



**Global IP Sound AB (publ.)**  
**Corporate identity number 556573-9017**

## **Annual report and consolidated financial statements for the financial period from January 1 2004 to December 31 2004.**

The board of directors and managing director present the following annual report and consolidated financial statements.

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## Administration report

(in thousands)

The Annual Report refers to the Company's fiscal year from the date January 1, 2004 to December 31, 2004.

### Information about the business activities

Global IP Sound AB (the Company) develops and markets software for the communications industry and provides products and services that enable high quality voice for real-time communications over packet networks. The Company has established business in the US and Europe through its subsidiary Global IP Sound Inc.

During the fiscal year, the Company signed new agreements with companies such as WebEx, Earthlink, Net2Phone, Logitech, UT Starcom, Tencent, Infineon, AudioCodes, Centra, Nortel Networks and RAD Data Communications. Revenues' for the year were SEK 27,301 – a 267 percent increase over 2003. Operating expenses' were SEK 32,565 – a 15 percent decrease from the previous year. Operating Loss for the year was SEK 7,299 compared to SEK 30,835.

The Company reported a Result after Financial Items loss of SEK 49,007 for the year. The loss was due to the Operating Loss for the year but also caused by a one-time extraordinary income charge of SEK 41,680 taken as a result of a gain on sale for the 2003 restructure transaction. In 2003, the Company restructured and sold the majority of its assets to Global IP Sound, Inc. – its wholly owned subsidiary. At the time, the Company took a gain of SEK 41,680 on that transaction. Upon further review of the Company's auditors, it was determined that the proper treatment for the gain on asset sale in 2003 should only have been at the subsidiary level and should have been eliminated on a Consolidated level since it was an internal transaction. Therefore, the 2004 extraordinary income charge reflects this change and is reported in 2004 financials according to Swedish accounting rules. The income charge has no effect on the Company's current financial stability or its cash flow.

The Company posted a Net Result loss of SEK 35,443, compared to a profit of SEK 10,912 for the same period last year. The 2003 profit was due to a one-time gain of SEK 41,680 due to restructuring of the Company as mention above. However, the Company was able to generate a SEK 13,582 non-cash income tax benefit from its subsidiary patent assets. This benefit is recorded as an asset on the Company's Balance Sheet but has no effect on 2004 cash flow.

In 2004, the Company saw a significant increase in VoIP market activity, with that activity reflected in the Company's overall success for the year. The Company not only increased its revenue but also realized for the first time in the history of the Company, an increase in fourth quarter cash due to a positive operational cash flow. The Company also expanded its relationship with Nortel Networks and as part of an overall licensing agreement has given Nortel Networks 2,682,661 in common stock warrants. These warrants have a five year term with vesting rights based on meeting specific revenue milestones.

At the start of the year, the Company's go to market strategy continued to generate new design wins and licensing agreements. As of the end of the year, it was clear that the Company remain on track; evident by 43 new agreements and a sales pipeline of over 132 active accounts. Most importantly, 77 percent of revenue during the year came from licensing revenue generated from new designs, prepaid licenses and royalties, albeit royalty revenue remained a smaller percentage of the Company's overall license revenue.

The Company increased penetration across the different segments of the Voice over Internet Protocol (VoIP) market and continues to see very positive developments in the opportunities for so called "soft-phone" applications such as peer-to-peer, 802.11 (WiFi) and collaboration/conferencing. The Company allocated its research and development resources to strengthen its position in these dynamic new product categories by launching VoiceEngine™ Embedded, VoiceEngine™ for Mac and Linux, and Enhanced Acoustic Echo Cancellation. The Company was granted a patent for its Acoustic Echo Cancellation technology. At year-end, the Company employed 11 engineers, and in 2005 will continue to invest in developing new technologies and products to maintain its competitive position

In 2004, the Company iLBC codec was standardized by both the Internet Engineering Task Force (IETF) and CableLabs™.

The Company is optimistic on its future. It continues to build strategic relationships with key players in the market, such as Nortel, Skype, Earthlink, Net2Phone, WebEx and Logitech. With a growing customer base and new products, the Company continues to maintain a positive perspective on the VoIP market in 2005.

During the fiscal year the Company has through a private placement raised capital in the amount of SEK 21,846 (Note 18). The Company is expecting cash inflows to increase from its operation in 2005.

The Company has its registered office in Stockholm.

### Proposed treatment of profit (loss)

Following means are at the General Assembly's disposal:

Parent Company	Amount
Balance brought forward:	-38,639
Net profit of the year:	170
Total	-38,469

The board of directors and the managing director propose that the Parent Company's accumulated loss, SEK -38,469, be carried forward.

### Group

The Group's non-restricted equity amounts increased to SEK -191,946 and no provisions to restricted reserves are requisite.

All amounts are given in thousands Swedish kronor if nothing else is stated.

Summary covering several years

Year	2004	2003	2002
Net turnover	27,301	7,432	1,364
Result after financial items	-49,007	10,937	-52,769
Balance sheet total	67,591	68,787	34,883
Solvency (%)	63%	82%	83%
Employees	24	21	30

<b>Consolidated income statement</b>	<b>Note</b>	<b>2004-01-01-- 2004-12-31</b>	<b>2003-01-01-- 2003-12-31</b>
Net turnover	2	27 301	7 432
Cost of goods sold	4	-2 036	0
<b>Gross profit</b>		<u>25 266</u>	<u>7 432</u>
<b>Information about the business activities</b>	2,3,5		
Selling expenses		-10 558	-8 259
Administrative expenses	6	-11 717	-15 889
Research and development costs		-10 290	-14 119
<b>Operating loss</b>		<u>-7 299</u>	<u>-30 835</u>
<b>Result from financial investments</b>			
Other interest income and similar profit/loss items	7, 19	-41 328	41 941
Interest expenses and similar profit/loss items		-380	-169
<b>Total result from financial investments</b>		<u>-41 708</u>	<u>41 772</u>
<b>Result after financial items</b>		<u>-49 007</u>	<u>10 937</u>
Tax on result of the year	19, 20	13 564	-25
<b>Net result for the year</b>		<u><u>-35 443</u></u>	<u><u>10 912</u></u>

Consolidated balance sheet		Note	2004-12-31	2003-12-31
<b>Assets</b>				
<b>Assets</b>	1			
Fixed assets				
Intangible fixed assets				
Patents	8		1 531	43 466
Tangible fixed assets				
Plant and machinery	9		148	233
Equipment, tools, fixtures and fittings	10		325	685
Software	11		69	2
Costs of improvements to property	12		232	812
			<u>773</u>	<u>1 732</u>
Financial fixed assets				
Deposits			854	1 925
Deferred Tax Asset	19, 20		13 582	0
Other long-term receivables	17		338	1 500
			<u>14 773</u>	<u>3 425</u>
Total fixed assets			<u>17 078</u>	<u>48 622</u>
Current assets				
Account receivable-trade			9 456	3 224
Other current investments			1 995	0
Other current receivables			353	495
Prepaid expenses and accrued income	13		16 918	5 163
			<u>28 721</u>	<u>8 882</u>
Cash and bank balance			21 791	11 283
			<u>21 791</u>	<u>11 283</u>
Total current assets			50 512	20 165
Total assets			<u>67 591</u>	<u>68 787</u>

<b>Consolidated balance sheet</b>		<b>Note</b>	<b>2004-12-31</b>	<b>2003-12-31</b>
<b>Equity and liabilities</b>				
<b>Equity</b>	14, 18			
Restricted equity				
Share capital (49,545,168 shares at nom SEK 0,1each)			4 955	4 255
Restricted reserves			229 485	183 858
Total restricted equity			234 439	188 112
Non-restricted equity				
Net loss previous year			-156 503	-142 733
Net loss of the year			-35 443	10 912
Total non-restricted equity			-191 946	-131 821
<b>Total equity</b>			42 493	56 291
<b>Long-term liabilities</b>				
Long-term note			321	111
<b>Total long-term liabilities</b>			321	111
<b>Current liabilities</b>				
Accounts payable - trade			1 172	3 012
Other current liabilities			140	179
Accrued expenses and deferred income	15		23 465	9 194
<b>Total current liabilities</b>			24 776	12 385
<b>Total equity and liabilities</b>			67 591	68 787
<b>Pledged assets</b>			400	None
Balders Fastigheter AB				
<b>Contingent liabilities</b>			None	None

<b>Consolidated cash flow statement</b>	<b>Note</b>	<b>2004-01-01-- 2004-12-31</b>	<b>2003-01-01-- 2003-12-31</b>
<b>Operating activities</b>			
Result after financial items		-49 007	10 937
Adjustments for items not included in cash flow etc.		42 721	1 148
Depreciation		846	1 425
Tax paid		-200	210
<b>Cash flow from operating activities before changes in working capital</b>		<b>-5 640</b>	<b>13 720</b>
<b>Changes in working capital</b>			
Increase in receivables		-17 663	-7 280
Increase in accounts payables		12 391	6 756
<b>Cash flow from operating activities</b>		<b>-10 911</b>	<b>13 196</b>
<b>Investing activities</b>			
Acquisitions of intangible assets		0	-42 106
Acquisitions of machinery and equipment		112	792
Investment in financial assets		-924	420
Loans repaid		1 500	0
Loans provided		-338	260
<b>Cash flow from investing activities</b>		<b>350</b>	<b>-40 634</b>
<b>Financing activities</b>			
Share premium upon issue of new shares		23 826	16 314
Proceeds from new borrowings		211	64
<b>Cash flow from financing activities</b>		<b>24 036</b>	<b>16 379</b>
<b>Cash flow for the year</b>		<b>13 475</b>	<b>-11 059</b>
Liquid funds at the beginning of the year		11 283	23 632
Exchange difference, liquid funds		-2 967	-1 290
<b>Liquid funds at the end of the year</b>		<b>21 791</b>	<b>11 283</b>

<b>Parent company income statement</b>	<b>Note</b>	<b>2004-01-01-- 2004-12-31</b>	<b>2003-01-01-- 2003-12-31</b>
Net turnover	2	0	1 758
<b>Gross profit</b>		0	1 758
<b>Information about the business activities</b>	2, 3, 5		
Selling expenses		0	-2 510
Administrative expenses	6	118	-3 182
Research and development costs		0	-9 190
<b>Operating loss</b>		118	-13 124
<b>Result from financial investments</b>			
Other interest income and similar profit/loss items	7	52	41 860
Interest expenses and similar profit/loss items		1	-169
<b>Total result from financial investments</b>		53	41 691
<b>Result after financial items</b>		170	28 567
<b>Net result for the year</b>		170	28 567



Parent company balance sheet	Note	2004-12-31	2003-12-31
<b>Assets</b>			
<b>Assets</b>	1		
Fixed assets			
Financial fixed assets			
Shares in group activities	16	143 878	8 769
		143 878	8 769
<b>Total fixed assets</b>		143 878	8 769
<b>Current assets</b>			
Receivables from group companies		19 990	135 530
Other current receivables		2	0
Prepaid expenses and accrued income	13	12	0
		20 005	135 530
Cash and bank balance		4 514	2 000
<b>Total current assets</b>		24 519	137 530
<b>Total assets</b>		168 397	146 299

<b>Parent company balance sheet</b>		<b>Note</b>	<b>2004-12-31</b>	<b>2003-12-31</b>
<b>Equity and liabilities</b>				
<b>Equity</b>	14, 18			
Restricted equity				
Share capital (49,545,168 shares at nom SEK 0,1each)			4 955	4 255
Share premium reserve			201 830	180 684
			<u>206 785</u>	<u>184 938</u>
Non-restricted equity				
Profit/loss brought forward			-38 639	-67 206
Net loss for the year			170	28 567
Accumulated loss			<u>-38 469</u>	<u>-38 639</u>
<b>Total equity</b>			<u>168 316</u>	<u>146 299</u>
<b>Current liabilities</b>				
Accounts payable - trade			14	0
Accrued expenses and deferred income	15		66	0
<b>Total current liabilities</b>			<u>81</u>	<u>0</u>
<b>Total equity and liabilities</b>			<u>168 397</u>	<u>146 299</u>
Pledged assets			400	None
Balders Fastigheter AB				
Contingent liabilities			None	None

<b>Cash flow statement</b>		<b>Note</b>	<b>2004-01-01-- 2004-12-31</b>	<b>2003-01-01-- 2003-12-31</b>
<b>Operating activities</b>				
Result after financial items			170	28 567
Depreciation			0	-2 965
Tax paid			113	-113
<b>Cash flow from operating activities before changes in working capital</b>			<u>283</u>	<u>25 489</u>
<b>Changes in working capital</b>				
Increase in receivables			115 413	-60 783
Increase in accounts payable - trade			81	-2 679
<b>Cash flow from operating activities</b>			<u>115 777</u>	<u>-37 974</u>
<b>Investing activities</b>				
Acquisitions of intangible assets			0	1 359
Acquisitions of machinery and equipment			0	4 435
Investment in financial assets			-135 108	1 010
<b>Cash flow from investing activities</b>			<u>-135 108</u>	<u>6 804</u>
<b>Financing activities</b>				
Share premium upon new issue of shares			21 845	16 314
<b>Cash flow from financing activities</b>			<u>21 845</u>	<u>16 314</u>
<b>Cash flow for the year</b>			<u>2 514</u>	<u>-14 855</u>
Liquid funds at the beginning of the year			2 000	16 855
<b>Liquid funds at the end of the year</b>			4 514	2 000

## Notes to the financial statements, applicable to the parent company and Group

### **Note 1:**

### ***Accounting principles***

#### **Information about the business activities**

The annual report has been prepared according to the Annual Accounts Act and to the Swedish Accounting Standards Board.

#### **Consolidated financial statements**

The consolidated financial statements include subsidiaries, where the parent company directly or indirectly holds more than 50% of the votes.

The consolidated financial statements have been prepared in accordance with the acquisition accounting method, which means that the subsidiaries' equity at the date of acquisition, defined as the difference between the fair values of the assets and liabilities, is eliminated in full. Thus, the group equity includes only that portion of the subsidiaries' equity, which has been added after the date of acquisition.

If the acquisition value of the shares on consolidation exceeds the value of the subsidiary's net assets stated in the acquisition analysis, the difference is stated as goodwill on consolidation. If instead, the acquisition value of the shares on consolidation is less than the value of the company's net assets stated in the acquisition analysis, the difference is accounted for as a provision for negative goodwill. The provision is dissolved on the basis of expectations regarding the earnings trend.

The company applies the current method for the translation of the financial statements of foreign subsidiaries. This means that the assets and liabilities of the foreign subsidiaries are translated at the closing rate. All items included in the income statement are translated at the average rate for the year. Translation differences are taken directly to group equity.

If the parent company or another group company has taken measures to balance or hedge against exchange differences regarding a net investment in an independent subsidiary, the exchange difference in the hedge instrument is taken directly to equity, in so far as it is matched by a translation difference reported during the year for the subsidiary.

In case there is a difference in the valuation of assets and liabilities at group level and company level the tax effect is taken into account and is reported either as a deferred tax asset or a deferred tax liability.

Inter-company profits are eliminated in full, i.e. without taking account of minority interests

Minority interests in the result for the year are shown in the consolidated financial statements. Minority interests in the subsidiaries' equity are presented as a separate item in the consolidated balance sheet.

#### **Receivables**

Receivables are stated in the amounts estimated to be received on the basis of individual assessment.

#### **Foreign currencies**

Receivables and payables in foreign currencies are valued at the closing rate. Where hedging measures have been taken, such as forward contracts, the forward rates are used. Gains and losses on receivables and payables relating to operations are accounted for net under other operating income or, alternatively, other operating expenses.

On hedging of future budgeted flows, the hedging instruments are not re-valued in case of exchange rate fluctuations. The entire effect of exchange rate fluctuations is accounted for in the income statement as the hedging instruments mature.

### Fixed assets

Tangible and intangible fixed assets are depreciated/amortized systematically over their estimated useful lives. The following periods of depreciation/amortization are applied:

	Number of Years
Intangible fixed assets	7
Equipment, tools, fixtures and fittings	5
Software	3
Improvements to property	Written down over the term of the lease

### Research and development

Costs for research and development work are normally expensed as they arise.

### Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. The reported cash flow comprises only transactions leading to inward and outward payments. The cash flow is allocated to

- operating activities,
- investing activities and
- financing activities.

### *Inter-company purchases and sales*

#### **Note 2**

#### **Parent company**

Of the company's net sales, sales to subsidiaries account for SEK 0.

Of the company's purchases, purchases from subsidiaries account for KSEK 0 (KSEK 2 992).

Interest income from subsidiaries account for KSEK 276 ( KSEK 5 071).

For inter-company purchases and sales, the pricing principles applied are the same as for transactions between external parties.

#### **Note 3**

### *Depreciation, amortization, write-downs and reversals*

Depreciation of tangible fixed assets amount to KSEK 1 031 (KSEK 1 822) group and KSEK 0 (KSEK 767) for the parent company.

#### **Note 4**

### *Cost of goods sold*

As part of an overall licensing agreement the Company has given Nortel Networks 2,682,661 in common stock warrants that have effected Cost of Goods Sold with KSEK 1974.

**Note 5**

**Average number of employees, wages, salaries, other emoluments and social security contributions**

2004-01-01-- 2004-12-31	2003-01-01-- 2003-12-31
----------------------------	----------------------------

The average number of employees, men and women, was

**Group**

Women	5	4
Men	19	17
Total for group	24	21

**Parent company**

Women	0	2
Men	0	9
Total for parent company	0	11

**Group**

Wages, salaries and emoluments paid to

President and board of directors	6 638	2 247
Other employees	10 152	16 806
Total wages, salaries and emoluments	16 789	19 053

Statutory and contractual social security contributions

Pension costs (of which for board and managing director SEK 79 380)	2 372	3 099
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Total wages, salaries, emoluments, social security contributions and pension costs for group

667	948
19 828	23 099

**Parent company**

Wages, salaries and emoluments paid to

President and the board of directors	0	641
Other employees	0	6 106
Total wages, salaries and emoluments	0	6 747

Statutory and contractual social security contributions

Pension costs (of which for board and managing director SEK 0)	0	2 207
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Total wages, salaries, emoluments, social security contributions and pension costs for parent company

0	9 901
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Regarding severance pay for board of directors and CEO, the CEO has one year of salary upon notice.

**Board members and executive officers**

	2004 Number on balance day	Whence Men	2003 Number on balance day	Whence Men
Board members	6	100%	6	100%
Ceo and other executive officers	6	100%	6	100%

**Sick leave**

	2004-01-01 --2004-12-31	2003-07-01 --2003-12-31
Total sick leave	0,59%	0%
- long-term	0%	0%
- sick leave men	0,6%	0%
- sick leave women	0,5%	0%
- employees - 29 years*	-	-
- employees 30 - 49 years*	-	-
- employees 50 years - *	-	-

\*Under 10 employees per under group



**Note 6**

**Fees and remuneration**

Pricewaterhousecoopers

**Group**

Accounting fees  
Other fees  
Total

2004-01-01-- 2004-12-31	2003-01-01-- 2003-12-31
314	148
152	190
465	338

**Parent company**

Accounting fees  
Other fees  
Total

0	75
0	153
0	228

**Note 7**

**Other interest income and similar  
profit/loss items**

**Group**

Interest income  
Total

2004-01-01-- 2004-12-31	2003-01-01-- 2003-12-31
228	393
228	393

**Parent company**

Interest income  
Total

328	5 412
328	5 412

Of which relating to group companies

276 5 071

**Note 8**

**Patents**

**Group**

Patents  
Balance brought forward  
Capitalized costs  
Restructure  
Closing accumulated acquisition values

2004-12-31	2003-12-31
43 466	1 359
0	427
-41 680	41 680
1 786	43 466

Balance brought forward  
-Depreciation  
-Disposal  
-Currency translations  
Closing accumulated depreciation

0	0
-254	0
0	0
0	0
-254	0

Closing residual value according to plan

1 531 43 466

**Parent company**

Patents  
Balance brought forward  
Capitalized costs  
Restructure  
Closing residual value according to plan

0	1 359
0	427
0	-1 786
0	0



**Note 9**

***Plant and machinery***

**Group**

	<b>2004-12-31</b>	<b>2003-12-31</b>
Balance brought forward	3 500	3 969
-Purchases	92	94
-Disposal	-194	-315
-Currency translations	-49	-248
Closing accumulated acquisition values	<u>3 350</u>	<u>3 500</u>
Balance brought forward	-3 267	-2 994
-Disposal	179	235
-Depreciation	-161	-715
-Currency translations	47	207
Closing accumulated depreciation	<u>-3 202</u>	<u>-3 267</u>
Closing residual value according to plan	<u>148</u>	<u>233</u>

**Parent company**

	<b>2004-12-31</b>	<b>2003-12-31</b>
Balance brought forward	0	3 024
-Purchases	0	94
-Disposal	0	-315
-Restructure	0	-2 803
Closing accumulated acquisition values	<u>0</u>	<u>0</u>
Balance brought forward	0	-2 333
-Disposal	0	235
-Depreciation	0	-538
-Restructure	0	2 636
Closing accumulated depreciation	<u>0</u>	<u>0</u>
Closing residual value according to plan	<u>0</u>	<u>0</u>

**Note 10**

***Equipment, tools, fixtures  
and fittings***

2004-12-31	2003-12-31
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**Group**

Balance brought forward	1 713	2 109
-Purchases	4	5
-Currency translations	-62	-176
-Disposal	-38	-225
Closing accumulated acquisition values	1 617	1 713
Balance brought forward	-1 028	-887
-Depreciation	-324	-407
-Currency translations	35	85
-Disposal	25	181
Closing accumulated depreciation	-1 293	-1 028
Closing residual value according to plan	325	685

**Parent company**

Balance brought forward	0	1 088
-Purchases	0	5
-Disposal	0	-225
-Restructure	0	-868
Closing accumulated acquisition values	0	0
Balance brought forward	0	-513
-Depreciation	0	-218
-Disposal	0	181
-Restructure	0	550
Closing accumulated depreciation	0	0
Closing residual value according to plan	0	0

**Note 11**

**Software**

	2004-12-31	2003-12-31
<b>Group</b>		
	<b>Software</b>	
Balance brought forward	184	222
-Purchases	69	0
-Currency translations	-13	-38
Closing accumulated acquisition values	240	184
Balance brought forward	-181	-166
-Depreciation	-2	-61
-Currency translations	13	46
Closing accumulated depreciation	-170	-181
Closing residual value according to plan	69	2

**Note 12**

**Costs of improvements to property**

	2004-12-31	2003-12-31
<b>Group</b>		
Balance brought forward	2 411	2 938
-Purchases	12	39
-Currency translations	-164	-468
-Disposal	0	-98
Closing accumulated acquisition values	2 259	2 411
Balance brought forward	-1 599	-1 243
-Depreciation	-543	-638
-Currency translations	115	269
-Disposal	0	12
Closing accumulated depreciations	-2 027	-1 599
Closing residual value according to plan	232	812

**Parent company**

Balance brought forward	0	220
-Purchases	0	39
-Disposal	0	-98
-Restructure	0	-161
Closing accumulated acquisition values	0	0
Balance brought forward	0	-17
-Depreciation	0	-12
-Disposal	0	12
-Restructure	0	16
Closing accumulated depreciations	0	0
Closing residual value according to plan	0	0

**Note 13**

***Prepaid expenses and accrued income***

	2004-12-31	2003-12-31
<b>Group</b>		
Prepaid rents	297	382
Prepaid leasing	0	0
Accrued interest income	6	8
Accrued income	16 197	4 430
Prepaid insurance	143	180
Other prepaid expenses	274	163
Total	16 918	5 163
<b>Parent company</b>		
Prepaid rents	0	0
Prepaid leasing	0	0
Accrued interest income	6	0
Accrued income	0	0
Prepaid insurance	0	0
Other prepaid expenses	7	0
Total	12	0

**Note 14**

**Change in equity**

**Group**

**Restricted equity**

Share capital

Amount at the beginning of the year	4 255	2 688
New capital issue	700	1 567
Transfer to restricted reserves	0	0
Amount at the end of the year	4 955	4 255

Restricted reserves

Amount at the beginning of the year	183 858	169 252
New capital issue	21 146	14 748
Change in exchange difference	-987	-1 290
Deferred compensation	786	1 148
Adjustment from restricted equity to non-restricted equity	24 682	0
Amount at the end of the year	229 485	183 858
Total restricted equity at the end of the year	234 439	188 112

**Non-restricted equity**

Amount at the beginning of the year	-131 821	-142 733
Adjustment from restricted equity to non-restricted equity	-24 682	0
Net result of the year	-35 443	10 912
Total non-restricted equity at the end of the year	-191 946	-131 821

**Parent company**

**Restricted equity**

Share capital

Amount at the beginning of the year	4 255	2 688
New capital issue	700	1 567
Transfer to share premium reserve	0	0
Amount at the end of the year	4 955	4 255

Share premium reserve

Amount at the beginning of the year	180 684	165 936
New capital issue	21 146	14 748
Amount at the end of the year	201 830	180 684

Total restricted equity at the end of the year	206 785	184 938
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**Non-restricted equity**

Amount at the beginning of the year	-38 639	-67 206
Transfer from share capital	0	0
Net result of the year	170	28 567
Amount of the year	-38 469	-38 639

**Note 15**

**Accrued expenses and deferred income**

	2004-01-01-- 2004-12-31	2003-01-01-- 2003-12-31
<b>Group</b>		
Accrued holiday pay	894	709
Accrued social security contributions	121	147
Accrued special employer's contribution	0	230
Unearned revenue	20 046	6 418
Other items	2 405	1 690
<b>Total</b>	<b>23 465</b>	<b>9 194</b>

**Parent company**

Accrued holiday pay	0	0
Accrued social security contributions	0	0
Accrued special employer's contribution	0	0
Unearned revenue	0	0
Other items	66	0
<b>Total</b>	<b>66</b>	<b>0</b>

**Note 16**

**Shares in group companies**

<u>Company name</u>	<u>Organizations nr</u>	<u>Säte</u>	<u>Kapitalandel (%)</u>
Global IP Sound Optioner AB	556585-5383	Stockholm, Sverige	100
Global IP Sound Inc.	94-3352605	San Francisco, USA	100
Global IP Sound Europe AB	556604-9366	Stockholm, Sverige	100

<u>Parent company</u>	<u>Kapital- andel %</u>	<u>Rösträts- andel %</u>	<u>Antal aktier</u>	<u>Bokfört värde</u>
Global IP Sound Optioner AB	100	100	1 000	100 000
Global IP Sound Inc.	100	100	100 000	144 199 188
<b>Sum</b>				<b>144 299 188</b>

	2004-12-31	2003-12-31
<b>Group</b>		
Balance brought forward	0	0
-Investments	0	0
Closing accumulated acquisition values	0	0
Closing residual value according to plan	0	0

**Parent company**

Balance brought forward	8 769	8 769
-Investments	135 530	0
Closing accumulated acquisition values	144 299	8 769
Closing residual value according to plan	144 299	8 769

Global IP Sound Optioner AB has share capital of SEK 100 000. Equity amounts to SEK 88 766.  
Net loss of the year amounts to SEK 938.

Global IP Sound Inc. has a share capital of SEK 56 710. Equity amounts to SEK 22 449 501  
Net loss of the year amounts to SEK 2 817 132

**Note 17**

**Other long-term receivables**

The company's CEO, Gary Hermansen who is employed by Global IP Sound Inc, has per 2004-07-31 taken a loan at the amount of USD 50 000 from Global IP Sound Inc. Exchanged to Swedish krona (SEK) and including the interest consideration, the total loan per 2004-12-31 is KSEK 338. The loan carries interest at 3% per year. No repayment has been done during 2004. The loan runs until 2006-12-31 and shall be regulated in entirety per this date. As security 115 000 shares of Global IP Sound AB Common stock has been pledged.

**Note 18**

**New Capital Issue**

In 2004, the Company generated 21 846 468 in new capital. The source of those funds are describe below:

2004 Funding Activities	22 911 150
Issuance costs	(1 064 682)
	21 846 468

**Note 19**

**Effect correction of profit intra-group sales patent**

Below the effect of the correction of the intra-group sales of the patent due the the restructure of the Company in 2003 is shown as if it had been correctly recognised in 2003.

Consolidated income statement		Notes	2004-01-01-- 2004-12-31	2003-01-01-- 2003-12-31
Net turnover	2		27 301	7 432
Gross profit			25 266	7 432
Operating loss			-7 299	-24 881
Result from financial investments				
Other interest income and similar profit/loss items	7, 19		352	261
Interest expenses and similar profit/loss items			-380	-169
Total result from financial investments			-28	92
Result after financial items			-7 327	-24 789
Tax			-17	14 855
Net result for the year			-7 345	-9 934

The deferred tax assets of 13 582 KSEK consist in full of the temporal tax difference of the value of the patent in the subsidiaries Global IP Sound Europe AB and Global IP Sound Inc AB.

**Note 20**

***Tax on result of the year***

	<b>2004-12-31</b>	<b>2003-12-31</b>
Actual tax of the year	-17	-25
Deferred tax Sweden	3 196	3 501
Deferred tax USA	10 386	11 379
Sum	<u>13 564</u>	<u>14 855</u>

The deferred tax assest is due to temporal differencies between the tax value and the booked value on the during 2003 intra-group sold patent . The book value 2004 is 1.531 KSEK and the tax value 38.044 KSEK.

Stockholm 2005-

Gary Hermansen  
 President and CEO

Ditlef de Vibe  
 Chairman of the Board

Roar Hagen  
 Vice President

Kjell Rune Staddeland

Per Arne Henaes

Morten Angelil

Trym Skeie

Our audit report has been issued on 2005-  
 PRICEWATERHOUSECOOPERS AB

Magnus Brändström  
 Auktoriserad revisor