In connection with the CSFB agreement, Per Andersson, Director and Chairman of the Board, lent 1,000,000 stocks to CSFB, which will now be returned.

### **The parent company**

- The parent company's net sales for the period amounted to SEK 49,5 million (11,7). Other operating income for the period reached SEK 5,4 million (7,4).

- Income after interest income/expense, net was SEK -112 million (-142,2).

### **Products, sales and marketing**

SwitchCore's internal forecasts, based on ongoing customer agreements, are in line with independent market assessors' predictions of cautious growth in the market for Gigabit Ethernet products during 2002. For the coming two years it is estimated that the number of Gigabit Ethernet network connections will rise by about 60% annually, while the total sales figure for Gigabit Ethernet products is estimated to rise by just over 20% annually over the same period. This figure is somewhat lower than the previously predicted 30% and is based on an expected tighter price squeeze due to growing volumes.

SwitchCore's customers operate on the Enterprise and MAN/Access markets. SwitchCore maintains its assessment that initial Gigabit Ethernet volumes will first be visible within the Enterprise segment. Customers operating on the MAN/Access market are still susceptible to the general expectant business climate within the telecom sector and some have subsequently ceased operations or discontinued ongoing projects for the time being. During 3Q, SwitchCore expanded the number of design wins and customers,

primarily within the enterprise segment. In all, the company remains stable at the 2Q level with about 50 design wins divided between some 35 customers. A design win is when a customer decides to develop a switch or router based on SwitchCore's CXE products. SwitchCore has about 50 design wins divided between some 35 customers. Almost half of the company's customers have launched CXE technology-based products during the first nine months of 2002. The company will in future reports focus more on revenue than on total number of design wins and customers.

- On August 27, two of SwitchCore's customers, independently of each other, placed orders worth around SEK 5 million each. Both companies are based in Asia and operate in the enterprise network sector. The orders will be delivered during the current year.

- SwitchCore announced on July 9 Wideband Corporation's launch of its Professional Series Gigabit Ethernet Switches based on SwitchCore's CXE-2010 switching devices. Wideband's flagships are its 8 and 16-port Professional Series 10/100/1000 Ethernet switches, loaded with features requiring hardware support. The switches are available in two configurations, preinstalled and user-managed.

- The partnership with Asanté Technologies, a leading provider of network solutions for enterprises, schools and network operators was announced July 2. Asanté and SwitchCore have started a partnership to develop switches for Gigabit Ethernet based on SwitchCore's CXE-2010 and CXE-16 chips. SwitchCore's single-chip solution will enable Asanté to deliver state-of-the-art solutions for Gigabit Ethernet at an extremely attractive price.

- Allied Telesyn Group's use of SwitchCore's chips in its SwitchBlade series was announced on July 1. The Allied Telesyn Group with its head office in Hong Kong, is one of the leading vendors of enterprise network equipment. SwitchBlade utilizes SwitchCore's CXE-16, CXE-1000 and CXE-5000 switching devices in a scalable architecture configured to accomplish a switching throughput of 48 million packets per second on up to 32 Gigabit Ethernet ports.

The cooperation agreement with Intel is developing according to plan. Working together with Intel, the Company has developed new versions of two products, the CXE-16 and CXE-2010 switching devices. The products, called IXE-5416 and IXE-5216, are included in cooperation agreement with Intel and will be available for volume deliveries during the first six-month period 2003. Production responsibility for these products was phased out to Intel during 3Q. During the period, SwitchCore received USD 2 million (of a total USD 4 million) in prepaid royalties from Intel and expects to fulfill the outstanding requirements concerning the prepaid royalties during the current year. Once this is accomplished, the remaining USD 2 million in prepaid royalties will be paid at the start of 2003. Intel's customers follow the same development cycle as SwitchCore's customers, meaning a lead-time of between six to eighteen months from a design win to product introduction on the market.

### **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).

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

The Group had 95 employees of whom 14% are female and 86% male: 73 in Sweden, 16 in the US and 6 in Asia. The average age is 35. In addition, the company employed 7 people on a project basis at the close of the period.

### **Investments**

The Group's investments in tangible fixed assets totaled SEK 0,9 million (6,2), of which SEK 0,8 million (5,4) was in the parent company. Examples of investments include development and testing tools, computer equipment, and office inventory.

### **R&D**

SwitchCore will release new versions of its CXE-16 and CXE-2010 products at the start of next year. The products will be available for customer volume deliveries during the first six months of 2003. The new versions have been developed in collaboration with Intel, which will also assume production responsibility for the products.

As of January 1, 2002, the Group has adopted 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 are in all probability 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. In line with this interpretation, product development expenses totaling SEK 12,8 (0) million were capitalized during the period of which SEK 6,9 (0) million refers to personnel costs and remaining SEK 5,9 (0) million refers to other external costs.

### Patents

SwitchCore's patent strategy is built on creating a patent portfolio where the most important parts of the CXE technology are protected. The functions of future products are earmarked at an early stage for possible patenting. In total SwitchCore owns four patents in Sweden and two in the US. A further ten patent applications have been submitted for review in the US and four in Sweden.

### Management changes

Maria Rydén Persson has been appointed the new CFO at SwitchCore and assumed her duties on October 1. An economics graduate, Maria's previous employer was T-Systems, one of the largest European IT consulting firms, previously owned by Deutsche Telekom. Maria worked as a strategy consultant and was a member of the management group. She has prior experience from Arthur Andersen, where she headed the business area for public enterprises and worked with auditing and business operation consulting.

### Outlook for coming six months period

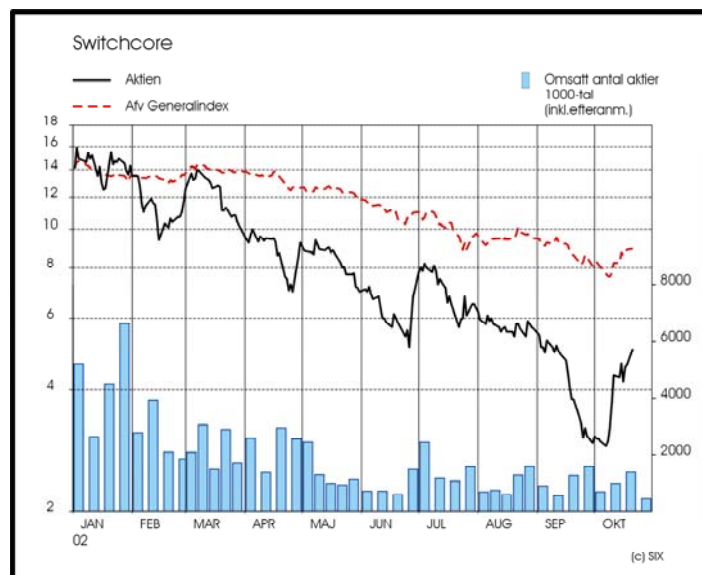
Both independent market evaluators and major industry players predict a cautious growth in the market for Gigabit Ethernet products during. At this point, no changes are indicated for the data communication market. SwitchCore saw a steady rise in sales in 3Q and this rise is expected to continue over the coming quarters.

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's first nine months. In addition, the effects of the partnership agreement with Intel will begin to be noticeable.

### SwitchCore's stocks

The Company's stocks are quoted on the Stockholmbörsen's O-list/Attract 40 list. The average daily turnover of stocks for the January 1 - September 30, 2002 period was SEK 4,2 million. During the same period, the average number of traded stocks was 404.047 per day. The total number of stocks in the Company at the end of the period was 86 027 805.

Price movement for the period:



On September 30., 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%
Skandia	3,146,625 3.7%
Capital Group	2,890,877 3.4%
Jan Nilsson (incl. company)	2,106,825 2.4%

1) Including 1,000,000 stocks lent to CSFB in connection with the agreement signed January 1, 2001.  
Source SIS Ägarservice September 30, 2002

Per Andersson and Christer Svensson, the main owners, 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. These agreements do 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 on before new warrants are issued.

#### **Next reports**

Financial statement                      January 30, 2003

#### **Accounting principles**

This 3Q report was prepared according to the Annual Accounts Act and Swedish Financial Accounting Standards Council recommendations.

Lund, Sweden, October 23, 2002

Henric Isacsson, CEO,  
SwitchCore AB (publ)

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

For further information:

You are invited to take part in SwitchCore`s teleconference for media and financial analysts today, October 24, 2002 at 11.00 am. Tel no +46 8 727 77 51 and state the code "SwitchCore"

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<b>CONSOLIDATED INCOME STATEMENT (KSEK)</b>	<b>Jan 1 2002 Sep 30 2002</b>	<b>Jan 1 2001 Sep 30 2001</b>	<b>Jul 1 2002 Sep 30 2002</b>	<b>Jul 1 2001 Sep 30 2001</b>	<b>Jan 1 2001 Dec 31 2001</b>	<b>Jan 1 2000 Dec 31 2000</b>
Net sales	49 480	11 688 0	26 217	7 447	16 965	1 247
Other operating income	<u>5 489</u>	<u>7 351 0</u>	<u>84</u>	<u>3 379</u>	<u>10 682</u>	<u>466</u>
	54 968	19 039 0	26 301	10 826	27 647	1 713
Raw materials and consumables	-23 641	-6 179 0	-10 592	-3 983	-9 914	-805
Other external costs	-55 296	-81 452 0	-12 144	-28 125	-108 874	-84 462
Personnel costs	-53 742	-77 234 0	-18 121	-21 129	-97 032	-65 854
Depreciation	-8 750	-7 327 0	-2 957	-2 703	-10 147	-5 765
Items affecting comparability <sup>2)</sup>	<u>-5 211 1)</u>	<u>-4 832 0</u>	<u>-5 211 1)</u>	<u>-4 832</u>	<u>-4 702</u>	<u>0</u>
	-146 640	-177 024 0	-49 026	-60 772	-230 669	-156 886
<b>Operating loss</b>	<b>-91 672</b>	<b>-157 985 0</b>	<b>-22 726</b>	<b>-49 946</b>	<b>-203 022</b>	<b>-155 173</b>
Result from other securities	0	0 0	0	0	-8 889 <sup>2)</sup>	0
Financial income/expense net	<u>2 090</u>	<u>2 870 0</u>	<u>1 450</u>	<u>1 316</u>	<u>4 074</u>	<u>7 063</u>
<b>Loss after financial income/expense net</b>	<b>-89 582</b>	<b>-155 115 0</b>	<b>-21 276</b>	<b>-48 630</b>	<b>-207 837</b>	<b>-148 110</b>
Tax	<u>-543</u>	<u>-835 0</u>	<u>-205</u>	<u>-67</u>	<u>-1 373</u>	<u>-529</u>
<b>Earnings for the period</b>	<b>-90 125</b>	<b>-155 950 0</b>	<b>-21 481</b>	<b>-48 697</b>	<b>-209 210</b>	<b>-148 639</b>
<b>CONSOLIDATED BALANCE SHEET ASSETS</b>	<b>Sep 30 2002</b>	<b>Sep 30 2001</b>			<b>Dec 31 2001</b>	<b>Dec 31 2000</b>
Capitalized expenditure R&D	12 791 <sup>3)</sup>	0 0			0	0
Goodwill	0	1 656 0			1 204	3 011
Tangible fixed assets	15 303	21 726 0			19 744	15 808
Financial fixed assets	0	8 889 0			0	8 889
Current receivables	46 377	48 829 0			31 622	15 704
Cash and bank and current investments	<u>72 038</u>	<u>193 816 0</u>			<u>168 531</u>	<u>124 043</u>
<b>Total assets</b>	<b>146 509</b>	<b>274 916 0</b>			<b>221 101</b>	<b>167 455</b>
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>						
Stockholders' equity <sup>4)</sup>	94 836	234 720 0			184 961	141 483
Long-term liabilities	506	1 929 0			511	3 028
Current liabilities	<u>51 167</u>	<u>38 267 0</u>			<u>35 629</u>	<u>22 944</u>
<b>Total stockholders' equity and liabilities</b>	<b>146 509</b>	<b>274 916 0</b>			<b>221 101</b>	<b>167 455</b>
<b>Notes and key figures</b>						
Equity/assets ratio, % <sup>4)</sup>	64,7%	85,4% #			83,7%	84,5%
Earnings per share, SEK <sup>5) 6)</sup>	-1,05	-2,36			-2,94	-2,69
Earnings per share, SEK <sup>5) 7)</sup>	-0,97	-2,50			-2,75	-2,44
Equity per share, SEK <sup>5) 8)</sup>	1,10	2,74			2,15	2,52
Rate of return, equity <sup>9)</sup>	neg	neg			neg	neg
Rate of return, capital employed <sup>10)</sup>	neg	neg			neg	neg
No. of stocks at period's end	86 027 805	85 513 702			86 027 805 <sup>13)</sup>	56 250 000
Investments, MSEK	13,7	6,2			6,6	12,7
Operating cash flow, MSEK <sup>13)</sup>	-89,7	-170,4			-200,9	-164,4
Average number of employees	89	102			87	70

1) This item refers to costs in connection with the cost-cutting program implemented by the company.

2) This item refers to the write-down of stocks in the CICADA Semiconductor Corp.

3) Capitalized expenses for product development

4) Stockholders' equity in relation to balance sheet total

5) Adjusted for new issue and split

6) Calculated on average number of stocks before dilution

7) Calculated on average number of stocks after dilution

8) Calculated on number of stocks at period's end excl. stock options

9) Pro forma after rights issue June, 2001

10) Net earnings less standard tax in relation to adjusted equity

11) Loss after depreciation+ financial income in relation to capital employed

12) Pro forma after registration of new stocks (regarding utilized warrants), Jan, 2002.

13) Operating loss before depreciation less investments and changes in working capital.

Opening balance	184 961	141 483
New issues	0	249 187
Loss for the period	-90 125	-155 950
<b>Closing balance</b>	<b>94 836</b>	<b>234 720</b>

<b>CONSOLIDATED CASH FLOW STATEMENT (KSEK)</b>	<b>Jan 1 2002 - Sep 30 2002</b>	<b>Jan 1 2001 - Sep 30 2001</b>	<b>Jan 1 2001 - Dec 31 2001</b>	<b>Jan 1 2000 - Dec 31 2000</b>
Cash flow from period's activities before change in working capital	-84 110	-149 985	-195 487	-142 925
Cash flow from changes in working capital	<u>1 732</u>	<u>-23 264</u>	<u>-6 162</u>	<u>-653</u>
Cash flow from period's activities	-82 378	-173 249	-201 649	-143 578
Cash flow from investment activities	-13 655	-6 165	-6 551	-12 689
Cash flow from financing activities	0	249 187	252 688	237 663
<b>Cash flow for the period</b>	<b>-96 033</b>	<b>69 773</b>	<b>44 488</b>	<b>81 396</b>
Liquid funds at period's start	168 531	124 043	124 043	42 647
Liquid funds at period's end	72 498	193 816	168 531	124 043