

AB Ångpanneföreningen (publ)

Interim report, January-June 1999

- Growth in turnover 23%, to SEK 799 (647) million
- Consolidated profit SEK 20.3 (40.6) million
- Acquisition of companies in Sweden and Denmark
- Increased concentration on Software, Electronics & Mechanical Engineering
- Action plan initiated for greater profitability
- Forecast of SEK 50 million or SEK 6 per share for whole year 1999, with the addition of possible SPP (insurance) refunds

The market for consulting services in the industrial and energy sectors declined during the first half of 1999 compared with 1998. The rise in investments which was expected did not materialise. Among the reasons for this were falling electricity prices and economising in the nuclear power industry. However, latest reports from the National Institute of Economic Research indicate greater optimism and stronger growth.

The ÅF-Group's profit/loss trend was affected by the declining market, and capacity utilisation fell by some two percent. Consolidated profit was also affected negatively by the concentration on non-destructive testing (NDT) in business area Inspection & Testing. In addition, Software, Electronics & Mechanical Engineering posted a weak profit, which can be explained by a few one-off factors.

ÅF-Group turnover rose by 23%. Turnover amounted to SEK 799 (647) million. One-third of this is due to the consolidation of the educational company SIFU.

Group capacity utilisation amounted to 69% (71%).

The ÅF-Group's consolidated profit after net financial items and interest in associated companies amounted to SEK 20.3 (40.6) million. This corresponds to a return on equity of 9% (16%).

The profit margin was 2.5% (6.3%). The profit margin for the whole year 1998 was 6.2%.

The decline in profit for the period is attributed to the following factors:

- Lower capacity utilisation, approx. SEK -10 million
- Lower margins and write-downs, approx. SEK -15 million
- New investments in NDT, approx. SEK -5 million
- Result of increased expansion, +SEK 10 million

At the end of the period the order book amounted to SEK 422 (425) million.

The consolidated profit was charged with a calculated bonus to the employees of SEK 1.4 (2.8) million.

The number of full-time equivalent employees in the Group during the period was 2,235 (1,886).

The parent company's turnover amounted to SEK 48 (40) million and profit/loss after net financial items was SEK -1.2 (5.2) million. The drop is due to an increased liability, partly the result of a one-off dividend to the shareholders.

The Group's net worth, after 20% standard tax on estimated surplus value of property, was SEK 73 (79) per share. The equity ratio was 33% (46%).

In January another 56% of SIFU was acquired, in accordance with an earlier decision. The ÅF-Group now owns a total of 75% of the company. SIFU's annual turnover is approximately SEK 80 million and the company has 60 employees.

During the period the ÅF-Group also acquired Lundstrom Engineering, STK

Intertest in Luleå, Cresita, Holotech and Ingenjörgruppen 3 E in Borlänge - a total of 90 employees, of whom some 60 at Cresita. These companies have been integrated into existing ÅF-Group subsidiaries.

The ÅF-Group also entered the Danish consulting market during this period, with the acquisition of 25% of the electrical engineering and IT consultancy Hansen & Henneberg, which has 60 employees and is one of Denmark's leading consulting firms.

Since the beginning of 1998, work has been under way according to plan to make software, computers and other equipment with time-dependent electronics year 2000 compliant. The work is based on the IT Commission's definition of millennium compliancy and covers production equipment and systems in buildings. The work was concluded for all practical purposes by the beginning of July this year.

Consulting businesses

The consolidated profit of the consulting businesses after financial items amounted to SEK 24.5 (40.9) million. Turnover rose to SEK 841 (695) million. The strong rise in turnover can be related to the above-mentioned acquisitions and consolidations, as well as organic growth.

The business areas' turnover and profits appear in the table below. All the business areas posted lower profit margins compared with 1998. Electrical Engineering & Instrumentation, Energy, Environment & Process Technology, and HVAC & Sanitation Engineering posted profit margins of 5-8%. Other business areas had lower profit margins.

The profit for Software, Electronics & Mechanical Engineering fell, partly due to the costs involved in re-organising ÅF-Industriteknik and the relocation of its Stockholm operations to Kista. In addition, the period's profit was charged with a considerable write-down for a project in the field of production equipment. Steps have been taken to ensure that this will not happen again. Operations in the Group's biggest subsidiary were split on 30 June 1999 into two companies - ÅF-Industriteknik and ÅF-Systemdesign - aimed at achieving more efficient units and a more distinct image on

the market. The goal is to have strong expansion in the immediate future.

Business area Inspection & Testing had a lower profit due to the costs incurred in setting up an operation in non-destructive testing (NDT). This operation shares synergy with the testing operations and means that the ÅF-Group can offer a new, qualified service to the forest, petrochemical, and nuclear power industries.

Establishment of NDT has gone according to plan with respect to recruitment, obtaining the necessary permits and market contacts. The results, however, are poorer than expected. This is due mainly to higher set-up costs and the fact that our main competitor has built up new capacity to replace employees who have moved to the ÅF-Group.

The first half began weakly for business area Education & Management, which now also includes SIFU. When the ÅF-Group became majority shareholder, a new management team was appointed. SIFU has now entered a restructuring phase which is expected to be completed during 1999.

Current projects include designing electrical and telecom installations for the renovation of the centrally located Hotel Anglais in Stockholm. A joint design engineering project is also under way for installations in eight underground stations in Stockholm that are to be modernised. Electrical engineering consultants within the ÅF-Group have also received significant contracts for the new Centre of Physics and Astronomy, to be built on the university campus area at Frescati, Stockholm.

The South Hospital in Stockholm will have a new world-class radiology and image processing department, for which the ÅF-Group is responsible for designing the installation parts. During the period several interesting environmental studies were carried out. Environmental impact assessments are being done for energy plants at Karskär and Mönsterås. Comprehensive environmental studies were also carried out for Ericsson, the Swedish National Grid and the Swedish Maritime Administration. The ÅF-Group's internationally successful forest industry consultants obtained a very large contract in Portugal for a completely new plant. There were also several projects for Allgon, designing and supplying production equipment for mobile telephone antennas.

Real Estate and Finance Administration

The ÅF-Group's real estate is office space tenanted by the Group's consulting businesses. Vacancy at the end of the period was 5% (5%).

At year end 1998 the Group's real estate, amounting to 35,500 sq. m, was valued at SEK 370 million by Catella Fastighetsekonomi. The book value was SEK 233 million.

Gross investments in machinery and equipment amounted to SEK 48 (23) million, excluding investments for company acquisitions. The investments were mainly for computer equipment and instruments for NDT.

The ÅF-Group's liquid assets amounted to SEK 38 (107) million. Interest-bearing debts and allocations amounted to SEK 298 (158) million, bringing the Group's net borrowings to SEK 260 (51) million. The increase in net borrowings is due mainly to Group expansion and to the one-off dividend to the shareholders.

The Group is included in the refund of premiums announced by the insurance company SPP. The size of the refund and the method by which it is to be made will be clarified before the end of 1999, according to SPP.

Profit after net financial items and turnover by business area

Period 1999 (period 1998) and whole year 1998

	Profit	Turnover	Whole year 1998, MSEK	
	MSEK	MSEK	Profit	Turnover
Electrical Engineering & Instrumentation.	18(22)	240(210)	51	436
Energy, Environment & Process Technology	12(11)	209(185)	21	373
HVAC & Sanitation Engineering	5(5)	95(86)	8	164
Software, Electronics & Mechanical Engineering	5(9)	180(161)	17	310
Inspection & Testing	- 14(-8)	47(27)	-16	55
Education & Management	-2(2)	70(26)	2	55

Forecast for whole year 1999

During the past year, industrial and energy sector investments have declined. To some extent this has affected the ÅF-Group's market expectations. Industrial and energy sector investments have declined during the past year. To some extent this has affected the ÅF-Group's market expectations. Steps that have been initiated or are being intensified to redress the poor profit trend include:

- prioritisation of capacity utilisation and profits rather than expansion
- reduced capital tied up in ongoing projects and customer receivables
- stricter control of costs and project follow-up
- closer monitoring of further reductions in margins

No significant improvement in the market is expected for the remainder of 1999. The re-structuring of the inspection and testing market which has begun is not expected to have any effect until next year.

To summarise, this means a continuing weak profit trend for the ÅF-Group. Second-half profits are expected to exceed those of the first half and the profit for the whole year is forecast at SEK 50 million. This corresponds to some SEK 6 per share.

Stockholm, 17 August 1999.

Gunnar Grönkvist
Managing Director and CEO
AB Ångpanneföreningen (publ)

CONSOLIDATED PROFIT AND LOSS ACCOUNTS, SEK mill.	1 Jan. 1997 30 June 1997	1 Jan. 1998 30 June 1998	1 Jan. 1999 30 June 1999	Whole year 1998
Net turnover	556,5	647,4	798,6	1 312,2
Personnel costs	-351,8	-404,0	-509,4	-820,8
Other expenses	-156,1	-180,9	-239,5	-367,5
Depreciation	-23,6	-25,4	-30,6	-51,4
Proportion of profits in assoc.companies	0,0	0,0	0,6	-1,8
Operating profit	25,0	37,1	19,7	70,7
Net financial items	8,5	3,5	0,6	10,8
Profit after net financial items	33,5	40,6	20,3	81,5
Tax	-9,3 *	-11,4 *	-5,6 *	-33,5
Minority interest	-	-	0,4	-
Profit after tax	24,2	29,2	15,1	48,0

* Estimated tax=standard tax

CONSOLIDATED BALANCE SHEETS SEK mill.	30 June 1997	30 June 1998	30 June 1999	31 Dec. 1998
Assets				
Intangible assets	25,3	26,0	45,9	30,7
Tangible assets	296,7	305,2	376,0	325,3
Financial assets	30,8	33,6	40,0	39,3
Short-term receivables	280,0	321,2	456,5	325,4
Liquid assets and short-term investments	93,5	106,8	37,8	92,9
Total assets	726,3	792,8	956,2	813,6
Shareholders' equity and liabilities				
Shareholders' equity	359,4	363,8	311,4	382,6
Minority interest	-	-	1,6	-
Allocations	169,8	170,4	160,1	153,9
Long-term liabilities	3,5	45,2	47,4	44,8
Current liabilities	193,6	213,4	435,7	232,3
Total shareholders' equity and liabilities	726,3	792,8	956,2	813,6

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS, SEK mill.	1 Jan. 1997 30 June 1997	1 Jan. 1998 30 June 1998	1 Jan. 1999 30 June 1999	Whole year 1998
Funds provided internally	57,1	66,1	50,3	98,4
Changes in working capital	-21,6	-14,5	-67,9	0,3
Net investments	-30,7	-9,7	-95,4	-64,8
Financing	-32,9	-26,0	57,9	-32,0
Change in liquid funds and investments	-28,1	15,9	-55,1	1,9

KEY FIGURES

Return on shareholders' equity, % (whole year)	13,7	16,2	8,9	15,4
Return on capital employed, % (whole year)	16,3	18,6	11,1	17,2
Equity ratio, %	49,5	45,9	32,6	47,0
Profit margin, %	6,0	6,3	2,5	6,2
Profit per share after standard tax, SEK	4,20	5,09	2,60	10,21
Adjusted shareholders' equity per share, SEK	63	63	54	67
Net worth per share, SEK	77	79	73	86
Employees, full-time equivalent, excl. assoc. cos.	1385	1746	2029	1770
Employees, full-time equivalent, incl. assoc. cos.	1525	1886	2235	1910
No. of shares 5,748,569				

(For definitions see Annual Report 1998. All historical values per share are translated according to the number of shares today.)

Interim Report

We have reviewed this Interim Report in outline and thereby followed the recommendations of the Swedish Institute of Authorised Public Accounts (FAR). An outline review is considerably limited in comparison with an audit. There is no evidence of anything to indicate that this Interim Report does not meet the requirements of legislation relating to securities and annual reports.

Stockholm, 17 August 1999

Åke Hedén

Authorised public accountant

Ulf Egenäs

Authorised public accountant

Next report:

An Interim Report for January-September 1999 will be published on 28 October. The report will be available in Swedish and English.