

FINANCIAL STATEMENT FOR 1998

1998 HIGHLIGHTS

- The **LICENERGY** turnover increased by 61% to reach DKK 110.4 million.
- The after tax profit on ordinary activities was DKK 15.3 million, up 65%.
- All major markets demonstrated growth.
- The Group has increased its market share significantly relative to the oil and gas industry.
- The water industry activities have grown satisfactory, particularly towards the end of the year.
- A successful IPO with considerable subsequent interest by the market and favourable progress in the share price.
- The acquisitions in the US have strengthened the Group, providing improved market access, enhanced technology and adding relevant domain knowledge.
- **LICENERGY** has established its own operations in India, Dubai and Canada.
- Programmes for warrants and employee shares have been implemented.
- The positive trend is expected to continue during 1999.
- Long term goal is to achieve a turnover of DKK 1 billion over a period of 5-6 years.

	1998	1997	1996	1995	1994
FINANCIAL HIGHLIGHTS IN DKK MILLION					
Turnover	110.4	68.5	44.3	40.9	27.4
Gross Profit	69.5	47.6	26.6	25.6	17.1
Profit on Ordinary Activities	17.7	14.6	5.5	8.5	0.6
Profit on Ordinary Activities after tax & minorities	15.3	9.3	3.1	3.2	-2.3
Profit of the year after tax & minorities	15.3	10.2	4.6	1.6	-2.3
Total Assets	141.6	60.7	37.4	34.3	20.8
Share Capital	23.5	16.9	1.0	1.0	1.0
Capital & Reserves	91.7	20.1	8.5	4.8	-10.5
Investments in intangible assets	12.6	7.8	4.9	2.7	1.3
Other investments	3.1	1.9	1.3	0.3	2.0
KEY FIGURES					
Growth in turnover	61.2%	54.5%	8.4%	49.1%	3.9%
Gross margin	63.0%	69.4%	60.1%	62.7%	62.2%
Net profit ratio	16.0%	21.2%	12.3%	20.7%	2.3%
Solvency ratio	64.8%	33.1%	22.7%	14.0%	n/a
Return on equity p.a.	27.4%	65.5%	46.6%	n/a	n/a
Earnings per share of DKK 20	14.2	11.1	3.7	6.2	-5.8
Average number of employees	162	105	86	66	41

The figures are exclusive of LICconsult AB, which was a part of the Group from 1994-1996.

Unchanged accounting principles compared to previous years. The key figures have been prepared in accordance with the guidelines of the Danish Society of Financial Analysts.

The Annual General Meeting will be held on 27th of April 1999 at 16:00, Birkemosesalen, KPMG, Borups Allé 177, DK-Frederiksberg, Denmark.

FINANCIAL RESULT

The **LICENERGY** turnover for 1998 was DKK 110.4 million, an increase of DKK 41.9 million or 61% over 1997. The operating profit was DKK 17.7 million, equivalent to 16% of turnover, and the profit on ordinary activities after tax was DKK 15.3 million corresponding to an increase of 65%. All major geographical markets have demonstrated growth during the year, and the Group has increased its market share significantly in the oil and gas transport sector.

The acquisitions during 1998 positively increased turnover by approximately DKK 11 million, and the exchange rates adjustments for the year compared to 1997 contributed another DKK 1.7 million. Hence the overall growth rate was approximately 43%, which is three times the growth rate of **LICENERGY**'s main market (14%) as estimated by Kalchas Group, c.f. last year's Prospectus.

IMPORTANT GOALS WERE REACHED

During 1998, **LICENERGY** achieved a number of important goals and met the expectations outlined in last year's Prospectus and in the Half Year Report. The Group is well positioned for growth in the coming years.

LICENERGY completed a successful IPO on the Copenhagen Stock Exchange, CSE, with the first day of listing on 7th of April 1998. 49% of the shares were floated, and the Group received a net capital injection of DKK 94 million. The **LICENERGY** shares have attracted considerable interest by the market. Thus, the floated capital has been traded nearly 3 times during the period April to December, and the share price has progressed favourably compared to the leading index for CSE.

During 1998, the Group completed the acquisitions of Modisette Associates, Inc. and the asset purchase of the Pipeline Simulation Division, PSD, of Scientific Software-Intercomp, Inc. (SSI). Staff from the two groups have been fully integrated within the **LICENERGY** operations in the US and Europe, and the consolidation of technology from the two companies is well underway within the framework of **LICENERGY**'s new Multi Service Platform software product, AVENTO™. The acquisitions have strengthened the Group by improving market access, by providing complementary technology and by adding relevant domain knowledge.

DEKHO Ltd. is responsible for **LICENERGY**'s business activities within the water sector. It has been agreed with Water Research Centre Plc., the other shareholder of DEKHO, to increase the joint investment in DEKHO. The rights to a number of software products and the associated income from maintenance contracts have been transferred to DEKHO from the parent companies. Definite plans are in place to strengthen the DEKHO management team and to increase the overall staff during the first half of 1999.

LICENERGY continues its strategy of establishing local presence close to the customers. In India, the Danish Industrialisation Fund for Developing Countries, IFU, has become a co-partner with a 40% shareholding in the **LICENERGY** operation. **LICENERGY** has established a 100% owned operation in the free zone of Dubai to provide sales and customer support for the Middle Eastern markets. Finally during 1998, a **LICENERGY** operation was established in Calgary to develop business relationships with existing and new customers in Canada.

MARKETS

The 1998 growth in turnover was attributable to **LICENERGY**'s main business areas of oil and gas transportation and water supply, whilst the district heating activities were at a similar level as in 1997, c.f. the table below.

DKK, mill./%	1998		1997	
Oil & gas transportation	93.6	85%	58.2	85%
Water supply	14.5	13%	7.6	11%
District heating	2.3	2%	2.7	4%
Total	110.4	100%	68.5	100%

1998 TURNOVER DIVIDED BY GEOGRAPHICAL MARKETS

DKK, mill./%	1998		1997	
Europe	38.0	34%	25.9	38%
Asia	18.9	17%	17.1	25%
Middle East	5.1	5%	7.1	10%
CIS	5.5	5%	4.4	7%
US and Canada	26.8	24%	6.4	9%
Latin America	15.4	14%	5.4	8%
Africa	0.7	1%	2.2	3%
Total	110.4	100%	68.5	100%

In line with expectations, the North American markets, US and Canada, have experienced the largest growth. The second largest market, Europe, has also achieved a satisfactory growth rate.

In China, India and in a few other countries, investment in pipeline transportation infrastructure has continued at expected levels because these investments are vital to the future development of these countries. In countries such as Thailand and Indonesia, investment in this activity came to a virtual halt during 1998. For **LICENERGY**, the crisis in Russia has caused a delay in orders being placed as a result of the postponement of investment in the gas industry.

The low oil price is believed to have caused only a small decrease in new orders from the oil and gas transportation industry, probably because **LICENERGY** solutions improve financial performance of these pipeline assets. The price of gas has not decreased to the same extent as the oil price and **LICENERGY** operates in both sectors.

Conditions in Asia were recognised when the business plans were drawn up for 1998, and during the year the Group has demonstrated an ability to direct its activities to the most attractive markets, viz. the Americas and Europe. It was envisaged during the year that turnover could be increased even further, to a level of DKK 120 million, but the order intake slowed down towards the end of the year, presumably due to the collective effect of the international financial crisis.

The **LICENERGY** markets have also experienced positive developments during 1998.

Consolidation among the Group's customers has continued during the year, as exemplified by the merger of BP and AMOCO. The ENRON acquisition of the publicly listed company Wessex Water illustrates another important trend in the consolidation process, namely the interest of companies within one utility area expanding their activity into other areas. This development is an important driver for investment in knowledge based IT solutions from **LICENERGY** and DEKHO, which improve safety and enhance financial performance. It also supports the sale of associated services from the Group, including outsourcing. A large number of the energy and utility companies, that take an active part in these developments, are existing customers of **LICENERGY** and DEKHO.

Increased interest in the area of training and operator certification is another development during 1998

which has been positive for **LICENERGY**. The US authorities have decided to enforce the implementation of a programme for certification of pipeline system operators, similar to that used for aircraft pilots and train conductors. It is expected that similar legislation will be implemented in Europe and other parts of the world.

The Group's volume of orders is DKK 43 million compared with DKK 50 million at the same time last year and DKK 67 million at the issue of the 1998 Half-year Report. It is expected that more than 70% of the current volume of orders will be produced during the first half of 1999. The Group sales activities were stepped up towards the end of 1998 and in the beginning of 1999, and the volume of orders has increased since the turn of the year, and is expected to increase further during 1999.

AVENTO™

AVENTO™ is the brand name of **LICENERGY**'s new top of the range software system.

AVENTO™ is a Multi Service Platform within the framework of an open Windows environment, which is intended to provide a comprehensive foundation for future implementations of knowledge based IT solutions from **LICENERGY**.

The first product release of **AVENTO™** is planned for mid 1999, and a number of existing **LICENERGY** customers are participating in the testing of the product.

WARRANTS AND EMPLOYEE SHARES

LICENERGY seeks to recruit and maintain a staff of highly qualified employees, and programmes for warrants and employee shares have been put in place and are considered to be important elements in the overall Group incentive schemes.

By the end of the year, the Group had issued 42,600 warrants for the same number of shares. Some 25% of the staff have received and accepted offers for warrants during 1998.

During December 1998, a total of 9,300 shares were offered at a discount price of DKK 50 per share. Some 70% of the employees accepted the offer to buy shares.

IT AND YEAR 2000

The Group has tested and issued Year 2000 representations for all of the latest versions of relevant **LICENERGY** software issues. **LICENERGY** offers all customers a Year 2000 audit of their **LICENERGY** installation – including its interaction with other systems hardware and software components. The audit provides the basis for the preparation of a technical and commercial proposal for solutions to Year 2000 problems.

LICENERGY has completed measures to ensure, to the best of Management's knowledge, that the Group's own IT installations can be declared to be Year 2000 compliant.

FUTURE PROSPECTS

LICENERGY has set out on a long-term plan to reach a turnover level of DKK 1 billion over a five to six year period. The high growth rate implies that it will be difficult in the short term to increase operating margins, but longer term the Group maintains a financial target with an operating margin of 20%.

The Group is well positioned for growth in the coming years based on a dominant market position and a strong technology platform.

LICENERGY shall attain its goals by an accelerated implementation of the strategies presented in last year's Prospectus.

- **LICENERGY** will expand its supply of system solutions in which the simulation technology can be beneficially implemented. One example of this approach is to offer an integrated solution for gas transportation systems covering all the main functions required to manage the assets in question. These solutions shall demonstrate clear interfaces to the BMS investments (Business Management Systems) undertaken by energy and utility companies, and they would include applications for the purchase and sale of transportation capacity and of oil and gas batches.
- **LICENERGY** will expand its range of products and services relating to the operation of transportation systems; systems for training and certification of operators are one example. The Group has already delivered the first training system in the US based on requirements of the upcoming legislation.
- **LICENERGY** will expand its range of products

and services related to industries, for example real time optimisation of oil and gas process facilities.

- **LICENERGY** will develop a new range of customer relationships in which **LICENERGY** will take responsibility for the operation of its delivered systems. For example, today **LICENERGY** is managing a large system installation in the US.
- **LICENERGY** will support a similar plan for the water supply sector via DEKHO.

The expanded scope of products and services all interface naturally to **LICENERGY**'s core competence and are expected to increase the size of the addressable market significantly. The Group's best estimate is that the size of **LICENERGY**'s addressable market will increase from approximately DKK 1 billion to a level of DKK 15-20 billion.

The projected development of the Group will be supported by an active programme of strategic alliances, which will include energy and utility companies, global systems integrators and technology partners.

The growth strategy will include establishing additional operating companies in the most attractive markets, quite possibly via acquisitions of existing businesses with local or regional activities, which are already active in the market. Further, the Group intends to strengthen its position via acquisitions of relevant knowledge and technology, as exemplified by the acquisition of 7-Technologies A/S, effective by 1st of January 1999. The main product of 7-Technologies, IGSS, is a Windows based Process Information System which will be integrated with AVENTO™ and expand the scope of solutions that can be delivered in the future by the Group. The purchase price for 7-Technologies was DKK 11.5 million.

The expectations for 1999 are in line with the long term plan. The Group expects an increase in turnover for the year of at least 40% and an operating profit in the order of DKK 25-30 million. The positive expectations for 1999 are based on the expanded level of sales effort that has been implemented, including the build up of the offices in India, Middle East and Canada. Moreover, the acquisition of the Pipeline Simulation Division from SSI will impact on the entire year, and the acquisition of 7-Technologies is expected to make a positive contribution.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 27th of April 1999 at 16:00, Birkemosesalen, KPMG, Borups Allé 177, DK-Frederiksberg, Denmark.

The Board of Directors proposes to the Annual General Meeting:

1. That no dividends are paid for the financial year 1998.
2. To elect Mr. Preben Damgaard, Director of Damgaard Holding A/S, as a new member of the Board, following the resignation by Mr. Arne J. Gillin.
3. To re-elect the other members of the Board.
4. That the Board is authorised to acquire own shares in accordance with the Danish Companies Act, section 48, through buying up

to 10% of the company's share capital. Such authority to be valid until the Annual General Meeting in year 2000.

Gregers Larnæs, Chairman of the Board
Lars Gottlieb, Managing Director

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