

Rapidly expanding third-party inspections for improved quality and safety

The Inspection Division offers services within the areas of technical inspections, testing and certification. Clients are found in many industries and the business spans numerous areas, from safety checks on ski-lifts and fairground attractions to inspections of construction sites and nuclear power stations. The division accounts for around 7 percent of ÅF sales.

Inspection – improved safety for workers, operations and the environment

The overriding aim of the Inspection Division is to assure the safety and operational reliability of clients' plant in the best interests of workers, production and the environment.

The division is accredited by the Swedish Board for Accreditation and Conformity Assessment (SWEDAC) to carry out impartial inspections of clients' facilities and operations in order to verify compliance with ordinances and regulations issued by authorities such as Sweden's Work Environment Authority, National Board of Housing, Nuclear Power Inspectorate and Rescue Services Agency. Almost all new production is regulated by corresponding ordinances at EU level, and the division is also a "notified body" for inspections required by EU directives for pressure vessels, lifts and machinery.

Inspection has enjoyed several years of strong growth averaging approximately 15 percent p.a. with good profitability.

The division's domestic market is Sweden, where it has approximately 275 employees working from 25 offices nationwide, from Malmö in the south to Luleå in the north. Staff turnover is low.

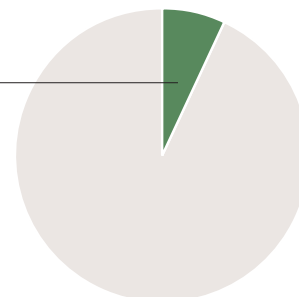
The division also performs an increasing number of assignments abroad: in recent years projects have been undertaken in around 40 countries.

Key figures

	2007	2006
Net sales (in millions of SEK)	270	216
Operating profit (in millions of SEK)	41.4	20.9
Operating margin, percent	15.3	9.7
Share of Group sales, percent	7	6
Number of co-workers (FTEs)	257	235
Operating profit/FTE (in thousands of SEK)	161	89

Share of sales

Inspection 7 %



C T I O N

Offer – expertise, cooperation and straight talking

Inspection is an independent third-party inspection body, which maintains a high degree of integrity vis-à-vis other parts of the ÅF Group. Operations are decentralised, offering rapid processing times and close geographical proximity to clients. Openness between Inspection and its clients is essential in order to be able to verify that plant, individual items and working procedures meet satisfactory standards of safety, and to jointly develop solutions that ensure compliance with rules and directives. Clear, straightforward information as early as possible in the process is a hallmark of the division's way of working. Other important factors behind the division's success are a resolutely commercial approach and a corporate culture that rewards good service to clients and a positive team spirit among colleagues. The atmosphere in the company and the ways in which the division liaises with its clients are very important for Inspection's good reputation in the market.

The business focuses on three main areas: Inspection, Testing and Certification. Inspection involves periodic independent checks of lifts, lifting devices, boilers, escalators, ski-lifts, fair-ground attractions, tanks, pressure vessels, etc. The results are documented in detail and made available to clients through a dedicated website. Testing involves examining components and devices using non-destructive techniques, such as radiography, ultrasound and visual checks. The division also offers advanced testing services for manufacturing inspection, calibration, condition monitoring and the certification of clients' quality and environmental management systems. Certification is carried out by ÅF-TÜV Nord, a 50/50 joint venture with Germany's TÜV Nord Group,

and examples of certifications include ISO 9000, ISO 14000 and ISO/TS 16949 (Automotive). ÅF-TÜV Nord also acts as an accredited inspection body for a significant proportion of the inspection activities at Sweden's nuclear power stations.

In addition, the division offers advisory services, training, and consulting services in CE-marking and the interpretation and implementation of various EU directives. It also serves as a consulting body for authorities prior to the introduction of new legislation.

Clients – a very broad spectrum

The Inspection Division's database contains a portfolio more than 200,000 individual objects that require regular inspection and checks. The client base is also extensive, comprising some 20,000 clients across a broad spectrum of trade and industry: energy, processing, petrochemicals, property, public sector, forestry and pulp & paper, etc. More than 12,000 of these clients are classed as "active", which means that they purchase one or more services each year. There is a good spread between small,

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medium-sized and large clients, of whom around 35 purchase services for more than SEK 1 million a year. The 20 largest clients account for 37 percent of the division's sales. These include Cramo, EuroMaint, Fortum Värme, Peab, LKAB, Metso, Shell, Södra Cell, Tågäta, Uddcomb, VEÅ, Volvo, Westinghouse Electric, YIT and Sweden's nuclear power plants at Forsmark, Oskarshamn and Ringhals. The engineering and nuclear power industries each account for about 20 percent of sales: the processing industry for around 10 percent.

Customer surveys confirm high levels of client satisfaction, and a great deal of the work is repeat business.

2007 – strong growth in Sweden and abroad

Organic growth was strong in 2007. Some 40 new members of staff were recruited – many of them in the Testing business area – and new local offices were opened in Uppsala and Kalmar.

During the year the division won several contracts in the nuclear power industry, such as the development of sophisticated testing systems for the Ringhals and Forsmark reactors. Joint-owned ÅF-TÜV Nord won a contract with OKG, which operates the three nuclear reactor units at Oskarshamn, to carry out third-party inspections of mechanical equipment in OKG's three reactors in an assignment that will run over several years.

“Organic growth was strong in 2007 and Inspection expects growth to continue.”

Other projects include status reports on kraft recovery units in Argentina, Indonesia, Thailand and South Africa, training courses in work environment safety for the construction company Peab, technical inspections of the pressure equipment at Öresundsverket's gas-fired power station (at the request of Hitachi), testing the same power station's pipelines for Koch de Portugal, and performing a technical inspection for a Metso Power delivery to Celbi's pulp mill in Portugal.

Market and trends – stronger market position

Inspection is the biggest Swedish-owned inspection company, and the division consolidated its position in the market considerably during 2007. On the back of especially strong demand from the nuclear power and petrochemical industries, sales rose by around 25 percent, which is considered to be significantly better than the development of the market as a whole. The division's share of the overall market is estimated to be around 30 percent.

Sensitivity to the economic cycle is low throughout the division.

The opinion is that Inspection will continue to grow as more and more areas and industries are subjected to technical inspections.

The enlargement of the EU and the process of technical harmonisation that follows in its wake are making the market more international. Inspection activities are changing character, from a state-controlled function to an industry like any other. This development is attracting investors who have identified the industry's potential for profitability and growth, and consolidation is a natural consequence of this.

Inspection is involved in strategic collaboration with other accredited inspection companies in Europe, and 2007 saw the start of a new alliance with a company in the Czech Republic.

C T I O N

Goals and strategies for the Inspection Division

Jörgen Backersgård, Divisional President, speaks about the challenges ahead

What are the most important goals for the Inspection Division?

“To grow while still maintaining our current levels of profitability. The aim is to create organic growth of 10 to 15 percent a year over a five-year cycle. We are of the opinion that we can continue to grow for many years to come on the Swedish market. Another of our aims is to be the industry’s most attractive employer, offering job satisfaction, and combining an entrepreneurial spirit and business acumen with a clear focus on the client. From a geographical perspective we are also eager to extend our market presence in Scandinavia and in Central and Eastern Europe.”

Where will the focus lie in 2008?

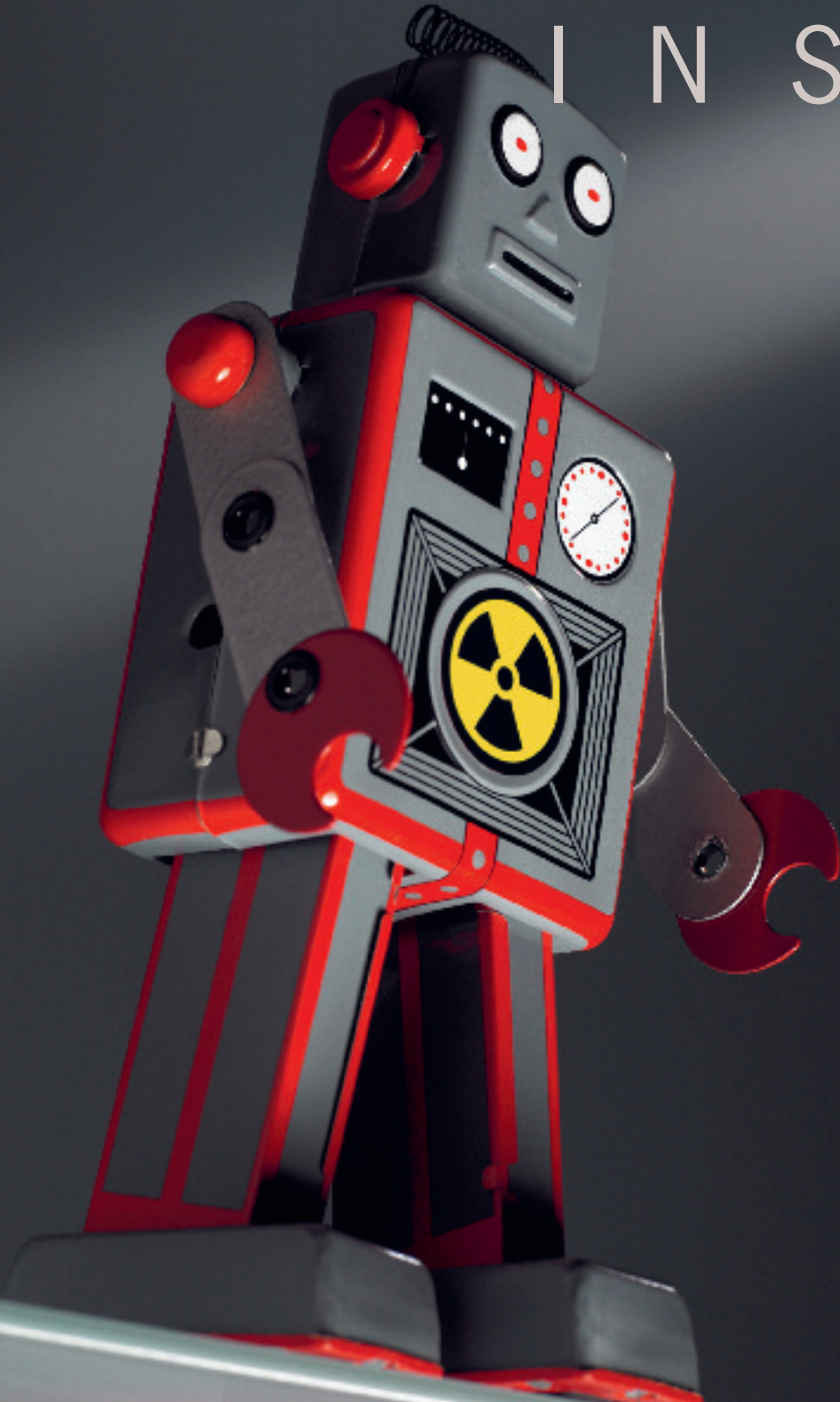
“Growth is important. One way to achieve this is to expand out portfolio of products with new services linked to inspection. We will be doing this, for example, in the rail sector and also offering certifications for various operator activities, such as power operators and production engineers. We will also be investigating the opportunities of geographic expansion into new markets. We already have strategic alliances with other inspection companies in Europe and this is a type of collaboration that we will continue to pursue. To meet the growing number of assignments in which we are engaged outside Sweden we have built up a pool of engineers whom we can use as a resource to satisfy demand, and this, too, is a function that we will develop and expand in 2008.”

“For Inspection, expertise, job satisfaction and a pride among our co-workers in what they do are the key to developing the entrepreneurial spirit on which our successes are based.”

Jörgen Backersgård, Divisional President



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C T I O N

Our robot checks the nuclear

“The Forsmark nuclear power plant needed someone to develop a mechanised solution for penetrant testing of the connecting welds of the valves. There is no way of doing this from the outside of the valves; they must be tested internally. Previously much of this work was conducted manually, but this subjected technicians to high doses of radiation. So ÅF’s Inspection Division was commissioned to devise a mechanical solution to quality-assure the equipment, and to carry out the tests on the Forsmark 3 reactor. It took just three months from the first idea to the fully finished and highly sophisticated solution. Technically, it was a complex challenge: developing equipment with nozzles and cameras able to penetrate 80 mm valve openings,

power plant

travel to the connecting welds half a metre away and carry out the penetrant testing procedure in pipes with an internal diameter of as little as 100 mm. When we conducted the test in the Forsmark 3 plant in the summer of 2007 the radiation dose emitted was minimal. This is one of the most advanced assignments we have carried out to date and it would never have been possible without a thorough knowledge of engineering and extensive experience from previous similar undertakings. This project has further reinforced our position as the leading name in testing for the Swedish nuclear power industry.”

Magnus Strand, Project Leader, Inspection Division