

1Q REPORT  
**JANUARY 1-MARCH 31, 2007**  
**FOR SWITCHCORE AB (PUBL)**  
 CORPORATE IDENTITY NUMBER 56541-8869

# Investment rate in Xpeedium3 stays high 1Q sales on par with budget

## SUMMARY

- The Group's sales for 1Q totaled SEK 8.1 million (17.2), as budgeted . Sales calculated in USD amounted to 1.2 million (2.2).
- Orders received between January and March 2007 exceeded billing and amounted to SEK 8.4 million (27,6).
- The Group's operating loss for the period totaled SEK -8,8 million (-12.9). Loss after taxes amounted to SEK -8,8 million (-12.8). The loss per share totaled SEK -0,01 (-0.02).
- Cash at hand stands at SEK 57,2 million (193.9).
- Development of SwitchCore's third product generation, Xpeedium3 is progressing according to plan which means that the two main products will be developed by the end of the year.
- R&D activities for Xpeedium3 reached its peak during the first quarter 2007. Consequently, the number of consultants working in the R&D department will drop gradually starting the second quarter which will lower the company's costs going forward.
- SwitchCore's sales dropped considerably in 2006 due to the phase-out of older products and pending income from Xpeedium3. As previously announced, the company believes that lower income levels will persist throughout 2007.
- SwitchCore has been in continuous discussions with financial and industrial entities exploring possible partnership to strengthens the company capacity to to develop products and to broadening SwitchCore's range of products. As recently announced, these discussions have entered a more intensive phase and the company has engaged external advisors for the process. The outcome of these discussions will have a decisive impact in the expected success of Xpeedium3 and the company as a whole.

*Footnote: The figures in parenthesis (xx) correspond to the figures for the same period last year.*



*Erwin Leichtle, Koncernchef och  
Verkställande Direktör SwitchCore AB*

## COMMENTS BY THE CEO

“The lower sales figures reported for the first quarter 2007 are fully in line with our budget. Many of our customers have reached the end of their product lifecycle using the first generation of SwitchCore’s products and the second generation has not reached the level we originally predicted. Orders booked between January and March 2007 exceeded the quarter’s billing and totaled SEK 8.4 million.

“Our operating loss of SEK 8,8 million is also on par with budget with unchanged high gross margin. Starting the second quarter, we will reduce the number of consultants as the products within the Xpeedium3 family are being completed. This will lower costs going forward. High R&D costs and lower sales figures have had a negative impact on the first quarter’s cash flow.

“Very intensive R&D activities related to Xpeedium3 characterized the first quarter. This work is progressing according to plan and we expect that the first products in the Xpeedium3 family will be completed by the end of 2007”.

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## SALES AND RESULTS FOR THE PERIOD

- The Group’s net sales for the period amounted to SEK 8,1 million (17.2). Billing in USD reached 1,2 million (2.2). OEM sales to Intel made up 7 percent (27) of the total sales. SwitchCore complies with IAS1 as of January 1, 2005. This means the Group will separately account for capitalized development costs among the Group’s earnings, in total SEK 27,6 million (14.8). The sum is not included in the above net sales.
- The gross profit margin for the period was 53 percent (53).
- The Group’s operating loss was SEK -8,8 million (-12.9). A total of SEK 0 million (5.9) for R&D costs brought forward were depreciated in 1Q.
- Since all billing is in USD, and since much of the Group’s operating expenses are in USD, net exposure in net operating income is marginal.
- The loss after tax was SEK -8,8 million (-12.8).
- Loss per share totaled SEK -0,01 (-0.02).

## FINANCING AND LIQUIDITY

Stockholders’ equity stood at SEK 181,6 million (256.6) on March 31, 2007 and equity per share was SEK 0,29 (0.41).

Cash flow for current operations during the first quarter was SEK -39,2 million.

Liquid funds at the end of the period totaled SEK 57,2 million (193.9). The company has a utilized credit facility of USD 0,8 million (0.8). Liquidity has been negatively affected by the decline in 1Q sales and heavy investments in Xpeedium3.

Capital stock amounts to SEK 123 880 039 with the number of stock totaling 619 400 196.

#### PARENT COMPANY

- The parent company's sales during the first quarter amounted to SEK 8,1 million (17.2).
- The parent company's loss after net income/expense was SEK -8,8 million (0.4).

#### THE MARKET

SwitchCore's products address applications based on the Gigabit Ethernet standard, a communication technology that is ten times faster than its predecessor, Fast Ethernet. Underlying growth potential for the Gigabit Ethernet market is large but falling prices prevent the market from increasing in value. The next connection rate is 10 Gigabit Ethernet, which is expected to gain momentum in 2008/2009. This leads SwitchCore to predict sound growth for the next generation products.

SwitchCore has joined Metro Ethernet Forum, a consortium of system and component vendors and industry experts whose mission is to accelerate Worldwide Adoption of Carrier class Ethernet Networks and Services. SwitchCore will play a key role in the advancement of Metro Ethernet standards with its expertise in developing Ethernet Switch technology for enterprise, metro and access networks. SwitchCore will partner with other Forum members to demonstrate advanced applications for Metro Ethernet Networks.

#### SALES

SwitchCore's customer segments consist of companies that develop advanced network equipment (network switches) for enterprise and access networks based on the Ethernet standard. Products developed by SwitchCore's customers cost-effectively manage and prioritize data, video and voice traffic for many different applications. The company estimates that there are about 500 potential customers for its products, concentrated to North America and Asia (mainly China, Korea and Japan). The European market is expected to evolve at the same rate as the demand for access networks grows.

SwitchCore has about 115 design wins and some 65 customers by the end of 1Q. A design win is when a customer decides to develop a switch or router based on SwitchCore's CXE products.

SwitchCore is looking for partners to promote the sales of both present-day and next generation products. The company has excellent experience of this type of partnership through its longstanding, successful relationship with Intel. The task of finding a partner to promote sales of the Xpeedium2 family, as well as the pending Xpeedium3 product generation is in progress. Our partnership with Fujitsu Microelectronic Europe is a result of these efforts. The reference design was completed and launched at the German Nürnberg Trade show in mid-February 2007, according to plan.

#### North America

Original Equipment Manufacturing (OEM) sales to Intel answered for about 7% of SwitchCore's total sales. Based on Intel's forecasts, the company finds that Intel's demands for SwitchCore's devices will continue also in 2007, albeit at lower volumes. Other major North American customers include Alloptic, Allied Telesyn, Calix, and Radisys. North America is an important market for SwitchCore and represented about 60 % of total sales during the first quarter.



### **Asia**

The Chinese company Huawei and customers on the Korean market are presently at the end of the Xpeedium product lifecycle which means that sales are declining. During the first quarter the Asian market represented about 30 % of total sales.

### **Europe and Africa**

The market in Europe and Africa is important to SwitchCores Xpeedium2 and Xpeedium2pro and this product family represents most of the design wins in Europe. During the first quarter these markets represented about 7 % of total sales.

## **PRODUCTS**

Xpeedium is the common name for SwitchCore's products and the first generation of products answers for most of our sales today. The OEM contract with Intel includes the Xpeedium products. The company expects there will be a market for this product family up until 2010.

Xpeedium2 and Xpeedium2Pro are the second generation product family from SwitchCore in full production. This product family has not advanced as the company expected, SwitchCore has some 15 design wins with this product family, which is unchanged compared to previous quarter. Our partnership with Fujitsu Microelectronic Europe comprises this product and is progressing according to plan, the reference design that resulted from thos cooperation was launched at the Nürnberg Trade Show mid-February 2007.

SwitchCore is now developing its third-generation product family, Xpeedium3. Xpeedium3 consists of a number of Systems on Silicon for advanced next-generation enterprise and access network systems. The new architecture solution allows faster data transfer and integrates many functions. SwitchCore's technology enables customers to cost-efficiently develop a complete product range from a basic platform. SwitchCore completed the first stage of the process – the design of a Network Search Engine (NSE) – at the start of 2007. The product will be marketed to several selected customers.

Xpeedium3 is designed to attract more market segments than SwitchCore's products do today, making it easier to grow on the total switching device market. Xpeedium3 follows the original time schedule.

## ORGANIZATION AND EMPLOYEES

The SwitchCore organization consists of a parent company, SwitchCore AB, first-tier subsidiaries SwitchCore Options AB, SwitchCore Singapore Private Limited, SwitchCore Intellectual Property AB, Eroc Technology AB, SwitchCore Taiwan AB (dormant) and SwitchCore in Stockholm AB (dormant), and the 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 66 (51) employees of whom 59 (45) in Sweden and the rest in Europe, 5 (4) in the US and 2 (2) in Asia. Of the employees, 18 (20) percent are female and 82 (80) percent are male. The average age is 40 (38) years.

Anders Widesjö has been engaged by SwitchCore as CFO and will be a member of the company's management group. He previously worked for several large and small Swedish companies..

## INVESTMENTS

The Group's investments in tangible fixed assets totaled SEK 0 million (0,5), of which SEK 0 million (0.5) was in the parent company. In addition, investments have been reported in capitalized development costs for a total of SEK 27,6 million (14.8) of which about 26% consists of personnel and the remaining portion is external costs such as consultancy, tools and licenses. Previously capitalized expenses were depreciated by SEK 0 million (5.9). In total, the change in capitalized development costs is SEK 27,6 million (8.9). These investments all relate to Xpeedium3.

## 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 14 patented inventions spread over 31 registrations; 7 in Sweden, 11 in the US, 2 in Taiwan, 2 in China and 9 in other countries. At present, 1 patent application has been submitted for review, 1 in the USA.

## OUTLOOK

SwitchCore's sales dropped considerably in 2006 and the company believes that the weak demand will continue in 2007. The company is actively working to develop partnerships with industrial and financial partners to accelerate growth.

## SWITCHCORE'S STOCK

The company's stocks are quoted on OMX Nordic Exchange in Stockholm. The average daily turnover of stocks for the January 1-March 31, 2007 period was SEK 1 889 268. During the same period, the average number of traded stocks was 5 639 569 per day. The total number of stocks in the company at the end of the period was 619 400 196.

## ANNUAL GENERAL MEETING

As previously announced, the Board found it prudent to postpone the 2007 Annual General Meeting in light of ongoing discussions with potential industrial partners. The Annual General Meeting, originally scheduled for May 2, will instead be held on Thursday, June 14. The invitation to attend the Annual General Meeting will be distributed to the company's stockholders around May 15, 2007.

<b>REPORTS 2007</b>	2Q Report	January 1-June 30, 2007	July 19, 2007
	3Q Report 2007	January 1-September 30, 2007	October 18,
	Financial statement 2008	January 1-December 31, 2007	January 24,

Annual General Meeting June 14, 2007

#### **ACCOUNTING PRINCIPLES**

This interim report was prepared according to the IFRS and is the seventh financial report that SwitchCore presents in line with the IFRS, meaning that the report complies with IAS 34. The conversion to IFRS had no effect on SwitchCore. However, there are some areas where IFRS will have an influence on the Group's income statement and balance sheet as of January 1, 2005:

#### **REPORTING AND EVALUATION OF FINANCIAL INSTRUMENTS (IAS 32 AND IAS 39):**

In accordance with IAS 39, all derivative instruments such as futures are to be reported in the balance sheet and evaluated at actual value. Since SwitchCore did not have any futures or other financial instruments on January 1, 2005 the impact of the opening balances was zero according to IAS 39. IAS 39 did not have any impact on the closing balance.

#### **TRANSLATION OF FOREIGN COMPANIES ACCOUNTS (IAS 21):**

All businesses abroad are classified as integrated, i.e. they have the same functional currency as the parent company. They have therefore been translated using the monetary method. Translation differences are reported in the consolidated statements.

#### **STOCK OPTION PLAN (IFRS 2):**

The parent company has issued stock options. The programs were issued before November 7, 2002 and are therefore not affected by IFRS 2.

The Annual General Meeting held on May 4, 2006 resolved to introduce a stock option plan valid from 2006-2010. The plan has had a marginal effect on SwitchCore's earnings and position presented in this report.

The same accounting principles and calculation methods used in the most recent Annual Report have been used in this report.

Lund, Sweden April 19, 2007

Erwin Leichtle, Chief Executive Officer and President, SwitchCore AB (publ)

The report has not been subject to review by the company's auditors.

**FOR MORE INFORMATION**

The entire report, including tables, can be downloaded at:

<http://reports.huginonline.com/xxxx>

For more information:

SwitchCore will hold a phone conference for media and financial analysts today, April 19, 2007 at 10 a.m. A presentation is available at [www.switchcore.com](http://www.switchcore.com)

Phone: + 46 8 672 81 50

Register code SwitchCore

Or contact:

Erwin Leichtle, CEO SwitchCore

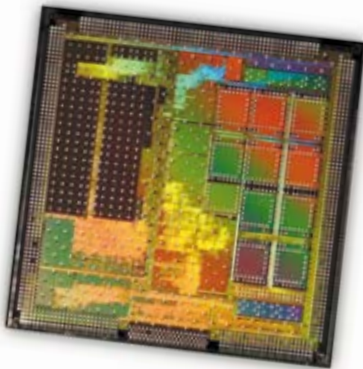
Email: [erwin.leichtle@switchcore.com](mailto:erwin.leichtle@switchcore.com)

Mobile: +46 703 389300

Anders Widesjö, CFO

Email: [anders.widesjo@switchcore.com](mailto:anders.widesjo@switchcore.com)

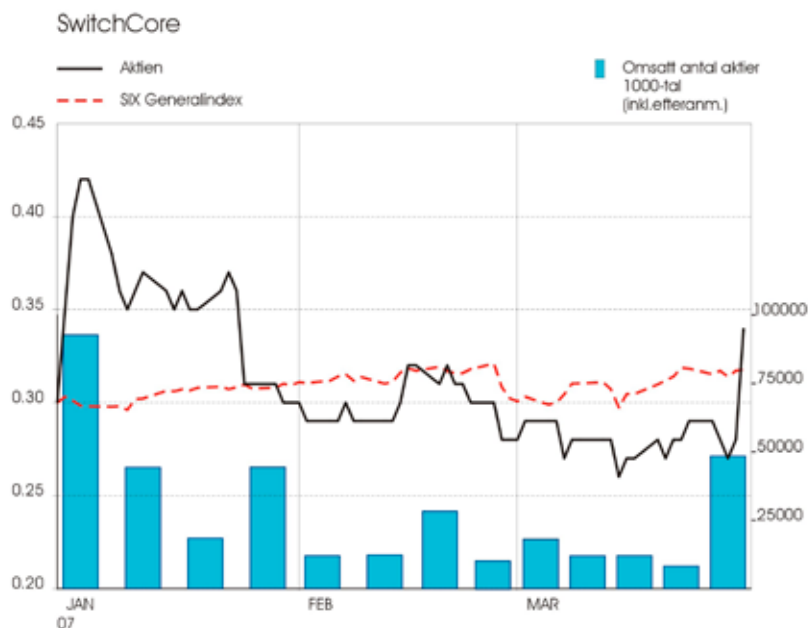
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## SWITCHCORE'S STOCK

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CONSOLIDATED INCOME STATEMENT (KSEK)	JAN 1 2007 MAR 31 2007	JAN 1 2006 MAR 31 2006	JAN 1 2006 DEC 31 2006	JAN 1 2005 DEC 31 2005
Net sales a)	8 060	17 239	59 387	108 195
Work performed by the entity and capitalised b)	27 598	14 765	92 755	26 187
	<b>35 658</b>	<b>32 004</b>	<b>152 142</b>	<b>134 382</b>
Raw materials and consumables	-3 799	-8 154	-34 906	-50 872
Other external costs	-26 347	-19 503	-104 442	-47 523
Personnel costs	-13 641	-10 804	-49 352	-43 691
Depreciation b)	-648	-6 478	-43 479	-20 062
	<b>-44 435</b>	<b>-44 939</b>	<b>-232 179</b>	<b>-162 148</b>
<b>Operating loss</b>	<b>-8 777</b>	<b>-12 935</b>	<b>-80 037</b>	<b>-27 766</b>
Result from other securities	-	-	-	-
Financial income/expense net	85	161	1 178	118
<b>Loss after financial income/expense net</b>	<b>-8 692</b>	<b>-12 774</b>	<b>-78 859</b>	<b>-27 648</b>
Tax	-153	-53	-205	-165
<b>Earnings for the period</b>	<b>-8 846</b>	<b>-12 827</b>	<b>-79 064</b>	<b>-27 813</b>



**CONSOLIDATED BALANCE SHEET**    **MAR 31 2007**    MAR 31 2006    **DEC 31 2006**    DEC 31 2005

**ASSETS**

Capitalized expenditure R&D 1)	130 992	60 311	103 394	51 402
Tangible fixed assets	5 425	3 588	5 855	3 327
Inventory	16 280	20 810	19 328	20 940
Current receivables	19 303	28 463	17 849	25 470
Cash and bank and current investments	57 182	193 918	96 418	16 058
<b>Total assets</b>	<b>229 182</b>	<b>307 090</b>	<b>242 844</b>	<b>117 197</b>

**STOCKHOLDERS' EQUITY AND LIABILITIES**

Stockholders' equity c)	181 603	256 611	190 449	69 762
Provision 2)	375	1 978	750	2 250
Long-term liabilities d)	1 236	16 958	18 301	16 584
Current liabilities to credit institutions e)	20 177	6 607	2 438	10 595
Other liabilities	25 791	24 936	30 906	18 006
<b>Total stockholders' equity and liabilities</b>	<b>229 182</b>	<b>307 090</b>	<b>242 844</b>	<b>117 197</b>

**NOTES AND KEY FIGURES**

	<b>JAN 1 2007</b> <b>MAR 31 2007</b>	JAN 1 2006 MAR 31 2006	<b>JAN 1 2006</b> <b>DEC 31 2006</b>	JAN 1 2005 DEC 31 2005
Gross profit margin	52,9%	52,7%	41,2%	53,0%
Equity/assets ratio, % 3)	79,2%	83,6%	78,4%	59,5%
Earnings per share, SEK 4) 5)	-0,01	-0,02	-0,13	-0,13
Earnings per share, SEK 4) 6)	-0,01	-0,02	-0,13	-0,13
Equity per share, SEK 4) 7)	0,29	0,41	0,31	0,34
Rate of return, equity 8)	neg	neg	neg	neg
Rate of return, capital employed 9)	neg	neg	neg	neg
No. of stocks at period's end	619 400 196	619 400 196	619 400 196	206 466 732
Investments, MSEK	0,0	15,2	93,7	26,7
Operating cash flow, MSEK 10)	-38,7	-20,7	-108,7	-31,3
Average number of employees/full time	66	50	51	51

- 1) Capitalized expenses for product development
- 2) Refer to costs for restructuring scheme
- 3) Stockholders' equity in relation to balance sheet total
- 4) Adjusted for new issue and split
- 5) Calculated on average number of stocks before dilution
- 6) Calculated on average number of stocks after dilution
- 7) Calculated on number of stocks at period's end
- 8) Net earnings less standard tax in relation to adjusted equity
- 9) Loss after depreciation+ financial income in relation to capital employed
- 10) Operating loss before depreciation less investments and changes in working capital.

#### A) INVOICING PER GEOGRAPHIC MARKET AND MARKET SEGMENT

As from the report for Q1 2006 the company has chosen to disclose sales to Intel as sales to Access Networks.  
Previous figures have been reclassified.

	<b>JAN 1 2007 MAR 31 2007</b>	JAN 1 2006 MAR 31 2006	<b>JAN 1 2006 DEC 31 2006</b>	JAN 1 2005 DEC 31 2005
<b>MARKET SEGMENT</b>				
Enterprise Networks	4 024	6 685	16 423	30 580
Access Networks	4 036	10 554	42 964	77 615
<b>Total:</b>	<b>8 060</b>	<b>17 239</b>	<b>59 387</b>	<b>108 195</b>

#### GEOGRAPHIC MARKET

	<b>JAN 1 2007 MAR 31 2007</b>	JAN 1 2006 MAR 31 2006	<b>JAN 1 2006 DEC 31 2006</b>	JAN 1 2005 DEC 31 2005
Asia Pacific	2 595	5 451	13 889	41 122
North America	4 886	10 143	38 340	60 833
Europe and ROW	579	1 645	7 158	6 240
<b>Total:</b>	<b>8 060</b>	<b>17 239</b>	<b>59 387</b>	<b>108 195</b>

	<b>JAN 1 2007 MAR 31 2007</b>	JAN 1 2006 MAR 31 2006	<b>JAN 1 2006 DEC 31 2006</b>	JAN 1 2005 DEC 31 2005
<b>OPERATING LOSS:</b>				
Enterprise Networks	1 898	3 193	7 098	15 323
Accessnät	2 005	5 310	15 886	39 540
Work performed by the entity and capitalised	27 598	14 765	92 755	26 187
Result per market segment	31 501	23 268	115 739	81 050
Other cost not allocated	-40 278	-36 203	-195 776	-108 816
<b>Operating loss</b>	<b>-8 777</b>	<b>-12 935</b>	<b>-80 037</b>	<b>-27 766</b>

#### B) CAPITALIZED EXPENDITURE R&D

With effect from January 1, 2005, SwitchCore follows IAS 1. This means that the company discloses capitalized work for its own account, where previously this item was reported in operating expenses. Expenditure that has been capitalized and included in income refers, as in previous years, to expenditure applicable to products that are underway in the industrial process. Depreciation begins with effect from introducing each respective product on the market.

	<b>JAN 1 2007 MAR 31 2007</b>	JAN 1 2006 MAR 31 2006	<b>JAN 1 2006 DEC 31 2006</b>	JAN 1 2005 DEC 31 2005
Work performed by the entity and capitalised	27 598	14 765	92 755	26 187
Depreciation	-	-5 856	-40 762	-17 441
<b>Total</b>	<b>27 598</b>	<b>8 909</b>	<b>51 993</b>	<b>8 746</b>

<b>C) STOCKHOLDERS EQUITY</b>	<b>MAR 31 2007</b>	MAR 31 2006	<b>DEC 31 2006</b>	DEC 31 2005
Opening balance	190 449	69 762	69 762	69 073
Operational new issue	-	199 751	199 751	28 107
Share of stockholders' equity				
- convertible promissory notes	-	-75	-	644
Tax on dividend received from subsidiary	-	-	-	-250
Loss for the period	-8 846	-12 827	-79 064	-27 813
<b>Closing balance</b>	<b>181 603</b>	<b>256 611</b>	<b>190 449</b>	<b>69 762</b>

<b>D) LONG-TERM LIABILITIES</b>	<b>MAR 31 2007</b>	MAR 31 2006	<b>DEC 31 2006</b>	DEC 31 2005
Convertible promissory notes	0	16 702	16 855	16 556
Liabilities to credit institutions	1 236	256	1 446	28
<b>Total</b>	<b>1 236</b>	<b>16 958</b>	<b>18 301</b>	<b>16 584</b>

At an extraordinary general meeting on February 16, 2005, a decision was taken to raise a loan of a nominal SEK 17.2 million via a directed issue of a maximum 172 convertible promissory notes. The issue was subscribed for by Öhman Fondkommission on behalf of Nexum sicav's account. The loan runs for three years and conversion can take place from April 1, 2005 to January 1, 2008. The annual interest rate is 5%.

The interest rate is included in the capitalized amount above and the difference between the nominal value and the actual value amounts to SEK 0.6 (0.6) million and is reported as stockholders' equity in accordance with IAS 32.

<b>E) CURRENT LIABILITIES TO CREDIT INSTITUTIONS</b>	<b>MAR 31 2007</b>	MAR 31 2006	<b>DEC 31 2006</b>	DEC 31 2005
Liability to bank for invoice credit	3 089	6 607	1 650	9 790
Accrued interest rate convertible promissory notes.143		0	788	805
<b>Total</b>	<b>3 232</b>	<b>6 607</b>	<b>2 438</b>	<b>10 595</b>

<b>CONSOLIDATED CASH FLOW STATEMENT (KSEK)</b>	<b>JAN 1 2007 MAR 31 2007</b>	JAN 1 2006 MAR 31 2006	<b>JAN 1 2006 DEC 31 2006</b>	JAN 1 2005 DEC 31 2005
Cash flow from period's activities before change in working capital	-10 079	-4 466	-39 101	-22 300
Cash flow from changes in working capital	-2 998	992	21 573	3 142
Cash flow from period's activities	-13 078	-3 474	-17 528	-19 158
Cash flow from investment activities	-27 598	-15 235	-93 623	-26 733
<b>Cash flow from financing activities</b>	<b>1 439</b>	<b>196 569</b>	<b>191 611</b>	<b>45 640</b>
Cash flow for the period	-39 236	177 860	80 360	-251
Liquid funds at period's start	96 418	16 058	16 058	16 309
Liquid funds at period's end	57 182	193 918	96 418	16 058

#### STOCKHOLDERS

At March 30 2007, the total number of stockholders was 23 657 spread among 619 400 196 shares.  
The largest stockholders March 30 2007

Per Andersson med bolag	2,8%
Banque Carnegie Luxembourg SA	2,5%
Ing Luxembourg SA, Nqi	1,7%
Bostadsrättsbyggarna Svenska Holding	1,3%
Clearstream Banking S.A	1,1%
Spencer Trading Inc Nuf	1,0%
Per Lindberg	0,9%
Familjen Börjesson med bolag	0,9%
Christer Svensson	0,8%
Försäkringsaktibolaget, Avanza Pension	0,8%



#### GENERAL INFORMATION ABOUT THE BUSINESS:

SwitchCore AB develops, markets and sells integrated network devices for data, voice and video communication based on the Ethernet standard. The core of SwitchCore's expertise is in its CXE technology, which allows for significantly higher network product capacity. Using SwitchCore's components, customers can develop network products that cost-efficiently manage and prioritize data, video and voice traffic for many demanding applications. Customers and partners are network equipment manufacturers and suppliers, including Intel, Allied Telesyn, Huawei/3Com, Alloptic, Corecess, Dasan, Radisys and World Wide Packets. The Group presently has about 66 employees and some 40 consultants involved in the company's Xpeedium3 development activities up until the end of April 2007. All development activities will be conducted in house starting May 2007. SwitchCore's headquarters is in Lund, Sweden. The Company also has offices in San Jose, USA, as well as Singapore and Shanghai in Asia and Rotterdam in Europe. The Company is listed on OMX Nordic Exchange in Stockholm under Smaller Companies under the SCOR ticker. For more information visit <http://www.switchcore.com/>

*Footnote: The figures in parenthesis (xx) correspond to the figures for the same period last year.*

SWITCHCORE AB  
EMDALAVÄGEN 18, SE-223 69 LUND  
TELEFON: +46 46 270 2500  
FAX: +46 46 270 2581

**SWITCHCORE**

SILICON FOR THE FASTEST NETWORKS