

# Administration Report 2007

## AB Ångpanneföreningen (publ)

Corporate identity number 556120-6474

The Board of Directors and the President of AB Ångpanneföreningen (publ) herewith submit their annual report for the year 2007. AB Ångpanneföreningen, which has its registered office in Stockholm, is the parent company of the ÅF Group (ÅF).

### Group and parent company

ÅF is a leading company in the technical consulting industry, with expertise founded on more than a century of experience. ÅF offers highly qualified services and solutions for industrial processes, infrastructure projects and the development of products and IT systems. ÅF is also one of the leading names in testing and inspection. The Group's operational base is in Northern Europe, but its business and clients are found all over the world.

ÅF bases its consulting business on the development of systems and products, and on investments, maintenance measures and ongoing modification work relating to its principals' plant, processes, machinery and buildings. The majority of projects originate in Swedish and international industrial companies, service companies and the real estate sector.

### Sales and earnings

ÅF performed well during 2007. Net sales rose by 24 percent and operating profit improved by 97 percent.

The improved result is due first and foremost to a successful integration of the businesses acquired and a strong performance by the industrial sector.

ÅF advanced its positions significantly during 2007, especially within the fields of energy and the environment.

ÅF maintained its position as an attractive employer. In Universum's annual survey of engineering graduates, the verdict of the 5,500 respondents was to rank ÅF in seventh place among all categories of Swedish companies in the league table of "ideal employers".

Net sales amounted to SEK 3,862 million (2006: SEK 3,114 million), an increase of 24 percent.

Operating profit totalled SEK 332 million (SEK 168 million). The operating margin was 8.6 (5.4) percent.

In making comparisons with 2006, it should be noted that the result in the first quarter of 2006 benefited from a capital gain of SEK 19 million on the sale of PX Business Solutions. The operating profit for 2006, excluding this sale, was SEK 148 million, and the operating margin was 4.8 percent.

The capacity utilisation rate was 75 (73) percent.

Profit after tax was SEK 220 million (SEK 108 million).

Earnings per share, before dilution, totalled SEK 13.15 (SEK 7.38).

### Divisions

#### Engineering

#### **Operating margin 12 months: 9.5% (2006: 8.8)**

*The Engineering Division, which offers services within automation, industrial IT and mechanical engineering, is a leader in its field in the Nordic countries.*

A continuing strong performance by the industrial sector helped ensure a high level of demand during the year with a high utilisation rate for the Engineering Division. Demand was particularly brisk in energy and mining.

During the year, cutting edge expertise in selected sectors and areas has been concentrated in the form of "competence centres". This new approach is expected to improve our ability to carry out more advanced projects and consulting assignments in the future.

Activity has remained strong in the nuclear power area. The division has an excellent position in this market in Sweden, and is also winning international

assignments. During the third quarter, for example, assignments were won at nuclear power installations in both Finland and France.

Mechanical engineering operations, with 150 staff, which was incorporated into the Engineering Division with effect from 1 January 2007, has performed well.

In addition, the Division had two patents approved in Finland relating to Balance+, a system developed in-house for controlling boilers which use a variety of biofuels.

#### Infrastructure

#### **Operating margin 12 months: 9.9% (2006: 8.1)**

*The Infrastructure Division offers infrastructure consulting services in the following business areas: Communications & Defence, Installations, Infrastructure Planning, Electrical Power Systems and Sound & Vibrations.*

The market remained strong in all business areas. A large number of assignments in heavy investment and infrastructure areas such as electrical power, roads and railways means that the division is now engaged in a number of projects that extend over several years. The high oil price and more stringent environmental standards are generating increasing interest in future public transport issues and transport in general, and this has resulted in several exciting projects.

The largest business area, Installations, with 500 staff in Sweden and Norway, is benefiting from a strong property and construction market. A wide range of services for energy-saving measures in properties is coinciding with a high level of demand for energy declarations of the kind that the Infrastructure Division is also accredited to carry out.

New assignments include a very substantial order from the Swedish National Rail Authority for the Citybanan rail link project in Stockholm. The assignment comprises three technical projects: Tomtebodas freight yards, the double-track tunnel and new commuter stations, and a risk and safety management assignment. ÅF's involvement with regard to the Tomtebodas project and the twin-track tunnel relates to the project engineering of all aspects of the technical rail installations, including ground survey work, track, electrics, signalling and telecommunications, SCADA and channelling, as well as technical support up to the time when the facilities are taken into use. The assignment is estimated to be worth around SEK 200 million to ÅF, and is expected to continue until 2016.

#### Inspection

#### **Operating margin 12 months: 15.3% (2006: 9.7)**

*The Inspection Division works with technical inspections, chiefly in the areas of periodic inspections, testing and certification. Major clients include the engineering and nuclear power industries.*

Demand for the services of the Inspection Division was relatively strong during 2007. The division continued to win new market share and strengthened its position within the expanding nuclear power and petrochemical industries.

A number of new local offices were opened, including those in Uppsala and Kalmar, and the recruitment of new staff continued on a broad front – especially in Testing.

To enable the division to take better advantage of new growth areas and more clearly profile the Inspection Division's specialist services, a new business area, "Projects and New Markets", was launched in the fourth quarter.

The division won several strategic orders. For example, Inspection has been commissioned to develop advanced testing systems on behalf of the Ringhals and Forsmark nuclear power stations. ÅF-TÜV Nord, which is 50 percent-owned by ÅF-Inspection, has been engaged by OKG for mechanical engineering inspections at the three nuclear power installations in Oskarshamn.

### Process

#### **Operating margin 12 months: 6.9% (2006: 0.9)**

The Process Division offers consulting services for all aspects of industrial processes. The division has a world-leading position within sections of the pulp & paper industry and the energy sector.

The Process Division underwent a far-reaching process of realignment during 2007. A new management team appointed at the end of 2006 introduced a new strategy and focused the division's offer on the energy and pulp & paper industries.

Two underperforming operations in Finland and France were sold during the summer. In July, the Swiss energy consulting company, Colenco was acquired.

ÅF-Colenco is an international energy consulting company based in Baden, Switzerland. The company has 250 staff, of whom 180 work from Switzerland. The acquisition of Colenco strengthens ÅF's market position in Europe, the Baltic countries, Russia, South-East Asia and South Asia. The acquisition has made the Process Division one of the largest international consulting companies in the energy field, with a world-leading position in nuclear power.

A strike which affected large technical consulting companies in Finland had a negative effect on capacity utilisation in the division for about two weeks in the fourth quarter.

Among the larger orders won by the division is the provision of technical consulting services for the construction of a gas-fired power station in Sisak, Croatia, on behalf of the state-owned energy company, HEP. Another major assignment was for planning and project management at a hydropower station in India.

### Systems

#### **Operating margin 12 months: 8.4% (2006: 5.5)**

The Systems Division offers services in the field of embedded systems, mechanical engineering and IT systems.

The Systems Division's market remained strong during 2007, especially in the telecoms sector. The division's primary expertise in product development, test systems and product management is very much in demand.

A new trend is that clients are increasingly looking for environmental expertise in product development. To meet this need, the Systems Division has established the EcoDesign Center – a network which allows clients to benefit from division's core competence while supplementing this with ÅF's extensive environmental expertise.

Organic growth remained high. During 2007, the division recruited around 130 new members of staff. In line with the strategy adopted, the average age has been reduced in recent years as a consequence of the recruiting process.

New projects include the further development of a multimedia project for Sony Ericsson. Systems also won a development project for a new control computer for trains on behalf of Bombardier, and a fleet management development project for Scania.

The division's newly established offices in Gothenburg and the Öresund region showed excellent growth and profitability.

### Acquisitions, disposals and alliances

In January, ÅF acquired a unit from the technical consulting company Xdin: Xdin Order to Delivery, as it is known, employs seven members of staff in Gothenburg.

In February, ÅF increased its holding in the Danish technical consulting company, Hansen & Henneberg, which has around 60 staff, from 49 percent to 80 percent. The acquisition was a result of the successful collaboration between ÅF and Hansen & Henneberg in recent years. ÅF bought 49 percent of the shares in 2001. In connection with the acquisition, the ÅF Board of Directors, as authorised by the Annual General Meeting in 2006, resolved on a new issue of 90,951 class B shares, directed to the shareholders of Hansen & Henneberg. This led to a dilution equivalent to about 0.6 percent of the share capital and 0.4 percent of the votes.

In May, ÅF acquired the technical consulting firm, Cordinor, with 15 members of staff and around a dozen sub-consultants in Luleå and Kiruna. Cordinor, which

was founded in 1995, is a well-established consulting firm which offers advanced engineering services for the mining industry. The largest client is LKAB.

In June, ÅF sold the Finnish subsidiary, ÅF-CTS Oy, with 130 staff, for EUR 4 million, which was in line with the carrying amount. The purchaser was the management of ÅF-CTS Oy and the venture capital company, Nordic Mezzanine Ltd. The sale was a step in the realignment of the ÅF Process Division.

In June, ÅF also sold its French subsidiary, AF-Chleq Froté S.A., with 50 staff. The company was purchased by Chleq Froté's management. The selling price was EUR 1. The sale was a step in the realignment of the ÅF Process Division.

An extraordinary general meeting held on 14 August 2007 approved the sale of the subsidiaries ÅF-CTS Oy and AF-Chleq Froté S.A. to their respective managements.

In July, ÅF acquired the Swiss energy consulting company, Colenco, with 250 employees in Europe and Asia. Colenco is an international energy consulting company based in Baden, Switzerland. The company has a staff of 250, of whom 180 work from Switzerland. Colenco has offices in eleven countries and the company's current projects in more than 40 countries focus chiefly on nuclear power, hydropower, electrical networks and conventional power stations. Colenco's sales in 2006 totalled SEK 271 million: the profit margin was 7.4 percent.

The purchase price, was SEK 300 million in cash (EUR 33 million) for 100 percent of the shares in Colenco, along with a supplementary purchase price, contingent on earnings over the next three years, limited to a maximum of approximately SEK 100 million (EUR 11 million). On the transaction date, Colenco had a net cash balance of SEK 95 million and owned premises valued at SEK 102 million. Based on a supplementary purchase price of SEK 79 million, intangible assets are estimated at SEK 213 million, of which SEK 207 million is regarded as goodwill.

### Goodwill

When consulting businesses are acquired, the price paid relates not solely to the carrying amount of tangible assets in the company, but also includes a premium to reflect the benefit of acquiring expert, well-qualified and experienced consultants. This premium in the form of human capital, which is recorded as an asset in the acquired company, is recognised primarily as goodwill in the ÅF Group.

The goodwill item on the acquisition of Colenco was SEK 207 million, and on the acquisition of additional shares in Hansen & Henneberg goodwill was estimated at SEK 13 million. Other acquisitions gave rise to goodwill of SEK 11 million. In total, the value of ÅF's goodwill rose by SEK 231 million net to SEK 1,063 million. For further information on goodwill, see note 13.

### Other significant events in 2007

In August, the board of AB Ångpanneföreningen formulated the following overall financial targets:

ÅF shall be the most profitable company among its closest comparable competitors in the industry and achieve an operating margin (EBIT) of at least 10 percent over a business cycle.

ÅF shall have net debt. Net indebtedness shall not exceed 40 percent of equity.

The previously formulated growth target, which committed ÅF to achieve minimum sales of SEK 5 billion by 2010, remains valid.

### Events after the close of the period

In February the Systems Division acquired the consulting business Proplate IT with 22 employees in Sweden. Proplate IT will feature in the ÅF Group's accounts with effect from 1 March 2008.

### Research and development

The divisions carry out research and development work in conjunction with universities and trade organisations, but also internationally with EU funding. In-house method development also forms part of this R&D work. For the Group as a whole, investment in R&D during the year totalled SEK 26.5 million (SEK 27.7 million), mostly in the form of the costs for time spent on R&D projects by ÅF's own salaried employees.

### Cash flow and financial status

Cash flow amounted to SEK 53 million (SEK 15 million). Before dividends and the raising and amortisation of loans, cash flow amounted to SEK 85 million (SEK -156 million).

The Group's cash and cash equivalents totalled SEK 310 million (SEK 257 million).

Equity per share amounted to SEK 78.83. The equity/assets ratio was 47.9 percent. As at 1 January 2007, equity per share was SEK 67.06, and the equity/assets ratio was 47.5 percent.

The Group's net loan debt (cash and cash equivalents less interest-bearing liabilities) at the end of December was SEK 88 million (SEK 97 million), which corresponds to 6.6 percent of equity.

### Investment

Gross investment in plant and machinery for the period January to December 2007 was SEK 45 million (SEK 40 million).

### Parent company

Parent company sales totalled SEK 197 million (SEK 188 million), yielding a loss after net financial items of SEK 25 million, as opposed to a profit in 2006 after net financial items of SEK 1 million.

### Environmental work

ÅF has an important duty to work together with its stakeholders towards sustainable development through its positive influence on society, stakeholders and its own business. In many instances, ÅF is tasked with introducing new and better technology, implementing rationalisations and reducing emissions. With more than a century's experience as an established name in technical consulting, ÅF adopts a long-term perspective to business and has its sights firmly set on making a positive contribution to sustainable development.

ÅF frequently participates in collaboration between different players in trade and industry, the public sector and the world of research. Its role as a consultant is to act as a bridge by facilitating understanding and the exchange of knowledge among those involved. ÅF is also taking an active part in work to produce international guidelines for Corporate Social Responsibility, ISO 26000. For more details of ÅF's environmental policy and its work in this field, please see pages 21–23 of the 2007 Annual Report.

### Employees

Over the year the average number of employees in the Group was 3,623 (2006: 3,167). Of these 792 (662) were employed outside Sweden. The average number of employees in the parent company was 46 (61).

ÅF adopts an active, long-term perspective to attract and retain skilled employees. This work involves marketing ÅF as an employer externally, but also providing clear information to both current and presumptive employees about the various career paths and opportunities for development available at ÅF.

In 2007 the "Five of Five Thousand" project defined three main career paths within ÅF: as specialist/expert, project manager and manager. To support the development of co-workers and assist managers in this task, an internal training organisation, the ÅF Academy, was also formed in 2007. All training includes modules of entrepreneurial skills. For more details about ÅF's work with human resources, please see pages 16–20 of the Annual Report.

### Sensitivity and risk analysis

The capacity utilisation rate of a consulting company is crucial for its ability to generate a profit. Every percentage point change affects ÅF's results by plus/minus approximately SEK 40 million. The hourly rate, of course, is also a key component in the results of a consulting company. An increase in the hourly rate of SEK 10 would, if all other factors remained unchanged, improve profits for ÅF by around SEK 44 million. Methods of reducing sensitivity include the use of sub-consultants, fixed-term employment, increasing the variable salary component, broadening expertise and markets, and productising services. This last involves packaging a number of services, which improves competitiveness and reduces price sensitivity.

While most ÅF assignments are carried out on an open-account basis, fixed price contracts are also agreed in a number of cases. This does, of course, represent a financial risk if the costs involved in a project are misjudged. Careful estimates of costs and follow-ups of fixed-price assignments are carried out to minimise the risk of impairment.

If the set targets are to be reached, it is absolutely crucial for a consulting company that the staff are motivated and possess the relevant skills and expertise. There is always a risk that skilled employees may leave ÅF and set up their own company or be headhunted by the competition. With the aim of attracting and retaining staff, ÅF invests in continual training, skills development and leadership development. ÅF's ambition is to make every employee perceive some form of added value in working for ÅF.

ÅF's business activities involve a risk of dispute. Drawing up contracts for all assignments and specifying in detail the terms of the agreement reduces the risk. In most instances, ÅF's Swedish contracts are carried out in accordance with ÅF's General Conditions (based on ABK96: General Conditions for Consulting Assignments for Architects and Engineers, 1996).

ÅF's ambition is to increase growth by acquiring other consulting companies. While this can involve increased risk, the risk is minimised through a systematic approach to acquisitions, as well as requirements for obligatory documentation and reviews. An annual evaluation of completed acquisitions is carried out by the ÅF Board.

Through its operations, ÅF is exposed to a range of financial risks, such as currency risk, interest rate risk, financial credit risk and customer credit risk. Responsibility for the Group's financial transactions and risks is held centrally by the parent company's Corporate Finance department in accordance with the policies adopted by the board. The overriding goal is to provide cost-effective financing and to minimise the negative impact on the Group's earnings of market fluctuations. To minimise the currency risk in contracted payment flows in foreign currencies, large contracts are hedged using derivatives.

For a more detailed description of risk management and sensitivity analysis, please see pages 57–60 of the Annual Report.

### Shares

ÅF's B shares have been quoted on the Stockholm Stock Exchange (Mid Cap) since January 1986. Prior to that, Ångpanneföreningen traded as a co-operative association from 1895 until 1980 and as a joint-stock company from 1981.

ÅF shares traded at SEK 169 at the end of 2007, an appreciation in value of 17 percent over the year. The Stockholm Stock Exchange's (OMXS-PI) all-share index fell by 6 percent during the same period.

ÅF's market capitalisation as at 31 December 2007 was SEK 2,862 million (SEK 2,377 million).

During the year there was a turnover of 9,230,962 (10,975,396) shares, valued at a total of SEK 1,585 million (SEK 1,622 million).

The average turnover per trading day was SEK 6.34 million (SEK 6.46 million). Shares were traded on 100 (100) percent of trading days.

The total number of ÅF shares on 31 December amounted to 16,935,233, of which 804,438 were class A shares and 16,130,795 were class B shares.

The ten largest shareholders in ÅF are listed on page 56 of the 2007 Annual Report.

### Convertible debenture

On 28 April 2005 the Annual General Meeting of shareholders in ÅF resolved to offer ÅF's permanent employees in Sweden, Finland and Norway a convertible debenture programme. Employees subscribed for SEK 53,750,000. The conversion price was set at SEK 81.36. On full conversion, share capital will increase by SEK 6,606,440 and the number of shares will increase by 660,644. This is equivalent to a dilution effect of approximately 3.9 percent of the share capital and 2.7 percent of the votes.

As a result of the first conversion opportunity for ÅF's staff convertibles 2005/2008 in July/August, 523,608 new B shares (of a possible total of 660,644) were issued. This represents a dilution of 3.1 percent of the share capital and 2.2 percent of the votes.

As a result of the second conversion opportunity for ÅF's staff convertibles 2005/2008 in November/December, 42,699 new class B shares were issued, which gave a dilution of 0.2 percent of the share capital and 0.2 percent of the votes.

This means that 566,307 new shares (of a possible total of 660,644) have been issued under the framework of staff convertibles 2005/2008. The new share total in AB Ångpanneföreningen amounted therefore to 16,935,233: 804,438 A shares and 16,130,795 B shares.

The remaining number of convertibles is equivalent, on full conversion, to 94,337 B shares, which gives a dilution of 0.6 percent of the share capital and 0.4 percent of the votes. After full conversion, the number of shares will be 17,029,570: 804,438 A shares and 16,225,132 B shares.

#### Liquidity guarantee

In order to increase the liquidity of ÅF shares the HQ Bank acts as a liquidity provider.

In essence, the agreement means that HQ Bank undertakes to quote bid and offer prices for ÅF shares. The spread must not exceed 2 percent calculated on the offer price.

#### Board of Directors

For 2007 eight directors were elected by the Annual General Meeting: Ulf Dinkelspiel, Magnus Grill, Eva-Lotta Kraft, Peter Sandström, Helena Skåntorp and Lena Treschow Torell were re-elected, and Patrik Enblad and Jon Risfelt were elected to serve a first term as a director of the company. Ulf Dinkelspiel was elected as Chairman of the Board.

Swante Karlsson and Eva Lindén, with their deputies Oscar Stridh and Daniel Westman, were appointed as employee representatives on the board.

At its inaugural meeting following the general meeting, the board elected Lena Treschow Torell as its Deputy Chair.

Please turn to pages 122–123 for a presentation of board members.

#### Work of the Board of Directors

During the 2007 financial year, the board held nine meetings, of which one was the inaugural meeting. The work of the board focuses chiefly on strategic issues, business plans, financial statements, major investments and takeovers and other decisions which, according to the written rules of procedure, shall be dealt with by the board. A presentation of developments in the company's business operations and financial position is a permanent item on the agenda. At the board meeting in August a strategy seminar was arranged with a special review of each division. In conjunction with each ordinary meeting of the board one business area within the company is scrutinised in greater detail.

Other ÅF employees have participated in board meetings to present reports.

The Secretary of the Board is the company's Executive Vice President, Corporate Information.

An evaluation of the work of the board was carried out by an external consultant.

ÅF's Corporate Governance Report is presented separately on pages 118–121 in the Annual Report for 2007.

#### Group management

In 2007 senior group management comprised Jonas Wiström (President and CEO), Jonas Ågrup (Executive Vice President and CFO), Viktor Svensson (Executive Vice President, Corporate Information), together with the Divisional Presidents, Jörgen Backersgård, Eero Auranne, Åke Rosenius, Per Magnusson and Johan Olsson. Gunilla Fladvad is the secretary for the senior group management team. Anders Gabrielsson, Karl-Anders Eriksson and Jan Nordling left their positions on the senior management team during the year, but continue to serve the ÅF Group in other capacities.

Please turn to pages 124–125 of the Annual Report for 2007 for a presentation of the senior officers in the company.

#### Guidelines for the remuneration of the Group's key management personnel

The Annual General Meeting in 2007 resolved that the following principles for remuneration and other conditions of employment relating to the Group's key management personnel are to apply for new contracts signed and existing contracts changed after the Annual General Meeting. The Group's key management personnel comprises the CEO and other members of the Group management team.

The remuneration of the Group's key management personnel will be on market terms, and will also at the same time support the interests of the shareholders. Remuneration will primarily consist of fixed salary, variable salary, retirement benefits and other benefits, such as a company car. The guidelines for remuneration are intended to ensure that ÅF can attract and retain the market's best resources, in order to support ÅF's vision and strategy. The fixed salary will be determined on the basis of expertise, responsibilities and performance, and will be on market terms. The variable salary will be based on a performance-based scheme, maximised at a percentage of the fixed annual salary, varying between 60 and 100 percent. The variable salary will not be pensionable.

The period of notice from key management personnel will be six months. In the event of the company giving notice, the total of the period of notice and the period during which severance pay will be paid will be a maximum of 24 months.

Post-employment benefits will be either defined-benefit or defined-contribution, or a combination of both. The normal retirement age is 65. In the event of retirement before the normal retirement age, key management personnel will receive a paid-up pension policy from the age of 60.

The Board proposes that the Annual General Meeting approve principles for remuneration and other conditions of employment for the Group's key management personnel for 2008 which are in line with the principles approved for 2007.

The Board intends to propose that the Annual General Meeting approve the establishment of a long-term performance-related share scheme in 2008. The intention is that the performance-related share scheme will be aimed at up to 150 key individuals including the CEO.

#### Dividend

The Board of Directors proposes a dividend for 2007 of SEK 6.50 per share (2006: SEK 3.00 per share). The proposed dividend is in line with the dividend policy, which states that dividends are to correspond to around 50 percent of Group net profit, excluding any capital gains.

#### Prospects for 2008

The outlook for 2008 is positive. At present there is nothing to indicate that the economy is about to slow down, even though the pace of growth may well slacken slightly during the year. ÅF's financial status is strong, and ÅF will continue to seize the initiative in the process of structural change that the industry is currently undergoing. The goal is continued growth, first and foremost in the Nordic region and Eastern Europe.

#### Proposed appropriation of profits

Non-restricted profits of SEK 1,040,322,822 are at the disposal of the Annual General Meeting.

The Board of Directors and CEO propose that these profits be appropriated as follows:

To the shareholders:	
A dividend of SEK 6.50 per share	110,079,015
To be carried forward	930,243,807
<b>Total, SEK</b>	<b>1,040,322,822</b>

The board's motivation with regard to the proposed appropriation of profits will be posted on the company's website, [www.afconsult.com](http://www.afconsult.com) It can also be ordered from the company on request.