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## **AB Ångpanneföreningen (publ)** **Interim report, January-September 1999**

- Growth in turnover 26% to SEK 1,163 (922) million
- Consolidated profit SEK 26.6 (48.1) million
- Investment in Software, Electronics & Mechanical Engineering
- Acquisition of companies in Sweden and Denmark
- Action plan initiated for greater profitability
- SPP insurance company allocates SEK 299 million for ÅF-Group
- Profit forecast SEK 6 per share or approximately SEK 50 million for whole year 1999

Demand from the industrial and energy sectors - the ÅF-Group's main area of operations - continued weak during the third quarter, while demand from the building sector continued to grow. In all, the ÅF-Group's market has been weaker in 1999 than in 1998.

The ÅF-Group's consolidated profit was affected by lower capacity utilisation, lower margins and the establishment of non-destructive testing (NDT) during spring 1999.

During the summer an action plan was adopted within the ÅF-Group aimed at turning the negative profit trend around, and in the year 2000 once again reaching profits on the 1998 level. The plan features a temporarily slower rate of expansion, efforts to improve margins and cash flow, and a review of overhead costs and investments.

Turnover rose by 26%, amounting to SEK 1,163 (922) million. For comparable units the increase was 20%.

The ÅF-Group's consolidated profit after net financial items and interest in associated companies amounted to SEK 26.6 (48.2) million. This corresponds to a return on equity of 8% (13%). Third-quarter profits amounted to SEK 6 (7) million. The first-half decline in profits of 50% was checked during the third quarter.

The profit margin was 2.3% (5.2%). The profit margin for the whole year 1998 was 6.2%. The order book amounted to SEK 412 (382) million at the end of the period.

The consolidated profit was charged with a calculated bonus to the employees of SEK 1.9 (4.1) million.

The number of full-time equivalent employees, including associated companies, during the period was 2,222 (1,879).

The parent company's turnover amounted to SEK 72 (61) million and profit/loss after net financial items was SEK -3.6 (4.7) million. The drop is related to increased liabilities, partly as a result of the lump sum dividend to the shareholders in 1999.

The Group's net worth, after 20% standard tax on estimated surplus value of property, was SEK 428 (465) million, corresponding to a net worth of SEK 75 (81) per share. A lump sum dividend to the shareholders during the period was SEK 10 per share. The adjusted equity ratio was 39% (52%).

In January another 56% of SIFU was acquired in accordance with an earlier decision. The ÅF-Group now owns 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.

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 compliance 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 net financial items amounted to SEK 34.8 (51.2) million. Turnover rose to SEK 1,232 (983) million. The strong increase in turnover is related to the previously mentioned acquisitions, as well as organic growth.

The business areas' turnover and profits are shown in the table below. Business areas HVAC & Sanitation Engineering; Software, Electronics & Mechanical Engineering; and Inspection & Testing improved their profit margins over 1998.

Profits for Software, Electronics & Mechanical Engineering were better than in 1998, yet nevertheless weak and were affected partly by costs for the reorganisation of ÅF-Industri teknik, and partly by the relocation of its Stockholm operations to Kista. In addition, the period's profits were affected by a considerable write-down for a project in the field of production equipment.

Operations in the Group's biggest subsidiary were divided on 30 June 1999 into two companies, ÅF-Industri teknik and ÅF-Systemdesign, aimed at achieving more efficient units and a more distinct image on the market. The goal is for strong expansion during the coming years.

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. Establishment has gone according to plan with respect to recruitment, the necessary permits and market contacts. Profits, however, are poorer than expected even though the business area's third-quarter profit was positive. Overestablishment in this field has brought weak profits to all companies and a structural change will probably be necessary.

The year has been weak so far for Education & Management, which also includes SIFU as of 1999. New executive management was appointed when the ÅF-Group took over majority ownership. SIFU's operations are in a restructuring phase which is expected to be completed during next year.

Current assignments include a very extensive and demanding project for the expansion of Stockholm-Arlanda International Airport called "Arlanda 2002". The ÅF-Group is responsible for power and IT systems in the expansion of new terminals and piers, as well as the control tower and power supply tunnels. Another interesting IT project is project management for Tele 1's construction of the Nordic region's biggest fibre-optical urban network for nine cities.

For Valmet Fibreboard, electrical installations, instrumentation and controls are being engineered for a new Brazilian board mill, Massisa do Brasil. For a renovation of the Central Hospital in Karlstad, Sweden, the ÅF-Group is responsible for construction project management, calculations, quality management in HVAC and construction, and designing all the electrical installations.

The number of environmental projects continues to increase. AstraZeneca is employing the ÅF-Group for environmental licensing projects at their facilities in Hässle and Snäckviken. Licensing documentation is being prepared for Swedish Meats' three plants in Småland. A large number of environmental management projects are being carried out for 40 units of Sweden's National Prisons and Probation Administration. The ÅF-Group is designing steam distribution systems for Iggesunds Bruk and is carrying out a number of smaller projects for Hylte Bruk - among others a new reception station for recycled pulp.

#### Profits and turnover by business area

Period 1999, (period 1998) and whole year 1998

	Profit MSEK	Turnover MSEK	Whole year 1998,	
			Profit MSEK	Turnover
Electrical Engineering & Instrumentation	25 (36)	354 (306)	51	436
Energy, Environment & Process Technology	11 (14)	294 (261)	21	373
HVAC & Sanitation Engineering	8 (5)	134 (118)	8	164
Software, Electronics & Mechanical Engineering	8 (6)	281 (219)	17	310
Inspection & Testing	-13 (-11)	79 (39)	-16	55
Education & Management	-4 (2)	91 (39)	2	55

#### Real Estate and Finance Administration

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

During the year the two properties on Kungsholmen in Stockholm were extensively modernised and rationalised. Among other things, the number of work places has increased by 20%.

At year end 1998 the Group's real estate, amounting to 35,500 sq. m, was determined by Catella Fastighetsekonomi to have a market value of SEK 370 million. Including real estate investments of SEK 30 million in 1999, the market value amounts to SEK 400 million. Book value amounted to SEK 233 million.

Gross investments in machinery and equipment amounted to SEK 71 (32) million, not including company acquisitions. Investments were mainly for computer equipment and instruments.

The ÅF-Group's liquid assets amounted to SEK 30 (83) million. Interest-bearing debts and allocations amounted to SEK 344 (163) million, bringing the Group's net borrowings to SEK 314 (80) million. The increase in net borrowings was related mainly to Group expansion and to a lump-sum dividend to the shareholders.

The Group is included in the refund of premiums announced by the SPP insurance company. The ÅF-Group's share amounts to SEK 299 million. The method of repayment has not yet been indicated.

#### **Forecast for whole year 1999**

No significant improvement of the market is expected for the remainder of 1999 even though external assessments report a rise in the business cycle. This is expected to affect the ÅF-Group's market during 2000. The ongoing restructuring of the inspection and testing market is expected to show results next year. The action programme is expected to have some effect during the last quarter, but its true effects will be observed first in 2000.

To summarise, a continued weak profit trend for the Group is expected in the last quarter. Not including a possible SPP refund, the whole year profit is expected to correspond to SEK 6 per share, or approximately SEK 50 million.

Stockholm, 28 October 1999.  
Gunnar Grönkvist  
Managing Director and CEO  
AB Ångpanneföreningen (publ)

<b>CONSOLIDATED PROFIT AND LOSS ACCOUNTS (SEK, mill.)</b>	1 Jan. 1997 30 Sept. 1997	1 Jan. 1998 30 Sept. 1998	<b>1 Jan. 1999 30 Sept. 1999</b>	Whole year 1998
Net turnover	802,9	922,1	<b>1162,5</b>	1 312,2
Personnel costs	-491,6	-580,5	<b>-731,1</b>	-820,8
Other costs	-241,4	-258,1	<b>-355,4</b>	-367,5
Depreciation	-35,8	-38,3	<b>-46,8</b>	-51,4
Share of profit in associated companies	0,2	-0,1	<b>0,7</b>	-1,8
Operating profit	34,3	45,1	<b>29,9</b>	70,7
Net financial items	10,3	3,1	<b>-3,3</b>	10,8
Profit after net financial items	44,6	48,2	<b>26,6</b>	81,5
Tax	-12,5 *	-13,5 *	<b>-7,5 *</b>	-33,5
Minority share of profit and loss	-	-	<b>0,7</b>	-
Profit after tax	32,1	34,7	<b>19,8</b>	48,0
* estimated tax=standard tax				
<b>CONSOLIDATED BALANCE SHEETS (SEK, mill.)</b>	30 Sept. 1997	30 Sept. 1998	<b>30 Sept. 1999</b>	31 Dec. 1998
<b>Assets</b>				
Intangible assets	24,1	29,7	<b>45,5</b>	30,7
Tangible assets	312,0	311,5	<b>387,9</b>	325,3
Financial assets	34,0	34,0	<b>37,5</b>	39,3
Current receivables	296,3	333,6	<b>468,7</b>	325,4
Liquid assets and short-term investments	65,3	83,6	<b>30,0</b>	92,9
Total assets	731,7	792,4	<b>969,6</b>	813,6
<b>Shareholders' equity and liabilities</b>				
Shareholders' equity	367,4	369,1	<b>316,1</b>	382,6
Minority interest	-	-	<b>3,2</b>	-
Allocations	172,7	172,5	<b>162,0</b>	153,9
Long-term liabilities	17,9	45,1	<b>49,0</b>	44,8
Current liabilities	173,7	205,7	<b>439,3</b>	232,3
Total shareholders' equity and liabilities	731,7	792,4	<b>969,6</b>	813,6
<b>CASH FLOW ANALYSIS (SEK, mill.)</b>	1 Jan. 1997 30 Sept. 1997	1 Jan. 1998 30 Sept. 1998	<b>1 Jan. 1999 30 Sept. 1999</b>	Whole year 1998
Cash flow from current operations before changes in working capital	80,2	86,5	<b>72,6</b>	98,4
Cash flow from changes in working capital	-58,5	-39,6	<b>-121,1</b>	0,3
Cash flow from investment operations	-59,2	-32,6	<b>-117,6</b>	-64,8
Cash flow from financing operations	-18,8	-21,7	<b>103,3</b>	-32,0
The period's cash flow	-56,3	-7,4	<b>-62,8</b>	1,9
<b>KEY FIGURES</b>				
Return on shareholders' equity, % (whole year)	11,9	12,6	<b>7,5</b>	15,4
Return on capital employed, % (whole year)	14,1	14,7	<b>10,1</b>	17,2
Equity ratio, %	50,2	46,6	<b>32,6</b>	47,0
Adjusted equity ratio, %	54,1	51,0	<b>38,6</b>	
Profit margin, %	5,6	5,2	<b>2,3</b>	6,2
Profit per share after standard tax, SEK	5,59	6,04	<b>3,33</b>	10,21
Adjusted shareholders' equity per share, SEK	64	64	<b>55</b>	67
Net worth per share, SEK	79	81	<b>75</b>	86
No. of full-time equivalent employees, excl. assoc. cos.	1619	1739	<b>2049</b>	1770
No. of full-time equivalent employees, incl. assoc. cos.	1759	1879	<b>2222</b>	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.)

This Interim Report has not been reviewed by the company's auditors.

Next report: Summary of Annual Report 1999 to be published on 15 February, 2000.

The report will be available in Swedish and English.